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LOOSENING THE TIES THAT BIND

Court of Appeal says the inevitable disclosure doctrine doesn't apply in California

By Daniel W. Park

LOS ANGELES — One of the thorniest questions in California's trade secrets law has been resolved, at least for now.

In *Schlage Lock Co. v. Whyte*, 101 Cal.App.4th 1443 (Sept. 13, 2002), the Fourth District Court of Appeal unequivocally rejected the inevitable disclosure doctrine.

The doctrine originated with the landmark Seventh Circuit U.S. Court of Appeals case of *Pepsico v. Redmond*, 54 F.3d 1262 (1995). In that case, Pepsico was in fierce competition with the Quaker Oats Co. in the soft drink market. William Redmond Jr. was a high-ranking executive with Pepsico who had access to that company's trade secrets. When Redmond was wooed away from Pepsico by Quaker Oats, Pepsico sued on the theory that Redmond could not help but use his knowledge of Pepsico's trade secrets in his new job.

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The Seventh Circuit agreed, holding that certain employees will "inevitably" rely — subconsciously or consciously — on the trade secrets they learned from their former employers. Even though Pepsico had no evidence that Redmond was using or was threatening to use its trade secrets, it obtained an injunction to prevent what has become known as the "inevitable disclosure."

The inevitable disclosure doctrine is very attractive for companies trying to protect their trade secrets. When an employee goes to work for a competitor, it is often difficult for the former employer to get hard evidence that the employee is using or threatening to use trade secrets. The inevitable disclosure doctrine allows an employer to obtain an injunction based merely on the inference that the employee will "inevitably" use the former employer's trade secrets.

The power of the inference of inevitable disclosure, however, led the Fourth District to reject the doctrine in California. More than many states, California has a strong public policy in favor of employee mobility that is embodied in Business & Professions Code §16600. This policy guarantees the citizens of California the right to pursue any "business or profession [they] may choose." *American Credit Indemnity Co. v. Sacks*, 213 Cal.App.3d 622, 633 (1989).

The inevitable disclosure doctrine is diametrically opposed to the presumption of free employee mobility because it restricts a person's ability to work without any proof of actual or threatened wrongdoing. Although California's trade secrets law authorizes injunctions to protect trade secrets, the protection is from misappropriation. See Civ. Code §3426.2. The inevitable disclosure doctrine is flawed, in the *Schlage* court's view, because it substitutes a presumption for any actual proof of misappropriation.

According to the Fourth District, the "chief ill" with the inevitable disclosure doctrine is that it in effect imposes a covenant not to compete without the consent of the employee and after the employee's employment relationship with his or her employer has already ended. The court rejected allowing the inevitable disclosure doctrine to rewrite every confidentiality agreement into a covenant not to compete.

Moreover, the Fourth District found that the inevitable disclosure doctrine could have a subtle chilling effect on employees, even if courts did not always find it applicable every time an employee who had been exposed to trade secrets went to work for a competitor. The mere threat of litigation could deter an honest employee from taking a job he or she would otherwise have every right to take.

Despite its firm rejection of the inevitable disclosure doctrine, the Fourth District in *Schlage* did not leave companies powerless to protect their trade secrets. If proof exists that an employee has used or is threatening to use trade secrets, an injunction is entirely proper. In addition, companies can require employees to enter into covenants not to compete that might be able to achieve many of the same results as the inevitable disclosure doctrine.

The right to negotiate covenants not to compete, however, is often only a small comfort. California law imposes many restrictions on the type, scope and duration of covenants not to compete that are enforceable in this state. Any employer considering adding covenants not to compete to an existing confidentiality agreement would be well served by first consulting with experienced counsel.

The rejection of the inevitable disclosure doctrine will have a profound effect on business in California. It will be easier and more tempting for competitors to vie for each other's top executives. At the same time, it will force companies to re-examine their policies and procedures for protecting the confidentiality of their trade secrets.

For now it is clear that in California the inevitable disclosure doctrine is not available. Only time will tell whether this decision will hold.

Because of the importance of these issues to employees and employers alike, the only sure thing is that future litigation will be "inevitable."

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