



**Business Litigation 2010:**  
Unlocking Successful Strategies  
for Wisconsin Companies

**Using the Inevitable Disclosure Doctrine  
to Prevent a Key Employee from  
Working for a Competitor**  
*Bud Bobber*

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 **Business Litigation 2010:** Unlocking Successful Strategies for Wisconsin Companies

## The Realities

- Businesses need protection from “unfair” competition, more than ever
  - Intense competition in most every industry
  - Increased employee mobility
  - Decreased employee loyalty to one employer
  - Decreased customer loyalty
  - Technology advances that make it easier than ever for employees to abscond with an employer’s confidential business information and use competitively

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## The Realities

- Noncompetes are “iffy” in Wisconsin
  - Rules of construction:
    - Because they are restraints of trade, covenants not to compete are **disfavored** and are viewed with skepticism by courts
    - Must withstand **close scrutiny** to pass legal muster as being reasonable
    - Will not be construed to extend beyond their proper import or further than the language of the contract absolutely required
    - Must be **construed in favor of the employee**
  - No “blue penciling”/partial enforcement



## Another Tool: The Inevitable Disclosure Doctrine

- Based on trade secret law
  - the Uniform Trade Secret Act (adopted by 43 states)
- Wis. Uniform Trade Secret Act: Wis. Stat. § 134.90
  - Defines “trade secret” to mean any type of information that:
    - derives economic value from not being known or readily ascertainable by others; AND
    - is subject to reasonable efforts to maintain its secrecy.
  - “No person...may misappropriate **or threaten** to misappropriate a trade secret by...:
    - “Disclosing **or using** ...a trade secret of another.
  - A court may grant an injunction against a person who misappropriates or threatens to misappropriate



## ***PepsiCo, Inc. v. Redmond***

- Redmond was PepsiCo's GM of California business unit with \$500MM annual sales
  - Gave input to strategic plan
- Negotiated with competitor May-October, and accepted job as VP-Field Operations for Gatorade in November
  - Arguably made some misreps to PepsiCo
- PepsiCo sued and sought injunction



## ***PepsiCo, Inc. v. Redmond***

- Injunction granted, and upheld.
  - Redmond prohibited from assuming duties for Quaker Oats for about 5.5 months
- Rule: “a plaintiff may prove a trade secret misappropriation by demonstrating that a defendant's new employment will inevitably lead him to rely on plaintiff's trade secrets.”



## *PepsiCo, Inc. v. Redmond*

- Rationale:
  - “unfairly armed with knowledge of [PepsiCo’s] plans, [Quaker Oats] will be able to anticipate its distribution, packaging, pricing, and marketing moves.”
  - “PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game.”



## Subsequent Case Law

- Most states’ law that addresses the “inevitably disclosure” theory supports it
- California expressly rejects it
- Wisconsin courts have not ruled
  - Leaving federal courts in diversity cases to guess at the result under WI law
  - Beware of the clever public policy argument (turning on the noncompete law)



## Subsequent Case Law

- *Square D Co. v. Van Handel*, (E.D. Wis. Aug. 25, 2005) (Griesbach, J.)
  - assuming, without deciding, that even without an enforceable noncompete agreement, the inevitable disclosure doctrine would justify injunctive relief under Wisconsin law, if the information allegedly possessed by the former employer were a trade secret



## Subsequent Case Law

- *Clorox Co. v. S.C. Johnson & Son*, (E.D. Wis. June 9, 2009) (Stadtmueller, J.)
  - noting lack of Wisconsin decisions addressing the viability of the inevitable disclosure doctrine
- Inevitable disclosure claim denied
  - Court held that plaintiff's trade secret claim governed by California law, which rejects the inevitable disclosure doctrine



## The Keys To the Doctrine

- Substantial job overlap
  - Job duties of prior job required person to know trade secrets
  - Job duties of new job will require person to consider that knowledge in order to make good decisions for new employer
- The person behaved in sneaky, deceitful or otherwise unfair ways
  - undermines a claim that he/she will actively protect the former employer's trade secrets and otherwise behave in good faith



## Construct A Claim – Step 1

- Demonstrate the individual had working knowledge of your trade secrets
  - Emphasize what he/she created; not just had access to
    - Business plan; budget; forecast; RFP response
  - If not created, necessarily relied on to do job
  - Recent and fresh information
  - Emphasize forward-looking info, such as plans
  - Internally confidential stuff is best



## Construct A Claim – Step 2

- Demonstrate the new job will require him/her to draw upon that trade secret knowledge in order to make good decisions for the new employer
  - Seek job description; posting
  - Interview former employee
  - Demand detailed explanation from employer
  - Review competitor’s website, public filings and press releases to determine emphasis



## Construct A Claim – Step 3

- Demonstrate deceitful, or at least suspicious, behavior by individual that calls into question his/her trustworthiness
  - This supports the “threat” argument
  - Grab some moral high ground
- Harder if person was fired; easier if they secretly quit



## Immediately Capture Evidence

- The good stuff will often fade quickly
- Purpose? To determine if:
  - You have a claim of actual misappropriation
  - You can support a claim of threatened misappropriation by showing deceit



## Immediately Capture Evidence

- Preserve computer information
  - Do not manipulate individual's computer (do not power off)
  - Make two mirror images of the hard drive and preserve one
  - Collect all electronic media in prior employee's work area
  - Preserve system data (e.g., back up tapes before overwriting)
    - Preserve all voicemail, email and internet activity by prior employee





## Immediately Capture Evidence

- Analyze computer info
  - Look for suspicious communications, with competitor, recruiter, home email account
  - Spot unusual downloading activities
    - Use of external hard drives like flash drives
  - Look for recent access of key documents
    - At unusual times? With unusual frequency?



## Immediately Capture Evidence

- Preserve the paper trail
  - Collect and retain all notes, calendars, post-its, lists, etc. from former employee's work area
  - Have a knowledgeable person scrutinize the files
  - Catalogue what is there.
    - This demonstrates what information the person considered important to doing their job.
  - Surmise what is not there, but should be.
    - This is information that may be taken.



## Immediately Capture Evidence

- Preserve evidence of movements/access
  - Security system data showing access (key card, password, sign in, parking garage, elevator, etc.)
  - Preserve security camera video (from parking lot, entrance, other)
    - Act quickly as these are often overwritten frequently
  - Preserve evidence of use of password or key card (e.g., copy or fax machine usage)
- Looking for the “unusual”



## Immediately Capture Evidence

- Capture witness accounts before fading
  - Interview obvious coworkers about individual's activities in recent weeks/months
    - Anything unusual done? Or said?
    - What did individual say about new job? new employer?
  - Maybe interview receptionist, building security, even custodians
    - To learn of unusual comings/goings
    - To find out what was in the trash
  - Consider whether to prepare witness statements that persons review, edit and sign



## Summary

- Substantial job overlap
  - + Intimate trade secret knowledge
  - + Deceitful/suspicious behaviors
- = Argument for injunctive relief based on doctrine of inevitable disclosure
- (But keep the business people realistic!)*