

Inevitable Disclosure and the Defend Trade Secrets Act: Can We Unify?

I. Introduction

Growing up, we all encountered that one child on the playground who ignored the rules of recess games or fabricated rules on an ad-hoc basis for personal gain. The lack of fair play in touch football or four-square may not have had a significant impact on our society, but it certainly has led to resentment and maybe tears. Without an agreement about rules or a paradigm of fair dealing, kids often choose not to engage in playground games, because no one wants to play a game where winning or losing seems arbitrary and unpredictable based on who hold the most power on the field. Trade secret law comes from an analogous need for unified, enforceable rules that delineate fair dealing.¹ Without a common ground of commercial morality, innovation and research experiences a chilling effect, especially when these expensive endeavors do not result in patentable subject matter.² The purpose of trade secret law is to promote cooperation, innovation, and growth in the business sector by offering legal protection to those who invest in the development of a business practice.³

Trade secret law made its way from English Common Law⁴ to the United States law around 1837⁵, eventually becoming codified through the adoption of the Uniform Trade Secrets Act. In 1979, The Uniform Trade Secrets Act (UTSA) was approved in by the National Conference of Commissioners on Uniform State Laws⁶, influenced by common law development of trade secrets protection⁷, the First Restatement of Torts, and the Third Restatement of Unfair

¹ MELVIN F. JAGER, TRADE SECRETS LAW §1.3 (2016).

² *Id.* (citing *Brunswick Corp. v. Outboard Marine Corp.*, 404 N.E.2d 205 (Ill. 1980)).

³ *Id.* §1.1.

⁴ *Id.* §2.2 (citing *Newbery v. James*, 2 Mer. 446, 35 Eng. Rep. 1011 (Ch. 1817)).

⁵ *Id.* §2.3 (citing *Vickey v. Welch*, 36 Mass. 523 (1837)).

⁶ *Id.* §§2:1, 3:28.

⁷ Brandy Treadway, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?*, 55 SMU L. REV. 621, 625 (2002) (noting that the first trade secret case was in 1817 in England during the industrial revolution).

Competition.⁸ A recent development in federal law, the Defend Trade Secrets Act of 2016, has yet to present its influence on trade secret protection. The UTSA offers injunctive relief for actual or threatened misappropriation of trade secrets, with no positive definition for what constitutes “threatened” misappropriation.⁹

The Inevitable Disclosure Doctrine (IDD) arose out of the third of three prongs required to show trade secret misappropriation. In an action for trade secret misappropriation, a plaintiff must show (1) that the information at issue qualifies as a trade secret under the statute, (2) that the plaintiff took reasonable precautions to protect the information, and (3) that the defendant wrongfully acquired the information, or misappropriated it.¹⁰ From the third prong, an injunction may be provided for actual or threatened misappropriation;¹¹ and it is through this prong that courts across the nation have provided remedies to protect trade secrets when disclosure is “inevitable” even when actual or circumstantial evidence of a threat to misappropriate trade secrets is absent.¹²

Over the last twenty years, state and federal courts have split into a wide array of rejection, adoption, and partial adoption of the Inevitable Disclosure Doctrine. In 2016, the U.S. Congress passed the Defend Trade Secrets Act (DTSA), which provides subject matter jurisdiction for trade secret misappropriation actions in federal court. The new statutory language of the DTSA rejects the Inevitable Disclosure Doctrine but explicitly leaves state law untouched. This Comment will explain the Inevitable Disclosure Doctrine development, briefly

⁸ *Supra* note 1, §2:1.

⁹ See UNIF. TRADE SECRETS ACT §§1-2 (NAT’L CONF. COMM’R’S UNIF. ST. L.’S 1985).

¹⁰ *Id.*

¹¹ *Id.* at §2(a).

¹² *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F.Supp. 1477 (W.D.N.C. 1995); *Pepsico Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); *Campbell Soup Co. v. Giles*, 47 F.3d 467 (1st Cir. 1995).

cause of action for traditional trade secret misappropriation under Illinois trade secret law, as well as contract law protections if the former manager were to give this information over to Quaker Oats. However, PepsiCo, Inc. successfully asserted that regardless of the former manager's good faith, the information he had obtained from employment at PepsiCo, Inc. for soft drink distribution would inevitably affect his business practices when implementing the distribution plans for Snapple.²¹ Sales, marketing, distribution plans, pricing, and promotion techniques were all among the trade practices that PepsiCo, Inc. was afraid would be used by their former manager, consciously or not.²²

The *PepsiCo* case is an excellent example of how valuable marketing and business practices are to corporations, as PepsiCo, Inc. surely spent millions in litigation for this lawsuit. It also comments on the question: Can people ever be separated from their business knowledge? PepsiCo, Inc. was concerned with Quaker Oats' ability to anticipate PepsiCo, Inc.'s distribution, packaging, pricing, and marketing moves.²³ It is extremely difficult to strike the balance between allowing individuals to freely move within the employment market and preserving corporate interest in competition. In the absence of a federal law, state courts have landed all over the map as to whether an Inevitable Disclosure Doctrine should be adopted.²⁴ This comment will look at a selection of state court and federal court decisions to highlight the policies behind the IDD, analyze the Defend Trade Secrets Act 2016, and argue for unification of the IDD through state legislation.

²¹ *Id.* at 1266-67.

²² *Id.* Also note that *PepsiCo Inc. v. Redmond* 54 F.3d 1262 (7th Cir. 1995) has been viewed as expanding equitable, injunctive relief to business information rather than just technology. See ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS §5.02[3][d] fn.38 (Pub. 738 2016); *supra* note 7, at 625 (2002).

²³ *PepsiCo Inc. v. Redmond*, 54 F.3d 1262, 1270 (7th Cir. 1995).

²⁴ *Supra* note 7, at 621.

I. State Law Adoption of Inevitable Disclosure

As trade secret actions developed unevenly through common law, the need for a statutory cause of action became clear.²⁵ At the 1979 meeting of the National Conference of Commissioners on Uniform State Laws, after ten years of study, the Uniform Trade Secrets Act (USTA) was approved. The USTA combined common law, the First Restatement of Torts, and the Third Restatement of Unfair Competition to create a unified body of law for trade secret actions.²⁶ Currently 48 states²⁷, the Virgin Islands²⁸, and Puerto Rico²⁹ have all adopted some form of the USTA. Despite the vast similarity in statutory trade secret laws among states, legal doctrines such as the IDD have become fractured through common law.³⁰ This fractionation is due to discrepancies in how different states view the balance between research and innovation, exclusive property rights, commercial fairness and business morality, and employment mobility. Here I will discuss a sample of state court opinions falling on the ends of the spectrum of rejection and adoption of IDD to explain the policy reasons for and against the IDD.³¹

²⁵ *Prefatory note*, UNIF. TRADE SECRETS ACT (NAT'L CONF. COMM'R'S UNIF. ST. L.'S 1985) (noting that the development of trade secret law in state courts has been uneven and unpredictable, and that the section relevant to trade secret law from the Restatement of Torts, section 757, was not carried through to the Restatement of Torts, 2d (1978)).

²⁶ *Id.* at §3:28.

²⁷ *Supra* note 9. New York and Massachusetts have not yet adopted the Uniform Trade Secrets Act, but currently have legislation pending to introduce a form of the UTSA. Uniform Law Commission, <http://www.uniformlaws.org/Act.aspx?title=trade%20Secrets%20Act> (New York Bill AB6419/SB4688; Massachusetts bill SB1020/HB43).

²⁸ 11 V.I.C. §§ 1001-1010 (2005).

²⁹ Uniform Trade Secrets Act of Puerto Rico, Act 80, (June 3, 2011).

³⁰ *Supra* note 7.

³¹ Many states have not addressed the Inevitable Disclosure Doctrine or have issued unclear rulings on the doctrine. *Supra* note 7. States lacking definitive case law include Indiana, Michigan, Missouri, and Pennsylvania. *See generally Supra* note 7. States adopting limited version of Inevitable Disclosure include Connecticut, Iowa, Massachusetts, New York, North Carolina, and Texas. *Id.* This comment addresses only court rulings on the ends of the spectrum to illustrate the need for a unified boundary for the Inevitable Disclosure Doctrine defined in an amendment to the Uniform Trade Secrets Act.

A. States That Adopted

Arkansas, Delaware, Illinois, Minnesota, Utah, and Ohio, are all among states who have adopted the Inevitable Disclosure Doctrine.³² These states have adopted the broadest coverage for the inevitable disclosure. Citing *Pepsico*,³³ the court in *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transportation Services, Inc., Arkansas*³⁴ reasoned that former trucking industry employees would inevitably disclose trade secrets to four major customers of the former employer. The court issued its ruling despite any presence of a non-compete agreement between the truckers and the former employer, and reasoned that the situation amounted to threatened trade secret misappropriation.³⁵ The remedy in equity involved amending the confidentiality agreement between the former employer and the truckers to include a non-compete provision.³⁶ Here, the facts were more sympathetic to the original employer, because the former employees expressed the intent to fill competitive holes between themselves and the original employer, which served as a showing of threatened misappropriation.³⁷ Also, the competitor company president said he would approve telling customers where the competitor's product was better than the former employer's products, which was even further problematic because the former employees were servicing the same customers they had serviced when they worked for the plaintiff.³⁸ The Arkansas court focused on the similarity between employment positions, the overlapping customer segments, and the statements by the competitor as reasons to prevent the competitor from generating new business with the overlapping customers.³⁹ The pivot point here

³² *Supra* note 7.

³³ *Pepsico Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

³⁴ 987 S.W.2d 642 (Ark. 1999).

³⁵ *Id.* at 146-47.

³⁶ *Id.* at 146 (as argued by the appellant).

³⁷ *Id.* at 153.

³⁸ *Id.*

³⁹ *Id.* (The court stated that “[b]ased on the foregoing findings, the trial court found that [the competitor] had no compunction about using or disclosing information covered under [the former employer’s] confidential agreement to

seemed to ride on the statements made by the president of the competitor company, and it is difficult to say whether “threatened misappropriation” could have been proven by the evidence even without any holding about inevitability.

The Delaware Court of Chancery took the position that weighing the probability of disclosure was a satisfactory and well-grounded legal foundation upon which to build inevitable disclosure.⁴⁰ The court faced an ideal set of facts for the discussion of the inevitable disclosure doctrine because the plaintiff offered no evidence of a threat to disclose or intent to disclose the titanium dioxide manufacturing process from defendant’s previous employer, which was the only company to successfully develop the process in the United States; and the defendant did not enter into a non-compete agreement with the plaintiff.⁴¹ The court expressed concern for this manufacturing industry, and the substantial expenditures made by large companies to find new and improved solutions to commercial and industrial goals.⁴² In the greater scheme of things, trade secret protection is useless when the cost of fixing the harm through a legal remedy after disclosure outweighs the investment in product development. In weighing the property interests of the employer with the right of the individual to use their skills for employment, the court limited its injunction to the disclosure of plaintiff’s trade secrets, and did not enjoin the defendant from continuing employment at the competing company.⁴³

gain an unfair competitive advantage. We believe such evidence and findings are more than sufficient to show a threatened or inevitable misappropriation of [the former employer’s] trade secrets.

⁴⁰ E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp 200 A.2d 428 (Del. Ch. 1964).

⁴¹ *Id.* at 539.

⁴² *Id.* at 547 (“Among the substantial and conflicting policies at play in this situation are 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.”).

⁴³ *Id.* at 548 (stating “[I]t is hard to ask a man to work in a trade secret area and thereby circumscribe his possible future liberty of action and the use of the knowledge and skills which are inextricably interwoven with his knowledge of the trade secrets.”).

An Illinois court noted in *Illinois C&F Packing Co. v. IBP, Inc.*⁴⁴ that the ability to “compartmentalize information” in the way required under a law that would not recognize inevitable disclosure is unrealistic.⁴⁵ The court noted the common occurrence of employees moving from a position in one company to a similar position in another, and also held that the company hiring the employee could be held liable under the IDD for placing the employee in a position where inevitable disclosure would result.⁴⁶ It would be impractical to think trade secrets would not travel with an employee to the homestead of a competitor.

On the individual employee protection side, a Wisconsin court applying Minnesota trade secret law held that a corporation must show a “high degree of probability of inevitable disclosure” to prevail in *La Calhene, Inc. v. Spolyar*.⁴⁷ The plaintiff’s motion for preliminary injunction was granted, and the terms, such as injunction from working with business deals relating to any of plaintiff’s products or services, mitigated the potential for trade secret misappropriation without enjoining the defendant entirely from employment at the competing company.⁴⁸ The court set a high bar for IDD based injunctions; and even though the facts from *La Calhene* showed that the defendant had intimate knowledge of the plaintiff’s trade secrets and had been working directly with plaintiff’s customers at the competing company, the court limited the injunction to specific activities where disclosure would be inevitable for one year, rather than enjoining defendant’s employment entirely or for a limited period of time.⁴⁹

⁴⁴ Illinois No. 93 C 1601, 1998 WL 1147139 (N.D. Ill. Mar. 16, 1998).

⁴⁵ *Id.* at 7 (citing *Pepsico Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995)).

⁴⁶ *Id.*

⁴⁷ 938 F.Supp. 523 (W.D. Wis. 1996) (incorporating inevitable disclosure policies into the interpretation of Minnesota Law).

⁴⁸ *Id.* at 532.

⁴⁹ *Id.*

concern for protecting his former employer's trade secrets,⁵⁷ the substantial investments made by the former employer in the trade secret protected technology,⁵⁸ and a desire to mitigate harm to the employee by enjoining only the actions that would harm the former employer's trade secret interests.⁵⁹ Next, I will examine the reasons some state courts have used to reject an adoption of the IDD.

B. States that Rejected

California, Florida, and Virginia are among some of the states that have outright rejected the IDD.⁶⁰ In a harsh backlash to a claim based in the IDD, a California court of appeals awarded the defendant over \$1.64 million in attorney's fees in *FLIR Systems, Inc. v. Parish*.⁶¹ The defendant had developed technology at plaintiff's company, and sought to work at a start-up after plaintiff's company had been bought out.⁶² Defendant former employee ensured that he would not use the plaintiff's trade secrets, and that even though the start-up company was developing products in a similar technology market, the start-up would incorporate intellectual property filters to prevent any misappropriation.⁶³ Plaintiff company filed the lawsuit anyway, relying on the IDD to claim that the start-up could not develop its products on the proposed timeline without inevitable misappropriation.⁶⁴ The California court did not respond well to this claim, rejecting the IDD outright "because it contravenes a strong public policy of employee

⁵⁷ See *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transportation Services, Inc.*, 987 S.W.2d 642 (Ark. 1999); *Novell Inc. v. Timpanogos Research Group Inc.*, 46 U.S.P.Q.2d (BNA) 1197 (Utah Dist. Ct. 1998).

⁵⁸ See *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp* 200 A.2d 428, 547 (Del. Ch. 1964).

⁵⁹ *Id.*

⁶⁰ Other states that have rejected the IDD include Connecticut (*Atena, Inc. v. Fluegel*, 2008 Conn. Super. LEXIS 326 9-10, 16-21)(unpublished) and Massachusetts (*Dynamics Research Corp. v. Analysitc Sciences Corp.*, 400 N.E.2d 1274, 1282-1286 (Mass. App. 1980)).

⁶¹ 174 Cal.App.4th 1270 (2009).

⁶² *Id.* at 1274.

⁶³ *Id.*

⁶⁴ *Id.*

mobility that permits ex-employees to start new entrepreneurial endeavors.”⁶⁵ The court stated, “There must be a substantial threat of impending injury before an injunction will issue.”⁶⁶ Since the holding in *FLIR systems*,⁶⁷ California has continued to firmly protect individual employee’s mobility to foster entrepreneurial growth.⁶⁸

As cited in *FLIR Systems*,⁶⁹ Florida has also rejected the IDD as seen in *Del Monte Fresh Produce Co. v. Dole Food Co.*⁷⁰ The Florida Court expressly rejected the IDD,⁷¹ and reasoned that if the previous employer wanted to prevent the employee from working for a competitor, it should have executed a non-compete agreement with the employee.⁷² Without any convincing evidence of actual or threatened appropriation of trade secret misappropriation by the employee, the court was unwilling to essentially write a contract for the employer and bind the employee to it.

Two other states, Virginia and Connecticut are worth noting as rejecting the IDD, but the court opinions do not offer much to the policy arguments behind the IDD rejection.⁷³ The main policy reason against the IDD is that it unnecessarily restricts the mobility of employees. Courts aligning against the IDD put the onus on the former employers to enter into enforceable and reasonable contracts with the employees that work closely with valuable trade secrets. This

⁶⁵ *Id.* at 1275

⁶⁶ *Id.* at 1280 (citing *Del Monte Fresh Produce Co. v. Dole Food Co. Inc.*, 148 F.Supp.2d 1326, 1328 (S.D.Fla.2001) (discussing California and Florida law)).

⁶⁷ 174 Cal.App.4th 1270 (2009).

⁶⁸ See *Colorox Co. v. S.C. Johnson & Son*, 627 F. Supp. 2d 954, 965-968 (E.D. Wis. 2009) (denying injunctive relief under Inevitable Disclosure Doctrine under California law).

⁶⁹ 174 Cal.App.4th 1270 (2009).

⁷⁰ 148 F. Supp. 2d 1326 (S.D. Fla. 2001).

⁷¹ *Id.* at 1337 (holding “absent evidence of actual or threatened misappropriation, a court should not allow a plaintiff to use inevitable disclosure as an after-the-fact non-compete agreement to enjoin an employee from working for the employer of his or her choice.”).

⁷² *Id.* at 1337.

⁷³ See *Government Technology Services, Inc. v. Intellisys Technology Corp.*, No. 160265, 1999 WL 1499548 (Va. Cir. Ct. 1999)(refraining from detailing any policy reasons for rejection); *Atena, Inc. v. Fluegel*, 2008 Conn. Super. LEXIS 326 9-10, 16-21(unpublished).

policy encourages businesses to ensure the protection of their own trade secrets, promotes open and fair negotiation between employers and employees, and allows the free movement of employees in the market to use their technical skills and know-how to grow the economy.

As seen in these last two sections, courts have issued holdings across the spectrum from full injunction on the defendant's employment with a competitor to large attorney's fees awards to defendants. This makes litigation especially unpredictable in cases where choice-of-law is uncertain for nationwide or multi-state businesses, which is all too common today with the advent of the internet, advanced shipping methods, and widespread transportation. Because no federal statutes existed regarding trade secrets until 2016, IDD claims brought in federal courts have all relied on state law. Next I will discuss federal court opinions on the Inevitable Disclosure Doctrine to set the stage as to what the Defend Trade Secrets Act 2016 may or may not preempt and further discuss what might be a better solution to this murky area of the law.

II. Federal Court Treatment of the Doctrine

The seminal case for the Inevitable Disclosure Doctrine arose out of the Seventh Circuit⁷⁴ in 1995, and since that decision, federal courts have fallen over a spectrum on adoption and rejection.

A. Federal Circuits that Adopted

In the same year that the Seventh Circuit adopted the Inevitable Disclosure Doctrine in *Pepsico, Inc. v. Redmound*,⁷⁵ the Fourth Circuit expressed concern about the effect of the IDD on individuals, and defined the outer limits of the doctrine.⁷⁶ The court in *FMC Corp v. Cyprus Foote Mineral Co.*, 899 F.Supp. 1477 (W.D.N.C. 1995), defined the contours of the knowledge

⁷⁴ *Pepsico Inc. v. Redmond*, 54 F.3d 1262, 1273 (7th Cir. 1995).

⁷⁵ 54 F.3d 1262 (7th Cir. 1995).

⁷⁶ *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F.Supp. 1477 (W.D.N.C. 1995).

an employee must know in order for the Inevitable Disclosure Doctrine to apply.⁷⁷ In *FMC Corp.*, the employee merely possessed skills that were available to anyone who would have had 14 years of engineering experience in lithium production.⁷⁸ The court held that knowledge must be directly related to the specific company's practice of business, rather than to the employee's own skill set, otherwise no employee could ever move freely in the employment market after developing a highly coveted skill set.⁷⁹ This would not only put a freeze on an individual's desire to hone a specific set of marketable job skills, but also freeze employees into stagnant employment positions and locations not conducive to their individual interests. The opinion in *FMC* highlights two important lessons moving forward: (1) trade secret protection is designed to protect business, not technology, and (2) the Defend Trade Secrets Act 2016 will have minimal effect on unifying the Inevitable Disclosure Doctrine for use in protecting business practices.

On the first prong, the *FMC* court recognized that scientific and engineering advancement already has a place for protection under the law through the patent system.⁸⁰ These types of innovation are protected for an entirely different purpose, and in an entirely, if not opposite, manner. If a company invests in technological or pharmaceutical development, it should be rewarded with a patent. Breakthrough technology is the most pure and honest form of competitive advantage. However, trade secret law is designed to prevent unfair competition and bad faith. Patent law rewards good faith, trade secret law prevents and punishes bad faith.

On the second prong, the Defend Trade Secrets Act statutory language explicitly excludes injunctive relief merely for information an employee knows,⁸¹ directly reflecting the

⁷⁷ *Id.* at 1483.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ *See Id.* at 1482.

⁸¹ 18 U.S.C. §1836(3)(A)(I).

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⁷⁹ *Id.*

⁸⁰ *See Id.* at 1482.

⁸¹ 18 U.S.C. §1836(3)(A)(I).

concern of the *FMC* court. This statutory language demonstrates that the DTSA altogether missed the mark on unifying the use of the Inevitable Disclosure Doctrine. Prior to the DTSA, no federal court had ever issued an injunction “merely on the information [a] person knows”,⁸² and it is unclear as to whether Congress intended this language to apply to information which directly relates to the specific business practices of a former employer.

The First Circuit addressed a claim for trade secret misappropriation based in the Inevitable Disclosure Doctrine about a month after the *Pepsico* decision in *Campbell Soup Co. v. Giles*.⁸³ The court upheld the district court’s denial of plaintiff’s motion for preliminary injunction, and although the *Campbell Soup Co.* court cited *Pepsico* in its opinion, it did not seem fond of the Inevitable Disclosure Doctrine given the facts before the court.⁸⁴ Not only was most of the marketing information at issue already available to customers and the public through various means, but the defendant’s position at the competitor’s (Progresso) company was one of implementing marketing strategies, not creating them.⁸⁵ The trend appears to be that a plaintiff can only prevail under this doctrine in a limited, Goldilocks-type scenario, where the circumstances are just right: when a non-compete isn’t in place, the employee has just the right type of marketing and sales knowledge, and the employee is moving to just the right type of position. Without these conditions, the Inevitable Disclosure Doctrine inevitably gets swallowed by more prominent and well-established areas of the law.

In *Uncle B’s Bakery v. O’Rourke*⁸⁶, the Eighth Circuit relied on *Pepsico* to prevent a former employee of a bagel company from disclosing the company’s trade secrets and from

⁸² 18 U.S.C. §1836(3)(A)(I).

⁸³ *Campbell Soup Co. v. Giles*, 47 F.3d 467 (1st Cir. 1995).

⁸⁴ *Id.* at 469.

⁸⁵ *Id.*

⁸⁶ *Uncle B’s Bakery v. O’Rourke*, 920 F.Supp. 1405 (N.D. Iowa 1996).

working for one of the competing companies entirely.⁸⁷ Although the employee had signed a non-competition agreement and the competitor had no intentions to move into the refrigerated, never frozen bagel niche of the former employer, the court found an injunction appropriate out of principles of equity.⁸⁸ The decision hinged greatly on the threat of irreparable harm to the former employer, and the court conducted a balancing test for the harm of issuing an injunction versus letting the employee work for the competitor.⁸⁹

B. Federal Circuits that Rejected

A notable decision out of the Second Circuit highlights the counter arguments to the adoption of the IDD. In *EarthWeb, Inc. v. Schlack*⁹⁰, the court noted that after termination of employment, companies would be able to turn confidentiality agreements into restrictive covenants, wielding them like a “powerful weapon”, and chilling employees from freely using their skills in the market.⁹¹ The court contended that restrictive covenants should result from contract between the parties, not through judicial action.⁹²

The Third Circuit has also rejected such injunctive remedy, like in *Midland-Ross Corp. v. Sunbeam Equip. Corp.*⁹³ In *Midland-Ross Corp.*, the court considered the likelihood that the defendant would need to use trade secrets from the former employer to perform his job with the competitor.⁹⁴ The court found that the employee would not need to use the trade secrets of the former company in his new position, which would bar an injunction even in jurisdictions recognizing the IDD, and elaborated on the policy argument that technically skilled employees

⁸⁷ *Id.* at 1436.

⁸⁸ *Id.*

⁸⁹ *Id.*

⁹⁰ 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

⁹¹ *Id.* at 310-11.

⁹² *Id.* (“Such constraints should be the product of open negotiation . . . clearly, a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterward”).

⁹³ 316 F. Supp. 171, 167 aff’d per curiam, 435 F.2d 159 (3d Cir. 1970).

⁹⁴ *Id.* at 178.

(in this case a heating furnace technician) should be allowed to use their experience and skill where they choose to use them.⁹⁵

Other circuits to reject the IDD include the Ninth Circuit⁹⁶, the Tenth Circuit⁹⁷, and the Eleventh Circuit.⁹⁸ Prior to the passage of the Defend Trade Secrets Act of 2016⁹⁹, federal court decisions on trade secrets were entirely dictated by the trade secret laws of the state that won the choice-of-law battle between litigants because no federal law for civil trade secret lawsuits existed. The DTSA will make justifying subject matter jurisdiction in federal courts easier for litigants, but with reference to the IDD, many problems will still exist with disunity.

III. The Defend Trade Secrets Act 2016

The Defend Trade Secrets Act addressed the increasing problem of trade secret theft, particularly in the international domain.¹⁰⁰ The Senate quoted Eric Holder who stated, “[t]here are only two categories of companies affected by trade-secret theft: those that know they’ve been compromised and those that don’t know yet.”¹⁰¹ The estimated impact on the American Economy from trade secret theft was over 300 billion dollars. Thus, the Congress began discussing the Defend Trade Secrets Act in 2014, which would give subject matter jurisdiction in federal court for civil trade secret claims, bring trade secret protection in line with other federally protected intellectual property rights, and incentivize innovation in American technology.¹⁰²

⁹⁵ *Id.* at 178.

⁹⁶ *Globespan, Inc. v. O’Neil*, 151 F. Supp. 2d 1229 (C.D. Cal. 2001).

⁹⁷ *IOSTAR Corp. v. Stuart*, 2009 U.S. Dist. LEXIS 9476, 14-19 (D. Utah Feb. 2 2009) (mere risk of misappropriation, which is present whenever trade secrets are disclosed to another, was “far too tenuous” to warrant an injunction).

⁹⁸ *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326 (S.D. Fla 2001).

⁹⁹ Defend Trade Secrets Act, 18 U.S.C. §1836.

¹⁰⁰ MILGRIM, *supra* note 22, §1.01[5][a].

¹⁰¹ S. REP. 114-220, S. Rep. No. 220, 114th Cong. 2ND Sess. 2016, 2016 WL 886187 (Leg. Hist.) (March 17, 2016) Senate Report No. 114-220.

¹⁰² *Supra* note 101.

The DTSA amended the U.S. Code where the Economic Espionage Act was codified, which had left a gap in trade secret protection by only empowering the attorney general to pursue criminal charges for trade secret theft in limited circumstances.¹⁰³ With respect to the IDD, both the Senate and the House addressed the desire to protect employee mobility and limit injunctive relief offered by courts.¹⁰⁴

The DTSA limits the use of the Inevitable Disclosure Doctrine in federal court, but only time will tell how the statute is interpreted. The relevant provision states that a court may not: “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.”¹⁰⁵ The first portion of this statute changes the application of the Inevitable Disclosure Doctrine in meaningful way because the First, Fourth, Seventh, and Eighth Circuits have all allowed injunctions preventing a person from employment for some definite or indefinite time frame.¹⁰⁶ This type of remedy has been disallowed by Congress through the DTSA.¹⁰⁷ However, the limitation “not merely on the information the person knows”, will have a confusing application based on previous case law. In all the cases where the plaintiff asserted a claim for trade secret misappropriation based in the Inevitable Disclosure Doctrine, more evidence was offered before the court than merely what the employee knew.

¹⁰³ *Supra* note 101.

¹⁰⁴ *See supra* note 101, (stating that the section applicable to the IDD “reinforces the importance of employee mobility and contains some limitations on injunctive relief that may be ordered”); S. REP. 114-220, S. Rep. No. 220, 114th Cong. 2ND Sess. 2016, 2016 WL 886187 (Leg. Hist.) (April 26, 2016) 114th Congress House of Representatives Report 114-529 (stating that the section applicable to the IDD was “included to protect employee mobility”).

¹⁰⁵ 18 U.S.C. §1836(3)(A)(I).

¹⁰⁶ *Campbell Soup Co. v. Giles*, 47 F.3d 467 (1st Cir. 1995); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F.Supp. 1477 (W.D.N.C. 1995); *Pepsico Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); *Uncle B’s Bakery v.. O’Rourke*, 920 F.Supp. 1405 (N.D. Iowa 1996).

¹⁰⁷ 18 U.S.C. §1836(3)(A)(I).

Take for example *Pepsico*,¹⁰⁸ where the plaintiff offered evidence comparing the employee's position with the former employer to the employee's current position with the competitor and comparing the markets in which Quaker Oats and Pepsico, Inc. were competing. Even in *Pepsico*, where the Inevitable Disclosure Doctrine was utilized in its most pure form, it is still hard to say whether the plaintiff would or would not have succeeded with an action for trade secret misappropriation under the DTSA's new statutory language. Had congress thought to use the word "inevitable" or some version of the word, the unification desired, at least in federal court, would have been a lot clearer.

In addition, choice-of-law issues will likely drown out any uniformity that the DTSA codification would have offered for the IDD.¹⁰⁹ Companies seeking to protect their trade secrets will file their trade secret misappropriation claims under favorable state law, and the federal courts will be bound to a ruling under that state law due to the language in the DTSA that prevents state law from being preempted by its adoption.¹¹⁰ Therefore, the DTSA will not likely be successful in unifying the nation for inevitable disclosure.

IV. Unifying the Inevitable Disclosure Doctrine

Congress had the opportunity to unify the nation on the Inevitable Disclosure Doctrine in 2016 when it passed the Defend Trade Secrets Act,¹¹¹ but decided upon leaving the messy fractionation of the doctrine untouched.¹¹² The Inevitable Disclosure Doctrine is obviously favorable to companies, who want relief before disclosure and ultimately irreparable harm takes place. Once a trade secret is disclosed without restriction, it completely loses protection under

¹⁰⁸ *Pepsico Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995).

¹⁰⁹ Christopher Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 364 (2015).

¹¹⁰ 18 U.S.C. §1836(3)(A)(II) (federal courts may not grant an injunction if it would "otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business").

¹¹¹ 18 U.S.C. §1836.

¹¹² 18 U.S.C. §1836(3)(A)(II) (federal courts may not grant an injunction if it would "otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business").

trade secret law. Some studies have shown that the IDD promotes venture capital returns to investors¹¹³, but all studies have limitations and legal doctrines should not be adopted merely to promote business investments.

To start, we must look at what businesses can do to protect themselves even in the absence of the IDD. Companies already can protect themselves through the creation of non-competition agreements, and if trade secret protections are especially integral to an employment position, companies can take extra precautions to contract into the remedies that the IDD would have offered anyway. As noted in the previous sections, some courts, such as the court in *EarthWeb, Inc. v. Schlack*¹¹⁴, have firmly placed the responsibility on companies to protect themselves through contracts. If a trade secret or group of trade secrets is of significant value to a company, the onus should be on the company to protect themselves through non-competition and confidentiality agreements, not on courts to alleviate this oversight after the fact. Without the IDD, companies still have the full power of the law on their side if they engage in protective contractual practices. One might argue that without the IDD, companies are at a loss in jurisdictions where non-competition agreements are severely limited or prohibited altogether. However, in the jurisdictions where non-competition agreements are explicitly rejected, the IDD has also been rejected, like in California.¹¹⁵ This is because the public policy consideration of employee mobility supports both a rejection of the IDD as well as the limitation or rejection of non-compete agreements. In summary, companies can already protect themselves through the free and open negotiation of contracts with their employees, and even in states where these protections might be limited, the IDD is not available or limited as a remedy anyway.

¹¹³ Francesco Castellaneta et al., *The effect of trade secret legal protection on venture capital investments: Evidence from the Inevitable Disclosure Doctrine*, J. BUS. VENT., 524-541(2016).

¹¹⁴ 71 F. Supp. 2d 299 (S.D.N.Y. 1999).

¹¹⁵ *FLIR Systems, Inc. v. Parish*, 174 Cal.App.4th 1270 (2009).

Even though companies can take precautions in advance to protect against trade secret misappropriation through the free and open negotiation of contracts, the minefield of IDD rules in courts across the United States needs unification to provide more reliable litigation outcomes when contract protections fall through. Because the Defend Trade Secrets Act left state law untouched, which is the primary legal reason why it failed to unify the nation on the IDD, I propose two amendments to the Uniform Trade Secrets Act to be adopted through state law. Currently, businesses can bring trade secret misappropriation actions in state courts under state trade secret law, and since state courts vary greatly in their treatment of IDD claims, unification on the state level is greatly needed. The language I propose addresses another failing of the DTSA, which is that provisions on the IDD in the DTSA can be worked around in federal court by presenting evidence other than just what the employee knows. With such widespread acceptance and adoption of the Uniform Trade Secrets Act, it is likely that states will be receptive of the changes I am proposing, and this will ultimately close some of the failings of the Defend Trade Secrets Act to unify the Inevitable Disclosure Doctrine.

First, I propose that the Uniform Law Commission amend the Uniform Trade Secrets Act to include the language from DTSA¹¹⁶ that prevents courts from issuing injunctions which “prevent a person from entering an employment relationship”¹¹⁷ and also that prevents injunctions based “merely on the information the person knows.”¹¹⁸ If the majority of states were to adopt this language, it would do considerably more to unify the nation on the IDD than the DTSA 2016, and would bring to fruition the intentions of congress to preserve employee mobility.¹¹⁹ I think the drafters of the DTSA got it right with this language, but without any

¹¹⁶ 18 U.S.C. §1836 (b)(3)(A)(i)(1)(I).

¹¹⁷ 18 U.S.C. §1836 (b)(3)(A)(i)(1)(I).

¹¹⁸ *Id.*

¹¹⁹ *Supra* note 101.

change in state law, these limitations on injunctions don't apply for misappropriation lawsuits filed in state court or to misappropriation lawsuits filed in federal court when state law is controlling for the misappropriation claims. The statutory language from the DTSA mentioned above would allow employers to request injunctive relief for specific activities including preventing the employee from working with customers whom the employee previously services while working for the former employer like in *La Calhene, Inc. v. Spolyar*¹²⁰, but would not allow courts to prevent employees from entering an employment position entirely like in *Novell Inc. v. Timpanogos Research Group Inc*¹²¹ or *Pepsico Inc. v. Redmond*.¹²² The statutory language adopted by the DTSA and proposed here as a uniform law amendment strikes a balance between protecting companies' investments in intellectual property, while also allowing employees to move freely in the market. Under this amendment, courts would still have great discretion in the injunctive relief offered. In extreme cases, courts could greatly limit the employee's activities at the competitor's company if the injunction does not fully bar the employee from employment. And in cases where disclosure is less inevitable or the trade secrets are not as valuable, an injunction merely on the future disclosure of the trade secrets could be issued like in *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*¹²³

Second, I would ask the Uniform Law Commission to Amend the Uniform Trade Secrets Act to positively define "threatened misappropriation". The division among courts to assess an IDD claim stems from different interpretations of the phrase "threatened misappropriation". The DTSA only sought to negatively limit courts' injunctive power, and I would recommend that

¹²⁰ 938 F.Supp. 523 (W.D. Wis. 1996) (incorporating inevitable disclosure policies into the interpretation of Minnesota Law).

¹²¹ 46 U.S.P.Q.2d (BNA) 1197 (Utah Dist. Ct. 1998).

¹²² 54 F.3d 1262 (7th Cir. 1995).

¹²³ 200 A.2d 428 (Del. Ch. 1964).

giving some guidance through a positive definition would make litigation of the IDD clearer.

Sample language would be:

Threatened misappropriation can be shown when (1) an employee leaves a business to work for a directly competing business; (2) the employee holds a substantially similar position at the directly competing business; (3) use of the previous employer's trade secrets would benefit the directly competing business; and then (4) circumstantial evidence can demonstrate that the employee will use the previous employer's trade secrets directly and inevitably while working for the directly competing business.

The first three factors set out the circumstances required to bring a claim for an injunction through the IDD, and the fourth would legitimize evidence like a lack of concern for the protection of the former employer's trade secrets, ill will toward the former employer, or lying about the functions of the new employee's position like in *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transportation Services, Inc., Arkansas*¹²⁴ and *Novell Inc. v. Timpanogos Research Group Inc.*¹²⁵ By positively defining the narrow and specific circumstances where the IDD *does* apply, the uniform law would acknowledge the long history of injunctions provided in equity before trade secret law was ever codified¹²⁶.

The "threatened misappropriation" definition legitimizes the fact that many courts that have rejected the IDD might have seen value in its application given the right circumstances. In this way, even if a particular jurisdiction has rejected the IDD in previous rulings, the proposed amendment language gives courts the power to issue an injunction when a former employee is acting circumstantially in bad faith but not actively or opening threatening to disclose trade secrets. Courts could then put limitations on the employee's actions at the new company to prevent the absolute loss of trade secret protection by disclosure.

¹²⁴ 987 S.W.2d 642 (Ark. 1999).

¹²⁵ 46 U.S.P.Q.2d (BNA) 1197 (Utah Dist. Ct. 1998).

¹²⁶ *Supra* note 7, at 623 (citing *Eastman Kodak Co. v. Powers Film Products, Inc.*, 179 N.Y.S. 325 (N.Y. App. Div. 1919)).

In summary, the proposed amendments to the Uniform Trade Secrets Act work together to define a narrower path for the IDD. Employee mobility would be protected under the first proposed amendment by preventing courts from enjoining employment at a particular company altogether. The second proposed amendment then empowers courts to provide relief to employers when their trade secrets are at risk so that years of investment and confidentiality practices do not fall apart from the mere parting of a former employee's lips.

V. Conclusion

The DTSA side-stepped the fractionation of the Inevitable Disclosure Doctrine, and the best way to unify this doctrine would be through amending the Uniform Trade Secrets Act, which states could then adopt for their own. Without this method, issues with venue, choice-of-law, and the lack of state law preemption by the DTSA will leave the IDD in the same mess in which it already is. Unification of this doctrine will give litigants greater predictability as to the legal outcome of an equitable, injunctive remedy for IDD claims, protect United States businesses' investments in trade secrets, and protect employees from being frozen into a particular position at a company. The purpose of trade secret protection is to promote commercial fairness and business morality¹²⁷, and the proposed amendments to the Uniform Trade Secrets Act will do just that.

¹²⁷ *Supra* note 1, §1:3.