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Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets

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NOTE

INTELLECTUAL SLAVERY?: THE DOCTRINE
OF INEVITABLE DISCLOSURE OF TRADE
SECRETS

I. INTRODUCTION

Over the past several years, lawsuits filed by employers seeking to prevent valued employees from taking positions with their competitors have become increasingly frequent.¹ In *PepsiCo, Inc. v. Redmond*,² the Seventh Circuit gave further stimulus to this trend by holding that a softdrink executive would inevitably disclose the softdrink company's trade secrets and other confidential information if he were to work for the company's competitor in a comparable position.³ Moreover, because the *PepsiCo* court upheld an injunction prohibiting the executive from taking the position rather than simply prohibiting his disclosure of trade secrets,⁴ the court's application of the inevitable disclosure theory effectively turns confidentiality agreements into non-compete agreements.⁵ Based on this decision, employers seeking to prevent an employee from leaving need no longer risk the judicial disfavor and scrutiny traditionally experienced in suits to enforce non-compete agreements.⁶

1. DiBoise and Berger, *Inevitable Disclosure of Trade Secrets*, 20 NEW MATTER 28 (1995).

2. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1263, (7th Cir. 1995) per Judge Flaum.

3. *Id.*

4. *Id.*

5. *Id.*

6. MELVIN F. JAGER, TRADE SECRETS LAW § 13.02 at I3-12 (1988). Modern decisions emphasize the importance of employee mobility. As observed by one court, "our free economy is based upon competition," and workers cannot be compelled to erase from their minds all of the general skills, knowledge, and acquaint-

PepsiCo is also important because it is the first Illinois case to successfully treat inevitable disclosure⁷ as threatened misappropriation⁸ under the Illinois Trade Secret Act.⁹ The inevitable disclosure theory has traditionally been distinguished from threatened misappropriation on the basis of intent.¹⁰ A finding of inevitable disclosure does not require proof of intent, in contrast to threatened misappropriation.¹¹ Whenever the Uniform Trade Secret Act has been adopted, federal and state courts have struggled with whether inevitable disclo-

tances and the overall experience acquired during employment upon taking another job. *Kalnitz v. Ion Exchange Products, Inc.*, 276 N.E.2d 60, 62 (Ill. App. 1972). Accordingly, noncompetition clauses in employment contracts are strictly construed against the employer. JAGER, TRADE SECRETS LAW § I3-12; See also DiBoise and Berger, *Getting Around Barriers To Non-Compete Pacts*, 2 NAT'L L.J. C12-14 (1995).

7. Under the inevitable disclosure theory, the ex-employer seeks an injunction prohibiting employment, not just disclosure of trade secrets. This is based on three factors: (1) whether the former employer and the new employer are competitors; (2) whether the employee's new position is comparable to his or her former position; and (3) the efficacy of steps taken by the new employer to prevent the alleged misappropriation of trade secrets. If an employee changes jobs but remains in the same profession or trade, she may find it impossible to avoid drawing upon the skills and experience she developed at her previous jobs. Thus, disclosure may become a nearly inevitable event even though the employee does not intend to appropriate her former employers' trade secrets. DiBoise and Berger, *supra* note 1 at 28.; See generally Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519, (1988); *PepsiCo*, 54 F.3d at 1268.

8. The Illinois Trade Secret Act provides for an injunction prohibiting the threat of misappropriation of trade secrets. This is typically satisfied by showing an intent to disclose trade secrets. In contrast, the inevitable disclosure theory does not consider the intent of the ex-employee. Illinois Trade Secret Act, CH 765 § 1065/2; See also, DiBoise and Berger, *supra* note 1 at 28.

9. *PepsiCo*, 54 F.3d at 1263; *Teradyne, Inc. v. Clear Communications Corp.*, 707 F.Supp. 353 (N.D. Ill. 1989) (this was the first Illinois case contemplating the inevitable disclosure theory in a threatened misappropriation cause of action); Illinois Trade Secret Act, CH 765 § 1065/2. Illinois, as well as twenty one states, including California have adopted the Uniform Trade Secret Act. JAGER, TRADE SECRETS LAW § 13.02 at I3-12.

10. DiBoise and Berger, *supra* note 1 at 28; See, e.g., BLACK'S LAW DICTIONARY, 1480 (6th Ed. 1990) (defining "threat" as a "communicated intent to inflict harm on any person or property"); AMERICAN HERITAGE DICTIONARY, 840 (3rd Edition) (defining "threat" as an "expression of an intention to inflict pain, injury, or evil").

11. DiBoise and Berger, *supra* note 1 at 28.

sure is an appropriate ground on which to base an order enjoining employment.¹² Because California has adopted the U.T.S.A. and because *PepsiCo* was a fact intensive analysis, this decision will affect California law.¹³

This note will discuss the Seventh Circuit's analysis and the potential impact of the *PepsiCo* decision. The author will ultimately conclude that application of the inevitable disclosure theory in actions to prevent employers from working for competitors creates a substantial risk for employees, impedes their mobility, limits their options and strips them of their bargaining power.¹⁴ Additionally, this note will argue that general acceptance of the inevitable disclosure theory could have a serious impact on a wide range of industries, stifling the dissemination of general technical knowledge and economic growth.¹⁵

II. FACTS

William Redmond, Jr. (hereinafter "Redmond") worked for PepsiCo, a soft drink manufacturer, for ten years in the capacity of a managerial employee.¹⁶ In June 1993, Redmond became the general manager of the Northern California Business Unit.¹⁷ One year later, Redmond was promoted to general manager of the business unit which covered all of California.¹⁸

Redmond's relatively high position at PepsiCo gave him access to inside information and trade secrets.¹⁹ Redmond was

12. *Id.*

13. Interview with Thomas J. McCarthy, Attorney at Law, in San Francisco, CA (Nov. 15 1995); The 1979 meeting of the National Conference of Commissioners on Uniform State Laws, after ten years of study, approved a Uniform Trade Secrets Act. The Uniform Trade Secret Act has become law in twenty-one states. The California Uniform Act became law on January 1, 1985. The Illinois Trade Secrets Act became law in 1988. JAGER, TRADE SECRETS LAW § 3.04 at 3-23 (1988).

14. *See infra* notes 117-140 and accompanying text.

15. DiBoise and Berger, *Getting Around Barriers To Non-Compete Pacts*, 2 NAT'L L.J. C12 (1995).

16. *PepsiCo*, 54 F.3d at 1264. Redmond worked at PepsiCo from 1984 to 1994. *Id.*

17. *Id.*

18. *Id.*

19. *Id.* Trade Secrets are business information that is the subject of reasonable

privity to PepsiCo's strategic plans, operational innovations, and marketing decisions.²⁰ To guard against the possibility of disclosure, PepsiCo required Redmond, like other PepsiCo employees, to sign a confidentiality agreement.²¹

In May, 1994, Quaker began courting Redmond.²² Throughout this time, Redmond kept his negotiations with Quaker secret from his employers at PepsiCo.²³ On October, 23, 1994, Quaker offered Redmond the position of Vice President-On Premise Sales for Gatorade.²⁴ Redmond did not accept the offer but continued to negotiate for more money.²⁵ On November 8, 1994, Quaker extended Redmond a written offer for the position of Vice President-Field Operations for Gatorade, and Redmond accepted.²⁶

Later that same day, Redmond called William Bensyl, the Senior Vice President of Human Resources for PepsiCo.²⁷ Redmond told Bensyl that he had had an offer from Quaker to become the Chief Operating Officer of the combined Gatorade

efforts to preserve confidentiality and has value because it is not generally known in the trade. MCCARTHY'S DESK ENCYCLOPEDIA OF INTELLECTUAL PROPERTY 344 (1991).

20. *Id.* at 1265. For example, knowing the pricing architecture would allow a competitor to anticipate PepsiCo's pricing moves and underbid PepsiCo strategically whenever and wherever the competitor so desired. Pursuant to the attack plans, PepsiCo dedicates extra funds to supporting its brands against other brand in selected markets. The new delivery system could give PepsiCo an advantage over its competitors in negotiations with retailer over shelf space and merchandising. PepsiCo feared Redmond would disclose his intimate knowledge of these plans. *Id.* at 1265-1266.

21. *Id.* at 1264. The confidentiality agreement stated in relevant part that Redmond would not disclose at any time, to anyone other than officers or employees of PepsiCo, or make use of, confidential information relating to the business of PepsiCo which is not generally known or available to the public or recognized as standard practices. *Id.*

22. *PepsiCo*, 54 F.3d at 1264. The facts of this case lay against a backdrop of fierce beverage-industry competition between Quaker and PepsiCo, especially in sports drinks and new age drinks. Quaker's sports drink, "Gatorade," is the dominant brand in its market niche. PepsiCo introduced its Gatorade rival, "All Sport," in March and April of 1994, but sales of All Sport lagged behind those of Gatorade. *Id.*

23. *Id.*

24. *Id.*

25. *Id.*

26. *Id.*

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

and Snapple company.²⁸ Redmond further stated that he had not yet accepted that offer.²⁹ Redmond also misstated his situation to a number of his PepsiCo colleagues, reporting that he was leaning "60/40" in favor of accepting the new position when he had in fact already accepted.³⁰

On November 10, 1994, Redmond resigned from PepsiCo.³¹ PepsiCo immediately informed Redmond that it was considering legal action against him for threat of misappropriation of trade secrets and breach of the confidentiality agreement.³²

III. PROCEDURAL HISTORY

Six days later, on November 16, 1994, PepsiCo filed suit seeking a temporary restraining order to enjoin Redmond from assuming his duties at Quaker and to prevent him from disclosing trade secrets and confidential information to his new employer.³³ The district court granted the injunction that same day.³⁴ However, two days later the court dissolved the order *sua sponte*³⁵ because it found that PepsiCo failed to meet its burden of establishing that it would suffer irreparable harm.³⁶

PepsiCo next sought a preliminary injunction against Redmond and Quaker.³⁷ From November 23, 1994 to Decem-

28. *Id.* Quaker purchased Snapple beverage Corp., a large new-age-drink maker, in late 1994. PepsiCo's products have about half of the new age drink market share. *Id.*

29. *Id.*

30. *Id.* The colleagues included Craig Weatherup, President and Chief Executive Officer, and Brenda Barnes, Chief Operating Officer and Redmond's immediate superior. *Id.*

31. *Id.* at 1265.

32. *PepsiCo*, 54 F.3d at 1265.

33. *Id.*

34. *Id.*

35. *Id.*; See e.g., BLACK'S LAW DICTIONARY, 993 (6th Ed. 1990) (defining "*Sua sponte*" as voluntarily; without prompting or suggestion; of its own will or motion).

36. *Id.* The court found that PepsiCo's fears about Redmond were based upon a mistaken understanding of his new position at Quaker and that the likelihood that Redmond would improperly reveal any confidential information did not rise above mere speculation. *Id.*

37. *PepsiCo*, 54 F.3d at 1265.

ber 1, 1994, the district court conducted a preliminary injunction hearing.³⁸ At the hearing, PepsiCo listed confidential information and trade secrets that Redmond was privy to, and which PepsiCo desired to protect from misappropriation.³⁹ Having shown Redmond's intimate knowledge of PepsiCo's 1995 plans, PepsiCo argued that Redmond would inevitably disclose that information to Quaker in his new position.⁴⁰

Redmond and Quaker countered that Redmond's primary initial duties at Quaker would be to integrate Snapple and Gatorade distribution.⁴¹ Additionally, they argued that this integration would be conducted according to a pre-existing plan.⁴² Therefore, Redmond asserted that his special knowledge of PepsiCo's strategies would be irrelevant.⁴³ PepsiCo responded that no preexisting business plan existed.⁴⁴

38. *Id.*

39. *Id.* First, PepsiCo identified its "Strategic Plans," an annually revised document that contains PepsiCo's plans to compete, its financial goals, and its strategies for manufacturing, production, marketing, packaging, and distribution for the coming three years. The Strategic Plan derives much of its value from the fact that it is secret and competitors cannot anticipate PepsiCo's next moves. Second, PepsiCo pointed to their "Annual Operating Plan" (AOP) as a trade secret. The AOP bears a label that reads "Private and Confidential—Do Not Reproduce" and is considered highly confidential by PepsiCo managers. Knowing PepsiCo's pricing architecture would allow a competitor to anticipate their pricing moves and underbid them strategically whenever and wherever a competitor so desired. PepsiCo also showed that Redmond had intimate knowledge of their attack plans for specific markets. Finally, PepsiCo offered evidence of their trade secrets regarding innovation in its selling and delivery systems. Under this plan, PepsiCo was to test a new delivery system that could give them an advantage over its competitors in negotiations with retailers over shelf space and merchandising. *Id.*

40. *Id.* at 1266. At the new position, PepsiCo argued, Redmond would have substantial input as to Gatorade and Snapple pricing, costs, margins, distribution systems, products, packaging and marketing, and could give Quaker an unfair advantage in its upcoming skirmishes with PepsiCo. *Id.*

41. *Id.* Redmond and Quaker argued that his new position consisted of integrating Gatorade and Snapple distribution and then managing that distribution as well as the promotion, marketing and sales of these products. They further asserted Redmond's knowledge was irrelevant because PepsiCo and Quaker distribute their products in entirely different ways. *Id.*

42. *PepsiCo*, 54 F.3d at 1266.

43. *Id.*

44. *Id.* As of November, 1994, the plan to integrate Gatorade and Snapple distribution constituted of a single distributorship agreement and a two-page "contract terms summary." Such a basic plan would not lend itself to widespread application among the over 300 independent Snapple distributors. PepsiCo further argued that Snapple's 1995 marketing and promotion plans had not necessarily been completed prior to Redmond's joining Quaker. Consequently, the plans were

Redmond would, therefore, likely have input in creating those plans, and if he did, Redmond would inevitably be making decisions with PepsiCo's strategic plans in mind.⁴⁵ Moreover, PepsiCo's continued, diverging testimony made it difficult to determine exactly what Redmond would be doing at Quaker.⁴⁶ Finally, PepsiCo asserted that Redmond would have an important position in the Gatorade hierarchy, and PepsiCo's trade secrets would inevitably and necessarily influence strategic decisions.⁴⁷

On December, 15, 1994, the district court issued an order enjoining Redmond from assuming his position at Quaker through May 1995, and permanently enjoining him from using or disclosing any PepsiCo trade secrets or confidential information.⁴⁸ The district court found that Redmond would inevitably disclose PepsiCo's trade secrets at his new job and that inevitable disclosure could be enjoined under Illinois statutory and common law.⁴⁹ The court also emphasized that Redmond's lack of forthrightness had led the court to believe the threat of misappropriation was real.⁵⁰

On April 6, 1995, Redmond and Quaker appealed the injunction.⁵¹ Both parties stipulated that the primary issue on appeal was whether the district court correctly concluded that PepsiCo had a reasonable likelihood of success on its various claims for trade secret misappropriation and breach of confidentiality agreement.⁵²

up for reevaluation. Redmond would therefore have an input in remaking these plans. *Id.*

45. *Id.*

46. *Id.* Redmond described his job as "managing the entire sales effort of Gatorade at the field level, possibly including strategic planning," and at least at one point considered his job to be equivalent to that of a Chief Operating Officer. *Id.*

47. *PepsiCo*, 54 F.3d at 1267.

48. *Id.*

49. *Id.*

50. *Id.* The lack of forthrightness referred to, which included Redmond's activities before accepting his job and in his testimony, was a factor leading the court to believe PepsiCo's claim. *Id.*

51. *Id.*

52. *PepsiCo*, 54 F.3d at 1267. PepsiCo satisfied the other requirements for a preliminary injunction: whether PepsiCo has an adequate remedy at law or will be irreparably harmed if the injunction does not issue; whether the threatened injury

IV. BACKGROUND OF INEVITABLE DISCLOSURE IN ILLINOIS

The theory of inevitable disclosure has developed under two distinct bodies of law.⁵³ First, the concept of inevitable disclosure is embodied in state statutes.⁵⁴ Second, the concept of inevitable disclosure is supported under case law.⁵⁵ In *PepsiCo*, the Seventh Circuit considered both statutory and case law when deciding whether a plaintiff may prove a claim for trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets.⁵⁶

A. STATUTORY BACKGROUND

In 1979, following ten years of study, the National Conference of Commissioners on Uniform State Laws approved the Uniform Trade Secrets Act (hereinafter "U.T.S.A.").⁵⁷ According to the committee's prefatory note, the major impetus behind the draft was the confused state of trade secret common law.⁵⁸ As of 1995, the U.T.S.A. has been enacted in twenty-one states.⁵⁹

to PepsiCo outweighs the threatened harm the injunction may inflict on Quaker and Redmond; and whether the granting of the preliminary injunction will disserve the public interest. Quaker and Redmond did not challenge these findings on appeal.

The remainder of this comment will be confined to the trade secret misappropriation cause of action. Both claims are decided based on the existence of the inevitable disclosure theory. Once the court finds in favor of PepsiCo on the issue of trade secret misappropriation, it necessarily finds in favor of PepsiCo on the issue of breach of Redmond's confidentiality agreement. Once established that Redmond's position at Quaker would cause him to disclose trade secrets, it follows that he would necessarily be forced to breach his agreement not to disclose confidential information acquired while employed at PepsiCo. *Id.*

53. See generally Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519 (1988); See also *PepsiCo*, 54 F.3d 1263.

54. *Id.*

55. *Id.*

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

57. JAGER, TRADE SECRETS LAW § 3.04 at 3-22.

58. *Id.*

59. *Id.*

The Illinois Trade Secrets Act (hereinafter "I.T.S.A."), patterned after the U.T.S.A., was enacted in 1988.⁶⁰ The theory of inevitable disclosure is not addressed in either the U.T.S.A. or the I.T.S.A.⁶¹ To establish that a defendant improperly used trade secrets pursuant to the I.T.S.A., a claimant must show that the secret was sensitive, misappropriated, and used in the appropriator's business.⁶² Although the plain language of both the U.T.S.A. and the I.T.S.A. does not provide protection against inevitable disclosure, some courts have held that the theory of inevitable disclosure does provide an adequate ground for a suit to enjoin the inevitable disclosure of trade secrets.⁶³ The crucial difference between traditional

60. *Id.* at 3-23.

61. *See* Illinois Trade Secrets Act, IL ST CH 765, § 1065 et seq.

62. *Id.*

63. *PepsiCo*, 54 F.3d at 1267; IL ST CH 765, § 1065 et seq. The I.T.S.A. does provide the following useful information.

1. Misappropriation means:

- i. acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means;
- ii. or disclosure or use of a trade secret of a person without express or implied consent by another person who;

I. used improper means to acquire knowledge of the trade secret or;

II. at the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:

A. derived from or through a person who utilized improper means to acquire it;

B. acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

C. derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

III. before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

2. Injunctions:

- i. actual or threatened misappropriation may be enjoined.

IL ST CH 765, § 1065/2 (b).

threatened misappropriation and inevitable disclosure is that the latter may be enjoined without proof of intent to disclose.⁶⁴

B. ILLINOIS CASE LAW ADDRESSING INEVITABLE DISCLOSURE

The issue of threatened or inevitable misappropriation of trade secrets has long been the basis for tension in trade secret law.⁶⁵ This tension becomes particularly exacerbated when a plaintiff sues to prevent not the actual misappropriation of trade secrets, but the mere threat that the misappropriation will occur.⁶⁶ While the I.T.S.A. clearly permits a court to enjoin the threat of misappropriation of trade secrets, neither Illinois courts nor the Seventh Circuit has determined what constitutes threatened or inevitable misappropriation.⁶⁷ Indeed, only two cases in the Seventh Circuit address the issue: *Teradyne, Inc. v. Clear Communications Corp.* (hereinafter "*Teradyne*") and *AMP Inc. v. Fleischhacker* (hereinafter "*AMP*").⁶⁸ *AMP* discusses inevitable disclosure under the common law, and *Teradyne* discusses inevitable disclosure under the I.T.S.A..⁶⁹

1. Inevitable Disclosure under the Common Law

AMP Inc. v. Fleischhacker was the first and only Illinois case to address the theory of inevitable disclosure under the common law.⁷⁰ However, since the I.T.S.A. codifies the common law, *AMP* continues to represent the standard under Illinois's current statutory scheme.⁷¹

64. DiBoise and Berger, *supra* note 1 at 28.

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

66. *Id.*

67. *Id.*

68. *Id.*; *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353 (1989); *AMP Inc. v. Fleischhacker*, 823 F.2d 1199, (1987).

69. *Id.* at 1268-9.

70. *PepsiCo*, 54 F.3d at 1269.; *AMP*, 823 F.2d 1199.

71. *PepsiCo*, 54 F.3d at 1269. *AMP* predates the I.T.S.A.. The I.T.S.A. abolishes any common law remedies or authority contrary to its own terms. The I.T.S.A. does not, however, represent a major deviation from the Illinois common law of unfair trade practices. *Id.*

In *AMP*, the court denied a preliminary injunction on the grounds that the plaintiff, AMP, had failed to show either the existence of any trade secrets or the likelihood that the defendant, Fleischhacker, a former AMP employee, would compromise those secrets or any other confidential business information.⁷² AMP, a company that produced electrical and electronic connection devices, argued that Fleischhacker's new position at AMP's competitor would inevitably lead him to compromise AMP's trade secrets regarding the manufacture of connectors.⁷³ In rejecting that argument, the court emphasized that the mere fact that a person assumed a similar position at a competitor does not, without more, make it inevitable that he will use or disclose trade secret information so as to demonstrate irreparable injury.⁷⁴ However, the court noted that while the facts of *AMP* were insufficient to state a claim for threatened misappropriation under an inevitable disclosure theory, inevitable disclosure would, nonetheless, be a proper ground for an injunction to protect trade secrets under a more compelling set of facts.⁷⁵

2. Inevitable Disclosure Under the I.T.S.A.

Teradyne, Inc. v. Clear Communications was the first case to address the theory of inevitable disclosure under the I.T.S.A.⁷⁶ In *Teradyne*, Teradyne, Inc. alleged that a competitor, Clear Communications (hereinafter "Clear"), had lured employees away from Teradyne and had intended to employ them in the same field.⁷⁷ The *Teradyne* court observed that threatened misappropriation can be enjoined under Illinois law where there is a high degree of probability of inevitable and immediate use of trade secrets.⁷⁸ The court held, however, that Teradyne's complaint failed to state a claim because Teradyne did not allege that defendants had in fact threatened to use Teradyne's secrets or that they would inevitably do so.⁷⁹

72. *AMP*, 823 F.2d at 1203.

73. *Id.* at 1199, 1201.

74. *Id.* at 1207.

75. *Id.*; *PepsiCo*, 54 F.3d at 1269.

76. *Id.* at 1268; *Teradyne*, 707 F. Supp. 353.

77. *AMP*, 823 F.2d at 354.

78. *Id.* at 356.

79. *Id.*

The *Teradyne* court noted that Teradyne's claims would have avoid summary judgment⁸⁰ had it properly alleged inevitable disclosure by including an allegation that (1) Clear intended to use Teradyne's trade secrets, that (2) the former Teradyne employees had disavowed their confidentiality agreements with Teradyne, or (3) an allegation that Clear could not operate without Teradyne's secrets.⁸¹ However, the mere stating of defendants' actions, which included working for Teradyne, knowing its business, leaving its business, hiring employees from Teradyne and entering the same field, did not constitute a claim of threatened misappropriation.⁸² The court held that merely alleging that the plaintiff's fear that the defendant competitor *could* misuse plaintiff's secrets did not adequately support a claim of inevitable disclosure under the I.T.S.A.⁸³

V. COURT'S ANALYSIS

The Seventh Circuit began its analysis of *PepsiCo* by discussing the fierce competition between PepsiCo and Quaker within the beverage industry.⁸⁴ Although Quaker's sports drink, "Gatorade," is the dominant brand in its market niche,⁸⁵ PepsiCo attempted to break into the market by introducing its Gatorade rival, "All Sport," in March and April of 1994.⁸⁶ To date, sales of All Sport have lagged far behind those of Gatorade.⁸⁷ Quaker also led the market in sales of new age drinks,⁸⁸ and, although PepsiCo had attempted to get ahead by entering that market through joint ventures with the Thomas J. Lipton Company and Ocean Spray Cranberries,

80. FED. R. CIV. P. 12(b)(6). Federal motion to dismiss an action for failure to state a claim upon which relief can be granted. *Id.*

81. *Id.* at 355.

82. *Id.*

83. *Teradyne*, 707 F. Supp. at 357. The court stated that "It may be that little more is needed, but falling a little short is still falling short." *Id.*

84. *PepsiCo*, 54 F.3d at 1263-1264.

85. *Id.* at 1264.

86. *Id.*

87. *Id.*

88. *Id.* "New age drink" is a catch-all category for non-carbonated soft drinks and includes such beverages as ready-to-drink tea products and fruit drinks. Sports drinks may also fall under the new age drink heading. *Id.*

Inc., Quaker stifled that strategy by purchasing Snapple Beverage Corp. in late 1994.⁸⁹

After laying the industry backdrop, the court factually analyzed PepsiCo's case.⁹⁰ First, the court found that PepsiCo presented substantial evidence that Redmond possessed extensive and intimate knowledge about PepsiCo's 1995 strategic goals for their sports drinks and new age drinks.⁹¹ Additionally, the court pointed out that even if Redmond could somehow refrain from relying on that information, as he promised he would, his lack of truthfulness about his intentions to leave PepsiCo made his assurances less than comforting.⁹² The court concluded that unless Redmond possessed an "uncanny" ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of PepsiCo's trade secrets.⁹³

In reaching its conclusion, the *PepsiCo* court referred to the Illinois Trade Secrets Act which provides that a court may enjoin the actual or threatened misappropriation of a trade secret.⁹⁴ The court further remarked that the question of threatened or inevitable misappropriation creates a friction in trade secret law confronting the sometimes opposing teams, employee and employer.⁹⁵ Trade secret law serves to protect standards of commercial morality and to encourage invention and innovation while still maintaining public interest in free and open competition in the manufacture and sale of unpatented goods.⁹⁶ Yet, the court noted, that same law should not prevent workers from pursuing their livelihoods when they

89. *PepsiCo*, 54 F.3d at 1264. PepsiCo's products have about half the relevant market share. Additionally, both PepsiCo and Quaker saw 1995 as an important year for their products. PepsiCo had developed extensive plans to increase its market presence, while Quaker was trying to solidify its lead by integrating Gatorade and Snapple distribution. *Id.* at 1264-67.

90. *Id.* at 1264-67.

91. *Id.* at 1264. Sports drinks are also called "isotonics," implying that they contain the same salt concentration as human blood, and "electrolytes," implying that the substances contained in the drink have dissociated into ions. *Id.*

92. *PepsiCo*, 54 F.3d at 1267.

93. *Id.* at 1269.

94. *Id.* at 1268.

95. *Id.* at 1268.

96. *Id.* (citing JAGER, TRADE SECRET LAW § IL.03 at IL-12).

leave their current positions.⁹⁷ This tension is particularly aggravated when a plaintiff sues not on the basis of an *actual* misappropriation of trade secrets but on the mere *threat* that it might occur.⁹⁸ The court pointed out that while the I.T.S.A. clearly permits a court to enjoin the threat of misappropriation of trade secrets, there is little case law in the Illinois courts or the Seventh Circuit establishing what constitutes threatened or inevitable misappropriation.⁹⁹

On reviewing applicable precedent, the *PepsiCo* court found only two Illinois cases addressing the issue of inevitable disclosure, *Teradyne, Inc. v. Clear Communications Corp.*¹⁰⁰ and *AMP Inc. v. Fleischhacker*.¹⁰¹ The court distinguished *PepsiCo* from both of these cases, based on their finding that both *Teradyne* and *AMP* involved facts too weak to apply the theory of inevitable disclosure, and asserted that the facts in *PepsiCo* were compelling.¹⁰² The court reasoned that *PepsiCo*'s basis for suspicion rose far above that of the *Teradyne* and *AMP* plaintiffs.¹⁰³

In *Teradyne* and *AMP*, the plaintiffs asserted only that skilled employees were taking their skills elsewhere.¹⁰⁴ However, distinguishing these cases from *PepsiCo*, the court stated that it was not Redmond's general skills and knowledge acquired during his tenure with *PepsiCo* that *PepsiCo* sought to

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

98. *Id.* (emphasis added).

99. *Id.* The court refers to inevitable disclosure as inevitable misappropriation in an apparent attempt to use the terms synonymously. It is again noted that "threatened misappropriation," which is the language in the I.T.S.A., and "inevitable disclosure" are not synonymous. The latter does not require intent. See *supra* note 64.

100. *PepsiCo*, 54 F.3d at 1268; *Teradyne, Inc. v. Clear Communications Corp.*, 707 F.Supp. 353 (N.D. Ill. 1989) *Teradyne* was the first case to discuss the theory of inevitable disclosure under the I.T.S.A. In an insightful opinion, Judge Zagel observed that threatened misappropriation can be enjoined under Illinois law where there is a high degree of probability of inevitable and immediate use of trade secrets. *Id.*; See *supra* notes 70-83 and accompanying text for analysis of *Teradyne*.

101. *PepsiCo*, 54 F.3d at 1269; *AMP Inc. v. Fleischhacker*, 823 F.2d 1199 (7th Cir. 1987) Although *AMP* pre dates the I.T.S.A. it is applicable because the I.T.S.A. codifies, rather than modifies, the common law doctrine that preceded it. *Id.*; See *supra* notes 70-75 and accompanying text for analysis of *AMP*.

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

103. *Id.*

104. *Id.*

keep from falling into Quaker's hands.¹⁰⁵ Rather, PepsiCo sought to protect only its particularized plans and processes developed to give them an advantage over their competitors.¹⁰⁶ These plans, which were unknown to others in the industry, were disclosed to Redmond while the employer-employee relationship existed.¹⁰⁷

Finally, the *PepsiCo* court noted that a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably require him to rely on the plaintiff's trade secrets.¹⁰⁸ The court further stated that the defendants were incorrect that Illinois law does not allow a court to enjoin the "inevitable" disclosure of trade secrets.¹⁰⁹

Thus, when the court coupled the demonstrated inevitability that Redmond would rely on PepsiCo's trade secrets with the validation of the inevitable disclosure theory, it concluded that the district court correctly decided that PepsiCo had demonstrated a likelihood of success on its statutory claim of trade secret misappropriation.¹¹⁰ The court affirmatively concluded that Illinois law allows a court to enjoin the inevitable disclosure of trade secrets, and that an injunction was the appropriate remedy in this case.¹¹¹

VI. CRITIQUE

Historically, courts have been reluctant to permit employers to use a claim of trade secret misappropriation to obtain an *ex post facto* covenants not to compete.¹¹² Courts suspiciously regard non-competition agreements because they fear that employers will use the agreements as facades to restrict employee mobility.¹¹³ Although courts rule in favor of both em-

105. *Id.*

106. *Id.*

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

108. *Id.*

109. *Id.*

110. *Id.* at 1271.

111. *Id.* at 1269.

112. See Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 682-83 (1960).

113. Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes*, 40 STAN. L.

ployees and employers, the broad definition of trade secrets combined with the use of nondisclosure agreements creates the danger of a pro-employer thread in these cases.¹¹⁴

In *AMP*, the Seventh Circuit noted that the hiring of a competitor's employee was usually permissible.¹¹⁵ The court further stated that to prevent such action would disservice the free market goal of maximizing available resources to foster competition.¹¹⁶ Consequently, this would create an improper balance between the purposes of trade secrets law and the strong policy in favor of fair and vigorous business competition.¹¹⁷ Yet the holding in *PepsiCo* appears antithetical to this earlier decision.¹¹⁸ In effect, the court allowed PepsiCo to create a fictitious and automatic covenant not to compete.¹¹⁹

Companies seeking to prevent former employees from working for competitors have been urging adoption of the inevitable disclosure theory of trade secret misappropriation in an effort to avoid the judicial disfavor and scrutiny applied to traditional non-compete agreements.¹²⁰ This virtually transforms a confidentiality agreement into a non-compete agreement.¹²¹ If readily applied by the courts, the inevitable disclosure theory could impede an employees' mobility and the spread of general knowledge which provides the basis for much of the economic growth in many industries.¹²²

Often the number of companies for which employees can work is limited, and typically these companies are competitors.¹²³ If employees cannot work in the same competitive ar-

REV. at 523.

114. Interview with Michael A. Glenn, Attorney at Law, in San Francisco, CA (Sept. 15, 1995).

115. See *AMP*, 823 F.2d at 1205.

116. *Id.*

117. *Id.*

118. *PepsiCo*, 54 F.3d at 1271.

119. See *Id.*

120. Blake, 73 HARV. L. REV. 625, 682-83 (1960).

121. DiBoise and Berger, *Getting Around Barriers To Non-Compete Pacts*, 2 NAT'L L.J. C10 (1995).

122. *Id.*; For a discussion of employees' bargaining power and its relation to compensation, See Rubin & Shedd, *Human Capital and Covenants Not to Compete*, 10 J. LEGAL STUD. 93, 100-01 (1981).

123. Interview with Michael A. Glenn, Attorney at Law, specializing in intellec-

ea as their current employment, their options for other employment will be significantly limited.¹²⁴ In these instances, the employee must use his or her skills to find new employment, even though some or most of those skills may be unalterably tied to the trade secret information of former employers.¹²⁵ If employees change jobs but remain in the same profession or trade, they may find it impossible to avoid drawing upon the skills and experience developed at previous jobs.¹²⁶ Disclosure may be nearly inevitable even though employees do not intend to appropriate their former employer's trade secrets.¹²⁷ Accordingly, employees may not want to increase their expertise, since the potential acquisition of alleged trade secrets could prevent them from later advantage in the industry in which they are most productive.¹²⁸

The protection given to trade secrets is a shield, sanctioned by the courts, for the preservation of trust in confidential relationships; it must not become a sword used by employers to retain employees on the threat of rendering them substantially unemployable in the field of their experience if they decide to resign.¹²⁹ If employees are threatened, "society suffers because competition is diminished by slackening the dissemination of ideas, processes and methods."¹³⁰

On the other hand, intellectual property is often the lifeblood of a company, especially in high technology industries.¹³¹ A business certainly has the right to be protected against unfair competition stemming from the usurpation of

tual property; and Adjunct Professor of Law at Golden Gate University, School of Law; in San Francisco, CA (Sept. 15, 1995).

124. *Id.*; Blake, 73 HARV. L. REV. at 683 (1960) ("The mobility of untold numbers of employees is restricted by the intimidation of restrictions whose severity no court would sanction."). *Id.*

125. DiBoise and Berger, *Getting Around Barriers To Non-Compete Pacts*, 2 NAT'L L.J. C12 (1995).

126. *Id.*

127. *Id.*

128. *Wexler v. Greenberg*, 399 Pa. 569, 579, 160 A.2d 430, 435 (1960).

129. DiBoise and Berger, *Getting Around Barriers To Non-Compete Pacts*, 2 NAT'L L.J. C12 (1995).

130. *Wexler*, 399 Pa. at 579.

131. DiBoise and Berger, *Inevitable Disclosure of Trade Secrets*, 20 NEW MATTER at 29 (1995).

its trade secrets.¹³² As much as a free society supports the right of employees to change jobs at will, employers who invest significant efforts in the development of valuable trade secrets may incur serious losses if this confidential information is divulged to competitors by departing employees.¹³³ Without a means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, businesses could not afford to subsidize research or improve current methods.¹³⁴ Additionally, without the theory of inevitable disclosure, threatened misappropriation is often difficult if not impossible to prove.¹³⁵ Finally, courts strongly support trade secret protection for employers because they view technological innovation favorably, and because they believe trade secret protection encourages companies to invest in new technology.¹³⁶

However, in forums such as California, where legislation declares non-compete agreements unenforceable except in limited circumstances, the *PepsiCo* court's ruling appears to fly in the face of legislative intent.¹³⁷ In passing California Business and Professions Code Section 16600, the state legislature has manifested its clear intent to avoid the viability of non-compete agreements.¹³⁸ The *PepsiCo* ruling circumvents this legislative intent by transforming a confidentiality agreement into a *de facto* non-compete agreement, thereby bypassing Section 16600.¹³⁹ To allow the *PepsiCo* holding to control California Law would therefore enable courts to avoid clear and established legislation.

132. *Wexler*, 399 Pa. at 578.

133. *FMC Corp. v. Varco Int'l*, 677 F.2d 500 (1982).

134. *Wexler*, 399 Pa. at 579.

135. Interview with Kevin Patrick McGee, Law Review Editor, in San Francisco, CA (Dec. 12, 1995). The only two people that know if the secret has actually been exposed are the ex-employee and the new employer. Most trade secret prosecutions have to get those two parties to admit or disclose the misappropriation against their personal and pecuniary interest. *Id.*

136. *See, e.g. Reed, Roberts Assocs., Inc. v. Strauman*, 353 N.E.2d 590 (1976).

137. CAL. BUS. & PROF. CODE § 16600 (West 1992). The entirety of the statute reads: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." *Id.*

138. *See id. See generally, Matull & Associates v. Cloutier*, 194 Cal. App. 3d 1049 (1987); *Farthing v. San Mateo Clinic*, 143 Cal. App. 2d 385 (1956).

139. *See, JAGER, TRADE SECRETS LAW* § 13.02 at I3-12.

VII. CONCLUSION

One of the most difficult issues in trade secret law involves how to protect the competing interests of employers and employees.¹⁴⁰ Employers seek to restrict the disclosure of confidential information, whereas employees find that such restrictions impair their ability to market their skills to new employers.¹⁴¹ While courts support the protection of trade secrets, they have traditionally recognized the economic benefits of disclosure since other innovative individuals and firms will have the opportunity to develop and build upon the new technology.¹⁴² Although the arguments expressed by proponents of both sides of this dilemma are understandable, an inevitable disclosure theory that allows employers to prevent an employee from working for a competitor in the employee's area of expertise for an unlimited amount of time and without any compensation to the employee is a menacing restriction. As Judge Learned Hand long ago observed:

. . . it has never been thought actionable to take away another's employee, when the defendant wants to use him in his own business, however much the plaintiff may suffer. It is difficult to see how servants could get the full value of their services on any other terms; time creates no

140. See *supra* note 65.

141. See Suellen Lowry, *Inevitable Disclosure of Trade Secrets: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519 (1988).

142. See, e.g. *Reed, Roberts Assocs., Inc.*, 353 N.E. 2d 590.

prescriptive right in other men's labor. If an employer expects so much, he must secure it by [a] contract [not to compete].¹⁴³

Therefore, *PepsiCo* represents a perilous precedent.¹⁴⁴

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143. *Harley & Lund Corp. v. Murray Rubber Co.*, 31 F.2d 932, 934 (1929).

144. *PepsiCo*, 54 F.3d 1263.

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