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# From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets

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# From Hoops to Hard Drives: An Accession Law Approach to the Inevitable Misappropriation of Trade Secrets

## **Keywords**

Trade secrets, Doctrine of Inevitable Misappropriation, Economic Espionage, Act of 1996 (“EEA”), corporations, Uniform Trade Secrets Act

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## ARTICLES

# FROM HOOPS TO HARD DRIVES: AN ACCESSION LAW APPROACH TO THE INEVITABLE MISAPPROPRIATION OF TRADE SECRETS

JAY L. KOH\*

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## INTRODUCTION

In recent years, U.S. corporations have become concerned about the misappropriation of trade secrets.<sup>1</sup> Civil trade secret litigation has grown enormously over the last two decades, and trade secret law has become more popular among legal practitioners.<sup>2</sup> In light of these concerns, Congress passed the comprehensive Economic Espionage Act of 1996 (“EEA”)<sup>3</sup> which makes certain misappropriations of trade secrets federal felonies.<sup>4</sup> Increased access to information through computers and the Internet has heightened concerns regarding the international pilfering of U.S. corporate trade secrets.<sup>5</sup>

Congress has primarily focused on cases of industrial espionage

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1. See Thomas P. Heed, Comment, *Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action That Works*, 30 J. MARSHALL L. REV. 207, 210-11 (1996) (stating that between 1985 and 1994, reported incidents of misappropriated trade secrets rose 260% and tripled from 1993-1995).

2. See Suellen Lowry, Note, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519, 519 (1988) (noting that “trade secret litigation is burgeoning”).

3. See Economic Espionage Act of 1996 § 101(a), 18 U.S.C. §§ 1831-1839 (Supp. 1997).

4. See *id.* §§ 1831-1832 (providing for individual fines of up to \$500,000 and imprisonment for up to 15 years, as well as organizational fines of up to \$10,000,000 for violations of the Act).

5. See Marc S. Friedman & Kristin Bissinger, “Infojacking”: *Crimes on the Information Superhighway*, J. PROPRIETARY RTS., May 1997, at 2, 5-6 (describing the EEA as one response to the increasing concern over computer-related theft of trade secrets).

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involving foreign agents and corrupt employees.<sup>6</sup> A more subtle, long-term trend, however, is the growth in civil litigation over the unintentional, or even inevitable, transfer or disclosure of employers' trade secrets by former employees to their new employers.

Employers have argued that under certain conditions, employees who leave an employer to work for a competitor will inevitably, inappropriately, and thus illegally disclose or use their former employers' trade secrets in the course of their new employment.<sup>7</sup> Former employers of key employees have raised this argument, known as "inevitable misappropriation," in support of motions to enjoin employees from working for competitors.<sup>8</sup> These employer-plaintiffs have brought suit under common law as well as state law versions of the Uniform Trade Secrets Act ("UTSA").<sup>9</sup>

Over the last thirty years, a growing number of federal and state courts have wrestled with employers' concerns regarding the disclosure of trade secrets in an attempt to develop a coherent approach to the doctrine of inevitable misappropriation.<sup>10</sup>

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6. See Spencer Simon, *The Economic Espionage Act*, 13 BERKELEY TECH. L.J. 305, 309 (1998) (contending that federal legislation is necessary to combat the growing scourge of economic espionage by both domestic and foreign agents); Robert L. Tucker, *Industrial Espionage as Unfair Competition*, 29 U. TOL. L. REV. 245, 246 (1998) (commenting on the increasing number of American companies subject to industrial espionage sponsored by foreign governments); Darren S. Tucker, Note, *The Federal Government's War on Economic Espionage*, 18 U. PA. J. INT'L ECON. L. 1109, 1142 (1997) (suggesting that one of the main purposes of the EEA is to combat foreign trade secret theft); see also, e.g., *FBI Charges Taiwanese Tried to Steal Taxol Trade Secrets from BMS*, 1998 Andrews Intell. Prop. Litig. Rep. (Andrews Publications) 3 (June 18, 1997) (reporting the first indictments of international trade secret theft under the EEA involving Taiwanese nationals attempting to buy anti-cancer drug production secrets from an executive posing as a "corrupt [company] scientist"); Louis Lavelle, *Spies and Spy Catchers; Espionage Thrives in Business World*, RECORD (Bergen County, N.J.), Sept. 6, 1998, at A1 (reporting that five prosecutions of international agents have taken place under the EEA as of September 1998).

7. See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995) (upholding an injunction against the employment of a beverage company employee by a competitor on the grounds that the employee would inevitably disclose the former company's trade secrets through the course of similar employment with the latter company); *Norand Corp. v. Parkin*, 785 F. Supp. 1353, 1356 (N.D. Iowa 1990) (providing a temporary restraining order on the basis of threatened or inevitable misappropriation).

8. See *PepsiCo*, 54 F.3d at 1268.

9. UNIF. TRADE SECRETS ACT § 2(a) (amended 1985), 14 U.L.A. 433-67 (Supp. 1998). The Uniform Trade Secrets Act has been passed by 40 states and the District of Columbia. See James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 187 n.64 (1997) (observing that although 40 states and the District of Columbia have adopted the Uniform Trade Secrets Act, some states have modified it); see also Roy E. Thoman, Book Review, 22 N.C. J. INT'L L. & COM. REG. 695, 695 (1997) (reviewing MICHAEL CRAIG BUDDEN, *PROTECTING TRADE SECRETS UNDER THE UNIFORM TRADE SECRETS ACT: PRACTICAL ADVICE FOR EXECUTIVES* (1996)). The extent of the courts' application of the inevitable misappropriation doctrine is detailed in Part I.B.

10. Compare *IDS Life Ins. Co. v. Sunamerica, Inc.*, 958 F. Supp. 1258, 1282 (N.D. Ill. 1997) (granting an injunction to prevent a defendant corporation from hiring a former employee of plaintiff in order to prevent the misappropriation of plaintiff's trade secrets), *aff'd in part*,

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Unfortunately, the result has been an inconsistent, unpredictable and undesirable patchwork of legal standards that appears both inequitable and inefficient. Currently, the courts use four different approaches to determine inevitability, each of which suffers from its own specific limitations,<sup>11</sup> as well as from an excessively narrow focus on the employers' property interests which undervalues employees' interests.<sup>12</sup> In addition, the courts' general all-or-nothing approach to remedies often results in inconsistent, crude, and unduly harsh outcomes for both employees and employers, and creates an overall pro-employer bias.<sup>13</sup> The combination of these conflicting methodologies and crude remedies threatens the coherence of trade secrets law, general economic efficiency, and specific fundamental employee interests.<sup>14</sup>

Unfortunately, existing proposals to change the current system suffer from their own limitations. First, academic proposals that totally abandon or wholly embrace the inevitable misappropriation doctrine are too extreme—each threatens to underprotect some set of important employer or employee interests.<sup>15</sup> Second, although recognizing employers' and employees' joint or concurrent property interests in trade secrets would account for both the employers' interests in property and the employees' interests in employment, this divided property interest approach would result in valuation and efficiency problems as well as disrupt the current ownership system for trade secrets.<sup>16</sup>

This Article argues that the correct approach to the doctrine of the inevitable misappropriation of trade secrets requires a fundamental shift in perspective. Rather than following the path of the last thirty years or adopting the suggestions of the last few years, the correct approach to the modern doctrine of inevitable misappropriation should be derived from the ancient property law of accession.

Accession law, developed before Blackstone's time,<sup>17</sup> allocates interests in personal property that are created by a combination of different parties' properties or the transformation of one person's property into something else by another.<sup>18</sup> Instead of treating employers' and employees' property interests separately and balancing them against each other or weighing concurrent property

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*vacated in part*, 136 F.3d 537 (7th Cir. 1998), *with* *Engineering Assocs., Inc. v. Pankow*, 150 S.E.2d 56, 59 (N.C. 1966) (denying an injunction and affirming former employees' rights to all knowledge and skill acquired during their tenure with former employers). For a more comprehensive list of cases and courts, see *infra* notes 46-51.

11. See discussion *infra* Part II.A.1.

12. See discussion *infra* Part II.A.2.

13. See discussion *infra* Part II.A.3.

14. See discussion *infra* Part II.A.4.

15. See discussion *infra* Part II.B.1.

16. See discussion *infra* Part II.B.2.

17. See 2 WILLIAM BLACKSTONE, COMMENTARIES \*404-07.

18. See *id.* (commenting that Roman law recognized that if an object received an accession, naturally or artificially, then the original owner of the object was entitled to the improvement unless the object itself was changed, such as making wine out of grapes).

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interests in trade secrets, this Article argues that the doctrine of inevitable misappropriation should actually be understood as allocating the interests in a combined or transformed “property” consisting of employees themselves and their future employment.<sup>19</sup> Under this reasoning, the misappropriation doctrine can be seen as determining the control of employees themselves as a combined or transformed “property” made up of both: (1) the employers’ trade secrets, and (2) the employees’ human capital and fundamental rights to work and choose their employment. Thus, unlike current approaches, an accession law approach does not focus only on the employers’ property interest in the trade secrets to determine if they are threatened. Courts, therefore, should approach the doctrine of inevitable misappropriation with reference to the principles of accession law, which have long dealt with the ownership and control of combined or transformed property in other contexts.<sup>20</sup> This Article demonstrates that applying the principles of accession law to the doctrine of inevitable misappropriation will enable courts to make more measured and flexible decisions that take into account the relative values of the interests at stake, thereby generating more desirable outcomes in individual situations and creating a more efficient overall system for the regulation of trade secrets in the employment context.

Part I of this Article outlines and describes the scope of the doctrine of inevitable misappropriation. Part II reviews existing court approaches as well as proposed academic approaches to the misappropriation doctrine. Then, Part II argues that all of these approaches are inconsistent and undesirable. Part III introduces the law of accession, argues that it can be reasonably applied to the doctrine of inevitable misappropriation, and explains how such an approach to the doctrine would be applied. Finally, Part III further argues that applying principles of accession law to the doctrine of inevitable misappropriation would generate better individual and systemic results.

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19. Of course, there are both significant normative and positive reasons for limiting the application of accession law in the trade secrets and employment context. *See* discussion *infra* Part III.B. This Article does not suggest, for example, that people are or should be treated literally as property. *See infra* notes 394-95 and accompanying text.

20. Accession law has generally dealt with personal property, but has been applied across centuries to a wide range of contexts, from shingles and oil to automobiles and air conditioning units. *See* discussion *infra* Part III.A.

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## I. THE DOCTRINE OF INEVITABLE MISAPPROPRIATION

Courts have developed the doctrine of inevitable misappropriation of trade secrets over the past thirty years.<sup>21</sup> The following section briefly explains the doctrine, describes its scope of application, and reviews the two sets of important interests at stake: employer property interests in trade secrets and employee liberty interests in freedom to work.

### A. *The Basic Doctrine*

Although courts have adopted a number of interpretations of the doctrine of inevitable misappropriation of trade secrets, the core aspects of the argument remain common. The doctrine basically reasons that an employee who has been exposed to her employer's trade secrets will inevitably disclose or use those secrets in the course of her new employment, and therefore should be enjoined from working for her former employer's competitors.<sup>22</sup> After determining whether the misappropriation doctrine is applicable under either a state law version of the UTSA<sup>23</sup> or common law,<sup>24</sup> the courts will apply the doctrine in two steps.<sup>25</sup> First, the courts will determine whether misappropriation is inevitable, and second, if misappropriation is inevitable, they will craft an injunction to prevent it.<sup>26</sup> An excellent example of this process is the widely discussed inevitable misappropriation case, *PepsiCo, Inc. v. Redmond*.<sup>27</sup>

In *PepsiCo*, the Seventh Circuit upheld the district court's injunction against an employee that went to work for a former employer's competitor on inevitable misappropriation grounds.<sup>28</sup> Redmond, formerly a general manager in PepsiCo's California division, had access to the company's secret strategic marketing plans for the West Coast.<sup>29</sup> Quaker Oats, a direct competitor to PepsiCo in the fiercely competitive sport drink and new-age drink categories,

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21. One of the earliest cases standing for the proposition of inevitable misappropriation is *Plant Industry v. Coleman*, 287 F. Supp. 636 (C.D. Cal. 1968). In *Plant Industry*, the court found an implied agreement to maintain the confidentiality of the former employer's trade secrets. *See id.* at 644.

22. *See* John Bostjanich & Patricia S. Smart, *Survey of Illinois Law: Intellectual Property Law Developments*, 19 S. ILL. U. L.J. 855, 861-62 (1995) (stating that the action of misappropriation does not have to include a physical taking of information).

23. *See* UNIF. TRADE SECRETS ACT § 2 (a) (amended 1985), 14 U.L.A. 433-67 (Supp. 1998). For example, in *PepsiCo, Inc. v. Redmond*, the court applied the doctrine of inevitable misappropriation under the Illinois Trade Secrets Act ("ITSA"), 765 ILL. COMP. STAT. 1065/3(a) (West 1995). *See* *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1267 (7th Cir. 1995).

24. *See, e.g.*, *National Starch & Chem. Corp. v. Parker Chem. Corp.*, 530 A.2d 31 (N.J. Super. Ct. App. Div. 1987) (granting injunctive relief without reference to a trade secret statute).

25. *See* *PepsiCo*, 54 F.3d at 1267 (stating that Illinois law provides that after the court finds that misappropriation is inevitable, it then may grant an injunction).

26. *See id.*

27. 54 F.3d 1262.

28. *See id.* at 1263.

29. *See id.* at 1264-65 (reporting that Redmond's former employer, PepsiCo, produced "All Sport," a drink that directly competes with his new employer's, Quaker Oats' sport drinks, "Snapple" and "Gatorade").



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recruited Redmond.<sup>30</sup> PepsiCo asserted that Redmond could not help but rely on knowledge of PepsiCo's secret plans while managing the strategy of the new Quaker Oats division.<sup>31</sup> The Seventh Circuit panel agreed with PepsiCo,<sup>32</sup> noting that the nature of the job, and not Redmond's conscious intent, would make such misappropriation inevitable.<sup>33</sup> The court remarked that the argument by both Quaker Oats and Redmond that they had no past or future intent to use any of PepsiCo's trade secrets "f[el]l somewhat short of the mark."<sup>34</sup> The three-judge panel then adopted the district court's finding that disclosure of these trade secrets would cause incalculable harm to PepsiCo and would provide a substantial advantage to Quaker Oats.<sup>35</sup> Since the Illinois Trade Secrets Act ("ITSA"),<sup>36</sup> provided for injunctive relief against the inevitable misappropriation of trade secrets, the appellate court upheld the district court's injunction against Redmond, preventing him from assuming his new position for six months.<sup>37</sup>

The *PepsiCo* case illustrates a few common aspects of the inevitable misappropriation doctrine. First, the doctrine effectively prevents an employee from working for a competitor in the same way as a noncompete covenant, but it operates in the absence of such a covenant.<sup>38</sup> Even without signing an agreement or covenant not to compete, Redmond was prevented from taking a new and lucrative job with Quaker Oats because of his exposure to PepsiCo's trade secrets, and because the court believed his new job would require him to use or disclose those secrets.<sup>39</sup> Second, the former employer, or plaintiff, does not necessarily need to prove intent to misappropriate as a requirement for applying the doctrine.<sup>40</sup> Therefore, the doctrine can prevent even an apparently well-meaning or neutral employee from working for a competitor, even if she

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30. *See id.* at 1264-66.

31. *See id.* at 1269-70.

32. *See id.* at 1270.

33. *See id.*

34. *See id.*

35. *See id.* at 1271-72.

36. *See* 765 ILL. COMP. STAT. 1065/3(a) (West 1995) ("Actual or threatened misappropriation may be enjoined.").

37. *See PepsiCo*, 54 F.3d at 1272.

38. Other critics of the doctrine have noted as much. *See* Nina Schuyler, *Trading Secrets*, CAL. LAW., Feb. 1996, at 27, 28 (quoting James DiBoise, a partner at Wilson, Sonsini, Goodrich & Rosati in Palo Alto, California stating, "In essence, the doctrine is a powerful noncompete clause.").

39. *See PepsiCo*, 54 F.3d at 1270.

40. *See id.*

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consciously intends to protect her former employer's trade secrets.<sup>41</sup> Third, the doctrine primarily focuses on protecting trade secrets, not balancing employee and employer interests or evaluating relative value.<sup>42</sup> Courts apply the doctrine under statutes or common law precedents aimed at protecting trade secrets.<sup>43</sup> The courts' focus lies in the nature of the trade secrets and the potential threat to them, but not on a formal balancing of interests or protection of employee rights.<sup>44</sup>

### *B. Scope*

A significant and growing number of federal and state courts have begun applying the doctrine of inevitable misappropriation. The doctrine has been widely applied even in the absence of covenants not to compete.<sup>45</sup> Prior to the *PepsiCo* decision in 1995, both federal<sup>46</sup> and state<sup>47</sup> courts used findings of inevitable use or disclosure of trade secrets to bar employees from working in parts of their new employers' operations. Still other federal<sup>48</sup> and state<sup>49</sup> courts

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41. Whether intent is relevant depends on the approach to inevitability taken by the courts. See discussion *infra* Part II.A.1.

42. See Lowry, *supra* note 2, at 524-26 (asserting that courts favor protecting trade secrets because trade secret protection encourages technological innovation).

43. See UNIF. TRADE SECRETS ACT § 2(a) (amended 1985), 14 U.L.A. 433-67 (Supp. 1997); *PepsiCo*, 54 F.3d at 1262 (applying the ITSA).

44. See *infra* notes 162-68 and accompanying text (describing the focus on employer property interests in trade secrets and the resulting negative consequences of this focus).

45. See Johanna L. Edelstein, Note, *Intellectual Slavery?: The Doctrine of Inevitable Disclosure of Trade Secrets*, 26 GOLDEN GATE U. L. REV. 717, 732 (1996) (criticizing the *PepsiCo* decision as altering the terms of employment, and applying covenants not to compete without analyzing their impact on the former employee's mobility).

46. See, e.g., *Union Carbide Corp. v. UGI Corp.*, 731 F.2d 1186, 1191-92 (5th Cir. 1984) (reasoning that inevitability of use of trade secrets in employment required injunctive relief); *FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500, 505 (5th Cir. 1982) (enjoining an employee from disclosing or working in the area of swivel joint process); *IBM Corp. v. Seagate Tech., Inc.*, 941 F. Supp. 98 (D. Minn. 1992) (enjoining an employee from working for a competitor in the disk drive industry on the basis of inevitable misappropriation), *vacated and remanded*, 962 F.2d 12 (8th Cir. 1992); *Norand Corp. v. Parkin*, 785 F. Supp. 1353 (N.D. Iowa 1990) (granting a temporary restraining order on the basis of threatened or inevitable misappropriation); *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1317-19 (S.D. Ind. 1985) (enjoining an engineer from working in specific areas of the wireline logging business of a competitor for two years because he would inevitably disclose trade secrets), *aff'd*, 859 F.2d 512 (7th Cir. 1998); *SI Handling Sys., Inc. v. Heisley*, 581 F. Supp. 1553 (E.D. Pa. 1984) (enjoining employees in the drive tube industry), *vacated*, 753 F.2d 1244 (3d Cir. 1985); *Emery Indus., Inc. v. Cottier*, 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978) (enjoining an employee in the ozone field on the basis of the inevitable use of trade secrets); *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654 (E.D. Mich. 1966) (providing a preliminary injunction against the developer of an in-line fuel pump from working on distributor pumps for a competitor of his previous employer because the developer would inevitably disclose trade secrets regarding the pump).

47. See, e.g., *Barr-Mullin, Inc. v. Browning, Ltd.*, 424 S.E.2d 226, 228, 230-31 (N.C. Ct. App. 1993) (enjoining employees in the software industry in part because of the likelihood of misappropriation); *National Starch & Chem. Corp. v. Parker Chem. Corp.*, 530 A.2d 31, 33 (N.J. Super. Ct. App. Div. 1987) (upholding the trial court's 15-month preliminary injunction against an employee working in the area of envelope adhesives because circumstances suggested that such work would inevitably force the employee to use or disclose his former employer's trade secrets); *Air Prods. & Chems., Inc. v. Johnson*, 442 A.2d 1114, 1116, 1120 (Pa. Super. Ct. 1982) (enjoining an employee from working in new employer's operations for one year based on inevitable misappropriation theory).

48. See, e.g., *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194, 1197 (8th Cir. 1992) (finding

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discussed the doctrine when denying injunctions against former employees. Following *PepsiCo*, an even greater number of courts have discussed, adopted, and applied the inevitable misappropriation doctrine.<sup>50</sup> Recent decisions in a variety of industries have continued this trend.<sup>51</sup>

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that an employee would not inevitably disclose or use a former employer's trade secrets in evaluating a motion for injunction, but discussing application of the doctrine as a serious possibility); *IBM Corp. v. Seagate Tech., Inc.*, 962 F.2d 12, 12 (8th Cir. 1992) (reversing an injunction for insufficient facts); *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1203, 1207 (7th Cir. 1987) (denying an injunction because of a failure to show likelihood of misappropriation, but not rejecting the doctrine of inevitable misappropriation outright); *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1255, 1266 (3d Cir. 1985) (remanding an injunction for inevitable misappropriation not because the doctrine was rejected, but because more specific facts were needed); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1482 (W.D.N.C. 1995) (denying a preliminary injunction against an employee and explaining that the application of inevitable misappropriation doctrine is limited to cases of bad faith, underhanded dealing, and employment by a technologically backward competitor); *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353, 357 (N.D. Ill. 1989) (denying an injunction because the facts presented were insufficient); *Union Carbide Corp. v. Sunox, Inc.*, 590 F. Supp. 224, 228 (W.D.N.C. 1984) (denying an injunction because of a lack of strong showing of a likelihood of misappropriation); *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 269 (E.D. La. 1967) (denying a preliminary injunction against a person's employment with a competitor in the coffee and tea business, stating that the facts did not support a claim of inevitable misappropriation).

49. *See, e.g.*, *Engineering Assocs. v. Pankow*, 150 S.E.2d 56, 58-59 (N.C. 1966) (rejecting an injunction without a covenant not to compete); *Travenol Lab., Inc. v. Turner*, 228 S.E.2d 478, 486 (N.C. Ct. App. 1976) (denying a preliminary injunction against an employee, but reviewing cases of inevitable misappropriation injunctions involving technical employees or some showing of intent); *Obey Indus., Inc. v. Finney*, 555 A.2d 1324, 1326-27 (Pa. Super. Ct. 1989) (denying an injunction based on non-technical employment).

50. *See* *IDS Life Ins. v. Sunamerica, Inc.*, 958 F. Supp. 1258, 1280 (N.D. Ill. 1997) (restating that an employer misappropriates trade secrets when he knowingly reaps the advantages of an employee's conversion of trade secrets from a former employer), *aff'd in part, vacated in part*, 136 F.3d 537 (7th Cir. 1998); *Southwestern Energy Co. v. Eickenhorst*, 955 F. Supp. 1078, 1085 (W.D. Ark. 1997) (citing *PepsiCo* and discussing the inevitable misappropriation theory with approval); *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (indicating that for the purposes of an employer's action against a former employee for trade secret misappropriation, the employer's failure to obtain a noncompete agreement from the employee was not unreasonable); *La Calhène, Inc. v. Spolyar*, 938 F. Supp. 523, 531 (W.D. Wis. 1996) (reiterating that plaintiff does not need to show that defendant actually misappropriated any of its trade secrets—a threat of misappropriation is sufficient); *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405 (N.D. Iowa), *modified*, 938 F. Supp. 1450, 1475 (N.D. Iowa 1996) (suggesting that actual or threatened misappropriation allows an owner of a trade secret to recover damages).

51. For example, in November 1997, a New York County Court enjoined a former employee from starting a new Internet advertising business for six months in part because it found that the employee would inevitably use or disclose his former employer's trade secrets. *See Doubleclick, Inc. v. Henderson, Inc.*, No. 116914/97, 1997 WL 731413, at \*5 (N.Y. Sup. Ct. Nov. 7, 1997). Also in 1997, a federal district court in the Southern District of New York denied an injunction against an employee working for a competitor in the paper industry, but recognized that inevitable misappropriation had served as the basis for issuing other injunctions in more highly technical industries. *See International Paper Co. v. Suwyn*, 966 F. Supp. 246, 258-59 (S.D.N.Y. 1997) (distinguishing the instant case from *Continental Group, Inc. v. Kinsley*, 422 F. Supp. 838 (D. Conn. 1976), and *Business Intelligence Services, Inc. v. Hudson*, 580 F. Supp. 1068 (S.D.N.Y. 1984), by arguing that the latter cases involved high-tech industries and employees and therefore could support findings of inevitable misappropriation).

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In addition, courts have begun to apply the reasoning of the inevitable misappropriation doctrine to uphold and enforce noncompete covenants<sup>52</sup> through injunctions.<sup>53</sup> Although the cases involving noncompete covenants focus on the reasonability of the restrictions and apply a more stringent standard of irreparable harm than the cases applying the doctrine under statutory authority alone,<sup>54</sup> they also provide additional and sometimes more flexible examples of applying the doctrine than cases applying the doctrine in the absence of such a covenant.

### C. *Interests at Issue*

The doctrine of inevitable misappropriation has sparked heated debate among practitioners and academics because it implicates two important values: employee liberty and employer property rights.<sup>55</sup>

Preventing the inevitable misappropriation of trade secrets protects important employer interests.<sup>56</sup> First, applying the doctrine both upholds and enforces principles of commercial morality. Courts work to protect trade secrets based on the principle of “the law of unfair competition . . . in which the courts seek to enforce increasingly high standards of fairness or commercial morality and to protect the owner of information obtained through the ingenuity and effort of its employees, and its expenditures of time and

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52. For an excellent empirical study of covenants not to compete, see Peter J. Whitmore, *A Statistical Analysis of Noncompetition Clauses in Employment Contracts*, 15 J. CORP. L. 483 (1990).

53. See, e.g., *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1270 (8th Cir. 1978) (reversing a denial of two-year preliminary injunction on the grounds that a restrictive covenant is reasonable because the employee had access to confidential information, but not reaching the question of inevitable misappropriation); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909, 913-14 (D. Conn. 1996) (enforcing a covenant not to compete by enjoining an employee from working for a competitor for one year on the grounds that the employee would inevitably disclose trade secrets); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 631, 636 (E.D.N.Y. 1996) (finding a six-month covenant not to compete reasonable because an employee working for a competitor with similar products would inevitably force him to disclose trade secrets); *Business Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1072 (S.D.N.Y. 1984) (upholding a 12-month restrictive covenant as reasonable under the inevitable misappropriation doctrine); *Continental Group v. Kinsley*, 422 F. Supp. 838, 845-46 (D. Conn. 1976) (upholding an 18-month restrictive covenant in the plastic container industry as reasonable because disclosure of trade secrets would otherwise be inevitable); *Cannondale Corp. v. GT Bicycles*, No. CV-970156601S, 1997 WL 53561, at \*1 (Conn. Super. Ct. Feb. 4, 1997) (upholding a covenant not to compete as reasonable and justified because of the inevitability of disclosure of trade secrets); *Medtronic, Inc. v. Sun*, Nos. C7-97-1185, C9-97-1186, 1997 WL 729168, at \*4 (Minn. Ct. App. Nov. 25, 1997) (upholding a two-year covenant not to compete because it is reasonable and holding that a showing of inevitable misappropriation is not necessary when evaluating the reasonability of a restrictive covenant under Minnesota law).

54. See, e.g., *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1207 (7th Cir. 1987) (explaining the higher standard of proof in cases without a noncompete covenant); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 636 (E.D.N.Y. 1996) (holding that to be enforceable, a covenant not to compete need only be reasonable).

55. See *Wexler v. Greenberg*, 160 A.2d 430, 434-35 (Pa. 1960) (noting the competing values at stake in determining the rights of businesses to be free from unfair competition resulting from disclosure of trade secrets).

56. See *Lowry*, *supra* note 2, at 524-25 (noting that protecting trade secrets encourages companies to invest in technological advancement); see also *infra* notes 57-61 and accompanying text (discussing other employer interests).

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money.”<sup>57</sup> Courts have similarly explained that “[t]rade secrets and confidential information are protected on the basis that their wrongful disclosure is a breach of trust.”<sup>58</sup> Second, courts have argued that protecting trade secrets has significant practical effects for specific types of employers.<sup>59</sup> For example, one court explained that misappropriation of trade secrets is barred because

[m]isappropriation of a trade secret is an injury of “such continuous and frequent recurrence that no reasonable redress can be had in a court of law.” The very nature of a trade secret mandates that misappropriation will have significant and continuous long-term effects. The party wronged may forever lose its competitive business advantage or, at the least, a significant portion of its market share.<sup>60</sup>

As a result of these types of considerations, courts in several jurisdictions have held that irreparable harm can be presumed when a trade secret is misappropriated.<sup>61</sup>

Applying the inevitable misappropriation doctrine also affects important interests of individual employees.<sup>62</sup> Courts consistently recognize that enjoining an employee from working for an employer of her choice infringes on her fundamental liberty interests.<sup>63</sup>

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57. *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 653 (E.D. Mich. 1966) (citing *Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953)); *see also* *Schulenberg v. Signatrol, Inc.*, 200 N.E.2d 615, 620 (Ill. App. Ct. 1964) (granting an injunction limited by time and scope to protect both employee mobility in the workplace and the employer's interest in trade secrets).

58. *Standard Brands v. Zumpe, Inc.*, 264 F. Supp. 254, 262 (E.D. La. 1967) (citing *Franke*, 209 F.2d at 498) (asserting that protection of trade secrets should be viewed as an issue of breach of good faith rather than as an issue of protection of a property right); *see also* *Travenol Lab., Inc. v. Turner*, 228 S.E.2d 478, 483 (N.C. Ct. App. 1976) (affirming that although a duty not to disclose trade secrets was grounded originally in the property rights of the employer, it is now grounded in the trust and confidence imposed on the employee) (citing the RESTATEMENT (SECOND) OF AGENCY § 396 (1958) and the RESTATEMENT OF TORTS (THIRD) § 757 (1939)).

59. *See* *Lowry*, *supra* note 2, at 526 (noting that patent protections, like trade secret protections, encourage companies to seek innovation).

60. *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1455 (M.D.N.C. 1996) (quoting *Barr-Mullin, Inc. v. Browning, Ltd.* 424 S.E.2d 226, 230 (N.C. Ct. App. 1993)).

61. *See id.* at 1456 (noting that the court is satisfied that if plaintiffs lose important trade secrets, they will suffer immediate and irreparable harm) (citing *Lumex v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996)); *see also* *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984) (stating that once a trade secret is lost, it is lost forever and therefore results in irreparable harm); *Lumex*, 919 F. Supp. at 628 (noting the clarity in the law and indicating that irreparable harm is presumed when a trade secret has been misappropriated).

62. *See* *Lowry*, *supra* note 2, at 524-25 (noting society's general discomfort with not allowing employees to market themselves fully); *see also* *infra* notes 63-68 and accompanying text (discussing employee interests implicated by the misappropriation doctrine).

63. *See* *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1484 (W.D.N.C. 1995) (“The freedom of employees to sell their expertise to the highest and most congenial bidder is an important facet of individual liberty long recognized by the law of North Carolina.”); *Travenol Lab., Inc. v. Turner*, 228 S.E.2d 478, 483 (N.C. Ct. App. 1976) (“[T]he employee must

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Specifically, courts acknowledge “the principle that an individual has the right to change his employment for whatever reason he wishes and the right to utilize his general skill, knowledge and experience for the benefit of his employer.”<sup>64</sup> Courts repeatedly state that they “will not deprive the employee of the right to use the skill he developed through the years.”<sup>65</sup> In addition, many courts recognize the direct practical consequences of an injunction on the individual employee.<sup>66</sup> For example, in denying a broad injunction against an individual employee, a federal district court stated that “[e]njoining Blaker [the employee] from employment in an area where most, if not all, of his background and training would be relevant, would in the opinion of this Court, be potentially devastating to both Blaker and his family.”<sup>67</sup> As one court noted, even a temporary absence can have significant practical impacts on an individual employee’s life and relationships, including the alienation of his or her new employers.<sup>68</sup>

More generally, the doctrine of inevitable misappropriation also implicates fundamental public policy concerns.<sup>69</sup> For instance, enforcing a regime of trade secret protection can create greater incentives for employers to invest in proprietary technologies.<sup>70</sup> Courts have grounded their concern for protecting trade secrets in the needs of the free market: “[T]o promote experimentation with new ideas, the employer must feel free to entrust confidential ideas and information to employees without fear that competitors will unfairly gain access to such information.”<sup>71</sup> Protecting important intellectual property may be essential to the existence of certain companies, particularly in the high-technology industries.<sup>72</sup> In

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have the freedom to sell skills fairly and honestly acquired to the highest bidder. This reflects a commitment to market efficiency, but more importantly to personal freedom in choosing one’s employment.”).

64. *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng’g Corp.*, 255 F. Supp. 645, 652-53 (E.D. Mich. 1966).

65. *See, e.g., Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 262 (S.D. Cal. 1958), *aff’d*, 283 F.2d 695 (9th Cir. 1960); *see also, e.g., Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 259, 268 (E.D. La. 1967) (quoting *Sarkes Tarzian*, 169 F. Supp. at 262, 278-79) (stating that the public is interested in highly skilled people moving from job to job to improve society’s industrial structure); *Allis-Chalmers Mfg. Co.*, 255 F. Supp. at 654-55 (holding that defendant may work for a new employer using the skills he has acquired over the years, and must only refrain from working in the design and development of products that might allow the transfer of trade secrets).

66. *See Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1318 (S.D. Ind. 1985) (stating that forced relocation of an employee and his family due to termination is potentially devastating); *see also infra* notes 67-68 and accompanying text (describing courts’ consideration of the impact of injunctions on employees).

67. *Schlumberger Well Servs.*, 623 F. Supp. at 1318.

68. *See Baxter Int’l, Inc. v. Morris*, 976 F.2d 1189, 1194-95 (8th Cir. 1992) (accepting the district court’s assertion that an injunction must be crafted to protect the employee adequately to avoid alienation of the new employer).

69. *See Lowry, supra* note 2, at 524 (noting that inevitable misappropriation must contend with the competing public policy concerns of protecting business secrets and workers’ rights).

70. *See id.* at 525 (noting that trade secret protection encourages research, development, and technological advances).

71. *Travenol Lab., Inc. v. Turner*, 228 S.E.2d 478, 483 (N.C. Ct. App. 1976).

72. *See Edelstein, supra* note 45, at 733 n.131 (citing *DiBoise & Berger, Inevitable Disclosure of*

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addition, courts have reasoned that without such exclusive protection, employers may not be able to afford to subsidize research and development, or to make improvements in their manufacturing methods or products.<sup>73</sup>

Other commentators, however, have argued that applying the doctrine of inevitable misappropriation to prevent employees from leaving one company to work for competitor companies will generally be counterproductive and stifling to company innovation, investment in human capital, and general economic growth.<sup>74</sup> One commentator has argued that potentially highly-skilled employees will have an incentive to avoid being exposed to trade secret information because that exposure ultimately can be used to prevent them from leaving their current employment.<sup>75</sup> While it might be argued that employers could circumvent this problem by offering higher wages to employees who enter into potential noncompete contracts, concerns about “bounded rationality,”<sup>76</sup> opportunism, and unpredictability suggest that it is more likely that these employees will be inadequately compensated.<sup>77</sup> Thus, employees in this situation may either be treated unfairly, or remain unmotivated to expose themselves to trade secrets and acquire skills that might increase their productivity and, by extension, benefit society.<sup>78</sup>

Another critic has argued that the general effect of applying the doctrine will lower overall innovation and growth. For example, James DiBoise, a partner at Wilson, Sonsini, Goodrich & Rosati, a high-technology law firm in Palo Alto, California, has argued that

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*Trade Secrets*, 20 NEW MATTER 28 (1995)).

73. See *id.* at 734 n.134 (arguing that absent protections to ensure that the confidential developments of companies remain undisclosed, new developments will be hampered) (citing *Wexler v. Greenberg*, 160 A.2d 430 (Pa. 1960)); see also *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1484 (W.D.N.C. 1995) (“The protection extended to trade secrets fosters research and development and the improved products it elicits.”).

74. See, e.g., Edelstein, *supra* note 45, at 733; Lowry, *supra* note 2, at 533-35; Schuyler, *supra* note 38, at 28.

75. See Edelstein, *supra* note 45, at 733 n.128 (“[E]mployees may not want to increase their expertise, since the potential acquisition of alleged trade secrets could prevent them from a later advantage in the industry in which they are most productive.”) (citing *Wexler*, 160 A.2d at 435); see also Lowry, *supra* note 2, at 530-31 (discussing the reluctance of prospective employers to hire employees that have been exposed to trade secrets because employers fear litigation).

76. See Lowry, *supra* note 2, at 533 (defining “bounded rationality” as a situation in which employees are incapable of fully understanding or comprehending the complexities involved in the noncompetition covenants they are compelled to sign).

77. See *id.* at 534 (noting that both labor unions and employees without union representation face great difficulty when negotiating noncompete agreements with employers who have superior knowledge or the potential value of trade secrets).

78. See *id.* (noting that employers will not always honor the request of their employees to work in areas where they will not be exposed to trade secrets).

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applying the doctrine of inevitable misappropriation will undermine competition and economic growth in the same way as enforcing covenants not to compete undermine them.<sup>79</sup> DiBoise supported his argument with an empirical study of Silicon Valley and a high-technology area in Massachusetts, known as Route 128.<sup>80</sup> The study attributed the tremendous growth of Silicon Valley to employee mobility, and the decline of Route 128 to the prevalent use of covenants not to compete in employment contracts.<sup>81</sup> DiBoise has also noted that inevitable misappropriation cases can take years to decide, side-tracking both valuable employees and the technological efforts of prospective employers.<sup>82</sup> As an example, he cited the case of *IBM Corp. v. Seagate Technology, Inc.*,<sup>83</sup> where continuing litigation over inevitable misappropriation prevented an executive of IBM's hard drive division from working for Seagate, a hard drive competitor, for three years.<sup>84</sup> This delay virtually ended the employee's usefulness to any company in the innovative hard drive industry.<sup>85</sup> Even if no lawsuits were ever brought under the doctrine, the threat of litigation itself may make prospective employers less sanguine about hiring the most highly-skilled employees because these employees also tend to have been exposed to trade secrets.<sup>86</sup> Thus, an inappropriate or an overly broad application of the doctrine of inevitable misappropriation could have severe consequences, including undermining both individual investments in human capital and general innovation, as well as hampering the economic growth that employee mobility generates.

## II. CURRENT APPROACHES AND PROPOSALS

Given the growing application of the inevitable misappropriation doctrine and the fundamental interests it implicates, a coherent and well-balanced approach to this area of trade secrets is important. Unfortunately, current court doctrines and existing reform proposals fail to provide such an approach. The following section evaluates,

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79. See Schuyler, *supra* note 38, at 28 (quoting DiBoise stating, "In essence, the doctrine is a powerful noncompete clause.>").

80. See ANNALEE SAXENIAN, REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY AND ROUTE 128, at 37 (1994) (explaining that employees with more freedom, such as those in the Silicon Valley, create a more productive environment for the high-tech sector generally).

81. See *id.* at 62 (discussing the conservative social traditions of New England which discourage job-hopping and technology-sharing); see also Schuyler, *supra* note 38, at 28 (discussing DiBoise's criticisms of the doctrine and referring to the Saxenian study).

82. See Schuyler, *supra* note 38, at 28.

83. *IBM Corp. v. Seagate Tech., Inc.*, Civ. No. 3-91-630, 1991 WL 757821 (D. Minn. Dec. 31, 1991), *rev'd*, 962 F.2d 12 (8th Cir. 1992) (involving three years of litigation before reaching a settlement).

84. See *id.* at \*6; Schuyler, *supra* note 38, at 28 (discussing *IBM Corp.* from a lead attorney's perspective).

85. See Schuyler, *supra* note 38, at 28 (noting that the three-year case also side-tracked defendant Seagate's disk drive development program).

86. See Lowry, *supra* note 2, at 531 nn.73-74 (noting that high-level employees may be privy to trade secrets that inevitably will be brought with them to new employment).



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critiques and rejects three sets of current and proposed approaches to the doctrine of inevitable misappropriation: existing court approaches; proposals for unqualified rejection of the doctrine or for its unlimited application; and a concurrent property interests approach.

### A. *Current Court Approaches*

Current court approaches suffer from three major limitations.<sup>87</sup> First, each of the four approaches that courts have developed to determine when misappropriation is inevitable suffers from specific problems of over-inclusiveness and under-inclusiveness, as well as internal inconsistency. Second, the courts' current focus on protecting the employer's property interest leads to inflexible, inaccurate, and inconsistent determinations of inevitability. Third, courts generally take an all-or-nothing approach to remedies when finding inevitable misappropriation, thus resulting in inconsistent and inadequate relief.

#### 1. *Specific limitations in determining inevitability*

##### a. *The Standard Brands approach: general fact-intensive analysis*

The first method the courts have applied to determine the inevitability of misappropriation involves a simple, fact-intensive, case-by-case analysis of the trade secrets themselves and the nature of the employee's old and new jobs.<sup>88</sup> Courts taking this approach do not present a clear methodology for determining inevitability of misappropriation. Instead of presenting standards for evaluating or

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87. Many commentators have focused on inconsistencies in the definition of trade secrets as the source of the courts' problem in approaching the inevitable misappropriation doctrine. For example, Suellen Lowry, in an excellent note on the inevitable disclosure of trade secrets, argued that inconsistencies in courts' and legislatures' definitions of trade secrets are the major source of the problem in the application of the doctrine of inevitable disclosure. *See id.* at 528-32. Lowry argued that inconsistencies in the definition of protected trade secrets versus an employee's general and individual (unprotected) skills, have masked the real issue of recognizing property interests for both the employee and the employer in trade secrets. *See id.* at 535-44. She has therefore advocated for recognition of the concurrent property interests of an employer and an employee in trade secrets to resolve the perceived misallocation problem. *See id.* In contrast, this Article focuses on inconsistencies in the methodology that courts use to determine inevitability of misappropriation, *see* discussion *infra* Parts II.A.1-2, and the remedies that courts apply to prevent it, *see* discussion *infra* Part II.A.3. In addition, this Article rejects the concurrent property rights regime that Lowry suggests, *see* discussion *infra* Part II.B.2, and instead suggests that the law of accession provides a better property model, *see* discussion *infra* Part III.

88. *See* *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 259 (E.D. La. 1967) (announcing that a determination must be made as to the extent of an individual's knowledge of trade secrets before injunction decisions are reached).

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limiting their application of the doctrine to specific types of cases, courts simply conclude whether the type of work that the employee will be doing in her new job will inevitably lead her to use or disclose trade secrets.<sup>89</sup> Applying this approach in *Standard Brands v. Zumpe*,<sup>90</sup> a federal district court in Louisiana engaged in a long discussion of the facts of the case, exploring in detail the specific technologies involved and the nature of the trade secrets that the former employer wished to protect.<sup>91</sup> Additionally, the court evaluated whether those specific secrets would have to be used in the course of the employee's new job.<sup>92</sup> The court concluded that the nature of the business was such that use or disclosure of trade secrets was not inevitable.<sup>93</sup> Importantly, the court did not adopt a set of standards or recite a list of factors that led to its conclusion, nor did it suggest a methodology that courts could replicate in the future.<sup>94</sup> Other courts have engaged in a similar general fact-based analysis, neither adopting nor expressing a set of specific principles or tests for determining inevitability.<sup>95</sup> Some courts have simply recited different aspects of the facts, and evaluated the testimony of the parties or other pieces of evidence without applying a specific set of legal standards or principles.<sup>96</sup>

The case-by-case approach has the advantage of flexibility and case-specific analysis. It enables different courts to examine closely the circumstances of an employee's move from one company to another, and encourages courts to develop a better understanding of the situation. In addition, this approach allows courts the flexibility to

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89. *See id.*; *see also infra* note 95 (listing other courts that use a similar approach).

90. 264 F. Supp. 254.

91. *See id.* at 260 (acknowledging that a list of technologies that plaintiff provided the court contained sensitive and valuable information).

92. *See id.* at 260-61 (stating that many aspects of the employee's new employment would not specifically be related to the employee's skills and knowledge acquired during his former employment).

93. *See id.* at 261 (stating that an employee's disclosure of a former employer's confidential information is not likely to occur when the new employer is not engaged in a similar business activity).

94. *See id.*

95. *See, e.g.,* *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194-95 (8th Cir. 1992) (upholding the district court's finding that prospective employment would not cause inevitable disclosure of trade secrets based on an analysis of the facts); *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1317-19 (S.D. Ind. 1985) (engaging in a lengthy exploration of the facts of previous and prospective employment, and simply concluding that some secrets inevitably might be disclosed, but that a complete injunction was not warranted), *aff'd*, 859 F.2d 512 (7th Cir. 1988); *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654-55 (E.D. Mich. 1966) (providing a lengthy description of trade secrets involving the design of a fuel pump system and prospective employment and concluding that absent a limited injunction, disclosure of some secrets might be inevitable); *Air Prods. & Chems., Inc. v. Johnson*, 442 A.2d 1114, 1124-25 (Pa. Super. Ct. 1982) (holding that the nature of employment itself under these circumstances implies that an employee would inevitably use the information).

96. In *Campbell Soup Co. v. Giles*, 47 F.3d 467, 470 (1st Cir. 1995), the court held that a formal evidentiary hearing was not necessary before evaluating a motion to enjoin the inevitable disclosure of trade secrets, but noted that the parties should have "a reasonable opportunity to put forth, and to oppose, the disputed evidence." *Id.* (quoting *Stanley v. University of S. Cal.*, 13 F.3d 1313, 1326 (9th Cir. 1994)).

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deal with a broad range of cases without limiting the doctrine to only specific types of trade secrets (such as technology-based secrets) or to inflexible categories of behavior (such as actual bad faith as opposed to substantial suspicious circumstances).

Unfortunately, this fact-intensive, case-by-case methodology also creates significant room for inconsistency.<sup>97</sup> Predicting whether a court will find inevitability of misappropriation based on the “nature” of an industry or the kind of employment is extremely difficult.<sup>98</sup> Cases with similar fact patterns appear to have generated very different conclusions about the inevitability of misappropriation.<sup>99</sup> One commentator has suggested that this legal uncertainty has not only generated both increased costs and risks of litigation,<sup>100</sup> but has also historically resulted in a general pro-employer bias.<sup>101</sup>

*b. The Cyprus Foote approach: focusing on bad faith or competitor intent*

The second approach courts have taken to determine inevitability involves a similar fact-based analysis, but focuses on evidence of bad faith or intent on the part of either the employee or the prospective employer. In *FMC Corp. v. Cyprus Foote Mineral Co.*,<sup>102</sup> for example, a federal district court held, based on North Carolina’s Trade Secrets Act,<sup>103</sup> that inevitable misappropriation could only be found where there was evidence of either: (1) bad faith; (2) under-handed dealing; or (3) employment by an entity so plainly lacking comparable technology that misappropriation could be inferred.<sup>104</sup> In *Travenol Laboratories, Inc. v. Turner*,<sup>105</sup> the North Carolina Supreme Court similarly ruled that a preliminary injunction against an employee was not warranted in part because there was no showing of

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97. See Lowry, *supra* note 2, at 524 (noting that courts reach widely divergent results in inevitable disclosure cases).

98. See *id.* at 527 (noting that courts will often rely on circumstantial evidence when determining whether disclosure of a trade secret is likely to occur).

99. See *id.* at 528-31.

100. See *id.*

101. See *id.* at 528 (stating that current doctrines have not allowed for an equitable resolution of these cases, but instead have created a pro-employer tilt by defining trade secrets broadly and upholding the use of nondisclosure agreements).

102. 899 F. Supp. 1477 (W.D.N.C. 1995).

103. See *id.* at 1481 (authorizing preliminary or permanent injunctions for actual or threatened misappropriation) (quoting N.C. GEN. STAT. § 66-154 (1992)).

104. See *id.* at 1483 (noting that North Carolina courts will refuse to enjoin an employee unless certain facts are demonstrated and that the plaintiff in this case has failed to prove them).

105. 228 S.E.2d 478 (N.C. Ct. App. 1976).

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bad faith or intent to misappropriate.<sup>106</sup> The Indiana Supreme Court, in *Ackerman v. Kimball International, Inc.*,<sup>107</sup> upheld a finding of inevitable misappropriation based on a showing of bad faith and intent,<sup>108</sup> and a New York County Court indicated that evidence of bad faith was independently relevant in finding inevitable misappropriation.<sup>109</sup> Other courts similarly have stated that the inevitability of misappropriation can be inferred from evidence of bad faith or intent on the part of either a former employee or a prospective employer.<sup>110</sup> Essentially, courts applying the *Cyprus Foote* methodology limit findings of inevitability to situations involving indications of intent to misappropriate trade secrets.

The requirement of bad faith or intent has several important advantages. First, it provides some measure of certainty and protection both for the employee and the future employer. As long as the employee and new employer adhere to a standard of good faith and do not intend to misappropriate the former employer's trade secrets, they should be free from potential liability and injunctive actions. If the standard for behavior is well-established, such as the good faith and fair dealings standard that governs contracts,<sup>111</sup> the resulting certainty will prevent unnecessary litigation and promote efficiency by providing a kind of "safe harbor"—a zone of conduct that is deemed exempt from risk of liability.<sup>112</sup>

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106. See *id.* at 486 (holding that the court would not allow injunctions against employees simply to allay the fears of trade secret dissemination held by their former employers, but required a showing of bad faith or intent by the employee).

107. 652 N.E.2d 507 (Ind. 1995).

108. See *id.* at 510-11 (holding that an employee's gathering of secret company information immediately prior to the termination of his employment showed an intent to share that information, and in part, justified an injunction against his future employment with a competitor).

109. See *Doubleclick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*5-6 (N.Y. Sup. Ct. Nov. 7, 1997) (noting evidence of bad faith and cavalier treatment of duties of loyalty in finding inevitable misappropriation).

110. See, e.g., *Zahodnick v. IBM Corp.*, 135 F.3d 911, 915 (4th Cir. 1997) (affirming an injunction prohibiting a former employee from disclosing confidential information to third parties when the former employee had signed two nondisclosure agreements, yet retained confidential information after his termination and forwarded it to his attorney without the former employer's consent); *Inflight Newspapers, Inc. v. Magazines In-Flight, LLC*, 990 F. Supp. 119, 137 (E.D.N.Y. 1997) (applying a New York law enjoining employee's use of former employer's trade secrets or other confidential information when doing so would violate a fiduciary duty to the former employer); *E.I. duPont de Nemours & Co. v. American Potash & Chem. Corp.*, 200 A.2d 428, 431-32 (Del. Ch. 1964) (affirming a preliminary injunction against the employee of the developer of a chemical process by a competitor who had requested and been refused a license to use that process from his former employer).

111. See E. Allan Farnsworth, *Good Faith Performance and Commercial Reasonableness Under the Uniform Commercial Code*, 30 U. CHI. L. REV. 666, 667-72 (1963) (explaining the good faith and fair dealings standard, its application in all contracts, and the benefits of such a standard of conduct). But see Mark Snyderman, Note, *What's So Good About Good Faith? The Good Faith Performance Obligation in Commercial Lending*, 55 U. CHI. L. REV. 1335, 1351-60 (1988) (arguing against application of the good faith and fair dealings standard, specifically with respect to commercial lending).

112. Safe harbor provisions exist in numerous areas of law, such as federal securities law, see Rule 144 Under the Securities Act of 1933, 17 C.F.R. § 230.144 (1998) (defining persons deemed not to be engaged in distribution and therefore not subject to regulation, and carving out categories of individuals or activities from coverage or liability). Establishing a well-defined good faith exception to the doctrine here could create a similar "safe harbor" zone of behavior

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But applying the inevitable misappropriation doctrine only to cases involving bad faith generates several problems. Proving bad faith and intent can be very difficult.<sup>113</sup> Thus, limiting the use of the doctrine to cases where there is clear evidence of bad faith might significantly decrease the court's ability to protect trade secrets and leave employers vulnerable to unscrupulous and deceptive competitors. In the alternative, if the standard for proof of bad faith and intent proves to be nebulous, it may increase rather than decrease litigation.<sup>114</sup> Courts indirectly have tried to avoid confusion with the good faith standard by requiring objective evidence such as proof that the employee and her new employer have established mechanisms to prevent the disclosure of the former employer's trade secrets.<sup>115</sup> Such an objective requirement, however, also lends itself to issues of proof and possible strategic behavior: For example, what constitutes a sufficient anti-disclosure mechanism could be the subject of additional litigation and, as of yet, no standard has emerged from the courts discussing the issue.<sup>116</sup> Furthermore, competitors seeking to appropriate trade secrets could establish objective mechanisms to prevent disclosure and then simply, and strategically, not enforce them.<sup>117</sup>

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or class of individuals free from application of the doctrine.

113. See Robert W. Emerson, *Insurance Claims Fraud Problems and Remedies*, 46 U. MIAMI L. REV. 907, 945 (1992) (discussing the difficulty in proving bad faith claims in the context of insurance litigation).

114. See Gary N. Schuman & Scott B. Herlihy, *The Impending Wave of Legal Malpractice Litigation—Predictions, Analysis, and Proposal for Change*, 30 ST. MARY'S L.J. 143, 181-84 (1998) (suggesting that after years of confusion and an increase in litigation, the Texas Supreme Court attempted to clarify the bad faith standard).

115. See *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (explaining that steps taken by an employee and new employer to protect the old employer's trade secrets are a factor in determining the inevitability of trade secret misappropriation); see also *Union Carbide Corp. v. Sunox, Inc.*, 590 F. Supp. 224, 228 (W.D.N.C. 1984) (considering the former employee's lack of a written employment contract as a factor in the court's denial of a preliminary injunction; the court refused to "compel the enforcement of an agreement not to compete which does not . . . exist").

116. Compare *Merck*, 941 F. Supp. at 1460 (discussing generally factors which could trigger use of anti-disclosure mechanism), and *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 682 (S.D. Ind. 1998) (discussing specific factors that, if present, preclude the use of permanent anti-disclosure mechanisms), with *Air Prods. & Chems. Inc. v. Johnson*, 442 A.2d 1114, 1124-25 (Pa. Super. Ct. 1982) (holding that the nature of employment itself implies inevitable use of information and thus an anti-disclosure mechanism was appropriate).

117. Ample precedent for the existence and failure of "Chinese Wall" structures designed to prevent insider trading in the securities industry exists. See Ross P. Buckley, *The Regulation of the Emerging Markets Loan Market*, 30 LAW & POL'Y INT'L BUS. 47, 65 (1998) (discussing a study in which investment banks claimed extensive abuse of the Chinese Walls while most commercial banks disagreed); see also *Improper Activities in the Securities Industry: Hearings Before the Senate Comm. on Banking, Housing, and Urban Affairs, 100th Cong. 89* (1987) (statement of Sen. William Proxmire (D-Wis.)); H.R. REP. NO. 100-910, at 15 (1988), *reprinted in* 1988 U.S.C.C.A.N. 6043, 6052 (finding that recent cases have cast serious doubt on the effectiveness

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Finally, society may be concerned about the misuse and inappropriate disclosure of trade secrets that occur irrespective of whether bad faith or intent to misappropriate exists. Regardless of whether an individual will intentionally use information, trade secrets may subtly or directly have an impact on that individual's decision making in her new role with a competitor. For example, courts have issued injunctions against employees who simply have been exposed to their former employers' marketing strategies,<sup>118</sup> reasoning that even if an employee did not intend to misappropriate this information, she would have to use such information in order to serve her new employer in good faith.<sup>119</sup> In *Allis-Chalmers Manufacturing Co. v. Continental Aviation & Engineering Corp.*,<sup>120</sup> the court barred an employee from working on distributor-type pumps that would have required him to take advantage of design innovations that he had used and helped develop while working for his former employer.<sup>121</sup> The unintentional use of these trade secrets still may have devastating and socially undesirable effects on an employer.<sup>122</sup>

*c. The International Paper approach: requiring technical employment*

A third approach to the inevitable misappropriation of trade secrets limits its application to cases where the employee in question either has highly technical skills or will be required to use technical information in her new employment. Courts reason that technical employment requires the use of all of an employee's specialized knowledge and skills including those acquired from a former employer; a conscientious employee will, thus, inevitably use or disclose technical trade secrets acquired from a former employer in the process of technical employment.<sup>123</sup> For example, in *International*

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of measures such as Chinese Walls). Nothing suggests that anti-trade-secret use or disclosure mechanisms would be more effective or less haphazardly used. Certainly firms have already demonstrated ample desire to appropriate other companies' trade secrets. See *supra* notes 1-7 and accompanying text (highlighting the enormous growth of misappropriated trade secrets).

118. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1264-67 (7th Cir. 1995) (granting an injunction when a former high-level employee possessed trade secrets and other confidential information about product development, pricing, marketing, and packaging).

119. See *id.* at 1270 (discussing the influence of confidential information on an employee's decision-making processes).

120. 255 F. Supp. 645 (E.D. Mich. 1966).

121. See *id.* at 654 (discussing the "virtual impossibility" of the employee performing his duties adequately without the benefit of confidential information obtained during the course of his previous employment).

122. See, e.g., G. Andrew Barger, Comment, *Lost in Cyberspace: Inventors, Computer Piracy and "Printed Publications" Under Section 102(b) of the Patent Act*, 71 U. DET. MERCY L. REV. 353, 383 (1994) (concluding that current remedies available to an inventor pale in comparison to the loss of "creative thinking" by the public due to publication of misappropriated information); Chris Rauber, *Biotech Research Alleges VC Firm Stole His Secrets*, S.F. BUS. TIMES, Nov. 26, 1993, at 3 (discussing the effects of trade secret misappropriation on the research and development of pharmaceutical products).

123. See, e.g., *Business Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1072 (S.D.N.Y. 1984) (determining that the former employee's specialized knowledge of computer software was essential to the employee's performance with the new employer); *Continental Group, Inc. v. Kinsley*, 422 F. Supp. 838, 846 (D. Conn. 1976) (describing the "virtually daily opportunities"

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*Paper Co. v. Suwyn*,<sup>124</sup> a federal district court held that a finding of inevitable misappropriation of trade secrets could only occur in cases involving highly technical employment, such as plastic container development or computer programming.<sup>125</sup> Similarly, in *Schlumberger Well Services v. Blaker*,<sup>126</sup> the court held that the employee's new employment in a managerial, rather than a technical or engineering position, made a finding of inevitability more difficult.<sup>127</sup> Therefore, the court specifically limited its finding to specific technical information that involved the design and manufacture of specialized devices used in the industry.<sup>128</sup> Other courts also have focused on technical employment as one of the factors in determining the inevitability of misappropriation.<sup>129</sup>

Limiting the application of the doctrine to highly technical employment has the attraction of providing a clear guideline for courts to follow. Furthermore, this limitation has some basis in the pattern of litigation: non-technical information or employees in non-technical fields are less likely to inevitably misappropriate or disclose trade secrets. Finally, one could argue that protecting technical knowledge is more easily justified because it stimulates investment in technology in a way that protecting marketing information, for example, does not.

Limiting the application of the doctrine to technical employees and employment, however, ignores the growth of trade secrets law in other areas, as well as the increasing importance of non-technical, but strategic information. For example, both *PepsiCo* and *Merck & Co.*

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for disclosure of technical information regarding the development of a plastic bottle through a specific and technical process).

124. 966 F. Supp. 246 (S.D.N.Y. 1997).

125. *See id.* at 258-59 (addressing the limited circumstances in which courts granted injunctive relief, and denying the application for injunctive relief based on the managerial, rather than technical, nature of the employee's position); *Hudson*, 580 F. Supp. at 1072 (granting a preliminary injunction when the company would unfairly benefit by improving its business with minimal or no effort based solely on the employee's knowledge of computer software and client information gained through previous employment); *Kinsley*, 422 F. Supp. at 846 (granting a preliminary injunction for 18 months to an employer in the plastic industry whose former employee would have had daily opportunities to convey specialized knowledge of a blow-molding process obtained from the old employer to the new one).

126. 623 F. Supp. 1310 (S.D. Ind. 1985) (balancing the parties' interests and concluding that a limited preliminary injunction should be granted), *aff'd*, 859 F.2d 512 (7th Cir. 1988).

127. *See id.* at 1317-18.

128. *See id.* (limiting the time period of the injunction, and the type of work the employee with highly technical skills could perform for a new employer).

129. *See, e.g., Hudson*, 580 F. Supp. at 1072 (discussing the technical nature of computer software); *Kinsley*, 422 F. Supp. at 846 (focusing on specialized technical knowledge of the "blow-molding" process); *Travenol Lab., Inc. v. Turner*, 228 S.E.2d 478, 486 (N.C. Ct. App. 1976) (rejecting a finding of inevitable misappropriation in part because the nature of the employment was managerial rather than technical).

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presented compelling situations in which non-technical information specifically pertaining to product launch dates, marketing strategies, and basic concepts in product design or retailing were at risk of being disclosed or misappropriated.<sup>130</sup> Excluding non-technical information from possible protection under the inevitable misappropriation doctrine merely because it does not involve highly technical data, ignores the competitive dynamic that exists in significantly non-technical industries where information is highly valued and is protectable as a trade secret.<sup>131</sup>

Other areas of the law do not place such stringent limits on the kind of information that they protect. For example, the securities laws do not limit their punishment for material misrepresentation or omissions to mere technical information.<sup>132</sup> Some information cannot help but affect decisions and thus be material even if it is not technical in nature.<sup>133</sup> Similarly, courts generally have held that strategic information constitutes protectable trade secrets.<sup>134</sup> More importantly, recent developments in the law of trade secrets have tended to broaden the definition of trade secrets and their protection, without making distinctions based on technical content.<sup>135</sup> The EEA, for instance, adopts a much broader definition of trade secrets,<sup>136</sup> and makes available its criminal sanctions and civil

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130. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1265 (7th Cir. 1995) (discussing the valuable, as well as sensitive, nature of an employer's "Strategic Plan" and "Annual Operating Plan"); *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1457 (M.D.N.C. 1996) (reviewing product launch information and pricing data).

131. See, e.g., Pat Shockley, *The Availability of "Trade Secret" Protection for University Research*, 20 J.C. & U.L. 309 (1994) (discussing the various ways of protecting university research as intellectual property).

132. See Securities Exchange Act of 1934 § 10(b), 15 U.S.C. § 78(b) (1994) (prohibiting the use of manipulative or deceptive devices in connection with the purchase or sale of all securities); *SEC v. Texas Gulf Sulphur Co.*, 401 F.2d 833, 848-53 (2d Cir. 1968) (concluding that information is material if it would affect an ordinary investor's decision to invest and holding that failure to disclose (non-technical) knowledge of ore richness was a material misrepresentation).

133. See, e.g., *Basic Inc. v. Levinson*, 485 U.S. 224, 236 (1988) (holding that the existence of merger negotiations is material); *TSC Indus., Inc. v. Northway, Inc.*, 426 U.S. 438 (1976) (same); *Texas Gulf Sulphur Co.*, 401 F.2d at 848-53 (finding that non-technical information regarding a company's determination of the true value of ore deposits was material and subject to a duty to disclose).

134. See *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1317 (S.D. Ind. 1985) (indicating that information about the marketing plans and technology of wireline logging would affect the behavior of a competitor and holding that it constituted a trade secret), *aff'd*, 859 F.2d 512 (7th Cir. 1988); see also *C.A. Muer Corp. v. Big River Fish Co.*, Nos. Civ. A. 97-5402, Civ. A. 97-6073, Civ. A. 97-7154, 1998 WL 488007, at \*2 (E.D. Pa. Aug. 10, 1998) (holding that commercial information such as marketing plans will receive protection if a party could show that it would face competitive injury if the information were released).

135. See Economic Espionage Act of 1996, 18 U.S.C. § 1839 (Supp. 1997) (providing examples of trade secrets); RESTATEMENT OF TORTS § 757 cmt. b (1939) (explaining that trade secrets can include specialized marketing codes and materials or price lists as well as technical formulas); RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995) (same); UNIF. TRADE SECRET ACT § 1 (as amended), 14 U.L.A. 433-67 (Supp. 1998) (defining trade secrets to incorporate non-technical matter); see generally Esther C. Roditti, *The Choice Between Patents and Trade Secrets to Protect Software Innovation*, in *COMPUTER SOFTWARE PROTECTION 705-10* (PLI Patent Practice Course Handbook Series No. 479, 1997) (discussing definitions of trade secrets).

136. The EEA defines trade secret as "all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations,



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injunctions to the entire range of these trade secrets, not merely those that are considered technical in nature.<sup>137</sup> The distinction between technical and non-technical trade secrets and methods of misappropriation therefore appears outdated and unjustified.

*d. The Merck & Co. approach: objective competition and similarity of position*

The fourth and most complicated approach to determining the inevitability of misappropriation focuses on the objective competitiveness of an industry, and the similarities between new and old positions. This approach, outlined in *PepsiCo* and its progeny, involves a complex analysis of four independent factors.<sup>138</sup> In *Merck & Co. v. Lyon*,<sup>139</sup> the court held that four factors must be considered when evaluating the inevitability of misappropriation: (1) the degree of competition in the industry; (2) the new employer's efforts to safeguard the secrets of the old employer; (3) the forthrightness of the employee; and (4) the degree of similarity of the new and old employment.<sup>140</sup> The court distilled these factors from the *PepsiCo* court's discussion of inevitability<sup>141</sup> and evaluated them to find that misappropriation was inevitable.<sup>142</sup> Although the *Merck & Co.* court evaluated both the new employer's efforts to safeguard the old employer's secrets, as well as the forthrightness of the employee, it specifically held that there was no need to prove underhanded

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program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled or memorialized physically, electronically, graphically, photographically, or in writing if the owner has taken reasonable steps to keep the information secret and the information has either potential or actual independent economic value. See 18 U.S.C. § 1839(3) (Supp. 1997).

137. See *id.* §§ 1831-1832.

138. Throughout its analysis the *PepsiCo* court itself discussed four factors that have been subsequently identified and adopted by other courts in their analysis of the issue. See *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (outlining the four factors and citing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1267 (7th Cir. 1995)).

139. 941 F. Supp. 1443.

140. See *id.* at 1460-62 (discussing the intense competition between the employee's old and new employer, the lack of evidence that the new employer recruited the employee because of his knowledge of the competitor's secrets, the employee's misrepresentations in an attempt to obtain a more favorable severance package, and the similarities between the employee's old and new duties).

141. See *PepsiCo*, 54 F.3d at 1267-71 (describing the inherent tensions between morality, innovation and market competition as they relate to the inevitability of trade secret misappropriation).

142. See *Merck & Co.*, 941 F. Supp. at 1461-62. The *Merck & Co.* court found that the industry and the companies in question were highly competitive, the competitor had made no efforts to safeguard the old employer's secrets, the employee made misrepresentations, and that the new and old positions were quite similar. See *id.*

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dealing or bad faith,<sup>143</sup> thus directly rejecting the *Cyprus Foote* approach.<sup>144</sup> Instead, the court held that evaluating the similarity of the new and old positions and the value of the allegedly threatened information was sufficient.<sup>145</sup> Prospective employers' efforts and employees' forthrightness were relevant to inevitability, but not essential.<sup>146</sup> Therefore, the *Merck & Co.* approach focuses on an objective analysis of competitiveness and similarity of position, noting, but not requiring, a showing of intent or bad faith.<sup>147</sup>

Other courts have taken similar approaches to determining inevitability. For example, in *National Starch & Chemical Corp. v. Parker Chemical Corp.*,<sup>148</sup> a New Jersey superior court discussed the competitiveness of the envelope adhesives industry, noting that five percent of the employee's time would be spent working on envelope adhesives formulas for her new employer.<sup>149</sup> After reviewing these facts, the court upheld a lower court's finding that inevitability of misappropriation existed with regard to five percent of the time the employee spent on formulas.<sup>150</sup> In upholding the lower court, the *National Starch* court imitated *Merck & Co.* by noting that the employee's good faith and intent were irrelevant to a finding of inevitability.<sup>151</sup> Following the approaches in *Merck & Co.*, other courts have discussed competitiveness and similarity of position,<sup>152</sup> and held that intent and bad faith are unnecessary to a finding of inevitability,<sup>153</sup> or they note the new employer's efforts to safeguard

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143. *See id.* at 1460 (stating that in situations where the court enjoins potential misappropriation through the inevitable disclosure theory and the injunctions are limited in scope, no requirement of bad faith by the former employee or employer exists).

144. *See id.* at 1460-61 nn.5-6 (discussing *Cyprus Foote* and emphasizing the distinction that no evidence of bad faith or underhanded dealing existed); *see also* Part II.A.1.a (discussing a fact-intensive approach to determining inevitability of misappropriation).

145. *See id.* at 1460 (citing *PepsiCo*, 54 F.3d at 1267) (stating that consideration of the four factors is consistent with the approach taken by North Carolina state courts).

146. *See id.* at 1461 (noting that although no evidence existed that the prospective employer sought out the employee for his knowledge of trade secrets, the employee's misrepresentations indicated a possibility of future temptations to disclose confidential information to further his career, thus warranting an issuance of a limited injunction).

147. *See id.* (questioning the employee's ability to keep confidential information from his new employer).

148. 530 A.2d 31 (N.J. Super. Ct. App. Div. 1987).

149. *See id.* at 32-33.

150. *See id.* at 33 (holding that under circumstances where a significant threat of disclosure exists, inferences are sufficient to warrant the granting of a preliminary injunction).

151. *See id.* at 32-33 (declaring that a former employee's knowledge of trade secrets and the factual circumstances sufficient to satisfy the likelihood of "immediate and irreparable harm" to warrant issuance of a preliminary injunction).

152. *See, e.g.,* *PepsiCo, Inc., v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995) (discussing inevitable misappropriation in the context of industry competitiveness and the similarity between employees' positions); *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*5-6 (N.Y. Sup. Ct. Nov. 7, 1997) (discussing the competitiveness of the Internet advertising industry and the similarity of new and old employment in a finding of inevitable misappropriation).

153. A significant number of cases dealing with covenants not to compete discuss the competitiveness of the industries and the similarity of positions, and consider good faith and intent irrelevant in finding inevitable misappropriation. *See* *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909, 913-14 (D. Conn. 1996) ("When . . . a high degree of similarity between an employee's former and current employment makes it likely that the former employer's trade secrets . . . will be . . . disclosed by the employee in the course of his new work,

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the old employer's trade secrets.<sup>154</sup>

Furthermore, *Merck & Co.*'s approach significantly broadens the reach of the inevitable misappropriation doctrine. First, eliminating the requirement of bad faith or intent significantly increases the number of cases in which a court can find inevitable misappropriation. Second, eliminating the technical employment requirement broadens the application of the approach to additional cases involving management plans and employees.<sup>155</sup>

*Merck & Co.*'s approach presents some important advantages. It both evaluates objective criteria, such as industry competitiveness and employment similarities, and engages in a subjective inquiry into the behavior and intent of the employee and prospective employer. Second, *Merck & Co.* is relatively clear in its guidance,<sup>156</sup> generating more reliable and predictable precedents. Rather than a case-by-case analysis of facts, *Merck & Co.*'s objective criteria enable courts to develop more consistent standards, tests, and precedents for applying the doctrine. For example, having established that the sport drink industry is highly competitive in *PepsiCo*<sup>157</sup> and that Internet advertising is equally competitive in *Doubleclick, Inc. v. Henderson*,<sup>158</sup> a court facing another sport drink or Internet advertising case easily could apply the *Merck & Co.* inevitability analysis. In addition, guided by the criterion of similarity of position and responsibility, a court also could evaluate the nature of specific responsibilities without

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enforcement of a covenant not to compete is necessary to protect against . . . disclosure.”); *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 631 (E.D.N.Y. 1996) (explaining that when similar and dissimilar and competitive and noncompetitive elements are involved, the court should be cautious and grant the request for a preliminary injunction); *see also* *Business Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1072 (S.D.N.Y. 1984) (granting a preliminary injunction when client information and non-competition clause limitations were limited in scope); *Continental Group, Inc. v. Kinsley*, 422 F. Supp. 838, 846 (D. Conn. 1976) (granting a preliminary injunction limited in scope with respect to duration where specialized knowledge obtained as a result of employment was directly relevant to the new position and daily opportunities existed for disclosure of such information).

154. *See, e.g.*, *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 682 (S.D. Ind. 1998) (finding that misappropriation was not inevitable in part because employee and employer specifically worked to design an employment position different from the old position so as to prevent the use or disclosure of the former employer's trade secrets).

155. *See supra* notes 123-37 and accompanying text (discussing the misappropriation of non-technical and strategic information).

156. *See Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (stating that the court will “enjoin threatened misappropriation based upon an inevitable disclosure theory where the injunction is limited to protecting specifically defined trade secrets [that are] clearly defined and of significant value,” and noting that the similarity of positions and value of the information demonstrate the likelihood of disclosure).

157. *See PepsiCo*, 54 F.3d at 1263-64 (describing the “fierce beverage-industry competition” between the parties).

158. *See* No. 116914/97, 1997 WL 731413, at \*2 (N.Y. County Sup. Ct. Nov. 7, 1997) (citing the case record for evidence of industry-wide competition).

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engaging in a difficult analysis of the intentions or good or bad faith of the individuals involved.<sup>159</sup> At the same time, the court could take into account evidence of bad faith or the efforts to safeguard the old employer's secrets without requiring these factors for its analysis. Thus, the *Merck & Co.* procedure combines the advantages of clearer objective minimum requirements with flexibility to account for evidence of subjective intent.

Unfortunately, the *Merck & Co.* approach also suffers from significant limitations. First, a finding of inevitable misappropriation under *Merck & Co.* results in unnecessarily harsh outcomes. If the objective criteria alone are met, an individual employee can be restricted from employment whether or not she intended to misappropriate trade secrets. The framework of *Merck & Co.* specifically does not require an evaluating court to account for an employee's good faith or intent not to appropriate when it analyzes inevitable misappropriation.<sup>160</sup> Second, *Merck & Co.* does not provide a system for weighing the objective versus subjective evidence in its analysis. Consequently, like the case-by-case approach<sup>161</sup> it too can generate uncertainty and inconsistency in its findings of inevitability.

Thus, the four existing methods of determining inevitability—case-by-case analysis, bad faith limitations, technical employment requirements and objective competitiveness/similarity of position—all suffer from significant specific limitations. A simple case-by-case approach creates inconsistency and masks pro-employer information biases. Requiring bad faith ignores special and important cases where using or disclosing trade secrets might be inevitable even absent evidence of direct intent. Moreover, requiring bad faith increases difficulties of proof. Technical employment limitations exclude important non-technical confidential information like pricing, marketing, and strategy data from protection at a time when the trend in the rest of trade secrets law is to increase recognition and protection of these and other valuable pieces of intellectual property. Applying the objective criteria of competitiveness and similarity of position, while also taking into account other indications of intent, would probably best capture the concept of inevitability; however, this approach still generates some inflexible, categorical findings of inevitability.

## 2. *Excessive general focus on employer interests*

More generally, all four approaches to determining inevitability suffer from their singular and excessive focus on the employer's

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159. See *supra* notes 102-22 and accompanying text (analyzing the good faith and fair dealings standards and associated issues).

160. See *Merck*, 941 F. Supp. at 1461 (suggesting that where an employer fails to establish that a former employee used his position to obtain trade secrets, the court may consider the employee's previous misrepresentations as a basis for questioning his willingness to uphold the confidentiality agreement he has with his former employer).

161. See discussion *supra* Part II.A.1.a.

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interests. Although the courts applying these approaches separately discuss the importance of the employee's interests and appear to balance them against the employer's interests *after* the determination of inevitability, the courts' *initial* inevitability inquiry focuses solely on the trade secrets themselves. In *Standard Brands*, the court noted the importance of the employee's interest in working,<sup>162</sup> but made its determination of inevitability based only on the nature of the employment involved.<sup>163</sup> The court does not mention the relative value of the employee's interests or the extent of infringement on the employer's trade secrets in the initial inevitability determination.<sup>164</sup> Similarly, the bad faith inquiry of *Cyprus Foote* requires no determination of the extent to which the employer's trade secrets will be compromised or the relative value of the employee's interests in its initial inevitability determination.<sup>165</sup> The *International Paper* approach makes a rather crude valuation of the employer's trade secrets by limiting protection to technical employment areas,<sup>166</sup> but courts following this methodology also do not discuss the employee's specific employment interest and its value compared to the threatened trade secrets when they determine inevitability.<sup>167</sup> *Merck & Co.* initially ignores the value of the employee's interests in determining inevitability as well, and it fails to inquire into the extent of inevitable misappropriation.<sup>168</sup> Consequently, none of these approaches accounts for the potential value differential between the

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162. 264 F. Supp. 254, 263-67 (E.D. La. 1967) (explaining Louisiana's long-standing policy against placing broad restrictions on employment when the limitations are unrelated to the actual duties of the position and noting that Louisiana and public policy discourage noncompete agreements restricting employment).

163. *See id.* at 268-71 (discussing the previous employer's attempt to receive injunctive relief because the type of work involved indicated a probability of disclosure).

164. *See id.* at 270 (limiting the inquiry to disclosure or imminent threat of disclosure based on the employee's position).

165. *See* FMC Corp. v. Cyprus Foote Mineral Co., 899 F. Supp. 1477, 1483 (W.D.N.C. 1995) (granting an injunction only upon a "showing of bad faith, underhanded dealing or employment by an entity so plainly lacking comparable technology that misappropriation can be inferred").

166. *See* International Paper Co. v. Suwyn, 966 F. Supp. 246, 258 (S.D.N.Y. 1997) (distinguishing between cases involving the relatively low-technology wood and building products industries and those involving high technology industries where preliminary injunctions were granted).

167. *See* Schlumberger Well Servs. v. Blaker, 623 F. Supp. 1310, 1317 (S.D. Ind. 1985) (focusing analysis on the technical nature of the employment); Business Intelligence Servs. v. Hudson, 580 F. Supp. 1068, 1073 (S.D.N.Y. 1984) (granting a preliminary injunction, in part, due to the technical nature of computer software); Continental Group, Inc. v. Kinsley, 422 F. Supp. 838, 846 (D. Conn. 1976) (granting a limited preliminary injunction because of the technical nature of the industry at issue).

168. *See* Merck & Co. v. Lyon, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (commenting that a former employee is likely to misappropriate some information with his new employer, but declining to examine the scope of the inevitable misappropriation).

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loss of trade secrets (presumed to be invaluable) and the restrictions of individual livelihood (generally treated rhetorically or ignored), nor do they allow for findings of partial inevitability or limited misappropriation.

Furthermore, each of these approaches treats a finding of inevitability as the end of the initial analysis. After determining that trade secrets inevitably will be misappropriated, courts following each of the four methodologies move immediately to providing injunctive protection for the trade secrets; a finding of inevitability always appears to lead to some kind of protective relief. Because the current approaches do not account for relative value or partial inevitability, any determination of inevitability ends the initial inquiry. As a result, cases involving the inevitable misappropriation of only a small part of the employer's trade secrets with a relatively small value compared to employee's interests are treated the same as cases involving much larger disclosure or misuse, or much more relatively valuable trade secrets. The extent of inevitability and the relative value of the trade secrets are irrelevant to the all-or-nothing determination of inevitability.

Thus, the courts' trade-secrets-centered approaches to determining initial inevitability are too simplistic. They take no more than the crudest account of the relative values or degrees of inevitability, thereby threatening to under-protect employees' interests in favor of employers' interests. This is exacerbated by the inconsistent application of the remedies discussed below.

### *3. Inadequate and inconsistent all-or-nothing remedies*

In addition to applying overly simplistic methods to determine inevitability, generally courts have taken an all-or-nothing approach to remedies. This approach unsystematically provides inconsistent, inaccurate, and inadequate relief after a finding of inevitability of disclosure or use.

The courts generally have provided all-or-nothing injunctive relief upon a finding of inevitable misappropriation. The scope of this injunctive relief, however, has been inconsistent. Some courts, after finding that the misappropriation of specific trade secrets was inevitable, have completely enjoined employees from working for their new prospective employers. In *PepsiCo*, for example, although the trade secrets involved in the case only pertained to specific marketing plans and markets, the court enjoined Redmond, the employee, from working for Quaker Oats in any capacity for six months.<sup>169</sup> Other courts also have completely barred employees from working for new employers, even when the trade secrets that

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169. See *PepsiCo., Inc. v. Redmond*, 54 F.3d 1212, 1272 (7th Cir. 1995) (affirming the reasoning of the district court that the employee could not be trusted to withhold his knowledge of the former employer's trade secrets, and therefore an injunction was needed to avoid a conflict of interest).

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employees would inevitably misappropriate only pertained to specific areas of an employer's operations.<sup>170</sup>

In contrast, some courts faced with cases similar to *PepsiCo* have provided much more limited and narrowly tailored injunctions that restrict employees from working in specific areas of operations. Ostensibly applying the same standards to similar strategic marketing and pricing plans as the *PepsiCo* court, the *Merck & Co.* court issued a much more limited injunction, simply barring the employee and new employer from discussing a specific product launch for one year.<sup>171</sup> Other courts have also issued much more limited injunctions. These courts have barred an employee from performing five percent of the duties required in her new position,<sup>172</sup> limited the specific types of products with which the employee can work,<sup>173</sup> or restricted the specific areas of operation in which the employee can work.<sup>174</sup> Some courts simply have enjoined the employee's use or disclosure of trade secrets when working in similar situations, but have not restricted the type or scope of her employment.<sup>175</sup> Although courts have suggested that a limited injunction may have the same effect as a complete ban on employment because the new employer may have no other use for

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170. See, e.g., *Norand Corp. v. Parkin*, 785 F. Supp. 1353, 1356 (N.D. Iowa 1990) (granting a temporary restraining order against any employment with new employer); *SI Handling Sys., Inc. v. Heisley*, 581 F. Supp. 1553 (E.D. Pa. 1984) (enjoining all employees from any employment with the new employer), *rev'd*, 753 F.2d 1244 (3d Cir. 1985) (remanding for more specific factual findings). Total injunctions appear to be more prevalent in cases of bad faith. See *Ackerman v. Kimball Int'l, Inc.*, 652 N.E.2d 507, 510-11 (Ind. 1995) (barring an employee from working for a competitor entirely after finding threatened misappropriation and specific acts of bad faith); *Doubleclick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*5-6 (N.Y. Sup. Ct. Nov. 7, 1997) (enjoining employees from starting a new Internet advertising company for six months, even though only some information that would be used in the process could have constituted trade secrets).

171. See *Merck*, 941 F. Supp. at 1464-65 (M.D.N.C. 1996) (tailoring the injunction to deal with specific over-the-counter and prescription drugs).

172. See *National Starch & Chem. Corp. v. Parker Chem. Corp.*, 530 A.2d 31, 33 (N.J. Super. Ct. App. Div. 1987) (enjoining an employee from working in envelope adhesives for 15 months, even though such work constituted five percent of her expected position activities).

173. See *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654-55 (E.D. Mich. 1966) (enjoining an engineer from working on the design and development of distributor pumps but allowing him to work for a competitor in other areas).

174. See *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1318-19 (S.D. Ind. 1985) (enjoining an engineer for two years from "using or disclosing certain confidential information" in areas related directly to wireline logging technology, but allowing him to accept a management position with new employer), *aff'd*, 859 F.2d 512 (7th Cir. 1988); *Air Prods. & Chems., Inc. v. Johnson*, 442 A.2d 1114, 1115-16 (Pa. Super. Ct. 1982) (granting a limited one-year injunction preventing the employee from working in a specific area of a new employer's operations).

175. See, e.g., *B.F. Goodrich v. Wohlgemuth*, 192 N.E.2d 99, 105 (Ohio Ct. App. 1963) (finding threatened misappropriation of high-altitude pressure suit design trade secrets, but simply enjoining an employee's disclosure of such secrets and allowing him to work in the competing department of his new employer).

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the employee,<sup>176</sup> or because even a limited injunction might alienate the employer,<sup>177</sup> the differences in the scope and range of the injunctions make them appear inconsistent.<sup>178</sup>

Of course, differences in the method of finding inevitability generate additional inconsistencies in the application of remedies to similar fact patterns. Although these different types of injunctive relief might appear to be evidence of a flexible approach to the doctrine, the courts have failed to articulate either a coherent or consistent framework for crafting the scope of the relief, and thus they have opened the door for variability and unpredictability.<sup>179</sup>

Courts have disagreed regarding the possibility of providing damages for trade secrets in cases of putative inevitable misappropriation. The majority of such courts have held that damages caused by the inevitable misappropriation of trade secrets are incalculable and irreparable.<sup>180</sup> Therefore, inevitable misappropriation under this theory must be enjoined completely.<sup>181</sup> At least one court, however, suggests that the damages from trade secret misappropriation are calculable through estimations of market share and profit-losses or other mechanisms,<sup>182</sup> and California even provides courts with a mechanism for requiring and directing payment of royalties for use of trade secrets.<sup>183</sup> Therefore, these courts may deny an injunction (an equitable remedy) with the implication that a determination of legal damages might be sufficient.<sup>184</sup>

Finally, only a few courts have crafted combinations of injunctive relief and legal damages. In the case of *Emery Industries v. Cottier*,<sup>185</sup> a federal district court entered an injunction against an employee

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176. See *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1483-84 (W.D.N.C. 1995) (finding that even a limited injunction would prevent the employee from working in the bulk of the employer's manufacturing process).

177. See *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194-95 (8th Cir. 1992) (finding a protracted absence, even with compensation to the employee, might alienate the employer).

178. Compare *id.* (ordering a narrow injunction to protect an employer from harm, as well as limiting restraints on the former employee), with *Cypress Foote*, 899 F. Supp. at 1484 (denying the employer an injunction on the grounds of broadness and potential harm to the former employee).

179. Inconsistent remedies generate significant concerns. See *infra* notes 202-16 and accompanying text (suggesting inconsistency increases the cost of trade secret protection and harms employees).

180. See, e.g., *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1456 (M.D.N.C. 1996); see also *supra* note 61 and accompanying text (discussing the irreparable harm stemming from the misappropriation of trade secrets).

181. See *id.* (holding that calculating damages by anticipated market share would be an insurmountable task); *Barr-Mullin, Inc. v. Browning, Ltd.*, 424 S.E.2d 226, 230 (N.C. Ct. App. 1993) (holding that misappropriation of trade secrets results in an injury "of such continuous and frequent recurrence that no reasonable redress can be had in a court of law").

182. See, e.g., *Cypress Foote*, 899 F. Supp. at 1483 (holding that damages would be difficult to calculate, but not incalculable).

183. See CAL. CIV. CODE § 3426.3(b) (West 1997).

184. See *Cypress Foote*, 899 F. Supp. at 1483 (holding that North Carolina's Trade Secrets Protection Act "provides a wide range of relief").

185. 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978); see also Lowry, *supra* note 2, at 542 (focusing on *Emery Industries* as an important and creative solution).



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working for a competitor of his former employer, but also ordered the employer to pay the employee \$3,300 for each month that his employment was restricted.<sup>186</sup> Virtually no other courts have even considered similar remedies,<sup>187</sup> although they routinely enforce such judgments in the context of upholding noncompete covenants or agreements.<sup>188</sup> More commonly, courts recognize the harms suffered by the employee as a result of restrictions on his employment,<sup>189</sup> but they will not require employers to provide any compensation for restrictions due to injunctions to prevent inevitable misappropriation.<sup>190</sup> Thus, although almost all courts explicitly acknowledge the damages to employees from restrictions on their employment, they only rarely provide them with compensation during an injunction.

The existing approach to remedies has several important negative consequences. First, it generates considerable uncertainty and inconsistency concerning remedies. As noted above, many courts facing similar fact patterns have adopted different remedies to the situations under question.<sup>191</sup> This generates more speculation and uncertainty, which consequently leads to unnecessary litigation costs, and a pro-employer bias caused by resource and information inequalities between employer and employee.<sup>192</sup>

Additionally, the haphazard, all-or-nothing approach to remedies causes inconsistency in inevitability of misappropriation determinations. Because under the current approaches courts

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186. See *Emery Indus.*, 202 U.S.P.Q. (BNA) at 836 (holding that courts should balance the restrictions in noncompete agreements between the parties in a reasonable manner).

187. See, e.g., *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1197 (8th Cir. 1992) (noting that the harm to the employee from a one-year injunction would be so great that even paying the employee's salary for that year would be insufficient compensation).

188. See, e.g., *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 636 (E.D.N.Y. 1996) (enjoining an employee for six months and requiring the employer to pay his salary for that time period per the explicit covenant); *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 298 (D. Mass. 1995) (enjoining an employee from working for a competitor for one year pursuant to a covenant not to compete, but requiring the former employer to pay the employee 110% of the salary offered by the competitor). For a general discussion of the issue of employment restrictions coupled with compensation in this context, see THOMAS M. JORDE ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 89 n.16 (1997).

189. See *supra* notes 62-68 and accompanying text (discussing courts' recognition of harms to employees).

190. See *Lumex*, 919 F. Supp. at 636 (holding that a former employee should be completely enjoined from working for a competitor for six months); *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1455 (M.D.N.C. 1996) (discussing simple injunctions against misappropriation as well-recognized remedies).

191. See *supra* notes 169-90 and accompanying text (discussing several court remedies used to balance the relative harms to each party).

192. See *infra* notes 202-16 and accompanying text (discussing inherent problems with misappropriation litigation).

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generally are limited to providing or denying broad injunctive relief, courts' evaluations of inevitability effectively determine whether employees or employers entirely will benefit.<sup>193</sup> As a result, courts that foresee the blunt and potentially inequitable consequences of their inevitability determinations have an incentive to alter their inevitability analysis to prevent one side from winning or losing. For example, in *Schlumberger*, the court combined its discussion of whether an employee would inevitably misappropriate trade secrets in the course of his new employment with its analysis of the dramatic consequences that the broad injunction asked for would have on the employee and his family.<sup>194</sup> Courts in these situations are asked to make decisions based on the equities involved because they are evaluating injunctive relief;<sup>195</sup> however, the all-or-nothing approach to providing remedies pushes courts to alter their original determinations of inevitability, with consequences for the consistency of their approach. Courts subsequently attempting to apply the doctrine are likely to face the increasingly difficult challenge of reconciling these increasingly inconsistent precedents. Thus, the unsystematic, all-or-nothing relief provided under the existing approaches may cause courts to alter inevitability decisions, and create additional inconsistencies.

Finally, the general all-or-nothing approach is likely to compensate inaccurately the individual employee and employer in any given case. If an injunction is granted, the employee is generally not compensated for her lost employment opportunities and the employer does not have to pay for the benefit of barring a competitor from acquiring a skilled employee.<sup>196</sup> The employee is undercompensated (i.e., does not recover for her lost employment value) and the employer overcompensated (i.e., does not pay for barring the competitor from getting skilled labor). On the other hand, if an injunction is denied, an employer will not be compensated for harm (i.e., may still suffer from the use of trade-secret related information by its competitors), while the employee does not have to pay for the value she received from exposure to such trade secrets. Again the employer is undercompensated (i.e., does not recover for harms) and the employee is overcompensated (i.e., receives some value for exposure to trade secrets from the new employer). Moreover, there may be many cases in which the balance of harms leans more on one

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193. See Lowry, *supra* note 2, at 539 (arguing that application of the current doctrine to trade secret cases often results in seemingly unfair judicial holdings).

194. See *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1318-19 (S.D. Ind. 1985) (granting a partial injunction that prohibited the former employee from using or disclosing certain information, but permitted him to work in specific departments of the new employer's company), *aff'd*, 859 F.2d 512 (7th Cir. 1988).

195. See *id.* (discussing whether to grant injunctive relief based on the "no compete" covenant in the employment contract).

196. *But see Emery Indus., Inc. v. Cottier*, 202 U.S.P.Q. (BNA) 829, 836 (S.D. Ohio 1979) (awarding damages and the injunction).

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side than the other, but where both parties are harmed.<sup>197</sup> In an all-or-nothing system, only one party gets relief.<sup>198</sup> Although a few courts appear to be trying to mitigate this problem by tailoring their injunctions,<sup>199</sup> the courts' sporadic granting of damages<sup>200</sup> and their failure to articulate or apply a consistent approach when granting remedies<sup>201</sup> suggest that inefficient and inequitable relief will remain an important problem.

#### 4. *General critiques and concerns*

Two general concerns emerge from this evaluation. First, the inconsistencies in the methodology and the damages themselves are troubling. As an initial matter, as discussed above, important interests and fundamental values are implicated by the doctrine of inevitable misappropriation.<sup>202</sup> Inconsistent or contradictory applications of the doctrine suggest that the balance between employer and employee interests is being struck haphazardly. In particular, the unsystematic, almost exclusively all-or-nothing approach to damages seems to reward crudely one party or another entirely at the expense of the other.<sup>203</sup> Such inconsistency heightens concerns that the public policy goals of promoting efficiency, innovation, and growth also are being frustrated.<sup>204</sup>

One commentator suggests two ways that the current, inconsistent application of the doctrine increases the costs of trade secrets protection generally, and harms the interests of employees,

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197. See, e.g., *id.* at 833-34 (recognizing harm to employer and employee and attempting to balance the interests of both when issuing a temporary injunction against the former employee).

198. See Lowry, *supra* note 2, at 539.

199. See *supra* notes 171-75 and accompanying text.

200. See *supra* notes 180-90 and accompanying text.

201. See discussion *supra* Part II.A.3.

202. See *supra* notes 55-68 and accompanying text (observing the conflicting interests between employers and employees including the employees' right to use their skills and employers' right to trade secret protection).

203. See Lowry, *supra* note 2, at 529-31, 536-39 (discussing court decisions that applied the all-or-nothing approach). Compare *Air Prod. & Chem., Inc. v. Johnson*, 442 A.2d 1114 (Pa. Super. Ct. 1982) (enjoining temporarily a management employee from working for a competitor in a technical area because the employee's knowledge of non-technical market information could be characterized as a trade secret), with *Scott Paper Co. v. Finnegan*, 476 N.Y.S.2d 316, 317-18 (App. Div. 1984) (holding that a high-level manager's knowledge of identity of distributor systems, the results of market research studies on customer preferences, pricing information and plans for promotional activities did not constitute trade secrets); compare *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002-03 (1984) (clarifying that a trade secret is property of the employer), with *Eaton Corp. v. Appliance Valves Corp.*, 526 F. Supp. 1172, 1180-81 (N.D. Ind. 1981) (acknowledging that an employee has a property interest in prior work experience).

204. See *supra* notes 69-86 and accompanying text.

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specifically.<sup>205</sup> First, by creating uncertainty about the success of different claims, the inconsistent application of the doctrine increases both the likelihood and cost of litigation.<sup>206</sup> Employers and employees may be more likely to litigate inevitable misappropriation in the absence of a clear standard, and to expend more money seeking different venues or courts to hear their cases.<sup>207</sup> Increasing growth in the number of jurisdictions adopting inconsistent approaches to the doctrine will only exacerbate this problem.

Second, because employers possess greater access to information and resources, inconsistency in the application of the doctrine will subtly favor employers' interests at the expense of less well-positioned employees.<sup>208</sup> As an initial matter, employers generally have greater knowledge about employment law and litigation because they are repeat players.<sup>209</sup> Furthermore, because employers generally have greater economic resources available for litigation, they benefit from the threat and uncertainty of claims of inevitable misappropriation.<sup>210</sup> Conversely, the expenses of such litigation are enough to deter employees from risking an uncertain outcome.<sup>211</sup> As a practical empirical matter, the commentator also argues that inconsistency in judicial decision-making about inevitable misappropriation has masked a general pro-employer bias.<sup>212</sup> The all-or-nothing remedies most courts provide are weighted against employee interests. Because of the structure of these remedies, litigation not only fails to provide employees with compensation for their restricted employment when they are enjoined, but also injures them through the expense of legal fees without compensation even when they win.<sup>213</sup> Finally, the inconsistency in the doctrine and the cost of litigation may enable unscrupulous employers to engage in opportunistic or bad faith litigation or, more importantly, simply

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205. See Lowry, *supra* note 2, at 528-31.

206. See *id.* at 530-31 (suggesting that unclear guidelines encourage employers to bring trade secret lawsuits even without evidence of disclosure, thereby increasing economic costs for both employers and former employees).

207. See *id.*

208. See Miles J. Feldman, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 HIGH TECH. L.J. 151, 172 (1994) (noting that employees are hurt by the uncertain status of the law because the possibility of litigation discourages changing employers, and employers are deterred from employing former competitors' employees out of fear of potential trade secret litigation); *infra* Part III.D (discussing the need for a deterrent to employers' strategic threats to litigate and actual litigation regarding such activities); see also *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 685 (S.D. Ind. 1998) (holding that all of the noncompetition provisions in the former employee's contract were "unreasonably broad and unenforceable").

209. See Lowry, *supra* note 2, at 531-35 (discussing employee inequities in trade secret litigation).

210. See *id.* (suggesting that employers' superior bargaining power and economic position perpetuates inequitable trade secret decisions).

211. See *id.* at 531 (stating that unclear laws decrease employee mobility).

212. See *id.* at 530-31 (noting that the lack of clear guidelines encourages employers to pursue trade secret lawsuits while decreasing employee mobility).

213. See *id.* at 530-31, 536-39 (discussing the high costs of litigation and the undercompensated value of employee property interests).

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threaten litigation either to deter employees from leaving or to attack competitors.<sup>214</sup> The combination of these effects has a significant negative impact on both fundamental employee rights and interests,<sup>215</sup> as well as on more systemic issues of innovation and economic growth.<sup>216</sup>

The next major concern emerges from examining existing approaches on employers' property interests in the trade secrets. As has been noted above,<sup>217</sup> current approaches to the doctrine generate a crude determination of inevitability without formally accounting for partial inevitability or the value of employee interests. In *Schlumberger*, for example, the court found that wireline logging trade secrets would be inevitably misappropriated without evaluating the degree of inevitability or the value of the employee's human capital or liberty interest in choosing his own work.<sup>218</sup> Because the focus of the inevitability determination is based only on the threat to the employer's trade secrets and does not inquire into partial inevitability or relative value, partially misappropriated or relatively low-valued trade secrets may be protected at the expense of more valuable employee interests in freedom to work or human capital. Even if the value of an employee's interests (such as Blaker's in *Schlumberger*)<sup>219</sup> to choose his work or exercise his human capital vastly exceeded that of the trade secrets in question, the current method of determining inevitability does not formally or systematically account for these relative values. Blaker could be enjoined without the court ever inquiring into relative value of his interests, resulting in significant inequities and inefficiencies in the outcome of his case.

In addition, the general all-or-nothing approach to remedies appears to favor crude protection of employer trade secrets. Because courts have almost never provided offsetting compensation to

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214. See Schuyler, *supra* note 38, at 27 (discussing the opportunistic use of the inevitable misappropriation doctrine to evade restrictions on covenants not to compete); cf. Lowry, *supra* note 2, at 534 (describing the employers' advantages and the likelihood of engaging in opportunistic behavior while negotiating covenants not to compete).

215. See *supra* notes 62-68 and accompanying text (discussing employee interests in the marketplace).

216. See *supra* notes 79-86 and accompanying text (addressing critics' arguments that the doctrine of inevitable misappropriation, when applied inappropriately, is counterproductive and inhibits economic growth).

217. See *supra* notes 162-68 and accompanying text (detailing how initial determinations of inevitability focus solely on employers' and not employees' interests).

218. See *Schlumberger Well Servs. v. Blaker*, 623 F. Supp. 1310, 1317 (S.D. Ind. 1985) (evaluating solely the employer's interest in trade secrets despite other competing and potentially more valuable employee interests), *aff'd*, 859 F.2d 512 (7th Cir. 1988).

219. See *id.* at 1318.

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employees for their lost interests when issuing injunctive relief,<sup>220</sup> and because the determination of inevitability and the crafting of remedies do not formally account for relative value,<sup>221</sup> employee interests are left further undervalued and underprotected. When inevitability of misappropriation is found, courts provide protection only in the direction of employers' trade secret property interests, without formally accounting for employee interests. In *Seagate Technology*, the court appeared oblivious to the burden of injunctive relief on the employee, and instead focused solely on the protection of the employer's trade secret interests.<sup>222</sup>

The inaccurate and potentially harsh results of these approaches may result in secondary effects, such as additional inconsistency and disingenuousness from some courts which resort to subterfuges to avoid egregious outcomes. For example, as discussed above, in *Schlumberger*, the court mixed its discussion of employment factors and trade secrets with the effect of its injunctive remedy on the employee in its inevitability determination; thus the court appeared to alter its evaluation based on the potentially harsh outcome of all-or-nothing relief.<sup>223</sup> The outcome in *Schlumberger* suggests that these alterations by courts create unpredictability at the margins while maintaining an undesirable, generally pro-employer bias.

Thus, current court approaches to the doctrine suffer from specific problems of over-inclusiveness, under-inclusiveness, and internal inconsistency. Their overly narrow focus on employer property interests and crude all-or-nothing remedies combine to generate significant inequitable and inefficient results as well as an undesirable, generally pro-employer bias that discounts or ignores fundamental employee interests and resources.

### B. Existing Proposals

With the limitations of current court approaches to the doctrine in mind, commentators have proposed three different approaches to the doctrine of inevitable misappropriation: global rejection of the doctrine, acceptance of the doctrine, or recognition of concurrent property interests. Unfortunately, these proposals suffer from significant limitations as well.

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220. As noted above, courts have provided damages or compensation to employees in the context of inevitable misappropriation in only a very few instances. See *supra* notes 180-90 and accompanying text.

221. See *supra* notes 162-68 and accompanying text (contending that case precedent fails to acknowledge the relative value of employee interests in the determination of inevitability).

222. See *IBM Corp. v. Seagate Tech.*, No. Civ. 3-91-630, 1991 WL 757821 (D. Minn. Dec. 31, 1991) (overturning the district court's granting of injunctive relief to IBM after finding insufficient evidence to support IBM's claim that the information in question was confidential and/or a trade secret), *rev'd*, 962 F.2d 12 (8th Cir. 1992); see also Schuyler, *supra* note 38, at 28 (suggesting that these types of decisions result in significant overall pro-employer/anti-employee biases).

223. See *Schlumberger*, 623 F. Supp. at 1312-18. Seeking to avoid an overly harsh remedy, the *Schlumberger* court set a dangerous precedent of unpredictability which influences current court approaches to the doctrine of inevitable misappropriation. See *id.* at 1318-19.

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1. *Global rejection or acceptance*

The first two options that courts have are either to reject or accept the inevitable misappropriation doctrine in its entirety. Several arguments suggest that both absolute rejection and total acceptance are too crude to take into account important values that arise in specific and complex factual situations.

a. *Total rejection of inevitable misappropriation*

First, several commentators have suggested that as a result of the inconsistencies and the general harms the doctrine causes to employees and the general public interest, the inevitable misappropriation doctrine should be rejected. For example, one suggestion is that the doctrine of inevitable misappropriation should be uniformly rejected because its existence and application create risks for employees, impede their mobility, limit their options, and strip their bargaining power.<sup>224</sup> Furthermore, the growing adoption of the doctrine will stifle economic growth and innovation.<sup>225</sup>

Although significant arguments in favor of outright rejection of the doctrine exist, this proposal raises several important concerns. First, if there is no doctrine of inevitable or threatened misappropriation, some genuine cases of employees pilfering companies' trade secrets may not be prevented. A delicate balance must be struck between the interests of total employee mobility on one hand and investments in innovation and proprietary information on the other. There are some instances of inevitable misappropriation, such as the poaching of employees solely to acquire specific marketing plans or technical information, that society might well wish to prevent.<sup>226</sup> In addition,

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224. See Edelstein, *supra* note 45, at 732-36 (suggesting that the doctrine of inevitable disclosure unfairly restricts an employee's ability to market his or her skills).

225. See *id.*; see also Harland M. Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 682-83 (1960) (discussing the restrictive nature of covenants not to compete on an employee's mobility and asserting that courts do not consider the possible "injury to society" as a separate matter when reviewing these covenants); Schuyler, *supra* note 38, at 27 (noting that growth of the inevitability doctrine in California could be a "blow to competition and growth," especially in industries that have benefited from the mobility of its employees such as high technology in the Silicon Valley).

226. See *Doubleclick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*8 (N.Y. Sup. Ct. Nov. 7, 1997) (enjoining defendant from immediately starting a directly competitive Internet advertising firm where there was evidence of extreme bad faith and of possible direct appropriation of proprietary and valuable systems); see also *Monovis, Inc. v. Aquino*, 905 F. Supp. 1205, 1234 (W.D.N.Y. 1994) (holding that a manufacturer was entitled to a permanent injunction when a licensee's former employee misappropriated a trade secret). Apparently, the former employee's bad faith in not protecting the manufacturer's trade secret was a factor in the *Aquino* court's decision to enjoin the defendant from competing in the same industry. See *id.* at 1234-35.

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establishing a default condition of no protection might create greater inefficiencies and cost for the economy as companies and organizations would seek to contract around the lack of protection. At the same time, employees would seek to bind themselves credibly against misappropriating trade secrets, and employers would seek to protect their trade secrets from employees through atomizing information or significantly lowering or raising salaries.<sup>227</sup> Each of these effects might generate greater inefficiency than the existing system, often by outweighing the potential gains of individual rights.

In addition, the removal of all applications of the doctrine might decrease commercial morality and subject new companies to the deeper pockets of predatory mature companies.<sup>228</sup> This, in addition to reducing the standards of commercial morality, might similarly have an effect on overall innovation and economic growth.<sup>229</sup> Consequently, it appears that there should be some mechanism for protecting trade secrets from threatened or inevitable misappropriation.

*b. Total acceptance of the alienability of human capital*

On the other end of the spectrum, Professor Stewart Sterk has argued that there should be no restraints on the alienation of human capital.<sup>230</sup> Grounding his position in employment, family, and bankruptcy law, Sterk has contended that removing constraints on the alienability of human capital will correct the existing inefficiencies and inequities generated in each of these areas.<sup>231</sup> Specifically, he argued, that the primary problem with these restraints is the limitation they place on future contracting.<sup>232</sup> Failure to permit the alienability of human capital can limit an individual's ability to contract fully to sell her services or human capital because of

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227. Several commentators in discussing theories of the firm have noted that the divergence in a principal's and an agent's interests give rise to a need for both parties to find a method of credibly "binding" themselves against acting against the other's interest as well as a way of monitoring each other's performance. See Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure*, in FOUNDATIONS OF CORPORATE LAW, 7-9 (Roberta Romano ed., 1993) (discussing the need for monitoring costs and bonding activities in a firm organization because of the divergence between interests of principals and agents); Oliver E. Williamson, *Transaction Cost Economics*, in FOUNDATIONS OF CORPORATE LAW, *supra*, at 12, 14-17 (discussing the desire of individuals to avoid transaction-specific assets). Similar costs of binding and monitoring can be expected in the case of trade secrets where employer and employee interest diverge.

228. See *supra* notes 56-61 and accompanying text (discussing the important interest involved in protecting employers from the inevitable misappropriation of trade secrets).

229. Whether social norms will create substitute mechanisms for policing this activity, however, remains questionable. Cf. ROBERT C. ELLICKSON, ORDER WITHOUT LAW: HOW NEIGHBORS SETTLE DISPUTES 123-26 (1991) (discussing the role of social norms, not law, in shaping relations).

230. See Stewart E. Sterk, *Restraints on Alienation of Human Capital*, 79 VA. L. REV. 383, 383 (1993) (demonstrating how alienation of human capital contrasts with traditional property law).

231. See *id.* at 389-95.

232. See *id.* at 454-59 (addressing the distributional consequences of restraints on the alienation of human capital).



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restrictions on alienability.<sup>233</sup> Sterk suggested that this restraint has created bad distributional results<sup>234</sup> and that a move towards alienability of human capital should be viewed as a natural evolution.<sup>235</sup> Consequently, no restrictions should be placed on the alienation of human capital.

This support of human capital alienation, however, indirectly implicates the doctrine of inevitable misappropriation. Barring courts from applying the doctrine of inevitable misappropriation to prevent employees from working for competitors indirectly removes one mechanism for alienating employees from their human capital.<sup>236</sup> Absent an injunctive enforcement mechanism, employees may find it difficult to persuade employers that contracts to alienate their human capital are credible or valuable—if a breach gives rise simply to damages, for example, a contract for such limited alienation may not be worth much to an employer. Courts’ applying the doctrine of inevitable misappropriation to enjoin employees from such breaches, however, would provide an injunctive enforcement mechanism. Barring application of the doctrine could thus reduce employees’ abilities to negotiate credibly for better wages *ex ante*, causing the adverse distributional consequences described by Sterk.<sup>237</sup> The doctrine of inevitable misappropriation, viewed in this light, is another important minimum guarantee that allows employees to sell more of their human capital to companies with trade secrets stored, in part, in that human capital.

This indirect support for the general existence of the doctrine raises several counter-arguments. First, significant differences between employees’ and employers’ information and market power suggest that eliminating limitations on alienability of human capital may result in greater exploitation and undesirable distributional consequences than leaving such limits in place or enforcing them at some level.<sup>238</sup> For example, one critic of inevitable misappropriation

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233. *See id.* at 443-54.

234. *See id.* at 454-56 (suggesting that those persons who benefit from the inalienability of human capital, the “young and the talented,” are the least deserving of the privilege).

235. *See id.* at 456-59.

236. *Cf. Jensen & Meckling, supra* note 227, at 7 (discussing binding activities in the context of firm organization).

237. *Cf. Sterk, supra* note 230, at 454-56 (naming loss of freedom to enter into mutually beneficial exchanges, potential monopolies to the detriment of the public, reduced credit availability of credit, and limiting employment opportunities as some of the adverse distributional consequences associated with the restrictions on the alienation of human capital).

238. *Cf. id.* at 393-94 (noting that differences in knowledge about the value of information may complicate efficient exchanges of information); *see supra* notes 208-14, *infra* note 470

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has argued that employers have a vastly disproportionate amount of information and market power when negotiating covenants or agreements not to compete.<sup>239</sup> Employers tend to have greater market and negotiating power than employees because they are repeat players, they understand their business and information better than the employee, they can strategically expose or limit exposure of the employee to trade secrets and information, and they have less at stake.<sup>240</sup> Furthermore, as noted above, there is a strong pro-employer bias in the muddled application of the inevitable misappropriation doctrine.<sup>241</sup> Sterk also recognized this limitation on employee knowledge in negotiating covenants not to compete.<sup>242</sup> Thus, although the potential negotiating position of an individual might be improved in theory if her human capital can be credibly alienated in light of the inevitable misappropriation doctrine, in practice it appears unlikely that an employee will benefit from her ability to alienate her human capital because of her limited information and market power.

Second, even if allowing individuals to alienate their human capital voluntarily would generate better distributional outcomes, it is unclear that courts applying the inevitable misappropriation doctrine to unchoosing, if not unwilling, individuals would secure the same benefits. Although negotiated, well-discussed, and well-understood agreements to alienate human capital—such as explicit and bargained-for covenants not to compete—may be an efficient and equitable method of allowing individuals to monetize their human capital, there is no guarantee that a court’s ex post application of inevitable misappropriation to an individual who did not choose to alienate her human capital would be either efficient or equitable.<sup>243</sup> Indeed, several commentators have argued that the application of the doctrine imposes a covenant not to compete in places where one was not negotiated and might be used where such agreements are barred as a matter of public policy.<sup>244</sup> The purported benefits are reduced

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(discussing market power and information disparities between employees and employers).

239. See Lowry, *supra* note 2, at 532-35 (discussing the inequities in bargaining power between employees and employers).

240. See *id.*

241. See *id.*; see also *supra* notes 208-16 and accompanying text.

242. See Sterk, *supra* note 230, at 393-94 (acknowledging the asymmetry of information between employee and employer).

243. Sterk’s analysis rests on an assumption that employees’ *choosing* to alienate their human capital will optimize distributional consequences—in part because they know their own preferences and can make efficient choices accordingly. See *id.* at 390-93. Nothing suggests courts could ex post strike as efficient a bargain on unwilling parties. Cf. Kham & Nate’s Shoes No.2, Inc. v. First Bank of Whiting, 908 F.2d 1351, 1356 (7th Cir. 1990) (expressing concern regarding the courts’ ability “years later” to reinterpret the duties of parties to a bargained-for contract “years later”).

244. See Edelstein, *supra* note 45, at 734-35 (remarking that the application of inevitable misappropriation in California would conflict with the spirit and perhaps legal effect of code sections banning covenants not to compete); Schuyler, *supra* note 38, at 27 (reporting critics’ complaint that inevitable misappropriation simply creates covenants not to compete); see also Standard Brands, Inc. v. Zumpe, 264 F. Supp. 254, 263-67 (E.D. La. 1967) (barring application of the doctrine of inevitable misappropriation in part because it runs afoul of a Louisiana state

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even further by the potential for inconsistent and delayed court rulings on the inevitable misappropriation restrictions placed on an employee's use of her human capital.<sup>245</sup> These factors combined suggest that the doctrine may not secure the purported benefits of greater alienability of human capital.

Third, allowing the widespread application of inevitable misappropriation could force society into a default position of binding employees into alienating some portion of their human capital. Just as employees might wish to bind themselves against reneging on their alienation of human capital in favor of greater ex ante compensation, employers might wish similarly to bind themselves against alienating an employee's human capital to negotiate lower ex ante compensation.<sup>246</sup> Enforcing the doctrine of inevitable misappropriation restricts the latter option; employers cannot easily bind themselves credibly against the application of the doctrine if it is generally available. Without a countervailing enforcement mechanism to police employer threats to use the doctrine, employers' superior market power will make the credibility of such binding suspect.<sup>247</sup> As a result, they may be forced into higher and more speculative ex ante compensation.

Finally, growth in the application of the doctrine might generate the same kind of inefficiencies and inequities associated with standard covenants not to compensate. As detailed above, several commentators have alleged that covenants not to compete with their consequent reductions in labor mobility greatly reduce productivity, innovation, and economic growth.<sup>248</sup> Applications of the doctrine that result in similar restrictions on employment and labor mobility can be expected to have a similar effect. Ultimately, an unrestrained application of the doctrine of inevitable misappropriation would also be undesirable.

## 2. *Concurrent property interests*

A final and extremely innovative option is to apply a concurrent

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ban on covenants not to compete).

245. See Schuyler, *supra* note 38, at 28 (reporting a defense lawyer's argument that delay in decision-making alone will favor former employers over employees and new employers).

246. Cf. Williamson, *supra* note 227, at 14-17 (discussing the counterincentive to use non-firm specific assets).

247. See *infra* Part III.D (discussing employers' superior market power and resources and ability to threaten litigation).

248. See *supra* notes 74-86 and accompanying text (citing examples presented by commentators on how the enforcement of the doctrine of inevitable misappropriation has led to economic inefficiencies).

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property interests approach to the doctrine of inevitable misappropriation. One argument is that because the definition of trade secrets is too broad and uncertain to make the application of the inevitable misappropriation doctrine predictable, the current treatment of the doctrine has yielded inconsistent results that (1) almost always entirely benefit the former employer or entirely benefit the employee; and (2) subtly favor employers.<sup>249</sup> One way of mitigating this problem is to recognize that employers and employees have concurrent property interests in the use or possession of trade secrets.<sup>250</sup>

First, on the employer side, the argument is that property rights of trade secrets have long been recognized.<sup>251</sup> As early as 1868 in *Peabody v. Norfolk*,<sup>252</sup> the Massachusetts Supreme Court held that trade secrets create a property right in a dispute between an employer and a former employee about the use of a manufacturing process.<sup>253</sup> The U.S. Supreme Court similarly recognized that trade secrets create property rights and interests when agreeing that the forced disclosure of trade secrets could constitute a taking under the Fifth Amendment.<sup>254</sup> Second, an employee's property rights in the workplace should also be recognized.<sup>255</sup> Since there are cases where the employee's ability to work has been considered property by a court of law,<sup>256</sup> an employee's property rights in trade secrets should be similarly recognized.<sup>257</sup>

Following this analysis, the dispute over inevitable misappropriation of trade secrets should be recharacterized as an application of the law of concurrent property interests.<sup>258</sup> One commentator has given two examples of concurrent property interest systems: tenancies-in-common and community property.<sup>259</sup> She argued that trade secrets should be treated like tenancies-in-common

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249. See Lowry, *supra* note 2, at 539 (discussing the concurrent property rights involved and concluding that there exists a pro-employer bias).

250. See *id.*

251. See *id.* at 536 (demonstrating the relationship between trade secrets and property interests).

252. 98 Mass. 452 (1868).

253. See *id.* at 459-60. Former employer Peabody sued former employee Norfolk for allegedly misappropriating the process for manufacturing gunny cloth from jute butts. See *id.* at 452-55.

254. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 998-99 (1984). In *Monsanto*, employer Monsanto argued that compliance with the Federal Insecticide, Fungicide, and Rodenticide Act ("FIFRA") would require disclosure of trade secrets. See *id.* The U.S. Supreme Court held that some of Monsanto's trade secrets could properly be considered property and thus were protected by the Takings Clause of Fifth Amendment. See *id.*

255. See Lowry, *supra* note 2, at 536-37.

256. See, e.g., *New Method Laundry Co. v. MacCann*, 161 P. 990, 991-92 (Cal. 1916) (holding that the right of a citizen to work in a profession is a property right deserving protection).

257. See Lowry, *supra* note 2, at 536-37 (positing that an employee's property interest in marketing her skills should be recognized by the courts and is the first step toward a more equitable inevitable disclosure doctrine).

258. See *id.* at 539 (emphasizing that the property interests in trade secrets of an employer and employee are not mutually exclusive).

259. See *id.* at 539-41 (analyzing how the dissolution of property interests in tenancies in common and community property are relevant to inevitable disclosure disputes).

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or community property, with a partitioning of interests for remedial purposes.<sup>260</sup> Partitions could be accomplished through judicial “sales” that recognize the value of the concurrent interests, and would create valuation problems no worse than in other divisions of property, including intellectual property.<sup>261</sup>

The result would be a range of flexible and more accurate remedies.<sup>262</sup> For example, an employee could be enjoined from working for a new employer, but the old employer might be forced to pay her salary. In *Emery Industries, Inc. v. Cottier*,<sup>263</sup> ex-Emery employee Cottier was offered a job with a competitor in the complex ozone-processing industry.<sup>264</sup> The court ruled that even though there was no indication that Emery would purposely harm his old employer, disclosure of trade secrets in this complex and competitive business was inevitable.<sup>265</sup> As a result, the court granted a temporary injunction for one year, but ordered Emery to pay Cottier \$3,300 per month for the duration of the restriction.<sup>266</sup> This approach recognizes that the employee owns part of the trade secrets and provides her with some compensation for her ownership.<sup>267</sup> In general, this method enables a court to recognize and redress the existing bias against employees.

In addition, courts could deny injunctive relief but make the employee pay for use of the employer’s trade secret information. For example, the California version of the UTSA allows courts to order payments of reasonable royalties in the event of trade secret use.<sup>268</sup> If employees are not enjoined from working for a competitor but there is a risk of actual use or disclosure of trade secrets in the course of that work, the employee could be forced to pay for the employer’s portion of the trade secrets. This approach mitigates concerns that employees in specific cases were being overcompensated and

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260. *See id.* at 541 (suggesting that upon partition, one of the parties pays the other for the lost use of the trade secret).

261. *See id.* at 541-42 (proposing a formula that takes into account fair market value of positions requiring specialized knowledge).

262. *See id.* at 544 (concluding that a court could utilize the concurrent property doctrine to more accurately and honestly recognize the dual employer-employee ownership of such trade secrets).

263. 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978).

264. *See id.* at 833.

265. *See id.* at 835-37.

266. *See id.* at 836-37 (finding that payments to the defendant constituted reasonable consideration given the circumstances).

267. *See Lowry, supra* note 2, at 543 (lauding the *Emery Industries* court’s recognition of the concurrent property doctrine).

268. *See CAL. CIV. CODE* § 3426.3(b) (West 1997) (allowing payment of reasonable royalties when neither damages nor unjust enrichment are provable in a misappropriation case).

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provides employers with some measure of relief. In addition, granting these kinds of flexible remedies rather than an all-or-nothing solution, reduces the incentive to alter the determination of inevitability. Courts could determine inevitability of misappropriation separately from the appropriate remedy, thereby creating a more consistent set of precedents for the inevitability determination.

Unfortunately, this approach of recognizing concurrent ownership interests in trade secrets creates several problems. For instance, recognizing employee ownership interests in trade secrets jeopardizes the existing and important conceptions of unified ownership of trade secrets. For example, the UTSA implicitly suggests that companies have ownership interests in trade secrets in its definition of misappropriation.<sup>269</sup> In addition, the Supreme Court vests the ownership of trade secrets with specific corporate entities.<sup>270</sup> More importantly, the recently passed EEA bases its trade secrets protection on a carefully defined understanding of the owner of the trade secret.<sup>271</sup> For example, one EEA requirement focuses on the misappropriation of a trade secret with the *intent* to cause economic harm to the *owner* of the trade secret.<sup>272</sup> Thus, unifying ownership of a trade secret in a specific entity simplifies the protection and transactional regimes for trade secrets.<sup>273</sup> Allocating a concurrent property interest to each employee who enters into an employment relationship with a firm would severely complicate the existing structures of protection for, or transfer of, trade secrets by dramatically expanding the definition of “owners” of a trade secret. Questions about whether each employee could misappropriate a trade secret that she has some ownership over would significantly complicate a court’s analysis. Furthermore, granting or recognizing such an interest would divide and diffuse the ownership of property interests which are already difficult to administrate and transfer. If all employees of a company had concurrent ownership interests in the company’s trade secrets, then what rights would they have over the transfer of those secrets? What rights or responsibilities would a purchaser of those secrets have regarding those employees? How could a court determine what amount of the property interests of a trade secret were disclosed or misappropriated and in what proportion to the employee’s interest? Significant arguments in favor

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269. See UNIF. TRADE SECRETS ACT § 1(ii)(A) (amended 1985), 14 U.L.A. 433, 438-45 (1990 & Supp. 1998); see also *Electro-Craft Corp. v. Controlled Motion Inc.*, 332 N.W.2d 890, 897 (Minn. 1983) (acknowledging the existence of property rights in trade secrets). See generally Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC’Y 191, 198-99 (1997) (comparing the definitions of “owner” contained in the Economic Espionage Act and the Uniform Trade Secrets Act).

270. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 987 (1984) (recognizing trade secrets as property in the interpretation of a takings claim).

271. See Economic Espionage Act of 1996 § 101(a), 18 U.S.C. § 1839(1) (Supp. 1997).

272. See *id.* §§ 1831(a), 1832(a).

273. Cf. Mossinghoff et al., *supra* note 269, at 198-99 (discussing the merits of the EEA’s approach to the owners of trade secrets); Pooley et al., *supra* note 9, at 189-90 (same).

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of clear and unified ownership of intangibles like trade secrets make recognition of concurrent ownership interests in them less attractive.<sup>274</sup>

Another problem with recognizing concurrent ownership in trade secrets is that the system provides no justification for, or guidance to, the proportion of ownership that should be allocated to each employee vis-à-vis the employer. Unlike property held in tenancies-in-common or community property, trade secrets may not be the product of any effort by a specific employee;<sup>275</sup> an employee does not have any basis or initial investment in a trade secret that was produced before she arrived that is comparable to the basis in an investment by an individual in a piece of property held as a tenancy-in-common or as community property. An employee is compensated for what she contributes to the firm through the course of her employment. This makes justifying the recognition of concurrent ownership of trade secrets more difficult than in traditional tenancy-in-common or community property situations where each co-owner has contributed measurable investments or value. Moreover, the standard principles for allocating ownership in tenancy-in-common and community property systems—namely, creation, contribution, or agreement—are not easily applied to the situation of an employee joining a firm with trade secrets, which might have been created before the employee arrived. It is thus also unclear *how* ownership interests would be allocated among employees. The system is further complicated by the fact that adding new employees would require some kind of reallocation of ownership interests. In addition, ex post recognition of these concurrent ownership interests creates significant negative incentives for firms to expose individuals to trade secrets or to compensate them therefor. The concurrent property interests proposal provides no principled basis for recognizing or allocating ownership interests in trade secrets (beyond simply

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274. Allowing continual fragmentation of property interests in other contexts has historically resulted in significant inefficiencies, confusion, and the reduction in value of the underlying property because the complexity of ownership makes transfer difficult. *See* Model v. Irving, 481 U.S. 704 (1987) (discussing severe problems with fragmenting ownership interests in land among an increasing number of Native Americans and the resulting diminution of the value of the underlying property). Currently, commentators praise the EEA for its unified ownership approach to trade secrets. *See* Mossinghoff et al., *supra* note 269, at 198-99; Pooley et al., *supra* note 9, at 189-90. Increasing the number of owners and the complexity of the ownership structure for trade secrets might well undermine the benefits of the EEA and like trade secret protection regimes.

275. *Cf.* JESSE DUKEMINIER & JAMES E. KRIER, PROPERTY 329-30 (3d ed. 1993) (discussing the origins of tenancies-in-common or community property in the joint contribution or development of property by multiple parties).

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establishing the employee's right to the workplace).<sup>276</sup> Because it leaves the allocation of interests unclear, it may confuse, rather than reconcile competing interests and complicate other areas of trade secret protection based on unitary ownership systems.

Furthermore, trade secrets pose challenges to administration under concurrent property regimes not presented by other types of intellectual property.<sup>277</sup> Even if a court only recognizes a proportionate concurrent ownership of a trade secret and liquidates its value through a partition sale, unless the memory of an individual is erased, the individual retains possession of the entire secret with the power to destroy its value through disclosure or use. Moreover, multiple individuals can possess the entire trade secret and thus, retain the power to destroy it. To recognize a partitioned concurrent interest in a trade secret when additional possessors or property owners can be added to the interest, through no control of the owners, appears to be unjustified. But by what rule should concurrent ownership between employer and employee be divided? Basing ownership on the number of employees or level of contribution of effort, time, or value ignores the special problem that any possessor or owner of any fraction of a trade secret can utterly destroy its value. Also important is the fact that subsequent to the "partitioning" and judicial "sale" of the employee's or employer's interests in the trade secret, the employee can still retain possession and use of it.<sup>278</sup> Does this possession and use affect the concurrent ownership of the trade secrets by other employees or the employer? A concurrent property interests regime seems ill-suited to allocating ownership interests in trade secrets when any owner has the power to destroy their value.

Another concern with concurrent property interest recognition is that it ignores the value of some of the trade secrets involved. While some courts disagree,<sup>279</sup> most courts recognize that the value of some trade secrets is incalculable and justify injunctions against

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276. See Lowry, *supra* note 2, at 537-38 ("Recognition of a concurrent property interest in inevitable disclosure trade secret information rests on a view that employer ownership of the workplace is not absolute.").

277. Copyright, for example, provides for ownership of the new parts of a derivative work by one owner and the underlying work by the original owner as different transfers of rights to those works. See, e.g., *Mills Music, Inc. v. Synder*, 469 U.S. 153 (1985) (discussing the assignment of rights to derivative work producers). A derivative copyright work is thus made up of the original work (owned by the original copyright owner) and the original aspects of the new work (owned by the derivative work owner). Multiple possessors of the underlying original work do not threaten its value; multiple possessors of a trade secret, by contrast, can destroy its value completely. Ownership or possession of a trade secret thus presents different risks than ownership or possession of a copyright or patent, which can be used without destroying its underlying value.

278. See Lowry, *supra* note 2, at 537 (holding that an owner has the power to acquire, destroy, enjoy profits derived therefrom, and use an item anyway she sees fit as long as she does not violate another's prerogative).

279. See *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1483 (W.D.N.C. 1995) (suggesting that damages for misappropriation of trade secrets could be calculated); *cf.* *American Sales Corp. v. Adventure Travel Inc.*, 862 F. Supp. 1476, 1479 (E.D. Va. 1994) (holding that a plaintiff is entitled to recovery if the actual value is ascertainable).



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misappropriations on that basis.<sup>280</sup> Under the concurrent property interest approach, allocating concurrent property interests in those invaluable trade secrets to employees raises some important questions. First, if a trade secret is invaluable, how much would a proportionate share of that trade secret be worth? Are there situations in which providing an injunction and requiring a firm to compensate an individual for her proportionate share of a trade secret would be extraordinarily expensive, especially if this kind of action might occur each time an employee leaves a firm?<sup>281</sup> Or, perhaps more to the point, is it possible that denying an injunction against an employee, but forcing her to pay royalties for use of the employer's proportionate share of trade secrets, could cause problems when the value of the trade secrets may be incalculable?<sup>282</sup> One commentator has suggested valuing the use of trade secrets through royalty calculations and other methods of calculation.<sup>283</sup> However, it is unclear whether those mechanisms are applicable to a taking of those trade secrets from an employer by an employee working for its competitor. This again is complicated by the question of what proportionate share of such an enormous value can be justifiably or practically allocated to an employee. Questions raised by the special value of trade secrets do not appear to be addressed adequately by the concurrent property interest approach to trade secrets.

Although this approach correctly identifies problems with the inconsistent methods used by courts in determining the inevitability of misappropriation and the general all-or-nothing method to providing remedies, simple recognition of concurrent property rights

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280. *See, e.g.,* Merck & Co. v. Lyon, 941 F. Supp. 1443, 1456 (M.D.N.C. 1996) (refusing to calculate damages by comparing the plaintiff's company's anticipated market share during the normal course of business with its actual market share following the misappropriation of trade secrets, due to the inherent uncertainty of accurately determining the anticipated market share); Doubleclick, Inc. v. Henderson, No. 116914/97, 1997 WL 731413, at \*7 (N.Y. Super. Ct. Nov. 7, 1997) (ordering injunctive relief absent a rebuttal of the presumption that misappropriation of trade secrets caused irreparable harm); Barr-Mullin, Inc. v. Browning Ltd., 424 S.E.2d 226, 230 (N.C. Ct. App. 1993) (stating that the misappropriation of trade secrets can cause incalculable harm and is without "reasonable redress"); National Starch & Chem. Corp. v. Parker Chem. Corp., 530 A.2d 31, 33 (N.J. Super. Ct. App. Div. 1987) (finding that damages were an inadequate remedy because the harm from disclosing the trade secrets was extremely difficult to calculate).

281. *Cf. Sterk, supra* note 230, at 393-94 (suggesting that employees may not be able to pay for valuable trade secrets).

282. *Cf. id.* (arguing that once value is revealed, she would have no incentive to pay for the trade secrets).

283. *See* Lowry, *supra* note 2, at 541-42 (commenting that the valuation process would not be any more arduous than that used by the courts in community property dissolutions where value is placed on good will in business and professional education).

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in trade secrets is problematic. A general recognition of concurrent property interests in trade secrets conflicts with the justifiably unified approach to trade secret ownership in other areas of trade secret law.<sup>284</sup> Such an approach provides no justification for determining the allocation of ownership interests among employers and employees, and fails to account for the unique nature of total trade secret possession by multiple individuals.<sup>285</sup> Finally, such an approach presents no framework for consistently assigning value to the proportionate property interests of employers and employees in the disputed trade secrets.<sup>286</sup> Thus, although the proposal is an excellent first step towards addressing the question of remedies under the doctrine of inevitable misappropriation, its insistence on recognizing concurrent property ownership of trade secrets appears underdeveloped and inadequately justified.

In sum, current proposals and approaches to the doctrine of inevitable misappropriation seem inadequate. Properly balancing of employer and employee interests will require clearer and more coherent standards for determining inevitability that account for bad faith and intent, that address the full range of technical and non-technical employment, and that recognize a range of findings of inevitability. Properly accounting for these interests will also require a coherent and consistent system of remedies that includes injunctive relief and damages, that recognizes and accounts for potential costs to both employers and employees, that maintains a unified ownership structure for trade secrets, and that accounts for both the intangibility and valuation issues uniquely raised by trade secrets.

### III. THE ACCESSION LAW APPROACH

Having discussed the importance of a consistent and coherent doctrine of inevitable misappropriation and critiqued the current approaches and proposals, this Article suggests an approach to the doctrine of inevitable misappropriation that can be derived from the ancient law of accession, dealing with the ownership of combined or transformed property. This Part first outlines the law of accession, discussing its background and potential application to inevitable

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284. For example, the EEA grounds its protection regime on defining the “owner” of a trade secret. *See* Mossinghoff et al., *supra* note 269, at 198-99. Expanding and complicating ownership structures would make that protection scheme more difficult to administer, particularly if those threatening to appropriate trade secrets were employees who were also concurrent “owners” of the trade secrets. *Cf.* *Hodel v. Irving*, 481 U.S. 704, 712-18 (1987) (finding a federal law which prohibited owners from devising small, undivided parcels of Indian land to be in violation of the Takings Clause of the Fifth Amendment, despite the fact that the law served the important public policy goal of reducing the fractionalization of Indian lands and increasing such lands’ productivity).

285. As noted above, traditional methods of allocating ownership interests such as contribution or creation are difficult to apply to the trade secrets context where employees could join a firm after trade secrets are created and contribute unspecified value to those secrets. *See supra* notes 275-78 and accompanying text.

286. *See supra* note 278 and accompanying text.

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misappropriation. It then suggests that principles of accession law can be applied to develop a consistent, coherent, and practical methodology for determining inevitability and providing flexible remedies. Finally, it explains how a parallel application of the law of accession can help police employers' opportunistic threats to apply the doctrine of inevitable misappropriation.

#### A. *The Law of Accession*

Recognized since before the time of Blackstone's *Commentaries*,<sup>287</sup> the law of accession deals with the ownership of property made up of materials of one person, combined with materials and/or labor of another.<sup>288</sup> Whether the law of accession applies to a piece of property is determined by a number of principles, including whether the property of one individual can be separated or removed from the unified article, or whether the nature or identity of an individual's property has been transformed by the skill and labor of another.<sup>289</sup> If the law of accession applies, a series of rules determine the ownership of the combined or transformed property and allocate its value and control.<sup>290</sup> In short, accession vests title and control of a combined piece of property in the owner of its principal parts or in its primary transformer. Accession then directs the title holder to reimburse the owner of the secondary parts of a combined piece of property or its secondary transformer for her lesser contribution.<sup>291</sup>

Generally, the law of accession is applied in a single step. The recognition that accession applies leads directly to a determination of title and an allocation of value and control.<sup>292</sup> To analyze the law of accession and to analogize it to the doctrine of inevitable misappropriation, this Article discusses accession in two parts: (1) when the law of accession applies; and (2) what happens to title and value when it does.

##### 1. *Analyzing applicability*

The law of accession has been generally applied to two situations. First, the right to property may be determined by accession when the property of several individuals is combined through skill and labor

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287. See BLACKSTONE, *supra* note 17, at \*404-07 (discussing accession law principles and cases).

288. See *id.*

289. See *id.*

290. See *id.*

291. See *id.*

292. See *id.* at \*405.

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into a single, unified object.<sup>293</sup> For example, Blackstone noted that the law of accession applied to the combination of a piece of parchment and the writing upon it, as well as a garment and the embroidery placed on it.<sup>294</sup> Second, the law of accession can apply when the materials of one person are sufficiently transformed by the skill and labor of another person.<sup>295</sup> For example, the law of accession has been held to apply to the transformation of timber into hoops,<sup>296</sup> grass into hay,<sup>297</sup> and grain into whiskey.<sup>298</sup> The law of accession is used in both these situations to vest in a single person the ownership of products that are not severable into their component parts or shares.<sup>299</sup>

*a. Combinations: identification and severability*

Courts have outlined a number of tests for determining whether either the property of several individuals has been combined through skill and labor into a single, unified object or the materials of one person have been sufficiently transformed by the skill and labor of another person. First, whether accession applies to combinations of materials depends principally on the test of identification and severability: if the materials of one individual can be identified and severed from the joint product without damage, then the law of accession and its rules for allocating ownership and value do not apply.<sup>300</sup> In the seminal 1872 case of *Clark v. Wells*,<sup>301</sup> for example, the Vermont Supreme Court evaluated the ownership of the wheels and axles attached to a wagon.<sup>302</sup> The plaintiff had conditionally sold the wheels and axles that he used to repair the wagon to the wagon's first owner, who subsequently sold the wagon (with wheels and axles attached) to the defendant before completing payment on the wheels

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293. See *Ratcliff v. Gallagher & Holman*, 5 Ky. Op. 589, 589 (1871) (holding that the right by accession is acquired when material is changed in such a way that it cannot be restored to the owner in its original form). See, e.g., *Stevens v. Briggs*, 22 Mass. (15 Pick.) 177, 177 (1827) (concluding that a desk made from cherry boards is the property of the owner and is not able to be taken by a creditor).

294. See BLACKSTONE, *supra* note 17, at \*404-07, cited in *Bancorp Leasing & Fin. Corp. v. Stadel Pump & Constr., Inc.*, 739 P.2d 548, 551 (Or. 1987).

295. See *Wetherbee v. Green*, 22 Mich. 311, 315-16 (1871) (holding that accession law applies when an article is transformed into a different species).

296. See *id.* at 320 (asserting that the involuntary wrong-doer who transformed the timber would be punished too severely if the original owner could reclaim the property).

297. See *Lewis v. Courtright*, 41 N.W. 615, 616 (Iowa 1889) (stating that although the grass that changed to hay belonged to the plaintiff, the good faith labor of the defendant gave the hay substantially all of its value).

298. See *Hyde v. Cookson*, 21 Barb. 92, 104-05 (N.Y. App. Div. 1855) (citing a case which held that the original owner cannot reclaim chattel converted into different species by an innocent holder).

299. See *Bancorp Leasing*, 739 P.2d at 552 (holding that the principal of accession does not apply when attached articles can be separated and removed from the principal object without damaging the latter).

300. See *id.* at 552.

301. 45 Vt. 4 (1872); see also *Bancorp Leasing*, 739 P.2d at 552 (comparing the facts of *Bancorp Leasing* and *Clark*).

302. See *Clark*, 45 Vt. at 6.

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and axles.<sup>303</sup> The court rejected the defendant's argument that the wheels and axles were accessions to the wagon and that title to them had passed with that of the wagon by the law of accession.<sup>304</sup> Instead, the court reasoned that the wheels and axles could be "followed, identified, severed, without detriment to the wagon, and appropriated to other use without loss."<sup>305</sup> Thus, title remained with the plaintiff, the original owner of the materials.<sup>306</sup> At roughly the same time, the Connecticut Supreme Court applied a test of severability and held that the title in seaweed below the high-tide line did not belong to the owner of the land above the high-tide line because it was not "united to the principal [property], so as to become part and parcel of it."<sup>307</sup> Modern courts have followed this lead, holding generally that the ownership of engines of trucks and cars,<sup>308</sup> refrigerator units installed on trucks,<sup>309</sup> removable hoists and truck bodies installed in trucks,<sup>310</sup> tires installed on cars and trucks,<sup>311</sup> and gasoline engines bolted to road graders,<sup>312</sup> is not determined by the law of accession when these items are identifiable and removable from the combined object without damage.<sup>313</sup> Thus, the law of

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303. *See id.* at 5.

304. *See id.* at 6.

305. *Id.*

306. *See id.*

307. *Mather v. Chapman*, 40 Conn. 382, 397 (1873) (discussing the many reasons why the plaintiffs could not own the seaweed). The court explained:

"Accession" is defined by Bouvier as "a manner of acquiring the property in a thing which becomes *united* with that which a person already possesses." The plaintiffs therefore seem to us to have no title by allusion, or by accretion, or by accession, certainly none *ratione soli*, and they cannot be regarded as first occupants by construction merely because of the *propinquity* of their land to the property in dispute.

*Id.* at 397-98.

308. *See Bancorp Leasing & Fin. Corp. v. Stadel Pump & Constr., Inc.*, 739 P.2d 548, 552-53 (Or. 1987) (holding that a truck engine did not pass by accession because it was removable without significant damage to the economic value of truck); *Atlas Assurance Co. v. Gibbs*, 183 A. 690, 691 (Conn. 1936) (holding that an engine put into a stolen car by an innocent third party was not an accession to the car because it was removable without damage to the body or chassis).

309. *See IDS Leasing Corp. v. Leasing Assocs., Inc.*, 590 S.W.2d 607, 609 (Tex. Civ. App. 1979) (holding that refrigeration units are not accessions because of the separate serial numbers and the easy separation of units from truck trailers).

310. *See Omaha Standard, Inc. v. Nissen*, 187 N.W.2d 721, 724-25 (Iowa 1971) (maintaining that when automobile parts are purchased under a retention of title agreement, identifiable or severable parts do not become part of the automobile by accession).

311. *See Goodrich Silvertown Stores v. Caesar*, 197 S.E. 698, 700 (N.C. 1938) (stating that car tires are severable and not subject to the doctrine of accession); *Bousquet v. Mack Motor Truck Co.*, 168 N.E. 800, 801 (Mass. 1929) (holding that ownership of truck tires does not pass with the truck title).

312. *See Lincoln Road Equip. Co. v. Bolton*, 254 N.W. 884, 885 (Neb. 1934) (holding that if graders were removed and replaced, the elevator would operate as efficiently as it did before the change and is, therefore, not subject to doctrine of accession).

313. *See Hunter v. Scruggs Drug Store, Inc.*, 113 F.2d 971, 974 (4th Cir. 1940) (remanding

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accession does not apply when the materials in question are physically detachable without damage.

The rule of identification and severability is subject to some restrictions. The first restriction is that if the materials in question have been used to replace other materials in a combined object, courts have generally held them not severable and the united property subject to the law of accession. For example, in 1875, the Michigan Supreme Court held that new printing material added to replace the old, which had been destroyed by wear and tear, was not severable from the whole and was thus subject to the law of accession.<sup>314</sup> The Kentucky Supreme Court similarly held that since the new batteries, tires, and other accessories put on a stolen automobile to replace worn-out ones were not severable without damage to the car, the entire automobile was subject to the law of accession.<sup>315</sup>

A second restriction is that if the parties express an intent, it will usually control whether a court will apply the law of accession to mixed property. For example, when a buyer and seller expressed the intent that tires and tubes attached to a car were not to be merged into it, and they were readily distinguishable and detachable, the law of accession was held not to apply.<sup>316</sup> Other courts have repeated this general rule of allowing intent to dictate severability.<sup>317</sup> Thus, the parties' intent affects whether the law of accession will be applied to find materials that are combined in a mixed property as severable.

*b. Transformations: identity and value-enhancement*

Similarly, the tests of identity and value-enhancement principally determine whether accession applies to the transformation of one person's material by the skill and labor of another: If an item has been sufficiently transformed so as to change its identity or significantly increase its value, courts will apply the law of accession to determine its ownership and provide remedies. For example, the transformations of corn into meal, olives into oil, grapes into wine, and mud into bricks have been held to subject the resulting property

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for a determination of whether the soda fountain was a permanent installation or could be removed without damage to decide whether to apply the law of accession); *Ralston Purina Co. v. Toyce Motors*, 124 N.W.2d 24, 27 (Wis. 1963) (holding that for the law of accession to apply it must be established that custom-made poultry racks cannot be severed from the trucks to which they are attached).

314. See *Fowler v. Hoffman*, 31 Mich. 215, 224 (1875) (finding that the materials were intermixed and difficult to distinguish from the older materials).

315. See *Bozeman Mortuary Assoc. v. Fairchild*, 68 S.W.2d 756, 758 (Ky. 1934); see also *Allied Inv. Co. v. Shaneyfelt*, 74 N.W.2d 723, 727 (Neb. 1956) (holding that the replacement motor was not severable, thus subjecting the truck to the law of accession).

316. See *Tire Shop v. Peat*, 161 A. 96, 97-98 (Conn. 1932).

317. See, e.g., *Omaha Standard, Inc. v. Nissen*, 187 N.W.2d 721, 724 (Iowa 1971) (stating that the intention of parties is a strong factor in determining severability); *Ralston Purina Co.*, 124 N.W.2d at 27 ("The controlling factor [in determining severability] is the intention of the parties whenever that can be ascertained.").

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to the law of accession.<sup>318</sup>

Furthermore, transformations by skill or labor that substantially increase the value of the property have been subjected to the law of accession. In *Wetherbee v. Green*,<sup>319</sup> the court held the good faith transformation of \$25 timber into \$700 hoops would subject the hoops to the law of accession.<sup>320</sup> Erroneously cutting grass valued at eight or ten cents per acre in good faith and transforming it into hay worth two to three dollars per ton, where an acre yielded something more than a ton of hay, likewise subjected the hay to the law of accession to determine property rights and remedies.<sup>321</sup> A court also applied the law of accession to plat and city maps worth approximately \$1,500 made from the much less valuable paper of a discarded plat book because of their significant increase in value.<sup>322</sup>

Of course, there are some limitations on the application of these rules. First, transformation of identity is limited in part by a somewhat unclear rule of identification. For example, while making grass into hay is generally considered a sufficient transformation,<sup>323</sup> courts have held that the transformation of cloth into a coat, leather into shoes, timber into logs or shingles, or silver into cups is not sufficient to apply the law of accession because the altered item can be identified by its owner.<sup>324</sup> For example, in *Ratcliff v. Gallagher & Holman*,<sup>325</sup> a mechanic's raising, dressing, and operating on a piece of stone did not change the stone's inherent and characteristic qualities from when it was taken from the quarry.<sup>326</sup> As a result, the law of accession was not applied.<sup>327</sup> In addition, the law of accession has not been applied to cases involving the finishing stock of a wheelwright,<sup>328</sup>

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318. See *Baker v. Merisch*, 45 N.W. 685, 688 (Neb. 1890) (declaring that where appropriation of another's property is accidental and labor has been expended upon it, thus increasing its value, the title to property passes to the laborer); see also *Lampton's Ex'rs v. Preston's Ex'rs*, 24 Ky. (1 J.J. Marsh) 454, 455 (1829) (stating that original materials cannot be reproduced out of the resulting property).

319. 22 Mich. 311 (1871).

320. See *id.* at 313-16 (discussing the law of accession as it stood at the time).

321. See *Lewis v. Courtright*, 41 N.W. 615, 616 (Iowa 1889) (reasoning that the plaintiff should not be permitted to enjoy the fruits of the defendant's labor).

322. See *Polk County v. Parker*, 160 N.W. 320, 321 (Iowa 1916) (stating that although the defendant made maps on paper belonging to the county, the county is not authorized to take them from the defendant after he expended his time and labor).

323. See, e.g., *Lewis*, 41 N.W. at 615-16.

324. See *Lampton's Ex'rs*, 24 Ky. (1 J.J. Marsh) at 455 (holding that the law of accession is not applicable to easily identifiable articles).

325. 5 Ky. Op. 589 (1871).

326. See *id.* at 589 (noting that the right of accession occurs when other material is added in such a way that the changed material cannot be restored to the owner in its original form).

327. See *id.*

328. See *Harding v. Coburn*, 53 Mass. (12 Met.) 333, 342 (1847) (stating that the accession

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making salted cucumbers into pickles,<sup>329</sup> or replacing the wooden stock and lock of a rifle.<sup>330</sup> Thus, the transformation of identity is limited by the rule of identification.

*c. Bad faith, negligence, and willfulness*

Finally, there is a general rule against the application of the law of accession in cases of bad faith actors or thieves and knowing or negligent trespassers. For example, if a bad actor, such as a thief or intentional trespasser (or in some cases even a negligent trespasser), combines her materials with another's property, they will generally not be held severable from the other's property if it is reclaimed by the legitimate owner.<sup>331</sup> In cases involving thieves or the knowing enhancement of stolen property, the courts have been quick to deny rewarding changes in ownership under the law of accession. In *Union Naval Stores Co. v. United States*,<sup>332</sup> the Supreme Court held that the act of converting sap into turpentine did not pass title under the law of accession to an intentional trespasser who knowingly took the sap from government timber, even when the manufactured turpentine was combined with the trespasser's legitimately owned turpentine.<sup>333</sup> In *Farm Bureau Mutual Automobile Insurance Co. v. Moseley*,<sup>334</sup> when a thief replaced a motor in a stolen automobile, it was held to be part of the automobile when reclaimed by the owner.<sup>335</sup> The subsequent good faith buyer of the automobile, however, in the absence of any showing that he knew the car had been stolen, was entitled to the sun visor, seat covers, and gasoline tank that he attached to the car during his possession.<sup>336</sup> In addition, when an individual placed tires, tubes, and wheels on a tractor he knew was not legitimately owned, the court held that he was not entitled to those objects when the true owner reclaimed the tractor.<sup>337</sup> Thus, courts will generally bar a thief or bad faith actor from benefiting from a favorable application of the law of accession.

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principle does not apply where there is difficulty in pointing out the precise articles involved).

329. See *Crosby v. Baker*, 88 Mass. (6 Allen) 295, 298 (1863) (positing that cucumbers, after being placed in bottles, were not changed substantially enough to invoke the law of accession).

330. See *Comins v. Newton*, 92 Mass. (10 Allen) 518, 519 (1865) (declaring that neither the nature nor value of the article was changed enough for accession to occur).

331. See *Farm Bureau Mut. Auto. Ins. Co. v. Moseley*, 90 A.2d 485, 487-88 (Del. Super. Ct. 1952) (noting that when the thief added a motor to a stolen car, the article was lost to the true owner of the car upon reclaiming the stolen item).

332. 240 U.S. 284 (1916).

333. See *id.* at 290-91 (noting that converting sap was a continuing act of trespass that would not divest the owner of his property).

334. 90 A.2d 485 (Del. 1952).

335. See *id.* at 487-88 (holding that continued possession by a wrongdoer after theft is a continuing wrong and therefore title to the property, even in its enhanced condition, does not pass to the thief).

336. See *id.* (noting that a good-faith buyer is entitled to improvements because the difference between the willful wrongdoer and the involuntary wrongdoer is well recognized by authorities).

337. See *Burroughs v. Garrett*, 352 P.2d 644, 648 (N.M. 1960) (stating that the rightful owner maintained possession of the tractor in its enhanced state because the party knew the tractor was wrongfully possessed).



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In addition, courts have been reluctant to apply the law of accession to provide negligent improvers of property with compensation for their efforts. For example, a Michigan court held that the transformers of trees into shingles did not acquire title to the shingles because they were “put on inquiry as to [the timber seller’s] rights.”<sup>338</sup> In addition, a South Carolina court held that an individual was not entitled to any compensation for the money he expended in enhancing the value of a car when he did not know, or failed to exercise care to find out, whether the vehicle was stolen.<sup>339</sup> If individuals negligently combine their materials and/or labor with others’ property, courts are reluctant to apply the law of accession in their favor.

Courts have also generally declined to apply the law of accession to benefit willful takers and combiners/ transformers of property. Most courts limit their application of the law of accession to cases in which the combiner/transformer has acted in mistaken good faith, under legitimately but incorrectly assumed authority, and with lack of intent to convert another’s property.<sup>340</sup> Thus, bad faith, negligence, and willfulness will decrease a court’s likelihood of applying the law of accession in favor of the combiner/transformer.

In sum, courts apply the law of accession where an individual’s materials have been combined through skill and labor with those of another and where an individual’s property has been substantially transformed or enhanced in value through the skill and labor of another. Whether the law of accession will be applied is determined by tests of severability and identification in the case of combinations, and of identity transformation and value-enhancement in the case of

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338. *See* *Nelson v. Graff*, 12 F. 389, 391 (C.C.W.D. Mich. 1882) (allowing the owner of original timber to recover property even after it was converted into shingles, in part because the manufacturers had a duty to inquire into the propriety of the trespasser’s selling them the timber).

339. *See* *Motors Ins. Corp. v. Department of Highways & Pub. Transp.*, 437 S.E.2d 555, 557 (S.C. Ct. App. 1993) (holding that individuals were not bona fide purchasers and therefore were not entitled to consideration for any enhancements in the vehicle’s value).

340. *See, e.g.,* *Isle Royale Mining Co. v. Hertin*, 37 Mich. 332, 336 (1877) (requiring that individual labor to convert or transform other’s property must be by mistake and in good faith to apply the law of accession); *Louis Werner Stave Co. v. Pickering*, 119 S.W. 333, 334 (Tex. Civ. App. 1909) (holding that the right to property by accession depends on the good faith of the person converting the property and the belief in ownership as well as noting that a willful trespasser will not acquire a right in the property no matter how much she increases its value). *But see, e.g.,* *Baker v. Mersch*, 45 N.W. 685, 688 (Neb. 1890) (holding that the doctrine of accession applies to a willful trespasser’s taking of another’s property and transforming its substance and form through the exercise of skill and labor, especially when the trespass and misappropriation is accidental, as through mistake of fact, and when the original property is of comparatively little value).

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transformations. The ascertainable intent of the parties can also guide findings of severability, while the state of mind of the combiner/transformer can determine the application of accession in both cases.

## 2. *Allocating control and value*

When courts determine that the law of accession is applicable, they then turn to the allocation of title in the combined property and the possibility of compensation for the individual in whom title does not vest. The general rules for both combinations and transformations are similar.

### a. *Vesting title and control: the tests of principal part, identity transformation, and value-enhancement*

Where an individual's materials are combined with those of another through the latter's exercise of skill and labor, the law of accession vests title in the owner of the principal part of the materials in the joint product.<sup>341</sup> Thus, in numerous ship-building cases, if an individual combines his labor, skill, and materials with those of another, the owner of the materials that make up the principal part of the finished product, the keel, acquires title to the ship.<sup>342</sup> Similarly, Blackstone's owner of the parchment acquires title by accession to the combined parchment and writing<sup>343</sup> (where the net value was not enhanced above the original),<sup>344</sup> and his cloth owner gains title to the embroidery placed on it by accession.<sup>345</sup> Courts apply this doctrine in manufacturing cases to vest the title of finished products in the owner of the principal raw materials in suits,<sup>346</sup> shears,<sup>347</sup> steel products,<sup>348</sup> and even locomotives.<sup>349</sup> Title to engines,<sup>350</sup>

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341. See *Stevens v. Briggs*, 22 Mass. (15 Pick.) 177, 177 (1827) (holding that when a defendant added additional materials to the plaintiff's desk, the whole became the property of the plaintiff).

342. See *Glover v. Austin*, 23 Mass. (6 Pick.) 209, 220 (1828) (holding that ownership of all the materials added to the ship passed to the owner of keel); *Coursin's Appeal*, 79 Pa. 220, 229 (1875) (same).

343. See BLACKSTONE, *supra* note 17, at \*404-07, cited in *Bancorp Leasing & Fin. Corp. v. Stadel Pump & Constr., Inc.*, 739 P.2d 548, 551 (Or. 1987).

344. Cf. *Polk County v. Parker*, 160 N.W. 320, 321 (Iowa 1916) (passing title to plat maps made from the county's paper to a mapmaker who added significant value).

345. See BLACKSTONE, *supra* note 17, at \*404-07, cited in *Bancorp Leasing*, 739 P.2d at 551.

346. See *Kemp-Booth Co. v. Calvin*, 84 F.2d 377, 381-82 (9th Cir. 1936) (finding that a plaintiff's changing of goods from suitings to finished suits did not add enough to the product to transfer title).

347. See *Mack v. Snell*, 35 N.E. 493, 494-95 (N.Y. 1893) (stating that the shears belonged to the defendant who had supplied the principal materials, irrespective of the fact that the plaintiff contributed labor and skill to make the finished product).

348. See *Bancroft Steel Co. v. Kuniholm Mfg. Co.*, 16 N.E.2d 78, 80 (Mass. 1938) (finding that title to a finished product belonged to the plaintiff, a contributor of steel, since steel constituted the greatest part of the finished product).

349. See *Ex parte Ames*, 1 F. Cas. 746, 749 (D.C. Mass. 1871) (No. 323) (noting that any additions to a locomotive made during the course of manufacture would pass to the owner of the locomotive).

350. See *Allied Inv. Co. v. Shaneyfelt*, 74 N.W.2d 723, 727-28 (Neb. 1956) (acknowledging that since an engine cannot logically be separated from an automobile without making an

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tires,<sup>351</sup> and other vehicle parts<sup>352</sup> that were held not severable have been similarly vested in the owner of the principal materials in the vehicles.

Courts have even used the principles of accession to vest title to a building in a landowner when the building has built with both the landowner's and tenant's materials and was attached to the landowner's land.<sup>353</sup> Therefore, in the case of combinations, the law of accession vests title in the owner of the principal materials that are united in the joint product.

Where an individual's materials are transformed in substance and form or are greatly enhanced in value by another's skill and labor, the law of accession generally vests title in the transformer. For example, when an individual transformed another's grain into whiskey, the court held that the transformer acquired title by accession.<sup>354</sup> Similarly, when an individual increased the value of another's grass from eight to ten cents per unit to two to four and one-half dollars per unit by cutting and drying it into hay, the court held that title vested in the haymaker by accession.<sup>355</sup> The individual who converted another's lumber worth \$25 into hoops worth \$700 likewise acquired title to the finished hoops by accession,<sup>356</sup> as did an individual who in good faith improved and enhanced the value of another's stolen and dismantled car so that the improvements approached or exceeded the value of the original article.<sup>357</sup> Thus, the law of accession vests title in the individual who transforms another's property through skill and labor so that it changes its nature and identity or significantly enhances its value.

The amount of property or labor each person has contributed to

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automobile useless, title to the engine passes to the owner of the car).

351. *See* *Fish v. Connecticut Fire Ins. Co.*, 5 N.W.2d 779, 782 (Wis. 1942) (stating that the title to the tires passes with the truck because the owner did not intend for the tires to be separated from the vehicle).

352. *See* *Auto Owners Fin. Co. v. Evors*, 49 A.2d 507, 509 (N.H. 1946) (holding that the owner of a completed bus held title to the parts of the body).

353. *See* *Compton v. Barnes Lumber Co.*, 99 S.W.2d 634, 636 (Tex. Civ. App. 1936) (noting that the law of accession applies only to personalty; if the law of accession applied to realty, however, title to the building built on the land passes to the landowner because the owner of the land furnished the principle material for the enterprise).

354. *See* *Hyde v. Cookson*, 21 Barb. 92, 105-06 (N.Y. App. Div. 1855) (relying on the fact that the converter was not a willing or intentional wrongdoer).

355. *See* *Lewis v. Courtright*, 41 N.W. 615, 616 (Iowa 1889) (emphasizing that the plaintiff should not enjoy the fruits of the defendant's labor when the defendant cut hay under a mistake of fact).

356. *See* *Wetherbee v. Green*, 22 Mich. 311, 321 (1871).

357. *See* *Ochoa v. Rogers*, 234 S.W. 693, 694-95 (Tex. Civ. App. 1921) (holding that title lay with the unintentional purchaser who made improvements to the article in good faith and where such improvements approached or exceeded the value of the original vehicle).

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make a final joint item may sometimes be of greater significance than whatever chemical change or mechanical transformation has occurred.<sup>358</sup> For example, when an individual's labor and materials contributed more to the value of the final article than the other materials she added them to, she is entitled to keep the final article as her own, making due compensation to the owner of the other materials.<sup>359</sup> Whether she acquires title by accession in this way depends not on the excess of present value over the value of the unimproved original, but rather on the degree of excess: accession transfers title in cases where the increase in value is far beyond the value of the other original materials.<sup>360</sup> As a result, the combination of the degree of transformation and the amount of relative value added will significantly affect whether title passes by accession.

*b. Allocating compensation and value: the costs of raw materials, skill, and labor*

In addition to allocating title, the law of accession provides for a range of other remedies, including compensation for original materials, actual recovery of property, and the option of damages in lieu of the property.

The improver of a present article is required to compensate the original owner for the value of the original materials used if she acquires title through accession. The general rule is that if an individual acquires title through accession to a joint or transformed product that incorporates the materials of another individual, the former individual is liable to the latter for the value of the latter's materials before they were transformed or combined with those of the former.<sup>361</sup> Thus, when timber was taken by mistake and manufactured into something significantly different, title passed by accession, and the original owner of the timber could only recover the value of the timber in its state while standing, not after its processing.<sup>362</sup> Similarly, when a sheriff impounded and then sold

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358. See *Wetherbee*, 22 Mich. at 320 (declaring that consideration of an original owner's ability to identify materials is unsatisfactory and that it is fairer to rule on the amount of property or labor contributed).

359. See *Carpenter v. Lingenfelter*, 60 N.W. 1022, 1024 (Neb. 1894) (indicating that title passes to the enhancer if the owner fails to reclaim the property before too much value is added); *Railway Co. v. Hutchins*, 32 Ohio St. 571, 577 (1877) (determining that the manufacturer, rather than the owner, keeps title when the manufacturer expends money in good faith and the owners simply provided the original value); *Ochoa*, 234 S.W. at 693 (maintaining that the enhanced final product passes to the improver if the value of the improvements exceeds the value of the original materials).

360. See *Isle Royale Mining Co. v. Hertin*, 37 Mich. 332, 337 (1877) (insisting on an evaluation of hardship when value changes greatly); *Wetherbee*, 22 Mich. at 320-21 (basing the importance of increase in value on the general notions of fairness and hardship); *Lampton's Ex'rs v. Preston's Ex'rs*, 24 Ky. (1 J.J. Marsh.) 454, 465 (1829) (indicating that the value of labor and the value of material may govern the decision).

361. See, e.g., *Louis Weiner Stave Co. v. Pickering*, 119 S.W. 333, 334 (Tex. Civ. App. 1909) (articulating the general rule that the original owner can only recover the value of property at the time it was taken, not the value of the property in its changed condition).

362. See *id.*; see also *Kirby Lumber Co. v. Temple Lumber Co.*, 83 S.W.2d 685, 647-49 (Tex.

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manufactured hats from a defaulting manufacturer, the individual who had contracted with the manufacturer to manufacture the hats, supply the materials, and receive payment for the hats, could only recover the value of the hat raw materials and the payment, not the value of the finished hat.<sup>363</sup> A tenant's good faith transformation of clay from occupied land into bricks vested title in the tenant by accession and entitled the landowner only to the value of the bricks' raw materials.<sup>364</sup> In *Ochoa v. Rogers*,<sup>365</sup> an individual acquired title by accession to a car by significantly rebuilding it from dismantled scraps and thereby increasing its value.<sup>366</sup> When it was determined that the original dismantled scraps had been stolen, the *Ochoa* court held that the original owner of the materials was entitled only to the value of the scrap before it was enhanced.<sup>367</sup> Thus, when the law of accession vests title of a joint or transformed article in the second transforming party, the first party may be entitled to compensation for the value of her materials before they were incorporated in the joint product.<sup>368</sup>

The law of accession has also recognized the converse value of the labor and materials embodied in a combined or transformed article and has provided compensation for them under certain circumstances where title or the article itself is removed from the transformer/combiner. In *Clement v. Duffy*, for example, an individual who had a claim of title to grain in a stack threshed and marketed it.<sup>369</sup> When he later found the grain destroyed by another's negligence, he was allowed the expense of threshing and marketing the grain, even though the court determined that he had no title to the grain itself.<sup>370</sup> Thus, even when the law of accession does not pass title to a combiner/transformer, it provides for compensation for the value of the combiner's/transformer's materials, her exercise of skill, and her labor.

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1935) (limiting the recovery by the owner to the stumpage value of the timber).

363. See *Swift v. Barnum*, 23 Conn. 523, 528 (1855) (stating the general rule for damages as the value of the property at the time of conversion and allowing recovery for the value of materials only and not the full value of the hats).

364. See *Baker v. Mersch*, 45 N.W. 685, 688 (Neb. 1890).

365. 234 S.W. 693 (Tex. Civ. App. 1921).

366. See *id.* at 694-95 (granting title to the improver because the improvement was significant and in good faith).

367. See *id.*

368. See *Walch v. Beck*, 296 N.W. 780, 782 (Iowa 1941) (restating the compensation rule for the law of accession).

369. 7 N.W. 86 (Iowa 1880).

370. See *id.* at 86 (allowing recovery because the defendant was not an intentional wrongdoer). The general law of quantum meruit would appear to support this kind of compensation as well.

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The law of accession also provides for the option of damages in lieu of actual property. If personal property is altered to such an extent that its character or nature is changed, it may be considered converted.<sup>371</sup> If the nature of the property has not been changed so that title passes by accession to the improver, the owner of converted property under the law of accession has the option of recovering the property itself or bringing an action for damages.<sup>372</sup> When a property's identity becomes indistinguishable so that its title has passed to its improver, damages are the only remedy available to the original owner.<sup>373</sup>

*c. Bad faith, negligence, and willfulness*

Bad faith, negligence, and willfulness are also relevant in determining the remedies that a court can provide based on the law of accession. Again, most courts have held to a general rule that a willful trespasser can acquire no rights in the property of another by adding her skill or materials to that property, even if there is great change in the nature of the property or great increase in its value.<sup>374</sup> For example, courts have uniformly recognized that a thief's possession of a stolen automobile is a continuing wrong and consequently no matter how much a thief's added materials or time enhances the value or changes the nature of the car, the original owner retains ownership, and may repossess the car with the additions.<sup>375</sup> Some courts have disagreed with this general principle, held that there is no distinction between a willful and unintentional wrongdoer, and concluded that either can take title by accession if the original article is transformed into a new species of good.<sup>376</sup> However, the majority of courts uphold the general rule.<sup>377</sup> Thus, the

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371. See *Louis Werner Stave Co. v. Pickering*, 119 S.W. 333, 334 (Tex. Civ. App. 1909) (determining that the question of whether title passes depends on whether the person expending labor to alter the property acted in good faith).

372. See *Goodrich Silvertown Stores v. Rugg Motor Sales Co.*, 27 N.E.2d 936, 937-39 (Ohio 1940) (viewing tires as separate from the automobile, and holding that the true owner of the tires could either recover the tires or, in fairness to the car owner, recover the damages).

373. See *Gaskins v. Davis*, 20 S.E. 188, 188-89 (N.C. 1894) (declaring that when timber is sawed into lumber, the timber owner could recover damages for the value of timber only, and not the value of the finished boards); *Foote v. Merrill*, 54 N.H. 490, 491 (1874) (finding that the plaintiff may recover damages only when the identity of the original material has been destroyed or its value is insignificant).

374. See, e.g., *Union Naval Stores Co. v. United States*, 240 U.S. 284, 291 (1916) (holding that a willful trespasser could not claim title to sap even though he had converted it to turpentine through his labor); *Snyder v. Vaux*, 2 Rawle. 423, 427 (Pa. 1830) (holding that a converter could not maintain title to wood when the trees had been transformed to posts and rails because the converter was a willful trespasser); *Betts v. Lee*, 5 Johns. 348, 349-50 (N.Y. Sup. Ct. 1810) (holding that title does not vest in a trespasser even though, through his labor, he converted the timber into shingles).

375. See *Burroughs v. Garrett*, 352 P.2d 644, 648 (N.M. 1960); see also *Ochoa v. Rogers*, 234 S.W. 693, 694-95 (Tex. Civ. App. 1921) (upholding the rule of bad faith, negligence, and willfulness, but finding that the transformer was not a thief or a bad faith improver).

376. See *Peirce v. Goddard*, 39 Mass. (22 Pick.) 559, 562 (1839) (discussing the application of the law of accession to intentionally taken and transformed).

377. See *supra* note 374 and accompanying text (listing cases upholding the bad faith exception to the law of accession).

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law of accession accounts for issues of bad faith or intent in its determination of allocation of title.

In addition, bad faith, negligence, and willfulness are important to the issue of damages and compensation. If the transforming or combining act is done in bad faith, with reckless disregard for the original owner's property rights, courts have held that the owner of the original materials is entitled either to the enhanced goods themselves or their full enhanced value. For example, in *Benjamin v. Benjamin*,<sup>378</sup> a grass owner was able to recover the full value of the hay made from his grass by a trespasser.<sup>379</sup> Also, in *Kirby Lumber Co. v. Temple Lumber Co.*,<sup>380</sup> the court stated that the owners of stolen timber that had been willfully and wrongfully converted under circumstances suggesting malice, were entitled to recover either the manufactured and transformed goods—lumber, crosstines, or shingles—or the enhanced value of the goods.<sup>381</sup> However, the *Kirby Lumber* court held that where the taking and transformation of the lumber was the result of inadvertence, mistake, or in good faith without reckless disregard of its owner's rights, the same manufacturing transformation would vest title in the transformer who would then only be liable to the timber's original owner for its value before the conversion.<sup>382</sup> Thus, if the combiner/transformer acts in bad faith, courts will generally not apply accession and instead will provide the original owner with the right to recover the entire enhanced property or its enhanced value.<sup>383</sup> In short, the intent and state of mind of the combiner/transformer affects the allocation of value as well as title under the law of accession.

In sum, the law of accession presents a framework for determining unification and combination based on identification and severability, relative values of contribution, and considerations of bad faith and intent.<sup>384</sup> It also includes an integrated and coherent system for providing the remedies of assigning title, requiring compensation, and presenting the option of damages calibrated to the relative values

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378. 15 Conn. 347 (1843).

379. *See id.* at 358.

380. 83 S.W.2d 638 (Tex. 1935).

381. *See id.* at 646.

382. *See id.* at 648 (limiting damages to pre-conversion value when the property was wrongfully, but unintentionally converted); *see also* *Strubbee v. Trustees of Cincinnati Ry.*, 78 Ky. 481, 485-86 (1880) (applying a similar rule to a trespasser's taking of timber and converting it into railroad ties by distinguishing between good and bad faith actions).

383. *See Kirby Lumber Co.*, 83 S.W.2d at 646 (stating that the manufactured value of the article determines the measure of damages).

384. *See generally* discussion *supra* Part III.A.1 (describing how and when the law of accession is applied).

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of contribution and considerations of bad faith and intent.<sup>385</sup>

### *B. Applicability to Inevitable Misappropriation*

Several factors suggest that courts could use the law of accession to craft a more consistent and balanced approach to the doctrine of inevitable misappropriation of trade secrets. First, both the law of accession and the doctrine of inevitable misappropriation allocate the rights and interests in a single, joint product that combines the materials, skill, and labor of different parties. The law of accession allocates the title and value of personal property made up of two individuals' materials, labor, and skill.<sup>386</sup> The doctrine of inevitable misappropriation assigns the control and value of an employee who possesses both an employer's trade secret information and her own human capital/right to work.<sup>387</sup> Looked at through the lens of the law of accession, inevitable misappropriation deals with a single joint "product" (the employee) that is the combination of the employer's materials (its trade secrets) and the employee's materials (her human capital), created through the employee's skill and labor.<sup>388</sup>

Second, both accession and inevitable misappropriation determine whether the materials combined in the joint product are severable. The law of accession provides standards for determining whether two individuals' material, skill, and labor in a single, joint object are severable.<sup>389</sup> The doctrine of inevitable misappropriation provides approaches to determining whether an employee can be banned from using an employer's trade secrets without being barred entirely from employment.<sup>390</sup> Moreover, the doctrine focuses on whether trade secrets can be separated from an employee's actions or thoughts in new employment, or whether they are inevitably and inextricably tied together.<sup>391</sup>

Finally, both the law of accession and the doctrine of inevitable misappropriation attempt to allocate the control and value of the

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385. See generally discussion *supra* Part III.A.2 (reporting how the law of accession allocates title and compensates remaining parties).

386. See *supra* notes 293-99 and accompanying text (discussing the use and applicability of the law of accession).

387. See *supra* notes 28-37 and accompanying text (discussing the doctrine of inevitable misappropriation as applied in *PepsiCo*).

388. Compare *supra* Part II.B.2 (exploring one proposal for the recharacterization of inevitable misappropriation as needing to recognize the concurrent property interests in trade secrets), with *infra* Part III.C (proposing that unitary ownership of trade secrets by an employer and the allocation of the control of the combination of trade secrets and employee human capital according to accession principles).

389. See discussion *supra* Part III.A.1 (outlining the important factors in the application of the law of accession).

390. See *supra* Part II.A.1 (identifying the four approaches courts have used to determine inevitability).

391. Compare *Baxter Int'l, Inc. v. Morris*, 976 F.2d 1189, 1194-95 (8th Cir. 1992) (upholding the district court's finding that the employee could work for a competitor without divulging trade secrets), with *Air Prods. & Chems., Inc. v. Johnson*, 442 A.2d 1114, 1122 (Pa. Super. Ct. 1982) (upholding the trial court's finding that it would be impossible for an employee to perform his managerial functions for the competitor employer without drawing on the former employer's trade secrets).



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combined materials of two individuals. The law of accession allocates control over combined property: it distributes value by vesting title and providing compensation.<sup>392</sup> In a similar way, inevitable misappropriation allocates control over the individual—the combined “property” in this case—by granting or denying injunctions and distributing her value through those injunctive decisions as well as (very occasionally) through legal damages.<sup>393</sup>

Of course, the analogy between these two areas of law is by no means perfect. First and foremost, people and their employment are not the same as property, and this Article does not in any way condone the argument that they should be treated or directly characterized as such. Strong arguments ranging from historical concerns regarding the Thirteenth Amendment<sup>394</sup> to principles of anti-commodification<sup>395</sup> suggest that the limitations on this analogy should be taken very seriously for important normative reasons. Second, directly applying an ancient doctrine of personal property law (accession) to a rapidly changing and developing area of intellectual property and employment law (trade secrets) may overtax the analogy and prove ultimately unworkable. For example, accession law allocates to one person the complete title both to the combined/transformed personal property and to its included component parts.<sup>396</sup> By contrast, allocating to one party complete control over a person’s temporary employment interests (which are made up of a combination of human capital and trade secrets) does not allocate complete control over the included human capital and trade secrets. An accession type system may ultimately raise the same problems of ownership fragmentation presented by the concurrent property rights proposal.<sup>397</sup> Thus, there are significant normative and positive limitations to applying accession law to the trade secret context.

Although these concerns are important, applying a property perspective to both trade secrets and employment rights/human

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392. See generally *supra* Part III.A.2.a (detailing how the law of accession vests title and control of transformed property).

393. See generally *supra* Part II.A (discussing current approaches to the application of inevitable misappropriation).

394. See U.S. CONST. amend. XIII, § 1 (prohibiting slavery).

395. See Jane Radin, *Market-Inalienability*, 100 HARV. L. REV. 1849, 1870-87 (1987) (discussing the harms of commodification, the principle that in theory that all things should be subject to market transfer).

396. See *supra* notes 342-52 and accompanying text (listing situations where courts have held that title to transformed property vests in the owner of the principal materials).

397. See *supra* notes 284-86 and accompanying text (identifying weaknesses in Lowry’s concurrent ownership interests proposal).

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capital has solid legal and doctrinal precedent. First, as noted above, trade secrets have long been recognized as establishing property rights by both state supreme courts<sup>398</sup> and the U.S. Supreme Court.<sup>399</sup> In addition, courts have treated an employee's ability to work as property<sup>400</sup> and have evaluated similar restrictions on employment and their value in a quasi-property or valuation framework when evaluating covenants not to compete.<sup>401</sup> Similarly, although many kinds of intellectual property and information have different attributes of ownership and control than realty or personalty, courts have successfully applied other property doctrines to the context of copyright, trademark, and information/intellectual property law.<sup>402</sup> For example, the EEA of 1996 takes an ownership-based approach to trade secrets.<sup>403</sup> Consequently, although the courts must be aware of the normative implications of applying accession law to control over employees and their employment and the positive limitations on moving from a personal property context to one involving trade secrets, these concerns do not appear fatal to this proposal.

Thus, similarities in the problems the two doctrines face, the analytical methods they adopt, and the remedies they try to craft suggest that applying the law of accession to the doctrine of inevitable misappropriation is appropriate.

### *C. An Accession Law Approach*

This Part takes the framework of the law of accession and applies it to the context of inevitable misappropriation. It suggests how a coherent methodology, taken from the accession law approach may be applied to the inevitable misappropriation doctrine. It then illustrates how a modified accession approach to remedies could be applied to resolve the unsystematic range of remedies currently provided for under the doctrine of inevitable misappropriation.

#### *1. Determining inevitability: separability, bad faith improver, and*

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398. *See, e.g.*, *Thum Co. v. Tioczynski*, 72 N.W. 140, 141 (Mich. 1897) (stating that manufacturers of fly paper had a property right in their invention); *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868) (protecting an inventor's property rights from unauthorized disclosure).

399. *See Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-04 (1984) (holding that trade secrets can constitute a property interest).

400. *See, e.g.*, *New Method Laundry Co. v. MacCann*, 161 P. 990, 991-92 (Cal. 1916) (noting that the right to work is a property right entitled to the same protection afforded other kinds of property); *Gillespie v. People*, 58 N.E. 1007, 1009 (Ill. 1900) (including the right to labor among the property rights protected by law).

401. *See supra* notes 53-54 and accompanying text (recognizing the increasing application of the inevitable misappropriation doctrine to justify enforcement of "no compete" covenants through injunctions).

402. For example, joint owners co-owning copyrights in a work are deemed "tenants-in-common" with equal rights to the profits. *See, e.g.*, *Community for Creative Non-Violence v. Reid*, 846 F.2d 1485, 1498 (D.C. Cir. 1988) (citing W. PATRY, *LATMAN'S THE COPYRIGHT LAW* 116 (6th ed. 1986)). *See generally* 17 U.S.C. §§ 101, 201(9) (1994) (defining joint works and co-ownership).

403. *See Economic Espionage Act of 1996* § 101(a), 18 U.S.C.A. §§ 1831(a), 1832(a), 1839(1) (Supp. 1997) (defining and criminalizing economic espionage); *see also supra* notes 272-73 (discussing the merits of the EEA approach to the owners of trade secrets).

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*comparative valuation*

Following the accession framework, courts would determine initially whether employer's trade secrets had been combined with the employee's human capital or had been transformed into part of the employee to such a degree that applying the rules of accession would be appropriate. A court could determine this by using the tests of identification and severability, as well as identity and value-enhancement.

A court applying the identification and severability test would determine if the employer's trade secrets were identifiable and within the combined "product" of the employee, and whether they could be severed or separated from her without damage.<sup>404</sup> Practically speaking, this would require courts to define the specific trade secrets, establish the employee's exposure to the trade secrets, and determine whether injunction could sever the trade secrets from the employee's use in her new job without damage. Borrowing the tests for severability from the law of accession, courts could analyze the factors in the *Merck & Co.* approach to determine whether the competitive characteristics of the industry and the similarity of the required positions would enable the trade secrets to be severed from the employee by an injunction.<sup>405</sup> The court would evaluate (1) whether the employee could be effectively enjoined from disclosure or use based on the potential for damage to the employer's trade secrets; and (2) whether the employee would be damaged by such an injunction by looking at factors like career impact and economic value. If a simple non-disclosure injunction could be effective and would not damage either the trade secrets (through disclosure) or the employee (through career restraint), the court could issue the injunction and end its analysis. If not, the court would proceed through the other tests for analyzing the applicability of accession law and then determine and enforce remedies as discussed below.<sup>406</sup> The application of accession law concepts adds rigor to the *Merck & Co.* analysis, focusing not only on whether injunctions against disclosure could adequately protect the trade secrets from misappropriation, but on what effects they would have on the individual employee.

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404. See *supra* notes 300-17 and accompanying text (discussing severability analysis).

405. See *Merck & Co., Inc. v. Lyon Glaxo-Wellcome*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996) (discussing the relevant considerations in application of the inevitable disclosure doctrine); see also *supra* notes 139-47 and accompanying text (describing the four-part test for determining inevitability).

406. See discussion *infra* Part III.C.2.

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Additionally, in determining severability, the court could examine the express intent of the parties as considered in accession law.<sup>407</sup> It could focus on any agreements made between the employer and the employee, for example, addressing the confidentiality of trade secrets and injunctive relief, while evaluating more broadly the ability to sever, absent such agreements, the information from the employee without damage. This emphasis on controlling intent would clarify the inevitability analysis.

The court could then apply the identity/value-enhancement analysis from the transformation prong of accession law to determine the applicability of the doctrine of inevitable misappropriation.<sup>408</sup> The court could evaluate whether the combined product (the employee) had been sufficiently transformed from being simply the employer's raw materials (the embodiment or simple possessor of the employer's trade secrets) into a significantly more valuable or substantially different in kind product. Its analysis would center on whether the employee's value to the new employer was simply as a vessel for the former employer's raw material trade secrets, or as something qualitatively different and significantly enhanced in value—a skilled employee made up of much more than just these trade secrets. In practical terms, the court could compare the relative value in the market of the employee and access to trade secrets.<sup>409</sup> Following the *Merck & Co.* approach, the court could evaluate whether the employee had been transformed from a mere vessel for trade secrets by examining the similarity of positions within the new and old companies.<sup>410</sup> Emphasis on skills and human capital unrelated to the former employer's trade secrets and compensation well in excess of the value of the trade secrets would be evidence of transformation. If the court found sufficient transformation in-kind or value-enhancement of the employee from trade secrets to a specialized human capital asset, it could proceed to the allocation of the control and value of the employee through the mechanism below. If not, the court could vest control over the employee's knowledge of trade secrets in the employer for a specific amount of time.

Under the final test, the court could examine the apparent intent

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407. See *supra* notes 316-17 and accompanying text (describing the role of intent in the law of accession).

408. See *supra* Part III.A.1.b (describing the analysis for transformation).

409. An employee's value in the market could be a combination of the trade secrets with her specific human capital. Cf. *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 636 (E.D.N.Y. 1996) (enjoining an employee for six months and requiring the employer to pay his salary for that time period per the explicit covenant); *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 299-300 (D. Mass. 1995) (enjoining an employee from working for a competitor for one year pursuant to a covenant not to compete, but requiring his former employer to pay him 110% of the salary offered by the competitor).

410. See *Merck & Co.*, 941 F. Supp. at 1460-61 (considering the increased likelihood of misappropriation of trade secrets when old and new job responsibilities overlap); see also *supra* notes 139-47 and accompanying text (describing the four-part test for determining inevitability).

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and willfulness of the transforming/combining employee, and deny bad faith or willful combiners or transformers of trade secrets the beneficial application of the doctrine.<sup>411</sup> Under this approach, bad faith would not be a required showing, but could be taken into account in the court's determination of remedies.<sup>412</sup>

All of these tests could be used together to shape the court's analysis for the application of the inevitability of the misappropriation doctrine. It should be noted that the accession approach presented would not exclude the use of the current approaches to the inevitable misappropriation doctrine, but rather adopt, enhance, and guide their application with a more coherent and systematic framework. For example, similar to the *Merck & Co.* court's approach to inevitability, the accession-based methodology would compare job similarity and competitiveness to determine severability.<sup>413</sup> It would examine the new job design and its remuneration in a manner similar to that used to evaluate the transformation of identity and value-enhancement. However, this accession approach would add important additional guiding elements: severability is tested by damage both to the employer *and employee*,<sup>414</sup> a more nuanced test for inevitability through an evaluation of identity transformation/value-enhancement based on the market value enhancement of the employee, as well as job similarity and specificity.<sup>415</sup> An accession approach focuses on the employee and her composition of human capital skills and information—both general and trade secret—to determine whether she constitutes an inseverable or transformed joint product from which trade secrets cannot be injunctively separated without damage.<sup>416</sup>

Thus, applying the accession methodology to the determination of inevitability results in a multiple stage-system for examining severability. Courts determine if the trade secrets are separable from the employee's use at the new job by examining: (1) whether

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411. See *supra* Part III.A.1.c (describing the role of bad faith, negligence, and willfulness in accession law).

412. See *supra* notes 331-40 and accompanying text.

413. See *Merck & Co.*, 941 F. Supp. at 1443 (discussing the likelihood of trade secret disclosure based on the relevance of the information and the similarity in employment responsibilities); see also *supra* notes 139-45 and accompanying text (discussing the *Merck & Co.* approach to the doctrine of inevitable misappropriation).

414. But see generally discussion *supra* Part II.A.2 (describing the current approaches' emphasis on the employer's interests).

415. See also *supra* notes 139-47 and accompanying text (discussing the factors used in the *Merck & Co.* approach to determine inevitability).

416. See generally discussion *supra* Part III.A (discussing the origins and current application of accession law).

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removal will cause damage to the employee; (2) whether the employee's materials, labor, and effort have transformed her into something different in kind than a simple user or discloser of trade secrets; (3) whether the employee had so enhanced her value over the initial value of the trade secrets themselves so as to warrant resting title and control of the employee's skills and accessible trade secrets in the employee herself; and (4) whether the employee attempted to combine her human capital and the trade secrets in bad faith. Each of the objective factors of separation damage assessment, transformation of employee kind, and contribution by the employee herself provides other clear, coherent, and integrated factors for employers and employees alike to determine inevitability of misappropriation. In addition, the law of accession enables courts to evaluate bad faith and intent as a relevant, but not required, consideration in determining inevitability.

The accession approach to determining inevitability meets all of the criteria raised in the criticism of other methodologies above. First, the accession approach presents a framework that incorporates clear and coherent standards for determining inevitability. It provides a step-by-step analysis that focuses initially on relative value contribution to determine the preliminary assignment of control. The accession approach provides a framework for evaluating inevitability that is clearer and more coherent than the case-by-case "nature of employment" approach of *Standard Brands*,<sup>417</sup> by applying tests similar to *Merck & Co.* in its focus on the employee as a joint product.<sup>418</sup> It then analyzes severability between trade secrets and human capital by examining three objective factors: (1) separation damage assessment; (2) degree of transformation in kind; and (3) significance of value enhancement. Second, the accession approach accounts for, but does not require, a bad faith determination to find that the employee is a joint and inseparable product or one significantly transformed or enhanced in value. In this way, it moves beyond the limitations of *Cyprus Foote*,<sup>419</sup> while still accounting for bad faith in its evaluation of severability and transformation. Third, the accession approach is not limited to technical information like *International Paper*,<sup>420</sup> but rather it evaluates more generally the combination of trade secrets of all varieties and the human capital of a broad range of individuals. Fourth, the approach accounts for severability, addressing the impact on both the employer and the employee when the trade secret information is severed from the employee.<sup>421</sup> In this way, the accession approach

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417. See *supra* notes 90-96 and accompanying text.

418. See *supra* notes 139-47 and accompanying text (describing the *Merck & Co.* approach).

419. See *supra* notes 102-10 and accompanying text.

420. See *supra* notes 123-29 and accompanying text.

421. This avoids the current courts' excessively narrow focus on employer property interests. See discussion *supra* Part II.A.2 (observing that current approaches to inevitability determinations favor employer's interests).

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provides a more coherent and employee-evaluative framework for using the tests outlined in *Merck & Co.*, permitting a richer understanding of inevitability.<sup>422</sup> Inevitability is not determined merely by examining the impact of employment on trade secrets, but by evaluating the impact of an injunction on the value of the employee as well. The combination of these factors suggests that the accession approach to determining inevitability offers a significant improvement over existing court approaches and academic proposals.

## 2. *Providing a system of remedies*

Applying the law of accession to the remedies granted by courts for inevitable misappropriation would be similarly advantageous. This application would present courts with a coherent and balanced framework for providing injunctive relief, a measure of compensation, and the correct combination of the two. It would enable courts to escape from the current haphazard approach of providing inconsistent all-or-nothing remedies, without fragmenting the ownership structure of trade secrets.

After finding unified combinations that were not severable, transformations in kind, and significant enhancements in value, courts applying the accession approach would determine control over the employee in the same way that accession law allocates title to joint property: viewing the employee as a combination of inseverable trade secrets and human capital, the court would determine whether “title” would vest in the employer or employee based on the relative value or contribution of employee’s materials to the joint product.<sup>423</sup> In other words, courts would weigh the employer’s trade secrets (that were *not* severable by a simple nondisclosure injunction) against the skill, labor, and human capital to determine which constituted more of the overall value at the time of employee’s new employment.

Of course, valuing each of these factors would be difficult. Initially, courts would estimate the value of the trade secrets that could not be “severed” from the employee by looking to royalty rates for a similarly limited use of those trade secrets. Courts could then compare that value against the difference in wages between the employee and an

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422. See *Merck & Co., Inc. v. Lyon Glaxo-Wellcome*, 941 F. Supp. 1443, 1459-60 (M.D.N.C. 1996) (describing the factors to consider when making an inevitability of disclosure determination); see also *supra* notes 139-47 and accompanying text (describing the *Merck & Co.* four-part test for determining inevitability).

423. See discussion *supra* Part III.A.2.a (discussing the vesting of title and control under the law of accession).

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individual merely exposed to trade secrets.<sup>424</sup> To generate proxies, courts could evaluate contract rates for employer trade secrets and differences in the wage rates of individuals exposed to different levels of trade secrets. Such an estimate does not seem impossible; courts have suggested that the trade secrets of employers can be valued,<sup>425</sup> and the employee value of human capital has also been valued in the divorce context<sup>426</sup> and in the context of competitive salaries.<sup>427</sup>

Where courts cannot calculate the value of the trade secrets or the individual liberty interests of freedom of employment, they could look to relative guides in the state law's public policy. For example, courts in states with a blanket prohibition against noncompete covenants would set the abstract value of fundamental liberty interests higher than those in states that recognize and enforce such covenants.<sup>428</sup> Similarly, the depth of protection of trade secrets in statutory law and the relative penalties for their appropriation would also provide a proxy for the relative value of this information.<sup>429</sup> Alternatively, the courts could use some of the existing valuation mechanisms used in calculating the damages for an infringement, such as expert testimony or comparative market share impact tests, to determine the value of the trade secrets.<sup>430</sup> Similar expert testimony or comparable employment-offer information could be used to determine the value of the human capital embodied in the individual, as is currently used for benchmarking compensation schemes involving options.<sup>431</sup> As a final default mechanism in determining the relative value of an employee's human capital and an employer's trade secret, courts could use (1) the new employer's salary proposal as the value of the total employee product; (2) other similarly situated employees' salaries at the new company as a

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424. *Cf. Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 636 (E.D.N.Y. 1996) (finding a restrictive covenant reasonable because the injunction was limited to six months and the former employer would compensate the employee); *Emery Indus. v. Cottier*, 202 U.S.P.Q. (BNA) 829, 836-377 (S.D. Ohio 1978) (finding mixed damages and an injunction remedy based in part on an evaluation of employee value).

425. *See supra* notes 182-84 and accompanying text.

426. *See O'Brien v. O'Brien*, 489 N.E.2d 712, 717-18 (N.Y. 1985) (holding that professional degrees constitute divisible marital property and providing a valuation and allocation scheme). *See generally* J. Thomas Oldham, *Putting Asunder in the 1990s*, 80 CAL. L. REV. 1091, 1121 (1992) (discussing the valuation of human capital accumulations during marriage at the time of divorce).

427. *See Reasonableness of CEO's Compensation Based on Survey of Comparable Companies*, 84 J. TAX'N 346 (1996) [hereinafter *Comparable Companies*] (reporting that the Tax Court determines the reasonable value of a CEO's services by referring to an index of comparable company compensation).

428. *See, e.g., Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 264-65 (E.D. La. 1967) (reporting that the public policy against covenants not to compete is relevant in determining the value of liberty versus property interests).

429. *See Merck & Co., Inc. v. Lyon Glaxo-Wellcome*, 941 F. Supp. 1443, 1459-61 (M.D.N.C. 1996) (looking to the standard of public policy).

430. *See GORDON V. SMITH & RUSSELL L. PARR, VALUATION OF INTELLECTUAL PROPERTY & INTANGIBLE ASSETS* 429-49 (2d ed. 1994) (discussing the structure of a typical intellectual property valuation).

431. *See Comparable Companies, supra* note 427, at 346 (describing one method of evaluating the monetary value of a CEO's services).



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comparable salary value; and (3) the most recent efforts of the old employer to protect its trade secrets on an individual basis, in combination with estimated economic losses from disclosure or recent royalty rates. Consequently, courts could come to some relative conclusion about the value of the trade secrets and the employee's human capital.

Courts could then engage in a second stage of analysis to determine what relationship these components have to the market value of the employee in her new job. The inquiry would focus not merely on the relative value of trade secrets vis-à-vis human capital in a potential use situation, but in the specific situation at hand. For example, the value of a trade secret would constitute a component of an employee's market value if she were being hired as an industrial spy. The correct evaluation of the relative values of trade secrets and employee human capital would have to be made in the context of the employment being offered--the market price.

Given all of these factors, the court could then vest "title"--i.e., determine whether to grant or deny an injunction against employment, based on the relative values of the employer's trade secrets and the employee's human capital, skill and labor.<sup>432</sup> This injunction could be narrowly tailored and issued in combination with a non-disclosure injunction to maximize the amount of severability of the trade secrets from the employee without damage.

In practice, the courts could thus determine the relative value of employee's contributions to the new employer based on the old employer's trade secrets and the employee's own human capital and skills. If the old employer's trade secrets were a much more substantial component of that value, then an injunction would issue against employment in that area in the same way that accession would vest title in the owner of the materials that make up the primary part of the joint product. If the employee's skills, labor, and human capital were the principal component of her value to the new employer and the market in general, then the injunction would be denied.

Interestingly enough, this kind of accession-based approach is suggested in part by some of the courts' current applications of the inevitable misappropriation doctrine. Jurisdictions with strong public policies against covenants not to compete weigh employee rights

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432. See *supra* Part III.A.2.a (describing the combination approach of accession law).

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more heavily than employer trade secrets,<sup>433</sup> and where employer trade secrets do not appear to be the main component of an employee's value to a new employer—whether through structuring around these secrets by the new employer<sup>434</sup> or because of simple differences in responsibilities<sup>435</sup>—courts tend to deny injunctions, vesting “title” in the employee. In highly competitive industries with competing employers,<sup>436</sup> courts appear to conclude that the value of a new employee may be determined more by the employer's embodied trade secrets than by the employee's human capital, and consequently grant injunctions.<sup>437</sup> This accession approach refines the analysis to focus on the relative values and the likelihood of disclosure of the trade secrets, and not on the individual employee's human capital—specifically within the context of the offered new employment. Both of these innovations should provide a more nuanced evaluation of the relative value of the interests involved and a more narrowly tailored vesting of title.

The court could also use its findings of transformation in kind and value-enhancement to determine whether to issue or deny injunctive relief. As in the law of accession, if an individual transforms the material of another into something different in kind or significantly enhanced in value, she acquires title in the resulting article by accession.<sup>438</sup> Thus, if the court determines that an employee has transformed herself from a mere vessel for trade secret information into an employee of a different field or different level of innovation, or has significantly increased her value beyond that of the trade secrets embodied within her (for example, by becoming a much more valued human capital commodity building and transforming the bare trade secret knowledge and approach), the court will deny injunctive relief, vesting “title”—control over her employment—in the employee.<sup>439</sup> This kind of analysis would prevent incredibly skilled or innovative workers from being imprisoned in the field of their former employers on the basis of trade secret disclosure alone.<sup>440</sup>

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433. See *Continental Group, Inc. v. Kinsley*, 422 F. Supp. 838, 842 (D. Conn. 1976) (recognizing New York's cautious approach to “non-compete” covenants based on the covenants' inherent interference with an individual's right to labor); *Standard Brands, Inc.*, 264 F. Supp. at 265-66 (discussing a Louisiana statute prohibiting “noncompete” covenants designed to protect employees regardless of the chilling effect on the business environment).

434. See *Merck & Co.*, 941 F. Supp. at 1461.

435. See, e.g., *International Paper v. Suwyn*, 966 F. Supp. 246, 259 (S.D.N.Y. 1997) (denying injunctive relief because defendant's job functions were not of a highly technical nature and his responsibilities were easily reassigned to other employees).

436. See, e.g., *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995) (noting the highly competitive nature of the sport drink industry and employers); *Doubleclick Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*2 (N.Y. Sup. Ct. Nov. 7, 1997) (establishing the highly competitive nature of the Internet advertising industry).

437. See, e.g., *Doubleclick*, No. 116914/97, 1997 WL at \*8 (enjoining a former employee for six months from working for any employer or company that competed with the former employer).

438. See *supra* notes 318-30 and accompanying text.

439. See *generally supra* notes 354-57 and accompanying text (explaining when accession law vests title in the transformer).

440. See, e.g., *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 688 (S.D. Ind.

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At present, nothing directs the courts to distinguish between workers who have been exposed to trade secrets and have been transformed beyond the value of those trade secrets, and those who have been exposed to trade secrets but have not been transformed.<sup>441</sup> Applying the accession approach to the allocation of control or “title” to the employer or employee draws such a distinction, vesting control in employees who have dramatically transformed themselves from mere trade secrets vessels. Given that the protection of intellectual property is a societal choice<sup>442</sup> designed to increase innovation and encourage development for the public good,<sup>443</sup> accounting for transformative and value-enhancing characteristics is justified.<sup>444</sup>

Thus, the accession approach to remedies for inevitable misappropriation accounts for the relative values of the employer’s trade secrets and employee’s human capital in her value to her new employer.<sup>445</sup> It involves a more systematic, nuanced, and flexible approach to vesting control over the employee’s new employment ability, based on evaluating the relative values at two levels: the general inherent value of employees’ rights in a given jurisdiction and specific value of the employee’s human capital in the new employment combination. In addition, the transformation/value-

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1998) (discussing the possibility that a threat of litigation may encourage new employers to abandon new employees).

441. This is in direct contrast to the problems raised when a court focuses on employer property interests to the exclusion of employee interests. *See supra* notes 162-68, 217-23 and accompanying text.

442. Similarly, Justice Holmes, in a famous case on misappropriation, remarked that “[p]roperty, a creation of law, does not arise from value . . . .” *International News Serv. v. Associated Press*, 248 U.S. 215, 246 (1918) (Holmes, J., dissenting). *But see id.* at 250 (Brandeis, J., dissenting) (“[T]he fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to ensure to it this legal attribute of property.”).

443.

Intellectual property law assures authors the right to their original expression, but encourages others to build freely on the ideas that underlie it. This result is neither unfair nor unfortunate: It is the means by which intellectual property law advances the progress of science and art. We give authors certain exclusive rights, but in exchange we get a richer public domain.

*White v. Samsung Elecs. Am., Inc.*, 989 F.2d 1512, 1517 (9th Cir. 1993) (Kozinski, J., dissenting).

444. An argument could be made about the horizontal equities involved in this situation, i.e., why should transformative or value-enhancing workers be more protected than less transformative and value-enhancing ones? For example, the anti-commodification interests and similar liberty-based concerns of both kinds of workers seem equally at issue here. *See supra* notes 394-95 and accompanying text. This is a valid question and cannot be answered on the grounds of an efficiency or productive incentive analysis alone. At the very least, this approach attempts to account for some employee interests in contrast to current approaches to the doctrine. *See supra* notes 162-68.

445. *See supra* notes 424-31 and accompanying text (suggesting various methods of calculating values of trade secrets and human capital).

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enhancing standard for vesting title provides for a more incentive-based approach to allocating control over an employee's future—one that evaluates the specific character of the employee and her next employment in greater detail than the current primary focus on the trade secrets alone. The accession approach clarifies and systematizes the balancing approach only loosely discussed in the application of inevitable misappropriation.<sup>446</sup>

Perhaps more importantly, the accession approach also provides a coherent method of balancing the all-or-nothing nature of most injunctions with compensation for the materials of the employer or employee that are bound up within the employee.<sup>447</sup> As in the law of accession, if "title" in the employee is acquired by the employee in the process of applying the accession approach, the employee will be responsible to the employer for the value of the trade secrets that are embodied within her.<sup>448</sup> Again, this is subject to several caveats. The employer will only be compensated for the value of the trade secrets that are expected to be converted as they would be used or disclosed in the specific context. This compensation excludes trade secrets that can be protected by nondisclosure injunctions (i.e., that can be "severed"). Courts could set the level of compensation by evaluating the overall value of the trade secrets and estimating the likely impact of disclosure, using the royalty figures for comparable use as proxies.<sup>449</sup> Alternatively, expert testimony and other techniques could be used to determine this value.<sup>450</sup> Courts concerned about commercial morality and the incalculable damages from disclosure of trade secrets could add this to their calculations of value as well, depending, again, on a calibration of these factors against the public policy of their state.<sup>451</sup> Thus, if the employee were vested with control over her new employment but would still inevitably disclose or use some trade secrets, she would compensate the employer for their value. This approach is similar to the suggestion to use the royalty payment provisions for use of trade secrets under the California Civil Code,<sup>452</sup> but provides a more systematic and flexible approach to determine the correct compensation.

Conversely, if the employer were vested with control over the employee, then the employer would be responsible for compensating

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446. See discussion *supra* Part II.A (reviewing the courts' approaches of to the misappropriation doctrine).

447. See discussion *supra* Part II.A.3.

448. See discussion *supra* Part III.A.2 (discussing the general rule which provides that if one acquires title to a product through accession from another, the former is responsible to the latter for the value of materials before transformation).

449. See *supra* note 268 and accompanying text (citing a California statute that allows courts to order royalty payments in disclosure situations).

450. See SMITH & PARR, *supra* note 430, at 137-44 (describing cost, income, and market approaches as other techniques for the valuation of assets).

451. See, e.g., *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 263 (E.D. La. 1967) (reviewing Louisiana's public policy of nullifying no-compete agreements).

452. See *supra* note 268 and accompanying text (discussing how the California Code allows courts to order royalty payments in disclosure situations).

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the employee for the value of her converted or transformed human capital, skill, and labor.<sup>453</sup> This amount could easily be estimated from her new employment offer or a modification of her old employment offer.<sup>454</sup> Alternatively, the court could use other mechanisms, such as expert testimony, comparable compensation data, or the wages of similarly situated employees of the new employer, to determine the value of the human capital being converted.<sup>455</sup> Thus, if the accession approach bars an employee from new employment, she will be entitled to a claim for the human capital embodied in her. This amount might not be limited to the salary offered by the new employer and could include the value of the liberty interests being infringed<sup>456</sup> and other calculations reflecting the restriction's costs to her career. The court's approach in *Emery Industries, Inc. v. Cottier*,<sup>457</sup> enjoining an employee from new employment on grounds of inevitable misappropriation, but requiring the employer to pay,<sup>458</sup> echoes this suggestion. The accession approach, however, adopts this view as part of its overall structure of remedies and suggests more specific factors for the evaluation of human capital.<sup>459</sup>

Finally, by applying the accession approach to remedies for inevitable misappropriation, courts could take account of the employee's intent in combining her human capital with trade secrets and transforming the trade secrets into part of herself.<sup>460</sup> If the court determines that an employee is entering into new employment in bad faith, with reckless disregard, or willful intent, it could refuse to vest title in her by accession or restrict the amount of compensation for human capital converted.

The standard for bad faith, reckless disregard, or willfulness could be used against the employer as well. An employer's attempt to

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453. *Cf. Clement v. Duffy*, 7 N.W. 85, 86 (Iowa 1880) (providing compensation for the expenditure of threshing and marketing costs for grain even though no title to the underlying grain existed).

454. *See supra* notes 425-27, 431 (providing examples of how to value human capital).

455. *See SMITH & PARR, supra* note 430, § 7, at 165-87 (discussing the market approach of valuation which involves comparing the item in question with comparable properties).

456. Courts already provide damages for § 1983 civil rights claims. *See* 42 U.S.C. § 1983 (1994) (establishing liability for any person acting under color of state authority who subjects, or causes to be subjected, any U.S. citizen to the deprivation of any constitutional rights, privileges, or immunities).

457. 202 U.S.P.Q. (BNA) 829 (S.D. Ohio 1978).

458. *See id.* at 836.

459. *See supra* notes 423-31 and accompanying text (suggesting various methods of calculating the value of trade secrets and human capital).

460. *See supra* notes 331-40, 374-83 and accompanying text (describing the role of bad faith, negligence, and willfulness in accession law).

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prevent an employee from going into new employment can be characterized as an attempt to appropriate the joint property of the employee, consisting of both the trade secrets and the employee human capital. A court could find an employer acting in bad faith if it deliberately exposed an employee to trade secrets to establish the grounds for later injunctive relief, asserted that trade secrets were a joint-product in the employee solely to prevent her from working for a competitor, or recklessly disregarded the value of the employee's human capital. Under the law of accession, courts finding bad intent could deny the benefits of the accession to the employer.<sup>461</sup> Furthermore, the court could prevent title from shifting or bar compensation for the employer for the value of the trade secrets combined with the employee if the employer is found to have acted in bad faith.<sup>462</sup> This part of an accession-like approach would also police bad faith filings.<sup>463</sup>

The accession approach would be similarly applicable to damages. If the employer acquired control of the employee by accession and the employee constituted a combination and not a transformation of its trade secrets, it could have the choice of taking control or acquiring damages for the value.<sup>464</sup> Conversely, an employee who acquires control by accession under the combination structure could also choose between exercising control or acquiring damages.<sup>465</sup> This aspect of the accession approach would arm each party with a significant threat that might deter the frivolous filing of suits; employers and employees acquiring the right to control could force the other to take control and compensate them for their lost value. This feature of the structure increases the range of possible remedies for inevitable misappropriation claims under the accession approach in a coherent and systematic fashion, as well as provides a mechanism for some party control over the allocation of ownership and compensation after a finding.

Additionally, applying the transformation rule of damages would provide the employee with some guarantee of protection within her control, even in the face of substantial employer trade secret value, and provide a counter-balance to the general information advantages of the employer. If control vests in the employee by a finding of transformation under the law of accession, the employer is entitled only to the value of the converted trade secrets in all events. Thus, the most transformative and value-enhancing employees will not be held up by employer's trade secret exposure. The employee in this

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461. *See supra* notes 331-37, 374-83 and accompanying text (describing the role of bad faith in accession law).

462. *See id.*

463. *See* discussion *infra* Part III.D (reporting the policing mechanism).

464. *Cf. supra* note 372 and accompanying text (discussing how the owner of converted property can recover either property or damages).

465. *Cf. supra* note 372 and accompanying text (discussing the option of choosing property or damages).

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structure would be merely be liable for damages to the employer.

Applying the accession system of remedies to the conclusions about the inevitability of misappropriation of trade secrets would generate a similar range of well-calibrated remedies. First, the courts would determine the allocation of the title to the property (the employee) by reference to the principal part test<sup>466</sup> and the transformative/value-enhancement tests.<sup>467</sup> After determining the vesting of control, the party with the right to control would have the option to force the other party to accept control (a “put option”). Second, courts would provide the party not acquiring title by accession with the appropriate compensation for the conversion of its trade secrets or human capital. Third, the shift in title and the amount of compensation would be subject to a determination of bad faith, reckless disregard, or willfulness. This would provide courts with four possible remedy options: Option (1) simple injunctive relief against the employee’s new employment (based on a finding of no employee human capital value or a showing of employee bad faith); Option (2) injunctive relief against the new employment with employee compensation for restraining human capital (based on a finding that the employer’s trade secrets comprised the principal part of the employee’s new employment value or the employee’s decision to force the employer to exercise control under Option (3)); Option (3) denial of injunctive relief with employer compensation for the loss or potential loss of trade secret value (based on (i) a finding of the employee’s human capital comprising the principal part of the employee’s new employment value; (ii) a finding of transformation in kind or significant value-enhancement of the employee and employer’s trade secret value; or (iii) the employer’s decision to force the employee to exercise control under Option (2)); and Option (4) simple denial of an injunction (based on a finding of no employer trade secret value, through severability or other analysis, or employer bad faith). Thus, applying the system of remedies of the law of accession to the doctrine of inevitable misappropriation generates a coherent and clear structure of remedies, from the simple granting and denying of injunctive relief to tailored injunctive relief, from simple damages to a combination of damages and compensation with injunctive relief, and finally the option of waiving injunctive relief for damages.

The accession approach to remedies also meets the criteria

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466. *See supra* notes 341-53 and accompanying text.

467. *See supra* notes 354-60 and accompanying text.

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discussed above in the criticism of other methodologies. By providing the full range of equitable and legal relief in a systematic framework, the accession approach presents a coherent and consistent system of remedies. While this approach includes both injunctive relief and damages, it also recognizes the potential for costs to both parties.

In addition, the accession approach avoids any recognition of a formal division of the trade secret property interest. Instead, it allocates the “title” and control over the actions of an individual to a single party (either the employer or the employee); it does not allocate direct property interests in the trade secret.<sup>468</sup> Although trade secrets form part of that individual, the ultimate ownership of the trade secrets within that individual is not allocated by the law of accession—only control over the combined individual (for a specified time) is. Only trade secrets that are inseparable from the employee’s human capital, that are transformed with the individual, or that are part of an individual who has highly enhanced her own value, are covered in combination. Applying the modified accession mechanism to the law of inevitable misappropriation can thus sidestep the direct allocation or recognition of property rights in trade secrets to an employee. Thus, the accession approach promotes a unified ownership of trade secrets, consistent with other areas of trade secret law.

Furthermore, the accession approach takes into account both the intangibility and valuation issues uniquely raised by trade secrets. It provides each stage with a structured mechanism for determining the relative value of trade secrets and employee rights. For example, if a court does indeed determine that an employer’s trade secrets are invaluable and that incalculable harm will result from disclosure, it can vest control of the employee in the employer for a limited time, but still account to the employee for the calculable value of that employee’s human capital. Conversely, if an employee’s liberty interest is deemed incalculable, the accession approach can vest control in her, but still account to the employer for the value of the employer’s trade secrets. The general approach of the mechanism should encourage courts to analyze the relative values involved, and craft more consistent, flexible, and coherent mechanisms for relief.

Overall the accession approach to the doctrine of inevitable misappropriation of trade secrets provides a coherent and consistent methodology for determining inevitability. In addition, the accession approach to remedies offers an understandable structure for providing a wide range of carefully calibrated relief, including injunctions, damages, and combinations thereof. The approach is flexible and accounts for variations both in the value and in the

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468. See *supra* notes 269-86 and accompanying text (describing the limitations of the concurrent property proposal).



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nature of trade secrets. The accession approach, therefore, is a meaningful and significant first step towards meeting the criteria outlined in the criticisms of earlier systems and approaches to inevitable misappropriation.<sup>469</sup>

#### *D. Deterring Strategic Litigation*

One of the major problems raised by any approach to inevitable misappropriation is that employers with deeper pockets can use the doctrine to either threaten or actually file suit against employees to enjoin them from working for competitors as long as some form of the doctrine and some uncertainty about the outcome of the suit exists.<sup>470</sup> Commentators have noted that even suits that are eventually settled under the doctrine of inevitable misappropriation continue for years, hamstringing both the employees involved and the prospective employers,<sup>471</sup> with potentially devastating effects.<sup>472</sup> None of the courts or existing academic proposals addresses this problem. Of the options discussed, only the proposal to abolish the doctrine addresses the potential problem of bad faith litigation or threats of litigation. Under current approaches to the doctrine, there are few deterrents to employers threatening or actually filing bad faith suits for inevitable misappropriation; aside from legal fees, employers generally do not face the risk of legal damages or injunctive relief when they file suit under the doctrine.

In addition to applying the law of accession to the doctrine of inevitable misappropriation, this Article also recommends that courts adopt a penalty mechanism to deter employers from strategically threatening or actually filing frivolous lawsuits in an effort to enjoin employees from working for competitors. Establishing a penalty against employers' unmeritorious attempts to enjoin employees on the grounds of inevitable misappropriation would provide courts with

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469. See discussion *supra* Part II.

470. See *Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp. 2d 667, 688 (S.D. Ind. 1998) (observing the power imbalance between employers and former employees created by the fact that employers can file suits with practically no costs and low downside, while employees and prospective employers are much more vulnerable).

471. See Schuyler, *supra* note 38, at 27 (reporting the defense attorney's lament that a settlement took three years and that the key employee and prospective employer were tied up in litigation for the entire time).

472. See *id.* (providing an example of when an inevitable misappropriation lawsuit hampered the disc drive development program of a new employer for three years); see also *Lockhart*, 5 F. Supp. 2d at 688 (discussing the possibility that a suit can encourage a new employer to abandon a new employee); Edelstein, *supra* note 45, at 732 (arguing that employers should not use the threat of filing inevitable misappropriation suits to cow employees or deter competitors from taking chances on hiring other companies' former employees).

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a fifth kind of remedy that could balance the *de facto* power of employers. In addition to the four standard remedies outlined above—Option (1) injunction; Option (2) injunction, but with compensation; Option (3) no injunction; and Option (4) no injunction, but with royalties—the courts would also have the remedy of granting Option (5) no injunction, but additional penalties. Employees could file counterclaims against employers who intentionally file questionable injunctive motions to harass, harm, or intimidate employees into remaining with them. If their counterclaims are successful, courts could award employees compensatory legal fees or even punitive damages.

This “fifth remedy” was recently implemented in the November 1997 case of *Bridgestone/Firestone, Inc. v. Lockhart*.<sup>473</sup> In this case, Bridgestone/Firestone sued to enjoin Lockhart, one of its former employees, from going to work for GAF, one of its competitors, claiming that his new employment would inevitably cause him to misappropriate trade secrets.<sup>474</sup> The court rejected this argument,<sup>475</sup> noting that there was no evidence that Lockhart was likely to take any information<sup>476</sup> and that Lockhart and GAF had even actively designed his work responsibilities to prevent him from having to use or disclose Bridgestone/Firestone’s trade secrets.<sup>477</sup> After rejecting the company’s claim for inevitable misappropriation on this basis,<sup>478</sup> the court then turned to Lockhart’s innovative fifth remedy proposal.

*Lockhart* validated a cause of action against employers who file failing motions to enjoin employees in Indiana.<sup>479</sup> After rebutting the inevitable misappropriation claims, Lockhart counterclaimed for compensatory and exemplary damages under an old Indiana blacklisting statute.<sup>480</sup> The statute, drafted and passed in the nineteenth century to combat efforts by the railroads to blacklist workers, contains very broad language that suggests that anyone who attempts to prevent an individual from working in their chosen profession may be sued for compensatory and exemplary damages.<sup>481</sup>

The statute reads:

If any railway company or any other company or partnership or corporation in this state shall authorize, allow or permit any of its or their agents to black-list any discharged employees, or attempt by words or writing, or any other means whatever, to prevent such discharged employee, or any employee who may have voluntarily

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473. 5 F. Supp. 2d 667.

474. *See id.* at 682 (stating the plaintiff’s claim that the defendant would disclose confidential information to which he had access while employed by the plaintiff).

475. *See id.* at 681 (characterizing the inevitability argument as non-persuasive).

476. *See id.* at 682 (noting that Lockhart did not take any documents and his knowledge of general business information was of limited value).

477. *See id.*

478. *See id.* (finding that misappropriation was not “seriously threatened”).

479. *See id.* at 688 (allowing recovery upon a counterclaim for “blacklisting”).

480. *See id.* at 686 (allowing a cause of action under IND. CODE § 22-5-3-2 (1889)).

481. *See id.*

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left said company's service, from obtaining employment with any other person, or company, said company shall be liable to such employee in such sum as will fully compensate him, to which may be added exemplary damages.<sup>482</sup>

Consequently, Lockhart argued that Bridgestone/Firestone's motion to enjoin him from working for GAF constituted such an "attempt by words or writing, or any other means whatever"<sup>483</sup> to prevent an individual from pursuing employment with "any other person, or company,"<sup>484</sup> and counterclaimed for compensatory and exemplary damages.<sup>485</sup>

The district court agreed, holding that the nineteenth-century anti-blacklisting statute was indeed applicable to a failed motion to enjoin an employee from working for a competitor.<sup>486</sup> However, because the suit appeared to be filed in good faith and because this statute had not previously been so interpreted this way,<sup>487</sup> the court awarded Lockhart compensatory damages for his legal fees. The court did not, however, award Lockhart exemplary damages.<sup>488</sup>

Interestingly enough, the court explicitly justified the adopting of the *Lockhart* remedy of a penalty for unsuccessful injunctive lawsuits on the grounds that it would help balance the power of the former employer against the employee.<sup>489</sup>

Apart from the effect of the blacklisting statute, a former employer who sues to stop a departing employee from going to work for a competitor faces no serious adverse consequences from the lawsuit, apart from its own attorneys' fees . . . . On the other side of the power equation, even the mere threat of a lawsuit can be enough to discourage the departing employee from going to work for a competitor. And if the employee is not discouraged, the prospective new employer may be.<sup>490</sup>

The court thus read the anti-blacklisting statute as providing employees with some ex post redress for damages suffered and some ex ante deterrence against employers for filing such lawsuits against

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482. *Id.* (quoting IND. CODE § 22-5-3-2 (1889)).

483. *Id.*

484. *Id.* (quoting IND. CODE § 22-5-3-2 (1889)).

485. *See id.*

486. *See id.* at 687.

487. *See id.* (recognizing that since its enactment, the statute in question appears never to have been the subject of a reported court opinion).

488. *See id.* (acknowledging that the court could only award exemplary damages if the employer acted with malice in an effort to prevent the future employment of the defendant).

489. *See id.* at 688 (stating that the statute provides no safe harbor for unsuccessful lawsuits).

490. *Id.*

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employees. Thus, the combination of the accession law approach with this fifth penalty mechanism option can create a comprehensive and coherent framework for applying the doctrine of inevitable misappropriation of trade secrets.

#### CONCLUSION

As trade secrets have become an increasingly important part of the modern economy, a growing number of courts have struggled with the development of a coherent doctrine of inevitable misappropriation. Unfortunately, their attempts have suffered from both over- and under-inclusiveness, as well as an overly crude approach of all-or-nothing relief. These limitations threaten the balance between fundamental individual liberties to choose one's own work and powerful economic interests in protecting property and investments. They also have the potential for dramatically affecting the overall climate for innovation, competition, and economic growth.

The fundamental and common problem of existing approaches to inevitable misappropriation is that they focus almost exclusively and somewhat simplistically on protecting the employer's property interests in its trade secrets.<sup>491</sup> Courts ask whether the trade secrets will be inevitably misappropriated and provide all-or-nothing relief based on their answer.<sup>492</sup> Although there is a discussion of the balance of interests including the employee's interests in freedom to work and control her human capital and the employer's interest in protecting its trade secrets, the central focus of the doctrine on the state of the employer's trade secrets does not allow for evaluations of relative value or partial inevitability. The same singular emphasis in providing remedies leads courts to provide crude all-or-nothing protection to an employer's trade secrets, without reference to relative value or intermediate and accurate relief.

Academic responses to these problems fall short of providing an acceptable solution.<sup>493</sup> Proposals for total acceptance or rejection of the doctrine are too extreme to balance the interests involved, while recognition of concurrent property interests conflicts with new developments in the system of trade secret protection.

The correct approach to the doctrine of inevitable misappropriation can be found not by looking forward to these existing and proposed legal doctrines, but by fundamentally shifting perspective back to an older legal doctrine. The appropriate insight into solving the problems of the current doctrine can be derived from the law of accession.<sup>494</sup> Rather than centrally concerning

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491. See discussion *supra* Part II.A.2.

492. See discussion *supra* Part II.A.3 (reporting the inadequacy and inconsistency of all-or-nothing remedies).

493. See discussion *supra* Part II.B (providing an overview of current proposals).

494. See discussion *supra* Part III.C (describing the accession law approach).

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themselves with the employer's trade secrets, courts should instead focus on the employee as a combination of employer and employee interests. Instead of viewing the problem as an inquiry into the status of a simple, discrete property interest (the trade secrets) and struggling to balance it against other interests (the employee's human capital and right to work), courts should approach the question as a determination of the ownership and control of a combined or transformed property interest (the employee and her employment) made up of employer and employee interests. Accession law, which has, since Blackstone's time, developed a subtle and nuanced approach to allocating the ownership of transformed and combined property, can offer a coherent and well-developed approach to the modern question of who controls these combinations of human capital and trade secrets. Expanding the accession approach to include penalties for unmeritorious motions to enjoin employees can also balance the incentives and power positions of employers and employees and ensure that doctrine will not be applied lightly.

Finding an accession law solution to inevitable misappropriation doctrine problems also suggests two larger observations. First, similar approaches might be useful in other areas of intellectual property law. For example, the continually developing law of derivative works and the parody fair-use exception in copyright law might benefit from an accession law analysis.<sup>495</sup> These and other areas involve the

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495. Just as in accession law, courts reviewing injunctions against the distribution or exploitation of derivative works which are based on underlying original works (such as movies based on books) have debated about whether the relative value of the transformed/combined derivative work should play a role in granting relief. *Compare* Rohauer v. Killiam Shows, Inc., 551 F.2d 484, 493-94 (2d Cir. 1977) (allowing the derivative copyright holder to show and exploit the film even after the copyright of the underlying work was renewed and the film rights were reassigned because "[t]he equities lie preponderantly in favor of the proprietor of the derivative copyright" who will "often have made contributions literary, musical and economic as great or greater than the original author"), *with* Stewart v. Abend, 495 U.S. 207, 228, 236 (1990) (denying derivative copyright holders the ability to show and exploit "Rear Window" the holder of renewed copyright of the underlying short story "It Had to Be Murder" and suggesting that arguments regarding policies behind copyright "are better addressed by Congress than the courts").

As noted above, accession law inquires into the relative value contributed by both parties. *See supra* notes 341-60 and accompanying text. In addition, as in accession law, courts analyzing whether one work should be considered a derivative work of another have asked whether the allegedly derivative work physically incorporates the original work and thus, cannot be separated therefrom. *Compare* Midway Mfg. Co. v. Artic Int'l, Inc., 704 F.2d 1009, 1011 (7th Cir. 1983) (holding that the circuit board that speeds video game play is an infringing derivative work), *with* Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965, 972 (9th Cir. 1992) (holding that a video game device that does not incorporate a copyrighted work in some concrete or permanent form is not a derivative infringing work).

Courts ruling on whether a work constitutes a derivative work of a copyrighted original

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combination and transformation of several persons' intellectual property and labor, and present similar questions about efficient allocation of controlled value for that property. Taking an accession approach in these areas might clarify the law or increase its flexibility and efficiency just as it promises to in the area of trade secrets.

Second, and more generally, applying this ancient law solution to a modern doctrinal problem reemphasizes the value of revisiting old law when seeking to craft the new. Oliver Wendell Holmes, Jr., directed us to look to history to understand the path of the law.<sup>496</sup> In part, this look into the past teaches us the limitations of present justifications for legal rules.<sup>497</sup>

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engage in analysis similar to that of separability in accession law. *See supra* notes 300-13 and accompanying text (discussing the test of identification and severability). Recent decisions upholding the fair use of original works in parody have relied in part on accession-law-like concepts, such as transformation. *See* *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 582 (1994) (discussing 2 Live Crew's incorporation of some Roy Orbison lyrics into their parody and upholding it as a fair use in part because of its transformative qualities).

Again, this focus on transformation echoes the emphasis on transformation shifting ownership and control in accession law. *See supra* notes 318-22 and accompanying text (describing tests of identity and value enhancement). These discussions suggest that perhaps a deeper or more direct application of the accession law principles to derivative and parody copyright law might prove just as rewarding as the application of these concepts in the inevitable misappropriation of trade secrets context.

496. *See* Oliver Wendell Holmes, Jr., *The Path of the Law*, 10 HARV. L. REV. 457, 473-74 (1897) (discussing the need to study history to understand the rational scope of the law); *see also* OLIVER WENDELL HOLMES, JR., *THE COMMON LAW* 1 (Dover Publications 1991) (1881) ("In order to know what [the law] is, we must know what it has been, and what it tends to become.") [hereinafter HOLMES].

497. According to Holmes, the rationale for legal rules "from more primitive times" changes as new reasons for the rules, "more fitted to the [current] time," replace the old. *See* HOLMES, *supra* note 496, at 37, 36. "The old form receives a new content, and in time even the form modifies itself to fit the meaning which it has received." *Id.* at 5. In one way, perhaps, just one such evolution is occurring: The old forms of accession are now reapplied and justified by new reasons of efficiency and innovation (instead of, perhaps, labor theories of value). In another, just the converse is occurring: New problems in new forms (inevitable misappropriations) implicated old issues and rationales (dividing or allocating mixed or transformed property). The new form is thus shaped by old content.