Inevitable Trade Secret Misappropriation

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A. Inevitable Disclosure Is Not The Law In Washington

The only Washington case to mention inevitable disclosure is an unpublished Washington Court of Appeals case, *Solutec Corp. v. Agnew*, 88 Wash. App. 1067, 1997 WL 794496 (Wash. App. 1997) (noting the lack of Washington law on inevitable disclosure) (unpublished).[1] *Solutec* has no precedential value; therefore, it is for this Court to decide whether inevitable disclosure should be considered law in Washington for purposes of this case. *See Wash. Rev. Code Ann.* 2.06.040.

Additionally, inevitable disclosure was not essential to the *Solutec* case. The main issue in that case was whether certain edible wax formulas were trade secrets, because the defendants had *actually threatened* to use the formulas, asserting that they were not trade secrets. *See Solutec* 1997 WL 794496 at *1, 4 (trial court made a specific finding that defendants had threatened to misappropriate plaintiff's trade secrets). The *Solutec* decision also does not discuss the inevitable disclosure doctrine directly, it simply cites favorably to *PepsiCo* in a short two-paragraph discussion.

[1] Washington law is quite clear in stating that unpublished opinions have no precedential value. *See* Wash. Rev. Code Ann. § 2.06.040 ("All decisions of the court having precedential value shall be published as opinions of the court. Each panel shall determine whether a decision of the court has sufficient precedential value to be published as an opinion of the court. Decisions determined not to have precedential value shall not be published.").

1. Inevitable disclosure improperly restricts the freedom of individuals to pursue their careers by changing jobs.

Inevitable disclosure operates as a constraint on freedom of employment by allowing employers to enjoin former employees from working for competitors *without* a covenant not to compete. *See PSC Inc. v. Reiss*, 111 F. Supp.2d 252, 256 (W.D.N.Y. 2000) ("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.

Such a constraint on freedom of employment is contrary to Washington's trade secrets and employment laws. In what is easily the most comprehensive case addressing Washington trade secrets law, the Washington Supreme Court, sitting *en banc* in a case subsequent to the unpublished *Solutec* decision, stated that "[a]s a general rule, an employee who has not signed an agreement not to compete is free, upon leaving employment, to engage in competitive employment." *Ed Nowogroski Ins. Inc. v. Rucker*, 137 Wash.2d 427, 437 (Wash. 1999). The court went on to say that former employees remain under a duty not to disclose their former employer's trade secrets and that when those trade secrets are improperly used, then that competitive activity can be enjoined or damages can be awarded. *Id.* at 437-8. Nothing in that opinion indicates that employees can be enjoined from working in their chosen profession under the Washington UTSA absent a showing of actual or threatened misappropriation. While the Washington Supreme Court did not address inevitable disclosure directly,[2] inevitable disclosure is contrary to the Court's broad proclamation in favor of employee mobility. Indeed, courts that have rejected the inevitable disclosure doctrine have consistently emphasized the constraints it places upon freedom of employment in the absence of a non-compete agreement as a main reason for rejecting the doctrine. *See e.g., Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp.2d 1120 (N.D. Cal. 1999) (stating that applying inevitable disclosure when there is no showing of actual or threatened use or disclosure "creates a de facto covenant not to compete"); *EarthWeb, Inc. v. Schlack*, 71 F. Supp.2d 299, 311 (S.D.N.Y. 1999) ("[c]learly, a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterwards"); and *PSC*, 111 F. Supp.2d at 256-7.

2. Inevitable disclosure gives too much power to employers.

In addition to creating de facto covenants not to compete, inevitable disclosure gives employers a powerful tool by which they can improperly threaten and cower employees into staying with the company. *See EarthWeb*, 72. F. Supp.2d at 310-11 (describing how inevitable disclosure can be a "powerful weapon" in the hands of an employer and how the threat of litigation can have a "chilling effect" on employees' legal right to switch jobs).

In contrast, a non-compete agreement is negotiated in advance, mutually agreed upon, and provides specific guidance regarding prohibited actions. *See EarthWeb*, 71 F. Supp.2d at 310-11 (describing the numerous problems with applying the inevitable disclosure doctrine, which the court described as "fraught with hazards," including the lack of a "frame of reference because there is no express non-compete to test for reasonableness").

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[2] There was no dispute in *Nowogroski* regarding misappropriation, the issue was whether the information in question was a trade secret or not.

With the inevitable disclosure, however, employers can get all of the benefits of a non-compete agreement (including the threat of it, which is perhaps the most important of all) without having to give up or negotiate anything. *See EarthWeb*, 71 F. Supp.2d at 310-11 (stating that the "chilling effect" caused by the "risk of litigation" posed by inevitable disclosure and other "constraints should be the product of open negotiation"). Inevitable disclosure is simply not consistent with Washington law, which supports the rights of employees to freely move between jobs.

3. Adoption Of Inevitable Disclosure Is Contrary To Washington's Public Interest.

Separate and apart from inherent fairness to employees, there is a strong argument that freedom of employee movement helps promote a state or region's economy, especially in the field of technology, and that restrictions on employee movement can impede growth. For example, Professor Ronald Gilson has argued that one of the main reasons for the boom in Silicon Valley, compared to Massachusetts Route 128,[3] was due to California's refusal to enforce non-compete agreements, allowing much more employee mobility and consequently, a greater sharing of knowledge. 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 (1999); *see also* AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (1994). Indeed, Gilson specifically argued against the adoption of inevitable disclosure, arguing that it could end California's economic advantage over other regions. *See* Gilson, 74 N.Y.U.L. Rev. at 622-27.

While adoption of inevitable disclosure might have a more dramatic effect on California, due to its general refusal to enforce covenants not to compete, a stronger argument could be made for applying it in California for just that reason. In contrast, Washington enforces reasonable non-compete agreements. *See Knight, Vale and Gregory v. McDaniel*, 680 P.2d 448, 451-52 (Wash. App. 1984) (citing *Sheppard v. Blackstone Lumber Co., Inc.*, 540 P.2d 1373 (Wash. 1975). If employers want to restrict valuable employees from working for competitors in Washington, then they can negotiate a non-compete agreement with that employee. Similarly, employers have remedies under traditional trade secrets laws for former employees that actually disclose or threaten to disclose trade secrets. Inevitable disclosure simply gives employers a weapon that they already demonstrated it will use improperly. And as professor Gilson demonstrates, inevitable disclosure is contrary to the interests of the public at large.

In September 2002, a California appellate court ruled that the theory of “inevitable disclosure” is not recognized in California. The decision, *Whyte v. Schlage Lock Co*., 101 Cal. App.4th 1443 (Cal App. 2002), is important for trade secrets law, even though several federal courts have already rejected the “inevitable disclosure” theory. The *Whyte* court made clear that the “inevitable disclosure” theory conflicts with California’s strong policy in favor of every employee’s right to take the job of his or her choice. It also rejected the idea that the phrase “threatened misappropriation” in California’s Uniform Trade Secrets Act is a proxy for

[3] In 1968, technology employment in Route 128 was triple that of Silicon Valley. Over the next few decades, Silicon Valley surged past Route 128. *See Gilson*, 74 N.Y.U.L. Rev. at 586-87.

"inevitable disclosure" lawsuits. The critical portions of California's Uniform Trade Secret laws are exactly the same as Washington's statutes.

On January 2, 2002 a New York appellate court ruled that the doctrine of inevitable trade secret misappropriation is greatly disfavored and presumably not the law of New York. (*Marietta v. Fabhurst*, 2002, WL 31898398 (N.Y.A.D. Dept. 3 2002). However, the district court started to change its opinion in 2006. In *Estee Lauder Cos. V. Batra,* for example, the court found "[e]ven where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding that trade secrets will inevitably be disclosed…" *Estee Lauder Cos. V. Batra*, 430 F Supp 2d 158, 174 (S.D.N.Y. 2006). Here are some case notes:

1. *Estee Lauder Cos. V. Batra*, 430 F Supp 2d 158, 174 (S.D.N.Y. 2006) "Even where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding that trade secrets will inevitably be disclosed, where…the movant competes directly with the prospective employer and the transient employee possesses highly confidential or technical knowledge concerning []marketing strategies, or the like."

2. *Payment Alliance International, Inc v. Ferreira*, 530 F. Supp. 2d 477, 481(S.D.N.Y. 2007).The court in this case directly discussed *Marietta Corp. v. Fairhurst*, "Thus, while these cases suggest that proof of inevitable disclosure would not provide a basis for injunctive relief independent of an express restrictive covenant. In fact, "a number of recent decisions, principally from federal district court applying New York law, have used proof of inevitable disclosure as a basis for enforcing restrictive covenants."

3. *IBM v. Mark D. Papermaster*, 2008 WL 4974508, (S.D.N.Y. 2009)->The Court cited *Estee Lauder v. Batra* to support its order that the defendant is enjoined from working for or with direct competitor of plaintiff until further order of the Court.