

Fostering Economic Growth in the High-Technology Field: Washington Should Abandon its Recognition of the Inevitable Disclosure Doctrine

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I. INTRODUCTION

Business in the high-technology field moves at the speed of light. A highly competitive innovation rapidly loses its edge within a matter of months of its debut.¹ The people who develop software, crucial marketing schemes, and who otherwise deal with sensitive, valuable information are often highly skilled employees commanding top dollar for their services.² The main asset to a high-tech company is the know-how, or “intellectual capacity” of the company’s employees;³ accordingly, employers have a significant incentive to keep the know-how within their domain of property ownership.⁴

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1. Ronald J. Gilson, *The Legal Infrastructure of High-technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 603 (1999) (“Given the speed of innovation and the corresponding telescoping of product life cycles, knowledge more than a year or two old likely no longer has significant competitive value.”).

2. Kristina L. Carey, Comment, *Beyond the Route 128 Paradigm: Emerging Legal Alternatives to the Non-Compete Agreement and Their Potential Effect on Developing High-Technology Markets*, 5 J. SMALL & EMERGING BUS. L. 135, 136 (2001) (introducing the idea that the primary asset of a high-tech company is the “intellectual capital housed in the minds of its workforce”).

3. *Id.*

4. See Ann C. Hodges & Porcher L. Taylor, III, *The Business Fallout From the Rapid Obsolescence and Planned Obsolescence of High-Tech Products: Downsizing of Noncompetition Agreements*, 6 COLUM. SCI. & TECH. L. REV. 1, 3-4 (2005), available at <http://www.stlr.org/cite.cgi?volume=6&article=3> (noting that employers have the economic incentive to retain the employees that have the skills and knowledge that the employer needs).

There are two well-defined areas of law that have been used by employers to protect this valuable know-how: contract law and trade secret law. An additional method of protection, however, has been developed—the inevitable disclosure doctrine. This Comment discusses these three methods, and argues that the modern application of the third method should be abandoned by the State of Washington before it gains prominence in this jurisdiction.

The first method used to restrict employee mobility, the noncompetition agreement, has its roots in contract law.⁵ A noncompetition agreement is a contract in which an employee promises that, after the termination of employment, he will refrain from competing with his former employer's business for a specific amount of time and in a specific geographical region.⁶ Noncompetition agreements protect employers by preventing proprietary information from leaking into the hands of a competitor.

Distinct from the contractual solution is the second legal tool that protects employer-owned information from being stolen—the law of trade secrets. Trade secrets are inherently difficult to define,⁷ but can be generally regarded as secret business information that has value based on the fact that it is not widely known.⁸ Trade secrets can come in the form of a customer list, a process for manufacturing, or even a particular marketing scheme.⁹ All that is required is that the information be valuable while simultaneously being stored as a secret.¹⁰ The owner of the valuable, secret information must regard the information as valuable by keeping it a secret from competitors, and by leading other employees to believe that the information is to be kept under wraps.¹¹ Regardless of the existence of a noncompetition agreement, current and past employees are

5. *Id.* (“To retain valued employees in this age of change, employers frequently resort to covenants not to compete, restricting workers from departing to work for competitors . . .”).

6. Gilson, *supra* note 1, at 602–03.

7. William G. Porter II & Michael C. Griffaton, *Identifying and Protecting Employers' Interests in Trade Secrets and Proprietary Information*, 68 DEF. COUNS. J. 439, 440 (2001) (noting comment b to the Restatement (Second) of Torts Section 757 that “An exact definition of a trade secret is not possible.”).

8. See ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* 528 (2003).

9. RESTATEMENT (SECOND) OF THE LAW OF TORTS § 757.

A trade secret may consist of any formula, pattern, device, or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process for manufacturing, treating or preserving materials, a pattern or machine for other device, or a list of customers.

10. Jules S. Brenner, *The Doctrine of Inevitable Disclosure and its Inevitable Effect on Companies and People*, 7 L. & BUS. REV. AM. 647, 651 (2001).

11. *Id.* at 651.

under a duty to refrain from disclosing the trade secrets that their employer owns.¹²

Aside from the existence of a noncompetition agreement and trade secret misappropriation litigation, another way to retain the legal ownership of secret information is through the doctrine of inevitable disclosure.¹³ This doctrine allows a former employer to prevent a former employee from working for a new employer in a position where the former employee would inevitably disclose the former employer's trade secrets.¹⁴ The employer does not have to show that proprietary information was actually disclosed in order to obtain relief, but merely has to show that there is a very real possibility that such a disclosure would occur.¹⁵ This doctrine succeeds in containing proprietary information within the employer's domain of ownership because both employees and new employers do not want to run the risk of costly litigation by the former employer.¹⁶ Thus, the doctrine of inevitable disclosure operates as a de facto noncompetition agreement and limits employee mobility from one high-tech job to the next.

This Comment reviews Washington's trade secret law as well as its stance on noncompetition agreements and argues that Washington should abandon its prior recognition of the inevitable disclosure doctrine. The reasonableness standard used to judge the legality of noncompetition agreements should be applied with proper regard to the fast-paced nature of technological innovation. Technology-based industries have continued to lead the economy in Washington, and such industries "now account for the largest share of employment, business activity, and labor income of any major sector in the state's economic base."¹⁷ As compared to the rest of the country, Washington is "a center of technology-based employment and [research and development] activity,"¹⁸ and such industries

12. Carey, *supra* note 2, at 138.

13. See *id.* at 140 (Trade secrets law "allows an employer to protect its proprietary information from competitors, and can be used to lessen the damage caused by employee defection."); *id.* at 141 ("The non-compete covenant is another weapon in the arsenal of the employer who wishes to protect a legitimate business interest."); *id.* at 147 ("The [inevitable disclosure] doctrine essentially bridges the gap between trade secrets law and covenants not-to-compete The doctrine allows an employer to prevent or restrict a former employee from assuming tasks in a new setting where they will inevitably disclose trade secrets of the prior employer.").

14. *Id.* at 147.

15. *Id.* at 148.

16. See James Pooley, *Update on Trade Secret Law*, 764 PRAC. LAW INST. 173, 187 (2003) ("Covenants restricting an employee's right to compete following termination are one way to avoid the cost and unpredictability of trade secret litigation.").

17. William B. Beyers, *The Economic Impact of Technology-based Industries in Washington State*, at i. (Feb. 2005), http://www.technology-alliance.com/documents/economic_impact_2005.pdf.

18. *Id.* at 30.

are a growing sector in the Washington economy.¹⁹ The importance of such industries to the Washington economy makes it crucial that Washington courts continue to uphold reasonable noncompetition agreements. However, to allow for the continued growth and expansion of technology-based industries, the inevitable disclosure doctrine should not gain precedential value. Washington's recognition and enforcement of reasonable noncompetition agreements provides employers with sufficient protection of their legitimate business interests, and therefore the doctrine of inevitable disclosure is an overbroad restriction on employee mobility. The ability for high-tech employees to rapidly change jobs has been recognized as a key component to the creation of a successful, expansive technology-based economic community.²⁰ Overly restrictive noncompetition agreements and the inevitable disclosure doctrine together risk chilling high-tech growth by quelling employee mobility.²¹

Part II of this Comment discusses the history and need for trade secret law, while providing an overview of Washington's current application of trade secret law. This Part also notes the risks associated with enforcing a valid trade secret misappropriation claim. Part III addresses the history and importance of noncompetition agreements, as well as their inherent conflict with the notion of employee mobility. Washington's recognition of reasonable noncompetition agreements is also discussed. Part IV discusses the modern application of the doctrine of inevitable disclosure, as well as the benefits and costs of recognizing the doctrine in Washington. Finally, Part V argues that Washington should abandon its recognition of the inevitable disclosure doctrine and maintain its reliance on the enforcement of reasonable noncompetition agreements.

II. TRADE SECRET LAW

The law of trade secret protects valuable secret business information from misappropriation by others.²² A misappropriation of a trade secret requires a showing that (1) the information is a "trade secret" and that (2) the appropriator disclosed, acquired, or used the secret

19. *Id.* at 32.

20. Carey, *supra* note 2, at 137. See also Gilson, *supra* note 1, at 603 (noting that the speed of innovation in the high-tech field combined with product life cycles makes any knowledge about such technology less valuable after one to two years).

21. See Gilson, *supra* note 1, at 624 (discussion on noncompetition agreements). See also *id.* (discussion regarding the inevitable disclosure doctrine).

22. SCHECHTER & THOMAS, *supra* note 8, at 528.

information in a way that is recognized as legally wrongful.²³ Misappropriation occurs when improper means are used to acquire the secret knowledge.²⁴

Trade secrets are one of the most valuable assets that a company can own.²⁵ In regard to the high-technology field, the majority of the valuable, secret information classified as a trade secret is “‘tacit’ knowledge and know-how.”²⁶ An employee’s knowledge of how a specific firm’s technology works or how the marketing is effective comes from the hands-on experience that the employee obtains while performing his daily duties on the job. An employee’s worth to a firm is derived, in part, from the possession of such information.²⁷ When an employee changes jobs, the information that he used at his prior job is transferred to the employee’s new employer, for better or for worse. It is this “knowledge spillover”²⁸ that contributed to the success of the high-tech industry in Silicon Valley.²⁹ Naturally, the employer who has spent effort and money on recruiting, educating, and cultivating the employee seeks to protect the tacit knowledge from leaking into the competitor’s domain.³⁰

A. The Formulation of Trade Secret Law in the United States

American trade secret law owes its heritage to the English common law.³¹ In the early 1800s, the English Courts of Equity first considered the misappropriation of secret subject matter.³² The U.S. courts turned to these English decisions when confronted with complex commercial

23. Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167, 196 (2005) (listing the definition for misappropriation as given in the Uniform Trade Secrets Act (UTSA)).

24. *Id.* The definition of “improper means” under the UTSA includes “theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy, or espionage through electronic or other means.” *Id.*

25. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 243 (1998).

26. Gilson, *supra* note 1, at 595.

27. *Id.* (noting that the trade secret aspect of a firm’s intellectual property portfolio is “embedded in the employee’s human capital.”).

28. *Id.* A firm’s intellectual property often comprises informal information about research and development, hands-on experience, etc., which is housed in the human capital of the firm’s employees. Thus, when an employee leaves one firm for another, this trade secret information spills over to the new firm.

29. *Id.* (“Because California does not enforce post-employment covenants not to compete, high technology firms in Silicon Valley gain from knowledge spillovers between firms.”).

30. *Id.* Individual employers have an interest in protecting their intellectual capital in the form of trade secrets by preventing knowledge spillover.

31. SCHECHTER & THOMAS, *supra* note 8, at 529.

32. *Id.* Schechter and Thomas refer the reader to I MELVIN F. JAGER, TRADE SECRET LAW § 2.01 (1998) for a discussion of the English development of trade secrets.

disputes that arose out of the Industrial Age.³³ The 1868 *Peabody v. Norfolk*³⁴ decision by the Massachusetts Supreme Judicial Court is considered the first legal opinion to firmly establish the law of trade secrets in the United States.³⁵ Since then, state law has continued to amor- phously define trade secret law.³⁶ To that end, three model acts have been codified in order to create a definitive definition of "trade secret" and promote uniformity amongst the states.³⁷

The first codified model act dealing with trade secret protection is the Restatement of Torts, first published in 1939.³⁸ The Restatement defined the subject matter that constituted trade secret, as well as outlined the elements for a cause of action based on the misappropriation of a trade secret.³⁹ Section 757 defined trade secret as "any formula, pattern, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."⁴⁰

The second model act dealing with trade secret protection is the Uniform Trade Secret Act (UTSA), which was published in 1979 by the National Conference of Commissioners on Uniform State Law.⁴¹ The declarations in the UTSA regarding trade secrets were based on both the first Restatement of Torts and intervening case law.⁴² The UTSA defines trade secret as follows:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁴³

33. SCHECHTER & THOMAS, *supra* note 8, at 529.

34. 98 Mass. 452 (1868).

35. Bone, *supra* note 25, at 252.

36. *Id.* at 248 ("Since its emergence in the middle of the nineteenth century, trade secret law has developed primarily as a creature of state common law.").

37. Brenner, *supra* note 10, at 652. The three model codes are as follows: the RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939), the UNIFORM TRADE SECRETS ACT (1979), and the RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995).

38. See SCHECHTER & THOMAS, *supra* note 8, at 529.

39. RAPHAEL V. LUPO & DONNA M. TANGUAY, WHAT CORPORATE AND GENERAL PRACTITIONERS SHOULD KNOW ABOUT IP LITIGATION 78 (1991).

40. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939); see also Brenner, *supra* note 10, at 652.

41. SCHECHTER & THOMAS, *supra* note 8, at 530.

42. Carey, *supra* note 2, at 139.

43. UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 438 (1979).

Lastly, trade secret has also been defined by the Restatement (Third) of Unfair Competition.⁴⁴ Here, a trade secret is “any information that can be used in the operation of a business or other enterprise that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”⁴⁵

Trade secrets are recognized in all jurisdictions of the United States⁴⁶ and are traditionally the subject of state law.⁴⁷ A majority of states, including Washington,⁴⁸ have adopted the UTSA, in whole or in part, while six states have yet to do so.⁴⁹ While there is large-scale adoption of the UTSA, both the definition of what information constitutes a trade secret as well as the procedural aspects of trade secret litigation make trade secret law less protective than one might initially perceive.⁵⁰

B. The Protection Afforded by Trade Secret Law

In order for information to qualify as a “trade secret” under the UTSA definition, it must be unknown to the relevant industry, the owner must receive some type of economic advantage by virtue of the information being a secret, and the owner must reasonably attempt to keep the information a secret.⁵¹ The employer who wants to prevail on a claim for trade secret misappropriation will need to prove that the information is actually a protectable trade secret and that it was improperly acquired by the defendant.⁵²

The first element of trade secret misappropriation is that the information must be classified as a trade secret.⁵³ At first glance it may seem like this would be an easy element to prove, especially because so many

44. Brenner, *supra* note 10, at 654.

45. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

46. William Lynch Schaller, *Jumping Ship: Legal Issues Relating To Employee Mobility in High-Technology Industries*, 17 LAB. LAW. 25, 51 (2001).

47. Brenner, *supra* note 10, at 652. (“Trade secret law is an amalgam of state law developed and adopted from uniform federal acts.”). However, the federal government engaged in trade secret lawmaking when it passed the Economic Espionage Act of 1996, codified at 18 U.S.C. §§ 1831-39. This Act will not be addressed in this Comment, as it is outside the scope of the pertinent issue at hand. For further discussion, see James H.A. Pooley, *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177 (1997).

48. WASH. REV. CODE § 19.108.010 (2006). The definition given for trade secret is identical to that promulgated in the UTSA and was adopted by Washington without change.

49. Rowe, *supra* note 23, at 193-94 (forty-four states, including Washington D.C., have adopted UTSA, but Massachusetts, New Jersey, New York, North Carolina, Texas, and Wyoming have not).

50. Gilson, *supra* note 1, at 597-600.

51. Schaller, *supra* note 46, at 51.

52. Gilson, *supra* note 1, at 598.

53. See Rowe, *supra* note 23, at 196. The definition for misappropriation as given in the UTSA is listed.

states have adopted the UTSA. However, the UTSA definition does not resolve the inherent difficulty in defining protectable subject matter.⁵⁴

The second element of trade secret misappropriation is the existence of improper means to acquire the information.⁵⁵ As with the first element, the definitional problem associated with trade secret law affects the ease of proving the second element; it is difficult to prove that illicit means were used to procure the trade secret if it is unclear as to what information constitutes a protectable trade secret in the first place. The blurred line between what types of information can actually be classified as a trade secret coupled with the risks inherent in the litigation makes trade secret misappropriation litigation undesirable.⁵⁶

1. The Definitional Problem: What Type of Information Is Protected as a Trade Secret?

(a) Protectable Subject Matter

The distinguishing line between what constitutes the employee's own general knowledge and what constitutes the employer's trade secret remains ambiguous.⁵⁷ Absent a bright-line definition,⁵⁸ multiple types of information can be classified as a trade secret, as long as the information is kept sufficiently quiet.⁵⁹ There are, however, three basic requirements for information to qualify as a trade secret: (1) the information must be a secret in fact;⁶⁰ (2) the information must be valuable as a result of not being known or readily ascertainable by others;⁶¹ and (3) the owner of the information must have made reasonable efforts to keep the information a secret.⁶²

The first requirement of actual secrecy eliminates protection for information that can be ascertained by reverse engineering or through relatively easy independent discovery.⁶³ However, a party seeking to prove actual secrecy does not have a high burden to meet this requirement.

54. See Gilson, *supra* note 1, at 599 ("The substantive problem relates to the imprecision of the lines that the UT[S]A requires a litigant to establish.").

55. See Rowe, *supra* note 23, at 196. The definition of "improper means" under the UTSA includes "theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy, or espionage through electronic or other means." *Id.*

56. Gilson, *supra* note 1, at 599-600.

57. *Id.* at 599.

58. See SCHECHTER & THOMAS, *supra* note 8, at 531.

59. Rowe, *supra* note 23, at 194. For example, information such as customer lists, pricing policies, supplier lists, and chemical formulas qualify as "trade secrets."

60. Bone, *supra* note 25, at 248.

61. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1995).

62. See Bone, *supra* note 25, at 248.

63. *Id.* at 249.

Absolute secrecy is not demanded; the proprietor of the secret can share the secret information with other employees on a need-to-know basis in order to realize the commercial benefit of the secret knowledge.⁶⁴

The second factor, the requirement that the information be of value, is not normally at issue in trade secret litigation. An owner would not typically be willing to pay the high costs of litigation and run the risk of divulging confidential information if the secret was not of value.⁶⁵ Further, this requirement is very general and can be satisfied by anything that has a potential to generate commercial value.⁶⁶ However, regardless of the information's value, a firm that has been the target of trade secret misappropriation in the past may be willing to sue for misappropriation simply to harass the defendant-competitor.⁶⁷ Similarly, a firm may engage in litigation to harass a defected employee from engaging in his own start-up company, merely to quash potential competition in the future.⁶⁸

The last factor used to decide whether the information qualifies as a trade secret is whether the owner took reasonable steps to maintain secrecy.⁶⁹ Reasonable attempts to keep the information a secret can include, for example, securing the information as sensitive data or providing a secure access system to such information via locks or guards.⁷⁰

Defining what types of information constitute a trade secret is a tricky task.⁷¹ It is difficult, if not impossible, for an employer to accurately gauge whether it has a successful misappropriation claim simply because the employer does not have an adequate way to detect the theft of a trade secret.⁷² Similarly, the employee may not know what

64. *Id.* at 248–49.

65. See SCHECHTER & THOMAS, *supra* note 8, at 533 (“The high cost of enforcing intellectual property rights suggests that plaintiffs will only commence litigation concerning information of considerable value.”).

66. Bone, *supra* note 25, at 248 (referring to commercial value requirement as competitive advantage, but the terms are used interchangeably).

67. See *id.* at 279 (“Indeed, the circumstances of trade secret cases and the uncertainty of trade secret law create incentives for frivolous litigation designed to harass competitors rather than obtain relief for trade secret misappropriation.”).

68. *Id.*

69. See *id.* at 248.

70. See generally ROBERT C. DORR & CHRISTOPHER H. MUNCH, PROTECTING TRADE SECRETS, PATENTS, COPYRIGHTS, AND TRADEMARKS § 2.05 (3d. ed. Supp. 2003) (noting the various procedures that an employer may take to protect secret information from disclosure).

71. See Gilson, *supra* note 1, at 599 (defining what are employer-owned trade secrets and what is employee-owned knowledge is a “judgment call for the trier of fact.”); see also Katherine V.W. Stone, *Knowledge at Work: Disputes Over the Ownership of Human Capital in the Changing Workplace*, 34 CONN. L. REV. 721, 756 (“[A] trade secret is not a self-defining term. Different courts, at different times, have used different definitions of what constitutes a trade secret.”).

72. Bone, *supra* note 25, at 278. The intangible nature of trade secrets makes the traditional signs of property theft inapplicable in a misappropriation suit. Further, reverse engineering and inde-

information he can divulge or use while employed in his new position. This potentially increases the risk that the employee will be liable for the misappropriation of a trade secret.⁷³

(b) Improper Use, Disclosure, or Acquisition

The definitional problem with trade secret also implicates the second element of a misappropriation claim because it makes more difficult the task of proving that a defendant used illicit means to obtain the secret information. If a supposed owner cannot precisely define what he has lost, he will have a difficult time showing that the asset was illegally obtained by the defendant.

The misappropriation of trade secrets generally occurs in two different ways. First, a person who has no relationship to the owner of the secret may acquire the secret information through improper acquisition, or illegal acts.⁷⁴ This type of misappropriation covers situations where a defendant acquires the information via theft, fraud, or bribery.⁷⁵ Second, a misappropriation can occur when there is breach of a confidential relationship where the duty to protect the trade secret is either explicitly made in a contract or implied through the parties' relationship.⁷⁶ This Comment focuses on the second type of misappropriation.

2. The Procedural Problem with Trade Secret Law

As discussed, trade secret litigation can be a lengthy, expensive process due to the imprecise nature of the requisite elements.⁷⁷ Further, the inherent nature of a misappropriation claim renders it unlikely to be resolved via summary judgment; rather, a strong possibility exists that any resolution would require a full trial.⁷⁸ This procedural aspect leads to increased uncertainty regarding the outcome of a misappropriation

pendent discovery are two means by which a competitor can come across the secret in a manner that is not unlawful.

73. See Carey, *supra* note 2, at 141. Carey discusses how the information that a former employee takes with him to a new firm is seen as an important ingredient for creating start-up companies. *Id.* If what is considered "proprietary information" is defined broadly, then employees will be discouraged from leaving their current positions out of fear that they will be embroiled in litigation with their former employer. *Id.*

74. This type of misappropriation will not be covered in this Comment, as this type demands that the wrongful appropriator violate an express agreement not to compete, in which the contract was entered into for the purpose of keeping a trade secret under wraps from a competitor.

75. UNIF. TRADE SECRETS ACT § 1(2)(i) (amended 1985), 14 U.L.A. 438 (1979).

76. *Id.* § 1(2)(ii).

77. Gilson, *supra* note 1, at 599.

78. See *id.* at 599-600.

claim.⁷⁹ Also, there is a risk that bringing a trade secret misappropriation claim will potentially erase the secret status of the information as the enforceability of the claim may require full disclosure of the information during the discovery process.⁸⁰

However, there are two procedural rules that offer limited protection of trade secrets during litigation. Under Federal Rule of Civil Procedure 26(c)(7), the court may exempt trade secrets from discovery during the litigation process.⁸¹ Additionally, under Rule 45, federal courts may modify or quash subpoenas that require the disclosure of trade secrets.⁸² While these rules do provide some protection to the trade secret holder, courts seemingly favor open disclosure of trade secrets during the litigation process.⁸³

3. The Usefulness of Trade Secret Law

While a misappropriation claim may be difficult to use successfully against ex-employees and their new firms,⁸⁴ trade secret law is still valuable to the intellectual property scheme in the United States. Trade secret law provides protection for valuable information that cannot be protected by other means.⁸⁵ As such, the protection afforded to secret information affects employers and employees in the high-technology field.⁸⁶ Trade secret law protects certain subject matter from falling into the public domain, giving inventors legal means to protect their technology.⁸⁷ An

79. *Id.* at 600. Gilson makes the inference that there is uncertainty with regard to the outcome of a case when technical issues are tried by a jury. *See id.*

80. SCHECHTER & THOMAS, *supra* note 8, at 532.

81. *Id.* (Courts can require that "a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a designated way.") (quoting FED. R. CIV. P. 26(c)(7)).

82. *Id.*

83. *Id.*

84. *See* Gilson, *supra* note 1, at 597–601. The substantive and procedural problems inherent in trade secret misappropriation litigation make it expensive and uncertain.

85. *See* Bone, *supra* note 25, at 248. Bone claims that trade secret law is not a necessary source of protection for information because he believes that, subject to a few limited exceptions, contract law is a more viable means of affording greater, more efficient protection to the proprietors of trade secrets. *Id.* This author does not refute Bone's thesis, but rather discusses the interplay between trade secret law and that of the specific contract law governing noncompetition agreements. Bone does say, however, that "trade secret law protects unpatentable as well as patentable information." *Id.*

86. *See* Carey, *supra* note 2, at 140–41.

Traditional trade secrets law has obvious implications within a competitive technology-based market Broad interpretation of information as proprietary might both discourage employees from forming new companies out of fear that they will find themselves entangled in litigation with former employers, and damage the employer's company, which will no longer be able to freely profit from the knowledge and experience of new hires.

Id.

87. SCHECHTER & THOMAS, *supra* note 8, at 528–29.

inventor can protect his invention in one of two ways: (1) maintaining the technology as a trade secret, or (2) applying for and obtaining federal patent protection.⁸⁸ The second option, however, is not always available.⁸⁹ Not all subject matter is patentable; for example, customer lists or marketing techniques have value to the inventor/proprietor but are not protected under the patent laws.⁹⁰ Further, an inventor may be in the process of applying for patent protection but may still need the protection afforded via trade secret law in order to keep the invention within his domain of ownership.⁹¹ Therefore, in many cases, ownership rights over innovative technology can only be secured under trade secret law,⁹² without it, the technology would fall into the public domain⁹³ and the inventor would no longer be able to lay claim to the technology's ownership rights.

Even where patents are an option for protection, trade secret is often the preferred mode of protection. First, the protection afforded by trade secret attaches automatically to the secret information; in contrast, a patent only protects valuable information after an application is filed with the U.S. Patent and Trademark Office (PTO) and after a patent is issued.⁹⁴ Additionally, trade secret protection continues until the owner fails to keep the information secret, which can be in perpetuity, while patent protection only exists for a twenty year period.⁹⁵

As discussed, the difficulties and uncertainties of successful trade secret misappropriation litigation prompt employers to seek protection for their trade secrets in the realm of contract law as opposed to intellectual property law.⁹⁶ Contract principles are well established and well understood by employers, courts, and (arguably) employees. The next

88. *Id.* ("Trade secrecy serves as the chief alternative to the patent system. An inventor must either maintain a technology as a trade secret, seek patent information from the PTO [Patent and Trademark Office], or allow the technology to enter the public domain.").

89. See SCHECHTER & THOMAS, *supra* note 8, at 529.

90. *Id.*

91. See Bone, *supra* note 25, at 271 (noting that firms can use patent law to protect finalized research projects, but can use trade secret law to protect the intermediate results of those projects). See generally SCHECHTER & THOMAS, *supra* note 8, at 529. Trade secret law is one of the two ways for an owner of a technology to establish secure property rights in the technology. *Id.* The patent system is the other method, and it follows that an invention that is in the process of obtaining patent protection will remain protected by trade secret while the patent application process endures. *Id.*

92. Bone, *supra* note 25, at 271.

93. *Id.*

94. Roger Braunfeld & Thomas O. Wells, *Protecting Your Most Valuable Asset: Intellectual Property*, IT PROF., Mar.-Apr. 2001, at 14-15.

95. *Id.* at 15. See also SCHECHTER & THOMAS, *supra* note 8, at 528 ("Trade secret status is not limited to a fixed number of years, but endures so long as the information is valuable and maintained as a secret.").

96. Pooley, *supra* note 16, at 187. ("Covenants restricting an employee's right to compete following termination are one way to avoid the cost and unpredictability of trade secret litigation.").

Part discusses the application of noncompetition agreements toward the goal of trade secret protection.

III. NONCOMPETITION AGREEMENTS: OVERVIEW AND APPLICATION IN WASHINGTON STATE

A. The History of Noncompetition Agreements

During the Middle Ages, English common law prohibited noncompetition agreements because they were viewed as restraints on trade.⁹⁷ However, once capitalism began to guide England's public policies, limited restraints on trade were recognized by the English courts.⁹⁸ The "rule of reason" test used to judge the validity of modern day noncompetition agreements comes from the English case *Mitchel v. Reynolds*.⁹⁹ In that case, the court recognized situations where legitimate business purposes compel an employer to execute a noncompetition agreement with an employee.¹⁰⁰ The *Mitchel* court thus recognized that a legitimate business purpose coupled with the existence of adequate consideration given in return for the promise not to compete in the future could justify a restrictive noncompetition agreement.¹⁰¹

Later, the English court factored public interest into the reasonableness analysis. In *Horner v. Graves*,¹⁰² the court held that the reasonableness of the restraint was also guided by any potential impact that the agreement may have on the relevant public welfare.¹⁰³ Noncompetition agreements that unreasonably harmed the public welfare were unenforceable regardless of the existence of a legitimate business purpose and adequate consideration.¹⁰⁴

These rules were eventually transferred to the United States. The Supreme Court adopted the "rule of reason" as the test for determining the enforceability of a noncompetition agreement in the seminal case of *Oregon Steam Navigation Co. v. Winsor* in 1874.¹⁰⁵ In that case, the Court determined the restrictive agreement as enforceable even though the agreement's geographic scope was unusually broad, encompassing

97. Brian Kingsley Krumm, *Covenants Not to Compete: Time for Legislative and Judicial Reform in Tennessee*, 35 U. MEM. L. REV. 447, 450 (2005).

98. *Id.* at 451.

99. 24 Eng. Rep. 347 (Q.B. 1711) (cited in Krumm, *supra* note 97, at 451).

100. Krumm, *supra* note 97 at 451–52. There had to be an essential or economic business purpose behind the noncompetition agreement in order for it to be reasonable.

101. *Id.* at 452 (citing to the *Mitchel* decision).

102. 131 Eng. Rep. 284 (C.P. 1831) (cited in Krumm, *supra* note 97, at 452).

103. Krumm, *supra* note 97, at 452.

104. *Id.*

105. 87 U.S. 64 (1874) (cited in Krumm, *supra* note 97, at 453).

the entire state of California.¹⁰⁶ The decision was based on the legitimate business interest held by the seller of the steamboat, and thus the restriction was deemed reasonable. The *Oregon Steam Navigation* decision nationally established that the rule of reason test governed the enforceability of noncompetition agreements.¹⁰⁷

B. Employer Incentives for Noncompetition Agreements

An employer's incentive to retain an employee turns on the employee's value to the firm.¹⁰⁸ In today's economy, human capital has been viewed as an increasingly important factor in a firm's marketplace success and its competitive advantage.¹⁰⁹ This is especially true in the high-technology field because technical know-how and creativity¹¹⁰ lead to innovation.¹¹¹ A high-tech firm has a strong interest in obtaining and retaining its employees because the majority of its intellectual property is contained in the human capital of the company's employees.¹¹²

Employee mobility is greater now than it has ever been.¹¹³ The large amount of employee turnover witnessed in the high-technology sector is due in part to the "culture of mobility"¹¹⁴ created by a geographical region's legal infrastructure. When a new employee starts working at a firm, that employee has the opportunity to educate the more senior employees, raising the level of innovation and efficiency at the firm.¹¹⁵ This education of senior employees is an added bonus for the

106. *Id.* This case was decided prior to California's adoption of § 16600, which prohibits restrictive employment covenants in California. CAL. BUS. & PROF. CODE § 16600 (1941).

107. Krumm, *supra* note 97, at 453.

108. See generally Katherine V.W. Stone, *The New Psychological Contract: Implications of the Changing Workplace for Labor and Employment Law*, 48 UCLA L. REV. 519, 576-77 (2001) (discussing how employee knowledge of how his employer-company works is one of the employer's major assets, which provides the incentive to require employees to sign noncompetition agreements).

109. Hodges & Taylor, *supra* note 4, at 3.

110. It is the combination of technical knowledge and creativity that is the human capital asset housed in the mind of the employee.

111. Hodges & Taylor, *supra* note 4, at 4.

112. Gilson, *supra* note 1, at 595.

113. Hodges & Taylor, *supra* note 4, at 2 ("[E]mployee mobility has increased, particularly in the information industry.").

114. Hodges & Taylor, *supra* note 4, at 5 (citing Gilson, *supra* note 1, at 590, for the proposition that the legal infrastructure of California that bars noncompetition agreements has led to Silicon Valley's success because employees were able to freely move from one employer to another and thus knowledge was able to flow to new firms, benefiting the industry as a whole).

115. See Gilson, *supra* note 1, at 595. Gilson refers to employee mobility as being the source by which the new employer gains knowledge of a competitor's intellectual property. *Id.* It follows that the knowledge the employee possess (who is probably hired because he possess some knowledge which will result in an economic gain to the new firm) will be useful to the new employer if the employee shares his knowledge with his coworkers or uses his knowledge while performing his employment duties.

new firm: not only did it acquire the new employee for a specific task which the employee has the skills to complete, but the employee has made other employees more valuable as well.¹¹⁶ Such knowledge spillover is credited with the economic success of Silicon Valley.¹¹⁷ While this spillover is a boon for the new employer, it can be equally regarded as a loss for the previous employer, and it is this loss that employers seek to avoid via the use of noncompetition agreements.¹¹⁸

Additionally, the fast-paced nature of the high-technology industry increases an employer's desire to retain employees for the period in which the employee's knowledge remains valuable.¹¹⁹ The value of technological advancements in the high-tech industry is affected by time: the fact that such advancements are commercially valuable for a short period of time also makes the knowledge, or trade secret, known by an employee obsolete after a short period of time.¹²⁰ This rapid obsolescence of employee knowledge has an impact on the reasonableness of the time constraint imposed by a noncompetition agreement, and thus, should be taken into consideration by Washington courts when evaluating the reasonableness of noncompetition agreements.

While the rapid obsolescence of a technological advance might initially seem to make a knowledgeable employee less valuable as time passes, the employee knows yet other information that confers a competitive advantage to the employer.¹²¹ Employees have valuable knowledge about the employer's business operations, organizational aspects, markets, competitors, customers, and production methods, to name a few examples.¹²² Further, employees have "negative knowledge"¹²³ about the

116. *Id.* Gilson notes that laws that are favorable to employee mobility allow for employees to share their prior knowledge with their new co-workers (this is "knowledge spillover"), making the new firm better off because now all employees benefit from the knowledge the new employee possesses. *Id.* A legal infrastructure that allows for a high degree of employee mobility is one factor that positively influences industry-wide growth in a given geographic area. *Id.*

117. *Id.* The employee's change of jobs is the mechanism by which the knowledge has the opportunity to leak to new coworkers.

118. See generally Stone, *supra* note 108, at 577.

Increasingly, employers are requiring employees to accept covenants not to compete or covenants not to disclose confidential information at the outset of an employment relationship. And increasingly, employers are suing their former employees at the end of an employment relationship, seeking to enjoin them from taking knowledge acquired on the job with them to use on behalf of a competitor.

119. Gilson, *supra* note 1, at 603. Gilson states that noncompetition agreements are effective in the high-technology industries because the speed of innovation and corresponding life cycles makes knowledge that is greater than one to two years old basically obsolete of any competitive value. *Id.*

120. Hodges & Taylor, *supra* note 4, at 13.

121. Stone, *supra* note 108, at 576.

122. *Id.*

123. *Id.* Negative knowledge is, for example, the processes, methods, and technologies that do not work and therefore do not directly confer a competitive advantage on the employer.

types of things that have been tried but that ultimately failed; this knowledge saves the employer money and time from attempting to duplicate unsuccessful endeavors.¹²⁴

Knowledge spills over into the relevant commercial area when employees are free to switch between employers.¹²⁵ However, the rate and substantiality of the spillover is sharply curtailed when noncompetition clauses are introduced into the employment contract.¹²⁶ Because the knowledge spillover is what helps to account for a geographic area's innovative success, the existence of noncompetition agreements can drastically reduce the amount of technological innovation that a particular area otherwise aims to generate.¹²⁷ With this in mind, a state that is home to high-tech firms and recognizes reasonable noncompetition agreements should carefully consider the impact of such recognition on the future growth of the state's high-tech industry.

C. Washington's Recognition of Noncompetition Agreements

Washington recognizes reasonably written noncompetition agreements.¹²⁸ Because a noncompetition agreement is essentially a contract where an employee promises not to compete with his employer in the future, consideration¹²⁹ must be given for the contract to be upheld.¹³⁰ Notably, all of the standard contract defenses, such as estoppel, fraud, duress, and lack of consideration are available to challenge the validity of the promise not to compete.¹³¹ The three main benefits of a noncompetition agreement are: (1) it provides the employer with the immediate ability to seek judicial relief because an employee's simple act of joining a competitor is specifically in violation of the agreement;¹³² (2) it represents a bargained-for agreement of an employment restriction, and as such, courts are more likely and more willing to issue injunctive relief

124. *Id.*

125. *See* Gilson, *supra* note 1, at 603.

126. *Id.*

127. *Id.* The existence of noncompetition agreements impacts the potential for a district to host the type of economy that is present in Silicon Valley. Noncompetition agreements halt employee mobility, which then prevents the significant amount of knowledge spillover that is needed for a district to obtain a districtwide innovation cycle.

128. Knight, Vale & Gregory v. McDaniel, 37 Wash. App. 366, 369, 690 P.2d 448, 451–52 (1984).

129. DORSEY & WHITNEY LLP, THE 2003 EMPLOYMENT LAW HANDBOOK: A PRACTICAL GUIDE FOR WASHINGTON EMPLOYERS 96 (2003) (“‘Consideration’ is a bargained-for exchange of promises or things . . .”).

130. *Id.* (“[C]onsideration is usually the most important issue in determining contract validity.”).

131. Schaller, *supra* note 46, at 38.

132. *Id.* at 42.

on behalf of the former employer;¹³³ and (3) it serves as a deterrent for other employers when they consider hiring a person who is bound by such an agreement.¹³⁴

An effective noncompetition agreement discourages an employee from leaving her current job given the fear of liability.¹³⁵ Tangentially, a competitor-firm may also shy away from hiring an employee who is party to such an agreement in order to avoid litigation in the future.¹³⁶ As a consequence, the knowledge spillover in the relevant high-tech industry is lessened and the innovation within the relevant industry becomes internalized.¹³⁷ The district-wide innovation that is present in places like Silicon Valley is no longer a reality, as employees remain in current positions and competitors seek employees from other sources.¹³⁸

1. Requirement of Adequate Consideration

A contract must be valid in order to be enforceable.¹³⁹ In other words, consideration must be given to the employee in exchange for the employee's promise not to compete within a certain geographic area for a certain period of time.¹⁴⁰ In Washington, the general rule for consideration in the noncompetition agreement context is that consideration exists if the employee enters into the contract at the time when he is hired.¹⁴¹ However, the courts also recognize the existence of adequate consideration when additional benefits are given to an employee after that employee has already begun to work for the employer.¹⁴² Recently, the Washington Supreme Court held that continued employment is not valid consideration for a noncompetition agreement.¹⁴³ Therefore, an employee's promise not to compete must be given in return for something

133. *Id.* at 42–43.

134. *Id.* at 43.

135. Gilson, *supra* note 1, at 606.

136. *See* Rowe, *supra* note 23, at 210. When there is a noncompetition agreement in place and an employee has been hired by the former-employer's fierce competitor, then "the balance tips toward the issuance of an injunction." The inference is that former employers have incentive to litigate against the new employer for taking their old employee.

137. Gilson, *supra* note 1, at 603.

138. *See generally id.* at 602–03 (discussing the effect that noncompetition agreements have on employee mobility and thus innovation in a district).

139. DORSEY & WHITNEY, *supra* note 129, at 96.

140. *Id.*

141. *Labriola v. Pollard Group, Inc.*, 152 Wash. 2d 828, 834, 100 P.3d 791, 794 (2004) (recognizing *Racine v. Bender*, 141 Wash. 606, 615, 252 P. 115, 118 (1927)).

142. *See* Wood v. May, 73 Wash. 2d 307, 310–11, 438 P.2d 587, 589–90 (1968) (holding that the consideration was adequate because the promise not to compete was given in return for the employer's promise to teach the employee specific skills).

143. *Labriola*, 152 Wash. 2d at 830, 100 P.3d at 792.

other than continued employment, such as a pay raise, additional training, or increased benefits.¹⁴⁴

2. Requirement of Reasonableness

Once the court has established the validity of the contract between the former employer and employee, the inquiry focuses on the reasonableness of the noncompetition agreement itself.¹⁴⁵ Washington courts will enforce noncompetition agreements when the agreement is reasonable.¹⁴⁶ This is a case-by-case factual analysis wherein the court determines what type of employer-protection is needed under all of the facts and circumstances.¹⁴⁷ The reasonableness of such agreement turns on three factors. The first factor is whether the employer needs the restraint to protect its business or goodwill.¹⁴⁸ The second factor focuses on the scope of the restraint, which calls for a determination of whether the agreement restrains the employee too much in light of the reasonable necessity of protecting the employer's interests.¹⁴⁹ The third factor looks into the degree of public injury that the restraint will create when the employee is no longer allowed to provide his services and skill in another job.¹⁵⁰ The determination of whether the noncompetition agreement is reasonable requires balancing the employer's protectable business interest, the effect the agreement will have on the employee's ability to earn a living, and the public policy covering competition.¹⁵¹

Moreover, to determine the reasonableness of the noncompetition agreement, courts will take into account the scope of the restraint with regard to the duration and geographical limitations that are placed on the employee.¹⁵² In making this determination, the courts look into the type of business that the employer is engaged in, as well as the activities that the agreement prohibits the employee from participating in when compared to the activities that the employee provided for the former employer.¹⁵³

144. DORSEY & WHITNEY, *supra* note 129, at 79.

145. Knight, Vale & Gregory v. McDaniel, 37 Wash. App. 366, 369, 690 P.2d 448, 451-52 (1984) (restrictive covenants are enforceable as long as they are "reasonable").

146. David K. DeWolf, Keller W. Allen, & Darlene S. Barrier, *Covenants not to Compete*, in 25 WASH. PRAC., CONTRACT LAW AND PRACTICE § 15.5 (2006).

147. DORSEY & WHITNEY, *supra* note 129, at 98.

148. Knight, Vale & Gregory, 37 Wash. App. at 369, 690 P.2d at 452.

149. *Id.*

150. DeWolf et al., *supra* note 146, at § 15.5.

151. JERRY COHEN & ALAN S. GUTTERMAN, TRADE SECRETS PROTECTION AND EXPLOITATION 170 (1998).

152. DORSEY & WHITNEY, *supra* note 129, at 98.

153. Cohen, *supra* note 151, at 170.

The reasonableness of the geographical scope contained in the non-competition agreement depends on the type of business that the employer is involved in, as well as the trends of the marketplace.¹⁵⁴ In contrast to several other jurisdictions, Washington has not yet determined the enforceability of a global noncompetition agreement.¹⁵⁵

The reasonableness of the time constraint imposed on the employee is judged on a timeframe that would be necessary to protect the employer's legitimate business interest.¹⁵⁶ The actual items that need to be protected from divulgence by the employee will guide this factual inquiry.¹⁵⁷ With regard to the high-tech field, the rapid obsolescence of information should be a key component in determining the reasonableness of the time constraint. In fact, in *EarthWeb Inc. v. Schlack*,¹⁵⁸ the court held that the twelve month time constraint imposed on the ex-employee was unreasonable in the dynamic internet industry and, as such, the noncompetition agreement was deemed unreasonable.¹⁵⁹

Washington's enforcement of reasonable noncompetition agreements does not mean that the courts do not value the freedom of employment. Rather, the reasonable enforcement of such agreements recognizes the inherently competing, but equal, concerns of protecting the rights of the employer and the freedom of employment and mobility.¹⁶⁰ Under the reasonableness standard, the Washington courts are able to enforce valid, properly scoped noncompetition agreements¹⁶¹ which better reflect the position that the parties bargained for.¹⁶²

3. Availability of Judicial Modification: The Blue Pencil Test

Washington is a "blue pencil" jurisdiction, which means that the court will enforce a noncompetition agreement to the extent that it is

154. RAMSEY M. AL-SALAM, LAWRENCE R. COCK & TRACY L. LEMKE, NAT'L BUS. INST., TRADE SECRECY AND NON-COMPETITION COVENANTS IN WASHINGTON: EFFECTIVE DRAFTING AND ENFORCEMENT 13 (2004).

155. See, e.g., *McRand, Inc. v. Van Beelen*, 486 N.E.2d 1306, 1315 (Ill. App. Ct. 1985), cert. denied, 490 N.E.2d 1302 (Ill. 1986) (nationwide or unlimited territorial prohibitions may be legitimate "if their purpose is to protect an employer from losing clients to a former employee who gains special knowledge of the client's needs while employed.").

156. See DORSEY & WHITNEY, *supra* note 129, at 98-99.

157. *Id.* at 98.

158. 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

159. *Id.* at 313.

160. DeWolf et al, *supra* note 146. ("Public policy requires a court to carefully examine covenants not to compete, even when protection of a legitimate business interest is demonstrated, because of equally competing concerns of freedom of employment and free access of the public to professional services.").

161. *Id.* ("Washington courts will enforce covenants of non-competition if the covenant is reasonable.").

162. Carey, *supra* note 2, at 151.

reasonable.¹⁶³ This standard allows courts to strike unreasonable language from an overly broad noncompetition agreement so that it is narrow enough to pass the scrutiny of geographical and timeframe reasonableness.¹⁶⁴ Under the blue pencil test, a court can modify the agreement to save an overly broad and restrictive noncompetition agreement from complete unenforceability.¹⁶⁵ However, a court need not save an overly broad noncompetition agreement as the blue pencil modification is purely discretionary.¹⁶⁶ Usual modifications include a narrowing of the geographic scope¹⁶⁷ or a limiting of the timeframe of the agreement's enforceability.¹⁶⁸

4. Relief Available

An employer with a contractually valid, judicially reasonable non-competition agreement can seek a variety of remedies to obtain relief for a breaching ex-employee. First and foremost, the employer can immediately apply for a temporary restraining order (TRO). A TRO will be granted where the enforcement of the agreement is crucial and where a failure to immediately restrain the ex-employee from competing will result in irreparable harm.¹⁶⁹ Second, an employer may also file for preliminary and permanent injunctions in order to prevent the employee from engaging in the type of competition that was spelled out in the agreement.¹⁷⁰ Finally, the employer can seek damages from the breach of contract by filing a complaint, while also asserting a variety of other claims, such as trade secret misappropriation and breach of fiduciary duty.¹⁷¹

163. *Perry v. Moran*, 109 Wash. 2d 691, 703, 748 P.2d 224, 230 (1987).

164. *DORSEY & WHITNEY*, *supra* note 129, at 100.

165. Washington first recognized the blue pencil test in *Wood v. May*, 73 Wash. 2d 307, 313, 438 P.2d 587, 591 (1968), when the supreme court rejected the line of reasoning that required failure of the non-compete when the clause was unreasonable with regard to time and area. Instead, the court chose to follow the case law of other states, where the restraint would be enforceable to the extent that it was reasonable and lawful. *Id.*

166. *DORSEY & WHITNEY*, *supra* note 129, at 100.

167. *See, e.g., Alexander & Alexander, Inc. v. Wohlman*, 19 Wash. App. 670, 578 P.2d 530 (1978), *review denied*, 91 Wn.2d 1006 (1978); *see also Wood v. May*, 73 Wash. 2d 307, 310, 438 P.2d 587, 589 (1968) (noting that modification was permitted).

168. *Armstrong v. Taco Time Int'l, Inc.*, 30 Wash. App. 538, 543, 635 P.2d 1114, 1118 (1981) (explaining the rule).

169. *DORSEY & WHITNEY*, *supra* note 129, at 101.

170. *Id.*

171. *Id.* at 103.

IV. THE DOCTRINE OF INEVITABLE DISCLOSURE

Aside from the protection afforded to trade secrets through the UTSA and the enforcement of noncompetition agreements, Washington courts may have also recognized the doctrine of inevitable disclosure as another way to protect intellectual property owned by companies.¹⁷² The doctrine of inevitable disclosure is a way to obtain relief from the threatened disclosure of a trade secret.¹⁷³ The UTSA definition of misappropriation allows for the doctrine by permitting employers to protect both actual and threatened misappropriation.¹⁷⁴ However, adoption of the UTSA does not guarantee that specific states individually recognize inevitable disclosure.¹⁷⁵ For example, California has adopted the UTSA but has explicitly rejected the doctrine.¹⁷⁶ By contrast, New York recognizes the doctrine but it remains one of six states that has not adopted the UTSA.¹⁷⁷ Where a noncompetition agreement is signed, the doctrine

172. See *Solutec Corp. v. Agnew*, No. 16105-6-111, 1997 WL 794496, at *1 (Wash. App. Dec. 30 1997).

173. Rowe, *supra* note 23, at 181.

174. *Id.* at 196. The definition of misappropriation under the UTSA is as follows:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret by another without express or implied consent by a person who: (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use, knew, or had reason to know, that his knowledge of the trade secret was: (I) derived from, or through, a person who had utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or, (III) derived from, or through, a person who owed a duty to the person seeking relief to maintain secrecy or limit its use; or (C) before a material change of his 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.

Id.

175. *Id.* at 197. Rowe notes:

Because of the UTSA's prohibition against threatened misappropriation, it would seem that states that have adopted the UTSA would have more favorable treatment of the inevitable disclosure doctrine than those who have not. However . . . that is not the case. Some states that have adopted the UTSA, like California, have rejected the inevitable disclosure theory. On the other hand, New York and New Jersey have not adopted the UTSA, but they have adopted the doctrine.

Id.

176. See, e.g., *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1112-13 (N.D. Cal. 1999) ("The theory of 'inevitable disclosure' is not the law in California."); *but see Carey*, *supra* note 2, at 148 (citing *Electro Optical Industries, Inc. v. White*, 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999), a California case that *has* adopted the doctrine) ("Although no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and . . . [w]e adopted the rule here.").

177. See, e.g., *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 316 (S.D.N.Y. 1999); *Marietta Corp. v. Fairhurst*, No. 37265, slip op. 50351U (N.Y. Sup. Ct. 2002), *rev'd*, 754 N.Y.S.2d 62 (N.Y. App. Div. 2003); *see also supra* note 49.

finds support in the public policy of honoring parties' expectations that valid contracts will be enforced.¹⁷⁸

The doctrine of inevitable disclosure is a separate method for enjoining the threatened misappropriation of a trade secret, regardless of the existence of a noncompetition agreement.¹⁷⁹ The courts use this doctrine to restrict, and sometimes prevent, former employees from taking jobs with a new employer where the employee will inevitably disclose the confidential trade secrets of the former employer.¹⁸⁰ As such, the concept has grown out of the evolution of trade secret law.¹⁸¹ To obtain relief under this doctrine, the plaintiff need not prove that misappropriation has already occurred; rather, the plaintiff only must prove that there is a "genuine threat of disclosure."¹⁸²

For the plaintiff to obtain an injunction, either temporary or permanent, based on a genuine threat of disclosure, the plaintiff must prove two elements.¹⁸³ First, the plaintiff must show that the former employee has specific knowledge¹⁸⁴ of the plaintiff's trade secrets.¹⁸⁵ Next, the plaintiff must show that the employee will inevitably use the specific knowledge at her new position.¹⁸⁶ The plaintiff can meet these requirements by showing that (1) the former and current employer are competitors,¹⁸⁷ (2) the employee's duties at both the former and current position have significant similarities such that the performance of duties will require her to use or disclose the former employer's trade secrets,¹⁸⁸ and (3) the current employer has not taken measures to prevent the occurrence of trade secret misappropriation.¹⁸⁹

178. Rowe, *supra* note 23, at 206 ("In cases where the employee signed a noncompetition agreement, the argument that the public has the right to expect that valid agreements will be enforced, takes center stage.").

179. *Id.* at 175.

180. Carey, *supra* note 2, at 147.

181. Brenner, *supra* note 10, at 658.

182. Carey, *supra* note 2, at 148.

183. Rowe, *supra* note 23, at 214.

184. *Id.* at 213. Specific knowledge is knowledge about something that can be classified as a trade secret. General knowledge, on the other hand, cannot be classified as a trade secret; it is knowledge that belongs to the employee and can be used by the employee in whatever capacity the employee so chooses. Examples of general knowledge are experiences gained from years of working in the industry or from education and training.

185. *Id.* at 214.

186. *Id.*

187. Carey, *supra* note 2, at 147-48.

188. *Id.*

189. *Id.*

A. History and Application of the Doctrine

Legal commentators generally credit the Seventh Circuit's holding in *PepsiCo, Inc. v. Redmond*¹⁹⁰ with creating the modern expression of the doctrine of inevitable disclosure.¹⁹¹ Prior to the holding in *PepsiCo*, courts applied similar theories but had not used the words "inevitable disclosure."¹⁹² In *PepsiCo*, the district court issued a preliminary injunction, which prevented the defendant and ex-PepsiCo employee, Redmond, from assuming any duties with Quaker Oats relating to beverage pricing, marketing, and distribution.¹⁹³ Both PepsiCo, as maker of "All Sport," and Quaker Oats, as the producer of "Gatorade," were competing in the sports drinks beverage market at the time of this litigation.¹⁹⁴ Redmond had worked for PepsiCo for ten years, and while he had signed a confidentiality agreement, he had not signed a noncompetition agreement.¹⁹⁵ After Redmond left PepsiCo to accept a position with Quaker Oats, PepsiCo sued Redmond and Quaker Oats, seeking injunctive relief.¹⁹⁶

On appeal, the Seventh Circuit upheld the injunction¹⁹⁷ and noted that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that [the] defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."¹⁹⁸ The appellate court also relied on the factors used by the district court to indicate whether misappropriation was inevitable.¹⁹⁹ These factors included: (1) the current employer's policies concerning the use of the former employer's trade secrets; (2) the employee's candor in discussing the new employment opportunity with the former employer; (3) the employee's degree of knowledge concerning the former employer's trade secrets; (4) the scope of the employee's current position; and (5) whether there had been any occurrence of actual trade secret misappropriation.²⁰⁰

190. 54 F.3d 1262 (7th Cir. 1995).

191. Brenner, *supra* note 10, at 659.

192. Rowe, *supra* note 23, at 172 n.9 (citing *FMC Corp. v. Varco Int'l Inc.*, 677 F.2d 500, 500-05 (5th Cir. 1982); *Fountain v. Hudson Cush-N-Foam Corp.*, 122 So. 2d 232, 232-34 (Fla. Dist. Ct. App. 1960); *Nat'l Starch & Chem. Corp. v. Parker Chem. Corp.*, 530 A.2d 31, 31-33 (N.J. Super. Ct. App. Div. 1987); see also Brenner, *supra* note 10, at 659 n.85 (listing various other cases that involve inevitable disclosure prior to the *PepsiCo* decision).

193. *PepsiCo*, 54 F.3d at 1263.

194. Rowe, *supra* note 23, at 172.

195. *Id.*

196. *Id.* at 173.

197. *PepsiCo*, 54 F.3d at 1272.

198. *Id.* at 1269.

199. Brenner, *supra* note 10, at 660.

200. *Id.*

Legal scholars have written extensively about the *PepsiCo* holding and its implications for employee mobility rights, litigation costs, and technological advancement.²⁰¹ Washington courts should use these critiques to evaluate whether to fully adopt the doctrine.

B. Washington's Application of the Doctrine

Washington's UTSA²⁰² allows trade secret owners to seek injunctive relief for actual or threatened trade secret misappropriation.²⁰³ Some courts seated within states that have adopted the UTSA have interpreted the language of the Act as allowing injunctions even in the absence of a showing that an employee actually disclosed or used a trade secret. It is this interpretation that allows for the recognition of the inevitable disclosure doctrine.²⁰⁴

Citing to *Solutec Corp., Inc. v. Agnew*,²⁰⁵ intellectual property law commentators, as well as some courts,²⁰⁶ have noted that Washington implicitly recognizes the inevitable disclosure doctrine.²⁰⁷ While this unpublished opinion cannot establish precedent, it does imply that some courts believe that Washington's UTSA permits recognition of the doctrine.²⁰⁸ In *Solutec*, Mr. Burke, the owner and CEO of Solutec Corporation, was a chemical engineer who had developed an edible apple wax

201. See Rowe, *supra* note 23; Gilson, *supra* note 1; Stone, *supra* note 108; Stone, *supra* note 71, at 757–759.

202. WASH. REV. CODE § 19.108.010–.940 (2006).

203. *Id.* § 19.108.020.

204. D. Peter Harvey, “Inevitable” Trade Secret Misappropriation after *PepsiCo, Inc. v. Redmond*, 533 PUB. LAW INST. 123, 127 (1998).

205. No. 16105-6-111, 1997 WL 794496, at *1 (Wash. App. Dec. 30 1997).

206. See *Temco Metal Prods. v. GT Dev. Corp.*, No. 99-755-KI, 2000 WL 556607, at *3 (D.Or. May 5, 2000). According to the court:

At the preliminary injunction stage of this action, I found it appropriate to enjoin GT from employing Fasolino in certain capacities. Because of Fasolino's extensive knowledge of Temco's products, and the limited endorsement by the Washington courts of the “inevitable disclosure” theory of trade secret misappropriation, I felt it was appropriate to constrain Fasolino's employment at GT for a period of time sufficient to allow Temco to obtain patent protection for its products.

Id.

207. See *Solutec*, 1997 WL 794496, at *1–*2 (the *Solutec Corp. v. Agnew* decision is listed and explained as one of the cases granting injunctive relief after the *PepsiCo* decision). See also William Lynch Schaller, *Trade Secret Inevitable Disclosure: Substantive, Procedural & Practical Implications of an Evolving Doctrine (Part II)*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 411, 413 (2004); Harvey, *supra* note 204, at 138–39 (the *Solutec* decision is listed and explained as one of the cases granting injunctive relief after the *PepsiCo* decision).

208. WASH. REV. CODE ANN § 2.06.040 (2006) (“All decisions of the court having precedential value shall be published as opinions of the court. Each panel shall determine whether a decision of the court has sufficient precedential value to be published Decisions determined not to have precedential value shall not be published.”).

containing morpholine for use in the apple industry.²⁰⁹ The two defendants, Mr. Agnew and Mr. Ingle, were former employees of Solutec who attempted to compete with their former boss by manufacturing edible apple wax as well.²¹⁰

The trial court held that Solutec's edible wax formulations were trade secrets and enjoined the defendants from using or disclosing the secret information and from competing with Solutec in the production of waxes containing morpholine for six years.²¹¹ On appeal, the defendants claimed that the lower court erred in its issuance of an injunction because the defendants had not misappropriated the trade secrets by actually using them in the production of apple waxes.²¹²

In affirming the injunction, the appellate court relied on the Seventh Circuit's famous inevitable disclosure opinion, *PepsiCo, Inc. v. Redmond*.²¹³ The *Solutec* court referred to the *PepsiCo* decision to establish the proposition that injunctive relief can be granted in cases of threatened trade secret misappropriation.²¹⁴ In *Solutec*, the court analogized the UTSA provision that was applicable in the *PepsiCo* case to the identical Washington UTSA provision, noting that the language of the Act permits injunctive relief where there is a lack of actual trade secret disclosure.²¹⁵ The court reasoned that there was "a high degree of probability of inevitable and immediate . . . use of . . . [Solutec's] trade secrets . . ." ²¹⁶ given that both defendants only had high school educations and that it was highly unlikely that someone without a college degree in either chemistry or chemical engineering could develop a marketable, edible apple wax.²¹⁷ The court further noted that the broad scope of the injunction was appropriate to give Solutec the relief it deserved under the UTSA.²¹⁸ Thus, the *Solutec* decision invokes the doctrine of inevitable disclosure. However, as an unpublished opinion, the question remains whether such "limited endorsement" will be adopted by other Washington courts.

Other courts have relied on Washington's "limited endorsement" of the doctrine of inevitable disclosure to restrain employees from taking similar positions with competitors of their former employers when there

209. See 1997 WL 794496, at *1; see also Harvey, *supra* note 204, at 138–39.

210. *Solutec*, 1997 WL 794496, at *1.

211. *Id.*

212. *Id.* at *8.

213. 54 F.3d 1262 (7th Cir. 1995).

214. *Solutec*, 1997 WL 794496, at *8.

215. *Id.*

216. *Id.* (quoting language from *Teradyne, Inc. v. Clear Commc'ns Corp.*, 707 F. Supp. 353, 356 (N.D. Ill. 1989)).

217. *Id.*

218. *Id.* at *9.

is a risk of trade secret misappropriation.²¹⁹ For example, in November of 2005, the Ninth Circuit decided *Lam Research Corp. v. Deshmukh*.²²⁰ In this unpublished opinion, the Ninth Circuit pointed out that “Washington law may embrace the inevitable disclosure doctrine,” citing to *Solutech*.²²¹ The court in *Lam Research Corp.* reversed the injunction granted by the district court because (1) the injunction was issued solely on the employer’s theory of inevitable disclosure, as there was no allegation of actual trade secret misappropriation,²²² and (2) the court erroneously applied Washington law instead of California law.²²³ According to this opinion, the injunction, based on a valid inevitable disclosure theory as recognized by Washington, had to be vacated because California law does not recognize the doctrine.²²⁴ The Ninth Circuit thus reversed the district court’s decision and dismissed the employer’s complaint.²²⁵

C. Washington Should Abandon the Doctrine

While neither Washington courts nor the federal courts of the Ninth Circuit have applied the doctrine in a published opinion, employers’ use of the doctrine of inevitable disclosure to obtain injunctive relief is only expected to rise, especially given the growing importance of intellectual property and the increased sophistication of technology.²²⁶ As firms increase investments into intellectual property assets, they have the incentive to protect against the disclosure of sensitive trade secrets. Therefore, the use of inevitable disclosure to enjoin the threatened misappropriation of trade secrets will become more common.²²⁷ Consequently, Washington courts will be presented with an opportunity to either officially adopt or reject the doctrine as having precedential value. When faced with that choice, Washington courts should not adopt the doctrine because of its negative effects on employee mobility in the technology field and because of the state’s recognition that noncompetition agreements provide sufficient trade secret protection.

219. See *Temco Metal Prods. v. GT Dev. Corp.*, No. 99-755-KI, 2000 WL 556607, at *3 (D. Or. May 5, 2000).

220. No. 05-35230, 2005 WL 3159685 (9th Cir. Nov. 29, 2005).

221. *Id.* at *1.

222. *Id.*

223. *Id.* at *2.

224. *Id.*; but see *Carey*, *supra* note 2, at 148 (citing a California court that *has* adopted the doctrine, *Electro Optical Industries, Inc. v. White*, 90 Cal. Rptr. 2d 680, 684 (Cal. Ct. App. 1999) (“Although no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and . . . [w]e adopted the rule here.”)).

225. *Lam Research Corp.*, 2005 WL 3159685, at *2.

226. *Harvey*, *supra* note 204, at 144.

227. *Id.*

Admittedly, there are justifications for the application of the doctrine. Employers have a valid interest in protecting their valuable trade secrets from misappropriation by others.²²⁸ Just as competitors are not permitted to illegally take real property, they should be prevented from stealing intellectual property from others. It would be unfair and illogical to prohibit the theft of tangible property,²²⁹ while permitting the theft of intangible property assets, such as trade secrets. Furthermore, trade secret litigation is very expensive²³⁰ and the application of the doctrine allows courts to make judgments without requiring plaintiffs to prove actual misappropriation. Additionally, the parties' expectations in a given employment relationship may support the argument that the doctrine does not really infringe upon the employee's freedom of mobility.²³¹ If the parties have entered into a noncompetition agreement, valid or not, then it could be argued that the employee expected for his mobility to be restricted.²³² The existence of a noncompetition agreement shows that the parties bargained for their current relationship and that the employee should have foreseen that his freedom of employment choice would potentially be restricted.²³³

Despite its advantages, Washington courts should abandon their limited recognition of the doctrine for four main reasons. First, the doctrine directly conflicts with the idea that employees have a right to voluntarily leave a current job in order to pursue their livelihood.²³⁴ Second, application of the doctrine raises difficult questions about what knowledge an employee actually possesses as his versus that which an employer owns as a trade secret.²³⁵ Distinguishing between information that rightfully belongs to the employer and that which is general knowledge is a difficult undertaking. It is unfair to burden employees with the adverse effects of an unclear definition, particularly since they are most often the party in the weaker bargaining position.

Third, the doctrine creates a noncompetition agreement where one did not previously exist.²³⁶ When the employer asks the employee to enter into a noncompetition agreement, the employer gives the employee some type of benefit in exchange for the promise not to compete in the future. However, an application of the inevitable disclosure doctrine

228. Rowe, *supra* note 23, at 183.

229. *See id.* at 185.

230. Bone, *supra* note 25, at 278.

231. *See* Rowe, *supra* note 23, at 209.

232. *Id.*

233. *Id.*

234. *See* Rowe, *supra* note 23, at 183.

235. *Id.* at 184.

236. *Id.* at 207.

creates employee obligations (that is, the promise not to compete) for which the employer has not specifically bargained.²³⁷ Thus, the employee is not compensated for this obligation and is instead prevented from offering his skills to the highest bidder in a competitive marketplace.²³⁸

Fourth, the doctrine forces courts to make a prediction about future events.²³⁹ By asking courts to determine whether a former employee will improperly disclose a trade secret at some unknown future date,²⁴⁰ the doctrine requires the court to evaluate ambiguous circumstantial evidence from which inferences about the employee's behavior must be drawn.²⁴¹ This prediction is not required to be accurate, and the risk of an inaccurate judicial prediction places all losses on the employee who has been enjoined from working in her field of expertise.

The doctrine's aforementioned negative effects could have a serious impact on the growth of Washington's high-technology industry. These impacts should be considered when deciding whether to fully adopt the doctrine of inevitable disclosure. One such negative effect is the stifling of employee mobility.²⁴² Application of the doctrine could prevent an employee from working in his chosen field of expertise,²⁴³ assuming he is permitted to work at all. The benefits that a technology-based industrial community receive from having a high rate of employee mobility are suppressed by the threat that the doctrine will be applied.²⁴⁴ Thus, the knowledge spillover that has been linked to Silicon Valley's high-tech industry success can be effectively quashed by the inevitable disclosure doctrine. Furthermore, application of the doctrine could potentially have a disparate impact on the growth of the technology industry²⁴⁵ because the investment in emerging companies, new technologies, and people will be reduced.²⁴⁶

Additionally, application of the doctrine is anticompetitive, especially with regard to the high-tech industry.²⁴⁷ Inevitable disclosure reduces the incentives for competitor-firms to search for qualified employees within the ranks of their competitors,²⁴⁸ and employees may

237. Carey, *supra* note 2, at 151.

238. *See id.* at 150.

239. *See* Rowe, *supra* note 23, at 215.

240. *Id.*

241. *Id.*

242. *See* Brenner, *supra* note 10, at 669.

243. *Id.*

244. *See* Carey, *supra* note 2, at 151.

245. Brenner, *supra* note 10, at 672.

246. *Id.*

247. Carey, *supra* note 2, at 151.

248. Brenner, *supra* note 10, at 666.

choose not to engage in their own competitive start-up companies.²⁴⁹ If a former employee leaves her current position in order to start her own high-tech firm, an injunction issued under the doctrine could have the effect of killing competition simply because the pace of technology makes an innovation valuable for a limited duration.²⁵⁰

Accordingly, Washington should not fully adopt the doctrine of inevitable disclosure. The problems associated with the application of the doctrine outweigh the perceived benefits that recognition would give to the proprietors of trade secrets. This is especially true in Washington, where reasonable noncompetition agreements are recognized as valid restrictions on employee mobility. The inability to precisely define information as having trade secret status forces courts to make future predictions that unfairly penalize employees, which is manifestly at odds with the basic notions of the right to employment. Further, the doctrine's creation, in effect, of a noncompetition agreement where one had not previously existed is unfair to employees and again penalizes them for having marketable skills. The benefits that can be reaped from industrial growth in the high-tech field will potentially be greater if the doctrine is abandoned because employee mobility will be less restrained and competition will not be hampered. Lastly, the justifications supporting the doctrine's application do not apply with strong force in Washington simply because this state already recognizes and actively enforces valid noncompetition agreements. If an employer wants to seek additional protection for his trade secrets, Washington already permits this choice.

V. CONCLUSION

The competing values of adequate intellectual property protection and employee mobility are both valid, important considerations in any state's legal structure. Specifically, in states where a large part of the economy is driven by high-tech commercial activity, the balancing of values becomes that much more important. Washington's strict protection of intellectual property rights allows for significant commercial gains and innovation in its high-tech community. However, the state's recognition of both noncompetition agreements and the inevitable disclosure doctrine threatens employee mobility and the positive knowledge spillover that mobility creates. A better balance of the competing interests of employer rights in intellectual property and of the employee's interest in mobility would help to ensure that high-tech innovation and commercial activity continue to grow in Washington. This balance can

249. *Id.* at 668.

250. Carey, *supra* note 2, at 151.

be achieved by rejecting the inevitable disclosure doctrine and instead relying solely on reasonable noncompetition agreements to govern the expectations of the high-tech employer and employee. Washington's long-standing recognition of noncompetition agreements is a legal tradition that sufficiently protects an employer's legitimate trade secrets. As such, there is no need for the redundant and overly-restrictive inevitable disclosure doctrine in Washington State.