Exploring the Nooks and Crannies of the Inevitable Disclosure Doctrine

by Thomas A. Muccifori and Benjamin D. Morgan

Many businesses believe their trade secrets provide a competitive advantage that distinguishes them in the marketplace. A secret recipe, a personalized work process, a coveted customer list, a dynamic marketing strategy—the list of potential trade secrets goes on and on. Yet many such businesses could not operate without revealing their cherished trade secrets to employees who access that treasured information as a daily part of their jobs. But what if the employee leaves? Today’s technology has increased both employee mobility and the value of proprietary information, and exacerbated the longstanding tension between an individual’s right to work where he or she chooses and a business’s right to protect against the disclosure of trade secrets by defecting employees.

Courts continue to grapple with what to do when a high-ranking employee, armed with intimate details of the company’s ‘secret sauce’ and bound by a confidentiality agreement but no non-compete, decides to defect to a competitor to perform essentially the same job. Will the courts protect the business and its sacred trade secrets, or side with the employee who freely defected and who, significantly, has yet to commit any breach of confidentiality? Has the newly enacted Trade Secrets Act provided any further recipes for employers wishing to protect their secrets? Does the employer have to wait for actual ‘threats’ of disclosures before it can seek relief?

This article examines those questions, first discussing the genesis of the inevitable disclosure doctrine, its ingredients, the arguments courts have found for and against the doctrine, and whether an independent cause of action is available, and finally discussing how New Jersey courts may view this doctrine in light of the Trade Secrets Act.

What is Inevitable Disclosure?

The inevitable disclosure doctrine is almost as old as trade secrets themselves. The doctrine applies when an employee, unrestrained by a non-compete, has access to trade secrets of his or her employer and then defects to the competition, taking a new job with duties so similar to his or her former position that the court believes he or she cannot possibly perform the new duties without making use of the former employer’s trade secrets. Since one cannot ‘unring a bell’ once an employee’s trade secrets have been disclosed, the courts will enjoin the employee from pursuing work with the new employer to protect that information from disclosure.

While not the first, the most famous inevitable disclosure case is clearly the Seventh Circuit’s decision in *PepsiCo, Inc. v. Redmond*, which sparked the policy debate between employers and employees over the court’s imposition of an after-the-fact, implied non-compete agreement never agreed to by the employee based on ‘inevitable disclosure.’ The decision stemmed from fierce competition between PepsiCo and Quaker Oats regarding their respective sports drinks, All Sport and Gatorade. Defendant Redmond had been one of PepsiCo’s high-level managers, responsible for 20 percent of PepsiCo North America’s U.S. profits, and was privy to PepsiCo’s competitively sensitive information. After 10 years working for PepsiCo, Redmond defected to Quaker Oats to become vice president of its Gatorade division.

Less than a week after Redmond told PepsiCo he was leaving for Quaker Oats, PepsiCo filed suit to enjoin Redmond from disclosing the company’s trade secrets and prohibiting him from starting his job in the Gatorade division. After considering evidence of Redmond’s access to and familiarity with PepsiCo’s trade secrets, the similarity between his duties for his old employer and new, and Redmond’s lack of candor to PepsiCo
about his departure, the court ruled it was
inevitable that Redmond would use or
disclose PepsiCo’s trade secrets. Accordingly, the court preliminarily enjoined
Redmond from assuming his position
with Quaker Oats for six months, and
permanently enjoined him from using or
disclosing any PepsiCo trade secrets or
confidential information.8

The Inevitable Concerns
With the Doctrine

Since PepsiCo, a number of courts have
agreed with its reasoning and sought to
protect employers from the inevitable
disclosure of their trade secrets. One recent
element involves the secrets to creating
the famous ‘nooks and crannies’ texture of
Thomas’® English Muffins.9 In Bimbo Bak-
eries USA, Inc. v. Botticella, the Third Circuit
held on interlocutory appeal, that under
Pennsylvania’s inevitable disclosure doc-
trine a trial court “has discretion to enjoin
a defendant from beginning new employment if the facts of the case demonstrate a
substantial threat of trade secret misap-
propriation.”10 Bimbo Bakeries produces and
distributes baked goods throughout the
country under a number of popular brand
names, including Thomas’® English Muffins.11 The defendant, Botticella,
worked for Bimbo for nine years as vice
president of operations in California, was
responsible for five production facilities,
and was one of only seven individuals
who knew the secret formula.12

Botticella, while employed at Bimbo Bakeries, signed a confidentiality agree-
m ent (governed by Pennsylvania law), but
never signed an agreement restricting his
future employment elsewhere.13 The court
nonetheless enjoined him from defecting
to Hostess Brands—a direct competitor of
Bimbo—because of Botticella’s conduct and
actions following his acceptance of the
Hostess offer, which included his fail-
ure to disclose his plans to Bimbo Bakeries
until the end of 2009 in order to receive
his year-end bonus and to complete two
further projects.14 A computer forensic
investigation also uncovered the fact that
a user logged on as Botticella accessed
confidential documents on a number of occasions.15 The court found these activi-
ties demonstrated a clear intention to use
Bimbo Bakeries’ trade secrets during his
intended employment with Hostess.16

Like the PepsiCo court, the Third Cir-
cuit was troubled by the employee’s
clandestine actions. But the Third Cir-
cuit has taken the inevitable disclosure
document in Pennsylvania a step further,
stating the threat of disclosure of a trade
secret need not amount to its inevitabil-
ity. Rather, only at least a substantial
threat that the defendant will disclose
the trade secrets must exist to support
the doctrine’s utilization.17

In short, the inevitability doctrine is a
practical solution designed to prevent the ripples in the pond and deter defect-
ing employees from even the temptation of breach ing their confidentiality agree-
ments. The doctrine provides this proac-
tive protection, however, before any
actual damages have been incurred and
by imposing a restriction the employee
never accepted. So, inevitably, a number
of courts have taken issue with the doc-
trine for a number of different reasons.18

For example, the doctrine enables a
former employer to unilaterally manip-
ulate rights that go beyond any signed
contract or agreement. By allowing a
court to enjoin subsequent employment
when only a confidentiality agreement
has been signed, the doctrine “creates a
de facto covenant not to compete.”19 Yet
the employee never agreed to a restric-
tion on future employment and never
should have expected one.

The doctrine also runs counter to pub-
lic policies favoring employee mobility. If
all confidentiality agreements can be
magically transformed into non-compete
agreements without the employee’s
approval (specifically barring those jobs
that are best suited for that particular
employee given his or her knowledge
base), employers can hold their middle-
and upper-management employees hostage, and prevent them from ever
seeking gainful employment. This threat
of never-envisioned litigation also creates
a potential chilling effect for employees
and likely will discourage their receptivi-
ty to entering into confidentiality agree-
ments, which employers need in place to
protect their trade secrets.20

How Far Can Inevitable Disclosure Stretch?

The Third Circuit’s decision in Bimbo Bakeries, while admittedly applying
Pennsylvania law, begs consideration of
how far the doctrine can be stretched,
and whether it can even be used as its
own separate cause of action. Given the
number of states that are adopting trade
secret legislation to protect their busi-
nesses’ proprietary information from
actual or even threatened misappropri-
tion, this issue is certain to come up,
and indeed has already been attempted
in other jurisdictions. Several courts
analyzing this issue, however, have
found the doctrine cannot be extended
into its own cause of action.

For example, in Janus et Cie v. Kahnke
a California corporation sued to prevent
the defendant from working with Dedon, Inc., which they claimed was a
direct competitor in New York.21 In the
complaint, the plaintiff asserted
inevitable disclosure as its own indepen-
dent cause of action, but failed to
allege any breach of confidentiality or
any facts indicating the defendant actu-
ally misappropriated or disclosed any of
Janus’ secrets.22 Rather, the plaintiff
merely asserted the employee’s positions
with the two companies were so similar
he could not possibly perform the func-
tions of the new position without using
or disclosing confidential information or
trade secrets from his old position.23

The New York court ultimately dis-
missed the complaint in its entirety,
finding no basis to sustain a complaint
that alleged no wrongdoing by the
defendant. 24 “Absent any wrongdoing that would constitute a breach under the [confidentiality] agreement, mere knowledge of the intricacies of a business is simply not enough.” 25

The Supreme Court of Georgia similarly found, in Holton v. Physician Oncology Servs., LP, 26 that an independent claim for inevitable disclosure cannot be sustained. Significantly, the Court based its analysis under Georgia’s own trade secrets act and held the mere “inevitability” of misappropriating trade secrets did not equate to actual misappropriation in the absence of any asserted bad acts. 27 However, the Court did leave open the question of the doctrine’s use when asserted in combination with other causes of action for trade secret misappropriation. 28 Thus, while not permitted as a stand-alone cause of action, the Court did hint it could be used as a supporting pillar for other damage claims.

Inevitable Disclosure in New Jersey

New Jersey does recognize the inevitable disclosure doctrine and, although predating PepsiCo, one Appellate Division decision has repeatedly been cited as setting forth New Jersey’s position on this issue. In National Starch and Chemical Corp. v. Parker Chemical Corp., 29 the court held a former employer was entitled to a preliminary injunction to prevent the disclosure of alleged trade secrets by a former employee involved in product development, finding that a rational basis existed, despite the lack of any unethical or covert behavior on the part of the employee, for the trial court to conclude there was a sufficient likelihood of inevitable disclosure. 30 The employee was intimately associated with the development of many sophisticated, highly technical envelope adhesives, and his knowledge was sufficiently detailed and extensive that he could duplicate certain formulas from memory. 31 Although the employee was bound by a confidentiality agreement and his new work would only tangentially be related to envelope adhesives, the court still found injunctive relief was warranted because there was “sufficient likelihood of ‘inevitable disclosure,’” concluding the “circumstances here justify more than a ‘mere suspicion’” of threatened irreparable harm. 32 “The cat is out of the bag and there is no way of knowing to what extent their use has cause damage or loss.” 33

Since National Starch, only one New Jersey court has opined on the inevitable disclosure doctrine and its limits. In SCS Healthcare Marketing, LLC v. Allergan USA, Inc., the Honorable Harry G. Carroll, J.S.C., in the Bergen County Chancery Court, was presented with a complaint asserting an independent cause of action for inevitable disclosure. 34 The court held in concise fashion that New Jersey did not recognize inevitable disclosure as an independent cause of action, noting the plaintiff could not cite any case law to the contrary. The court also cited National Starch for the proposition that when inevitable disclosure has been discussed, it has usually only been as a factor for injunctive relief. 35 Based on this, the count was dismissed. 36

Judge Carroll’s opinion rejecting inevitable disclosure as its own cause of action did not analyze the issue under the lens of the newly enacted Trade Secrets Act. 37 So, the question still remains: If it cannot be its own cause of action, can the inevitable disclosure doctrine stand on its own to support a new statutory trade secrets misappropriation claim as a “threatened disclosure”?

An unpublished decision from the Southern District of Iowa addressed this very issue, noting that inevitable disclosure is just one way of demonstrating a threatened disclosure. 38 In Barilla Am., Inc. v. Wright, the court reviewed Iowa’s own trade secrets act and made a distinction between threatened disclosures and inevitable disclosures, finding each was aimed at markedly different directions. 39 “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.” 40 In short, the inevitable disclosure doctrine could be used to support a trade secrets act claim where additional evidence showing a substantial threat of impending injury is simply unavailable to the movant. 41

Section 3 of the New Jersey Trade Secrets Act permits a party to enjoin acts where there is “actual or threatened misappropriation” of trade secrets. 42 As the Barilla court explained, the inevitable disclosure doctrine is only another means of showing a threatened disclosure, but was “aimed at preventing disclosures despite the employee’s best intentions.” Thus, the inclusion of threatened misappropriation in the act’s language would appear to invite theories of inevitable disclosure, even without the assortment of bad acts listed in Bimbo Bakeries. They are simply not needed to support a cognizable claim. This conclusion also comports with National Starch, which upheld the inevitable disclosure doctrine despite any allegation of bad faith or covert acts on the part of the departing employee.

Conclusion

Advances in technology and business are making employee mobility much easier than before and, conversely, making the protection of an employer’s trade secrets that much harder. The Trade Secrets Act was meant to alleviate some of that concern by codifying rights for protecting endangered trade secrets. The inevitable disclosure doctrine was judicially created to provide employers with a practical solution to their protection problems. This mix of ingredients, when used together, may provide the recipe for further protections for employers, protections that have not yet fully been explored. But it’s not soup yet—New Jersey has yet to provide a definitive answer

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on how this doctrine can fully be used. Rest assured, however, that advances in technology will only push the ongoing controversy between employee and employer freedoms further to the forefront. It is inevitable.

Endnotes

1. See Harrison v. Glucose Sugar Refining Co., 116 F.3d 304 (7th Cir. 1992) (noting “it would require something more than his mere denial to convince us that in the manufacture of glucose he would not employ the secrets of the business of the appellee which had been confidentiality communicated to him. He could not well do otherwise. He was employed by the rival for that purpose. He was to give over the skill, including the knowledge, confidentially acquired in the business of the appellee to his new master. He could not in good faith serve the one without breach of duty to the other.”);

Eastman Kodak v. Power Film Products, 179 N.Y.S. 325 (1919) (“the value of Warren’s services to the defendant company arises from his experience while in the plaintiffs employ, growing out of the practical application of these trade secrets, and not otherwise....The mere rendition of the service along the lines of his training would almost necessarily impart such knowledge to some degree.”).

2. 54 F.3d 1262 (7th Cir. 1995).

3. Id. at 1263-64.

4. Id. at 1264.

5. Id. at 1264.

6. Id. at 1265.

7. Id. at 1271.

8. Id. at 1271-72.


10. Id. at 104.

11. Id. at 105.

12. Id.

13. Id.

14. Id. at 105-06.

15. Id. at 107.

16. Id. at 110.

17. Id. at 116.


21. Id. at *2.

22. Id. at *3.

23. Id.

24. Id. at *6.

25. Id. at *10.

26. 742 S.E.2d 702 (Ga. 2013).

27. Id. at 867.

28. Id. at 870.


30. Id. at 162.

31. Id. at 161.

32. Id. at 162.

33. Id. at 163.


35. Id.

36. Id.

37. Id. It should be noted that the act was in effect at the time of the decision and was indeed discussed for its preemption aspects. The court simply did not discuss the act in relation to the inevitable disclosure count.


39. Id.

40. Id. (emphasis added).

41. Id.

42. N.J.S.A. 56:15-3(a) (emphasis added).

Thomas A. Muccifori is the founder and chair of the trade secret protection and non-compete practice group at Archer & Greiner P.C. in Haddonfield. Benjamin D. Morgan is a senior litigation associate with the firm and has successfully litigated a variety of non-compete and non-disclosure cases in addition to his complex commercial litigation practice.