NOTE

HOW THE FTC BAN ON NONCOMPETES WILL IMPACT USE OF THE INEVITABLE DISCLOSURE DOCTRINE

Amanda Shoemaker†

This Note argues that some courts might increase their use of the inevitable disclosure doctrine if the FTC rule banning noncompetes survives legal challenge. The Note begins from the premise that the reason many courts reject the inevitable disclosure doctrine is that if the employer wanted to protect itself against the competition of former employees, it should have done so by contract. Many courts do not want to write a noncompete for the employer after-the-fact by saying that trade secrets will inevitably be disclosed. However, if an FTC ban on noncompetes means that employers are no longer given the option of using noncompetes to protect themselves, courts may become more sympathetic to the inevitable disclosure doctrine. Evidence of how the inevitable disclosure doctrine harms employee mobility and fails to provide notice to employees that they will be subject to judicially imposed noncompetes suggests that noncompetes may be a lesser evil than what courts may use in their absence.

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† J.D., Cornell Law School, 2024; B.S., Marketing and Media Arts, Bentley University, 2021.

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Introduction

Trade secrets are incredibly valuable to businesses, especially businesses that perform Research & Development ("R&D"). A study by the National Center for Science and Engineering Statistics found that 76.2% of businesses that perform or fund R&D consider trade secrets to be "very important" or "somewhat important" to their companies, a higher percentage than any other type of IP protection.[1] As is obvious from the name, trade secrets derive their value from remaining secret, enabling one company, but not its competitors, to profit from the secret. The value of trade secrets could thus be jeopardized if the law failed to adequately protect employers from disclosure of trade secrets by workers who depart for a competitor.

Recognition of the value of trade secrets and attempts to protect them potentially dates as far back as the Roman empire.[2] Under Roman Law, it was possible for a slave owner

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1 Brandon Shackelford & John Jankowski, *Three-Quarters of U.S. Businesses that Performed or Funded R&D Viewed Trade Secrets as Important in 2018*, Nat'l Ctr. Sci. Eng'g Stats. (Sept. 2, 2021), https://ncses.nsf.gov/pubs/nsf21339 [https://perma.cc/TH3P-X2MW].

2 *See* Peter S. Menell, Mark A. Lemley, Robert P. Merges, & Shyamkrishna Balganesh, Intellectual Property in the New Technological Age: 2022 Vol. I, at 44 (2022) (citing A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, 30 Colum. L. Rev. 837 (1930)).

to bring a cause of action called "*actio servi corrupti*" alleging that a third party "corrupted" their slave into giving up the slave owner's confidential business information, and a liable third party would have to pay the slave owner twice the damages sustained due to the disclosure.[3] Today, in the U.S., almost all states protect trade secrets through the Uniform Trade Secrets Act ("UTSA"). Under UTSA, a trade secret is broadly defined as "information, including a formula, pattern, compilation, program, device, method, technique, or process" that derives independent economic value from remaining secret and that is the subject of reasonable efforts to maintain secrecy.[4] To prove a claim of trade secret misappropriation, the owner of the trade secret generally must show that the information involved did in fact qualify as a trade secret, that reasonable precautions were taken to prevent the disclosure of the trade secret, and that the defendant wrongfully acquired the information through misappropriation as defined under UTSA.[5]

I
Relationship of Trade Secret Law, the Inevitable Disclosure Doctrine, and the Law Governing Noncompetes

It is possible to get injunctive relief under UTSA for either "actual" or "threatened" misappropriation.[6] Some courts have interpreted "threatened" misappropriation to encompass a rule called the inevitable disclosure doctrine.[7] Under the inevitable disclosure doctrine, a plaintiff can prove trade secret misappropriation "by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets."[8] For example, in the famous inevitable disclosure case of *PepsiCo, Inc. v. Redmond*, PepsiCo was able to demonstrate that Redmond would be unable to make decisions about distribution and marketing in his new role at Quaker without relying on information he had of PepsiCo's distribution and marketing plans for the same sports drink market.[9] Thus, it did not matter that neither Redmond nor Quaker were actually "threatening" to use the trade secrets that Redmond possessed, and indeed,

3 *Id.*
4 UTSA § 1(4) (Unif. L. Comm'n 1985).
5 Menell, Lemley, Merges & Balganesh, *supra* note 2, at 51; UTSA § 1(2).
6 UTSA § 2(a).
7 *See, e.g.*, PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1268 (7th Cir. 1995).
8 *Id.* at 1269.
9 *Id.* at 1270.

Redmond and Quaker vigorously protested that Redmond had signed an agreement with Quaker *not* to disclose such information.[10] The fact that Redmond could not carry out his new job responsibilities without being influenced by his knowledge of PepsiCo's plans was sufficient for the Seventh Circuit to find a "threat" that misappropriation would occur, thus making Redmond guilty of what the court called "threatened or inevitable misappropriation."[11]

In coming to this conclusion, the Seventh Circuit noted the tension between protecting "standards of commercial morality," a basic objective of trade secret law, and public policy favoring employee mobility.[12] The court was particularly worried about restricting employee mobility where there was no evidence of actual misappropriation, only threatened or inevitable misappropriation.[13] Nevertheless, the court ultimately found protecting PepsiCo's valuable trade secrets in its sports drink distribution and marketing plans worth restricting Redmond's employment options by enjoining him from working at Quaker for several months.[14] The egregious facts involved in the case, which included Redmond lying to PepsiCo about being offered the position of Chief Operating Officer, certainly did not hurt the court's ability to come to the conclusion that, "Redmond could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification that he was not using [PepsiCo's] secrets would be defendant Redmond's word to that effect."[15]

The *Redmond* case was met with approval in some states and fierce opposition in others. Those states that were opposed tended to view the inevitable disclosure doctrine as improperly imposing a judicially created, ex post facto noncompete after the employer failed to get the employee to sign a noncompete in the first place.[16] As the United States District Court for the Southern District of New York court put it in *EarthWeb, Inc. v.*

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10 *Id.* at 1268, 1270.

11 *Id.* at 1268.

12 *Id.*

13 *Id.*

14 *Id.* at 1270–71.

15 *Id.* at 1264, 1270–71.

16 *See, e.g.*, Narrative1 Software, LLC v. Arzouian, No. 2012-CV-00498, 2012 N.H. Super. LEXIS 38, at *12 (Sep. 12, 2012) ("Courts which have declined to accept the doctrine have done so because of a concern that imposing what is, in substance, an ex post facto covenant not to compete violates an important public policy in favor of employee mobility.").

Schlack, the court in *Redmond* "effectively converted Redmond's confidentiality agreement into a non-compete agreement."[17]

Among the problems the court in *EarthWeb* saw with the inevitable disclosure doctrine were that rather than engage in "open negotiation" for noncompetes, employers would most likely have employees sign confidentiality agreements, which the employers could then turn into a more "powerful weapon" via the inevitable disclosure doctrine.[18] The court recognized that even the threat of litigating the confidentiality agreement could have a chilling effect on employee mobility.[19] Additionally, the court worried that the inevitable disclosure doctrine would result in less predictable outcomes than noncompete law because dealing with the "nebulous" standard of inevitability is harder than testing an express agreement for reasonableness, where the court at least has a "frame of reference."[20] Some of the other powerful language the court used included calling the inevitable disclosure doctrine an "end-run" around a written agreement and saying that the inevitable disclosure doctrine "distort[s] the terms of the employment relationship" and can even result in the "indenture" of an employee.[21] The court concluded that the inevitable disclosure doctrine "treads an exceedingly narrow path through judicially disfavored territory" and said the inevitable disclosure doctrine should only be used in the rarest instances.[22]

Though not nearly as vocal about their opposition as the Southern District of New York, several other courts echo the sentiment of *EarthWeb*. For example, in *Del Monte Fresh Produce Co. v. Dole Food Co.*, the United States District Court for the Southern District of Florida explained that the inevitable

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17 71 F. Supp. 2d 299, 309 (S.D.N.Y. 1999).

18 *Id.* at 310.

19 *Id.*

20 *Id.* at 311.

21 *Id.*

22 *Id.* at 310. The court proposes the following test for determining whether a given fact pattern is such a rare instance:

> whether[] (1) the employers in question are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; and (3) the trade secrets at issue are highly valuable to both employers. Other case-specific factors such as the nature of the industry and trade secrets should be considered as well.

Id.

disclosure doctrine would improperly "enjoin an employee from working for the employer of his or her choice" via an "after-the-fact noncompete agreement."[23] Similarly, in *AWP, Inc. v. Henry*, the United States District Court for the Northern District of Georgia declined to apply the inevitable disclosure doctrine where doing so would impose a "judicially-created restrictive covenant" that would "effectively bar employees from accepting similar employment positions with competitive entities in perpetuity."[24] And, addressing workability concerns similar to those in *EarthWeb*, a New Hampshire state court rejected the inevitable disclosure doctrine in part because it did not like the idea of courts being "placed in the position of drafting an agreement that the parties themselves did not agree to," which it viewed as a far greater challenge than figuring out the reasonableness of a written agreement.[25]

The thrust of the arguments against the inevitable disclosure doctrine seems to be a distaste for judicially imposing a noncompete (with its corresponding impact on employee mobility) where the employer failed to have the employee sign one. Thus, it seems reasonable to conclude that where a noncompete already exists, courts may be less likely to take issue with the application of the inevitable disclosure doctrine. The case law supports this, at least in some states. For example, in *MeadWestvaco Corp. v. Bates*, a Virginia state court's reason for applying the inevitable disclosure doctrine was that the employee was already subject to a non-compete agreement.[26] The court stated that when a noncompete is already present "there is no concern about an after-the-fact creation of such a restriction," which it saw as the primary reason that other courts had rejected the inevitable disclosure doctrine.[27] Similarly, in *P&G v. Stoneham*, an Ohio court of appeals applied the inevitable disclosure doctrine in a case where a noncompete was found to be valid.[28] In concurrence, Judge Painter noted that applying the inevitable disclosure doctrine is "in conformity with

23 148 F. Supp. 2d 1326, 1337 (S.D. Fla. 2001).

24 No. 1:20-cv-01625-SDG, 2020 U.S. Dist. LEXIS 222087, at *13–14 (N.D. Ga. Oct. 28, 2020).

25 Narrative1 Software, LLC v. Arzouian, No. 2012-CV-00498, 2012 N.H. Super. LEXIS 38, at *13 (Sep. 12, 2012).

26 MeadWestvaco Corp. v. Bates, 91 Va. Cir. 509, 525 (2013).

27 *Id.* at 523–25.

28 P&G v. Stoneham, 140 Ohio App. 3d 260, 274–75 (2000).

common sense" because, "It is just such inevitable use that the non-compete agreement here targets."[29]

An interesting question arises where noncompetes *cannot* exist by virtue of state law, for example, in California.[30] On the one hand, it seems as though the inevitable disclosure doctrine should never be applied because it would judicially impose something that otherwise could not exist. On the other hand, the rejection of the inevitable disclosure doctrine stems from the fact that courts do not want to impose a noncompete for an employer where the employer itself *is able to* negotiate a noncompete to protect its interests and failed to do so. If employers are unable to use noncompetes per state law, perhaps the application of the inevitable disclosure doctrine by courts is necessary to protect employer interests.[31]

II
California's Rejection of the Inevitable Disclosure Doctrine

California courts have taken the former approach and rejected the inevitable disclosure doctrine. In *Whyte v. Schlage Lock Co.*, a California Court of Appeals stated, "our rejection of the inevitable disclosure doctrine is complete."[32] The court made clear that even if a noncompete is part of an employment agreement "the inevitable disclosure doctrine cannot be invoked to supplement the covenant, alter its meaning, or make an otherwise unenforceable covenant enforceable."[33] The court explained that the majority of jurisdictions to consider the issue had adopted the inevitable disclosure doctrine, but it found the doctrine to be "not merely an injunction against the use of trade secrets, but an injunction restricting employment."[34] It also explained that the public policy of the state "strongly favors employee mobility," and it considered the inevitable disclosure doctrine to run counter to that policy.[35] Strangely, the court

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29 *Id.* at 277 (Painter, J., concurring).

30 *See* Cal. Bus. & Prof. Code § 16600 (West 2023).

31 *See* Shannon Aaron, Note & Comment, *Using the History of Noncompetition Agreements to Guide the Future of the Inevitable Disclosure Doctrine*, 17 Lewis & Clark L. Rev. 1191, 1212 (2013) ("Courts may want to consider what alternative means are available for businesses to protect their trade secrets. The more ways businesses already have [] to protect their investments, the less reason there is for a court to allow relief through inevitable disclosure.").

32 101 Cal. App. 4th 1443, 1463 (2002).

33 *Id.*

34 *Id.* at 1460, 1462.

35 *Id.* at 1462.

took particular issue with the "after-the-fact nature" of the inevitable disclosure doctrine, and citing *Earthweb*, explained that the employer should not be allowed to obtain the "benefit of a contractual provision it did not pay for."[36] In the court's eyes, the fact that the employer *could not* have paid for such a contractual provision only supported the conclusion that the inevitable disclosure doctrine should not apply.[37]

The rationale made far more sense when it was repeated in the Maryland case of *LeJeune v. Coin Acceptors, Inc.*[38] There, the Court of Appeals of Maryland declined to adopt the inevitable disclosure doctrine because the employer "chose not to negotiate" any kind of restrictive employment agreement—even a confidentiality agreement—with the employee.[39] The court stated it found the reasoning of *Whyte* to be persuasive and said that, like California, Maryland favors employee mobility.[40] However, in Maryland, noncompete agreements are not totally banned as they are in California,[41] meaning that employers *have the option* of negotiating for a noncompete to protect their interests. If they fail to do so, it makes sense that a court should not judicially impose a noncompete after-the-fact.

Some courts have concluded, however, that even where employers have the option of bargaining for a noncompete, it is not inconsistent to judicially impose a noncompete after-the-fact. In *Nucor Corp v. Bell*, for example, a South Carolina court saw no conflict between a state policy disfavoring restraints on trade and applying the inevitable disclosure doctrine.[42] The court characterized California's reluctance to apply the inevitable disclosure doctrine as "an especially aggressive stance against restraints on trade," and concluded that in South Carolina, the inevitable disclosure doctrine could be used to get a preliminary injunction even in the absence of a noncompete.[43] The court explained that, among other reasons, it should apply the inevitable disclosure doctrine because it is

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36 *Id.* at 1462–63.

37 *Id.* at 1463.

38 849 A.2d 451 (Md. 2004).

39 *Id.* at 471.

40 *Id.* at 470–71.

41 The exception is for low-wage workers. *See* MD. CODE ANN., LAB. & EMPL. § 3-716 (West 2022).

42 No. 2:06-CV-02972-DCN, 2008 U.S. Dist. LEXIS 119952, at *52 (D.S.C. Mar. 14, 2008) ("Courts in other states have applied the inevitable disclosure doctrine despite their public policy disfavoring restraints on trade.").

43 *Id.* at 49, 54.

"a common-sense tool for determining when misappropriation is likely to occur" and because South Carolina does not take as "rigid" of a position as California against restraints on trade.[44]

Some scholars, agreeing with the *Nucor* court that the inevitable disclosure doctrine is a useful tool for proving misappropriation, have criticized California's rejection of the inevitable disclosure doctrine.[45] For example, Benjamin A. Emmert argues that the "debate over the inevitable disclosure doctrine has largely overlooked the doctrine itself and focused solely on its effect."[46] While the effect of the doctrine—a judicially-imposed noncompete—may be undesirable, according to Emmert, the doctrine itself is consistent with California trade secret law because it "simply expands the type of evidence a judge may consider in determining if a misappropriation has taken place."[47] Emmert likens the type of evidence that can be considered to a "party opponent admission," and concludes that, ignoring the effect on employee mobility, there is no reason why California courts should not use the doctrine.[48]

Emmert also argues that even when considering the undesirable effect of the doctrine on employee mobility, it is important to keep in mind that, "An employee's right to change jobs has always been limited by the notion of unfair competition."[49] Where the worker will inevitably engage in unfair competition by disclosing the previous employer's trade secrets to a new employer, applying the inevitable disclosure doctrine to enjoin the worker from starting their new position is necessary to prevent a key goal of trade secret law—commercial morality—from being undermined.[50]

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44 *Id.* at 56.

45 *See generally* Benjamin A. Emmert, Comment, *Keeping Confidence with Former Employees: California Courts Apply the Inevitable Disclosure Doctrine to California Trade Secret Law*, 40 SANTA CLARA L. REV. 1171, 1203 (2000). *See also* David Lincicum, Note, *Inevitable Conflict?: California's Policy of Worker Mobility and the Doctrine of "Inevitable Disclosure*,*"* 75 S. CALIF. L. REV. 1257, 1272 (2002) (concluding that California's policy favoring employee mobility is inconsistent with the inevitable disclosure doctrine, but acknowledging that there is a "strong argument" that they do not conflict because if the inevitable disclosure doctrine is viewed as part of the threatened misappropriation rule of the CTSA, there may have been "legislative intent to create another exception to California's worker mobility policy").

46 Emmert, *supra* note 45, at 1201.

47 *Id.* at 1203.

48 *Id.* at 1202–03.

49 *Id.* at 1211.

50 *Id.* at 1203, 1211–12.

The inevitable disclosure doctrine would arguably balance California's policy goals of protecting employee mobility and protecting trade secrets by only inhibiting employee mobility where absolutely necessary to protect trade secrets.[51] Paul H. Rubin and Peter Shedd argue that ideally noncompetes would only apply "to those types of training involving trade secrets of the employer" because that is the only time they are necessary (*see infra* Section III, Part B).[52] However, Rubin and Shedd recognize that it might "be difficult or impossible to draft a contract with sufficient specificity to include only the training that the employer desires to protect."[53] A benefit of judicially imposing what is essentially a noncompete in situations of inevitable disclosure is that restrictions on employee mobility end up being limited to where absolutely necessary to protect employer trade secrets, which a court may be able to determine with more clarity after a worker's employment has ended than an employer could before the worker's employment began.

Further, as one scholar has pointed out, it would not make sense to ignore one public policy of the state (protection of trade secrets) to achieve another public policy of the state (employee mobility).[54] The two public policies ought to be balanced. Nevertheless, other scholars argue that by banning noncompetes, the California legislature has indicated its preference for worker mobility over any other policy consideration, including the protection of trade secrets.[55]

Taking into consideration California's "aggressive" and "rigid" stance against restraints on trade, it might be an outlier in rejecting the inevitable disclosure doctrine in the absence of noncompetes.[56] If the recent Federal Trade Commission

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51 *Id.* at 1211.

52 Paul H. Rubin & Peter Shedd, *Human Capital and Covenants Not to Compete*, 10 J. LEGAL STUD. 93, 93 (1981).

53 *Id.* at 98.

54 Tom Barber, *Beyond Noncompete Agreements: Using Florida's Trade Secrets Act to Prevent Former Employees from Disclosing Sensitive Information to Competitors*, 72 FLA. BAR J. 10, 17–18 (1998).

55 Lincicum, *supra* note 45, at 1274.

56 Nucor Corp. v. Bell, No. 2:06-CV-02972-DCN, 2008 U.S. Dist. LEXIS 119952, at *54, 56 (D.S.C. Mar. 14, 2008). *See generally* Aaron, *supra* note 31 (arguing that each jurisdiction should use its noncompete laws to determine what the proper policy balance is to decide whether and when to apply the inevitable disclosure doctrine). If the FTC ban on noncompetes survives legal challenge, each state might want to look to what its old law on noncompetes was before the ban to see if it should apply the inevitable disclosure doctrine. For example, Maryland's policy balance between protecting employee mobility and protecting trade secrets was never as heavily skewed towards protecting employee mobility

("FTC") rule banning noncompetes nationwide[57] survives legal challenge, Maryland courts, for example, would no longer be able to rely on the rationale that the employer should have negotiated a noncompete with the employee to protect the employer's legitimate business interests (though the court could still possibly point to the protections of confidentiality agreements and trade secret law, *see infra* Part III, Section C). Thus, a state such as Maryland might reevaluate its rejection of the inevitable disclosure doctrine to ensure adequate protection of trade secrets.[58] Whether a state like Maryland *should* start using the inevitable disclosure doctrine if the FTC rule survives legal challenge is addressed in Part V.

III
How the FTC Rule Banning Noncompetes Will Harm the Ability of Employers to Protect Their Trade Secrets

A. Reasons Trade Secrets Need to be Protected

One of the most frequently cited policy reasons for protecting trade secrets is incentivizing innovation and investment in new technologies.[59] Without trade secret law, stealing trade secrets would become more common, which would discourage companies from investing time and money into coming up with trade secrets that would not be profitable once stolen.[60] Trade secret law is also thought to encourage commercial ethics and prevent unfair competition.[61] Even if disincentivizing innovation were not a problem, without trade secret law, companies

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as California's was, as evidenced by the fact that Maryland had not banned noncompetes. Thus, while Maryland may have rejected the inevitable disclosure doctrine while noncompetes were an option, after an FTC ban on noncompetes, Maryland courts might find that adopting the inevitable disclosure doctrine allows the state to regain its previous policy balance between protecting employee mobility and protecting trade secrets (which would have been thrown out of balance by the FTC ban weighting the scale towards protecting employee mobility).

57 *See FTC Announces Rule Banning Noncompetes*, Fed. Trade Comm'n (Apr. 23, 2024), https://www.ftc.gov/news-events/news/press-releases/2024/04/ftc-announces-rule-banning-noncompetes [https://perma.cc/R5WD-2WEJ].

58 *See generally* LeJeune v. Coin Acceptors, Inc., 849 A.2d 451 (Md. 2004).

59 Matthew K. Miller, Note, *Inevitable Disclosure Where No Non-Competition Agreement Exists: Additional Guidance Needed*, 6 B.U. J. Sci. and Tech. L. 9, ¶ 7 (2000). *See also* Aaron, *supra* note 31, at 1204–05; Emmert, *supra* note 45, at 1178; Renee Cavalovitch, *The Inevitable Demise of "Inevitable Disclosure" in California: Appellate Court Rejects The Doctrine in Schlage Lock Co. v. Whyte*, 22 J.L. & Com. 37, 49–50 (2002).

60 Miller, *supra* note 59, at ¶ 7.

61 Aaron, *supra* note 31, at 1204–05; Emmert, *supra* note 45, at 1178.

would need to spend a lot of money on preventing theft, which would result in thieves spending more on overcoming the additional safeguards, which would either result in companies continuing the "tremendously inefficient and wasteful cycle of one-upmanship" or losing their trade secrets to the thieves.[62]

In fact, it was massive losses from trade secret theft in the 1990s (around $63 billion annually) that led to important developments in trade secret law.[63] Today, trade secrets are even more valuable than they used to be, and because employee mobility has increased and noncompetes are often difficult to enforce, courts may have sympathy for companies trying to protect their trade secrets with the inevitable disclosure doctrine.[64]

B. Using the Inevitable Disclosure Doctrine Will Become Necessary to Protect Trade Secrets if the FTC Rule Survives Legal Challenge

Where inevitable disclosure will occur, getting an injunction before the "cat is out of the bag" is essential.[65] An injunction that merely forbids a worker from revealing their old employer's trade secrets to their new employer is useless in a case where the worker's very position will inevitably require the worker to rely on their knowledge of the old employer's trade secrets.[66] Instead, an injunction against the worker starting their position with the new employer is necessary. In *Redmond*, for example, the Seventh Circuit recognized that "unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of PCNA trade secrets."[67] Thus, an immediate injunction preventing

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62 Miller, *supra* note 59, at ¶ 8.

63 Susan Street Whaley, Comment, *The Inevitable Disaster of Inevitable Disclosure*, 67 U. Cin. L. Rev. 809, 809–10 (1999).

64 *Id.* at 838–39; Adam Gill, Note, *The Inevitable Disclosure Doctrine: Inequitable Results Are Threatened But Not Inevitable*, 24 Hastings Comm. & Ent. L.J. 403, 405 (2002).

65 Barber, *supra* note 54, at 11.

66 *See* Jennifer L. Saulino, Note, *Locating Inevitable Disclosure's Place in Trade Secret Analysis*, 100 Mich. L. Rev. 1184, 1188 (2002) ("The remedy phase is the key to identifying the gap: a secret subject to inevitable disclosure, by definition, cannot be enjoined."); *see also id.* at 1192 ("Trade secrets law is not equipped, however, to deal with a secret that is inseparable from an employee—that is the gap that inevitable disclosure must fill.").

67 PepsiCo, Inc. v. Redmond, 54 F.3d 1262, 1269 (1995).

Redmond from working at Quaker for six months was deemed necessary.[68]

Of course, as numerous subsequent judicial and scholarly commentors have noted, PepsiCo could have negotiated a noncompete with Redmond. Thus, the *Redmond* case erroneously tipped the balance between protecting an employer's trade secrets and protecting employee mobility in favor of the employer by giving the employer a judicially imposed noncompete.[69] Under a hypothetical premise that noncompetes were unavailable, however, it is hard to see an argument for why *Redmond* should come out differently than it did, since the injunction against Redmond starting work with Quaker would then have truly been the only way to prevent the disclosure of PepsiCo's trade secrets.

The FTC's recent actions have made this hypothetical premise a reality. On January 5, 2023, the FTC proposed a rule banning noncompetes nationwide.[70] On April 23, 2024, the FTC issued a final rule making most existing noncompetes unenforceable and banning all new noncompetes after the rule's effective date.[71] Assuming it survives legal challenge, the FTC's rule means that employers now need the inevitable disclosure doctrine to prevent workers like Redmond from taking trade secrets to competitors. Unfortunately, if courts continue to be unwilling to apply the inevitable disclosure doctrine, the likely outcome will be that employers are forced to limit the extent to which trade secrets are shared with workers, which could impede efficiency and future investment in new technologies. The FTC recognized that its proposed ban on noncompetes could have some negative effects, including that it might "impact the extent to which trade secrets are shared with workers."[72] However, the FTC denied finding any empirical evidence that noncompetes encourage the sharing of trade secrets in practice.[73]

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68 *Id.* at 1272.

69 Rebecca J. Berkun, Comment, *The Dangers of the Doctrine of Inevitable Disclosure in Pennsylvania*, 6 U. PA. J. LAB. & EMP. L. 157, 157 (2003) ("[T]here is a tension between freedom of employment and protection of trade secrets. Inevitable disclosure favors the latter of the two policies and thus shifts the balance of power toward employers.").

70 *FTC Proposes Rule to Ban Noncompete Clauses, Which Hurt Workers and Harm Competition*, FED. TRADE COMM'N (Jan. 5, 2023), https://www.ftc.gov/news-events/news/press-releases/2023/01/ftc-proposes-rule-ban-noncompete-clauses-which-hurt-workers-harm-competition [https://perma.cc/4YSD-9BPK].

71 *See FTC Announces Rule Banning Noncompetes*, *supra* note 57.

72 Non-Compete Clause Rule, 88 Fed. Reg. 3482, 3505, 3529 (proposed Jan. 5, 2023) (to be codified at 16 C.F.R. pt. 910).

73 *Id.* at 3505, 3529.

Regardless of whether there is empirical evidence, scholarly work by Rubin and Shedd persuasively argues that noncompetes are indeed "necessary in some circumstances to lead to efficient amounts of investment in human capital."[74] Rubin and Shedd pose a hypothetical where an employer could teach a worker a trade secret that is worth $100,000 and that is valuable to other companies.[75] According to Rubin and Shedd, the only way the worker can "pay" for this valuable training is by accepting a noncompete; the information is worth so much that the worker cannot pay for it by taking less in wages or by borrowing money since "human capital" cannot serve as collateral.[76] The noncompete has great value for the employer because without it the worker could take the training to a competitor or become an entrepreneur competing with the employer.[77] If the employer lacked the option of using a noncompete to protect the trade secret, the employer would not have an incentive to invest in coming up with new, valuable trade secrets since it could not adequately protect those trade secrets.[78] Alternatively, the employer might teach workers only part of a trade secret to prevent any one worker from possessing it all, even though this would be an inefficient use of resources.[79]

If the FTC succeeds in banning noncompetes nationwide, workers will be able to depart with employer trade secrets and go to competitors. This will lead to the problems mentioned above: disincentivizing investment in new trade secrets and the inefficient use of resources. The only way to prevent these problems in the absence of noncompetes is through courts applying the inevitable disclosure doctrine.

C. Confidentiality Agreements and Trade Secret Law Are Insufficient Alternatives in Situations Involving Inevitable Disclosure

Confidentiality agreements and trade secret law are both insufficient to protect employers' trade secrets from inevitable disclosure. It is important to keep in mind that in situations involving inevitable disclosure, the worker is not threatening to disclose trade secrets, but rather cannot help but use the

74 Rubin & Shedd, *supra* note 52, at 93.

75 *Id.* at 96.

76 *Id.*

77 *Id.* at 97.

78 *Id.*

79 *Id.*

trade secrets in the new position.[80] Thus, the remedy needed is not an injunction against disclosing the trade secrets but an injunction against the worker going to work for the new employer.[81]

A confidentiality agreement is insufficient to protect trade secrets in this context because it requires a worker to not disclose information that the worker is incapable of keeping secret by virtue of their position, for example, because they must come up with marketing and distribution plans for one company while knowing the marketing and distribution plans of another, as in *Redmond*.[82] Though there will be legal consequences for the worker once the worker actually violates the confidentiality agreement (as is inevitable), that is small consolation to the employer who loses a valuable trade secret. The employer might choose not to invest in valuable trade secrets in the future, or it might choose to impede business efficiency by not sharing trade secrets with workers.[83] Either option would end up hurting both workers and the public.

Trade secret law is similarly insufficient. If a worker actually misappropriates a trade secret, the court can award damages;[84] there is nothing else the court can do to help the employer because by the time the case got to court, the secret was already out. If a worker is threatening to misappropriate a trade secret, then an injunction against using or disclosing the trade secret is sufficient, because the worker has the *option* not to use or disclose the trade secret and the worker will be incentivized not to use or disclose the trade secret for fear of the harsh repercussions of violating the injunction.[85] In contrast, in a case of inevitable disclosure, there is no injunction the court could impose that would force the worker to shut off the

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80 *See, e.g.*, PepsiCo Inc. v. Redmond, 54 F.3d 1262, 1270 (1995) ("Quaker and Redmond assert that they have not and do not intend to use whatever confidential information Redmond has by virtue of his former employment. They point out that Redmond has already signed an agreement with Quaker not to disclose any trade secrets or confidential information gleaned from his earlier employment.").

81 *See* Saulino, *supra* note 66, at 1193 ("Inevitable disclosure doctrine fills the gap between actual misappropriation and employee general knowledge by addressing non-malicious or unintentional but nonetheless inevitable disclosure. It provides a remedy when an injunction against disclosure will not suffice because the information is inseparable from the employee.").

82 *Redmond*, 54 F.3d at 1270.

83 *See* Rubin & Shedd, *supra* note 52, at 97.

84 Saulino, *supra* note 66, at 1188.

85 *Id.* (explaining that providing an injunction against disclosure "best serves the owner's purposes because the secret remains a secret").

part of their mind that is aware of a previous employer's trade secret.[86] Thus, the "threat" posed is not disclosure of the trade secret, but employment itself, which is what correspondingly must be enjoined.[87]

Another problem with trade secret law is that actual misappropriation can be difficult to prove because direct evidence is hard to find.[88] The inevitable disclosure doctrine is premised on the belief that there is no need to wait for the worker to misappropriate a trade secret (at great cost to the employer) and then hunt for evidence that is difficult to find; instead employers can "jump the gun" and get an injunction without evidence of actual misappropriation.[89] This prevents great harm to employers that would otherwise be "inevitable." As one scholar explains, the inevitable disclosure doctrine "attempts to strike a balance between actual appropriation of trade secrets and the mere possibility of such appropriation."[90]

Another scholar emphasizes that it is at the *remedy* stage where there is a gap that the inevitable disclosure doctrine must fill: if the secret is "inseparable" from the worker, the typical trade secret law remedy of an injunction against disclosure will not work.[91] This is what distinguishes threatened misappropriation and inevitable misappropriation, which are often confused.[92] Before getting to the remedy stage, however, the existence of a trade secret and reasonable measures to keep it secret still must be shown.[93] Whether reasonable measures have been taken to keep information secret is relevant here because it is where the employer's failure to get a noncompete comes into the analysis, even though courts frequently "have confused the issue by making the remedy part of the reasoning."[94]

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86 *See id.* ("[A] secret subject to inevitable disclosure, by definition, cannot be enjoined.").

87 *See* Aaron, *supra* note 31, at 1203–04 ("Traditional trade secret injunctions enjoin only the actual acts of using or disclosing. But if a court could enjoin threatened misappropriation, then, presumably, a court could enjoin the threatening behavior . . . . Arguably, if the mere employment constitutes a threat, then a court could enjoin that threat and enjoin an employee from taking the employment.").

88 Gill, *supra* note 64, at 405.

89 *Id.* at 418.

90 Berkun, *supra* note 69, at 161.

91 Saulino, *supra* note 66, at 1192–93.

92 *Id.* at 1192–94.

93 *Id.* at 1194–96.

94 *Id.* at 1194, 1196.

What constitutes a "reasonable measure" to keep information secret is necessarily case specific.[95] The evidence should indicate that the employer recognized a possibility of inevitable disclosure and took steps to prevent it.[96] In states where noncompetes are currently allowed, this would include negotiating a noncompete with the worker.[97] However, in states where noncompetes are already banned, "courts could not require evidence of that sort,"[98] because obtaining something that is illegal would not be a *reasonable* measure the employer would need to take. Similarly, if the FTC ban on noncompetes survives legal challenge and goes into effect nationwide, courts nationwide should not make whether they apply the inevitable disclosure doctrine contingent on an employer getting a noncompete since that would not be a reasonable measure for the employer to take.

While it might be tempting for courts instead to require a confidentiality agreement,[99] obtaining a confidentiality agreement is not a reasonable measure that will protect trade secrets since, as discussed above, it cannot force the worker to wipe their mind clean of trade secrets they will inevitably use in their new position. Thus, in the absence of noncompetes, it is actually far easier for courts to apply the inevitable disclosure doctrine because it is virtually impossible to find a reasonable measure that the employer failed to take that would have protected their trade secrets from inevitable disclosure. Thus, by making it more difficult to protect against inevitable disclosure, the FTC is actually inviting application of the inevitable disclosure doctrine with its ban on noncompetes.[100]

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95 *Id.* at 1196.

96 *Id.* at 1195–96.

97 *Id.* at 1196.

98 *Id.*

99 *See* Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167, 207–08 (2005) (proposing a four-part balancing test to determine whether the inevitable disclosure doctrine should apply but making the first factor a hard requirement that a nondisclosure agreement be present).

100 Saulino argues that separating the requirements of finding a trade secret and reasonable measures to protect it from the remedy will appropriately limit the applicability of the inevitable disclosure doctrine because it will prevent courts from moving backward from deciding on a remedy to calling the case one of inevitable disclosure. Saulino, *supra* note 66, at 1197. In particular, Saulino emphasizes that the court must first find that an employer took reasonable measures to protect against inevitable disclosure. *Id.* If this is true, the FTC's ban of the one measure that would actually protect against inevitable disclosure has the effect of removing a barrier to the court moving to the remedy stage. Without

IV
The Theory that Inefficient Laws Get Litigated More Indicates that Courts Will End Up Applying the Inevitable Disclosure Doctrine More if the FTC Rule Survives Legal Challenge

Judge Posner famously argued that the common law is efficient (wealth-maximizing).[101] Paul H. Rubin has offered a compelling explanation for why this phenomenon exists.[102] According to Rubin, the efficiency results from an "evolutionary mechanism" directed by "the utility maximizing decisions of disputants rather than from the wisdom of judges."[103] Rubin's underlying theory is simple: inefficient laws get litigated more often.[104] Once an efficient rule is in place, there is a reduced incentive to litigate in the future, which makes it likely that the efficient rule will remain in place.[105] Thus, the common law will generally move towards sensible outcomes that maximize wealth. Rubin recognizes, however, that where only one of the parties to a dispute is interested in "forcing" litigation, "there will be pressure for precedents to evolve in favor of that party," regardless of whether that is the efficient outcome.[106]

If the FTC rule banning noncompetes survives legal challenge and goes into effect, companies will litigate inevitable disclosure fact patterns more often because they will not be able to use noncompetes to prevent departing workers from taking trade secrets to competitors. Specifically, companies will litigate the law of threatened misappropriation since that law would, in a world without noncompetes, "inefficiently" result in the loss of valuable trade secrets in situations of inevitable disclosure (and would thereby fail to be wealth maximizing). Because trade secrets are so valuable to employers, employers

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noncompetes, there are no reasonable measures that the employer could take that would prevent inevitable disclosure; confidentiality agreements and trade secret law fail for reasons discussed above. The court could not require a reasonable measure that does not exist, making it easier to move to the remedy phase and making the court more sympathetic to the employer's plight.

101 *See generally* Richard Posner, Economic Analysis of the Law (2d ed. 1977).

102 *See generally* Paul H. Rubin, *Why is the Common Law Efficient?*, 6 J. Leg. Stud. 51 (1977).

103 *Id.* at 51.

104 *Id.* at 61.

105 *Id.* at 51.

106 *See id.* at 53, 55.

have a huge incentive to keep "forcing" litigation on the issue of threatened misappropriation until the inevitable disclosure doctrine is adopted into the law, regardless of whether that is the most efficient outcome. Once the inevitable disclosure doctrine is adopted, individual workers have little incentive to push back, given their scarcity of resources.[107] Thus, under Rubin's theory, trade secret law will gradually move towards adoption of the inevitable disclosure doctrine.

The number of cases that will be brought on the issue of inevitable disclosure in the absence of noncompetes is therefore one reason that the inevitable disclosure doctrine might be adopted by some courts after the FTC ban on noncompetes goes into effect. This would be compounded by the fact that there is no longer a "reasonable measure" for companies to take to protect their trade secrets, as mentioned above. Judges may be sympathetic to employers that no longer have a method of protecting valuable trade secrets, especially in states that emphasize their public policy of protecting trade secrets and that have a less rigid public policy towards protecting employee mobility than California.

According to some scholars, trade secret litigation has already increased in recent years because of the "changed nature of work," the "ever faster rate of product development that drives the urgent need for established talent," and "the proportional rise of intellectual property's value to companies' worth and competitive position."[108] In the absence of noncompetes, this litigation will likely skyrocket. In its notice of proposed rulemaking, the FTC even acknowledged that one of the impacts of the rule might be that litigation costs for trade secret claims would increase.[109] However, the FTC seemingly overlooked that application of the inevitable disclosure doctrine may also increase, with corresponding detrimental effects.

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107 *See* Berkun, *supra* note 69, at 177.

108 Margo E. K. Reder & Christine Neylon O'Brien, *Managing the Risk of Trade Secret Loss Due to Job Mobility in an Innovation Economy with the Theory of Inevitable Disclosure*, 12 J. High Tech. L. 373, 391 (2012).

109 Non-Compete Clause Rule, 88 Fed. Reg. 3482, 3530 (proposed Jan. 5, 2023) (to be codified at 16 C.F.R. pt. 910).

V
Greater Use of the Inevitable Disclosure Doctrine, While Necessary, Would Not be a Good Thing

As explained above, the inevitable disclosure doctrine would be necessary to protect trade secrets in the absence of noncompetes, and more frequent litigation of the issue would result in the doctrine being used more. However, the doctrine has many undesirable effects, and arguably these effects are even worse than the employee mobility problems that noncompetes themselves pose.

The first problem, as many courts have expressed, is that courts would be writing a noncompete ex post facto for the parties.[110] Courts are often hesitant to judicially write a contract for parties because it is not a proper role for the court and because it is harder to do than interpreting the reasonableness of a contract.[111] Additionally, judicially imposing a noncompete has negative effects on worker mobility,[112] just as noncompetes themselves do, but with a far greater add-on problem: lack of notice to the worker about the noncompete.[113] Even if the restraint on employee mobility under the inevitable disclosure doctrine is shorter than the typical noncompete,[114] it is more unfair because the worker never agreed to the noncompete and was not compensated for it.[115]

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110 *See, e.g.*, Narrative1 Software, LLC v. Arzouian, No. 2012-CV-00498, 2012 N.H. Super. LEXIS 38, at *12 (Sep. 12, 2012); EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999).

111 *Narrative1 Software, LLC*, 2012 N.H. Super. LEXIS 38, at *13; *EarthWeb*, 71 F. Supp. 2d at 311.

112 *See EarthWeb*, 71 F. Supp. 2d at 310; Del Monte Fresh Produce Co. v. Dole Food Co., 148 F. Supp. 2d 1326, 1337 (S.D. Fla. 2001); AWP, Inc. v. Henry, No. 1:20-cv-01625-SDG, 2020 U.S. Dist. LEXIS 222087 at *13–14 (N.D. Ga. Oct. 28, 2020); Lincicum, *supra* note 45, at 1273.

113 *See* Lincicum, *supra* note 45, at 1273 ("Although covenants not to compete may prohibit workers from taking a broader range of jobs, at least the limitations are fairly well defined and known to employees when they accept a position.").

114 *See* Barber, *supra* note 54, at 17 ("The injunction should extend only for a time period sufficient to protect the former employer's trade secrets. The injunction in [*Redmond*], for example, was only for a six-month period. Such a restriction is certainly less onerous than those imposed by typical noncompete agreements."); Whaley, *supra* note 63, at 840 ("[T]he theory of inevitable disclosure seldom restrains employee mobility in an unreasonable way."); Lincicum, *supra* note 45, at 1271 ("The injunctions granted usually only prohibit them from working for direct competitors for a limited amount of time, presumably leaving a large portion of the job market open to them.").

115 *See* Gill, *supra* note 64, at 420 (explaining that a judicially imposed noncompete "is unfair to the employee, regardless of whether he has signed a

Another problem with applying the inevitable disclosure doctrine is that it is "all or nothing."[116] If disclosure is inevitable, a noncompete can be judicially imposed; if disclosure is not inevitable, a noncompete cannot be judicially imposed. This makes crucial the court's conclusion of whether disclosure is inevitable, but fact patterns are not always black and white. The consequence of a mistake in either direction on a tricky fact pattern is enormous: either a lost trade secret, potentially worth millions or billions of dollars, or a restriction on employee mobility where it was not necessary.[117]

A related problem is that tricky fact patterns can make it difficult to predict whether a court will find that disclosure is inevitable.[118] As the court in *EarthWeb* stated, "a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterwards."[119] The lack of predictability of the inevitable disclosure doctrine has problematic consequences. First, because companies do not have the guarantee of a noncompete, they may be less willing to share trade secrets with workers, leading to business inefficiencies.[120] Second, because of a disparity in resources, employers that file suit under the unpredictable doctrine of inevitable disclosure may benefit from workers simply giving in and not taking a position with another employer rather than gambling on unpredictable litigation that would require lots of money to see through to the end.[121]

Because the inevitable disclosure doctrine has so many detrimental consequences, it would be unfortunate if courts began applying it more often. Nevertheless, courts should apply the doctrine if the FTC ban on noncompetes survives legal challenge because the inevitable disclosure doctrine would be the only tool left to adequately protect employer trade secrets.

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non-disclosure agreement, because it was not a term of his employment and he was not compensated in exchange for it").

116 *Id.* at 406, 424.

117 Gill suggests compensating employees who are enjoined from starting a new job. *Id.* at 424. This would conceivably make the doctrine less "all or nothing." *Id.*

118 EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999); Reder & O'Brien, *supra* note 108, at 435; Gill, *supra* note 64, at 420; Lincicum, *supra* note 45, at 1273.

119 *EarthWeb*, 71 F. Supp. 2d at 311.

120 Rubin & Shedd, *supra* note 52, at 97.

121 *See* Gill, *supra* note 64, at 420.

Conclusion

Courts and scholars have an almost unanimous distaste for the inevitable disclosure doctrine because it judicially imposes a noncompete and restricts worker mobility when the worker had no notice of the noncompete or ability to bargain for a higher salary. Yet, in the absence of noncompetes, the inevitable disclosure doctrine might be the only way to ensure adequate protection of trade secrets in situations of inevitable disclosure. Thus, this Note reluctantly concludes that courts would be justified in applying the inevitable disclosure doctrine if the FTC succeeds in banning noncompetes. Unfortunately, it appears as though the FTC's ban on noncompetes will likely have far-reaching, detrimental consequences that the FTC did not consider when passing the rule.