Inevitable disclosure and the DTSA

David Prange and **Ari B Lukoff** address several factors to guide a plaintiff in deciding whether to include a federal DTSA claim, a state-based UTSA claim, or both, in trade secrets cases

An employee leaving for a competitor may raise a concern of what trade secrets and confidential business information may go with the employee, and into the competitor's hands. Some states' trade secret laws modelled on the Uniform Trade Secret Act (UTSA) potentially allow an employer to stop a departing employee from working for a competitor on the theory that the employee would "inevitably" use the former employer's trade secrets while working for the competitor. In its broadest form, the inevitable disclosure doctrine empowers a court to prevent a departing employee who knows a trade secret from working, even in the absence of evidence that the trade secret was actually communicated or disclosed to the employee's new employer, and even though the employee never agreed to a non-competition agreement. In states where the doctrine is available, it is commonly applied at the beginning of a case when a temporary restraining order or preliminary injunction may be sought. Although potent if applicable, the inevitable disclosure doctrine has not been adopted in all states, and even where it is applied, it is applied inconsistently between states.

The Defend Trade Secrets Act (DTSA), a federal law passed in 2016, for the first time provides plaintiffs a federal cause of action for trade secret misappropriation. The DTSA presents new strategic considerations to a plaintiff when preparing to sue. The DTSA includes language addressing the scope of injunctive relief over employees in allowing courts to issue an injunction for actual or threatened misappropriation, provided that the injunction is not based solely on information the employee knows. This and other provisions of the DTSA add yet another strategic layer to filing a trade secret case in federal court. This article introduces the inevitable disclosure doctrine, explores examples of the breadth of variation in its applicability under state-based misappropriation claims and the statutory limits on injunctions under the DTSA, and provides observations about strategic considerations for case planning.

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The modern genesis of the inevitable disclosure doctrine

PepsiCo, Inc v Redmond

Although the Uniform Trade Secrets Act, introduced in 1979 and amended in 1985, allowed injunctions to issue for "actual or threatened misappropriation", the inevitable disclosure doctrine took shape in the 1995 *PepsiCo, Inc v Redmond et al* case.[1] PepsiCo sued its employee William Redmond, Jr and his new employer, Quaker (PepsiCo's competitor), when Redmond announced he was leaving to help Quaker develop its sports drink and iced tea businesses. At PepsiCo, Redmond had helped develop strategic business plans for

PepsiCo's sports drink and iced tea products, the same product segment he would be responsible for at Quaker, and understood PepsiCo's budgets, pricing, and other financial analysis. Redmond had signed a confidentiality agreement but did not have a non-compete agreement with PepsiCo. Despite the absence of a non-compete agreement, the district court entered a preliminary injunction preventing Redmond from joining Quaker.

On appeal, the US Court of Appeals for the Seventh Circuit affirmed the preliminary injunction entered by the district court. The Seventh Circuit held that "a plaintiff may prove a claim of trade secret misappropriation by demonstrating that defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." Quaker argued that Redmond signed confidentiality agreements both with PepsiCo and with Quaker promising not to disclose or use PepsiCo's confidential information. In rejecting this argument, the court found that the real danger was that "unfairly armed with knowledge of [PepsiCo's] plans, [Quaker] will be able to anticipate its distribution, packaging, pricing, and marketing moves." Consequently, "PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game."

The *PepsiCo* decision left unaddressed several questions with respect to the inevitable disclosure doctrine. Should the doctrine apply in the absence of a confidentiality agreement or non-compete agreement? Viewed one way, the inevitable disclosure doctrine can effectively transform a confidentiality agreement into a non-compete agreement even though no non-compete agreement was signed. How should the policy underlying the inevitable disclosure doctrine (protection of an employer's trade secrets) be balanced against the policy of allowing employees to freely move to a new employer and make use of their skills?

State recognition of the inevitable disclosure doctrine

These policy questions have led the states, each applying its own version of the UTSA or common law, to apply the inevitable disclosure doctrine in a wide variety of ways. The states' analyses differ on:

- whether the inevitable disclosure doctrine is applied at all;
- whether application presumes disclosure or requires evidence that confidential information was taken or disclosed;
- whether application depends on, or requires, some bad faith or lying on the part of the employee; and
- the nature of the previous and new employment, including whether the employers are competitors.

Not all states have applied the doctrine. For those states that have, the approaches align into three groups. The first group has rejected the inevitable disclosure doctrine outright. The second group has adopted it in its entirety. And the third group takes a middle ground, having adopted the inevitable disclosure doctrine but placed limitations on its application.

States that reject the inevitable disclosure doctrine

Several states have outright rejected the doctrine as an inappropriate restriction on worker mobility. For example, the California Court of Appeals emphasised that "[l]est there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete."[2] The California court weighed the policies of protecting trade secrets and promoting employee mobility, holding the "chief ill" was the fact that the inevitable disclosure doctrine is applied after the employer and employee entered into, or chose not to enter into, a confidentiality agreement or non-compete agreement. The court found it inappropriate to allow an employer to use the inevitable disclosure doctrine to transform a confidentiality agreement into a non-compete agreement, or to create a non-compete agreement when one did not exist. The state of Maryland also has rejected application of the inevitable disclosure doctrine on similar policy grounds.[3]

States that have adopted the inevitable disclosure doctrine

In contrast to California and Maryland, other states have adopted the doctrine and have found the policy reasons cited by rejecting states as unpersuasive. For example, Arkansas has adopted the inevitable disclosure doctrine outright.[4] Under the rule adopted in Arkansas, "the only question to resolve is whether [the new] employment… will result in a situation where [the employee] will inevitably rely on [the previous employer's] trade secrets."[5] New Jersey courts have also adopted the inevitable disclosure doctrine without limitation.[6]

"In a situation where both a DTSA claim and a state UTSA claim is asserted, courts have not yet decided whether the DTSA's provision that an injunction may not prohibit a plaintiff from working for a new employer entirely would trump a state-based UTSA claim that would allow this remedy."

States that have adopted the doctrine but limit its application

Many states fall into a middle ground, choosing to apply the inevitable disclosure doctrine in certain circumstances. For example, Michigan has generally recognised the doctrine but requires proof of more than generalised trade secrets as a prerequisite.[7] The doctrine also "must not compromise the right of employees to change jobs". Federal courts have construed the Michigan position narrowly, finding that "the doctrine has never been adopted in Michigan and, even where it has been discussed, it has only been suggested to be applicable to high executives and key designers of the company's strategic plans and operations."[8] Minnesota courts have limited the applicability of the doctrine by requiring proof of a "a high degree of probability of inevitable disclosure".[9] In application, this "heightened burden" has been held to require evidence that the employee either took or disclosed information of the employer. Georgia courts consider the competitive position of the old and new employers, and the degree of overlap in the employee's responsibilities.[10] Further, federal courts applying South Carolina law have looked at the employee's bad faith in deciding whether to apply the doctrine.[11]

The Defend Trade Secrets Act and employee injunctions

The DTSA provides a cause of action under federal law for misappropriation of trade secrets. Like the UTSA, the DTSA allows a court to issue an injunction to "prevent any actual or threatened misappropriation".[12] Unlike the Uniform Trade Secrets Act, however, the DTSA includes additional language addressing the application of an injunction on a person, such that a court cannot issue an injunction that would "prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows[.]"[13] This language has led some to argue that a plaintiff asserting a DTSA claim could not argue for an injunction on an inevitable disclosure theory because the theory is premised on information only known by the employee that may be used.

The DTSA also includes a rule of construction that "[n]othing in the amendments made by [the Act] shall be construed to… pre-empt any other provision of law".[14] These provisions, together with the well-developed, but highly variable state law on the inevitable disclosure doctrine, create a need for plaintiffs to engage in a larger calculus regarding the remedies for trade secret claims.

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Strategic implications for plaintiffs

Prior to enactment of the DTSA, trade secrets claims could be asserted in state court or federal court, applying state law under the court's diversity jurisdiction. Plaintiffs now may assert a state law claim (in state or federal court, if diversity is present), or bring a DTSA claim under federal jurisdiction, either alone of or with a state law claim. The ability to shape what law will apply to a case provides a trade secret plaintiff with a new avenue to shape the availability and likelihood of obtaining an injunction to prevent a former employee from working for a competitor.

The DTSA provision relating injunctions to threatened or actual misappropriation provides one such avenue. In some states, a state UTSA claim may provide a broader scope of remedies than the DTSA. Some have argued that the DTSA may prohibit an injunction from fully stopping an employee from working for a competitor. In the absence of a non-compete agreement, a plaintiff may want to include a state UTSA claim. In choosing a state claim in this situation, a plaintiff should consider the availability, strength, and applicability of the inevitable disclosure doctrine under the circumstances of the case. A plaintiff should also consider what law would apply in a proposed venue and whether it would impact remedies otherwise available under a state UTSA claim. In situations where the parties are not fully diverse, a plaintiff may want to include a DTSA claim in order to maintain jurisdiction in federal court.

A plaintiff should also consider the scope of evidence that may be available to support its misappropriation of trade secrets claim. The inevitable disclosure doctrine may allow a plaintiff to avoid having to prove actual misappropriation (instead relying on the circumstances and nature of the former employee's employment at the former employer and new employer), at least at the preliminary injunction stage. The plaintiff should assess the strength of evidence of misappropriation, including whether the employee took information before leaving, the competitive relationship between the previous and new employer, the nature of the employee's new position, and whether the employee has made statements about using trade secrets or related information. If the evidence of misappropriation available to the plaintiff is limited, one may need to rely on the inevitable disclosure doctrine. In that case, the plaintiff may be better served with a state-based claim instead of a DTSA claim. Accordingly, the plaintiff should avoid pleading a DTSA claim in addition to a state-law claim to avoid creating an issue regarding how those claims should be read together, if at all.

Summary

With the DTSA providing a new federal cause of action for trade secret misappropriation, a plaintiff can now sue under state or federal law, or both. If a plaintiff intends to rely on the inevitable disclosure doctrine (if available under state law), a plaintiff should pause and assess whether the evidentiary strength of its claim necessitates doing so and whether it is necessary to also evaluate the potential interaction between the DTSA and state law to pursue its desired relief.

Footnotes

1. 54 F.3d 1262 (7th Cir 1995).
2. *Whyte v Schlage Lock Co*, 125 Cal Rptr 2d 277, 293 (Cal Ct App 2002).
3. *LeJeune v Coin Acceptors, Inc*, 849 A 2d 451, 471 (Md 2004).
4. See *Cardinal Freight Carriers v JB Hunt Transportation Service,* 987 SW 2d 642, 646 (Ark 1999).
5. *Bendinger v Marshalltown Trowel Co,* 994 SW 2d 468, 474 (Ark 1999).
6. See *Nat'l Starch & Chem Corp v Parker Chem Corp,* 530 A 2d 31, 33 (N J Super Ct App Div 1987) ("the record adequately supports the reasonableness of a preliminary determination by the Chancery judge that [employee] knew trade secrets of [former employer], and that under the circumstances there was sufficient likelihood of 'inevitable disclosure'.").
7. *Cmi Int'l v Intermet Int'l Corp,* 649 NW 2d 808, 813 (Mich Ct App 2002).
8. *Degussa Admixtures, Inc v Burnett*, 471 F Supp 2d 848, 856 (WD Mich 2007); see also *Kelly Servs v Greene*, 535 F Supp 2d 180, 187 (D Me 2008) (citing *Degussa*).
9. *United Prods Corp of Am v Cederstrom,* No A05-1688, 2006 Minn App Unpub LEXIS 594, *14, (Minn Ct App 2006).
10. *Holton v Physician Oncology Servs,* LP, 742 SE 2d 702, 705 (Ga 2013) ("Among the factors that courts consider… are whether: (1) the employers are direct competitors providing similar products and services; [and] (2) the employee's position with the new employer has responsibilities similar to the position held with the former employer…").
11. *Nucor Corp v Bell,* No 2:06-CV-02972-DCN, 2008 US Dist LEXIS 119952, at *67 (DSC 14 Mar 2008).
12. Pub Law No 114-153 § 2(b)(3)(A) (codified at 18 USC § 1836(b)(3)(A)).
13. Id.
14. Id sec 2(f).

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