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Narrowing of Trade Secret Protection under California Law

2003-04-07

A recent California case makes it more difficult for employers to protect their valuable proprietary information from disclosure by employees leaving to work for competitors. As a result, all employers, and California employers in particular, should take steps to protect their proprietary information and trade secrets.

In *Schlage Lock Company v. J. Douglas Whyte*, a manufacturer hired a senior sales employee from one of its main competitors, Schlage. The executive was subject only to a confidentiality agreement with Schlage. He had access to substantial product and company information, and even attended key meetings at Schlage after he had accepted his new position and before disclosing his plans to leave.

After his departure, Schlage sought, among other claims, to enjoin the sales executive from use of Schlage trade secrets, citing actual or threatened misappropriation of sensitive information. Affirming the lower court's ruling, the California appeals court concluded that there was no evidence of improper use or disclosure of Schlage trade secrets. The appeals court then also considered whether an injunction could be granted on the theory that misappropriation by the sales executive was "inevitable" in his new position.

The argument that confidential information in the possession of a former employee is at risk of misappropriation simply by that employee working for a competitor is known as the doctrine of inevitable disclosure. This argument is often made in an effort to enjoin a former employee from working with the competitor. The doctrine is based on the belief that a former employee would be unable to perform his or her duties at the new employer without, to some degree, using or disclosing the former employer's trade secrets. In determining the applicability of the doctrine, courts generally will look for a similarity in the employee's old and new jobs, the extent of competitiveness between the old and new employers, the employee's level of honesty in dealing with his old employer before taking on his new job and the extent of the new employer's actions undertaken to avoid misappropriating the old employer's trade secrets.

The court in *Schlage* noted that the application of the doctrine "is not merely an injunction against the use of trade secrets, but an injunction restricting employment." Flatly rejecting the doctrine's application in California, the court considered it an "after-the-fact" non-compete covenant that is

imposed without the employee's consent and without payment by the employer. California law voids many non-competition covenants as a matter of public policy, except in connection with the sale of a business or partnership interest.

Despite its holding, the *Schlage* court noted that many jurisdictions throughout the United States follow the doctrine of inevitable disclosure. In some states, the applicability of the doctrine is uncertain. Furthermore, each case reviewing the application of the doctrine will involve an in-depth factual analysis. Given such uncertainty, employers in jurisdictions where non-competition agreements and other restrictive covenants are enforceable should not rely on the doctrine of inevitable disclosure to protect trade secrets and confidential information.

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