

The Defend Trade Secrets Act at Five: The Inevitable Disclosure Doctrine

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May 2021 marked the fifth anniversary of the Defend Trade Secrets Act of 2016 (DTSA). The DTSA is best known for establishing a federal civil cause of action for trade secret misappropriation. Less in the spotlight is the DTSA's relationship to the "inevitable disclosure" doctrine.

Historically derived from trade secret common law, the doctrine allows a court to enjoin a former employee temporarily from working for his or her employer's competitor because of the threat of disclosure or use of the trade secrets the employee learned while employed by his or her former employer.¹ The doctrine relies on the premise that the employee has gained knowledge of confidential information while working for the former employer and the employee cannot forget or refrain from relying on that knowledge during his or her new employment with the competitor.² The doctrine requires a court to consider "the protection of employers' rights in their trade secrets on the one hand, versus the right of the individual to exploit his talents, use matters of general knowledge, and pursue his calling without undue hindrance from a prior employer on the other."³

The seminal case on the inevitable disclosure doctrine is the United States Court of Appeals for the Seventh Circuit decision, *PepsiCo, Inc. v. Redmond*, which 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."⁴ In that case, PepsiCo sought to enjoin its former high-level employee from starting his job at Quaker Oats, a competitor. Among other facts before the court, the former defendant had signed a confidentiality agreement with PepsiCo, committing to maintain PepsiCo's confidential information.⁵ He also signed a Quaker Oats confidentiality agreement and code of ethics, both of which prohibited improper acquisition of competitors' trade secrets.⁶ He also represented to the court that "should he be faced with a situation at Quaker that might involve the use or disclosure of [PepsiCo] information, he would seek advice from Quaker's in-house counsel and would refrain from making the decision."⁷ Regardless, and in acknowledgement of other bad acts by the defendant,

1 M. Claire Flowers, *Facing the Inevitable: The Inevitable Disclosure Doctrine and the Defend Trade Secrets Act of 2016*, 75 Wash. & Lee L. Rev. 2207, 2217 n.4 (2018) (citations omitted), <https://scholarlycommons.law.wlu.edu/wlulr/vol75/iss4/9/>.

2 *Id.*

3 See 1 Roger Milgrim & Eric Bensen, *Milgrim on Trade Secrets* § 5.02 (2021), (quoting *E. I. Dupont De Nemours & Co. v. Am. Potash & Chem. Corp.*, 200 A.2d 428 (Del. Ch. 1964)).

4 54 F.3d 1262, 1269 (7th Cir. 1995) (applying Illinois law).

5 *Id.* at 1264.

6 *Id.* at 1266.

7 *Id.*

the *PepsiCo* court affirmed the lower court's injunction against the defendant from assuming his responsibilities at the new employer for one year.

Since the inevitable disclosure doctrine places the tension between protection of trade secrets and employee mobility squarely in the crosshairs, it is the subject of considerable debate. Those who support application of the doctrine argue that employers have both an interest in obtaining and retaining employees with specific skills and an interest in protecting and pursuing investments in innovation.⁸ Those who oppose the inevitable disclosure doctrine support the position that employees should be able to market their skills to the highest bidder and to choose where they work.⁹

States vary in their acceptance and application of the doctrine.¹⁰ In *Aetna Retirement Services, v. Hug*,¹¹ the court considered the doctrine as part of its analysis of the plaintiff's effort to enforce a one-year non-compete agreement. The former employee argued that he had not yet misappropriated his employer's trade secrets and he made a commitment to maintain their secrecy in the future.¹² The court observed that it was "unquestionable that [defendant] is a person of unimpeachable integrity whose honesty is widely respected and admired."¹³ Regardless, the court found that the defendant's "decisions, contributions and strategic insights cannot help but be informed by the framework and knowledge he gained in his employment" and granted the plaintiff six months' enforcement of the one-year non-compete agreement.¹⁴

The court in *Barilla America, Inc. v. Wright*, noted that there is a disagreement among courts on the appropriate standard for applying the doctrine.¹⁵ In the case at bar, the court stated that it was "not convinced that the inevitable disclosure doctrine and the [Iowa Uniform Trade Secrets Act] 'actual or threatened disclosure doctrine' standards of proof have to be different."¹⁶ [internal quotes added]. Rather, "an alternative reading of the inevitable disclosure doctrine is

8 See Randall E. Kahnke, Kerry L. Bundy & Kenneth A. Liebman, *Doctrine of Inevitable Disclosure* 12 (2008), <https://ipo.org/wp-content/uploads/2013/04/DoctrineofInevitableDisclosure.pdf>.

9 See *id.*

10 For a 50-state analysis, see Ryan M. Wiesner, *A State-By-State Analysis of Inevitable Disclosure: A Need for Uniformity and a Workable Standard*, 16 Marq. Intellectual Property L. Rev. 211 (2012), <https://scholarship.law.marquette.edu/jplr/vol16/iss1/2>.

11 No. CV 970479974S, 1997 Conn. Super. LEXIS 1781, at *28-30 (Conn. Super. Ct. June 18, 1997).

12 *Id.*

13 *Id.*

14 *Id.* at 30.

15 No. 4-02-CV-90267, 2002 U.S. Dist. LEXIS 12773, at *22 (S.D. Iowa July 5, 2002) (applying Iowa law).

16 *Id.* at 24-25 (the Iowa Uniform Trade Secrets Act provides that "the owner of a trade secret may petition the district court to enjoin an actual or threatened misappropriation."

that it is just one way of showing a threatened disclosure.”¹⁷ The court ultimately concluded that the correct course was “to simply enforce a stricter standard on inevitable disclosure, and then treat it and the threatened disclosure doctrine as variations of the same standard.”¹⁸ On the facts before it, which included instances of the defendant absconding with trade secret information when he left his former employer,¹⁹ the court enjoined the defendant from working at the involved competitor or any other pasta company for one year.

Some states have never recognized the doctrine, or have discarded it entirely. California has taken a strong position against the doctrine. For example, in *Bayer Corp. v. Roche Molecular Systems*, the court stated “California trade-secrets law does not recognize the theory of inevitable disclosure; indeed, such a rule would run counter to the strong public policy in California favoring employee mobility.”²⁰ Instead, the court reasoned that a plaintiff seeking a preliminary injunction where an employee is simply moving to a competitor’s employ must show “an actual use or an actual threat.”²¹ Based on the facts of the case, the court denied the plaintiff’s request for a preliminary injunction.²²

Not long after the decision in *Bayer*, the California Court of Appeals issued its own definitive statement on the doctrine in California. In *Whyte v. Schlage Lock Co.*, the court stated that “a court should not allow a plaintiff to use inevitable disclosure as an after-the-fact noncompete agreement to enjoin an employee from working for the employer of his or her choice.”²³ With complete clarity, the court put the issue to bed: “Lest there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete.”²⁴

With the passage of the DTSA, Congress stepped into the fray. In its report on the DTSA, the Senate Judiciary Committee acknowledged that the states did not have a uniform view of the

17 *Id.* at 25–26 (“The inevitable disclosure doctrine appears to be aimed at preventing disclosures despite the employee’s best intentions, and the threatened disclosure doctrine appears to be aimed at preventing disclosures based on the employee’s intentions.”)

18 *Id.* at 26.

19 *Id.* at 30–32.

20 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999) (applying California law).

21 *Id.* (however, if the “employee violates the trade-secrets law in a nontrivial way, the employee forfeits the benefit of the protective policy in California.”)

22 *Id.* at 1121.

23 125 Cal. Rptr. 2d 277 (Cal. Ct. App. 2002) (quoting *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1326, 1337 (S.D. Fla. 2001)).

24 *Id.* at 1463.

doctrine.²⁵ The section on injunctive relief does not embrace the doctrine, and the DTSA thus states that a court may, in a civil action brought under the DTSA, grant an injunction:

- (i) to prevent any actual or threatened misappropriation...provided the order does not—
 - (I) 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*; or
 - (II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.²⁶ [emphasis added]).

Of course, the DTSA does not preempt state law. Accordingly, state remedies remain available in cases involving state law and “if a State’s trade secrets law authorizes additional remedies, those State-law remedies will still be available.”²⁷

Despite the abandonment of the doctrine in the DTSA, a review of cases decided post-DTSA makes clear that the matter is still not fully resolved among the courts. Indeed, some courts continue to consider the doctrine in adjudicating DTSA cases.

For example, in *UCAR Technology (USA) Inc. v. Li*, the plaintiff included claims under both the DTSA and the California Uniform Trade Secret Act.²⁸ In its discussion of the DTSA claim, the court struck from the complaint all allegations that suggested reliance on the doctrine. Notably, however, the court did not discuss or rely upon the DTSA in reaching this outcome; rather, the court relied on California’s rejection of the doctrine under state law.²⁹

In *Packaging Corp. of Am., Inc. v. Croner*,³⁰ the court reviewed the doctrine in the context of a motion to dismiss. The court recognized that the DTSA permits courts to grant injunctions in

25 S. Rep. 114-220 (2016) (“The Committee notes that courts interpreting State trade secret laws have reached different conclusions on the applicability of the inevitable disclosure doctrine.”); see also H.R. Rep. No. 114-529 (2016).

26 18 U.S.C. § 1836(b)(3)(A) (2016).

27 S. Rep. 114-220; see also Milgrim & Bensen, *supra* note 3, §5.02 (“a state that has adopted the inevitable disclosure doctrine can still afford injunctive relief under that doctrine for a misappropriation claim brought under state law.”)

28 No. 5:17-cv-01704-EJD, 2017 U.S. Dist. LEXIS 206816 (N.D. Cal. Dec. 15, 2017).

29 *Id.* at 9 (“To the extent the complaint relies on these types of ‘inevitable disclosure’ allegations, those allegations are ordered stricken from the complaint. California courts have resoundingly rejected claims based on the “inevitable disclosure” theory.”).

30 419 F. Supp.3d 1059 (N.D. Ill. 2020).

cases of threatened misappropriation, but then proceeded to analyze the issue under the inevitable disclosure doctrine factors adopted by Illinois in *PepsiCo*.³¹

In *Cotiviti, Inc. v. Deagle*, the court also ruled on a motion to dismiss a complaint that included counts for violation of the DTSA and state trade secret law.³² In this instance, the court separately analyzed the propriety of applying the doctrine under state and federal law. The court denied the motion for preliminary injunction under the Georgia Trade Secrets Act as inadequately pled, stating that it was “hesitant to apply the [inevitable disclosure] doctrine given the lack of favorable treatment by Georgia courts and [plaintiff’s] failure to provide factual support for its bare assertions that misappropriation is inevitable.”³³ The court also denied the injunction under the DTSA as inadequately pled on the same grounds, noting that “as with the Georgia Trade Secrets Act, the federal Defend Trade Secrets Act provides injunctive relief to prevent actual or threatened misappropriation.”³⁴

Therefore, we find ourselves at the fifth anniversary of the enactment of the DTSA with continuing inconsistencies in the application of the inevitable disclosure doctrine. This situation is likely to persist as states’ handling of the doctrine vary. Some decisions suggest that plaintiffs may improve their chances of obtaining injunctions in DTSA cases where they include a state trade secret claim and the state recognizes the inevitable disclosure doctrine. This practice is not inconsistent with the intent of the DTSA.³⁵ However, as more states either discard the doctrine altogether, or follow the seeming trend of considering the supporting facts as part of a more stringent “actual threat” measure, we may see in the future more consistency in jurisprudence.

31 *Id.* at 1070 (dismissing the inevitable disclosure counts and distinguishing cases where “the defendant ‘could not operate or function’ in the new position without relying on the trade secrets.”).

32 501 F. Supp.3d 243 (S.D.N.Y. 2020) (the plaintiff originally pled violation of the Connecticut statute, but the court analyzed the state claim under Georgia law, based on its conflict of laws ruling).

33 *Id.* at 262 (observing that a prior Georgia case had concluded “merely that the inevitable disclosure doctrine cannot support injunctive relief by itself, while declining to address whether the inevitable disclosure is just one way to show threatened misappropriation.”)

34 *Id.*

35 S. Rep. No. 114-220 (“Consistent with the overall intent of the Defen[d] Trade Secret Act...the bill does not ‘preempt any other provision of law,’ the remedies...are intended to coexist with, and not to preempt, influence, or modify applicable State law governing when an injunction should issue in a trade secret misappropriation matter.”)