The Invisible Noncompete:
The Inevitable Disclosure Doctrine in Pa.

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The doctrine of inevitable disclosure is alive and well. Pennsylvania and its neighbors all recognize the concept that, in certain situations, can act as a sort of de-facto noncompete agreement to prevent employees with access to confidential information from going to work for a competitor. This controversial doctrine states that certain employees possess intangible confidential information that cannot be returned to the company at the end of their employment, and therefore, they cannot go to work for a competitor without "inevitably" disclosing this confidential information.

THE HISTORY OF INEVITABLE DISCLOSURE

The doctrine of inevitable disclosure is an offshoot of trade secret protection. Though it traces its roots, in one form or another, back to the early 20th century, the modern form was first applied in Pennsylvania in Air Products & Chemical Inc. v. Johnson.

In that case, Johnson was employed by Air Products for 15 years, eventually rising to the level of vice president. He resigned to take a similar position with Liquid Air, Air Products' largest competitor. Concerned that Johnson would disclose its trade secrets, Air Products sued to restrict him from working for Liquid Air for two years.

Importantly, Johnson never signed a restrictive covenant with Air Products. Still, the court held that "the duties which Johnson was to perform at Liquid Air would make it impossible for Johnson not to disclose [Air Products'] trade secrets." Consequently, the court permitted Johnson to work for Liquid Air, but enjoined him from working in certain management positions that would likely lead to the disclosure of confidential information.

The court, however, stopped short of formally adopting the doctrine of inevitable disclosure, stating that while "we do not adopt the reasoning of the trial court or its use of the term 'inevitable,' we are unable to find that the trial court committed reversible error."

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Nationally, the most notable decision on inevitable disclosure is the 7th U.S. Circuit Court of Appeals' decision in PepsiCo Inc. v. Redmond. Redmond was a high level management employee at Pepsi who resigned to take a job with Quaker, one of Pepsi's largest competitors. Though Redmond never signed a noncompete agreement, Pepsi sued to enjoin him from starting work for Quaker, arguing that Redmond would "inevitably disclose" trade secrets.

The 7th Circuit agreed and enjoined Redmond. According to the court, it was unrealistic to expect Redmond to "compartmentalize" all of the confidential information of which he had learned during his employment with Pepsi and ignore it at his role at Quaker. Most cases involving the inevitable disclosure doctrine cite to PepsiCo for support.

RECENT DEVELOPMENTS

Since PepsiCo, the application of the doctrine has remained relatively stable. Rather than making radical changes to the doctrine, courts have refined it in an effort to provide more reliable guidance to employers and employees alike.

Importantly, the courts have since developed a series of factors to be considered in determining whether to grant an injunction based on inevitable disclosure. The most common of these factors are the following:

• Whether the employers in question are in direct competition and provide the same products or services;

• Whether the employee's new position is nearly identical to his old position;

• Whether the information at issue qualifies for trade secret protection;

• Whether the trade secrets at issue are highly valuable to both the old and the new employers; and

• Whether, in leaving his employment, the employee acted in bad faith.

Cases applying the inevitable disclosure doctrine almost invariably involve high-level executives or persons in managerial positions with access to confidential information. It is unlikely to be applied against a low-level employee, even when that employee is involved in "high-level" projects.

The mere fact that a person assumed a similar position with a competing company does not make it inevitable that he will use or disclose trade secret information. The employer must prove access to confidential information, that the information constitutes a trade secret, and that the circumstances of new employment make it "inevitable" that the employee will disclose the information.

To understand the difference, consider the following situation: An employee in charge of product development for a chemical company leaves to go to a competitor. At his previous company, he was responsible for developing and testing all of the company's new chemical products, and he has learned which combinations of chemicals work and which do not by trial and error. His new employer wants to develop new products to compete with those developed for his old company, and has hired him to manage product development. As a result, the "negative" trade secret information possessed by the employee — his knowledge derived from failures and past mistakes — is quite valuable to the new employer to avoid the time and expense associated with much of the trial and error process.

In this situation, it is unrealistic to expect the employee to force himself to follow the same blind alleys and dead ends that he did previously. Instead, he will "inevitably" rely on the information he previously garnered and will avoid making the same mistakes for his new employer.

Generally, courts consider whether the employee had already signed a noncompete agreement or a confidentiality/nondisclosure agreement as a factor in its analysis. In some cases, courts have required the employee to be enjoined to have signed a nondisclosure agreement before injunctive relief will be allowed. On the other hand, some courts have found that the existence of a nondisclosure covenant weighs significantly against the application of the inevitable disclosure doctrine, since the employer knew the employee may leave the company after learning its classified information. Still other courts have found that such agreements are irrelevant to a determination of whether to apply the doctrine, since employees are not being held liable for simply competing with their former employer, but rather, that they used their classified information against them.

Likewise, courts often consider whether the employee has, in some way, acted in bad faith as an indicator that the employee will be more likely to disclose his former employer's trade secrets for the benefit of his new employer. Such misbehavior can include spoliation of evidence, breach of fiduciary duty, and/or beginning to compete prior to resigning. These kinds of bad faith actions will often be viewed by courts as a factor in favor of applying inevitable disclosure and may even be considered a necessary prerequisite to issuing an injunction. However, some courts consider an employee's bad faith to be irrelevant since such disclosure, by its very nature, is inevitable and will occur regardless of an employee's credibility or best intentions.

Finally, since the inevitable disclosure doctrine almost always arises in the context of a request for a preliminary injunction and/or temporary restraining order, a party seeking to apply it must remember that the typical standards for such actions still apply. In other words, a plaintiff seeking to enjoin a departing employee based on inevitable disclosure must still show a likelihood of success on the merits; irreparable harm; that the harm in denying an injunction would outweigh the harm in granting it; and that the public interest favors the issuance of the injunction.

TIPS FOR EMPLOYERS

Make no mistake: the easiest and most effective way to ensure that your key employees cannot leave and take your trade secrets to the nearest competitor is to have them sign a properly drafted restrictive covenant preventing them from joining a competing company for a reasonable length of time and, if they have already started their employment with your company, to pay them a bonus in exchange for signing the covenant. Given the uncertainty involved and the inherent reluctance of courts to enjoin an employee without a noncompete, the inevitable disclosure doctrine should be looked to only as a last resort.

However, if you are confronted with a high-level employee without a noncompete who plans to join a competitor, the following are a few things you can do to increase the likelihood that a court will issue an injunction based on inevitable disclosure of your company's trade secrets:

• Examine the departing employee's computer to see if the employee failed to return hardcopies of any confidential documents. Consider hiring a computer forensic technician to examine the computer to see if the employee has sent documents to other computers or to portable storage devices, or if business-related information has been destroyed. If you can show that the employee has already improperly taken information or destroyed data, it will be easier to convince the court that an injunction is warranted.

• Make an effort to draw comparisons between the employee's old and new job, and between your company and the employee's new company. The more alike they are, the more likely it is that the employee will inevitably disclose confidential information. Ideally, you should be able to show that the employee is taking a job with a company that produced the same products or services for the same market as your company, and that the employee's role with the new company will be exactly the same as it was for yours.

• Look for "negative" trade secrets. Often, this type of confidential information can be both the most valuable and the most likely to be disclosed. While, in some circumstances, an honest, forthright employee may be able to keep from disclosing certain trade secrets, it is unreasonable to expect even the most honest employees to knowingly repeat the same mistakes and errors they have made while employed by your company.

• Show that the information qualifies as a trade secret, and that it is both a source of your company's competitive advantage and would be extremely beneficial to the employee's new employer. You must not overlook the fact that the inevitable disclosure doctrine is rooted in trade secret law, and remember that it is not enough to show the information is valuable to your company, you should also show that your company expended a great deal of time, effort and money to both develop the information, and keep it secret.

It is important to remember that the doctrine of inevitable disclosure is not some mystical doctrine, nor is it an absolute rule of law. Rather, it is merely a limited extension of the existing law protecting against disclosure of trade secrets, and its applicability depends heavily on the facts of each case. At its heart, the doctrine is an equitable one, and it will depend heavily on considerations of fairness and undue hardship to both employers and employees. Anyone attempting to apply it or avoid it should be mindful that courts have nearly unfettered discretion when considering whether to apply inevitable disclosure to enjoin the employee from taking a new job, to deny injunctive relief altogether, or to fashion injunctive relief as it sees fit.