THE SOUND OF INEVITABILITY: THE DOCTRINE OF INEVITABLE DISCLOSURE OF TRADE SECRETS COMES TO TEXAS

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Agent Smith: You hear that Mr. Anderson? . . . That is the sound of inevitability . . . It is the sound of your death . . . Goodbye, Mr. Anderson. [1]

I. INTRODUCTION

It happens all the time. A promising new employee joins a company, eager to begin and do well. The company, in its own procedural excitement, gets right down to business by incorporating the new employee into the workplace and fails to secure an agreement from the employee not to compete with the company and not to disclose sensitive information. The company trains the employee on its own unique procedures, teaches him the tricks of the trade, and shares sensitive client and product information. Eventually, the employee leaves. Without a confidentiality agreement or covenant-not-to-compete, the question becomes to what extent are the employer's rights and information protected when compared to the employee's right to seek employment involving the skills he has acquired? Enter the Doctrine of Inevitable Disclosure.

Trade secret law exists only as state law.[2] In Texas, regardless of whether the employee is bound by contractual prohibitions not to disclose trade secrets, he is prohibited from doing so by the common law and the Texas Penal Code.[3] Most suits concerning Theft of Trade Secrets involve a former employer seeking injunctive relief to prohibit the use or disclosure of the trade secret.[4] At the same time, with economic globalization and information and employees becoming increasingly mobile, trade secret law and remedies available to employers are more imperative.[5] Where the employer fails to obtain a covenant-not-to-compete or confidentiality agreement from their employees, the employer has often been left without a remedy. Because Texas trade secret law does not provide the sort of broad protection many companies desire for sensitive and/or proprietary information, employers have begun to look for other legal options. It is out of this void that the Doctrine of Inevitable Disclosure (hereinafter the "Doctrine") has arisen in a growing number of jurisdictions. While the Doctrine has been alluded to in several Texas state and federal court cases, it is still unclear whether the majority of Texas courts are prepared to embrace it.

Protected trade secrets can range from technical knowledge, formulas or ingredients, to strategic decision-making such as pricing, marketing strategies, product development and budget information.[6] Traditionally, the courts have intervened on behalf of the employer in the

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[1] THE MATRIX (Warner Brothers 1999).

[2] Eleanore R. Godfrey, *Inevitable Disclosure of Trade Secrets: Employee Mobility v. Employer's Rights*, 3 J. High Tech. L. 161 (2004).

[3] TEX. PENAL CODE ANN. § 31.05 (Vernon 2003).

[4] Godfrey, *supra* note 2, at 161.

[5] *See id.*

[6] "[A] trade secret is 'any formula, pattern, device or compilation of information which is used in one's business and presents an opportunity to obtain an advantage over competitors who do not know or use it.'" *In re* Bass, 113 S.W.3d 735, 739 (Tex. 2003) (quoting Computer Assocs. Int'l, Inc. v. Altai, Inc., 918 S.W.2d 453, 455 (Tex. 1996)). "[C]ustomer lists, pricing information, client information, customer preferences, buyer contacts, market strategies, blueprints, and drawings have been shown to be trade secrets." T-N-T Motorsports v. Hennessey Motorsports, 965 S.W.2d 18, 22 (Tex. App.—Houston [1st Dist.] 1998, pet dism'd) (quoting Miller Paper Co. v. Roberts Paper Co., 901

face of actual or threatened misappropriation of trade secrets.[7] However, the Doctrine extends traditional trade secret misappropriation principles to cases where there is no evidence of actual, or even threatened, misappropriation or harm. "Employees who move between [competing] companies that use trade secrets are at the center of the inevitable conflict between the right of an employee to choose his or her employment and the right of an employer to protect its trade secrets."[8] Courts applying the Doctrine "can prevent the misappropriation of trade secrets based on the assumption that an employee in a given situation will *inevitably* use or *disclose* those secrets."[9] A potentially invaluable tool in protecting a company's intellectual capital, the Doctrine can also be fatal to the employee's right to mobility within a given industry. It is no doubt this tension has prevented the Doctrine from being adopted more readily.

II. HISTORY OF THE DOCTRINE

While there is some disagreement over exactly when the Doctrine first appeared in American jurisprudence,[10] it is clear that the Doctrine was being applied during the first quarter of the 20th century in response to employee mobility.[11] In 1902, the Seventh Circuit upheld an injunction against a former employee in *Harrison v. Glucose Sugar Refining Co.,* preventing him from disclosing secrets acquired during his employment.[12] The court in that case noted that it would be impossible, on a practical level, for a former employee to refrain from disclosing confidential information upon new employment with a competitor.[13]

In 1919, a New York state court exercised the principles of the Doctrine in *Eastman Kodak Co. v. Power Film Products, Inc.*[14] In this case, too, the employer, Eastman Kodak, brought an action for an injunction to prevent a former employee from disclosing secrets to a competitor at which he had become employed. Despite a lack of actual misappropriation, the

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S.W.2d 593, 601 (Tex. App.—Amarillo 1995, no writ). "'Secret' implies that the information is not generally known or readily available." *T-N-T Motorsports*, 965 S.W.2d at 22 (quoting Rugen v. Interactive Bus. Sys. 846 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no pet.). However, the mere fact that knowledge of a product or process may be acquired through inspection, experimentation, and analysis does not preclude protection from those who would secure that knowledge by unfair means. K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 314 S.W.2d 782, 788 (Tex. 1958).

[7] The Texas Supreme Court adopted the Restatement (Third) of Unfair Competition §39 test to determine whether a trade secret exists. In re Bass, 113 S.W.3d 735, 739 (Tex. 2003). Six factors are relevant in determining the existence of a trade secret: "(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others." *Id.* The test is a non-exclusive balancing test; all six factors need not be satisfied to prove the existence of a trade secret. *Id.* at 740.

[8] Paul C. Goulet, *The Doctrine of Inevitable Disclosure*, January, 2004, *available at* http://www.finnegan.com/publications/news-popup.cfm?id=1566&type=article, last visited 12/13/2007.

[9] *Id.*

[10] *See* Godfrey, *supra* note 3, at 168; *see also* Ted Lee and Leila Ben Debba, *Backdoor Non-Competes in Texas: Trade Secrets*, 36 St. Mary's L.J. 483, 520 (2005).

[11] Lee and Ben Debba, *supra* note 10, at 520.

[12] *Id.* (citing Harrison v. Glucose Sugar Refining Co., 116 F.304, at 312 (7th Cir. 1902)).

[13] *Id.*

[14] Eastman Kodak Co. v. Powers Film Prods., Inc., 179 N.Y.S. 325, 330 (1919).

court upheld non-compete and confidentiality agreements previously signed by the employee, holding that because the employee would necessarily impart knowledge in the rendition of service to his new employer, an injunction against imparting such special knowledge alone would be ineffective.[15] Notably, the court's analysis rested not on the existence of the non-compete and confidentiality agreements but on the inevitable failure of the employee to keep information confidential while employed by a direct competitor of his former employer.

The actual use of the phrase "inevitable disclosure" first occurred in *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corporation* in 1964, roughly sixty years after the appearance of the Doctrine.[16] In this case, Hirsch, a former employee of duPont, began working for American Potash, at which point, duPont filed for a restraining order to prevent Hirsh from both disclosing duPont's trade secrets and working for Potash.[17] The trial court entered a preliminary injunction for duPont, despite the lack of a non-compete agreement.[18] The court of chancery, recognizing that the law "tends to encourage . . . substantial expenditures to find or improve ways and means of accomplishing commercial and industrial goals,"[19] upheld the injunction, holding that the degree of probability of disclosure, whether amounting to an inevitability or not, is properly considerable in determining whether a threat of misappropriation exists.[20]

Interestingly, the cases out of which the Doctrine arose are virtually identical to modern day cases and often address the same questions of equity and fairness. It is no surprise then that the use of the Doctrine and its underlying principles are just as pertinent today as when it was first applied over a century ago. It is from this history that the Doctrine has been revitalized and brought forward to the present for new debate and discussion of the right of the employer in protecting and encouraging investment in new technologies, processes, and ideas versus the right of the employee to seek new employment within his trade and the interest of the public in competition.

III. RESURRECTION OF THE DOCTRINE

The Doctrine is based on the notion that no matter how good an employee's intentions, it is impossible for him to compartmentalize the knowledge or experience gained from prior employment. Thus, it is unavoidable that the employee will disclose that information if he is required to do the same or similar work for a new employer. Although the Doctrine is not new to American or Texas Jurisprudence, the Doctrine's recent growth can be traced back to the landmark Seventh Circuit decision in *PepsiCo v. Redmond*.[21] *Redmond* is widely regarded for its contemporary formulation of the Doctrine largely because the decision sparked courts to apply the Doctrine with more frequency and vigor than any previous case applying the Doc-

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[15] *Id.* at 330.

[16] Godfrey, *supra* note 3, at 169.

[17] *Id.* at 169-70 (citing E. I. duPont de Nemours & Co. v. American Potash & Chemical Corp., 200 A.2d 428 (Del. Ch. 1964)).

[18] E. I. duPont de Nemours & Co. v. American Potash & Chemical Corp., 200 A.2d 428, 429 (Del. Ch. 1964).

[19] *Id.* at 437.

[20] *Id.* at 436.

[21] *See generally,* Pepsi Co. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).

trine.[22] *Redmond* is celebrated for three main reasons: (1) it analyzed inevitable disclosure under the Uniform Trade Secrets Act (hereinafter "UTSA") rather than under common law, (2) it applied the Doctrine to a non-technical employee working in a non-technical field, and, (3) it established a standard for whether the inevitable disclosure existed.[23]

A. Uniform Trade Secrets Act

The UTSA was approved by the National Conference of Commissioners on Uniform State Laws in 1979, the same year the Restatement 2nd of Torts was published without mention of trade secrets or trade secret protection. Unlike the first Restatement, published in 1939, the reporters deliberately left out a discussion of trade secret law because the body of law had grown, and, they believed, would continue to grow to such a degree that it would likely become its own subject matter area of law, perhaps one day requiring its own restatement.[24]

The purpose of the UTSA is to clarify definitions, codify case law, and establish statutes of limitation. Whereas the UTSA provides that "actual *or threatened"* misappropriation may be enjoined."[25] Most courts applying the Doctrine require a former employer to show at least that: (1) "trade secrets exist", (2) "the employee had access to them", and (3) "the trade secrets would inevitably be used."[26]

Despite the UTSA's apparent adoption of the Doctrine by providing for an injunction in the absence of *actual* misappropriation, it is of practically no use to Texas practitioners because Texas is one of only five states that have yet to adopt the UTSA.[27] Moreover, to be entitled to injunctive relief, Texas courts have consistently required proof of actual harm. Nonetheless, an understanding of *PepsiCo v. Redmond*[28] is essential to a comprehension of the Doctrine and how it operates in both UTSA and non-UTSA jurisdictions.

B. *Redmond v. PepsiCo*

Redmond, a high-level PepsiCo manager who had access to "inside information and trade secrets," went to work for Quaker Oats' "sports drink" and "new age drinks" division.[29] The District Court granted PepsiCo an injunction to prevent Redmond "from divulging . . . trade secrets and confidential information [acquired at PepsiCo] in his new job [at Quaker Oats] and from assuming any duties with Quaker relating to beverage pricing, marketing, and distribution."[30] At the week-long preliminary injunction hearing, PepsiCo presented evidence

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[22] Nathan Hamler, *The Impending Merger of the Inevitable Disclosure Doctrine and Negative Trade Secrets: Is Trade Secrets Law Headed in the Right Direction?*, 25 J. Corp. L. 383, 391 (2000).

[23] Brandy L. Treadway, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine of Equitable Tool?*, 55 SMU L. Rev. 621, 624 (2002).

[24] *See* Hamler, *supra* note 22, at 386.

[25] Unif. Trade Secrets Act §2(a) (1985) (emphasis added).

[26] *See* Gregory Porter and Joseph Beauchamp, *The Inevitable Disclosure Doctrine and Its Effect on Employee Mobility*, Houston Lawyer, 36, 37 (November/December, 2006).

[27] Unif. Trade Secrets Act (1985) (Table of Jurisdictions Wherein Act Has Been Adopted).

[28] *See Redmond*, 54 F.3d at 1262.

[29] *Id.* at 1264.

[30] *Id.* at 1263.

showing that Redmond was privy to its Strategic Plan, which contained PepsiCo's plans to compete, financial goals, and its strategies for manufacturing, production, marketing, packaging, and distribution for the next three years.[31] Redmond had also been entrusted by PepsiCo with knowledge of its Annual Operating Plan, which included much of the same information as the Strategic Plan but was limited in scope to the following year.[32] The District Court adopted PepsiCo's position in its entirety and found that Redmond's new job at Quaker Oats posed a clear threat of misappropriation that could be enjoined.[33]

The Seventh Circuit affirmed the District Court injunction.[34] In so doing, the court recognized that "[t]he question of threatened or inevitable misappropriation . . . lies at the heart of a basic tension in trade secret law."[35] Recognizing that this tension is especially heightened when an injunction is sought to prevent the mere threat that misappropriation will occur, the Seventh Circuit concluded that under the Illinois Trade Secret Act,[36] "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."[37]

PepsiCo v. Redmond is of great importance for two reasons. First, it upheld an injunction preventing an employee from taking a position for a period of time, rather than enjoining merely the disclosure of trade secrets.[38] Second, it upheld an injunction where the former employee had not signed a covenant-not-to-compete.[39] It also expanded application of the Doctrine because it upheld an injunction outside the technical industry arena. Whereas the Doctrine historically only applied to prevent skilled employees in technical industries from taking jobs where they would inevitably disclose a former employee's trade secrets, *Redmond* expanded that concern to cover situations in which technical processes were not at issue, even though trade secrets were.[40] Although use of the Doctrine greatly increased after *Redmond*, disagreement continues regarding what elements must exist in order to apply the Doctrine.[41]

IV. TEXAS COURTS CONSIDER THE DOCTRINE

Despite the holding in *PepsiCo v. Redmond*, Texas continues to adhere to the Restatement 1st of Torts concept that a trade secret is not misappropriated until it is actually used.[42] Texas jurisprudence, however, has been trending toward a "watered-down" version of the Doctrine and has on occasion relied on a variation of the Doctrine to grant injunctive re-

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[31] *Id.* at 1265.

[32] *Id.*

[33] *Id.* at 1267.

[34] Pepsi Co. v. Redmond, 54 F.3d 1262, 1263 (7th Cir. 1995).

[35] *Id.* at 1268.

[36] Ill. Comp. Stat. Ann. 765 ILCS 1065/2-3 (1988).

[37] *Redmond*, 54 F.3 at 1269.

[38] *Id.* at 1272.

[39] *See Redmond*, 54 F.3d at 1262.

[40] Treadway, *supra* note 23, at 625.

[41] Godfrey, *supra* note 3, at 173.

[42] Troy A Martin, Comment, *The Evolution of Trade Secret Law in Texas: Is It Time to Recognize the Doctrine of Inevitable Disclosure?*, 42 S. Tex. L. Rev. 1361, 1388 (2001).

lief.[43]

A. Stepping Stones

One case from the Texas Supreme Court can be said to have set the precedent for the application of the Doctrine in Texas: *Hyde Corp. v. Huffines.*[44] In *Huffines*, the Court stated that "whether or not there is a breach of contract, the rule stated in this section subjects the actor to liability if his disclosure or use of another's trade secret is a breach of the confidence reposed in him by the other in disclosing the secret to him."[45] In *Huffines*, the parties had entered into a license agreement providing for royalty payments to the appellee based upon the appellee's invention.[46] The Court's holding was significant for recognizing a legal obligation on behalf of the appellant not to breach his duty of confidence despite the failure of the contractual language between the parties to preclude appellant from using the confidential information after termination of the license agreement.[47] Thus, the Court focused not on the misappropriation of trade secrets after the fact but on the breach of the employee's duty to keep the secrets confidential in the first place.

Nonetheless, the Doctrine is a "relatively new and unsettled concept under Texas law."[48] As the Houston First Court of Appeals noted in a 2003 decision, "no Texas case expressly adopt[ed] the inevitable disclosure doctrine, and it is unclear to what extent Texas courts might adopt it or might view it as relieving an injunction applicant of showing irreparable injury."[49] This is particularly so because "the fundamental premise of the inevitable doctrine is at odds with Texas' longstanding standards for misappropriation of trade secrets cases", including the "time-honored element" of misappropriation claims: the actual use of proprietary information.[50]

Earlier decisions by the Dallas and Houston Courts of Appeals, however, appear to have adopted some form of a "probable disclosure" rule. In the 1993 case of *Rugen v. Interactive Bus. Systems*, the Dallas Court affirmed a temporary injunction barring the defendant from soliciting or doing business with the plaintiff's customers that were identified on a customer list contained in a sealed exhibit and incorporated by reference in the injunction.[51] The plaintiff in *Rugen* was a computer personnel staffing company who had employed defendant as an account manager.[52] The defendant resigned and started her own computer personnel staffing

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[43] Treadway, *supra* note 23, at 642.

[44] *See generally* Hyde Corp v. Huffines, 314 S.W.2d 763 (Tex. 1958).

[45] *Id.* at 769.

[46] *Id.* at 766.

[47] *Id.*

[48] Patrick J. Maher, Covenants/Trade Secrets: A Continuing Education, Labor and Employment Law Section Annual Meeting of the State Bar of Texas, 12, http://www.shannongracey.com/documents/COVENANTS-TRADE%20SECRETS-%20a%20Continuing%20Evolution.pdf.

[49] Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230, 242 (Tex. App.—Houston [1st Dist.] 2003, no pet.); Maher, *supra* note 48, at 12.

[50] Maher, *supra* note 48, at 12; Martin, *supra* note 44, at 1376.

[51] *Rugen*, 864 S.W.2d at 553.

[52] *Id.* at 550.

company which competed directly with the plaintiff.[53] In upholding the temporary injunction, the court found that "the Defendant is in possession of [the plaintiff's] confidential information and is in a position to use it. Under these circumstances, it is probable that [the defendant] will use the information for her benefit and to the detriment of [the plaintiff]."[54]

The Houston First Court of Appeals addressed the issue in 1998 in *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc*.[55] In *T-N-T*, the plaintiff designed and sold high performance engine upgrades for various makes of vehicles.[56] Two employees involved in the manufacturing, sales, and research and development for T-N-T quit and started their own competing engine upgrade company.[57] The employees advertised that their product was identical to their former employer's product and provided similar packages, tests, equipment, and warranties.[58] The defendants further acknowledged that they had already taken three of the plaintiff's former customers.[59] Based on this, the court concluded that the defendants "possess [T-N-T]'s confidential information and are in a position to use it to compete directly with [T-N-T]," despite absence of a non-compete or confidentiality agreement.[60] As a result, the court enjoined the defendants from disclosing or using the specific trade secrets of the plaintiff.

In each of these cases, the courts were confronted with similar sets of facts. A plaintiff had hired or contracted with the defendant. As a necessary part in being able to perform his obligations, the defendant gained access to sensitive information including methods, research, designs, and client lists, to name a few. Both Dallas and Houston Courts of Appeal skirted the irreparable injury requirement, with each case turning on proof of actual possession of the confidential information of the former employer. Despite the lack of a non-competition or confidentiality agreement, these courts found that the defendants should be enjoined because of the probability that they would use the trade secrets garnered from their previous employer. However, unlike the Doctrine applied in *Redmond* to extend traditional trade secret misappropriation principles to cases where there is no evidence of actual, or even threatened, misappropriation or harm, the Texas courts in *Rugen* and *T-N-T* found that the former employees had actual possession of trade secrets, were in direct competition with their former employers, and were in a position to use the confidential information against them.

B. A Version of Doctrine Advances

In *Maxxim Medical, Inc. v. Michelson*,[61] a federal court in the Southern District of Texas, articulated a set of factors considered by various courts around the country that have adopted the inevitable or probable disclosure rule. These included the following:

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[53] *Id.* at 550.

[54] *Id.* at 552.

[55] *See generally* T-N-T Motorsports v. Hennessey Motorsports, 965 S.W.2d 18 (Tex. App.—Houston [1st Dist.] 1998, pet dism'd).

[56] *Id.* at 20.

[57] *Id.*

[58] *Id.*

[59] *Id.* at 20-21.

[60] *T-N-T Motorsports v. Hennessey Motorsports*, 965 S.W.2d at 22.

[61] Maxxim Med., Inc. v. Michelson, 51 F. Supp. 2d 773, 786 (S.D. Tex. 1999).

(1) degree of competition between the former and present employers;

(2) similarity between job positions;

(3) lack of candor on the part of the departing employee as to his or her new job;

(4) specificity with which the former employer has clearly identified the trade secrets;

(5) degree of actual use of trade secrets that has already occurred;

(6) existence of nondisclosure and noncompetition agreements between the former employer and employee;

(7) new employer's policies against use of trade secrets; and

(8) ability to sanitize the new position by taking steps to preclude improper use of trade secrets.[62]

The defendant in *Maxxim Medical* was a California salesman working for a Texas corporation that provided sterile prepackaged medical utensils to doctors.[63] The defendant was also a supervisor over other salesmen in California, Nevada, Arizona, and Texas.[64] After negotiating employment with another company but before resigning, the defendant asked another employee to print out a large batch of customer information that subsequently disappeared before the employee could get the list to the defendant.[65] The defendant admitted taking the list but said that the documents were illegible and useless.[66] After he left, other employees discovered that defendant had deleted a considerable amount of confidential information from his hard drive.[67] The federal district court found that because California had a greater interest in the outcome of this suit, California law should apply.[68] Concerning the misappropriation of trade secrets claim, the Court predicted that California would adopt the inevitable disclosure doctrine,[69] albeit an incorrect prediction. The court, applying the above factors, found that an injunction was appropriate to bar the defendant from working for a competitor.[70]

The Dallas Court of Appeals, in an unpublished opinion, came even closer to adopting a version of the Doctrine in *Conley v. DSC Communications Corp.*[71] In *Conley*, the defendant worked for DSC selling digital loop carriers for 16 years before leaving to work for

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[62] *Id.*

[63] *Id.* at 777.

[64] *Id.*

[65] *Id.*

[66] *Id.* at 778.

[67] *Maxxim*, 51 F. Supp. 2d at 786.

[68] *Id.* at 781.

[69] *Id.* at 786.

[70] *Id.* at 788.

[71] Conley v. DSC Commc'n Corp., No. 05-98-01051-CV, 1999 WL 89955 at *3 (Tex. App.—Dallas, Feb. 24, 1999) (not designated for publication).

AFC, a competing manufacturer of the same carriers.[72] Prior to his resignation, the defendant led the team for DSC responding to a major Request for Proposal ("RFP") from Sprint.[73] When defendant Conley left DSC for AFC, Sprint had narrowed its choice of digital loop carrier vendors to a short list including both DSC and AFC.[74] The plaintiff sought to enjoin the defendant based on the doctrine of inevitable disclosure.[75] The trial court granted an injunction enjoining Conley from working in any capacity to sell, market or support digital loop carrier products or aiding anyone else to do so, including Sprint.[76] Denying that the Court had previously adopted the Doctrine of Inevitable Disclosure, the Court acknowledged it had previously held that "enjoining an employee from using an employer's confidential information is appropriate when it is *probable* that the former employee will use the confidential information for his benefit (or his new employer's benefit) or to the detriment of his former employer."[77]

Conley argued that the Court should adopt the following factors when determining whether to enjoin an employee:

(1) whether the departing employee engaged in misconduct;

(2) whether the new employer needed its competitors information due to its own lack of technology;

(3) the degree to which the positions in question were similar;

(4) the efforts of the new employer to protect the former employer's trade secrets, and

(5) the existence of a noncompetition agreement between the former employer and departing employee.[78]

In applying the probable disclosure of trade secrets concept, the Court refused to rigidly apply Defendant's checklist in determining whether a temporary injunction should be issued.[79] However, it held that evidence of three of these factors could be helpful in supporting a trial court's decision to issue a temporary injunction "to the extent the factors show whether the employee is in possession of confidential information of his former employer and whether he or his new employer is in a position to use this information to the employee's or the new employer's advantage or the former employer's disadvantage."[80] These factors were: (1) the existence of misconduct upon the part of the departing employee, (2) the new employer's apparent need for the trade secret information of its competitors because of its lack of compara-

[72] *Id.* at 1.
[73] *Id.*
[74] *Id.*
[75] *Id.*
[76] *Id.*
[77] *Conley v. DSC Commc'n Corp.*, No. 05-98-01051-CV, 1999 WL 89955 at *4.
[78] *Id.*
[79] *Id.*
[80] *Id.*

ble technology, and (3) whether there is a significant degree of similarity between the employee's former and current positions.[81]

The existence of misconduct has been considered by several courts. The Dallas court in *Conley* determined that while evidence of misconduct would support the issuance of an injunction, the absence of such evidence does not preclude the trial court from entering an injunction.[82] The new employer's ability to use any trade secrets brought over by the employee is an important factor because it shows whether the employee is in a position to use confidential information.[83] Likewise, the degree of similarity between the current and former jobs is important because it too shows whether the employee is in a position to use confidential information.[84] The court ultimately upheld the injunction because "Conley was in a position to use DSC's confidential information for his or AFC's benefit or to DSC's detriment."[85]

In *Cardinal Health*,[86] the First District Court of Appeals in Houston declined to expressly adopt the Doctrine. The defendant in *Cardinal Health*, Bowen, had worked for PHR, a pharmacy staffing business.[87] When PHR was acquired by Cardinal Health, Bowen left to work for CompleteRx, a pharmacy management company that Bowen had worked with while in the employ of PHR.[88] Bowen left Cardinal Health roughly two months after the buyout.[89] Cardinal Health brought an appeal from the trial court's denial of a temporary injunction against Bowen and CompleteRx.[90] On appeal, Cardinal Health urged that it was not required to show irreparable injury to get the temporary injunction based on the Doctrine as discussed in *Rugen* and *Conley*.[91]

The appellate court acknowledged that there is no Texas case law expressly adopting the Doctrine, but noted that the Dallas Court of Appeals had adopted at least some version of the Doctrine.[92] Rather than reject the Doctrine, the court declined to expressly adopt the Doctrine based on a lack of evidence presented by Cardinal Health to grant an injunction even with use of the Doctrine.[93] Of particular importance is the court's express recognition and discussion of the Doctrine, even without deciding to adopt it.

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[81] *Id.* at 4-6.

[82] Conley v. DSC Commc'n Corp., No. 05-98-01051-CV, 1999 WL 89955 at *3.

[83] *Id.*

[84] *Id.*

[85] *Id.* at 8.

[86] *Cardinal Health*, 106 S.W.3d at 242.

[87] *Id.* at 233.

[88] *Id.*

[89] *Id.*

[90] *Id.* at 234.

[91] *Id.* at 241.

[92] *Cardinal Health*, 106 S.W.3d at 242.

[93] *Id.*

V. OBSTACLES TO ADOPTION OF THE DOCTRINE IN TEXAS

The struggle between an employee's right to change jobs and an employer's right to protect its trade secrets is at the heart of the debate over acceptance of the Doctrine. Refusal to use the Doctrine could invite the loss of valuable trade secrets and, thus, discourage certain research and development.[94] Likewise, "the right to work does not translate into the right to steal."[95] On the other hand, Texas continues to stand by the U.S. Supreme Court adage that a state should not prevent a person from practicing his chosen occupation in an arbitrary way.[96] This is true both in Texas' treatment of the Doctrine and longstanding view of covenants-not-to-compete. Even though Texas courts have yet to adopt the Doctrine, there is a clear move toward its acceptance or, at least, toward acceptance of the Doctrine's underpinnings.

VI. INEVITABLE VERSUS PROBABLE DISCLOSURE

The Texas cases that have accepted the Doctrine as a basis for enjoining employment by a former employee at a competitor have not adopted the Doctrine outright. In *Rugen*, *infra*, the Dallas court stated that where the defendant is in possession of another's confidential information and in a position to use it, it is probable that information will be used for to the defendant's benefit and the plaintiff's detriment.[97] The hesitancy of Texas courts to issue a definitive position on whether to apply the "probable disclosure" standard or the "inevitable disclosure" standard, assuming that there is a difference between the two, has led to confusion and, arguably, a more conservative standard for use of the Doctrine in granting injunctions.

"Inevitable disclosure" occurs when a defendant has confidential information and will not be able to avoid using that knowledge to unfairly compete against the plaintiff.[98] While a thing that is "inevitable" is incapable of being avoided or evaded,[99] a thing that is "probable," is only supported by evidence strong enough to establish a presumption, but is not proved.[100] The difference between these two standards, while seemingly negligible, is significant when used to determine whether or not an injunction should issue.

A doctrine of inevitable disclosure would require a showing that the circumstances of the case are such that there is no possible way that the defendant could work for his or her new employer without disclosing trade secrets or information acquired from his or her previous employer. A doctrine of probable disclosure, by comparison, appears to be a lesser standard, requiring proof only that that it is probable, or proof enough to establish a presumption, that the employee will disclose information. Without direction from the appellate courts, practitioners and trial courts have been left in the dark with little more than a match to light their way in trying to determine whether an injunction will be issued to prevent the improper disclosure of sensitive, valuable trade secrets.

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[94] *See* Porter, *supra* note 26, at 37.

[95] Martin, *supra* note 45, at 1381.

[96] Lee and Ben Debba, *supra* note 10, at 522.

[97] *Rugen*, 864 S.W.2d at 552.

[98] Black's Law Dictionary (8th ed. 2004).

[99] Merriam-Webster's Online Dictionary, *available at* www.merriam-webster.com/dictionary/Inevitable.

[100] Merriam-Webster's Online Dictionary, *available at* www.merriam-webster.com/dictionary/Probable.

VII. REQUIREMENT OF ACTUAL HARM

One aspect of the Doctrine that must be reconciled with Texas law is the requirement of actual, imminent, and irreparable harm in order to obtain injunctive relief. Because equitable relief is available under the Doctrine without the proof of actual harm to the former Employer, this could explain why Texas courts have been hesitant to expressly adopt the Doctrine.

Under Texas law, the injury underlying a claim for injunctive relief must be actual and substantial or a real affirmative prospect of an actual and substantial injury.[101] An injunction should not issue when the evidence shows that at most, plaintiff will suffer inconvenience.[102] Nor may an injunction be issued to prevent merely speculative harm.[103]

A. Comparison of Texas Non-Compete Law and The Doctrine

Perhaps the closest analogy to the Doctrine in Texas is the Non-Compete statute. Indeed, the concepts of unlawful competition and the presumed unlawful disclosure of trade secrets (under the Doctrine) seem to be inextricably linked by courts that have recognized the Doctrine. This is for good reason. The presumption that a former key employee will invariably disclose company secrets does not apply if the employee goes to work for a non-competitor. No actual harm can be done. Conversely, when a key employee who has had access to a company's trade secret information leaves to work for a direct competitor, these courts have effectively created an implied covenant-not-to-compete.

The biggest distinction between the concepts of a covenant-not-to-compete and the Doctrine is in their enforcement. The Doctrine, on the one hand, is based upon case law. In the jurisdictions where it is recognized, proof of actual harm is not required, but instead harm is presumed. On the other hand, for a non-compete agreement to be enforceable in the State of Texas, it must be express and comply with the statutory requirements. Injunctive relief cannot be had without proof of actual harm.

Generally, in order for the breach of such a covenant to occur, the Employee must also undertake a more active participation in the competing enterprise, such as giving the competitor the benefit of his experience, knowledge, and/or influence to assist the competitor in the conduct of his competing business, in addition to rendering financial assistance.[104]

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[101] Parkem Indus. Servs., Inc. v. Garton, 619 S.W.2d 428, 430 (Civ. App.—Amarillo 1981, no writ).

[102] Northcutt v. Waren, 326 S.W.2d 10, 10 (Civ. App.—Texarkana 1959, writ ref'd. n.r.e.).

[103] *See, e.g.,* Camarena v. Tex. Employment Comm'n, 754 S.W.2d 149, 151 (Tex. 1988) (at time of judgment, agency had not attempted to deny benefits of new legislation, so controversy before court was not ripe); Frey v. DeCordova Bend Estates Owners Ass'n, 647 S.W.2d 246, 248 (Tex. 1983) (no showing that association intended to assess fees); Benefield v. State *ex rel*. Alvin Cmty. Health Endeavor, Inc., 266 S.W.3d 25, 31 (Tex. App.—Houston [1st Dist.] 2008, no pet.) ("At most, Brazoria County has established a fear of the possibility of a future injury, and such a contingency 'is not sufficient to support issuance of a temporary injunction.'") (citing Reach Group, L.L.C. v. Angelina Group, 173 S.W.3d 834, 838 (Tex. App.—Houston [14th Dist.] 2005, no pet.)) (quoting EMSL Analytical, Inc. v. Younker, 154 S.W.3d 693, 697 (Tex. App.—Houston [14th Dist.] 2004, no pet.)).

[104] *See* Annotation, *Rendering Financial or Other Assistance to Another as Breach of Covenant not to Compete*, 1 A.L.R.3d 778, 785-86 (1965) (citing Pitts v. Ashcraft, 586 S.W.2d 685, 692 (Tex. Civ. App.—Corpus Christi 1979, writ refd n.r.e.).

However, engaging in actual competition is not actionable unless it results in real, measurable harm to the former employer. In *Prosperity Bank v. Rogge*, the bank sought to enforce a non-compete against a vice-president who investigated working elsewhere but was not hired by the competing entity. [105] The vice-president did not express any intention of breaching the agreement and had not been hired by competitor.[106] Because the former employer's suspicions were not supported by the evidence, Houston's First Court of Appeals held the bank suffered no irreparable harm and denied its request for injunctive relief holding that where "the record establishes 'only a fear of possible injury,' such a contingency 'is not sufficient to support issuance of a temporary injunction.'"[107]

Our sister court held that EMSL established only "a theoretical possibility that Younker could take Lockheed away as a customer" as well as "a theoretical possibility that Younker could divulge EMSL's confidential information to Lockheed or some other entity." [108] On the other hand, Younker's uncontroverted testimony refuted both of EMSL's theoretical reasons for needing a temporary injunction. [109] The court concluded that EMSL "failed to establish that it faced probable, imminent, and irreparable injury in the absence of a temporary injunction."[110]

B. The Doctrine and Texas Trade Secret Law

Likewise, Theft of Trade Secrets is not actionable in Texas if the threat is merely the possibility or likelihood that a former employee will use trade secret information at some point in the future to compete against his former employer. Texas jurisprudence requires that a party must show *actual damages* to prevail on a claim that a defendant tortuously interfered with its existing and prospective business relationships or misappropriated trade secrets.[111]

Recently, some Texas courts have applied a "use" standard as the basis for actual harm in dealing with the misappropriation of trade secrets.[112] Use (i.e., commercial use) generally occurs whenever there is "any exploitation of the trade secret that is likely to result in an

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[105] Prosperity Bank v. Rogge, No. 01-07-00161-CV, 2007 Tex. App. LEXIS 5505, *7-9 (Tex. App.—Houston [1st Dist.] 2007, no pet).

[106] *Id*. at *9.

[107] *Id.* at *15 (citing Reach Group, L.L.C. v. Angelina Group, 173 S.W.3d 834, 838 (Tex. App.--Houston [14th Dist.] 2005, no pet.)) (citing EMSL Analytical, Inc. v. Younker, 154 S.W.3d 693, 697 (Tex. App.—Houston [14th Dist.] 2004, no pet.).

[108] *EMSL*, 154 S.W.3d at 697.

[109] *Id*.

[110] *Id*. at 698 (citing Butnaru v. Ford Motor Co. 84 S.W.3d 198, 204 (Tex. 2002)). *Cardinal Health*, 106 S.W.3d at 242-43 (holding movant failed to demonstrate probable injury from violation of non-compete clause and possible violation of nondisclosure clause where former employee did not need to use former employer's confidential information in new job); *Benefield,* 266 S.W.3d at 31 (corporate dispute related to the appointment of a receiver; injunction rejected because no imminent harm shown, only the possibility of same.).

[111] *See* KTRK Television, Inc. v. Fowkes, 981 S.W.2d 779, 790 (Tex. App.—Houston [1st Dist.] 1998, pet. denied), *rev'd on other grounds*, 38 S.W.3d 103 (Tex. 2000); Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 463 (Tex. App.—Austin 2004, pet. denied); Speedemissions, Inc. v. Capital C Enters., 2008 LEXIS 7303, *7-8 (Tex. App.—Houston [1st Dist.] Aug. 28, 2008, no pet.).

[112] Cudd Pressure Control Inc. v. Roles, 2009 U.S. App. LEXIS 12607 (5th Cir. June 11, 2009).

injury to the trade secret owner or enrichment to the defendant." For an employee to have used a trade secret such that he would cause actual harm, he would need to misappropriate the secret, followed by an exercise of control and dominion over the information. An example of such use is found in *Cudd Pressure Control Inc. v. Roles*, where the 5th Circuit Court of Appeals ruled that an employee's use of his former employer's trade secret [a *Cudd* profit and loss statement to investors] in an effort to procure financing for the employee's new, competing company was sufficient "use" to cause actual harm whether by injuring the trade secret owner or enriching the competing company.[113]

However, the *Cudd* court found that the requirement of proof of damages actual harm under the Theft of Trade Secrets cause of action may be satisfied by a finding that the former employee is a fiduciary who breached his duty to his former employer not to disclose trade secrets after leaving the company. In applying the obligation of a fiduciary to the former employee, the 5th Circuit concluded that although "an employee may plan to go into competition with his employer, and such preparations will not constitute a breach of fiduciary duty…an employee 'may not appropriate his employer's trade secrets' or 'carry away certain information'".[114] In this sense, such an employee will be considered to have breached his fiduciary duty, injuring his former employer. Yet, the court noted, "one 'need not be damaged by a breach of fiduciary duty to be entitled to receive the benefits made from such a breach by the Defendants'" and the court cites to *Burrow v. Arce*, which states that:

> It is the agent's disloyalty, not any resulting harm, that violates the fiduciary relationship and thus impairs the basis for compensation. An agent's compensation is not only for specific results but also for loyalty. Removing the disincentive of forfeiture except when harm results would prompt an agent to attempt to calculate whether particular conduct, though disloyal to the principal, might nevertheless be harmless to the principal and profitable to the agent. The main purpose of forfeiture is not to compensate an injured principal, even though it may have that effect. Rather, the central purpose of the equitable remedy of forfeiture is to protect relationships of trust by discouraging agents' disloyalty.[115]

Thus, the 5th Circuit posits that actual "use" of the trade secret is not the only means by which an employee may injure his ex-employer. If the employee is properly a fiduciary, the mere carrying away of secret information is enough to cause injury, regardless of whether the trade secret is used to unfairly compete against his former employer.

The Restatement 3rd of Unfair Competition and Restatement 2nd of Contracts appear to provide the "innocent" employee who has been exposed to trade secrets but not used them with some protection against an absolute prohibition against working for a competitor in the future. Both Restatements make it clear that contractual restrictions on an employee's activities based upon exposure to trade secrets are only enforceable to the extent that such restrictions do not constitute an undue restraint on legitimate competition or trade and the re-

[113] *Id.* at 13.

[114] *Id.* at HN 6.

[115] *Id.* at 13; Burrow v. Arce, 997 S.W.2d 229, 238 (Tex. 1999).

straint must be ancillary to the competition.[116] The Restatement 3rd of Unfair Competition follows the law in Texas that a court may not "enjoin employees who had knowledge of a former employer's trade secrets from engaging in a particular occupation or working for a particular competitor in the absence of…clear evidence that the contemplated employment will result in disclosure of the secret."[117] Further, in the interest of safeguarding the employee's rights, the employer must meet a balancing test; i.e., whether the information sought to be protected exceeds the hardship on the employee and the likely injury to the public. The restraint of an employee cannot go so far as to limit competition in any business or restrict him from gainful occupation and earning his livelihood. But, in a departure from Texas jurisprudence, the both Restatements also allow more leeway in favor of employees when it comes to the fiduciary duty owed to their former employer. Rather than impose a rule that mere exposure to trade secrets without actual use would subject employees to a breach of fiduciary duty claim, the Restatement 3rd of Unfair Competition states that former employees are "entitled to exploit their general skill, knowledge, training, and experience, even when acquired or enhanced through the resources of the former employer," and, such information that formed the skills and knowledge cannot be claimed as a trade secret or breach of fiduciary duty by a former employer.[118]

VIII. TOWARDS A COMPREHENSIVE APPROACH TO TRADE SECRET PROTECTION

As discussed above, there is considerable overlap in the law and the Restatements governing the Doctrine, non-compete clauses, and trade secrets. In dealing with trade secrets alone, the Restatement 3rd of Unfair Competition cites to the Uniform Trade Secrets Act, Restatement 2nd of Torts, Restatement 2nd of Agency, and Restatement 2nd of Contracts as having concurrent authority, thereby giving a plaintiff numerous causes of action and avenues of relief arising out of a single allegation of trade secret theft.

Perhaps, the primary reason that the various laws, model codes, and authorities have not been condensed into a single, uniform source is the risk that valid bases for relief would be eliminated. This reflects the difficulty in creating a single, all-encompassing body of law to account for all of the disparate circumstances and myriad of exceptions that exist when dealing with the concepts of unfair competition, trade secrets, non-compete agreements, contracts and torts. When specifically taking the Doctrine of Inevitable Disclosure into consideration, this point is even more pertinent. Many jurisdictions, such as Texas, have not expressly adopted the Doctrine. Still, others use the Doctrine only in relation to non-compete clauses and injunctive relief. Further, there is the dispute among some jurisdictions as to whether the Doctrine should apply to a general unwillingness to preserve confidentiality or only to actual misappropriation.[119]

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[116] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 (1995); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 186 (1995); RESTATEMENT (SECOND) OF CONTRACTS §188 (1981).

[117] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 (1995).

[118] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 (1995); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 (1995).

[119] *See* 36 A.L.R. 6th 537.

However, the argument that a comprehensive approach should be adopted for dealing with confidential and trade secret information is highly appropriate given that the cases frequently deal with multiple, overlapping, and, sometimes, disparate principles of law. As demonstrated throughout this section, the Doctrine and non-compete clauses constantly form the basis of plaintiffs' complaints, as do the Doctrine and trade secrets, or the Doctrine, trade secrets, and non-compete clauses simultaneously.[120] While it may be difficult (if not impossible) to subsume all three areas into one overarching doctrine, the Restatement of Unfair Competition has already begun the process of addressing trade secrets, non-compete clauses, fiduciary duties, and confidentiality rights in setting out its standards.

Although there is not a clear answer as to how each of these areas of law should be systematically approached with respect to the other, there is a growing trend to include these three areas together within specific divisions of law.

D. Jurisdictions Rejecting the Doctrine

Since this article was originally submitted, acceptance of the Doctrine in the United States has remained relatively static, though most states have adopted the USTA. Texas remains in the company of a handful of jurisdictions that have neither rejected the Doctrine nor adopted it outright. Among the states adopting a "lite" version of the Doctrine are Connecticut, Massachusetts, North Carolina, and New York.[121]

Several states, including both California and Florida, have directly rejected the Doctrine.[122] Florida courts have recognized the Doctrine under its common law history. But, more recently, Florida has called the applicability of the Doctrine into question.[123] In a federal case commenting on both California and Florida law, the Southern District of Florida held that the Doctrine applies only in the complete absence of a non-compete agreement.[124] Interestingly, though, the court discussed threatened misappropriation and inevitable disclosure as if they are two wholly separate theories, rather than viewing the Doctrine as a means of proving up threatened misappropriation.[125]

On the other hand, California "has a strong public policy favoring employee mobility and voids most non-compete agreements."[126] As a result, it is understandable that California courts have been reluctant to accept a doctrine that produces the same result as an enforceable covenant-not-to-compete.[127] Although California adopted the injunctive provision of the UTSA,[128] in 1999, it rejected the Doctrine ignoring previous California cases establishing fac-

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[120] *See* 7 Tul. J. Tech. & Intell. Prop. 167.

[121] *See* Treadway, *supra* note 23, at 621-22.

[122] *Id*. at 646, 648.

[123] *See* Brandy L. Treadway, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine of Equitable Tool?*, 55 SMU L. Rev. 621, 624 (2002).

[124] *Id*. at 647.

[125] *Id*. at 647-48.

[126] Brandy L. Treadway, *supra* note 123, at 621.

[127] *Id*.

[128] *Id*.

tors for the Doctrine.[129]

For those states that have adopted the USTA, it appears acceptance or rejection of the Doctrine has turned on the provision of the USTA that "actual or threatened misappropriation may be enjoined." Because the UTSA fails to define the term "threatened" misappropriation, there has been a divergence of opinion on how threatened misappropriation should be addressed. The extremes of this diverging opinion are represented by the States of California and New York.

The California View

In *Whyte v. Schlage Lock Co.*, the California Court of Appeals found that the inevitable disclosure doctrine is contrary to California law and policy because it creates an after-the-fact covenant-not-to-compete restricting employee mobility.[130] Citing the *PepsiCo* case and the California Business and Professional Code §16600, the Court said:

> The chief ill in the covenant not to compete imposed by the inevitable disclosure doctrine is its after-the-fact nature: The covenant is imposed after the employment contract is made and therefore alters the employment relationship without the employee's consent. When, as here, a confidentiality agreement is in place, the inevitable disclosure doctrine "in effect convert[s] the confidentiality agreement into such a covenant [not to compete]." PSC, Inc. v. Reiss, supra, 111 F.Supp.2d at p. 257. Or, as another federal court put it, "[a] court should not allow a plaintiff to use inevitable disclosure as an after-the-fact non-compete agreement to enjoin an employee from working for the employer of his or her choice." Del Monte Fresh Produce Co. v. Dole Food Co., Inc., supra, 148 F.Supp.2d at p. 1337; see also Matheson, Employee Beware: The Irreparable Damage of the Inevitable Disclosure Doctrine (1998) 10 Loyola Consumer L.Rev. 145, 162 ["the inevitable disclosure doctrine transforms employee access to trade secrets into a de facto non-competition agreement"].

The doctrine of inevitable disclosure thus rewrites the employment agreement and "such retroactive alterations distort the terms of the employment relationship and upset the balance which courts have attempted to achieve in construing non-compete agreements." *EarthWeb, Inc. v. Schlack*, *supra*, 71 F.Supp.2d at p. 311. The result, as the EarthWeb court explained, is "the imperceptible shift in bargaining power that necessarily occurs upon the commencement of an employment relationship marked by the execution of a confidentiality agreement. When that relationship eventually ends, the parties' confidentiality agreement may be wielded as a restrictive covenant, depending on how the employer views the new job its former employee has accepted. This can be a powerful weapon in the hands of an employer; the risk of litigation alone may have a chilling effect on the employee." Id. at p. 310. As a result of the inevitable disclosure doctrine, the employer obtains the benefit of a contractual provision it did not pay for, while the employee is bound by a court-imposed contract provision with no opportunity to negotiate terms or consideration. *Matheson*, *supra*, 10 Loyola Consumer L.Rev. at p. 160.

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[129] *Id*. at 645.

[130] Whyte v. Schlage Lock Co., 101 Cal.App.4th 1443, 1446 (2002).

> Lest there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete. If a covenant not to compete (which would include, for example, a nonsolicitation clause), is part of the employment agreement, the inevitable disclosure doctrine cannot be invoked to supplement the covenant, alter its meaning, or make an otherwise unenforceable covenant enforceable. California law concerning enforcement of noncompetition agreements, not the inevitable disclosure doctrine, would measure the covenant's scope, meaning, and validity. Our opinion does not change that law. Under the circumstances presented in this case, an employer might prevent disclosure of trade secrets through, for example, an agreed-upon and reasonable nonsolicitation clause that is narrowly drafted for the purpose of protecting trade secrets. Thus, regardless whether a covenant not to compete is part of the employment agreement, the inevitable disclosure doctrine cannot be used as a substitute for proving actual or threatened misappropriation of trade secrets.[131]

More recently, however, the Fifth District Court of Appeal, in *Central Valley General Hospital v. Smith*, appeared to blur the distinction between "threatened" misappropriation and inevitable disclosure.[132] The defendant in that case argued that California's rejection of the inevitable disclosure doctrine effectively preempted a court's ability to enjoin conduct that "threatened" the disclosure of a trade secret. The Court disagreed, stating, "The principle that threatened misappropriation of trade secrets may be enjoined is the law of California despite the rejection of the inevitable disclosure doctrine by California courts."[133] The Court established four alternative fact criteria to consider when attempting to prove threatened misappropriation:

> (1) Proof that the former employer had protectable trade secrets, that those trade secrets remain in the knowledge of the former employee, and that the former employee has misused or disclosed some of those trade secrets in the past.[134] Evidence that a person has misappropriated trade secrets in the past is evidence sufficient to establish that that former employee may do it again;
>
> (2) Evidence that the former employee "intends to improperly use of disclose some of those trade secrets." This variant requires the moving party to establish the actual intent of the employee to misuse the trade secrets;
>
> (3) Proof that the former employee and new employer wrongfully refuse to return the trade secrets after a demand for their return has been made. The Court did not formally adopt this variant as an acceptable means of proving threatened misappropriation; rather, it merely assumed that such evidence might be sufficient to support an injunction; or

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[131] *Id.* at 1462-64.

[132] Central Valley General Hospital v. Smith, 162 Cal. App. 4th.501 (2008).

[133] *Id.* at 525.

[134] *Id.* at 527.

(4) Whether threatened misappropriation could be established if the only factual showing is the defendant was in actual possession of the trade secrets. The Court expressly found that a claim of threatened misappropriation "requires a greater showing than mere possession by the defendant of trade secrets where the defendant acquired the trade secret by proper means."[135]

While California has refused to adopt the inevitable disclosure doctrine, the doctrine of "threatened misappropriation" remains a viable alternative to enjoin the misuse or the misappropriation of trade secrets before the harm actually occurs.

E. States Accepting the Doctrine

Among the states adopting the inevitable disclosure doctrine, perhaps none has embraced and expanded the scope of it as arduously as the State of New York.

The New York View

In recent years, New York courts have shown a willingness to grant preliminary injunctions even where the employer presents no evidence of actual or intended disclosure of trade secrets but merely evidence that the employee will "inevitably" disclose the trade secrets in his new employment. In this way, the Doctrine can fill an evidentiary void, allowing an employer to make a critical showing without providing specific evidence of actual misconduct.

Essential factors in this analysis include: (1) the extent to which the new employer is a direct competitor of the former employer; (2) the degree of similarity between the employee's former and new positions; and (3) the value of the purported trade secrets to the new and former employers.[136] Other case-specific factors such as the nature of the industry or the former employer's efforts to prevent the disclosure of trade secrets may be considered as well.

In *IBM v. Papermaster*, the United States District Court for the Southern District of New York seemed willing to expand the scope of the inevitable disclosure doctrine even beyond other jurisdictions that have adopted the doctrine.[137] Historically, courts that have adopted the inevitable disclosure doctrine have done so to resolve the "threatened" misappropriation prohibition under the USTA. However, in *IBM v. Papermaster*, the Court treated the Doctrine as a separate article of proof justifying the issuance of an injunction prohibiting a former employee from joining a competitor. In this case, the Court found that a former employee may be enjoined from joining a competitor "[e]ven where a trade secret has not yet been disclosed" ruling that "irreparable harm may be found based upon a finding the trade secrets will inevitably 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."[138]

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[135] *Id.* at 528.

[136] *See, e.g.* Earth Web, Inv. v. Schlack, 71 F.Supp.2d 299, 310 (S.D.N.Y. 1999).

[137] IBM v. Papermaster, No. 08-CV-9078, 2008 WL 4974508 (S.D.N.Y. Nov. 21, 2008).

[138] *Id.* at *7 (citing Estee Lauder v. Batra, 430 F.Supp.2d 158, 174 (S.D.N.Y. 2006).

The *IBM* court further found that "because [defendant] has been inculcated with some of IBM's most sensitive and closely-guarded technical and strategic secrets, it is no great leap for the Court to find that plaintiff has met its burden of showing a likelihood of irreparable harm."[139] The *IBM* Court cited two factors that make the likelihood of irreparable harm more than mere speculation: (1) the defendant acknowledged in his employment agreement that IBM would suffer "irreparable harm" if he violated the noncompetition agreement; and, (2) it is inconceivable that the defendant would not draw upon his IBM experiences in making marketing decisions on behalf of his new employer.[140]

In *International Business Machines Corp. v. Visentin*, the Court refused to find that a former senior executive would *not* inevitably use or disclose the former employer's trade secrets.[141] Although the Court recognized that the doctrine could be used as the basis for an injunction in the appropriate case, it refused to apply the Doctrine to the facts in *IBM* due to the evidence of the employee's loyalty and good faith. Because of these actions taken by the employee, the Court posited that there was little risk that his work for his new employer, HP, would threaten IBM.

V. MEASURES EMPLOYERS CAN TAKE

While it is true that the Doctrine's use requires the restriction of a person's rights without proof that he or she as actually disclosed trade secrets, once such trade secrets have been disclosed, the secrecy may be lost and the damage irreversible . Rather than having to resort to the imperfect world of litigation, a company is far better off taking preventative measures to help protect against the misappropriation of its trade secrets. The following are several suggestions to minimize companies' risk of losing its confidential, proprietary, and trade secret information.

First, employers should have all existing employees in key positions enter into a non-compete agreement. This is often done by offering access to special training and access to confidential, proprietary and trade secret information. This applies to both current and new employees, while no additional consideration is required for new employees as long as they enter into the non-compete agreement at the time of hire. Where an existing employee has already been given access to such information, other consideration will be required. Covenants-not-to-compete that comply with the statutory criteria are enforceable by Texas courts.[142] The determination of which non-compete agreements are enforceable is necessarily fact-specific.

As the focus of its fact inquiry, the courts have tended to look at whether the non-compete is supported by adequate consideration and whether the restrictions placed on the employee are reasonable. Compensation and benefits have not historically been considered true

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[139] *Id.* at *8.

[140] *Id.* at *9.

[141] International Business Machines Corp. v. Visentin, No. 11 Civ. 399, 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011).

[142] TEX. BUS. & COM. CODE ANN. §15.50 (Vernon 2007). (a) Notwithstanding Section 15.05 of this code, and subject to any applicable provision of Subsection (b), a covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.

"consideration" for a Texas non-compete. Rather, the employer's need for the non-compete must be balanced by the promise to provide confidential data to the employee. Texas is somewhat unique in this regard. "Reasonableness" of the non-compete provision as a restraint upon trade is also of paramount importance. This requirement has been undergoing a steady evolution over the past several years.

In 2006, the Texas Supreme Court revisited the requirements of the non-compete statute with the case of *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson.*[143] The Court addressed concerns that have driven disputes over whether a covenant is ancillary to an otherwise enforceable agreement, such as the amount of information an employee has received, its importance, its true degree of confidentiality, and the time period over which it is received—should be addressed in determining (1) whether and (2) to what extent a restraint on competition is justified..[144] Thus, when the employer promised to disclose confidential information and to provide specialized training under an agreement and the employee promised not to disclose such confidential information, the covenant was ancillary to or part of agreement under these two requirements and enforceable, even for at-will employees.[145]

Under *Sheshunoff*, the consideration for the non-compete depended upon the *actual transfer* of trade secrets and confidential information from the Employer to the Employee. Merely placing an employee in a position to have *access to or develop* trade secrets or confidential information" is an illusory promise and cannot support a promise not-to-compete in return from an employee.[146] Therefore, in order for the breach of such a covenant to occur, the Employee must also undertake a more active participation in the competing enterprise, such as giving the competitor the benefit of his experience, knowledge, and/or influence to assist the competitor in the conduct of his competing business, in addition to rendering financial assistance.[147]

In 2009, the Texas Supreme Court in *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding* significantly diluted the requirement of mutuality in a contract in order to protect the employer's confidential information.[148] Here, the Court concluded that a one-sided promise by an employee not to use or disclose his employer's confidential information under a "client purchase provision" in an at-will employment agreement was an enforceable covenant-not-to-compete because: (1) the employee expressly promised not to disclose confidential information; and, (2) the employer, *by implication*, promised to furnish the employee with confidential information.[149] Therefore, the parties exchanged *mutual* promises and the "client purchase provision was part of an "otherwise enforceable agreement" under the Texas Business

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[143] Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 655 (Tex. 2006).

[144] *Id.* at 655-56.

[145] *Id.* at 648-49.

[146] *Id.* at 647.

[147] *See* Annot., Rendering Financial or Other Assistance to Another as Breach of Covenant not to Compete, *1 A.L.R.3d 778*, §3(b), pp. 785-86 (1965); *see also* Pitts v. Ashcraft, 586 S.W.2d 685, 1979 Tex. App. LEXIS 4069 (Tex. Civ. App.-Corpus Christi 1979, writ refd n.r.e.).

[148] Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844, 855 (Tex. 2009).

[149] *Id.* at 852.

and Commerce Code.[150]

Last year, the Texas Supreme Court continued its progressive expansion of the employer's rights holding that a covenant-not- to-compete signed by a *current employee* in consideration for stock options is *not unenforceable* as a matter of law.[151] Though the *Marsh* Court explicitly did *not* decide the "reasonableness" issue under Section 15.50(a) of the Texas Business and Commerce Code (i.e., whether the covenant "contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promise,") leaving that issue to the trial court to determine, the Court ruled that the non-compete was enforceable because the stock option linked the employee's interests to the company's long-term interests, which could justifiably be protected with a non-compete agreement.[152] Thus, existing employees who have already been provided access to their employer's confidential and/or trade secret information may still enter into an enforceable non-compete agreement by offering another form of consideration such as stock options.

Second, employers should also have existing employees sign a non-disclosure agreement acknowledging that they understand that they are bound under Texas law not to disclose information that is proprietary and confidential and/or trade secret information belonging to the employer. The document should specify that this duty exists both during and after service to their current employer.

Third, employers should make clear to competitors and employees, to the extent possible without seeming imperious, that to the degree employees use or provide to new employers confidential, proprietary and/or trade secret information and/or copyrighted or patent-pending/patented information belonging to the employer, the employer will hold them liable. This can further serve to ensure that departing employees know that in addition to the restriction on their use of the former employer's confidential information, there will be consequences to violations of their duties.

Fourth, periodic training among executives and management about how to prevent and detect misappropriation of proprietary and/or trade secret information can be of great advantage to companies that rely on confidential information in their business. Such training can be presented or facilitated by in-house or outside counsel. In addition to prevention of misappropriation, training sessions can be used to teach management how to gather evidence of any ongoing suspicions and the importance of presenting evidence to counsel as soon as possible.

Finally, the company should hold exit-interviews with any and all departing employees who have had access to or been entrusted with trade secrets and/or proprietary information. The exit-interview is a perfect opportunity to explain the employee's rights *and* restrictions on their use of information acquired while employed. If the employer learns that misappropriation has occurred or will likely occur with the new employer, the company should send a strongly worded demand letter to the former employee and his new employer threatening suit and injunctive relief if the company discovers evidence of misappropriation.

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[150] TEX. BUS. & COM. CODE ANN. § 15.50.

[151] Marsh USA, Inc. v. Cook, 2011 Tex. LEXIS 941 (Tex. 2011).

[152] *Marsh*, 2011 Tex. LEXIS 465, at *36.

VI. CONCLUSION

At the close of 2006, the U.S. District Court for the Southern District of Texas revisited the Doctrine in *Anadarko Petroleum Corp. v. Davis, et al*.[153] In *Anadarko*, Davis, a petroleum engineer, and Molleston, a senior landman, were employed by Anadarko.[154] Anadarko's predecessors had employed Davis for almost twenty years prior to Anadarko's merger with those companies.[155] In the summer of June 2006, both Molleston and Davis left to work for GeoSouthern, a company that had worked closely with Anadarko, Molleston, and Davis on several occasions.[156] At no point did Anadarko require Davis or Molleston to sign a noncompete agreement, only a statement agreeing to abide by the company's code of ethics, which addressed the use of confidential and proprietary information.[157]

The Court noted specifically in its fact recitation that Anadarko did not take the position that "as a result of working at Anadarko for such a long time, Davis. . .knew so much about the geographic areas where they worked as to make disclosure or use of that information inevitable if they worked for a competitor in the same area."[158] It is worth noting that the Court later refused to expand the injunction against Davis to prevent him from working for GeoSouthern.[159] The only explanation for the court's use of the language is that the Court inferred that had Anadarko alleged applicability of the Doctrine, the Court may have been willing to also prevent Molleston and, especially, Davis from working for GeoSouthern in any capacity.

Instead, the court held that under Texas law, "when a former employee misappropriates his employer's trade secrets, the appropriate remedy is to enjoin use and disclosure of those secrets, not to enjoin work in competition with the former employer."[160] The Court may have been relatively more lenient to Davis due to his candor during injunction proceedings, in which he admitted that he acquired Anadarko's confidential and proprietary information without authorization.[161] If nothing else, it seems that where an employee takes and utilizes confidential information of a previous employer, the Doctrine may be the only way to prevent that employee from using the information either intentionally or subconsciously by enjoining him or her from working for a direct competitor in the first place.

In a comparable ruling, *Baker Hughes Oilfield Operations, Inc., et al. v. Pathfinder Energy Services, Inc, et al.*,[162] the U.S. District Court for the Southern District of Texas ordered a preliminary injunction in September 2007, preventing the defendant from working for

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[153] Anadarko v. Davis, No. H-06-2849, 2006 WL 3837518 (S.D. Tex. Dec. 28, 2006).

[154] *Id.* at *2.

[155] *Id.*

[156] *Id.*

[157] *Id.*

[158] Anadarko v. Davis, No. H-06-2849, 2006 WL 3837518, at *3.

[159] *Id.* at *28.

[160] *Id.* at *24.

[161] *Id.* at *16.

[162] Baker Hughes Oilfield Operations, Inc. v. Pathfinder Energy Servs., Inc, No. 4:07-cv-2623 (S.D. Tex. Sep. 26, 2007) (order granting preliminary injunction).

Plaintiff's competitor "in any area which poses an inherent threat of disclosure or use of [Plaintiff's] Trade secrets" for one year.[163]

Yet, in the 2009 case of *M-I, L.L.C. v. Stelly*, the U.S. District Court for the Southern District of Texas went against the idea of "inherent threat of disclosure or use" to rule that former employees, whose jobs at the plaintiff's company innately exposed them to trade secrets and who had since moved on to a competitor's company, were not automatically injurious [to the interests of the plaintiff] merely because of their trade secret exposure, and, where there is no knowledge or proof of misuse of confidential information or injury, irreparable harm is not presumed.[164]

As more courts examine the applicability of the Doctrine of Inevitable Disclosure, it is possible that different standards will be applied depending on the circumstances under which the employee left the company.[165] For example, some have authorities have suggested that employees should be given more latitude in selecting a new employer when he or she has been involuntarily terminated without cause rather than when he or she has left to go work for a competitor.[166] However, the purpose of the Doctrine is to protect sensitive and valuable information, not protection of either the former employer or employee.

Ultimately, whether the adoption of the Doctrine in Texas is inevitable depends upon whether our courts are willing to circumvent the existing requirement of imminent, actual and substantial injury when there is no non-compete agreement and no evidence that trade secrets have or will be unlawfully transferred in order to prevent their possible disclosure.

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[163] *Id*. at *3.

[164] M-I, L.L.C. v. Stelly, No. H-09-cv-01552, 2009 U.S. Dist. LEXIS 65866 (S.D. Tex. July 30, 2009).

[165] *IP/Tech Advisor, De Facto Non-Competition Agreements: The Inevitable Disclosure Doctrine*, Aug, 9, 2001, http://www.inc.com/articles/2001/08/23292.html.

[166] *Id.*