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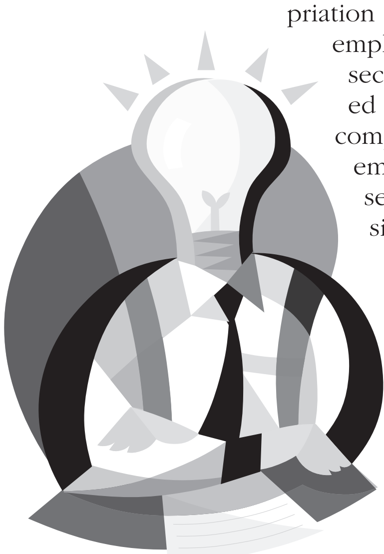
"Inevitable" or "Threatened": Protecting Trade Secrets by Enjoining Employment

Intellectual property is often a company's most important asset. Protecting those assets requires, among other things, careful planning for the departure of employees and the information made available to them by the company.

In those states in which covenants not to compete are permitted, well-written agreements, signed at the beginning of employment, provide the best method for preventing an employee from jumping to a competitor and bringing along the company's secrets. To be enforced in even those states, such covenants must be reasonable, must protect a legitimate interest of the party enforcing a covenant, and must not extend beyond the time or geographic scope needed to protect that interest.

The most common interest cited by the employer is the interest in protecting the business against use or disclosure of its trade secrets. Even in the absence of contractual requirements, when an employer reveals a trade secret to an individual in confidence, a disclosure or use of the trade secret in breach of that confidence violates the law. Common law in many states and the Uniform Trade Secrets Act (adopted in 45 states, the District of Columbia, and the Virgin Islands) permit injunctive relief against former employees for actual or "threatened" misappropriation of trade secrets. However, an employee's duty not to divulge trade secrets has historically not prevented the employee from working for a competitor altogether, as long as the employee does not reveal trade secrets, unless the employee has signed a noncompete covenant.



In some cases, however, former employers have successfully obtained injunctive relief prohibiting employment by a competitor, even absent a signed agreement. Although some decisions granting injunctions under those circumstances date back decades, the theory gained prominence in 1995, when a federal court enjoined a former PepsiCo employee's work for a competitor, despite the fact that there was no noncompete agreement. The court found that an employee could not design a marketing and distribution system for PepsiCo's competitor without drawing upon his knowledge of PepsiCo's confidential strategies. The court held that the employee would *necessarily* rely—consciously or subconsciously—upon knowledge of the former employer's trade secrets in performing his or her new job duties. *PepsiCo Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995). In other words, the misappropriation of trade secrets was "inevitable" and could therefore be enjoined.

Following *PepsiCo*, many jurisdictions adopted some form of the inevitable disclosure doctrine.[1] But courts continue to struggle with what a former employer must show to warrant an injunction against employment.

Bimbo Bakeries USA Inc. v. Botticella, 613 F.3d 102 (3d Cir. 2010) is a recent example. Botticella was vice president for operations of Bimbo, which produces, among other things, Thomas' English muffins. He had access to a wide variety of secret processes, including the secret behind the muffins' unique "nooks and crannies" texture. Bimbo took offense when Botticella quit to accept employment with a primary competitor but had no written agreement expressly prohibiting Botticella from competing after leaving Bimbo's employment. Nevertheless, Bimbo successfully obtained an injunction against Botticella's planned employment, with the district court concluding that Pennsylvania will apply the inevitable disclosure doctrine to grant injunctions based on *likely* disclosure, with no showing of inevitability. *Botticella,* 613 F.3d at 111.

The Third Circuit noted the paradox and stated that, absent a showing of inevitability, an injunction could not be issued pursuant to the "inevitable disclosure doctrine." But it was appropriate nonetheless, as the court affirmed the injunction against Botticella's employment. The appellate panel held that a court "has discretion to enjoin a defendant from beginning new employment if the facts of the case demonstrate a *substantial threat* of trade secret misappropriation." *Botticella,* 613 F.3d at 113 (emphasis added). If a "highly fact-specific inquiry" demonstrates a "substantial threat," no showing of "inevitability" is needed. *Id.*[2]

What sort of facts can convince a court that it needs to enjoin employment because there is a threat of misappropriation? Actually, the tests are very similar whether the standard is "inevitable" or "threatened." The nature of the trade secrets and the competition between the employers is important, of course, as are the employee's job duties—for both employers. The employee's conduct appears most critical, however.

The district court in *Botticella* noted (and the Third Circuit repeated) Botticella's conduct in "not disclosing to Bimbo his acceptance of a job offer from a direct competitor, remaining in a position to receive Bimbo's confidential information and, in fact, receiving such information after committing to the Hostess job, and copying Bimbo's trade secret information from his work laptop onto external storage devices." *Botticella,* 613 F.3d at 118. (Botticella's testimony that he was uncomfortable receiving Bimbo's confidential information after he had secretly committed to work for a competitor and, therefore, "blocked it" out was not persuasive to the Third Circuit: "We are quite uncertain as to how an individual can block out information from his head for a human mind does not function like a computer from which, through an electronic process, materials may be deleted." *Id.* at 107 n.4.)

PepsiCo, which was decided under the "inevitable" disclosure doctrine, also relied on the employee's questionable conduct. The Seventh Circuit noted that Redmond kept his dealings with his new employer secret from his employer and told numerous colleagues that he had not accepted the new position after he had, in fact, accepted it. As the district court stated, "Redmond's lack of forthrightness on some occasions, and out and out lies on others, in the period between the time he accepted the position with defendant Quaker and when he informed plaintiff that he had accepted that position leads the court to conclude that defendant Redmond could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification that he was not using plaintiff's secrets would be defendant Redmond's word to that effect." *PepsiCo*, 54 F.3d at 1270.

For employers who do not want to merely trust that a former employee will not use or disclose trade secrets, written noncompete covenants that are signed at the beginning of employment remain the best option in jurisdictions in which these agreements are allowed. Absent such an agreement, however, judicial actions may be brought on the theory that competing employment must be enjoined to prevent misappropriation of trade secrets. At least in some states, courts will enjoin employment based on a "substantial threat" without a showing that the disclosure is otherwise "inevitable."

For employees who wish to preserve their mobility, candor in the employment process is critical. Employees who promptly report their decisions to accept other employment and are scrupulous in the way they handle trade secrets are much less likely to have that employment enjoined, under any test a court may use. **TFL**

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Endnotes

[1]California is a notable exception. Noncompete agreements in employment contracts are per se void there. Cal. Prof. Bus. Code § 16600. In *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1447 (2002), the California Court of Appeals declined to adopt the doctrine, reasoning that to do so would create an "after-the-fact covenant not to compete restricting employee mobility."

[2]Claims based on threatened misappropriation of trade secrets continue to be made in California, despite the holding in *Whyte v. Schage Lock.* On Sept. 7, 2010, in a highly publicized case, Hewlett-Packard filed a suit against Mark Hurd, the firm's former president and chief executive officer, in an effort to obtain an injunction to prevent Hurd from joining competitor Oracle as president and member of the board. Hewlett-Packard alleged (1) breach of contract and (2) *threatened* misappropriation of trade secrets. The case was settled 13 days after it was filed. A joint press release by the companies said that Hurd "will adhere to his obligations to protect H.P.'s confidential information while fulfilling his responsibilities at Oracle."