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Problem of Inevitable Disclosure***

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# COMPENSATED INJUNCTIONS: A MORE EQUITABLE SOLUTION TO THE PROBLEM OF INEVITABLE DISCLOSURE

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A trade secret is 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.”<sup>1</sup> By their very definition, trade secrets hold great value, and employers often invest significant resources in their development and subsequent protection.<sup>2</sup> Nevertheless, the theft of trade secrets costs companies as much as \$300 billion per year,<sup>3</sup> and it is estimated that in over 85% of cases, the alleged misappropriator was either an employee or a business partner of the trade secret owner.<sup>4</sup> Thus, employers face great risks when an employee, equipped with knowledge of and access to the company’s trade secrets, decides to leave the company in order to work for one of the employer’s competitors. The most troubling scenario arises when the departing employee’s general knowledge and experience—both understood to be assets rightfully belonging to her—are unalterably tied to the former employer’s trade secret information, such that disclosure of these trade secrets is inevitable in the course of her subsequent employment with a competing company.<sup>5</sup> This is the problem of inevitable disclosure.

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

2. Susan Street Whaley, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. CIN. L. REV. 809, 816 (1999).

3. Almeling, Snyder, et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 292 (2010) (citing OFFICE OF THE NAT’L COUNTERINTELLIGENCE EXECUTIVE, ANNUAL REPORT TO CONGRESS ON FOREIGN ECONOMIC COLLECTION AND INDUSTRIAL ESPIONAGE—2002 vii (Feb. 2003), available at <http://www.fas.org/irp/ops/ci/docs/2002.pdf>).

4. *Id.* at 294.

5. See, e.g., *Carborundum Co. v. Williams*, 468 F. Supp. 38, 40 (E.D. Tenn. 1978), *aff’d mem.*, 590 F.2d 334 (6th Cir. 1978) (explaining that where the employee’s general knowledge was permeated with the former employer’s trade secret information, it would “require an exhibition of the highest personal and industrial integrity” for the employee not to disclose this information to his new employer).

The Uniform Trade Secrets Act (“UTSA”),<sup>6</sup> which guides states’ trade secret law, only protects employers in cases of actual or threatened trade secret misappropriation.<sup>7</sup> Actual misappropriation means that the trade secrets have already been divulged.<sup>8</sup> Threatened misappropriation occurs when the departing employee has demonstrated a bad-faith intent to divulge trade secret information.<sup>9</sup> However, these two available causes of actions under the UTSA, alone, fail to provide employers with adequate protection. The value of the trade secret is lost by the time an employer can bring a claim of actual misappropriation.<sup>10</sup> Consequently, such claims are considered a last resort for employers who prefer to protect their trade secrets by preventing trade secret disclosure in the first place.<sup>11</sup> Under the UTSA, an employer’s only other option is to seek an injunction for threatened misappropriation by a departing employee.<sup>12</sup> However, it is typically understood that to meet the burden of proof in a claim for threatened misappropriation, the employer must show evidence of bad faith or ill-intent on the part of the departing employee.<sup>13</sup> Not only is bad faith very difficult for employers to prove, but also, the employee may in fact have no malicious intent or indeed any intent whatsoever to disclose the trade secrets.

The doctrine of inevitable disclosure evolved as a judicial response to the perceived need to fill the void in the UTSA not covered by the causes of action for actual and threatened misappropriation of trade secrets. The

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6. The theory of trade secret protection evolved under the common law, guided by the Restatement (First) of Torts (1934). Confusion and disparity between states was prevalent. Thus, in 1979, the National Conference of Commissioners on Uniform State Laws approved the UTSA. The adoption of UTSA by the majority of jurisdictions in some form or another provided some uniformity in trade secret protection. John H. Matheson, *Employee Beware: The Irreparable Damage of the Inevitable Disclosure Doctrine*, 10 LOY. CONSUMER L. REV. 145, 147 (1998).

7. UNIF. TRADE SECRETS ACT § 2(a) (amended 1985) (“[a]ctual or threatened misappropriation may be enjoined”).

8. *See, e.g., Ecolab, Inc. v. Paolo*, 753 F. Supp. 1100 (E.D.N.Y. 1991); *Surgidev Corp. v. Eye Tech., Inc.*, 648 F. Supp. 661 (D. Minn. 1986).

9. *See, e.g., Clorox Co. v. S.C. Johnson & Son, Inc.*, 627 F. Supp. 2d 954 (E.D. Wis. 2009).

10. STEVEN WILLBORN ET AL., *EMPLOYMENT LAW: CASES AND MATERIALS* 352–53 (4th ed. 2007).

11. *Id.*

12. UNIF. TRADE SECRETS ACT § 2(a) (“[a]ctual or threatened misappropriation may be enjoined”).

13. *See, e.g., Clorox*, 627 F. Supp. 2d at 968 (“Threatened misappropriation may be demonstrated by showing either that the defendant possesses trade secrets and has misused or disclosed those secrets in the past, that the defendant intends to misuse or disclose those secrets, or that the defendant possesses trade secrets and wrongfully refuses to return them.”).

doctrine protects trade secrets not only before they have been disclosed but also in the absence of bad faith or ill intent on the part of the departing employee.<sup>14</sup> In cases where the employer's trade secrets cannot be separated from the departing employee's general knowledge, such that disclosure of the trade secret information is "inevitable" in the course of future employment for a competing company, the doctrine of inevitable disclosure allows a court to enjoin the employee from working for the employer's competitors for a certain length of time.<sup>15</sup>

However, although the doctrine of inevitable disclosure fills an important role neglected by the UTSA, it does not, as it stands, produce just results. By giving employers a tool to perpetually prevent employees from working for competitors, the doctrine protects trade secrets at the cost of severely shackling job mobility.<sup>16</sup> Indeed, most foreign countries refuse to recognize any version of the inevitable disclosure doctrine on the grounds that it constitutes an "unreasonable restraint of trade."<sup>17</sup> Moreover, by forcing courts to choose between the interests of the employer and the interests of the employee, with no room for compromise, the doctrine is a source of much discomfort for judges.<sup>18</sup> If a court grants an injunction, it risks significantly destroying the employee's job prospects; if a court does not grant an injunction, it risks allowing great economic damage to the employer's business. As a result, judges struggle with the potential consequences of their decisions, resulting in inconsistent rulings.<sup>19</sup> Thus, the doctrine's current failure to recognize the interests of employees is not only unfair, but it is also problematic from a judicial decision-making standpoint.

This Note proposes that, as a solution to the problem with the doctrine of inevitable disclosure, courts should make it mandatory for employers to

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14. Jennifer L. Saulino, *Locating Inevitable Disclosure's Place in Trade Secret Analysis*, 100 MICH. L. REV. 1184, 1186 (2002). Some courts conceptualize the doctrine of inevitable disclosure as one form of threatened misappropriation. *See, e.g.*, *Interbake Foods, LLC v. Tomasiello*, 461 F. Supp. 2d 943 (N.D. Iowa 2006). However, the author of this Note joins other courts in conceptualizing the doctrine of inevitable disclosure as an alternative to actual or threatened misappropriation. *See, e.g.*, *Cent. Valley Gen. Hosp. v. Smith*, 162 Cal. App. 4th 501, 525 (Ct. App. 2008). Thus it provides relief even in instances of good faith or unintentional disclosure.

15. *See, e.g.*, *La Calhene, Inc. v. Spoylar*, 938 F. Supp. 523 (W.D. Wis. 1996).

16. Whaley, *supra* note 2, at 841.

17. *See* 1 RESTRICTIVE COVENANTS AND TRADE SECRETS IN EMPLOYMENT LAW: AN INTERNATIONAL SURVEY (Wendi S. Lazar & Gary R. Siniscalco eds., 2010) [hereinafter RESTRICTIVE COVENANTS] (Canada, the United Kingdom, Germany, France, Japan and Hong Kong have all rejected the doctrine).

18. *See, e.g.*, Suellen Lowrey, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519, 520 (1998).

19. *Id.*

adequately compensate employees for the entire time period that the employees are enjoined from working for a competitor under the doctrine of inevitable disclosure. This would ensure that both the employer's and the employee's interests are accounted for. Additionally, an equitable system of injunctive relief and compensation serves to promote the true value of trade secrets. The trade secret is not only worth protecting, but it is worth paying to protect. Finally, a compensated injunction offers many practical benefits. It would force employers to evaluate the necessity of such an injunction, reduce instances of frivolous litigation, and make judicial decision-making easier, by offering judges a compromise. Given that there are no real "wrongdoers" in cases of inevitable disclosure, this is an area of law where courts and state legislatures can and should be proactive in tailoring remedies to individual cases in order to ensure fairness.

This Note proceeds in three parts. Part I summarizes the conflicting policy interests at stake in cases of inevitable disclosure. Part II then surveys the doctrine of inevitable disclosure in more detail. Although the majority of states recognize this doctrine,<sup>20</sup> albeit with varying understandings of "inevitability,"<sup>21</sup> a small minority of states have taken different approaches to the problem of inevitable disclosure. For example, the Third Circuit recently proposed a standard that provides even greater protection to employers than the doctrine of inevitable disclosure.<sup>22</sup> Instead of requiring employers to show that disclosure of their trade secrets is *inevitable*, it simply requires that there be a *substantial likelihood* of disclosure.<sup>23</sup> Meanwhile, California and a small minority of other states have refused to protect employers from the inevitable disclosure of their trade secrets.<sup>24</sup> These alternative standards will also be discussed in Part II.

Part III argues that, in light of the important policy concerns on both sides of an inevitable disclosure dispute, the doctrine of inevitable disclosure, which sacrifices one set of interests for the other, is unacceptable in its current form. However, both the Third Circuit's substantial likelihood test and California's rejection of the doctrine of inevitable disclosure are similarly inequitable. Thus neither provides an adequate alternative. Rather, the most effective and equitable solution would be a system of compensated injunctions. Courts should provide employers with injunctive relief in cases of inevitable disclosure but should require that employers compensate

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20. *See infra* Part II.A.

21. *See infra* Part II.B.

22. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 110 (3d Cir. 2010).

23. *Id.*

24. *See infra* Part II.C.

former employees for the entire duration of the injunction. Part III will not only offer a conceptual framework within which to understand this proposed solution, but will also consider the mechanics of how this solution could operate in practice. It is the author's hope that this Note will be read not only by interested commentators, but also by judges and state legislators. It will take a concerted effort by both groups to implement compensated injunctions as state practice.

### I. CONFLICTING POLICY INTERESTS IN INEVITABLE DISCLOSURE CASES

The competing interests involved in inevitable disclosure situations "are as easy to state as they are difficult to protect."<sup>25</sup> On the one hand, employers have invested a great deal of time and resources into developing their trade secrets and stand to incur substantial losses if their competitors gain access to these secrets.<sup>26</sup> If they could not protect their trade secrets in cases of inevitable disclosure, employers would either not invest as much in innovation, or they would be forced to take "inefficient steps to protect the information," such as dividing tasks between many employees such that no individual employee has complete knowledge of the trade secret information.<sup>27</sup> Thus, the doctrine of inevitable disclosure not only serves the interest of economic efficiency but it also promotes the broad societal goal of investment in innovation.<sup>28</sup> Moreover, society has a strong interest in preserving commercial morality and one company's purposeful hiring of a competitor's employee who has knowledge of the competitor's trade secrets offends our understanding of fair and ethical business practices.<sup>29</sup>

On the other hand, serious questions of fairness also arise on the employee's side, given that the only way to protect trade secrets in these cases is by restraining a departing employee from working for the former employer's competitor entirely.<sup>30</sup> If a court enjoins an employee from working for companies in the same competitive area as their current

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25. E.I. duPont de Nemours & Co. v. Am. Potash & Chem. Corp., 200 A.2d 428, 437 (Del. Ch. 1964).

26. WILLBORN, *supra* note 10, at 326.

27. *Id.*

28. Lowrey, *supra* note 18, at 526.

29. *Id.* at 525.

30. By definition, it is not possible to enjoin a departing employee from disclosing a trade secret subject to inevitable disclosure. The point is that the trade secret is inseparable from the employee's general knowledge and experience such that disclosure is inevitable. The only way to prevent disclosure, then, is to enjoin the departing employee from working for a competitor entirely.

employment, that employee's options for alternative employment are significantly restricted and economic hardship may well result.<sup>31</sup> Employees may face additional restrictions when, in order to avoid hindrances on their future employment prospects, they shy away from increasing their expertise through access to and involvement in the development of company trade secrets.<sup>32</sup> Moreover, in a free society, jobs not only ensure financial stability but are also "central to [an individual's] . . . status, and perhaps to their definition of themselves as persons."<sup>33</sup> Thus, restrictions on employment mobility can do great damage to one's sense of self. Furthermore, litigation can be both draining and potentially damaging to an employee's reputation and as a result, may even "have a chilling effect" on an employee's desire to leave her current employment.<sup>34</sup> From a contractual standpoint, an employee may be unaware of potential restrictions on her future mobility at the time of negotiating the employment contract, thus not bargaining for that restriction in the resulting agreement.<sup>35</sup> This is particularly unfair given that employers have "both the legal means and the comparative information advantage to protect themselves" in advance through non-compete clauses in the employment contract.<sup>36</sup>

At the same time, society stands to benefit from the disclosure of trade secrets. The spread of ideas allows other innovators to develop and build on the ideas of their competitors at a lower cost, thus resulting in cheaper goods and services in the marketplace. Moreover, there may be instances where companies choose to protect their intellectual property through trade secrets rather than patent protection because of the potentially greater length of protection, all the while knowing the risks of this decision.<sup>37</sup> It does not seem fair, then, to punish employees for the cost-benefit analysis of their employers.

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31. Whaley, *supra* note 2, at 844.

32. Johanna L. Edelstein, *Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets*, 26 GOLDEN GATE U. L. REV. 717, 733 (1996).

33. Lowrey, *supra* note 18, at 538.

34. *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

35. Adam Gill, *The Inevitable Disclosure Doctrine: Inequitable Results Are Threatened But Not Inevitable*, 24 HASTINGS COMM. & ENT. L.J. 403, 424 (2002).

36. Matheson, *supra* note 6, at 146. Non-compete agreements come into operation after the employment relationship ends and usually prevent the former employee "from engaging in business activity competitive with the former employer for a period of time in a specified geographical area." *Id.* at 154.

37. Matthew J.S. Graham, *Leveraging Your Intellectual Property: Trade Secret vs. Patent Protection*, FREDRIKSON AND BYRON P.A. (July 2006), [http://www.fredlaw.com/articles/ip/inte\\_0607\\_mjsg.html](http://www.fredlaw.com/articles/ip/inte_0607_mjsg.html).

As explained above, economic interests exist on both sides of the debate, as do societal interests and moral concerns. Courts are forced to grapple with these competing interests and the difficulty of this task helps explain the well-criticized problem of inconsistent judicial outcomes.<sup>38</sup>

## II. RESPONSES TO THE INEVITABLE DISCLOSURE PROBLEM

There have been three main responses to the problem of inevitable disclosure. The majority of jurisdictions have protected trade secrets in these cases by enjoining the employee from working for a competing company if the trade secret owner can demonstrate that disclosure of the trade secret in the course of employment for a competitor is “inevitable.”<sup>39</sup> This is the doctrine of inevitable disclosure. Recently, the Third Circuit espoused a variation of this test, which allows for trade secret protection in cases where there is a “substantial likelihood” of disclosure in the course of future employment.<sup>40</sup> It is yet to be seen whether other jurisdictions will adopt this approach. The third approach is to provide no trade secret protection in cases of inevitable disclosure. California and a minority of other states have adopted this approach in the name of employee mobility.<sup>41</sup> This Part considers each approach in turn.

### A. THE DOCTRINE OF INEVITABLE DISCLOSURE

#### 1. *Historical Development of the Doctrine*

Courts created the doctrine of inevitable disclosure as a response to the perceived need for trade secret protection in cases where a former employer’s trade secrets are inextricably linked to a departing employee’s general knowledge and experience, such that disclosure of these trade secrets is inevitable in the course of subsequent employment with a competing company.<sup>42</sup>

In the early 1960s, B.F. Goodrich Co. (“Goodrich”), a manufacturing and research company, brought suit to permanently enjoin a former employee, Donald Wohlgemuth, from working for any of its competitors.<sup>43</sup>

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38. *See, e.g.*, Whaley, *supra* note 2, at 841 (“the doctrine has been developed and applied inconsistently”).

39. *See, e.g.*, PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).

40. Bimbo Bakeries USA, Inc. v. Botticella, 613 F.3d 102, 110 (3d Cir. 2010).

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

42. Saulino, *supra* note 14, at 1185.

43. B.F. Goodrich Co. v. Wohlgemuth, 192 N.E.2d 99, 101 (Ohio Ct. App. 1963).



Wohlgemuth was one of only a few top executives and developers at Goodrich and spent most of his time as part of a team of engineers and scientists that designed space suits.<sup>44</sup> He had “full knowledge” of many of Goodrich’s trade secrets.<sup>45</sup> When Wohlgemuth resigned and accepted a higher-paying job managing International Latex Corporation’s (Latex) space suit business, Goodrich feared that he would divulge its trade secrets to Latex.<sup>46</sup> Indeed, Wohlgemuth, by his own admission, expected to “use all of the knowledge that he had to [Latex’s] benefit.”<sup>47</sup> Although Wohlgemuth did not explicitly threaten to disclose Goodrich’s trade secrets, the Court of Appeals of Ohio nevertheless found that there was a “substantial threat of disclosure” by virtue of his working at Latex.<sup>48</sup> Stressing the values of “commercial morality” and “the American doctrine of free enterprise,” the court concluded that Goodrich was entitled to protection of its trade secrets.<sup>49</sup> Thus, the court enjoined Wohlgemuth from working for Latex.<sup>50</sup>

A year later, in *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, a chemical manufacturer sought to enjoin a departing employee with intimate knowledge of one of its unique chemical processes from working for a competitor who wanted access to the secret process.<sup>51</sup> A Delaware trial court held that “where there is a finding that a threat of use or disclosure exists which the court concludes will, if effectuated, constitute a breach of confidence,” a court may enjoin a departing employee from working for a competitor.<sup>52</sup> Just as the *B.F. Goodrich* court talked about “commercial morality,”<sup>53</sup> so too did the *E.I. DuPont* court emphasize an employee’s “fiduciary duty” to his former employer.<sup>54</sup>

Two years later, these principles were reiterated in *Allis-Chalmers Manufacturing Co. v. Continental Aviation & Engineering Corp.* A Michigan district court granted the plaintiff company an injunction preventing a former employee with knowledge of the company’s engineering trade secrets from working for a competitor.<sup>55</sup>

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44. *Id.* at 102.

45. *Id.*

46. *Id.* at 103.

47. *Id.* at 104.

48. *Id.* at 105.

49. *B.F. Goodrich Co.*, 192 N.E.2d at 105.

50. *Id.*

51. 200 A.2d 428, 430–32 (Del. Ch. 1964).

52. *Id.* at 546.

53. *B.F. Goodrich Co.*, 192 N.E.2d at 105.

54. *E.I. duPont de Nemours*, 200 A.2d at 428.

55. *Allis-Chalmers Mfg. Co. v. Cont’l Aviation & Eng’g Corp.*, 255 F. Supp. 645 (E.D. Mich. 1966).

These three cases first established the doctrine of inevitable disclosure, although none mentioned the doctrine explicitly.<sup>56</sup> All three cases recognized that a court can enjoin an employee from working for a competitor even in the absence of a covenant not to compete or any explicit intent on the part of the employee to misappropriate her former employer's trade secrets.<sup>57</sup> However, the circumstances of these cases were narrow and unusual, as they all involved companies engaged in scientific, technological or engineering industries. Moreover, at issue in each case was the potential disclosure of the very trade secrets that had led to the former employers' dominance in their respective industries.<sup>58</sup>

## 2. Present State of the Doctrine

It was not until the Seventh Circuit's opinion in *PepsiCo, Inc. v. Redmond* that the doctrine of inevitable disclosure was explicitly established and expanded to cover a broader range of cases.<sup>59</sup> In that case, a soft drink manufacturer brought an action to enjoin a former high-level managerial employee from working for a competitor in a similar capacity.<sup>60</sup> The court found that the employee had access to the plaintiff's trade secrets, and that he would inevitably disclose them in the course of employment with the competitor if he assumed duties relating to beverage pricing, marketing, and distribution.<sup>61</sup> Moreover, the court noted that "fierce beverage-industry competition" existed between the two companies,<sup>62</sup> and that the new company would "achieve a substantial advantage" by knowing the plaintiff's trade secret information.<sup>63</sup> Thus, the court affirmed the district court's holding enjoining the employee from working for the former employer's competitors for six months.<sup>64</sup>

The *PepsiCo* court broadened the situations in which employers can employ the doctrine of inevitable disclosure by affirming an injunction to protect trade secrets unrelated to science, technology, or engineering, but

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56. Jonathan O. Harris, *The Doctrine of Inevitable Disclosure: A Proposal To Balance Employer And Employee Interests*, 78 WASH. U. L.Q. 325, 331–32 (2000).

57. *Allis-Chalmers*, 255 F. Supp. at 645; *E.I. duPont de Nemours*, 200 A.2d at 428; *B.F. Goodrich Co.*, 192 N.E.2d at 105.

58. *Id.* at 337.

59. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); Harris, *supra* note 56, at 339.

60. *PepsiCo*, 54 F.3d at 1263.

61. *Id.*

62. *Id.* at 1263–64.

63. *Id.* at 1270.

64. *Id.* at 1272.

instead involved pricing, distribution, packaging, and marketing.<sup>65</sup> The court also highlighted the relevant factors that courts should consider in applying the doctrine of inevitable disclosure: (1) whether the former employee has knowledge of the first employer's trade secrets; (2) whether the employee's new job duties are so similar or related to those in the former position that it would be extremely difficult not to rely on or use the first employer's trade secrets; (3) whether the former employee and the new employer can be depended upon to avoid using the trade secret information;<sup>66</sup> and (4) whether the level of competition between the former and new employer is such that the former employer would suffer irreparable harm if its trade secrets were disclosed.<sup>67</sup> This doctrine, then, requires courts to engage in a fact-intensive analysis.

While many jurisdictions apply the doctrine of inevitable disclosure as espoused by the *PepsiCo* court,<sup>68</sup> others jurisdictions took issue with it.<sup>69</sup> For example, New York courts have sought to limit use of the doctrine to "only the rarest of cases" because "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 based on a finding of inevitable disclosure."<sup>70</sup> Another common complaint about the doctrine of inevitable disclosure is that it produces inconsistent results because it demands such a vigorous factual analysis of each individual case. A New York district court even referred to the problem as the "nebulous standard of 'inevitability.'" <sup>71</sup>

#### B. THE SUBSTANTIAL LIKELIHOOD TEST

In *Bimbo Bakeries USA, Inc. v. Botticella*, the Third Circuit created an alternative standard to be applied in cases of inevitable disclosure.<sup>72</sup> Like the doctrine of inevitable disclosure, the Third Circuit's standard grants

65. Harris, *supra* note 56, at 339.

66. See 2 RESTRICTIVE COVENANTS, *supra* note 17, VOL. II, 55–15; *PepsiCo, Inc.*, 54 F.3d at 1268–71.

67. Harris, *supra* note 56, at 330.

68. See, e.g., *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267, 2002 WL 31165069 (S.D. Iowa 2002); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909 (D. Conn. 1996); *Merck & Co. Inc. v. Lyon*, 941 F. Supp. 1443 (M.D.N.C. 1996); *Procter & Gamble Co. v. Stoneham*, 747 N.E.2d 268 (Ohio Ct. App. 2000).

69. See, e.g., *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

70. *Id.* (noting, further, that "[t]his runs counter to New York's strong public policy against such agreements and circumvents the strict judicial scrutiny they have traditionally required").

71. *EarthWeb*, 71 F. Supp. 2d at 311.

72. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 114 (3d Cir. 2010) ("sufficient likelihood or substantial threat of disclosure") (citations omitted).

employers injunctive relief when a departing employee has knowledge of her employer's trade secrets. However, while the doctrine of inevitable disclosure test, by definition, requires that disclosure be "inevitable," the Third Circuit's test requires only that there be a "substantial likelihood" that the trade secret will be misappropriated if the departing employee is allowed to work for a competitor.<sup>73</sup> This more relaxed standard appears to be much more pro-employer than the doctrine of inevitable disclosure.

In *Bimbo Bakeries*, the plaintiff, Bimbo Bakeries USA, Inc. ("Bimbo"), one of the four largest companies in the United States baking industry, filed an action against its former Vice President of Operations for California, Chris Botticella, to protect its trade secrets from misappropriation.<sup>74</sup> As one of Bimbo's senior executives for ten years, Botticella worked closely with a broad range of confidential information regarding the company, its products, and its business strategy.<sup>75</sup> Among other things, he had access to Bimbo's codebook and knowledge of Bimbo's strategy for increasing profitability.<sup>76</sup> Additionally, Botticella was one of only seven people who knew how to replicate Bimbo's popular line of Thomas' English Muffins, which generate approximately half a billion dollars in revenue annually.<sup>77</sup>

The district court entered a preliminary injunction enjoining Botticella from working for Hostess, Bimbo's competitor, until the merits of the case could be reached, on the grounds that there was a "substantial likelihood" that Botticella would disclose Bimbo's trade secrets in the course of his employment with Hostess.<sup>78</sup> The Third Circuit affirmed this holding and upheld the preliminary injunction.<sup>79</sup>

The substantial likelihood test is not new. Courts have frequently applied it, or a similar standard, in cases of inevitable disclosure. For example, in *Procter & Gamble Co. v. Stoneham*, the Ohio Court of Appeals held that an injunction was an appropriate remedy where the threat of misappropriation "was not only possible or speculative, but was substantially likely to result."<sup>80</sup> Moreover, Minnesota's federal and state courts have repeatedly

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73. *Id.* at 112, 114.

74. *Id.* at 105.

75. *Id.*

76. *Id.*

77. *Id.* at 105, 110.

78. *Bimbo Bakeries USA, Inc.*, 613 F.3d. at 108; *Bimbo Bakeries USA, Inc. v. Botticella*, No. 10-0194, 2010 WL 571774, at \*14 (E.D. Pa. 2010), *aff'd*, 613 F.3d 102 (3d. Cir. 2010).

79. *Bimbo Bakeries*, 613 F.3d at 111.

80. *Procter & Gamble Co. v. Stoneham*, 747 N.E.2d 268, 280 (Ohio Ct. App. 2000).

acknowledged a “high degree of probability” standard.<sup>81</sup> The standards applied by these courts are not surprising: “inevitability” is a difficult concept to understand and apply. However, the Third Circuit is the first court to conceptualize this test as separate and distinct from the inevitable disclosure test.<sup>82</sup> *Bimbo Bakeries*, then, marks a potential shift towards even stronger protections for employers and, concomitantly, weaker protections for employees.

C. CALIFORNIA’S PRO EMPLOYEE APPROACH: NO RESTRICTIONS ON EMPLOYMENT MOBILITY

California emphatically rejected the doctrine of inevitable disclosure because it contradicts the state’s public policy in favor of employment mobility.<sup>83</sup> California Business and Profession Code Section 16600 provides that “[e]very contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”<sup>84</sup> Interpreting this code section “as broadly as its language reads,” California courts consistently reject non-competition agreements as counter to public policy.<sup>85</sup> Thus, it follows that the state similarly refuses to recognize the doctrine of inevitable disclosure, which essentially sanctions judicially created non-competes.<sup>86</sup> Indeed, in *Bayer Corp. v. Roche Molecular Systems, Inc.*, a federal district court declared that “[t]he theory of ‘inevitable disclosure’ is not the

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81. See, e.g., *Lexis-Nexis v. Beer*, 41 F. Supp. 2d 950, 958 (D. Minn. 1999); *ReliaStar Life Ins. Co. v. KMG Am. Corp.*, No. A052079, 2006 WL 2529760, at \*4 (Minn. Ct. App. 2006).

82. *Bimbo Bakeries*, 613 F.3d at 111. Previously, courts simply worked within the rubric of the doctrine of inevitable disclosure.

83. See, e.g., *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111 (N.D. Cal. 1999); *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277 (Cal. Ct. App. 2002). Maryland has a policy in favor of employee mobility similar to that of California, and thus similarly refuses to adopt the doctrine of inevitable disclosure. See *LeJeune v. Coin Acceptors, Inc.*, 381 Md. 288, 322 (Ct. App. 2004).

84. CAL. BUS. & PROF. CODE § 16600 (Deering 1992). This code section is “the longest-standing prohibition against non-compete enforcement.” Matt Marx et al., *Regional Disadvantage? Non-Compete Agreements and Brain Drain* 13 (MIT Sloan School of Management, Working Paper, Sept. 22, 2010), available at <http://www.hbs.edu/units/tom/seminars/docs/braindrain100925.pdf>.

85. 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, 607 (1999). This policy dates from nineteenth century codification and was not adopted with any reference to high technology. Alan Hyde, *Trade Secrets Practice in Silicon Valley* in WILLBORN, *supra* note 10, at 327.

86. *Bayer*, 72 F. Supp. 2d at 1120 (explaining that a court should not allow a plaintiff to use inevitable disclosure as an after-the-fact non-compete agreement to enjoin an employee from working for the employer of his or her choice).

law in California” in light of “the [state’s] policy favoring employee mobility free of encumbering restriction.”<sup>87</sup>

Some commentators attribute the success of Silicon Valley—“the most entrepreneurial and technologically successful region in the world today”—to the mobility of California employees.<sup>88</sup> Most notably, Ronald Gilson, a prominent scholar, argues that the lack of restrictions on employment in California resulted in the development of a “job-hopping” culture in Silicon Valley, which in turn permitted the occurrence of knowledge “spill-overs” between established technology firms and start-ups, encouraging both growth and innovation.<sup>89</sup> Meanwhile, others, including AnnaLee Saxenian, another prominent scholar in the field, attribute Silicon Valley’s success not to California’s legal structure but to the Silicon Valley’s organic and unique business culture.<sup>90</sup> She explains that an open culture of communication, information sharing across firms, and collaboration are the key to its success.<sup>91</sup>

### III. A MORE EQUITABLE SOLUTION: COMPENSATED INJUNCTIONS

Without some form of protection for trade secrets in cases of inevitable disclosure, trade secret law is weak at best. In cases of actual misappropriation, the damage to the employer’s business has already been done.<sup>92</sup> No amount of monetary damages can restore the value of the trade secret.<sup>93</sup> Thus, for trade secret protection to be effective, it must come prior to misappropriation. In cases of threatened misappropriation, courts typically grant injunctions to prevent disclosure.<sup>94</sup> However, the employer must demonstrate bad faith or ill-intent on the part of the employee.<sup>95</sup> A future employer or smart employee is not likely to make her intentions known and may in fact formally disavow any such intention.<sup>96</sup> Therefore, the former

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87. *Id.*

88. *See* Marx et al., *supra* note 84, at 1; Gilson, *supra* note 85.

89. Gilson, *supra* note 85, at 578.

90. ANNALEE SAXENIAN, REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE ix (1994).

91. *Id.*

92. Saulino, *supra* note 14, at 1191.

93. *Id.*

94. *Id.* at 1193.

95. *Id.* at 1194.

96. *See, e.g.*, *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 106 (3d Cir. 2010) (directing Botticella “to execute an ‘Acknowledgment and Representation Form,’ which essentially indicated that Hostess was not interested in any confidential information, trade secrets, or other proprietary information that Botticella had acquired from Bimbo, and that

employer very often has a difficult time meeting its burden.<sup>97</sup> Thus, cases of both actual and threatened misappropriation offer limited recovery. The inadequacy of these remedies is exacerbated by the fact that in many trade secret disputes, the employee has not yet misappropriated the secret and has no intention of doing so. Instead, the former employer's trade secrets are so enmeshed in the employee's acquired skills and knowledge that disclosure is inevitable. Thus, the doctrine of inevitable disclosure fills a large gap in the protection of trade secrets left open by the existing causes of action for actual and threatened misappropriation.<sup>98</sup>

At the same time, however, the doctrine of inevitable disclosure is highly inequitable, as are the Third Circuit's substantial likelihood test and California's rejection of any protection for employers in cases of inevitable disclosure. All three approaches focus exclusively and somewhat simplistically on protecting either the employer's interest or the employee's interest. One interest is sacrificed for the sake of protecting the other.<sup>99</sup> However, both interests are worthy of protection. Injunctive relief recognizes the rights of employers to protect their trade secrets, and subsequently incentivizes them to invest in innovation and in the skills and knowledge of their employees.<sup>100</sup> Additionally, injunctive relief in these situations serves to preserve a broader societal interest in commercial morality.<sup>101</sup> On the other hand, protecting employees' right to fully market their skills and to work for whomever they choose recognizes their right to be financially secure. Furthermore, the free movement of information and ideas allows companies to build upon the innovations of their competitors and reduces the overall cost of goods and services to society. Particularly because there is no real wrongdoer in cases of inevitable disclosure, courts can and should adopt a more balanced approach.

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Botticella would not disclose such information to Hostess"). It is perhaps for this reason courts often consider ill-intent or bad faith in cases of inevitable disclosure: There is insufficient evidence to reach the burden of showing such intent, but enough to meet the weaker standard of inevitable disclosure.

97. *See, e.g.*, *Edifecs, Inc. v. Tibco Software, Inc.*, 756 F. Supp. 2d. 1313 (W.D. Wash 2010) (holding that evidence of threatened misappropriation was speculative and therefore insufficient because the employer failed to provide concrete evidence of words or conduct indicating misuse by the departing employee).

98. *See supra* notes 8–10.

99. Both the doctrine of inevitable disclosure and the substantial likelihood test require the court to either grant an injunction, thus protecting only the employer's interests, or to refuse to grant an injunction, thus protecting only the employee's interests. Meanwhile, California's policy always favors the employee's interests.

100. Lowrey, *supra* note 18, at 526.

101. Edelstein, *supra* note 32, at 733–34.

## A. INTERNATIONAL APPROACHES

In the search for a new approach, it is useful to look abroad at how other countries address this problem, and compare these approaches to those of the United States. Although other countries do not recognize the doctrine of inevitable disclosure, many allow employers to contractually restrict post-employment misappropriation of trade secrets if they provide employees adequate monetary compensation for restricting the latter's employment options. The United Kingdom ("UK"), Germany, and China provide examples of this approach.

UK employers adopted a system known as "garden leave" to protect their trade secrets.<sup>102</sup> A garden leave clause, written into an employment contract, requires the employee to provide the employer with a relatively long period of notice before she may terminate the employment relationship.<sup>103</sup> During this notice period, employees are paid their full salary and benefits, but the employer cannot force them to do any work.<sup>104</sup> This system is called "garden leave" because it is expected that the employee will stay home and tend to his garden during this period in which he is out of work but financially secure.<sup>105</sup> A garden leave clause not only protects employees from financial hardship but, by extending their status as an employee, it also sustains their contractual obligations of fidelity by preventing them from engaging in competitive activity from the moment of notice of their departure to the end of the garden leave period. Because employees are not required to work during this period, employers can restrict the amount of up-to-date confidential information the employee can take with them to their new job. The proper time length of a garden leave clause is a question of reasonableness.<sup>106</sup>

Germany's approach to preventing trade secret misappropriation similarly incorporates a system of compensation for employees. The crucial difference is that while the UK conceptualizes the employee as a *current* employee, Germany treats the employee as a *former* employee.<sup>107</sup> Germany

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102. Greg T. Lembrich, *Garden Leave: A Possible Solution To The Uncertain Enforceability Of Restrictive Enforcement Covenants*, 102 COLUM. L. REV. 2291, 2291 (2002).

103. *Id.* at 2292.

104. *Id.*

105. *Id.* at 2305.

106. *See, e.g.*, *Tullet Prebon plc v. BGC Brokers LP*, [2010] 1 EWHC 484 (Q.B.) (finding that a 12 month garden leave period was appropriate for certain employees while 8 months was appropriate for others).

107. *Compare* Lembrich, *supra* note 101 at 2292 (explaining that a garden leave clause provides protection by extending the employment contract) *with* 1 RESTRICTIVE



uses a system of compensated restrictive covenants. Specifically, the German Commercial Code requires that an employer compensate the employee for the complete duration of time that the covenant is in effect.<sup>108</sup> The maximum term of a restrictive covenant is two years.<sup>109</sup> Compensation, which is set at no less than half of the employee's pay during the last twelve months of employment, includes any extra benefits previously received, including Christmas bonuses, vacation allowance, and commission.<sup>110</sup> Total compensation need not exceed 110% of the contractual payments last received by the employee, unless the geographical restrictions of the non-compete covenant forced the employee to relocate.<sup>111</sup> In these circumstances, total compensation need not exceed 125% of the last received payment.<sup>112</sup>

Beginning in 2008, China also implemented a system of compensated restrictive covenants under its Labor Contract Law.<sup>113</sup> If the employee is a senior technician, is in senior management, or otherwise has access to the employer's trade secrets, the employer may include a non-compete restriction in the employment contract.<sup>114</sup> However, the non-compete agreement may not last more than two years, and the employer must compensate the employee on a monthly basis throughout the post-employment non-compete period.<sup>115</sup> The law does not stipulate how much compensation is required.<sup>116</sup> Some commentators suggest that compensation should match the employee's former salary, while others suggest that compensation need only meet the minimum wage requirements of the relevant jurisdiction.<sup>117</sup>

Neither the UK's garden leave system nor the compensated restrictive covenant regimes in Germany and China are foreign to employers in the United States. The UK's garden leave system appears to be gaining traction in the United States financial services industry.<sup>118</sup> Unlike the generous notice

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COVENANTS, *supra* note 17, 17-5 (explaining that german restrictive covenant provides protection after employment has terminated).

108. 1 RESTRICTIVE COVENANTS, *supra* note 17, 17-5.

109. *Id.* (citing HANDELSGESETZBUCH [HGB] (COMMERCIAL CODE) 1979 § 74(a)(1)).

110. *Id.*

111. *Id.* 17-6.

112. *Id.* Some Japanese courts also held that compensation is a "requirement" in the context of post-employment restrictions. *Id.*

113. *See* PRC LABOR CONTRACT LAW, art. 23–24 (Jan. 2008).

114. *See id.*

115. *See id.*

116. *See id.*

117. Steve Dickinson, *Employee Non-Compete Agreements In China. It's Complicated*, CHINA L. BLOG (Jan. 31, 2012, 2:38 PM), [http://www.chinalawblog.com/2010/01/employee\\_noncompete\\_agreements.html](http://www.chinalawblog.com/2010/01/employee_noncompete_agreements.html).

118. 2 RESTRICTIVE COVENANTS, *supra* note 17, 55-30.

period under the British system, US employers that included a garden leave clause in their employment contracts limited the notice period to 30 to 90 days.<sup>119</sup> However, US courts have yet to uphold the legitimacy of such provisions. For example, in *Bear, Stearns & Co. v. Sharon*, a Massachusetts district court held that the employer's garden leave clause was unenforceable because it required the departing employee "to continue an at-will employment relationship against his will."<sup>120</sup> The continuance of the employment relationship is a key characteristic of the garden leave system, because the prolonging of both the employee's duty of loyalty to the former employer and the employer's duty to compensate the departing employee forms the basis of the system's justification.<sup>121</sup> However, given the tradition of at-will employment in the United States,<sup>122</sup> it is unclear whether courts will ever recognize the validity of garden leave clauses.

By contrast, American courts have a long history of recognizing restrictive covenants. Although American courts are generally skeptical about restrictive covenants—both because of the restrictions that they impose on employment mobility and because employees lack bargaining power when they are required to sign such agreements<sup>123</sup>—they usually uphold such agreements if they are reasonable.<sup>124</sup> There is no requirement that employers compensate their employees for the time that they are restricted from working elsewhere,<sup>125</sup> but many courts do require that there be adequate consideration to support a restrictive covenant. In cases where the initial employment contract included a non-compete agreement, "the employer's initial promise of employment provides sufficient consideration to support the covenant not to compete."<sup>126</sup> However, in cases where the employee signed a non-compete agreement during the course of their employment, courts require additional consideration.<sup>127</sup> Sufficient additional consideration may be in the form of "a raise, a new position, or an increased employment

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119. *Id.*

120. *Bear, Stearns & Co., Inc. v. Sharon*, 550 F. Supp. 2d 174, 178 (D. Mass. 2008).

121. *See supra* Part III.A.

122. *See, e.g.*, Restatement (Second) of Contracts § 367 (1981).

123. Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTEL. PROP. 167, 208 (2005).

124. Lowrey, *supra* note 18, at 523–24.

125. *But see* 2 RESTRICTIVE COVENANTS, *supra* note 17, 55-31/32 (explaining that US courts are more likely to enforce a restrictive covenant that provides the employee with adequate compensation, as this factor tends to shift the equity to the employer).

126. Harris, *supra* note 56, at 327–28.

127. *Id.*

term.”<sup>128</sup> Nevertheless, courts view non-competes very favorably in “the rare cases where employees are explicitly compensated for signing them.”<sup>129</sup>

#### B. COMPENSATION AS A BALANCING MECHANISM

The basic premise in the UK, Germany, and China, is that if an employer wants to protect its trade secrets, it must be willing to pay the price to do so. The result safeguards both the employer’s interest in maintaining the value of its trade secret and the employee’s interest in financial security. Compensation, then, provides the balancing force that is lacking in American trade secret law. Applying this requirement to cases of inevitable disclosure, courts should enjoin employees from working for competitors when the former employer’s trade secrets are so entangled in the employee’s skills, knowledge, and experience that disclosure is inevitable. However, courts should grant the injunction on the condition that employers adequately compensate employees. That way, employers would have peace of mind that their trade secrets will not be disclosed, and employees would retain their financial security. Additionally, an equitable system of injunctive relief and compensation serves to promote the true value of trade secrets. The trade secret is not only worth protecting, but it is worth paying to protect.

This compensation requirement offers several practical benefits. It would transform injunctive relief into a cost-intensive option for employers by forcing them to seriously contemplate the need for an injunction, and thus limit litigation to cases of real necessity. Given the debilitating effect that such litigation can have on the career and professional reputation of an employee, this limiting factor serves to protect employees from unnecessary hindrances. Moreover, if courts enforce injunctions in inevitable disclosure cases on the condition that the employer compensate the employee for the duration of the injunction, it may increase the number of restrictive covenants that include compensation clauses. If courts will only enforce compensated injunctions, it probably follows that they will only enforce compensated restrictive covenants. Thus, employers are put on notice of what constitutes an enforceable covenant not to compete, and employees will have notice of when it is worth bringing suit.<sup>130</sup> The net effect, then, is a reduction in the amount of litigation on this issue. Additionally, this

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128. *Id.*

129. Lowrey, *supra* note 18, at 524; *see, e.g.*, *Gillette Co. v. Williams*, 360 F. Supp. 1171, 1177 (D. Conn. 1973) (finding a non-compete agreement that provided employees with two years’ worth of compensation “more than reasonable”).

130. *See EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999) (“Clearly, a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterwards.”).

approach benefits employees by ensuring that they receive more than adequate consideration in non-compete clauses, a contractual area where they traditionally have had very little bargaining power.<sup>131</sup>

Finally, this balanced approach makes judicial decision-making easier, benefiting both judges and private parties. Suellen Lowrey, a prominent scholar, argues that inconsistent decisions in this area of law are the result of court's discomfort with a regime that must protect either the employer's interests or the employee's interests.<sup>132</sup> There is currently too much at stake, and courts struggle with the potential consequences of their decisions. Thus, this balanced approach is likely to appeal to both judges and private parties by helping to streamline judicial decision-making in cases of inevitable disclosure.<sup>133</sup>

### C. THE THEORETICAL BASIS FOR A STANDARD OF COMPENSATED INJUNCTIONS

There are several possible frameworks in which to conceptualize and rationalize compensated injunctions. One option is to understand both the employer and employee as having a mutual property right at stake. In the employer's case this is the trade secret. In the employee's case this is the general knowledge and experience that is inseparable from the trade secret. Another option is to understand inevitable disclosure cases under contract theory. If inevitable disclosure injunctions are de facto covenants not to compete, then they should be subject to the same consideration requirements. The employee must receive some benefit in return for agreeing not to compete. The final alternative, which, as discussed below,<sup>134</sup> seems most appropriate for conceptualizing compensated injunctions is the Calabresi-Melamed framework.

#### 1. *A Concurrent Property Framework*

One framework under which to understand this proposed standard is the doctrine of concurrent property.<sup>135</sup> Under this framework, both the employer and employee are understood to have a property right in the trade secret at issue.<sup>136</sup> Given that the trade secret is enmeshed in the employee's skills, knowledge, and experience, and that possession of this information makes the employee more valuable, it is not entirely far-fetched to assume that the

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131. Lowrey, *supra* note 18, at 520.

132. *Id.*

133. *See id.* at 532.

134. *See infra* Part III.C.3.

135. *Id.* at 520.

136. *Id.*

employee has a property interest in the trade secret. Suellen Lowrey argues that “once courts and legislatures characterize . . . inevitable disclosure conflicts as disputes over property rights, they will be able to draw and expand on established law in this field to fashion a better process for resolving inevitable disclosure battles.”<sup>137</sup> For example, in cases of joint property ownership where it is not possible to divide the real property equitably through partition-in-kind, the unjustly enriched co-tenants are required to pay a premium to the other co-tenants.<sup>138</sup> Alternatively, in these cases, courts resort to judicial sales, thus recognizing the parties’ interests through monetary compensation.<sup>139</sup> Building on these principles, it is possible to view compensated injunctions as a way of recognizing the proprietary interests of both parties by reimbursing the employee for her lost use of the trade secret information.<sup>140</sup>

A concurrent property framework would not only “reflect . . . the partial nature of employer ownership of the workplace,” but it would also recognize “the increasing importance of occupation to [an employee’s] wealth, status, and personhood.”<sup>141</sup> However, there are also problems with applying concurrent property doctrine to inevitable disclosure cases.<sup>142</sup> In particular, issues of valuation arise. If courts view both the employer and employee as having a property interest in the trade secret, then what portions does each own? Additionally, this framework would disrupt the current ownership system for trade secrets<sup>143</sup> and as a result potentially dissuade employers from investing as heavily in trade secrets.

## 2. *A Contractual Framework*

An alternative framework under which to understand the compensated injunction proposal is contract theory. An inevitable disclosure injunction is essentially a de facto covenant not to compete.<sup>144</sup> Since a covenant not to compete constitutes a contract, it must be validated by consideration.<sup>145</sup> In cases where the initial employment agreement contains a non-compete

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137. *Id.* at 535.

138. *See, e.g.,* Delfino v. Vealencis, 436 A.2d 27, 33 (Conn. 1980).

139. *See, e.g.,* Johnson v. Hendrickson, 24 N.W.2d 914, 918 (S.D. 1946).

140. Lowrey, *supra* note 18, at 541.

141. *Id.* at 544.

142. Jay L. Koh, *From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets*, 48 AM. U. L. REV. 271, 274 (1998).

143. *See id.*

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

145. RESTATEMENT (SECOND) OF CONTRACTS § 17(1) (“the formulation of a contract requires . . . a consideration”).

clause, courts generally hold that the employer's promise of employment provides the necessary consideration.<sup>146</sup> However, when an employee enters into a non-compete after the initial employment contract, courts require additional consideration.<sup>147</sup> Courts have held that a raise, a new position, or an increased employment term amounts to sufficient additional consideration.<sup>148</sup> However, none of these alternatives are available after the termination of the employment relationship. It follows, then, that an inevitable disclosure injunction must be validated by additional consideration in the form of compensation.<sup>149</sup> While a contractual framework is logically sound, an employee in an inevitable disclosure case is entering the de facto contract against their will. This violates basic principles of contract law,<sup>150</sup> and thus there are limits to this framework.

### 3. *A Calabresi-Melamed Framework for Inevitable Disclosure*

In 1972, Guido Calabresi and Douglas Melamed, pioneers in the field of law and economics, developed a legal framework within which to resolve situations where uses of assets conflict.<sup>151</sup> Their principles have since been distilled into four rules used to explain nuisance law. These principles are laid out below in Table 1.

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146. Harris, *supra* note 56, at 327–28.

147. *Id.*

148. *Id.*

149. *Id.* at 344.

150. See RESTATEMENT (SECOND) OF CONTRACTS § 367(2) (1981).

151. Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

Table 1: The Calabresi-Melamed Framework<sup>152</sup>

	Property Rule	Liability Rule
<b>Property Owner</b>	The property owner has a right to be free of pollution under the protection of a property right. The property owner can secure an injunction against the polluting neighbor.	The property owner again has a right to operate free of pollution but under the weaker protection of a liability rule. The neighbor may continue to pollute but if it did, it would have to pay the property owner a court estimated amount for the harm caused to them.
<b>Polluting Neighbor</b>	The polluting neighbor has the right to pollute, protected by a property right.	The polluting neighbor again has the right to pollute but under the weaker protection of a liability rule. The property owner may prevent the polluting neighbor from polluting via an injunction if it pays the polluting neighbor damages in an amount that equals the court-estimated harm caused to the polluting neighbor as a result.

Although scholars most commonly use the framework espoused by Calabresi and Melamed to resolve disputes between property owners and polluting neighbors under nuisance law, the principles were intended to apply more generally to cases of conflicting assets.<sup>153</sup> Thus, this framework can be applied to cases of inevitable disclosure. The employer is the “property owner” seeking to protect his trade secret. The employee is the “polluting neighbor,” whose intended employment with a competing company threatens to destroy the property owner’s trade secret.

152. Lucian Ayre Bebchuk, *Property Rights and Liability Rules: The Ex Ante View of the Cathedral*, 100 MICH. L. REV. 601, 609 (2001).

153. Calabresi, *supra* note 151, at 1090.

**Table 2: The Calabresi-Melamed Framework  
as applied to the problem of inevitable disclosure**

	<b>Property Rule</b>	<b>Liability Rule</b>
<b>Employer</b>	<p>The employer has the right to protect its trade secret under the protection of a property right. The employer can secure an injunction against the departing employee, preventing her from working for a competitor.</p> <p><b>Doctrine of inevitable disclosure and the substantial likelihood test</b></p>	
<b>Departing Employee</b>	<p>The departing employee has the right to work for a competitor, protected by a property right.</p> <p><b>The rule in California</b></p>	<p>The departing employee has the right to work for a competitor but under the weaker protection of a liability rule. The employer may enjoin the employee from working for a competitor but it must pay the employee in damages for the harm caused by the injunction.</p> <p><b>The proposed standard: compensated injunction</b></p>

This is arguably the most effective—but perhaps the least obvious—framework under which to understand the compensated injunction approach. It is the least obvious because, despite the widespread acceptance of the framework set out by Calabresi and Melamed, the concept of a compensated injunction has only been applied once in *Spur Industries v. Del. E. Webb Development Co.*<sup>154</sup> In that case, the developer of a retirement community in rural Arizona sought to enjoin the owner of a livestock feedlot from continuing his business, on the grounds that the stench coming from the manure and infestation of flies from the feedlot were affecting residents of the retirement community and the developer’s future sales.<sup>155</sup> The court granted the injunction.<sup>156</sup> However, given that the developer had moved to the area knowing that the livestock feedlot was situated there—essentially “coming to the nuisance”—the court held that it would be inequitable to grant an injunction without requiring the developer to compensate the

154. *Spur Indus. v. Del. E. Webb Dev. Co.*, 108 Ariz. 178, 186 (1972).

155. *Id.* at 183.

156. *Id.* at 186.



feedlot owner for the cost of uprooting.<sup>157</sup> Although this is the only case in which a court issued a compensated injunction, it nevertheless demonstrates the ability of this equitable remedy to fairly balance competing and equally important interests.

This framework of analysis is arguably the most effective because it does not blur the interests of the employer and employee into a concurrent property interest; rather it recognizes two separate interests in two separate assets, thus avoiding the problem of determining who owns what portion of the property interest. Additionally, the framework advocates for more than adequate consideration; it allows courts to fashion individualized relief by estimating the cost to the employee of having her employment mobility restricted. This allows courts to tackle head on the risk of economic hardship to the employee resulting from injunctive relief. Finally, this framework is particularly effective because it facilitates an understanding of the proposed compensated injunction standard in relation to the current alternatives,<sup>158</sup> thus providing a more complete picture of the inevitable disclosure problem than other frameworks.

#### D. THE MECHANICS OF THE PROPOSED STANDARD

There are a number of ways that courts can craft the proposed compensated injunction remedy. Rather than lay out a definitive approach, this section provides a number of suggestions for the main aspects of this standard.

##### 1. *An Immutable Rule*

There are two distinct classes of contractual rules: (1) default rules that can be waived by prior agreement; and (2) immutable rules, such as the duty to act in good faith, which cannot be contracted around.<sup>159</sup> For the proposed standard to have any effect, it must be adopted as an immutable rule. States have to make clear in their laws governing trade secrets that only compensated non-compete agreements—whether contract-based or judicially created in cases of inevitable disclosure—are enforceable. Otherwise, employers will simply contract around the need to compensate employees for inevitable disclosure injunctions.

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157. *Id.* at 184–85.

158. *See supra* Table 2.

159. Ian Ayres & Robert Gertner, *Filling Gaps In Incomplete Contracts: An Economic Theory of Default Rules*, 99 YALE L.J. 87, 87 (1989).

### 2. *Amount of Compensation*

One goal of the proposed system of compensating employees when they are enjoined from working for a competitor in cases of inevitable disclosure is to prevent economic hardship. Because there are no real wrongdoers in these cases, it is intuitively wrong to completely sacrifice the interests of one party in order to protect another. Under the Calabresi-Melamed framework, courts are supposed to estimate damages in cases of compensated injunctions by valuing the harm that the injunction will cause to the plaintiff.<sup>160</sup> In inevitable disclosure cases, the harm to the employee is the value of her salary for the time that she is enjoined from working, as well as other employment benefits, such as health insurance. Thus, courts should require employers to compensate employees both for the loss of their former salary and the fair value of benefits. This mirrors the compensation level set by the garden leave system in the UK and is perhaps more generous than many restrictive covenants in Germany, where employers need only set the compensation level at half of the employee's pay during the last twelve months of employment.<sup>161</sup>

### 3. *Length of Injunction*

Questions of duration should be answered on a case-by-case basis. In cases involving the financial services industry, for example, employers have been satisfied to employ a garden leave provision lasting no more than 90 days.<sup>162</sup> This likely reflects the adequacy of such a limited time window in an industry where confidential data and information change rapidly. Other “fluid industr[ies],” such as the computer software industry, may also be subject to such rapid change that only short injunctions are necessary to protect trade secrets.<sup>163</sup> In contrast, an employer like Bimbo Bakeries would likely require a much longer injunction to protect its half-a-billion-dollar English muffin recipe.<sup>164</sup>

There are several ways in which courts might determine how long an injunction should last. If a court is able to quantify the useful life of the trade secret under consideration, it could set a corresponding time limit.<sup>165</sup> Where the useful life of the trade secret is unknown and unavailable, courts could

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160. See, e.g., *Spur Indus.*, 108 Ariz. at 178.

161. 1 RESTRICTIVE COVENANTS, *supra* note 17, 17-5.

162. *Id.* at Vol. II, 55-30.

163. See, e.g., *Novell Inc. v. Timpanogos Research Grp.*, 46 U.S.P.Q.2d 1197, 1218 (D. Utah 1998) (holding that only a nine-month injunction was necessary).

164. See *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 105, 110 (3d Cir. 2010).

165. See *Novell*, 46 U.S.P.Q.2d at 1218 (holding that only a nine-month injunction was necessary).

also look to the amount of time necessary to reverse engineer the trade secret or develop it independently.<sup>166</sup> States could also adopt a maximum time limit, such as the two-year rule written into non-competition laws in Germany and China.<sup>167</sup> This standard would undoubtedly be easier for courts to apply and would provide fair notice to employers and employees alike. Alternatively, states could reject any time limitations, instead embracing the need to give the trade secret its due value.

#### 4. *Preventing Abuse: The Duty to Mitigate*

If states adopt a two-year limit on compensated injunctions in inevitable disclosure cases, the risk of abuse will not be a large concern. However, where no time limit exists, courts might enforce permanent injunctions. For example, although the court in *Bimbo Bakeries* was only asked to impose a preliminary injunction, one can imagine that the only way to truly keep Bimbo's half-a-billion-dollar English muffin recipe secret would be to impose a permanent injunction upon the departing employee such that he would never be able to work for a competing English muffin company.<sup>168</sup> The court would have the discretion to conclude that the potential harm to Bimbo far exceeds the harm to the employee that would result from a permanent injunction, and grant the permanent injunction.

In such cases, where permanent injunctions are at stake, it is at least plausible that opportunistic employees might try to abuse the system in search of early retirement. States could prevent such abuses by imposing a duty to mitigate on the employee. The duty to mitigate in the employment context frequently arises in Title VII cases of employment discrimination and wrongful discharge where employees seek back pay.<sup>169</sup> The basic principles of the duty to mitigate may be applied to cases of inevitable disclosure.

The Supreme Court has stated that the duty to mitigate in the employment context "requires the [employee] to use reasonable diligence in finding other suitable employment."<sup>170</sup> "Reasonable diligence" means an "honest, good faith effort" to find new employment; the employee is not

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166. Lowrey, *supra* note 18, at 524.

167. See 1 RESTRICTIVE COVENANTS, *supra* note 17, 17-5 (citing HANDELSGESETZBUCH [HGB] (COMMERCIAL CODE) 1979 § 74(a)(1)).

168. *Bimbo Bakeries*, 613 F.3d at 105, 110.

169. Richard J. Gonzalez, *Satisfying the Duty to Mitigate in Employment Cases: A Survey and Guide*, 69 Miss. L.J. 749, 750 (1999).

170. *Ford Motor Co. v. EEOC*, 458 U.S. 219, 231 (1982) (failure to hire context); Gonzalez, *supra* note 169, at 749 (noting applicability of the Supreme Court's standard to Title VII cases).

held to “the highest standard of diligence.”<sup>171</sup> Suitable employment is defined as “substantially equivalent employment.”<sup>172</sup> Under this standard, the employee is not required to “accept a demotion, or take a demeaning position.”<sup>173</sup> Nor must an employee enter “another line of work”<sup>174</sup> or “seek employment which is not consonant with his particular skills, background, and experience.”<sup>175</sup> The burden lies with the former employer to demonstrate that the employee did not exercise reasonable efforts to find suitable employment.<sup>176</sup>

Whether or not an employee is expected to take a job in a different geographic location depends on the nature of the work.<sup>177</sup> If the new job requires an arduous commute, courts are generally sympathetic to the employee.<sup>178</sup> However, if relocation is typical in the employee’s line of work, or if the employee previously declared her flexibility or an interest in relocating, courts may well expect the employee to take a comparable job in another location.<sup>179</sup>

An employee in an employment discrimination or wrongful discharge case may reasonably choose to leave the job market temporarily and pursue formal educational opportunities, either to acquire new skills or update their existing ones. However, courts usually deny back pay in these cases unless the employee makes reasonable attempts to mitigate his employment before entering an educational program.<sup>180</sup>

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171. *Id.* at 753–54 (citing *NLRB v. Arduini Mfg. Corp.*, 394 F.2d 420, 422–23 (1st Cir. 1968)).

172. *Rasimas v. Michigan Dep’t of Mental Health*, 714 F.2d 614, 624 (6th Cir. 1983).

173. *Ford Motor Co.*, 458 U.S. at 231.

174. *Id.*

175. *NLRB v. Madison Courier, Inc.*, 472 F.2d 1307, 1320–21 (D.C. Cir. 1972).

176. *Gonzalez*, *supra* note 169, at 750.

177. *Id.* at 767.

178. *See, e.g.*, *NLRB v. Westin Hotel*, 758 F.2d 1126, 1130 (6th Cir. 1985) (holding that an employee without adequate means of transportation was not required to accept employment twenty-five miles from their home); *Madison Courier, Inc.*, 472 F.2d at 1314 (holding that employees were not required to accept a job fifty miles from their homes).

179. *See, e.g.*, *Ford v. Nicks*, 866 F.2d 865, 874–75 (6th Cir. 1989) (holding that it was unreasonable for an academic to turn down a job position seventy miles from her home, given that she had previously searched for jobs on a nationwide scale); *Cowan v. Standard Brands*, 572 F. Supp. 1576, 1581–82 (N.D. Ala. 1983) (holding that an employee who had moved several times in his career was required to take a comparable job in another city).

180. *Compare* *Miller v. Marsh*, 766 F.2d 490, 492–93 (11th Cir. 1985) (holding that employee who enrolled in law school without first pursuing alternative employment had not met his duty to mitigate), *with* *Dailey v. Societe Generale*, 108 F.3d 451, 456–57 (2d Cir. 1997) (holding that employee who searched for suitable employment for six months before enrolling in training to be a physician’s assistant had satisfied her duty to mitigate).

Courts that impose a duty to mitigate in cases of inevitable disclosure should follow most of the principles outlined above, which seem to be governed by fairness considerations. The burden should lie with the former employer to prove that the employee has not exercised reasonable efforts to find suitable alternative employment. Courts should not expect employees to take a demeaning position, and, instead, should consider the nature of the employment in determining whether employees need to accept work in a different geographic location. However, it is problematic to hold that an employee in an inevitable disclosure case need not enter “another line of work.”<sup>181</sup> An inevitable disclosure injunction prevents the employee from working for the former employer’s competitors.<sup>182</sup> Thus, employees might find themselves restricted from working in the same line of work without taking a demeaning position. Courts should perhaps expect employees to enter another line of work if it requires a similar skill set.<sup>183</sup> For example, the employees in *PepsiCo* might not be able to work in the beverage industry anymore but they may well be able to transfer their management skills to a comparable job in another industry.<sup>184</sup> Similarly, given that employees are prevented from working for competitors and may have no option but to enter another line of work, it is reasonable to expect that they would enroll in an education program during the period of the injunction. Thus, unlike in many employment discrimination cases,<sup>185</sup> courts should not impose restraints on this practice in cases of inevitable disclosure.

#### IV. CONCLUSION

While the compensated injunction standard proposed in this Note is not perfect, it provides a compromise for courts that are currently forced to choose between only recognizing the rights of employers and only recognizing the rights of employees. The proposed standard protects employees from forced economic hardship, but it does not alleviate the potential negative effects that unemployment, however temporary, may have

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181. *Ford Motor Co. v. EEOC*, 458 U.S. 219, 231 (1982).

182. *See, e.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1267 (7th Cir. 1995).

183. *But see* Matt Marx, *Good Work If You Can Get It . . . Again: Post-employment Restraints and the Inalienability of Expertise* 3 (MIT Sloan School of Management, Working Paper, 2009), available at <http://ssrn.com/abstract=1456748> (using research on non-compete enforcement to suggest that many employees subject to non-competes “take occupational detours in that they change fields for at least the duration of the agreement, losing touch with their professional networks and experiencing the atrophy of their specialized skills” as a result).

184. *PepsiCo*, 54 F.3d at 1262.

185. *See, e.g., Ford*, 866 F.2d at 874–75; *Cowan*, 572 F. Supp. at 1581–82.

on an individual's status and personhood.<sup>186</sup> Arguably, only the California model of free mobility provides this protection. However, completely favoring one side's interests at the expense of the other is particularly unfair given that there are no real wrongdoers in cases of inevitable disclosure. The proposed compensated injunction protects both sides, and in doing so not only evens out the balance of power between employers and employees in the trade secret context, but also recognizes the true value of the trade secret at issue. Moreover, by attaching a cost to trade secret protection, this standard would likely filter out unnecessary litigation. If an employer does not find a trade secret worth paying to protect, a court should not protect the trade secret and restrict the departing employee's mobility. The concept of a compensated injunction is not new. As this Note explains, a similar standard is used in Europe and Asia. Moreover, the idea is theoretically recognized in American law. Thus, there is nothing radical about this balanced approach, which promises to benefit employers, employees, and judges alike.

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186. See Lowrey, *supra* note 18, at 538.

