

Exploring the Nooks and Crannies of the Inevitable Disclosure Doctrine

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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.¹ 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 employer'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*,² 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.³ 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.⁴ After 10 years working for PepsiCo, Redmond defected to Quaker Oats to become vice president of its Gatorade division.⁵

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.⁶ 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.⁷ 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 example involves the secrets to creating the famous 'nooks and crannies' texture of Thomas'® English Muffins.⁹ In *Bimbo Bakeries USA, Inc. v. Botticella*, the Third Circuit held on interlocutory appeal, that under Pennsylvania's inevitable disclosure doctrine 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 misappropriation."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 agreement (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 failure 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 activities demonstrated a clear intention to use Bimbo Bakeries' trade secrets during his intended employment with Hostess.¹⁶

Like the *PepsiCo* court, the Third Circuit was troubled by the employee's clandestine actions. But the Third Circuit has taken the inevitable disclosure doctrine in Pennsylvania a step further, stating the threat of disclosure of a trade secret need not amount to its inevitability. 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 defecting employees from even the temptation of breaching their confidentiality agreements. The doctrine provides this proactive 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 doctrine for a number of different reasons.¹⁸

For example, the doctrine enables a former employer to unilaterally manipulate 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 restriction on future employment and never should have expected one.

The doctrine also runs counter to public 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 receptivity to entering into confidentiality agreements, 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 businesses' proprietary information from actual or even threatened misappropriation, 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 independent cause of action, but failed to allege any breach of confidentiality or any facts indicating the defendant actually 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 functions of the new position without using or disclosing confidential information or trade secrets from his old position.²³

The New York court ultimately dismissed 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 adhe-

sives, 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 caused 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 court 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

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. 1902) (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.
9. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102 (3d Cir. 2010); see also Thomas A. Muccifori, *The Nooks and Crannies of ‘Inevitable Disclosure,’* 202 *N.J.L.J.* 828 (Dec. 6, 2010).
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.
18. See generally Ryan M. Wiesner, Comment, *A State-by-State Analysis of Inevitable Disclosure: A Need for Uniformity and a Workable Standard*, 16 *Marq. Intell. Prop. L. Rev.* 211 (2012); Brandy L. Treadway, *An Overview of Individual States’ Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?*, 55 *SMU. L. Rev.* 621 (2002).
19. *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999).
20. *Janus et Cie. v. Kahnke*, 2013 U.S. Dist. LEXIS 139686 (S.D.N.Y. Aug. 29, 2013).
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.
29. 219 N.J. Super. 158 (App. Div. 1987).
30. *Id.* at 162.
31. *Id.* at 161.
32. *Id.* at 162.
33. *Id.* at 163.
34. 2012 N.J. Super. Unpub. LEXIS 2704 (N.J. Ch. Div. Dec. 7, 2012).
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.
38. *Barilla Am., Inc. v. Wright*, 2002 U.S. Dist. LEXIS 12773, at *9-10 (S.D. Iowa July 5, 2002); see also *Interbake Foods, LLC v. Tomasiello*, 461 F.3d 943, 973 (N.D. Iowa 2006) (discussing the *Barilla* decision).
39. *Id.*
40. *Id.* (emphasis added).
41. *Id.*
42. N.J.S.A. 56:15-3(a) (emphasis added).

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