

NOTES

IS PEPSICO THE CHOICE OF THE NEXT GENERATION: THE INEVITABLE DISCLOSURE DOCTRINE AND ITS PLACE IN NEW YORK JURISPRUDENCE

I. INEVITABLE DISCLOSURE: A FACTUAL SCENARIO

Picture yourself in the year 1999, during the height of the “Dot Com” explosion. You are the CEO of a start-up company, which provides information technology professionals with products and services for alleviating technology problems within the business sector. In the four years since your business has opened, you have grown exponentially and now employ over two hundred employees, and generate over \$3.3 million in revenue a year. The key to your success has been your technological ability to develop a unique family of websites, amassed from an extensive series of licensing agreements with third parties. This Internet network has allowed you to successfully provide all of your business’ services, while also generating substantial yearly revenue from on-line advertising.

The purported facts would make it appear as if business could not be any better. However, you have one big problem—your Vice President of Worldwide Content has just resigned and taken a position with your direct competitor. Your competitor is a large multinational corporation that generates over \$1 billion in annual revenue, has significantly increased your former employee’s compensation in a substantially similar executive position, and is also in the process of designing a website that is intended to provide all the information necessary for an active information technology professional to carry out their job. Furthermore, your now former vice-president has a working knowledge of all of your strategic content planning, licensing agreements, advertising plans, and the technological setup of your website. So what can you do? The fate of

your newly thriving business depends entirely on the potential disclosure of your company's trade secrets by your former employee.

If you were the CEO of EarthWeb, Inc. ("EarthWeb"), a company that faced this exact problem, you would have filed a motion for preliminary injunctive relief with the United States District Court for the Southern District of New York in an attempt to enjoin Mark Schlack ("Schlack"), your former vice-president, from commencing employment with International Data Group, Inc. ("IDG"), your direct competitor.¹ But what legal cause of action exists to sustain such a motion? In *EarthWeb, Inc. v. Schlack*, EarthWeb unsuccessfully tried to use the controversial doctrine of inevitable disclosure. EarthWeb argued that the nature of the trade secret information that Schlack had acquired, and the extreme similarity between his former and later positions would, whether intentionally or not, inevitably lead him to disclose valuable trade secret information to IDG resulting in irreparable harm to EarthWeb.² The dismissal of the motion in Schlack's favor, which was later affirmed by the Second Circuit, left many unanswered questions for those in both the legal and technological communities. When will a court grant an injunction under the inevitable disclosure doctrine? Would the outcome of *EarthWeb* have been different if EarthWeb had filed their motion in another state? What is the role of the inevitable disclosure doctrine in New York courts?

II. INTRODUCTION TO INEVITABLE DISCLOSURE

With the recent explosion of technology, and the rise and perhaps fall of the "Dot Com" era,³ there has been increasing concern for the protection of trade secrets. Out of this concern emerged the doctrine of inevitable disclosure, a new means for businesses to protect their trade secrets. The facts of *EarthWeb* represent a typical trade secret situation where, depending on the jurisdiction,⁴ inevitable disclosure could be the

1. *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 302 (S.D.N.Y. 1999).

2. *Id.* at 311-12.

3. For an interesting account of the 2001 collapse of the dot-com and telecom bubbles see Robert W. Hamilton, *The Crisis In Corporate Governance: 2002 Style*, 40 HOUS. L. REV. 1, 13-17 (2003). Hamilton notes that there was a wide variety of Internet firms that competed directly with the "traditional brick-and-mortar businesses." *Id.* at 13. Many of these companies found it impossible to survive in an "increasingly competitive marketplace" and began to quietly fade away in 2000. *Id.* at 14.

4. The outcome of *EarthWeb* would have likely been different if decided in the Seventh Circuit under the more relaxed holding of *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), which will be discussed in greater detail later in this note.

basis for granting an injunction. However, as a relatively new and emerging doctrine, inevitable disclosure has incurred substantial growing pains, resulting in uneven development and a great deal of uncertainty as to when it should be applied. While there appears to be no codified or universal definition for inevitable disclosure, one court accurately stated that it is “possible to establish irreparable harm based on the inevitable disclosure of trade secrets, particularly where the movant competes directly with the prospective employer and the transient employee possesses highly confidential or technological knowledge concerning manufacturing processes, marketing strategies, or the like.”⁵ Furthermore, one commentator has also stated that a typical inevitable disclosure case involves a court determination of whether to enforce injunctive relief, thereby enjoining a worker from initiating employment with a new company, based on an analysis of “three factors: (1) whether the former employer and the new employer are competitors; (2) whether the employee’s new position is comparable to his or her former position; and (3) the efficacy of steps taken by the new employer to prevent the alleged misappropriation of trade secrets.”⁶

This note explores the aforementioned characterizations of inevitable disclosure and their viability, while also examining the various other forms that the doctrine has assumed as a potentially effective means for employers to protect their trade secrets. Moreover, this note addresses the various forms that inevitable disclosure has taken in New York case law, and its seemingly mysterious disappearance as an injunctive remedy. The next section provides an introductory background on restrictive covenants and trade secret law, describing how inevitable disclosure emerged out of both of these areas of law. Part IV documents through case law how inevitable disclosure grew to be an independent justification for granting injunctions separate from the explicit and codified law of restrictive covenants. Part IV also discusses how certain jurisdictions have actually chosen to limit the doctrine so as to be used as a means to determine the enforceability of restrictive covenants.

After tracing the doctrine’s development in other jurisdictions, Part V documents the history of inevitable disclosure in New York, and discusses how New York varies in its application of the doctrine from other jurisdictions. Next, Part VI analyzes the latest stance that New York courts have taken with regard to inevitable disclosure via the recent case

5. *EarthWeb*, 71 F. Supp. 2d at 309.

6. Johanna L. Edelstein, *Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets*, 26 GOLDEN GATE U. L. REV. 717, 735 (1996).

of *Marietta Corp. v. Fairhurst*.⁷ Part VII then proposes a refined model for inevitable disclosure in New York, and discusses why this model should be adopted. Specifically, it discusses the importance of inevitable disclosure for small businesses and the technology industry.⁸ Finally, Part VIII provides conclusory remarks on this subject.

III. INEVITABLE DISCLOSURE: THE BYPRODUCT OF TWO AREAS OF LAW

The doctrine of inevitable disclosure is a recent phenomenon with the majority of its development occurring over the course of the past decade.⁹ Despite the doctrine's youth, inevitable disclosure is the ultimate byproduct of two centuries-old doctrines of law: restrictive covenants and trade secret law.¹⁰ Because the inevitable disclosure doctrine borrows so many concepts and definitions from both of these areas of law, it is important to understand some fundamental concepts about each doctrine.

A. Codification of Restrictive Covenants

As briefly mentioned above, the rules of law pertaining to restrictive covenants have existed for centuries, and developed through the common law since the early English case *Mitchell v. Reynolds*.¹¹ In the United States, restrictive covenants fell under the guise of each state's

7. 754 N.Y.S.2d 62 (N.Y. App. Div. 2003).

8. Notably, there has been a conglomeration of technology companies in New York City over the past seven years, leading many courts and commentators to refer to the area as "Silicon Alley." See, e.g., *Campaign for Fiscal Equity v. State*, 719 N.Y.S.2d 475, 487 (N.Y. App. Div. 2001) (discussing the emergence of the Silicon Alley area and its reliance on out-of-state personnel).

9. See *infra* Part IV.1.(c) and accompanying text (noting that the term inevitable disclosure was first used by a court in the 1964 case *E.I. duPont de Nemours v. Am. Potash & Chem. Corp.*, 200 A.2d 428 (Del. Ch. 1964), but abundant use and debate over the doctrine did not arise until *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995)).

10. See, e.g., *Mitchell v. Reynolds*, 24 Eng. Rep. 347, 348 (Q.B. 1711) (representing one of the earliest English cases enforcing a restrictive covenant between two bakers); see also *Oregon Steam Navigation Co. v. Winsor*, 87 U.S. 64, 71-72 (1873) (representing the first case that came before the United States Supreme Court dealing with a restrictive covenant); Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 251-60 (1998) (noting that trade secret law existed before the twentieth century, and was classified as real property under state common law); Edelman, *supra* note 6, at 717 (arguing that an injunction based on inevitable disclosure creates a retroactive restrictive covenant, which the employee did not intend to sign).

11. See *supra* note 10.

contractual law.¹² Consequently, by the beginning of the twentieth century there was considerable uncertainty as to their enforceability since many states had developed significantly different policies and standards for contractually limiting employment mobility.¹³ However, by 1932, the American Law Institute (“ALI”) had amassed a comprehensive codification of the common law rules of restrictive covenants in the *Restatement of Contracts*.¹⁴ Specifically, sections 515 and 516 of the first *Restatement* addressed bargains in restraint of trade.¹⁵ Under section 515:

restraint on trade is unreasonable, in the absence of statutory authorization or dominant social or economic justification, if it

- (a) is greater than is required for the protection of the person for whose benefit the restraint is imposed, or
- (b) imposes undue hardship upon the person restricted, or
- (c) tends to create, or has for its purpose to create, a monopoly, or to control prices or to limit production artificially, or
- (d) unreasonably restricts the alienation or use of anything that is a subject of property, or
- (e) is based on a promise to refrain from competition and is not ancillary either to a contract for the transfer of good-will or other subject of property or to an existing employment contract of employment.¹⁶

Furthermore, under section 516, the drafters provided a comprehensive list of bargaining situations that did not impose an unreasonable restraint on trade.¹⁷ In 1981, the ALI drafted the *Restatement (Second) of Con-*

12. RESTATEMENT OF CONTRACTS at viii. (1932).

13. *Id.*; see also *infra* Parts V. & VI. (discussing the policy concerns that New York courts have raised in implementing a difficult standard for imposing injunctive relief); Part IV.1 (analyzing the development of the inevitable disclosure doctrine from the 1930s and the policy concerns that courts have struggled with in granting injunctive relief under the doctrine, as well as enforcing restrictive covenants).

14. RESTATEMENT OF CONTRACTS §§ 515–16 (1932).

15. *Id.*

16. *Id.* at § 515.

17. *Id.* at § 516. Under section 516, a restraint on trade is reasonable if:

- (a) A bargain by the transferor of property or of a business not to compete with the buyer in such a way as to injure the value of the property or business sold;
- (b) A bargain by the buyer or lessee of property or of a business not to use it in competition with or to the injury of the seller or lessor;
- (c) A bargain to enter into partnership with an actual or possible competitor;
- (d) A bargain by a partner not to interfere by competition or otherwise with the business of the partnership while it continues, or subject to reasonable limitations after his retirement;
- (e) A bargain to deal exclusively with another;
- (f) A bargain by an assistant, servant, or agent not to compete with his employer, or

tracts, which combined sections 515 and 516.¹⁸ The newly revised section, which is titled section 188 Ancillary Restraints on Trade, states:

- (1) A promise to refrain from competition that imposes a restraint that is ancillary to an otherwise valid transaction or relationship is unreasonably in restraint of trade if
 - (a) the restraint is greater than is needed to protect the promisee's legitimate interest, or
 - (b) the promisee's need is outweighed by the hardship to the promisor and the likely injury to the public.
- (2) Promises imposing restraints that are ancillary to a valid transaction or relationship include the following:
 - (a) a promise by the seller of a business not to compete with the buyer in such a way as to injure the value of the business sold;
 - (b) a promise by an employee or other agent not to compete with his employer or other principal;
 - (c) a promise by a partner not to compete with the partnership.¹⁹

Although the first *Restatement* was widely accepted and often cited,²⁰ many courts wholeheartedly accepted the newly formulated version of the *Restatement*.²¹ In particular, during the mid 1980s, many New York

principal, during the term of the employment or agency, or thereafter, within such territory and during such time as may be reasonably necessary for the protection of the employer or principal, without imposing undue hardship on the employee or agent.

18. RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981); *see also* Milton Handler & Daniel E. Lazaroff, *Restraint of Trade and the Restatement (Second) of Contracts*, 57 N.Y.U. L. REV. 669 (1982) (discussing the fundamental differences between the first *Restatement* and the *Restatement (Second) of Contracts*).

19. RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981) (noting that subsection one is generally known as the rule of reason, whereby a restraint will be deemed unreasonable by a court if the judge determines that either requirements (a) or (b) have been met); *see also* 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, 602–03 (1999) (stating that an enforceable non-compete agreement will typically state that, “after the termination of employment for any reason, the employee will not compete with the employer in the employer’s existing or contemplated businesses for a designated period of time—typically one to two years—in a specified geographical region that corresponds to the market in which the employer participates”).

20. *See, e.g.*, *Hemstreet v. Warlick*, 576 P.2d 1, 3 (Or. 1978) (adopting section 515 as the standard for enforcing restrictive covenants in Oregon); *Piercing Pagoda, Inc. v. Hoffner*, 351 A.2d 207, 210 (Pa. 1976) (using section 515 to create a test to determine whether to enforce restrictive covenants in Pennsylvania).

21. *See, e.g.*, *Dial Media, Inc. v. Schiff*, 612 F. Supp. 1483, 1488–89 (D.R.I. 1985) (analyzing a restrictive covenant under both section 515 and the newly implemented section 188); *A.B. Dick Co. v. Am. Pro-Tech*, 514 N.E.2d 45, 50 (Ill. App. Ct. 1987) (citing section 188 as the standard for determining the reasonableness of a restrictive covenant).

courts adopted large portions of the reformulated *Restatement (Second)*,²² and recent case law has demonstrated a continued acceptance.²³ While there clearly are differences between sections 515 and 516 of the *Restatement (First)* and section 188 of the *Restatement (Second)*, both address the same fundamental policy concerns that arise with the implementation of restrictive covenants,²⁴ or similarly with the grant of injunctive relief under the doctrine of inevitable disclosure.²⁵ In fact, in drafting section 188 of the *Restatement (Second)*, the ALI tried to formulate a test whereby courts could weigh the employer's need for retaining the confidentiality of its trade secrets against the harm that would ensue to both society and the employee if his economic mobility were restrained.²⁶ The drafters of the *Restatement (Second)* keenly recognized that while restrictive covenants might impose harm on an employee by preventing them from earning their livelihood, society as a whole could also be harmed by the loss of a skilled worker.²⁷ Thus, the *Restatement (Second)* cautions that restrictive covenants should be "scrutinized with particular care."²⁸ Specifically, in a trade secret case, if an employer

22. See, e.g., *Kraft Agency, Inc. v. Delmonico*, 494 N.Y.S.2d 77, 83 (N.Y. App. Div. 1985) (using the reasonableness test of section 188 of the *Restatement (Second) of Contracts* in analyzing the enforceability of a restrictive covenant).

23. See, e.g., *BDO Seidman v. Hirshberg*, 93 N.Y.2d 382, 388–89 (1999) (stating that restrictive covenants are reasonable "only if it: (1) is *no greater* than is required for the protection of the *legitimate interest* of the employer, (2) does not impose undue hardship on the employee, and (3) is not injurious to the public"); see also Dan Messeloff, *Giving the Green Light to Silicon Alley Employees: No-Compete Agreements Between Internet Companies and Employees Under New York Law*, 11 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 711, 740–45 (2001) (noting that in New York, a restrictive covenant "will generally be enforced if it is (1) reasonably limited in terms of scope and duration, and (2) narrowly tailored to the employer's legitimate interests, which include protection of its trade secrets or other confidential information, or if the employee's services are 'unique or extraordinary'"). However, despite this general acceptance, several courts still quote the policy foundations of *Reed, Roberts Assocs., Inc. v. Strauman*, 40 N.Y.2d 303 (1976), which used the *Restatement (First) of Contracts* to determine the enforceability of restrictive covenants in New York. See, e.g., *Marietta, Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 66 n.3 (N.Y. App. Div. 2003).

24. RESTATEMENT (SECOND) OF CONTRACTS § 188(2)(b) (1981) (addressing the context in which a typical inevitable disclosure case takes place).

25. Since inevitable disclosure often results in the granting of injunctive relief, courts struggle with the same policy concern of balancing an employer's need for retaining its trade secrets against the employee's right to employment mobility.

26. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmts. c, g (1981) (noting that there is also the counter argument that restrictive covenants increase economic efficiency by encouraging the employer to entrust the employee with more trade secrets, thus making him a more efficient and effective employee); see also Gilson, *supra* note 19 (describing the inequalities in economic development of Silicon Valley in California, where restrictive covenants are not enforceable, and Route 128 in Massachusetts, where such covenants are allowed when not against public policy).

27. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmts. c, g (1981).

28. *Id.* at cmt. g.

seeks to enforce a restrictive covenant based on an employee's knowledge of a certain process or method, "the confidentiality of that process or method and its technological life may be critical" to a judge's decision in determining the enforcement of the covenant.²⁹

Because trade secret cases depend on the confidentiality³⁰ of information and the employee's knowledge of it, the enforcement of a restrictive covenant is often a highly fact-sensitive exercise.³¹ Under the *Restatement (Second)*, the enforcement of a restrictive covenant will in many cases depend on the analysis of three factors: (1) the type of activity the employee is attempting to engage in; (2) the restricted geographical area; and (3) the length of time of the restraint.³² Accordingly, a restraint may be deemed unreasonable if it "proscribes types of activity more extensive than necessary to protect those engaged in by the promisee."³³ Furthermore, under this analysis, a restraint may also be deemed unreasonable if it encompasses a geographic area more extensive than required to adequately protect the former employer.³⁴ Finally, if the restraint extends for a longer period of time than is necessary to protect the employer's interests, it may be deemed unreasonable.³⁵ However, when making a determination as to the adequacy of such a temporal restraint, a court should examine the "permanent or transitory nature of technology and information."³⁶

Even with the guidance provided by the *Restatements*, these generalized rules often result in rigorous debate across jurisdictions because of

29. *Id.*; see also *infra* Part III.B(1) and accompanying text (noting a similar requirement of sufficiency of secrecy and value of the information in the RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (1995) and RESTATEMENT OF TORTS § 757 (1939)).

30. RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981). Although discussed in greater detail later in this note, the sufficiency of secrecy and value of the information are also key components in defining a trade secret.

31. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. g (1981).

32. *Id.* at cmt. d.

33. *Id.* "A restrictive covenant is easier to justify when it is limited to one field of activity among many that are available to the employee." *Id.* at cmt. g.

34. *Id.* With the globalization of many technology industries, it is likely that the geographical component of this analysis is no longer relevant. See *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

35. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. g (1981); see also *EarthWeb*, 71 F. Supp. 2d at 313 (holding that a restrictive covenant of one year was excessive); Messeloff, *supra* note 23, at 729–46.

36. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. d (1981). When a restrictive covenant is too broad to reasonably justify the employer's interest, a court may find it unreasonable without weighing the interests of the employee or society. *Id.*; see also *EarthWeb*, 71 F. Supp. 2d at 309 (noting that the internet industry is a "nascent industry which is evolving and re-inventing itself with breathtaking speed").

the fact-intensive determinations that occur in trade secret cases. Interestingly enough, with the emergence of the inevitable disclosure doctrine, a new and more contentious debate has emerged as both courts and scholars struggle with the policy concerns of applying these generalized rules of restrictive covenant law, even where an agreement has not been bargained for or expressly agreed to. In fact, while some courts have fully embraced the idea of enjoining employment mobility in the absence of a restrictive covenant,³⁷ at least one commentator has termed these restrictions as “Intellectual Slavery”³⁸ in the form of “*ex post facto* covenants not to compete.”³⁹ However, despite all the controversy that has resulted from the inevitable disclosure doctrine, it is also possible that it has provided a new analysis for determining the enforceability and reasonableness of existing restrictive covenants. In fact, as will be discussed in Part IV, several courts have used the doctrine not as an independent means for restricting employment, but rather as a new means for determining the enforceability and reasonability of existing restrictive covenants.⁴⁰

B. The Codification of Trade Secret Law

Trade secret law, much like the contractual law surrounding the rules of restrictive covenants, has also been influential in the growth of the inevitable disclosure doctrine. This is due to the fact that inevitable disclosure cases typically involve an employer seeking injunctive relief against a former employee so as to limit them from disclosing confidential and valuable information.⁴¹ Although much of the early development was through case law,⁴² it was the codification of trade secret law that resulted in the greatest advancement of this practice area in recent years.⁴³ Since 1939, there have been several attempts to codify trade secret law.⁴⁴ Each of these codifications reflect a general consensus that

37. See *infra* Part IV. (discussing the *PepsiCo* and *Merck* decisions).

38. Edelstein, *supra* note 6, at 717.

39. *Id.* at 731.

40. See *infra* Part IV.3(b) (showing how inevitable disclosure has been used as a means for determining the enforceability of restrictive covenants).

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

42. See *infra* Part IV. and accompanying text (dealing with the historical and recent development of trade secret law).

43. See, e.g., *PepsiCo, Inc.*, 54 F.3d 1262, 1267–68 (relying heavily on Illinois’s version of the UTSA, the court set perhaps the greatest expansion to date in trade secret law protection).

44. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (1995); UNIF. TRADE SECRET ACT 14 U.L.A. 433–67 (1985); RESTATEMENT OF TORTS § 757 (1939).

the following should be formulated: (1) a proper definition of the term trade secret; (2) a basis for determining when a cause of action will arise under the misappropriation of a trade secret; and (3) the availability of an appropriate remedy if such a cause of action is established.⁴⁵ The forthcoming sections of this note will discuss the various attempts at codifying each of these areas.

1. Defining Trade Secrets

The first attempt to codify trade secret law came via the *Restatement of Torts*.⁴⁶ In undertaking this task, the ALI drafted a rather flexible definition of what constitutes a trade secret. Although it merely sets the parameters of trade secret law, the first *Restatement* states that:

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. . . . [I]t is not simply information as to single or ephemeral events in the conduct of the business. . . . A trade secret is a process or device for continuous use in the operation of business.⁴⁷

Understanding the difficulty in creating a concrete and all encompassing definition for the complex and ever changing realm of trade secret law, the drafters included a list of six factors to assist courts with the determination of the existence of a trade secret.⁴⁸ These factors were:

- (1) the extent to which the information is known outside of [the employer's] business;
- (2) the extent which it is known by employees and others involved in [the employer's] business;
- (3) the extent of measures taken by [the employer] to guard the secrecy of the information;
- (4) the value of the information to [the employer] and to his competitors;

45. See *supra* note 44. Each of the codifications contains a definition of a trade secret, creates a cause of action for misappropriation, and provides for a remedy either in the actual text or the accompanying comments. See also Jennifer L. Saulino, *Locating Inevitable Disclosure's Place in Trade Secret Analysis*, 100 MICH. L. REV. 1184, 1188 (2002) (noting that "[t]he typical trade secrets analysis involves identifying a trade secret, identifying its actual or threatened disclosure, and fashioning a remedy").

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

47. *Id.*

48. *Id.*

- (5) the amount of effort or money expended by [the employer] in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.⁴⁹

In 1978, despite the abundant growth in both the nation's industry and technology sectors, and a growing confusion between the common law and statutory remedies, the ALI chose to omit the aforementioned rules of trade secret law from the *Restatement (Second) of Torts*, believing instead that such a codification should be housed in another area of the law.⁵⁰ By 1968, realizing that there was "a fundamental policy conflict still unresolved" between state statutes and federal patent policy, the National Conference of Commissioners on Uniform State Laws ("National Conference") had already started to draft a new codification of "the basic principles of common law trade secret protection, [while still] preserving its essential distinctions from patent law."⁵¹ The result was the Uniform Trade Secrets Act ("UTSA"), which was eventually approved by the National Conference in 1979 after more than a decade of drafting and research.⁵² Although the UTSA was amended in 1985, its basic definitional section remained the same. Under section 1 of the UTSA:

- (4) "[t]rade" secret means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
 - (i) derives 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.⁵³

The current UTSA definition appears to offer a more encompassing approach than that of the *Restatement of Torts* and it has likewise achieved great acceptance as forty-two states and the District of Columbia have adopted the UTSA in some form.⁵⁴

49. *Id.*

50. UNIF. TRADE SECRET ACT, prefatory note, 14 U.L.A. 434 (1985).

51. *Id.* at 434-35.

52. *Id.* at 433.

53. *Id.* at 438. This definition is notably different from the RESTATEMENT OF TORTS § 757 (1939), "which required that a trade secret be 'continuously used by one's business.' The broader definition in the [UTSA] extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put the trade secret to use." *Id.* at 439.

54. Brandy L. Treadway, *An Overview of Individual States' Application of Inevitable Disclo-*

However, in 1995, despite the growing success of the UTSA,⁵⁵ the ALI decided to reincorporate trade secret law this time in the *Restatement (Third) of Unfair Competition*.⁵⁶ The *Restatement (Third)* currently defines a trade secret as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”⁵⁷ Although this definition has noticeable differences from that of the UTSA, the ALI clearly intended for it to be applicable to the UTSA.⁵⁸ In fact, section 39 of the *Restatement (Third)* states that “[t]he concept of a trade secret as defined in this Section is intended to be consistent with the definition of ‘trade secret’ in §1(4) of the Act.”⁵⁹ Notably, the drafters of the *Restatement (Third)* did not incorporate the widely acclaimed six-factor test for determining the existence of a trade secret, which was formulated under the *Restatement of Torts* section 757.⁶⁰ However, even despite this omission from the *Restatement (Third)* and its lack of written presence in the UTSA many courts continue to rely heavily on the six factors for guidance.⁶¹

Although there are differences between each of the codifications’ definition of a trade secret, both the *Restatements* and the UTSA recognize that to qualify as a trade secret there must be both sufficient secrecy and value to the owner.⁶² The *Restatement of Torts* does not incorporate these two terms into its initial definition under section 757. However, the six-factor test for determining the existence of a trade secret clearly re-

sure: Concrete Doctrine or Equitable Tool?, 55 SMU L. REV. 621, 626 (2002) (noting that “[t]he eight states that have not enacted the UTSA are Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Tennessee, Texas and Wyoming”).

55. Edelstein, *supra* note 6, at 724 (noting that “[a]s of 1995, the U.T.S.A. ha[d] been enacted in twenty-one states”).

56. RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (1995). Notably the ALI had removed the trade secret analysis from the *Restatement of Torts* believing that it was not properly analyzed under tort law. *Id.* The authors of the *Restatement (Third) of Unfair Competition* instead believed that trade secret law was properly connected with unfair competition. *Id.*

57. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

58. *Id.* at cmt. b.

59. *Id.*

60. *Id.*; see also UNIF. TRADE SECRET ACT, prefatory note, 14 U.L.A. 434 (1985) (noting that when then UTSA was drafted the six factors provided under section 757 were “the most widely accepted rules of trade secret law”).

61. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 reporter’s notes cmt. d (1995); see also *infra* Parts V. & VI. (discussing New York’s continued use of the six-factor test of the *Restatement of Torts*).

62. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995); UNIF. TRADE SECRET ACT § 1(4)(i)–(ii), 14 U.L.A. 438 (1985); RESTATEMENT OF TORTS § 757 cmt. b (1939).

volves around establishing both sufficient secrecy and value.⁶³ Furthermore, as previously noted, the UTSA also provides a requirement under the text of section 4(i)–(ii) that the information must derive both “independent economic value” and be the “subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁶⁴ While these requirements and the following comments provide little guidance in determining either sufficient secrecy or value, their presence in the actual definition shows that the drafters saw both as essential elements to the definition of a trade secret. Finally, the *Restatement (Third) of Unfair Competition*, much like its predecessor the *Restatement of Torts*, does not require sufficient secrecy or value in the actual text of section 39.⁶⁵ However, while the actual text of section 39 does not provide such requirements, comments e⁶⁶ and f⁶⁷ of this section do, and they also provide courts with a great deal of guidance in determining the existence of both value and secrecy.⁶⁸

2. Creating a Cause of Action in Trade Secret Law

Just as defining the realm of what constitutes a trade secret was a difficult task for both the ALI and the National Conference, determining the misuse or misappropriation of a trade secret proved to be equally difficult.⁶⁹ The ALI first defined misappropriation under section 757 of the *Restatement of Torts*, stating:

[o]ne who discloses or uses another’s trade secret, without a privilege to do so, is liable to the other if

- (a) he discovers the secret by improper means, or
- (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

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

64. UNIF. TRADE SECRET ACT § 1(4)(i)–(ii), 14 U.L.A. 438 (1985).

65. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

66. *Id.* at cmt. e. Comment e states that a “trade secret must be of sufficient value in the operation of a business . . . to provide an actual or potential economic advantage over others who do not possess the information. The advantage, however, need not be great. It is sufficient if the secret provides an advantage that is more than trivial.” *Id.*

67. *Id.* at cmt. f. Comment f states that “[t]o qualify as a trade secret, the information must be secret. The secrecy, however, need not be absolute. The rule stated in this Section requires only secrecy sufficient to confer an actual or potential economic advantage on who possesses the information.” *Id.*

68. *Id.* at cmts. e–f.

69. See *infra* Part IV.3 (discussing the various approaches that states have taken in analyzing misappropriation under both the *Restatements* and the UTSA).

- (c) he learned the secret from a third person with notice of the facts that it was a secret and that third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other⁷⁰

In drafting the UTSA, the National Conference used much of the same language incorporated in the *Restatement of Torts* section 757. Under the UTSA, a cause of action will arise when there is "actual or threatened misappropriation" of a trade secret.⁷¹ The UTSA defines misappropriation under section 1(2) as:

- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
- (A) used improper means to acquire knowledge of the trade secret; or
 - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
 - (I) derived from or through a person who had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.⁷²

The *Restatement (Third) of Unfair Competition* imposes liability for the misappropriation of trade secrets under section 40 in a nearly identical fashion to that of the UTSA.⁷³ In fact, subsection (b) of the *Restatement*

70. RESTATEMENT OF TORTS § 757 (1939). Under this rule, "means may be improper . . . even though they do not cause any other harm than that to the interest in the trade secret." *Id.* at cmt. f.

71. UNIF. TRADE SECRET ACT § 2, 14 U.L.A. 449 (1985); *see also* Part VI.3(a) (discussing the debate between threatened and inevitable disclosure).

72. UNIF. TRADE SECRET ACT § 1, 14 U.L.A. 438 (1985). Liability for misappropriation can also be established when there is an "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means." *Id.* Under section 1(1), improper means "include[] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." *Id.*

73. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 (1995). Under section 40, Appropriation of Trade Secrets:

One is subject to liability for the appropriation of another's trade secret if:

(Third) was specifically designed to mirror the rule adopted in section 1(2) of the UTSA, imposing liability for the acquisition by improper means of a trade secret.⁷⁴

3. Formulating a Remedy

Although the *Restatement of Torts* provided little guidance as far as crafting the proper remedy for a trade secret cause of action, it did recognize that an injunction against “future harm by disclosure or adverse use” was an appropriate remedy.⁷⁵ Similarly, the UTSA also provides fairly minimal guidance in granting appropriate injunctive relief, stating only that “[a]ctual or threatened misappropriation may be enjoined.”⁷⁶ However, while both the *Restatement of Torts* and the UTSA provide

-
- (a) the actor acquires by means that are improper under the rule stated in § 43 information that the actor knows or has reason to know is the other’s trade secret; or
 - (b) the actor uses or discloses the other’s trade secret without the other’s consent and, at the time of the use or disclosure,
 - (1) the actor knows or has reason to know that the information is a trade secret that the actor acquired under circumstances creating a duty of confidence owed by the actor to the other under the rule stated in § 41; or
 - (2) the actor knows or has reason to know that the information is a trade secret that the actor acquired by means that are improper under the rule stated in § 43; or
 - (3) the actor knows or has reason to know that the information is a trade secret that the actor acquired from or through a person who acquired it by means that are improper under the rule stated in § 43 or whose disclosure of the trade secret constituted a breach of a duty of confidence owed to the other under the rule stated in § 41; or
 - (4) the actor knows or has reason to know that the information is a trade secret that the actor acquired through an accident or mistake, unless the acquisition was the result of the other’s failure to take reasonable precautions to maintain the secrecy of the information.

Id.

74. *Id.* at cmt. b.

75. RESTATEMENT OF TORTS § 757 cmt. e (1939).

76. UNIF. TRADE SECRET ACT § 2, 14 U.L.A. 449 (1979). Section 2 states in full that:

- (a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
- (b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited
- (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

Id.

fairly limited guidance to courts, the *Restatement (Third)* appears to have crafted a more structured framework for granting appropriate injunctive relief. Like the UTSA, the *Restatement (Third)* initially states that injunctive relief may be granted “to prevent a continuing or threatened appropriation of another’s trade secret.”⁷⁷ However, when making a determination as to the appropriateness and scope of injunctive relief, the *Restatement (Third)* also calls for the court to make a “comparative appraisal of all the factors of the case.”⁷⁸ Although this initially appears to provide another relatively vague standard, the *Restatement (Third)* then continues on to provide a useful list of primary factors to guide the court in crafting the appropriate relief.⁷⁹ Finally, the *Restatement (Third)* also states that injunctive relief may extend for as long as necessary to protect the plaintiff from harm of misappropriation and to deprive the defendant of any benefit that may ensue from the appropriation.⁸⁰

In trade secret cases involving actual, threatened, or even inevitable misappropriation, it is typically the framing of injunctive relief that causes the greatest controversy.⁸¹ Even with such useful factors for determining the appropriateness and the scope of injunctions as provided by the *Restatement (Third)*, courts are typically loathe to grant such equitable relief because it would restrain able-bodied workers from employment.⁸² Restricting employment mobility becomes an even greater

77. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 (1995). Under this section, the person misappropriating the trade secret must fall under section 40. *Id.*

78. *Id.*

79. *Id.* This appraisal should include the following factors:

- (a) the nature of the interest to be protected;
- (b) the nature and the extent of the appropriation;
- (c) the relative adequacy to the plaintiff of an injunction and of other remedies;
- (d) the relative harm likely to result to the legitimate interests of the defendant if an injunction is granted and to the legitimate interests of the plaintiff if an injunction is denied;
- (e) the interests of third persons and the public;
- (f) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights;
- (g) any related misconduct on the part of the plaintiff; and
- (h) the practicality of framing and enforcing the injunction.

Id.

80. *Id.*

81. See generally Edelstein, *supra* note 6 (discussing the issuance of injunctions in inevitable disclosure cases as a form of intellectual slavery); see also *infra* Part VI. (analyzing the policy concerns in New York of enforcing restrictive covenants).

82. See *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773, at *5 (S.D. Iowa July 5, 2002) (stating that the court was “very troubled with the prospect of forcing an employee out of his job”); *Allis-Chalmers Mfg. Co. v. Cont’l Aviation & Eng’g Corp.*, 255 F. Supp. 645, 654 (E.D. Mich. 1966) (discussing the court’s concerns with limiting an employee’s employ-

concern under the doctrine of inevitable disclosure, where relief is often sought in the absence of an express restrictive covenant. However, the doctrine of inevitable disclosure can provide a court with more than an independent means of granting injunctive relief.⁸³ It can also be used as a tool in properly determining the adequacy and enforceability of express restrictive covenants.⁸⁴

Typically, injunctive relief is the sole aim of a plaintiff seeking relief under the doctrine of inevitable disclosure and is the usual remedy granted in trade secret cases. This is due to the fact that the “harm caused by the appropriation of a trade secret may not be fully reparable through an award of monetary relief due to the difficulty of proving the amount of loss and the causal connection with the defendant’s misconduct.”⁸⁵ Furthermore, monetary damages alone provide little relief to a technological company seeking to expand their business through research and innovation.⁸⁶ However, despite their apparent inadequacy, monetary damages may also be granted in addition to an injunction under the *Restatements of Torts*,⁸⁷ *Restatement (Third) of Unfair Competition*,⁸⁸ and the UTSA.⁸⁹ In fact, monetary relief is specifically provided for under section 3(a) of the UTSA, which states:

Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition

ment mobility).

83. See *supra* Part III.A.; see also *infra* Part VI.3(b).

84. See *infra* Part IV.3(b).

85. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. b (1995).

86. MELVIN F. JAGER, TRADE SECRETS LAW HANDBOOK § 1.04, at 7–10 (noting that “trade secret law further encourages research and innovation by providing a legal vehicle for disseminating and productively using secret information”). Under Jager’s argument, both business and society as a whole benefit from the increased innovation of science and technology.

87. RESTATEMENT OF TORTS § 757 (1939).

88. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. b (1995) (stating that “monetary relief [may be granted] to compensate the plaintiff for existing losses and injunctive relief to prevent the future loss through further use or disclosure of the trade secret”).

89. UNIF. TRADE SECRET ACT § 3, 14 U.L.A. 72–73 (1985).

of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.⁹⁰

Likewise, under the *Restatement (Third)*, one who misappropriates another's trade secret is "liable for the pecuniary loss to the other caused by the appropriation or for the actor's own pecuniary gain resulting from the appropriation, whichever is greater"⁹¹ In a test that is similar to that of determining the appropriateness and scope of injunctive relief, the *Restatement (Third)* relies on a comparative appraisal of factors to determine the appropriate award of monetary relief.⁹² By drafting the primary factors to be examined, the ALI once again provided courts with a useful mechanism for crafting an appropriate remedy.⁹³

IV. THE DEVELOPMENT OF INEVITABLE DISCLOSURE THROUGH CASE LAW

A. Pre-PepsiCo Case Law

1. *Eastman Kodak Co. v. Powers Film Products, Inc.*

Decided in 1919, *Eastman Kodak Co. v. Powers Film Products, Inc.*⁹⁴ was the first case in which a court dealt with the issue of inevitable

90. *Id.* Furthermore, under subsection (b), "if willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a)." *Id.*; see also Saulino, *supra* note 45, at 1188 (noting that while an injunction is the remedy of choice in a threatened disclosure case, in cases of actual misappropriation, courts will usually grant monetary damages).

91. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 (1995).

92. *Id.* Under section 45, a comparative appraisal should consider the following primary factors:

- (a) the degree of certainty with which the plaintiff has established the fact and extent of the pecuniary loss or the actor's pecuniary gain resulting from the appropriation;
- (b) the nature and extent of the appropriation;
- (c) the relative adequacy to the plaintiff of other remedies;
- (d) the intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor;
- (e) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights; and
- (f) any related misconduct on the part of the plaintiff.

Id.

93. *Id.*

94. 179 N.Y.S. 325 (N.Y. App. Div. 1919).

disclosure.⁹⁵ The dispute in *Eastman* arose after Powers Film Products, Inc. (“Powers”), a start-up manufacturer of raw film products, recruited Harry Warren (“Warren”), an Eastman Kodak Co. (“Eastman Kodak”) employee.⁹⁶ Warren had been employed by Eastman Kodak for approximately ten years and had gained intricate knowledge of its film-making process.⁹⁷ In the fourth year of his employment with Eastman Kodak, Warren was required to sign both a non-disclosure agreement and a restrictive covenant.⁹⁸ When Powers solicited their offer to Warren, Eastman Kodak sought to enforce the restrictive covenant through the issuance of a temporary injunction to enjoin him from starting with Powers.⁹⁹ On appeal, the court enforced the injunction stating that “[t]he mere rendition of the service along the lines of [defendant’s] training would almost necessarily impart such knowledge to some degree. [Defendant] cannot be loyal both to his promise to his former employer and to his new obligations to the defendant company.”¹⁰⁰ Thus, *Eastman* appears to be the first case to use the analytical framework of the inevitable disclosure doctrine to enforce a restrictive covenant.¹⁰¹

2. *B.F. Goodrich Co. v. Wohlgemuth*

*B.F. Goodrich Co. v. Wohlgemuth*¹⁰² represented a major development for the doctrine of inevitable disclosure, as it was the first case in which a court enforced an injunction, despite the absence of a restrictive covenant.¹⁰³ In *B.F. Goodrich*, the defendant, Donald Wohlgemuth (“Wohlgemuth”), was employed by the B.F. Goodrich Company and was integrally involved with the development of their full-pressure space

95. *Id.*

96. *Id.* at 327. The court noted that “it [was] apparent that the purpose of the defendant company, in connection with its new venture in manufacturing, was to hire away from the plaintiff . . . its experienced employees in this line of work . . . thereby . . . starting with an experienced manufacturing organization.” *Id.* at 328.

97. *Id.* at 327. The court also noted that the plaintiff had established that the film manufacturing process was maintained under sufficient secrecy and was of a sufficient value to the plaintiff. *Id.*

98. *Id.* Warren’s non-disclosure agreement stated that he “would not disclose, either orally or in writing, to any person, any knowledge or information he might gain in the course of his employment, as to any processes of manufacture or formulas used by plaintiff.” *Id.* Furthermore, Warren’s covenant not-to-compete stated that “upon termination of his employment for the period of two years, he would not directly or indirectly . . . engage in photographic business, either as manufacturer, dealer or employee, for another.” *Id.*

99. *Id.* at 328.

100. *Id.* at 330.

101. See Treadway, *supra* note 54, at 623.

102. 192 N.E.2d 99 (Ohio Ct. App. 1963).

103. *Id.* at 105.

suit technology.¹⁰⁴ Wohlgemuth attempted to leave B.F. Goodrich after the International Latex Corp.,¹⁰⁵ a rival space equipment company, offered him a better position with increased pay.¹⁰⁶ Despite the lack of a restrictive covenant, B.F. Goodrich sought a permanent injunction against Wohlgemuth alleging that they would suffer irreparable harm from the disclosure of its trade secrets¹⁰⁷ if he were allowed to work for the International Latex Corp.¹⁰⁸ Initially, the trial court denied B.F. Goodrich's plea for the injunction due to the lack of a restrictive covenant.¹⁰⁹ However, after finding that a "substantial threat of disclosure exist[ed]," the court of appeals issued an injunction stating that "the law d[id] not require an agreement between an employer and employee restricting the employee from securing employment with a competitor before an injunction may issue."¹¹⁰ In reaching this decision, the court reasoned that "[e]quitable intervention is sanctioned when it appears . . . that there exists a present real threat of disclosure, even without actual disclosure."¹¹¹

3. *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*

Although the court in *B.F. Goodrich* issued an injunction in the absence of a restrictive covenant, it was not until the *E.I. duPont de Ne-*

104. *Id.* at 101–02. The record stated that Wohlgemuth had held positions such as "materials engineer, product engineer, sales engineer, technical manager, and finally manager of the department" over his course of employment in the B.F. Goodrich pressure-space suit department *Id.* In assuming these various positions Wohlgemuth was, amongst other things, "technically 'responsible for complete engineering of pressure suits and ancillary equipment, both the development and production phases.'" *Id.*

105. The International Latex Corp. ("ILT") was a manufacturing company within the pressure-space equipment field. ILT had entered this field some fourteen years after B.F. Goodrich, but had recently been awarded a sub-contract to develop a space suit for the National Aeronautics and Space Administration. *Id.* at 102.

106. *Id.* at 102, 104.

107. In determining that a trade secret existed, the court relied on the RESTATEMENT OF TORTS § 757 cmt. e (1939). The court was satisfied that the information B.F. Goodrich sought to protect was sufficiently secret in that it was limited to a small class of people consisting of engineers, scientists and technicians of the corporation. *Id.* at 104.

108. *Id.* at 103.

109. *Id.* at 101.

110. *Id.* at 105.

111. *Id.* The court considered several factors in determining that there was a threat of disclosure. Among these factors was the similarity between the two companies and jobs, and the fact that Wohlgemuth had stated that "[o]nce he was a member of the Latex team, he would expect to use all of the knowledge [of his pressure suit work] that he had to their benefit." *Id.* at 104; *see also infra* Part IV.3(a) (discussing the possible distinction between threatened and inevitable disclosure).

*mours & Co. v. American Potash & Chemical Corp.*¹¹² decision that a court used the actual term inevitable disclosure.¹¹³ In *E.I. duPont*, the plaintiff, E.I. duPont de Nemours & Co. (“E.I. duPont”), had been the only company to successfully manufacture pigments through a specialized chloride process.¹¹⁴ The defendant, Donald Hirsh (“Hirsh”), was employed by E.I. duPont for over a decade, and was engaged in the research and development of the chloride pigment process.¹¹⁵ In an attempt to decipher E.I. duPont’s chloride process, American Potash & Chemical Corp. (“Potash”) offered to purchase licenses to use E.I. duPont’s patents.¹¹⁶ E.I. duPont granted the licenses, but refused to grant Potash any of its “know how” relating to their actual chloride process.¹¹⁷ When efforts to discover the chloride process failed, Potash began recruiting personnel for its new plant in California.¹¹⁸ Hirsh was among those who accepted an offer for one of the new positions in Potash’s plant, and promptly resigned from E.I. duPont.¹¹⁹ Upon his resignation, E.I. duPont quickly filed suit to prevent Hirsch from using or disclosing its trade secrets,¹²⁰ and the defendants countered with a motion for summary judgment.¹²¹ The court, in denying the motion for summary judgment, held that “the degree of probability of disclosure, whether amounting to an inevitability or not, is a relevant factor to be considered in determining whether a ‘threat’ of disclosure exists.”¹²² Although the court’s decision only denied summary judgment, the recognition that the inevitable dis-

112. 200 A.2d 428 (Del. Ch. 1964).

113. *Id.* at 432, 435–36.

114. *Id.* at 430.

115. *Id.* The court noted that the defendant Hirsch had spent over six years engaged in the research and development of the disputed process and “knew as much about plaintiff’s . . . process as anyone [then] employed by the plaintiff except one individual.” *Id.* at 434.

116. *Id.* at 431.

117. *Id.*

118. *Id.*

119. *Id.* Notably, upon his departure, Hirsch signed an employment agreement with Potash stating “that he would not disclose ‘any information that he [knew] to be proprietary or confidential information, data, development or trade secret of a third party without the prior written consent of said third party.’” *Id.*

120. In making its decision, the court took as established the sufficiency of the value and secrecy of the disputed information, stating that “[p]laintiff has taken the requisite action to protect and preserve the integrity of its secrets and confidential information in connection with the manufacture of this product” and “[t]he disclosure of these secrets would be of value to Potash . . . and [would] damage the plaintiff” in immeasurable ways. *Id.* at 432.

121. *Id.* at 431.

122. *Id.* at 436.

closure of a trade secret alone could be grounds for injunctive relief represented a major expansion in the doctrine set forth in *B.F. Goodrich*.¹²³

4. *Allis-Chalmers Manufacturing Co. v. Continental Aviation and Engineering Corp.*

While *B.F. Goodrich* recognized the possibility that the inevitable disclosure of a trade secret independent of a restrictive covenant could be grounds for injunctive relief, it was not until *Allis-Chalmers Manufacturing Co. v. Continental Aviation and Engineering Corp.*¹²⁴ that a court actually granted an injunction based on these grounds while using the term “inevitable disclosure.”¹²⁵ In *Allis-Chalmers*, the plaintiff Allis-Chalmers Manufacturing Co. (“Allis-Chalmers”), sought an injunction against a former employee, George Wolff (“Wolff”), to prevent him from joining a rival company, the Continental Aviation and Engineering Corp. (“Continental”).¹²⁶ Allis-Chalmers was engaged in the business of both developing and manufacturing a variety of industrial products, including engines.¹²⁷ Among the products Allis-Chalmers was developing was a fuel injection pump for use in one of its engines.¹²⁸ Wolff was among the employees who were integrally involved in the research and development of the pump.¹²⁹ By January 1, 1965, Allis-Chalmers had designed and tested a version of the pump, known as the Model B, and deemed it ready for production.¹³⁰

123. The court in *B.F. Goodrich* recognized that Wohlgenuth’s statements that he would disclose trade secrets if it would benefit Latex, resulted in a bad faith component that could be construed as a threat. However, in the present case, the court noted that if Hirsh “recognize[d] that a possibly pertinent trade secret of plaintiff [was] involved, he [would] confine himself to the use of unrestricted material.” *Id.* at 435. In noting Hirsh’s good faith, the court relied purely on the inevitability of Hirsh disclosing the trade secrets rather than on a possible threat. *Id.*; see also *infra* Part IV.3(b)–(c) (discussing the debate over threatened and inevitable disclosure and the bad faith element).

124. 255 F. Supp. 645 (E.D. Mich. 1966).

125. *Id.* at 654–55.

126. *Id.* at 646. Continental was also engaged in the design and manufacture of engines, but its primary focus was on developing engines for military vehicles. At the time of the dispute, Continental had a lucrative contract with the United States government for the development of a fuel injection pump. *Id.*

127. *Id.*

128. *Id.*

129. *Id.* at 650. “In his position as head of the fuel systems laboratory, he was responsible for all functional research and testing, and thus became intimately connected with the development of the Allis-Chalmers distribution type fuel injection pump.” *Id.*

130. *Id.* at 649. The fact that Allis-Chalmers had developed this type of fuel injection pump was of major significance in this case. At the time, several companies had spent considerable amounts of time and money in an attempt to develop such a pump, but almost all had failed. *Id.* at

Less than a year before the Model B was ready for production, Allis-Chalmers learned that the United States Army had an interest in purchasing fuel injection pumps similar to the Model B for use in military vehicles.¹³¹ Representatives from Allis-Chalmers solicited Army personnel, but were told that Continental was the only approved design agency.¹³² Allis-Chalmers then conducted extensive negotiations with Continental over a modified version of the Model B, but a final agreement could not be reached.¹³³ Around the same time of the failed negotiation between the two companies, Wolff became dissatisfied with his opportunity for advancement and began seeking other employment.¹³⁴ Upon the advice of a fellow employee, Wolff sent his resume and letters of recommendation to Continental.¹³⁵ By the fall of 1965, Wolff and Continental had reached an agreement, and he was scheduled to begin work in January of 1966.¹³⁶ Upon Wolff's resignation, Allis-Chalmers filed suit seeking an injunction.¹³⁷ Relying on the trade secret definition provided by the *Restatement of Torts*,¹³⁸ the court upheld the preliminary injunction. The court held that the previous negotiations between the two companies, and the nature of the type of work that Wolff performed in relation to the work he would be performing at Continental, "[ed] to an inference that there [was] an inevitable and imminent danger of disclosure of Allis-Chalmers trade secrets to Continental and use of these trade secrets by Continental."¹³⁹ In justifying its decision, the court stated that there was a "virtual impossibility of Mr. Wolff performing all of his prospective duties for Continental . . . without in effect giving it the benefit of Allis-Chalmers' confidential information"¹⁴⁰

648–49.

131. *Id.* at 649.

132. *Id.*

133. *Id.* at 649–50. Notably throughout the negotiation process, Allis-Chalmers retained sufficient secrecy of its information. The court noted that "Allis-Chalmers ha[d] taken the usual and reasonable precautions at its Harvey plant to preserve and protect the confidential nature of its development of a distributor type fuel injection pump." *Id.* at 650.

134. *Id.* at 651. At the same time, Continental unsuccessfully had been looking for a variety of personnel to fill openings in their engineering department. *Id.*

135. *Id.*

136. *Id.* The court noted that there was conflicting testimony as to what Wolff's position would be, but it would necessarily involve work with distributor-type fuel injection pumps. *Id.* at 651–52.

137. *Id.* at 646.

138. RESTATEMENT OF TORTS § 757 (1939). The court noted that the "weight of modern authority" relies on the definition provided by the Restatement. *Allis-Chalmers*, 255 F. Supp. at 653.

139. *Id.* at 654.

140. *Id.*

5. *National Starch and Chemical Corp. v. Parker Chemical Corp.*

*National Starch and Chemical Corp. v. Parker Chemical Corp.*¹⁴¹ represents one of the modern pre-PepsiCo cases that utilized the reasoning of the aforementioned cases to grant an injunction to prevent the inevitable disclosure of a trade secret despite the absence of a restrictive covenant.¹⁴² In *National Starch*, Vincent Lauria (“Lauria”), an employee of the National Starch and Chemical Corp. (“National”), left the company to work for the Parker Chemical Corp. (“Parker”).¹⁴³ Both National and Parker were engaged in the development and manufacturing of adhesive products, particularly for envelopes.¹⁴⁴ Although Lauria had only signed a non-disclosure agreement, National sought and was granted a preliminary injunction to prevent Lauria from disclosing vital trade secrets and from starting work with Parker.¹⁴⁵ Both Lauria and Parker appealed the decision, but the court upheld the preliminary injunction. The court stated that “there was a sufficient likelihood of inevitable disclosure with consequent immediate and irreparable harm to National, to warrant interlocutory relief preserving the status quo pending trial.”¹⁴⁶ The court then went on to reason that, “in the context of determining whether a threat of disclosure exists, it is but a finding as to the probable future consequences of a course of voluntary action undertaken by the defendants.”¹⁴⁷

B. *PepsiCo, Inc. v. Redmond*

In recent years, the inevitable disclosure doctrine has become a more prolific means of protecting trade secrets, largely as a result of the Seventh Circuit’s decision in *PepsiCo, Inc. v. Redmond*.¹⁴⁸ In *PepsiCo*, the court applied the doctrine of inevitable disclosure as an independent means of enjoining a former employee from working for a direct competitor despite the absence of a restrictive covenant.¹⁴⁹ The court, in in-

141. 530 A.2d 31 (N.J. Super. Ct. App. Div. 1987).

142. *Id.* at 33.

143. *Id.* at 31–32. Lauria had worked for National for over nine years, dealing exclusively with envelope adhesives and could “duplicate certain formulas from memory.” *Id.*

144. *Id.* at 31.

145. *Id.* at 31–32.

146. *Id.* at 33.

147. *Id.*

148. 54 F.3d 1262 (7th Cir. 1995); see also *supra* Part IV.1 (discussing the limited number of situations in which inevitable disclosure was used as an injunctive remedy prior to *PepsiCo*).

149. *Id.* at 1263–64.

terpreting the Illinois version of the UTSA, based its decision on the theory of threatened misappropriation, holding that “where there is a ‘high degree of probability of inevitable and immediate . . . use . . . of trade secrets’” an injunction may be appropriately issued.¹⁵⁰ However, the court also determined that before such an injunction will be granted, the movant seeking the injunctive relief must prove that a trade secret exists, and that the information was or will be misappropriated.¹⁵¹ In interpreting the Illinois UTSA, the *PepsiCo* court concluded that “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.”¹⁵²

The *PepsiCo* decision centered on William Redmond (“Redmond”), a former employee of the PepsiCo Corporation of North America (“PCNA”).¹⁵³ Redmond was a General Manager, running the business unit covering all of California.¹⁵⁴ Redmond’s elite status within PCNA allowed him access to some of the company’s most valued trade secrets.¹⁵⁵ Specifically, Redmond was coordinating a marketing campaign of PCNA’s sports drink, All Sport, and was also familiar with the corporation’s proposed product designs and distribution plans.¹⁵⁶ Despite his access to such valuable information, Redmond, like many of the other PCNA management employees, had only signed a non-disclosure agreement that limited the amount of PCNA information he could disclose upon his departure.¹⁵⁷ Of significant importance was the fact that while Redmond did sign the non-disclosure agreement, he did not enter into a restrictive covenant.¹⁵⁸

In May of 1994, Donald Uzzi (“Uzzi”), a former PCNA employee, who left PCNA to work for Quaker’s Gatorade division, began soliciting employment offers to Redmond.¹⁵⁹ At the time, Gatorade was PCNA’s

150. *Id.* at 1268 (citing *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353, 356 (N.D. Ill. 1989)).

151. *Id.*; see also *supra* Part III. (noting that two of the components of a prima facie trade secret claim are the establishment of an actual trade secret and misappropriation).

152. *Id.* at 1269.

153. *Id.* at 1264.

154. *Id.*

155. *Id.*

156. *Id.* at 1265.

157. *Id.*; see also *infra* note 384 (discussing the existence and use of inevitable disclosure for non-disclosure agreements).

158. See *PepsiCo*, 54 F.3d at 1264.

159. *Id.*; see also JAMES H.A. POOLEY, TRADE SECRETS 106 (1989) (noting that actions similar to Uzzi’s are considered employee raiding or predatory hiring).

direct competitor in the sports and new age drinks category.¹⁶⁰ In November of 1994, Uzzi extended a formal written offer to Redmond to join Quaker as Vice President – Field Operations for Gatorade.¹⁶¹ Redmond accepted the offer, but failed to properly notify PCNA executives of his decision.¹⁶² In fact, for two days Redmond told PCNA executives that he had only been offered a position as Chief Operating Officer with Quaker, but was unsure whether he would accept the offer.¹⁶³ On November 10th, Redmond finally confessed that he had accepted the offer, and PCNA promptly informed him that they were considering legal action.¹⁶⁴ Less than one week later, PCNA filed suit to enjoin Redmond from starting work with Quaker and from disclosing the company's trade secrets.¹⁶⁵

Nearly a month later, the District Court for the Northern District of Illinois enjoined Redmond from working with Quaker through 1995.¹⁶⁶ Redmond immediately appealed the decision to the Seventh Circuit Court of Appeals.¹⁶⁷ However, despite the lack of a restrictive covenant or evidence of threatened or actual misappropriation, the Seventh Circuit affirmed the decision using the terms “threatened misappropriation” and “inevitable misappropriation” interchangeably.¹⁶⁸

The Seventh Circuit granted the injunction because the “defendant's new employment w[ould] inevitably lead him to rely on the plaintiff's trade secrets.”¹⁶⁹ In working for Gatorade, Redmond would be responsible for implementing distribution plans that included regions where Redmond had knowledge of PCNA's marketing and distribution

160. *PepsiCo*, 54 F.3d at 1264.

161. *Id.*

162. *Id.*

163. *Id.*

164. *Id.* at 1264–65.

165. *Id.* at 1265.

166. *Id.* at 1267.

167. *Id.*

168. *Id.* at 1265–72. This interchanging of terms presented a difficult problem for future courts in determining similar trade secret cases. *See infra* Part IV.3(a) (discussing the issue of threatened versus inevitable misappropriation). While threatened misappropriation is an established cause of action under both the *Restatements* and the UTSA, neither creates a cause of action for inevitable misappropriation. *See supra* Part III.(b)2 (establishing the different causes of action that arise under the *Restatement of Torts* and the UTSA). By combining the terms inevitable and threatened, the court in *PepsiCo* brought the trade secret claim under the guise of the UTSA, instead of using inevitable disclosure as a separate common law doctrine. Many courts have refused to adopt this interpretation to implement inevitable disclosure as a form of threatened misappropriation. *See, e.g., EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999) (refusing to enforce a trade secret misappropriation claim under the inevitable disclosure doctrine).

169. *PepsiCo*, 54 F.3d at 1269.

plans.¹⁷⁰ The court reasoned that “unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of PCNA trade secrets.”¹⁷¹

Furthermore, in what has become a highly contested issue,¹⁷² the court also noted that Redmond’s “lack of forthrightness” in informing PCNA of his negotiations with Quaker was a determining factor in deciding whether there was a threat of trade secret disclosure.¹⁷³ Notably, in upholding the injunction, the court also recognized that the injunction was not overly broad because it was only for a limited time, it only restricted Redmond from working on the Gatorade and Snapple distribution systems, and “extend[ed] no further than necessary” geographically to protect PCNA’s trade secrets.¹⁷⁴

C. Post-PepsiCo Cases

The *PepsiCo* decision signaled a movement into a new era in trade secret law, resulting in the publication of numerous law review articles and inconsistent court decisions across the country.¹⁷⁵ In fact, as courts began to analyze and apply the *PepsiCo* holding, three issues repeatedly arose: (1) is inevitable disclosure a separate idea from threatened misappropriation; (2) is inevitable disclosure an independent means, separate from restrictive covenant agreements, for granting injunctions; and (3) can a court grant an injunction based on inevitable disclosure even if the employee has shown good faith to keep the trade secrets confidential? The following sections will address each of these issues.

1. Threatened Disclosure v. Inevitable Disclosure

The *PepsiCo* court interpreted inevitable disclosure to be a means of establishing threatened disclosure and consequently used the two terms interchangeably.¹⁷⁶ However, while threatened disclosure is classi-

170. *Id.* at 1266.

171. *Id.* at 1269.

172. *See infra* Part IV.3(c) (discussing bad faith as an element of the inevitable disclosure doctrine).

173. *PepsiCo*, 54 F.3d at 1470–71.

174. *Id.* at 1272; *see also supra* Part III. and accompanying text (discussing the rule of reason and the proper enforcement of non-compete agreements in crafting proper remedies for trade secret cases).

175. *See, e.g.*, Treadway, *supra* note 54.

176. *PepsiCo*, 54 F.3d at 1268.

fied as a form of trade secret misappropriation under both the *Restatement (Third)* and the UTSA, neither codification nor their accompanying texts expressly addresses the term inevitable misappropriation.¹⁷⁷ In utilizing both the *Restatement (Third)* and the UTSA, courts have historically granted injunctions only when the movant can demonstrate that they will suffer irreparable harm from either the threatened or actual misappropriation of trade secret information by a former employee to a direct competitor.¹⁷⁸ However, after the *PepsiCo* decision, there was serious debate as to whether inevitable misappropriation should also be a means for injunctive relief under the guise of the *Restatement (Third)* and UTSA's formulation of threatened misappropriation despite the absence of the explicit language.¹⁷⁹

In *Del Monte Fresh Produce Co. v. Dole Food Co.*, the court analyzed inevitable disclosure as a separate theory from Florida's UTSA definition of threatened disclosure.¹⁸⁰ Del Monte Fresh Produce Company ("Del Monte") was denied an injunction on the grounds of both inevitable and threatened disclosure when it tried to enjoin its former employee Dr. Daniel Funk.¹⁸¹ Dr. Funk was the Senior Vice President for Research Development and Agricultural services at Del Monte from 1984 until September of 2000, when he began employment with Dole.¹⁸² Although Dr. Funk had access to Del Monte's formulas, processes, and other technical information, his role as a high-level executive kept him more involved with management decisions.¹⁸³ Because Dr. Funk was privy to trade secret information, he was asked at the initiation of his employment to sign a confidentiality agreement with Del Monte.¹⁸⁴ Dr. Funk signed the agreement, but much like Redmond in *PepsiCo*, he did not enter into a restrictive covenant.¹⁸⁵

177. *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326, 1336–37 (S.D. Fla. 2001); see also *supra* Part III. (discussing the various ways of creating a cause of action for a trade secret claim).

178. See, e.g., *Del Monte*, 148 F. Supp. 2d at 1336 (holding that under the UTSA, an employee can be enjoined from working for a competing company under the doctrine of inevitable disclosure only where the plaintiff can establish that irreparable harm will ensue). But see Part IV.(1) (discussing the various decisions prior to *PepsiCo* where courts have enforced injunctions utilizing only inevitable misappropriation).

179. See *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773 (S.D. Iowa July 5, 2002); *Del Monte*, 148 F. Supp. 2d 1326 (S.D. Fla. 2001).

180. *Del Monte*, 148 F. Supp. 2d at 1337–39.

181. *Id.* at 1340.

182. *Id.* at 1329.

183. *Id.*

184. *Id.*

185. *Id.* at 1330.

In 1996, Dr. Funk became dissatisfied with the new management at Del Monte and began to look for employment elsewhere.¹⁸⁶ After several years of discussion with Dole, Dr. Funk accepted an offer to be Vice President of Quality Assurance and began working there on October 2, 2000.¹⁸⁷ Del Monte quickly moved for a preliminary injunction, claiming that many of Dr. Funk's duties with their company overlapped with his new position at Dole, and that he would therefore inevitably disclose trade secrets from Del Monte's line of pineapples known as M-2.¹⁸⁸ The court, however, found that there was little concern for Dr. Funk revealing any of the formulas or processes involved with M-2 because there was no evidence that he had memorized any of the information.¹⁸⁹ Lending credence to this argument was the fact that even Del Monte's witness for trade secrets could not precisely recall any of the company's processes.¹⁹⁰ Furthermore, Dole also assured the court that Dr. Funk would not work on pineapple cultivation for one year.¹⁹¹

In rejecting the issuance of an injunction, the *Del Monte* court also rejected the *PepsiCo* holding, stating that it would be inappropriate for the court to grant an injunction because Florida had not accepted inevitable disclosure as an independent doctrine under the UTSA.¹⁹² The court held that an injunction for inevitable disclosure would only be granted if the plaintiff could show that there was a threatened or actual misappropriation under the state's adoption of the UTSA.¹⁹³ The court found that in this case Del Monte had failed to show that there was actual or threatened misappropriation, and hence an injunction was improper.¹⁹⁴ The court reasoned that Dr. Funk took no documents or other confidential information with him to Dole, he could not remember the trade secret formulas with enough precision for them to be of value, and his employment duties with Dole did not significantly overlap with his prior position at Del Monte.¹⁹⁵

It is important to note, however, that unlike in *PepsiCo*, Dr. Funk would be employed in a position that did not utilize the trade secret in-

186. *Id.*

187. *Id.* at 1330–32.

188. *Id.* at 1329–30.

189. *Id.* at 1339.

190. *Id.*

191. *Id.* at 1333.

192. *Id.* at 1335–36.

193. *Id.* at 1337.

194. *Id.* at 1337–38.

195. *Id.* at 1339.

formation that he had been privy to when working at Del Monte.¹⁹⁶ In *PepsiCo*, the court, in somewhat convincing fashion, reasoned that it was not possible for Redmond to carry out his work on marketing strategies for Quaker without using the information he had gained while working at PepsiCo.¹⁹⁷ Therefore, Redmond was not only working for a competitor, but his job duties at Quaker also significantly overlapped with those at PepsiCo, and the information he learned at PepsiCo would be of much use in his new position.¹⁹⁸ Here, Dr. Funk was hired to maintain the quality of a product that had already been designed, and his employment would be based on information that was independent of what he had learned at Del Monte.¹⁹⁹

Ultimately, the *Del Monte* court decided that unlike inevitable disclosure, for there to be threatened disclosure “there must be a substantial threat of impending injury before an injunction will issue. . . . Merely possessing trade secrets and holding a comparable position with a competitor does not justify an injunction.”²⁰⁰ Threatened disclosure is therefore said to require “inevitability-plus.”²⁰¹

In *Barilla America, Inc. v. Wright*, the District Court for the Southern District of Iowa specifically declined to adopt the *Del Monte* “inevitability-plus” analysis when it interpreted Iowa’s version of the UTSA.²⁰² The court instead stated that it was “not convinced that the inevitable disclosure doctrine and the actual and threatened disclosure standards of proof have to be different.”²⁰³ In this case, an employee named Wright was hired to be the plant manager, yet worked for Barilla for only four months.²⁰⁴ Wright gave immediate notice on a Friday in order for him to work for the American Italian Pasta Company, a direct competitor of Barilla, the following Monday.²⁰⁵ In the course of leaving

196. *Id.* at 1332.

197. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1271 (7th Cir. 1995).

198. *Id.*

199. *Del Monte*, 148 F. Supp. 2d at 1332.

200. *Id.* at 1338.

201. *Id.*

202. *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773 (S.D. Iowa July 5, 2002); *see also* *Novell, Inc. v. Timpanogos Research Group, Inc.*, 46 U.S.P.Q.2d 1197, 1216 (D. Utah 1998) (stating that the inevitable disclosure doctrine “is used to show that the probability of a threatened injury or misappropriation is so high that it becomes ‘inevitable’. . . [and thus] is not a separate basis for action, but rather is used to establish the existence of threatened misappropriation”).

203. *Barilla*, 2002 U.S. Dist. LEXIS 12773, at *24–25.

204. *Id.* at *2.

205. *Id.* at *8–9.

Barilla, Wright took with him or misplaced notebooks, financial reports, photographs, and CDs all containing trade secret information.²⁰⁶

The court in its analysis recognized that it was difficult to distinguish between threatened disclosure and inevitable disclosure, but reasoned that the “inevitable disclosure doctrine appears to be aimed at preventing disclosures despite the employee’s best intentions, and the threatened disclosure doctrine appears to be aimed at preventing disclosures based on an employee’s intentions.”²⁰⁷ However, the court determined that despite the different aims it would “simply enforce a stricter standard on inevitable disclosure, and then treat it and the threatened disclosure doctrine as variations of the same standard.”²⁰⁸

Although this court recognized inevitable disclosure as a potential basis for granting an injunction, the court found that Barilla had failed to demonstrate that Wright would inevitably disclose trade secret information. The court reasoned that it was unclear that Wright actually possessed any trade secret information,²⁰⁹ and also that his new position did not significantly overlap with his former position at Barilla.²¹⁰ Instead, the court chose to grant an injunction on the basis of actual misappropriation since Wright had taken CDs and created notebooks and photographs with trade secrets that he had not turned over to the court.²¹¹

2. Independent Doctrine v. Justification for Non-Compete Agreements

The Seventh Circuit’s affirmation of inevitable disclosure as an independent justification for granting an injunction in *PepsiCo* resulted in many other courts utilizing the doctrine in a similar way.²¹² However, several courts have not been so willing to accept the expansive *PepsiCo* holding, and instead have chosen to limit the doctrine by using it as a means for enforcing restrictive covenants.²¹³ While both theories appear to be viable methods of utilizing the doctrine, a debate still rages as to

206. *Id.* at *10.

207. *Id.* at *25–26.

208. *Id.*

209. *Id.* at *29–30.

210. *Id.* at *28.

211. *Id.* at *34–36.

212. *See, e.g., Merck & Co. v. Lyon*, 941 F. Supp. 1443 (M.D.N.C. 1996) (utilizing the inevitable disclosure doctrine to issue an injunction).

213. *Minn. Mining & Mfg. Co. v. Francavilla*, 191 F. Supp. 2d 270 (D. Conn. 2002); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909 (D. Conn. 1996); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 632–33 (E.D.N.Y. 1996).

whether inevitable disclosure should be used as an independent doctrine in the absence of a restrictive covenant.²¹⁴

The *Barilla* decision provides a fitting example of a court willing to embrace the expansive *PepsiCo* holding. Although the court in *Barilla* found that Wright did not actually possess trade secret information, it still held that inevitable disclosure could be an independent justification for an injunction in the absence of a restrictive covenant.²¹⁵ Understanding the restrictions that the doctrine places on an employee, the court decided to specify what it required of an employer to successfully demonstrate irreparable harm through the inevitable disclosure of trade secrets.²¹⁶ In doing so, the court stated in part that:

an employer must prove not only that the employee had access to or knowledge of trade secrets and that the duties of his or her next job overlap with the duties of his or her previous job, but that he or she should be able to remember the trade secret information in a usable form.²¹⁷

By creating this test, the court alerted future employers that they would have to show that their former employee has an actual trade secret in a usable form before it would consider whether or not the employee would inevitably disclose that trade secret. Thus, if an employer can demonstrate that their former employee has possession of a trade secret in a usable form, and is working for a new employer in a position that overlaps with their former duties, a court following the reasoning in *Barilla* would likely grant an injunction based solely on inevitable disclosure.²¹⁸

*Merck & Co. Inc. v. Lyon*²¹⁹ is another decision that utilized the *PepsiCo* approach to hold that inevitable disclosure is an independent means for granting an injunction.²²⁰ In fact, the *Merck* court found that the *PepsiCo* factors, which objectively consider “the degree of competition between the former and new employer, and the new employer’s efforts to safeguard the former employer’s trade secrets, and the former employee’s ‘lack of forthrightness’ . . . and . . . the degree of similarity between the former employee’s former and current position,” were con-

214. See generally Edelstein, *supra* note 6; Messeloff, *supra* note 23.

215. *Barilla*, 2002 U.S. Dist. LEXIS 12773, at *28.

216. *Id.*

217. *Id.*; see also *Del Monte*, 148 F. Supp. 2d 1326, 1332–33 (denying injunction in part because *Del Monte* failed to show that Dr. Funk retained the trade secrets in a usable form).

218. *Barilla*, 2002 U.S. Dist. LEXIS 12773, at *28.

219. 941 F. Supp. 1443 (M.D.N.C. 1996).

220. *Id.* at 1460–61.

sistent with previous North Carolina decisions.²²¹ The court, however, appeared to further expand the doctrine when it removed the necessity of the *PepsiCo* bad faith element by stating, “when the trade secret [i]s clearly established and the possibility of disclosure high and the value to the competitor great, an injunction would issue even when there had been no bad faith or underhanded dealing by the former employee or the competitor.”²²²

However, not all courts have been as willing to embrace the *PepsiCo* decision as both the *Barilla* and *Merck* courts. In fact, as previously mentioned, several courts have held that inevitable disclosure should only be used as a legitimate justification for enforcing non-compete agreements.²²³ In many jurisdictions, a preliminary injunction will be granted only when the movant can show that they will suffer irreparable harm, and that they are likely to succeed on the merits.²²⁴ When determining irreparable harm for the breach of a restrictive covenant, courts have used the inevitable disclosure doctrine as an explanation for why the employer would be irreparably harmed without an injunction.²²⁵ In *Branson Ultrasonics Corp. v. Stratman*, the court determined that when a

high degree of similarity between an employee’s former and current employment makes it likely that the former employer’s trade secrets and other confidential information will be used and disclosed by the employee in the course of new work, enforcement of a covenant not to compete is necessary to protect against such use and disclosure.²²⁶

Essentially, courts utilizing this form of the doctrine find that inevitable disclosure tips the judgment in favor of the plaintiff employer when deciding whether to enforce a covenant not-to-compete.²²⁷

221. *Id.* at 1460.

222. *Id.* (quoting *Travenol Labs., Inc. v. Turner*, 228 S.E.2d 478, 485 (N.C. Ct. App. 1976)); see also *infra* Part IV.3(c) (discussing whether the bad faith component is a requirement to receive an injunction based on inevitable disclosure).

223. *Minn. Mining & Mfg. Co. v. Francavilla*, 191 F. Supp. 2d 270, 278 (D. Conn. 2002) (using the inevitable disclosure doctrine to enforce a restrictive covenant); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909, 913–14 (D. Conn. 1996); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 632–33 (E.D.N.Y. 1996).

224. *Branson*, 921 F. Supp. at 913.

225. *Id.*

226. *Id.* at 913–14.

227. *Id.* at 914.

3. The Debate Over the Necessity of Bad Faith

In *PepsiCo*, one of the reasons that the injunction was granted was that Redmond had severed his ties with PCNA under suspicious circumstances.²²⁸ Redmond had been negotiating with Quaker Oats prior to his informing PCNA that he was leaving the company, and when specifically asked where he was moving to Redmond was evasive and uninformative.²²⁹ Because this element of bad faith was considered in the seminal inevitable disclosure case, later courts have had to decipher whether bad faith is a required element in this doctrine.

As previously noted, the court in *Merck* made it clear that as long as the employers could show that they had a trade secret of significant value, then “[i]n such a situation, a showing of bad faith or underhanded dealing by the former employee or new employer would not necessarily be required.”²³⁰ Although the *Merck* court held that a showing of bad faith was not a necessity, it did not remove the analysis entirely. Instead, the court chose to use the bad faith element as a means for determining the reasonableness of the injunction.²³¹

Accordingly, the court reasoned that Lyon’s “misrepresentations d[id] provide a basis for questioning his ability to keep his word with respect to the confidentiality agreement he ha[d] with plaintiffs . . . [and t]herefore, the court f[ound] that some type of limited injunction would be appropriate.”²³² The *Merck* court, however, decided on granting a limited injunction as opposed to a broad injunction because although Lyons did misrepresent his change in employers, the evidence showed that the real reason was because of favorable severance compensation, rather than a bad faith attempt to “spirit off trade secrets.”²³³ *Merck* consequently indicates that a showing of bad faith is not necessary, but a court may grant a broader injunction if the employee’s acts of bad faith are for the purpose of misappropriating trade secrets.²³⁴

228. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1264 (7th Cir. 1995).

229. *Id.*

230. *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996); *see also* Part V. (discussing the *Lumex* decision, an important case from New York in which bad faith was not required).

231. *Id.* at 1461.

232. *Id.*

233. *Id.*

234. *Id.*

V. INEVITABLE DISCLOSURE IN NEW YORK

Although New York was one of the first states to adopt the doctrine of inevitable disclosure,²³⁵ recent courts have ruled unfavorably against a broad application of the inevitable disclosure doctrine, and in so deciding they may have limited its potential.²³⁶ New York courts are willing to grant injunctions when an employer can establish “(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.”²³⁷ Therefore, in order for an employer to get an injunction to protect their trade secrets in New York, they need to show that losing them will cause irreparable harm. According to the Second Circuit, “a trade secret once lost is, of course, lost forever and, as a result, such a loss cannot be measured in money damages.”²³⁸ Irreparable harm can be shown if the employer can prove that they are trying to protect a trade secret, and that their former employee has the potential to disclose that trade secret by switching to a competitor.²³⁹

The court must then decide whether the employer will win on the merits. The employer would be aided in their argument if they can demonstrate that the “balance of hardships tip[s] decidedly” in their favor.²⁴⁰ It is fair to assume that the employer seeking the injunction will suffer a hardship if their trade secret is lost to a competitor.²⁴¹ For employers to add additional weight to their end of the scale, they should try to show that the injunction is of a limited enough nature to protect the trade secret, or that the employee will be able to find other means of financial compensation to offset the former employee’s hardship including positions with another employer.²⁴² The more the former employer is competitive with the new employer and the more valuable the trade secret,

235. *Eastman Kodak Co. v. Powers Film Prods., Inc.*, 179 N.Y.S. 325 (N.Y. App. Div. 1919); see also *supra* Part VI.1 (a) and accompanying text (discussing in greater detail the *Eastman Kodak* case).

236. *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 316 (S.D.N.Y. 1999).

237. *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 627 (E.D.N.Y. 1996) (citing *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979)).

238. *Id.* at 628 (citing *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984)) (quotations omitted).

239. *Id.* at 628.

240. *Id.*

241. *Id.* at 630.

242. *Id.* at 628–29.

the greater the hardship on the original employer.²⁴³ However, in order to get to the second part of the test, the original employer must first show irreparable harm from losing their trade secrets, a prong that many of the New York inevitable disclosure cases have not demonstrated.²⁴⁴

If New York is going to use inevitable disclosure as a means for granting injunctions, courts have to make clear what factors are necessary to consider when applying the inevitable disclosure doctrine. Like courts in other states that have tried to decipher this legal theory,²⁴⁵ New York must to decide three things: (1) whether courts should consider the employee's intent to disclose secret information and other acts of bad faith in determining whether to grant the injunction; (2) whether inevitable disclosure is a basis for granting an injunction separate from threatened disclosure; and (3) whether inevitable disclosure can be used as an independent means for granting an injunction.

A. New York Law Pre-PepsiCo

Historically, New York courts viewed inevitable disclosure as a justification for the enforcement of covenants not-to-compete.²⁴⁶ In order to prevent the employee from inevitably disclosing trade secret information to the new employer, New York courts have granted injunctions on the basis that the harm to the original employer was greater than the harm caused by restricting the employee's freedom to find new employment.²⁴⁷

In *Continental Group, Inc. v. Kinsley*,²⁴⁸ a Connecticut court applied New York law and enforced a non-compete agreement because of the likelihood of inadvertent disclosure.²⁴⁹ In the 1970s, buying beverages in plastic bottles was almost unheard of. In fact, only one company had successfully released one type of plastic bottle for Coca-Cola.²⁵⁰ In order to compete in this emerging industry, Continental Group, Inc. ("Continental") invested approximately \$20 million,²⁵¹ and took several

243. *Id.*

244. *Id.* at 627-28.

245. *See supra* Part IV.

246. *Bus. Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1072-73 (S.D.N.Y. 1984).

247. *Id.*

248. *Cont'l Group, Inc. v. Kinsley*, 422 F. Supp. 838 (D. Conn. 1976).

249. *Id.* at 846.

250. *Id.* at 841.

251. *Id.*

steps to protect their trade secrets including making the engineers of the bottle-making project sign non-compete agreements.²⁵²

Mr. Kinsley (“Kinsley”) was an engineer that was provided with all of the formulas, success and failure analyses, and machine designs in the hopes that he could create a better plastic bottle for Continental.²⁵³ After having been in this position for less than one year, he gave notice to Continental and went to work for their competitor, TPT Machinery, Corp. (“TPT”). Continental brought a suit asking the court to enjoin Kinsley from working for TPT by enforcing the non-compete agreement for the remaining eighteen months specified in the agreement.²⁵⁴ The court used much of the same language used in later inevitable disclosure cases²⁵⁵ when it stated, “Kinsley will perhaps inadvertently disclose secret aspects of the Continental process. Some features of the TPT process may prompt him to compare it favorably with a less satisfactory aspect of the Continental process, or vice versa. It is not difficult to imagine numerous opportunities for inadvertent disclosure.”²⁵⁶

It is important to note that the court granted the injunction because of the inevitable nature of disclosing the secret information, but it tailored the injunction very narrowly. The court did not prevent Kinsley from working in the plastic bottle making industry in general, but rather decided that Kinsley would only be prevented from working on one specific form of plastic bottle making, from one specific company.²⁵⁷ Even though there were so few companies out there that used this procedure at that time,²⁵⁸ the court did not find that Kinsley’s burden of finding new employment outweighed Continental’s interest in protecting its trade secrets.²⁵⁹

In *Business Intelligence Services, Inc. v. Hudson*,²⁶⁰ a New York court adopted much of the same reasoning as *Kinsley* in deciding to use inevitable disclosure as a reason for enforcing a non-compete agreement.²⁶¹ The court was faced with the decision of whether to enforce a

252. *Id.* at 841–42.

253. *Id.*

254. *Id.* at 840–41.

255. This situation is very similar to facts of PepsiCo because the nature of the work is so similar that the employee would constantly use the trade secret procedures of his old position in planning the procedures for his new position. *See* PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).

256. *Kinsley*, 422 F. Supp. at 845.

257. *Id.* at 846.

258. Only 15% of plastic bottle-making companies used this procedure. *Id.* at 843.

259. *Id.* at 846.

260. 580 F. Supp. 1068 (S.D.N.Y. 1984).

261. *Id.* at 1072.

covenant not-to-compete against a computer programmer, Ms. Hudson (“Hudson”), who wanted to leave her employer in New York to go to work for a competitor in her hometown of London.²⁶² Hudson did have a non-compete agreement with her original employer, Business Intelligence Services, Inc. (“BIS”), in which she agreed to not work for a competitor for twelve months.²⁶³ The programs that Hudson had been working on for BIS were of the same general character as the programs she would be working on for her new employer, Management Technologies, Inc. (“MTI”).²⁶⁴ The court held that, although Hudson had been forthright in her intentions to switch employers, BIS would “suffer irreparable harm if Hudson disclose[d] such information to a competitor such as MTI. Moreover, such disclosure [wa]s likely, if not inevitable and inadvertent.”²⁶⁵ The court used this threat of inevitable disclosure as a justification for enforcing the non-compete agreement.²⁶⁶

A more liberal approach was taken in *Integrated Cash Management Services, Inc. v. Digital Transactions, Inc.*²⁶⁷ when the district court granted an injunction on behalf of the employer using the doctrine of inevitable disclosure independent of a covenant not-to-compete.²⁶⁸ The employer, Integrated Cash Management Services, Inc. (“ICM”), was in the business of providing software programs to banks and financial organizations.²⁶⁹ The court recognized that although the idea behind the program was not novel, the language and structure used in designing the program was in fact a protected trade secret.²⁷⁰

The injunction granted was very limited and did not prevent the employees from working for their new employer, but rather prevented the employees from working on programs similar to that of their former employer.²⁷¹ The basis of the injunction was that the employees used “[n]ot general experience, but specific experience with, and knowledge of, those particular types of generic programs . . . [that] were utilized, perhaps unavoidably, by [the employees] when they chose to take up the

262. *Id.* at 1069–70.

263. Although there was some evidence that the original employer had changed the terms of the non-compete agreement and had forced Hudson to resign, the court decided that it was not fraudulent in making the changes and upheld the covenant not to compete. *Id.* at 1070–71.

264. *Id.* at 1071.

265. *Id.* at 1072.

266. *Id.*

267. 732 F. Supp. 370 (S.D.N.Y. 1989), *aff'd*, 920 F.2d 171 (2d Cir. 1990).

268. *Id.*

269. *Id.* at 372.

270. *Id.* at 374.

271. *Id.* at 378.

same task at a new company.”²⁷² Essentially, the court found that the structure and language of ICM’s computer program was similar enough to that of the employees’ new employer to determine that regardless of their intent, the employees relied on the trade secrets of ICM when writing code for their new employer.²⁷³

B. New York Law Post-PepsiCo

Although *Integrated Cash Management Services*²⁷⁴ is an exception in New York,²⁷⁵ inevitable disclosure as a separate means for granting injunctions has been used in other jurisdictions²⁷⁶ since the *PepsiCo* decision in 1995.²⁷⁷ The idea of inevitable disclosure as an independent justification for granting an injunction was solidified in *PepsiCo*²⁷⁸ but has not been uniformly adopted in several states, including New York. Although New York courts have granted injunctions for inevitable disclosure in the absence of non-compete agreements,²⁷⁹ recent cases have sharply criticized this idea and limited the doctrine’s applicability.²⁸⁰ These later decisions challenged the rationale in *Integrated Cash Management Services*, leaving the case law in New York lacking a definitive

272. *Id.* at 375.

273. *Id.* at 378; see also *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 N.Y. Misc. LEXIS 577, at *23 (N.Y. Sup. Ct. 1997). *DoubleClick*, like *Integrated Cash Mgmt. Servs.*, granted an injunction to an employer absent a non-compete agreement. Essentially, the court turned a non-disclosure agreement into a non-compete agreement by limiting the types of employers for which the employees could work for. However, due to the fact that the trade secrets were misappropriated, and not merely threatened to be misappropriated, *DoubleClick* should not be used for determining when injunctions for inevitable disclosure should be granted. *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

274. 732 F. Supp. 370 (S.D.N.Y. 1989), *aff’d*, 920 F.2d 171 (2d Cir. 1990).

275. Because the court found that the employees were actually using the trade secrets for their new employer the court granted the injunction. *Integrated Cash Mgmt. Servs.* is therefore an exception to deciding whether to grant an injunction based on inevitable disclosure, but is important to review because the court used much of the same reasoning that has been applied in inevitable disclosure cases nationally. *Id.* at 377.

276. *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773, at *33 (S.D. Iowa July 5, 2002); *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1457–61 (M.D.N.C. 1996).

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

278. *Id.*

279. *DoubleClick*, 1997 N.Y. Misc. LEXIS 577, at *4 (employee had only signed a nondisclosure agreement); *Integrated Cash Mgmt. Servs.*, 732 F. Supp. at 372 (employee had only signed a nondisclosure agreement).

280. *PSC, Inc. v. Reiss*, 111 F. Supp. 2d 252, 258–59 (W.D.N.Y. 2000); *Earthweb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

standard for courts to follow when determining issues of inevitable disclosure.²⁸¹

1. Should New York Consider Bad Faith as an Element
That Weighs in Favor of Granting an Injunction
Under the Inevitable Disclosure Doctrine?

The New York courts continued to use inevitable disclosure as a means for enforcing non-compete agreements when they reviewed the contract discussed in *Lumex, Inc. v. Highsmith*.²⁸² At the time of this decision, Lumex, Inc. ("Lumex") was the largest manufacturer of strength training equipment in the United States. Beginning in 1994, Lumex employed Gregory Highsmith ("Highsmith") as a Product Manager and later promoted him to Worldwide Marketing Manager.²⁸³ In this position, Highsmith was privy to design information, prototype information, and marketing strategies for Lumex's athletic equipment. In 1996, Highsmith resigned from Lumex to work for their competitor, Life Fitness, who designed a more high-tech but similar strength training machine to that of Lumex.²⁸⁴

When Highsmith notified Lumex that he was leaving to go to a competitor, Lumex brought suit in New York to enforce his non-compete agreement.²⁸⁵ The court easily concluded that Lumex had met their burden in establishing the first prong required to get an injunction, and held that "Highsmith ha[d] learned of trade secrets and confidential information while employed by Lumex and there [wa]s potential disclosure to the new employer. Accordingly . . . the plaintiff ha[d] met its burden of demonstrating irreparable harm."²⁸⁶

The court went on to decide the second prong as to whether Lumex would be likely to win on the merits, or else that this was an appropriate basis for litigation and that the burden of hardships tipped in its favor. The court considered the following facts: (1) that Lumex and Life Fitness were major competitors;²⁸⁷ (2) that the product Highsmith would be working on for Life Fitness was a competitive product;²⁸⁸ (3) that the

281. Treadway, *supra* note 54, at 641.

282. 919 F. Supp. 624 (E.D.N.Y. 1996)

283. *Id.* at 625.

284. *Id.* at 626.

285. *Id.* at 625.

286. *Id.* at 628.

287. *Id.* at 629.

288. *Id.* at 631.

“time of the introduction of a product [was] important because a new or innovative machine has a selling advantage;” and (4) the likelihood of the inevitable disclosure of Lumex’s trade secrets.²⁸⁹ The court held that the inevitable disclosure of trade secrets was grounds for the injunction, despite the fact that Highsmith had demonstrated a good faith effort to return all confidential information, and both he and Life Fitness presented evidence that they would not use Highsmith’s knowledge of Lumex’s trade secrets.²⁹⁰ Essentially, this court held that good faith intentions do not matter when the issue is whether an employee will inevitably, not intentionally, disclose trade secrets.²⁹¹

As the *Lumex* decision highlighted, an employee’s good faith intention to keep trade secret information is irrelevant when considering the doctrine of inevitable disclosure. Inevitable disclosure means that regardless of whether an employee takes steps to disclose the trade secrets of their previous employer, the nature of their new position is such that it is inevitable that they will use that trade secret information in an unfair manner.²⁹² However, although inevitable disclosure is by itself a justification for granting an injunction, the courts will tip the scales in favor of the plaintiff-employer if the employee has acted in a way to cast doubt on their willingness to keep the trade secret information secret.²⁹³

2. Should New York Consider Inevitable Disclosure as Separate from Threatened Disclosure When Granting an Injunction?

Since *Lumex*,²⁹⁴ many New York courts have decided not to grant injunctions under the inevitable disclosure doctrine. In these cases, employers have been unable to move past the first prong of irreparable harm when requesting an injunction. The employers have either failed to

289. *Id.* at 629–30.

290. The court also looked at the reasonable nature of the non-compete agreement, including a provision that provided compensation for Highsmith during the time when he would be unable to work due to the non-compete agreement. *Id.* at 629.

291. *Lumex* distinguished itself from *PepsiCo*, declaring that *PepsiCo* involved a case where the employee had engaged in acts of bad faith by not informing his original employer that he was going to work for a competitor. In *Lumex*, the court decided that the bad faith component that was present in *PepsiCo* was not necessary when the employee will “inevitably divulge . . . trade secrets and confidential information.” *Id.* at 633–34.

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

293. See *Monovis, Inc. v. Aquino*, 905 F. Supp. 1205, 1235–36 (W.D.N.Y. 1994). The court recognized that an injunction for nondisclosure could be granted independent of the employee’s bad conduct, but extended the protection to the level of a non-compete agreement, which prevented the employee from working for a competitor because of the misconduct. *Id.*

294. *Lumex*, 919 F. Supp. at 624.

demonstrate that the employee actually possesses a trade secret, or else that the employee is likely to disclose the trade secret in their new position.²⁹⁵

In *International Paper Co. v. Suwyn*,²⁹⁶ the court refused to enforce a non-compete agreement when an executive, Suwyn, left International Paper Co. (“International Paper”) to work for Louisiana-Pacific Co. (“Louisiana-Pacific”).²⁹⁷ The court held that Louisiana-Pacific was not a competitor of International Paper because they competed in different markets and produced different products.²⁹⁸ In addition, the court found that the information that International Paper was trying to protect did not qualify as a trade secret,²⁹⁹ and was consequently not the type of information that should be protected by an inevitable disclosure injunction.³⁰⁰ The information the company was trying to protect was more managerial in nature, and much of it was available to the public.³⁰¹ It was also unlikely that Suwyn would rely on that information in his new position at Louisiana-Pacific, because fifteen months had already passed since he had left International Paper, and the information had lost much of its value.³⁰² The court failed to grant the injunction because the nature of the information International Paper was trying to protect was not at the level that “would allow [a] competitor to improve its business with little or no effort.”³⁰³

Although it has been argued that *International Paper Co.* increased the burden on the employer to obtain an injunction,³⁰⁴ the decision actually clarified when it is appropriate to grant an injunction to protect trade

295. See *Int’l Paper Co. v. Suwyn*, 966 F. Supp. 246 (S.D.N.Y. 1997); *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1999); *PSC, Inc. v. Reiss*, 111 F. Supp. 2d 252 (W.D.N.Y. 2000). They are listed in this order because this is the order in which they will be considered in this note.

296. 966 F. Supp. 246 (S.D.N.Y. 1997).

297. *Id.* at 247–48.

298. *Id.* at 247.

299. *Id.* at 257.

300. *Id.* at 258. Suwyn’s general knowledge of International Paper meant that he would not be providing the competitor company with a competitive advantage by saving them time or money in their business or research planning. See also *Bus. Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068 (S.D.N.Y. 1984); *Cont’l Group, Inc. v. Kinsley*, 422 F. Supp. 838, 841 (D. Conn. 1976).

301. *Int’l Paper*, 966 F. Supp. at 257.

302. *Id.* at 258.

303. *Id.* (citing *Bus. Intelligence*, 580 F. Supp. at 1072).

304. *Treadway*, *supra* note 54, at 639. *Treadway* interpreted the case as increasing the burden on the employer to show not only irreparable harm, but also the need to demonstrate harm consistent with threatened misappropriation. *Id.* However, the court actually just narrowed the availability of injunctions based on inevitable disclosure. *Id.*

secrets.³⁰⁵ This decision distinguished itself from the earlier line of cases in that “the presumption of inevitable disclosure was supported by evidence of a ‘high risk’ of disclosure—testimony that ‘it would be impossible for [the defendant] not to divulge confidential information.’”³⁰⁶ However, due to the nature of the information in *International Paper Co.* there was no risk of disclosure.³⁰⁷

3. Should New York Consider Inevitable Disclosure as an Independent Basis for Granting an Injunction

In *EarthWeb, Inc. v. Schlack*³⁰⁸ the court refused to grant an injunction on the theory of inevitable disclosure as an independent doctrine when the employee signed a non-compete agreement.³⁰⁹ In 1999, EarthWeb was an internet company that provided information to information technology professionals and earned annual revenues of about \$3.3 million.³¹⁰ Schlack was a former EarthWeb vice-president responsible for the content of the company’s websites. Schlack left EarthWeb to work for a competitor, IDG, which at the time was the world’s leading provider in information technology print-based information and had annual revenues of over \$1 billion.³¹¹ When Schlack tendered his resignation, EarthWeb sued for an injunction in order to protect their trade secrets from being swallowed up by the larger company that was trying to establish a division that could compete with EarthWeb’s product.³¹² EarthWeb proposed two separate theories for why the court should grant the injunction: (1) the non-compete agreement Schlack signed should be enforced; and (2) even if the non-compete agreement was not enforced, Schlack should be prevented from working for IDG because he would inevitably disclose EarthWeb’s trade secrets.³¹³

The court failed to grant the injunction under either theory.³¹⁴ The court first refused to enforce the non-compete agreement because Schlack’s position at IDG would not significantly overlap with his past duties, the duration of the non-compete agreement was unreasonable

305. *Int’l Paper*, 966 F. Supp. at 258.

306. *Id.* (citing *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 631 (E.D.N.Y. 1996)).

307. *Id.*

308. 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

309. *Id.* at 316.

310. *Id.* at 303.

311. *Id.*

312. *Id.* at 302.

313. *Id.* at 307–08.

314. *Id.* at 316.

given the industry they were in,³¹⁵ Schlack's skills were not unique nor extraordinary, and he did not possess any trade secrets or confidential information.³¹⁶ In addition, the court questioned the use of inevitable disclosure as an alternative theory for granting an injunction since the parties had already decided on a contract and the terms to which the employee would be bound.³¹⁷ The court refused to let EarthWeb "make an end-run around the agreement by asserting the doctrine of inevitable disclosure as an independent basis for relief."³¹⁸ Had it done so, EarthWeb would have bound Schlack not only to the terms to which he had agreed to in the non-compete agreement, but also to additional terms that EarthWeb sought to enforce after he left the company.

EarthWeb did not, however, hold that inevitable disclosure could not be the independent basis for relief. Instead, the court stated that the "doctrine should be applied only in the rarest of cases," and not when there is an express covenant not-to-compete.³¹⁹ In weighing the appropriateness of granting injunctive relief, the court established the following factors to consider:

- (1) the employers in question are direct competitors providing the same or very similar products or services;
- (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; and
- (3) the trade secrets at issue are highly valuable to both employers.³²⁰

Furthermore, the court noted that "[o]ther case-specific factors such as the nature of the industry and trade secrets should be considered, as well."³²¹ Although the court expressed the view that restraint on employment is contrary to public policy,³²² it did decide that inevitable disclosure is appropriate if the employer can demonstrate the above factors.³²³ Significant is the fact that the *EarthWeb* court distinguished this case from *PepsiCo* and its progeny, in that EarthWeb failed to demon-

315. The non-compete agreement banned Schlack from working for a competitor for one year. The court considered six months to be a more reasonable time frame after reviewing a similar agreement in the *DoubleClick* decision. *Id.* at 313.

316. *Id.* at 304-05.

317. *Id.* at 311.

318. *Id.*

319. *Id.* at 310.

320. *Id.*

321. *Id.*

322. *Id.*

323. *Id.* at 311.

strate the aforementioned key factors required for inevitable disclosure: (1) that Schlack had acquired any trade secrets while working at EarthWeb,³²⁴ (2) the nature of Schlack's position with his new employer was significantly similar to what it was at EarthWeb,³²⁵ and (3) that the general nature of the new employer's and EarthWeb's businesses were similar enough in nature that they were direct competitors.³²⁶

In *PSC, Inc. v. Reiss*,³²⁷ an employer once again failed to pass the first prong required to get an injunction because it failed to demonstrate that the employee possessed a trade secret.³²⁸ In *PSC*, the court refused to turn a nondisclosure agreement into a non-compete agreement when PSC, Inc. ("PSC") failed to demonstrate that Reiss had possession of any trade secrets.³²⁹ PSC was in the business of designing self-scanning grocery store check-out machines.³³⁰ For several years it was partnered with Optimal Robotics ("Optimal"), the defendant company in this case, but the partnership fell apart in 1999.³³¹

At that time, PSC began to design its own self-scanning machines in order to directly compete against Optimal.³³² Reiss had been a salesman for PSC when it was still partnered with Optimal, and had experience selling its version of the self-scanning machine. Although he had provided PSC with input that it used toward the general appearance of the machine, he had no information that would be of value or give Optimal a competitive edge over PSC.³³³ In addition, Optimal was not considered to be a direct competitor of PSC because the company already dominated the market,³³⁴ the information that Reiss did possess would not be of use to a competitor,³³⁵ and Reiss would not have to inevitably disclose any information he possessed in his position at Optimal.³³⁶

Although the courts in *International Paper Co.*, *EarthWeb*, and

324. *Id.* at 314–17.

325. *Id.* at 316.

326. EarthWeb provides a website that contains technical information designed to assist Information Technology professionals, while IDG provides news in a magazine format. *Id.*

327. 111 F. Supp. 2d 252 (W.D.N.Y. 2000).

328. *Id.* at 258.

329. *Id.*; see also *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1271–72 (7th Cir. 1995) (using the inevitable disclosure of a trade secret as the basis for transforming a nondisclosure agreement into a non-compete agreement).

330. *PSC*, 111 F. Supp. 2d at 254.

331. *Id.* at 255.

332. *Id.*

333. *Id.* at 258–59.

334. *Id.* at 258.

335. *Id.*

336. *Id.* at 259.

PSC did not grant injunctions on behalf of the original employer,³³⁷ none of these cases overruled the decisions in *Lumex* or *Integrated Cash Management*, which held that inevitable disclosure can be used as a basis for granting injunctive relief.³³⁸ In *International Paper Co.*, *EarthWeb*, and *PSC*, the courts did not find that the employer possessed a trade secret that the employee would inevitably disclose.³³⁹ Because the employers could not show they had a trade secret, they could not demonstrate irreparable harm from losing that trade secret. In addition, both the *EarthWeb*³⁴⁰ and *PSC*³⁴¹ courts adopted the factors for determining whether an injunction for inevitable disclosure should be granted,³⁴² and held that if an employer can show that these factors tip in their favor, a New York court should grant injunctive relief.³⁴³

VI. NEW YORK'S CURRENT POSITION ON INEVITABLE DISCLOSURE:
MARIETTA CORP. V. FAIRHURST

In New York's most recent case interpreting the doctrine, *Marietta Corp. v. Fairhurst*,³⁴⁴ the appellate division reversed the issuance of a preliminary injunction based on inevitable disclosure, stating that the "Supreme Court utilized a doctrine, not yet adopted by the state courts . . ."³⁴⁵ In reversing the trial court's decision, which adopted the doctrine of inevitable disclosure, the appellate division reinforced New York's position on both the definition of a trade secret and what constitutes misappropriation.³⁴⁶

337. See generally *PSC, Inc. v. Resiss*, 111 F. Supp. 2d 252 (W.D.N.Y. 2000); *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1995); *Int'l Paper Co. v. Suwyn*, 966 F. Supp. 246 (S.D.N.Y. 1997).

338. See *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996); *Integrated Cash Mgmt. Servs. Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370 (S.D.N.Y. 1989) *aff'd*, 920 F.2d 171 (2d Cir. 1990).

339. See *PSC, Inc. v. Resiss*, 111 F. Supp. 2d 252 (W.D.N.Y. 2000); *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299 (S.D.N.Y. 1995); *Int'l Paper Co. v. Suwyn*, 966 F. Supp. 246 (S.D.N.Y. 1997).

340. *EarthWeb*, 71 F. Supp. 2d at 309.

341. *PSC*, 111 F. Supp. 2d at 256.

342. *PSC* used the same language as *EarthWeb*, but incorporated a fourth factor into the test; the consideration of the nature of the industry and the trade secrets at issue. *PSC*, 111 F. Supp. 2d at 256-57.

343. *Id.* at 256.

344. 754 N.Y.S.2d 62 (N.Y. App. Div. 2003).

345. *Id.* at 65. This seems to be a bit of an overstatement considering that New York has explicitly adopted inevitable disclosure in previous cases. See *supra* Part V.

346. *Marietta*, 754 N.Y.S.2d at 66. As noted in Part V., the bulk of New York's inevitable disclosure cases were decided in 2000 or earlier, and the more recent cases such as *EarthWeb* and *PSC*

The *Marietta* case focused on the controversial employment change of Thomas Fairhurst (“Fairhurst”).³⁴⁷ Fairhurst had worked for the Marietta Corporation³⁴⁸ (“Marietta”) as both their Vice President in Charge of Sales and the Vice President of Sales and Marketing since 1994, but was terminated from his position in May of 2002.³⁴⁹ Prior to his termination, Fairhurst was part of Marietta’s senior management team, coordinating high-level planning and reviewing both finance and product development.³⁵⁰ Fairhurst’s duties included monitoring Marietta’s direct competitors, which required both access to and knowledge of the corporation’s business plans and costs.³⁵¹ Because he was privy to such valuable information, the company required that he sign a confidentiality agreement, and Fairhurst acquiesced.³⁵²

Shortly after his termination from Marietta, Fairhurst accepted an employment offer from Pacific Direct, another company involved in the supply of hotel amenities.³⁵³ Pacific Direct hired Fairhurst as the company’s President of Operations in the United States, and his primary duties revolved around the promotion and introduction of Pacific Direct’s products.³⁵⁴ However, less than a month after his acceptance, Marietta filed a motion in a New York supreme court seeking a preliminary injunction to enjoin Fairhurst from carrying out his duties with Pacific Direct.³⁵⁵ In granting Marietta’s request for a preliminary injunction, the trial court held “that since it was extremely likely that [Fairhurst] would ‘use [Marietta’s trade] secrets—if only unconsciously—in carrying out his duties with Pacific Direct, to [Marietta’s] unfair advantage,’ [Marietta] ha[d] established a likelihood of success on its claims of misappropriation and breach of the confidentiality agreement.”³⁵⁶

While this holding appeared to be a change back in the direction of such decisions as *Lumex* and *Integrated Cash Management Services*, the

have refused to institute the doctrine. Notably, like *Marietta*, the courts in the cases discussed in Part V. also used the *Restatement of Torts* to determine the existence of a trade secret.

347. *Id.* at 64–65.

348. The Marietta Corp. “contracts with large hotel companies such as Intercontinental to supply toiletries for its standard rooms.” *Id.* at 63.

349. *Id.* at 64.

350. *Id.*

351. *Id.*

352. *Id.* at 66. *But see infra* note 384 (discussing the existence of a nondisclosure agreement on a court’s analysis of inevitable disclosure).

353. *Marietta*, 754 N.Y.S.2d.at 64 (noting that Pacific Direct would contract with the same company as Marietta, but would supply specialized items for their luxury suites).

354. *Id.*

355. *Id.*

356. *Id.* at 65.

decision did not stand.³⁵⁷ Pacific Direct and Fairhurst immediately appealed the grant of the preliminary injunction, and the trial court decision was quickly reversed.³⁵⁸ In reversing the trial court's decision, the appellate division dealt with both the issues of defining the term trade secret, and the misappropriation of such a secret.³⁵⁹ While deciding the issue of what constitutes a trade secret, the court noted that New York courts traditionally have relied on the *Restatement of Torts* section 757 for defining a trade secret and would continue to do so.³⁶⁰ In applying the six-factor test of the *Restatement*, the court held that the information that Fairhurst acquired as part of Marietta's senior management team did not constitute an actual trade secret.³⁶¹ The court reasoned that the "mere knowledge of the intricacies of a business is simply not enough" to sustain a claim for the existence of a trade secret.³⁶² Like *EarthWeb* and *PSC*, the court in *Marietta* held that an injunction based on inevitable disclosure is permissible, but the facts of this case failed to establish the existence of a trade secret.

Although the court established that a trade secret did not exist, making the misappropriation claim moot, it nonetheless discussed the issue. In denying that misappropriation existed, the court did approvingly quote the three-factor test established in *EarthWeb*, but also noted that "the doctrine of inevitable disclosure is disfavored . . . 'absent evidence of actual misappropriation by an employee.'"³⁶³ The court reasoned that since Marietta failed to prove actual misappropriation, its claim for injunctive relief should fail.³⁶⁴ In making this decision, the court relied heavily on New York's long held public policy, as articulated in *Reed, Roberts Assocs. v. Strauman*,³⁶⁵ that restrictive covenants, explicit or implied-in-fact, should be disfavored because they limit an individual's livelihood and stifle competition.³⁶⁶ The *Marietta* court, just as the

357. See, e.g., *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d, 299, 311 (S.D.N.Y. 1995) (refusing to apply the doctrine of inevitable disclosure).

358. *Marietta*, 754 N.Y.S.2d at 64-65.

359. *Id.* at 65-66.

360. *Id.* at 66 (noting that the six-factor test of the *Restatement of Torts* should be used in determining the existence of a trade secret).

361. *Id.*

362. *Id.* at 67. But see *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1268 (7th Cir. 1995) (finding business information to be sufficient in establishing the existence of a trade secret).

363. *Marietta*, 754 N.Y.S.2d at 66. But see *infra* note 369 (discussing that while inevitable disclosure is disfavored, it is still a legitimate remedy).

364. *Marietta*, 754 N.Y.S.2d at 67.

365. 40 N.Y.2d 303 (1976).

366. *Marietta*, 754 N.Y.S.2d at 66. The court cited *Reed, Roberts, Assocs.*, stating that there are powerful considerations of public policy which militate against sanctioning the loss of a

EarthWeb court had done, viewed the application of the doctrine of inevitable disclosure as an implied-in-fact restrictive covenant in the absence of an explicit covenant, and found that it was therefore adverse to New York's policy of freedom of competition and employment.³⁶⁷ While the *Marietta* decision provided ample guidance on how New York courts should determine the existence of a trade secret, and analyze misappropriation, it leaves many commentators wondering if inevitable disclosure is still a viable remedy in New York.³⁶⁸

VII. ANALYSIS

Although cases such as *Marietta*, *EarthWeb*, and *PSC* appear to have severely limited the applicability of the inevitable disclosure doctrine, in actuality, none of these decisions have restricted the doctrine's use.³⁶⁹ In fact, these cases appear to provide limited holdings in which each court found only that the potentially enjoined party lacked information sufficient to be deemed a trade secret, thus precluding a binding analysis of whether inevitable disclosure should have been applied as an injunctive remedy.³⁷⁰ However, one important element that can be discerned from each of these decisions is that, while inevitable disclosure is disfavored because it runs counter to strong public policy concerns, it may be applied when a petitioner meets the requirements of a narrow test. In fact, as noted earlier, both the *Marietta* and *PSC* courts explicitly adopted the three-factor test established by *EarthWeb* as a valid means for enforcing the inevitable disclosure doctrine.³⁷¹ Furthermore, the *EarthWeb* three-factor test appears remarkably consistent with the earlier

man's livelihood. Indeed, our economy is premised on the competition engendered by the uninhibited flow of services, talent and ideas. Therefore, no restrictions should fetter an employee's right to apply to his own best advantage the skills and knowledge acquired by the overall experience of his previous employment.

Id.; see also *supra* note 24 and accompanying text (discussing the enforceability of restrictive covenants and New York's partial adoption of the *Restatement (Second) of Contracts*).

367. *Marietta*, 754 N.Y.S.2d at 65.

368. See, e.g., John Caher, *Disclosure Does Not Meet Harm Standard*, 229 N.Y. L.J. 1 (2003) (discussing the uncertain state of the doctrine of inevitable disclosure in New York).

369. It should be noted that while *EarthWeb* and its progeny stated that inevitable disclosure is a disfavored doctrine, it did not foreclose its use as an injunctive tool. In fact that court noted that it is "possible to establish irreparable harm based on the inevitable disclosure of trade secrets . . ." *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 309 (S.D.N.Y. 1995).

370. See *supra* Part III. (noting that to establish a *prima facie* trade secret claim, a movant must establish both the existence of a trade secret and misappropriation).

371. *Marietta*, 754 N.Y.S.2d 62, 66; *PSC Inc. v. Reiss*, 111 F. Supp. 2d 252, 256-57 (W.D.N.Y. 2000).

case law that either granted an injunction using inevitable disclosure as an independent doctrine, or else as a justification for enforcing a restrictive covenant.³⁷² Thus, the earlier decisions enforcing the doctrine of inevitable disclosure in New York, as set forth in both the *Integrated Cash Management Systems* and *Lumex* cases, appear to remain good law.

From the analysis of this existing case law, it is apparent that New York courts have been able to accomplish what few other states have been able to do—apply the doctrine of inevitable disclosure within a limited context, while also adequately balancing the conflicting policy goals of employee mobility and trade secret protection. Although an adequate trade secret case has yet to arise so as to present an opportunity to truly analyze the effectiveness of the *EarthWeb* test,³⁷³ this note argues that a more extensive test would assist future courts in properly applying the inevitable disclosure doctrine. The following subsections of this note propose a model that incorporates the existing case law while adequately addressing public policy concerns.

A. Defining a Trade Secret in New York

Even though the *Marietta* court held that Fairhurst did not possess information that amounted to a trade secret, it nonetheless provided an in-depth discussion on how current New York courts define a trade secret.³⁷⁴ As noted in Part VI, the court in *Marietta*, like so many previous New York courts, relied on the *Restatement of Torts* section 757, and the accompanying six-factor test of comment b to define the existence, or lack thereof, of a trade secret.³⁷⁵ While the *Restatement* received a great deal of acceptance from courts in the past, it has been overwhelmingly superceded by the more precisely crafted definition of the UTSA.³⁷⁶ This note argues that one of the reasons that the inevitable disclosure doctrine has received such little support is due to the fact that there is currently a lack of uniformity in this area of the law resulting in a sense of illegitimacy. By subscribing to the UTSA, New York would join the forty-two

372. See generally *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996); *Monovis, Inc. v. Aquino*, 905 F. Supp. 1205 (W.D.N.Y. 1994); *Integrated Cash Mgmt. Servs. v. Digital Transactions, Inc.*, 732 F. Supp. 370 (S.D.N.Y. 1989), *aff'd*, 920 F.2d 171 (2d Cir. 1990); *Bus. Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068 (S.D.N.Y. 1984).

373. But see *Willis of N.Y. v. DeFelice*, 750 N.Y.S.2d 39, 42–43 (N.Y. App. Div. 2002) (applying the inevitable disclosure doctrine in a favorable manner so as to enforce a restrictive covenant).

374. See *supra* Part VI.

375. *Id.*

376. See *supra* Part III.

other states that have already adopted the UTSA definition of what constitutes a trade secret, thereby promoting uniformity and legitimacy in trade secret law.³⁷⁷ Of particular concern in New York are business transactions involving the state's Silicon Alley technological area because many of these transactions involve interstate commerce.³⁷⁸ In adopting the UTSA model, New York courts would also promote more efficient resolutions to the nationwide conflicts that technological innovation and transactions often create.³⁷⁹ After all, one of the main reasons for drafting model rules such as the *Restatements* and the UTSA is to create default rules that serve to enhance efficiency in business transactions.³⁸⁰ By adopting different codifications across various states the judiciary is left in a state of confusion, the purpose for drafting model rules is defeated, and efficiency is subsequently thwarted.³⁸¹

B. Inevitable Misappropriation

Although the three-factor test of *EarthWeb* provides courts with adequate assistance, this note argues that a slight modification would exponentially increase the effectiveness and fairness of this portion of the analysis. Thus, when a court considers the possibility of injunctive relief based on inevitable disclosure it should examine: (1) the competitive relationship between the former and future employers; (2) the similarity between the past and future employment responsibilities; (3) the value of the trade secrets to both parties;³⁸² (4) the exact nature of the in-

377. See Treadway, *supra* note 54, at 626 (noting that forty-two states have already adopted the UTSA in some form).

378. See Messeloff, *supra* note 23.

379. *Kinsley* provides an excellent situation in which a current dilemma could arise. That case involved a trade secret dispute in Connecticut whereby New York law was applied due to a choice of law clause in the contract. Although Connecticut has adopted the UTSA, New York has not, and a current case would force a Connecticut court to analyze New York's differing trade secret law. See also *Campaign for Fiscal Equity v. State*, 719 N.Y.S.2d 475, 487 (N.Y. App. Div. 2001) (noting that there was a "disconnect between the skills of the State's and City's labor forces and the need of the technology sector" forcing New York City's Silicon Alley employers to go outside of the state for employees with the proper skills); Saulino, *supra* note 45, at 1203 (stating that "workers frequently change jobs and move across state lines [so] it is in the best interests of corporations nationwide for states to decide inevitable disclosure cases uniformly").

380. See RESTATEMENT OF CONTRACTS at viii. (1932).

381. One counter argument to this proposition would be the use of forum selection clauses or a contractual clause determining which standard is to be used. However, inevitable disclosure typically arises where there is not a restrictive covenant to address these concerns.

382. These first three factors represent a similar, but modified version of those in *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d, 299, 310 (S.D.N.Y. 1999).

dustry, including the possibility of copying or cloning,³⁸³ and (5) the extent to which the employee has retained a working knowledge of the information, enabling the employee to effectively utilize the trade secret.³⁸⁴

1. The Competitive Relationship Between the Former and Latter Employer

When examining the first prong of this test, the court should consider the exact nature of the market relationship. Situations such as the *Marietta* case often arise where companies are involved in producing products in the same industry, but are not actually direct competitors.³⁸⁵ Courts should be sure to distinguish an actual rivalry from mere membership in an industry. The court should ask itself: if an employee were to inevitably disclose valuable trade secrets acquired from a former employer, would that information harm the former employer, or in any way benefit the new employer within that particular market?³⁸⁶

2. *The Similarity Between the Past and Future Employment Responsibilities*

The court must discern whether the employee would be responsible for undertaking duties that are substantially similar to those undertaken

383. The *EarthWeb* court noted that “[o]ther case-specific factors, such as the nature of the industry” should also be considered, but failed to adequately discuss the possibility of “cloning” and its resulting policy concerns. *EarthWeb*, 71 F. Supp. 2d at 310. Notably, the *PSC* court did state that “the nature of the industry and the trade secrets at issue” was a legitimate fourth factor to be considered in all future cases. *PSC Inc. v. Reiss*, 111 F. Supp. 2d 252, 257 (W.D.N.Y. 2000).

384. Notably, the existence of a nondisclosure agreement should not be examined as a determining factor in granting injunctive relief under the inevitable disclosure doctrine. As one commentator noted, pure inevitable disclosure really amounts to “unavoidable disclosure.” Susan Street Whaley, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 846 (1999). Because inevitable disclosure is unavoidable, it would not be susceptible to a nondisclosure agreement, which provides former employers with a monetary remedy for the conscious breach of the agreement. Furthermore, a problem also arises with this form of remedy in the technology sector, because once a trade secret is disclosed, frequently the harm cannot be compensated for monetarily and the remedy is lost. *See N. Atl. Instruments v. Haber*, 188 F.3d 38, 49 (2d Cir. 1999) (noting that “a trade secret, once lost, is lost forever; its loss cannot be measured in money damages”). However, one commentator has noted that a former employer’s attempt to gain a nondisclosure or restrictive covenant before employment may tip the scales in favor of the former employer in an inevitable disclosure case. *See generally* Edelman, *supra* note 6.

385. *See supra* Part VI. (discussing the competitive nature of *Marietta* and *Pacific Direct in Marietta, Corp. v. Fairhurst*, 754 N.Y.S.2d 62 (N.Y. App. Div. 2003)).

386. *See generally* Part V.

with its former employer. The court must be sure to recognize that while two companies may be direct rivals, a trade secret will not be inevitably disclosed causing irreparable harm unless the employee in question is engaged in duties that are substantially similar to those of its former employer.³⁸⁷ This is a subtle, but yet very important feature of a pure inevitable disclosure theory.

An injunction may ensue from actual or threatened misappropriation in any new employment position, and thus this disclosure should be analyzed under a bad faith context and distinguished from inevitable disclosure.³⁸⁸ The inevitable disclosure doctrine, in contrast, is the unavoidable and good faith disclosure of valuable trade secrets, which can only occur through the employee's execution of substantially similar employment duties.³⁸⁹ Therefore, unless the employee holds a substantially similar position, a situation will not arise in which they would be forced to inevitably rely on the information in question, thereby making disclosure a moot issue.

Furthermore, this type of analysis is consistent with the general principles of contract law as codified in the *Restatement (Second) of Contracts*, which holds that a restrictive covenant "is easier to justify when it is limited to one field of activity among many that are available to an employee."³⁹⁰ In addressing these concerns, this note also recommends that if New York were to adopt the UTSA in the future, the legislature should include inevitable misappropriation as a separate and independent form of misappropriation under section 1(2). This would both address and resolve the confusion that has arisen between threatened and inevitable misappropriation.

3. The Value of the Trade Secret to Both Parties

Before issuing injunctive relief under the doctrine of inevitable disclosure a court must ascertain the value of the trade secret in question.³⁹¹

387. *EarthWeb*, 71 F. Supp. 2d at 310.

388. *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773 at *25 (S.D. Iowa July 5, 2002 (stating that "inevitable disclosure is aimed at preventing disclosures despite the employee's best intentions, and the threatened disclosure doctrine appears to be aimed at preventing disclosures based on an employee's intentions").

389. *See supra* Parts IV.3(b) & V.(b) (discussing the good and bad faith components and their relationship to the inevitable disclosure doctrine); *see also* Whaley, *supra* note 384 (discussing the idea that inevitable disclosure should be analyzed as unavoidable disclosure).

390. RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. g (1981).

391. Notably such an analysis would be an extension of defining the existence of an actual trade secret since value is a key factor in establishing a trade secret. *See supra* Part III. However, the

As discussed throughout this note,³⁹² courts have struggled with the idea of inhibiting employee mobility and innovation in favor of protecting trade secrets. However, by discerning the value of the trade secret to both sides, the court would be sure that if a restriction on employment were to be issued it would be justified because the court would be promoting the greater market value.³⁹³ In making this determination, the court should examine: (1) the capital invested by the creator of the trade secret; (2) the total value it has to the creator; (3) the value it has to the competitor; (4) the extent of the secrecy; and (5) the type and amount of information involved.

While the first two factors of this analysis are extremely important to all companies, the determination of trade secret value has an even greater importance to small technology businesses. The introductory factual scenario of this note provides a fitting example. In that scenario, EarthWeb provided numerous products and services, but essentially relied on one technological development, which Schlack was privy to.³⁹⁴ Thus, while injunctive relief in this case surely would have impeded Schlack's employment freedom, the disclosure of the trade secrets had the potential to cause substantial and irreparable harm to EarthWeb as a small technological business and thus had a heightened value. Arguably, the loss of one trade secret would have a far smaller impact on a global technology corporation, such as Microsoft, Inc. or IDG that market a nearly infinite amount of products and services. Therefore, a court should consider enhanced trade secret value when weighing trade secret protection against employment restrictions amongst smaller start-up technology businesses relying on essentially one innovation.

4. The Possibility of a Copy Cat or Cloning Industry

The fourth factor that the court should consider in an inevitable disclosure case is integrally tied to trade secret value, yet sufficiently linked to separate policy concerns so as to demand its own categorization. This factor involves the possibility that the petitioner's business is situated in

analysis of the value would take on more of a policy-based balancing role, whereby courts would analyze the value of the trade secret to past and future employers, and then compare this value in relation to any restraint on employment (rather than just its value to the former employer).

392. See Parts III. –V. (addressing at various points the conflicting policy concerns).

393. *Computer Assocs. Int'l, Inc. v. Bryan*, 784 F. Supp. 982, 986 (E.D.N.Y. 1992) (noting that the "potential loss of an industry leader's present market and loss of the advantage of being a pioneer in the field and the market leader, may constitute irreparable harm").

394. See *supra* Part I.; see also *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 307–08 (S.D.N.Y. 1999).

a copycat or cloning industry. In examining this factor, the court must determine the extent and speed to which a trade secret may be copied or cloned once it is disclosed within a particular industry. In certain aggressive and dynamic industries, specifically the technology industry, once a trade secret is disclosed it can be readily copied and produced at a substantially lower price.³⁹⁵ Therefore, the “[t]ime of the introduction of a product is important because a new innovati[on] has a selling advantage” resulting in a greater value for the owner.³⁹⁶ However, if this trade secret is prematurely disclosed and “the copier’s costs are lower than those of the creator, the copier will be able to charge a lower price for the creation,” resulting in a loss of the selling advantage and irreparable harm to the creator.³⁹⁷ Thus, a court should determine the type of industry and the extent of harm that a business within that industry, specifically small businesses relying on one innovation, will suffer from the possibility of cloning.³⁹⁸

The existence of a cloning industry, and its relation to the disclosure of trade secrets is also tied to the policy concern of restraint of innovation and ideas, which many courts have addressed in deciding inevitable disclosure cases.³⁹⁹ Although many of these courts have argued that inevitable disclosure unduly limits the free flow of ideas and innovation,⁴⁰⁰ when trade secret disclosure takes place in a copycat or cloning industry, it is the actual disclosure that stymies creation and the flow of services.⁴⁰¹ The availability of the inevitable disclosure doctrine and enforceable restrictive covenants as injunctive tools, therefore, provide creators with an incentive to continue to create because they can be assured that their innovations are protected.⁴⁰²

395. See Bone, *supra* note 10, at 262 (discussing the incentive-based policy reason for protecting trade secrets); see also RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. c (1981) (noting that innovation may increase with restrictive covenants when employer’s can entrust an employee with more trade secrets).

396. Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 629 (E.D.N.Y. 1996).

397. Matthew K. Miller, *Inevitable Disclosure Where No Non-Competition Agreement Exists: Additional Guidance Needed*, 6 B.U. J. SCI. & TECH. L. 240, 249 (2000).

398. Lumex, 919 F. Supp. at 630 (discussing the court’s finding of irreparable harm if the trade secret in question was disclosed and cloned).

399. See, e.g., Marietta Corp. v. Fairhurst, 754 N.Y.S.2d 62, 66 (N.Y. App. Div. 2003) (stating that New York’s “economy is premised on the competition engendered by the uninhibited flow of services, talent and ideas” and should therefore not be limited).

400. *Id.*

401. See Bone, *supra* note 10, at 263.

402. *Id.*; see also RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. c (1981) (stating that a potential spread of innovation can occur through the use of restrictive covenants).

5. Employee's Retention of the Trade Secret

Finally, before issuing injunctive relief under the inevitable disclosure doctrine, a court should also evaluate the nature of the trade secret information and the employee's ability to retain it. Both the *Barilla* and *Del Monte* cases provide excellent illustrations of this issue.⁴⁰³ In essence, the court must determine that the employee in question has a working knowledge of the trade secret before the employer can establish that the employee will inevitably disclose it. If convincing evidence is not presented showing a working knowledge of the trade secret, then the misappropriation question should be deemed moot, since there is essentially no information to inevitably disclose.⁴⁰⁴

C. Burden Shifting, Injunctive Relief, and Sliding Scale Consideration

As discussed in Part III of this note, injunctive relief is the favored remedy for those seeking to maintain the secrecy and value of their trade secret.⁴⁰⁵ However, before injunctive relief is imposed, the court should analyze the evidence under a burden-shifting test. This note argues that injunctive relief should be crafted under the traditional guise of restrictive covenant law, thus imposing a strict scrutiny burden-shifting test.⁴⁰⁶ Under such a test, there would be a rebuttable presumption in favor of the former employee barring injunctive relief due to the fact that such a remedy is so explicitly counter to New York public policy.⁴⁰⁷ However, if the court were to determine that the former employer presented a compelling interest, as applied through the aforementioned five-factor test, then the burden would shift to the employee. Barring new evidence from the employee overcoming the new burden, an injunction would ensue.

Furthermore, by imposing restrictive covenant law, the rule of reason from section 188 of the *Restatement (Second) of Contracts* would also apply, thereby imposing an established test, albeit a vague one, for determining the extent of the injunction.⁴⁰⁸ As noted in Part III, this

403. See *supra* Part IV.3(a).

404. *Id.*

405. See *supra* Part III.

406. See, e.g., *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999) (noting that strict judicial scrutiny has been traditionally required when analyzing restrictive covenants).

407. See *supra* Part VI. (discussing the policy concerns that the *Marietta* court faced in applying the inevitable disclosure doctrine).

408. RESTATEMENT (SECOND) OF CONTRACTS § 188 (a) (1981). The *EarthWeb* court voiced strong concern that without an express restrictive covenant, there would be no test for determining

would mean that the imposition of any restriction could not be greater than needed to reasonably protect the owner's legitimate interest in the trade secret.⁴⁰⁹ Moreover, in following the rule of reason, a court should refrain from issuing an injunction if the former employer's need for trade secret protection is outweighed by the employee's hardship.⁴¹⁰ Notably, with the arrival of technological cases such as *EarthWeb* and *DoubleClick*, the standards for what a court may deem reasonable or a hardship have greatly changed, and thus a technologically-conscious court may hold that a reasonable restriction should last for as little as six months.⁴¹¹

Regardless of the length of the employment restriction, the law of contracts, upon which this restraint is justified, also requires adequate consideration.⁴¹² Although many courts⁴¹³ and commentators⁴¹⁴ have deemed inevitable disclosure to be an implied-in-fact or "ex post facto covenant not to compete,"⁴¹⁵ the doctrine nonetheless results in a contract requiring consideration.⁴¹⁶ While inevitable disclosure does lead to a degree of employment restraint, it also leads to an overly burdensome restraint when it is imposed without just compensation. By failing to provide restitution, several courts have allowed former employers to enjoy both trade secret protection and the restraint of their former employee without providing appropriate forms of consideration, such as the payment of salary.⁴¹⁷ Unfortunately, the imposition of this form of in-

the reasonableness of the injunctive relief. *EarthWeb*, 71 F. Supp. 2d at 311. However, by applying the rule of reason to determine reasonableness, the court may rely on a test that has been used and developed through case law for decades.

409. RESTATEMENT (SECOND) OF CONTRACTS § 188 (a) (1981).

410. *Id.*

411. *See EarthWeb*, 71 F. Supp. 2d at 313 (holding that a "one-year restrictive covenant [was] unreasonably long"); *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 N.Y. Misc. LEXIS 577, at *23 (N.Y. Sup. Ct. 1997) (noting that "given the speed with which the Internet advertising industry apparently changes, defendants' knowledge . . . will likely lose value to such a degree that the purpose of a preliminary injunction will have evaporated before the year is up"); *see also* Mark Hamblett, *Employee's 1-Year Non-Compete Pact Too Long for Web*, N.Y. L.J., Oct. 29, 1999, at 1.

412. RESTATEMENT (SECOND) OF CONTRACTS § 71 (stating that consideration is a required element of an enforceable contract).

413. *See, e.g., EarthWeb*, 71 F. Supp. 2d at 310 (noting that "in cases that do not involve the actual theft of trade secrets, the court is essentially asked to bind the employee to an implied-in-fact restrictive covenant").

414. *See* Edelstein, *supra* note 6, at 731 (noting that "courts have been reluctant to permit employers to use a claim of trade secret misappropriation to obtain ex post facto covenants not to compete").

415. *Id.*

416. RESTATEMENT (SECOND) OF CONTRACTS § 71 (1981).

417. *See, e.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (imposing injunctive relief while not requiring the former employer to pay the employee's salary).

junctive relief has lead to a tainted view of inevitable disclosure as an overburdening doctrine.⁴¹⁸

This note argues for a sliding scale approach to this restitutional remedy.⁴¹⁹ Under this approach, the payment of consideration would depend on the employment activity of the employee. If the employee were restrained to the point where they could not work for the new company, the former employer would bear 100% of the employee's lost salary. However, if the employee were able to provide effective assistance to their new company, perhaps in a separate capacity to avoid disclosure, consideration would be paid through the employee's new salary, since an actual employment restraint resulting in a loss of livelihood would not truly have occurred.

Under this approach, various other scenarios could unfold. An employee might be limited in the amount of hours they could work because they are not able to contribute in several departments or on various projects that the new employer is working on. In such a situation, the former employer and the current employer would both bear a percentage of the restitution, in proportion to the employee's ability to work. By engaging in this process, the former employer would pay adequate consideration in proportion to the restraint they impose, and the employee would not be unduly restrained from earning his livelihood.⁴²⁰ This type of balancing test provides a reasonable solution to overcome New York's public policy concerns regarding the restraint on an employee's potential for livelihood.

418. See generally Edelman, *supra* note 6 (referring to inevitable disclosure as intellectual slavery).

419. For a recent and innovative approach to providing compensation in the inevitable disclosure context see Joseph F. Phillips, *Inevitable Disclosure Through an Internet Lens: Is the Doctrine's Demise Truly Inevitable*, 45 WM. & MARY L. REV. 395 (2003). Phillips argues that "[c]ourts 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 has a non-compete clause." *Id.* While this is a novel approach, it seems unlikely that a court, especially one with an overburdened docket, would have the time to invest in such a procedure. This note argues that the judge should balance the amount of compensation based on restraint imposed, similar to that of the rule of reason balancing test.

420. *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 632-33 (E.D.N.Y. 1996). The *Lumex* court noted that compensation during the restraint might not be an adequate remedy, since it could still alienate the employee's new employer. *Id.* However, the court found that when the compensation was accompanied by a restraint that followed the rule of reason, there was no abuse of discretion. *Id.*

VIII. CONCLUSION

Although recent courts have failed to apply inevitable disclosure as a means for injunctive relief, the doctrine is still a valid remedy that New York courts may utilize. To date, New York courts have shown exceptional discretion by limiting inevitable disclosure to its purest form: a limited injunctive remedy that may be enforced only when an actual trade secret exists, when rigid factors demonstrating inevitable misappropriation are met, and where equitable and reasonable relief can be crafted. When used in this form, inevitable disclosure is a viable and productive form of relief that can be advantageous to large and small businesses alike. By proposing a heightened model, utilizing additional factors, the authors of this note believe that the doctrine of inevitable disclosure will remain an effective injunctive tool, while also easing its opponents' legitimate policy fears of restricted employment and innovation.

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