Opus College of Business | UNIVERSITY OF St.Thomas

A Proposed Framework for a Federal Inevitable Disclosure Doctrine under the Defend Trade Secrets Act

Development of the Inevitable Disclosure Doctrine

Common Law cases

- Doctrine applied to attempts by a competitor to acquire protected and highly valuable technology by hiring away employees of the trade secret owner

PepsiCo v. Redmond (1995) (UTSA case)

- High level executive with knowledge of sensitive trade secrets enjoined from working in a similar positon at a direct competitor
- Unclear whether bad faith, unlawful intent or wrongful conduct required

Post-PepsiCo – Broad Formulations

- Some jurisdictions have adopted broad formulations of the inevitable disclosure doctrine

- Illinois three-part test: 1) the level of competition between former and new employer, (2) whether position with the new employer is comparable to former position, and (3) the actions taken by the new employer to prevent the former employee from using or disclosing trade secrets

- Pennsylvania – substantial likelihood (not inevitable) use

Post-PepsiCo – Restrictive Standards

- New York position - *EarthWeb v. Schlack*
  - Strict judicial scrutiny – doctrine should only be employed in "rare" cases where there is actual wrongdoing by a former employee

- Narrow formulations, including *Inevitability plus*
  - Inevitability must be coupled with evidence that the former employee will not respect trade secrets

- Rejection of the Doctrine - California, Maryland
  - Doctrine conflicts with restraint of trade law or public policies underlying employee non-compete law

DTSA Provisions re Inevitable Disclosure

Under the DTSA, a court may grant an injunction "to prevent any actual or threatened misappropriation," provided the order does not "**prevent a person from entering into an employment relationship, and that the conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows**."

DTSA Provisions re Inevitable Disclosure

The DTSA also prohibits a court from issuing an injunction that "**otherwise conflicts with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business**."

Cases Under DTSA

- Illinois and several other states have allowed inevitable disclosure claims under the DTSA – few of these courts have interpreted the language of the Act or legislative history (reliance on state law)

- Federal courts in Oregon and Maine have rejected inevitable disclosure based on the limiting language in the Act

Issues Under DTSA

- Is inevitable disclosure permitted in cases under the DTSA? If so, what should the scope of inevitable disclosure be under the DTSA?
- DTSA provisions are ambiguous but appear to allow inevitable disclosure with significant limitations – knowledge of trade secrets is not sufficient standing alone to establish a threatened misappropriation, *evidence of a threat required*

Issues Under DTSA

- What state employee non-compete laws fall within the restraint of trade limitation of the DTSA? What about states like Maryland rejecting the doctrine based on common law?
- Scope of language is unclear – what is an "applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business."

Proposed Federal Inevitable Disclosure Framework

- Inevitable disclosure should be viewed as evidence of threatened misappropriation, not as an independent theory of misappropriation (*Holton* - Georgia Supreme Court case)

- Courts should subject inevitable disclosure claims to strict scrutiny (New York, Minnesota)

Proposed Federal Inevitable Disclosure Framework

- Federal courts should adopt *inevitability plus* or a narrow approach requiring evidence of bad faith, unlawful intent or wrongful action

- Federal courts should broadly construe DTSA restraint of trade language to include statutory prohibitions and court decisions rejecting the doctrine