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Point/Counterpoint

The Inevitable Disclosure Doctrine In Employment Litigation: Two Perspectives

By Russell Beck & Hannah Joseph / Josh Davis & Andrew O'Connor

Introduction

Imagine this scenario: A Chief Marketing Officer develops a strategic marketing plan for employer X then resigns to join a direct competitor Y in the same role where she is responsible for developing company Y's strategic marketing plan. How can she do so without, even inadvertently, drawing on the information that she learned at her prior employer?

Ordinarily, a noncompete agreement would be the appropriate tool to restrain such post-employment activities. However, in some jurisdictions, even without a noncompete, courts are willing to provide similar relief through application of the "inevitable disclosure doctrine" (the "IDD").

The IDD may be summarized as follows: "[W]here an employee's work for a new employer substantially overlaps with work for a former employer, based on the same role, industry, and geographic region, a . . . court may conclude that th[e] employee[] would likely use confidential information to the former employer's detriment."**[1]** The IDD "allows the court to enjoin a former employee from working at a competitor of the employer, even if the former employee never entered into a non-competition agreement, if the court finds that such employment would inevitably lead to a disclosure of the trade secret."**[2]** Historically, courts relied on their equitable powers to assess whether to issue injunctions to prevent inevitable disclosures.**[3]** More recently, however, courts have turned to language in the Uniform Trade Secrets Act (the "UTSA"), providing that "*threatened* misappropriation may be enjoined."**[4]** UTSA, § 2(a) (emphasis added).

Of course, the IDD is not without detractors. Courts that have rejected the IDD have found its application overly restrictive, particularly where the former employer has not negotiated in advance for the sought-after protections and relief in the form of a noncompete.

Discussed below are the reasons for and against adopting the IDD in Massachusetts.

[1] *Jazz Pharms., Inc. v. Synchrony Grp., LLC*, 2018 WL 6305602, at *6 (E.D. Pa. Dec. 3, 2018).
[2] *Architext, Inc. v. Kikuchi*, 2005 WL 2864244, at *3 (Mass. Super. May 19, 2005); *see also EMC Corp. v. Breen*, 2013 WL 1907460, at *2-3 (Mass. Super. Feb. 25, 2013).
[3] *See generally, e.g., Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 268 & n.28 (E.D. La. 1967).
[4] *Polymet Corp. v. Newman*, 2016 WL 4449641, at *5–6 (S.D. Ohio Aug. 24, 2016); *CPG Int'l LLC v. Georgelis*, 2015 WL 1786287, at *11 (M.D. Pa. Apr. 20, 2015); *First W. Capital Mgmt. Co. v. Malamed*, 2016 WL 8358549, at *9 (D. Colo. Sept. 30, 2016) (Martinez, J.), *rev'd on other grounds*, 874 F.3d 1136 (10th Cir. 2017).

Point

By Russell Beck & Hannah Joseph

Status of the IDD in Massachusetts

Prior to October 1, 2018, no Massachusetts appellate court had embraced or rejected the IDD. However, when Massachusetts enacted the Massachusetts Uniform Trade Secrets Act, G.L. c. 93, §§ 42–42G ("MUTSA") in 2018, it "most likely" adopted the IDD. To understand the status of the IDD in Massachusetts, some background is important.

The current version of the UTSA was promulgated in 1985. When Congress passed the Defend Trade Secrets Act of 2016 (DTSA), **18 U.S.C. §1836**, it was modeled on the UTSA. There was, however, concern about opening the floodgates to the IDD in states that did not permit it.**[1]** To address that concern, Congress narrowed the reach of the UTSA's "threatened misappropriation" language as follows:

> [A] court may . . . grant an injunction . . . to prevent any . . . threatened misappropriation . . . on such terms as the court deems reasonable, provided the order does 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 . . . . 18 U.S.C. § 1836(b)(3).

Two years later, drawing on both the UTSA and DTSA, the Massachusetts legislature passed the MUTSA, providing a third alternative. Specifically, the MUTSA provides, in relevant part, as follows:

> [T]hreatened misappropriation may be enjoined upon principles of equity, including but not limited to consideration of prior party conduct and circumstances of potential use, upon a showing that information qualifying as a trade secret . . . is threatened to be misappropriated. **G.L. c. 93, § 42A(a).**

This language rejected the DTSA's narrow approach and, instead, was intended to indicate that MUTSA would embrace the IDD, though only after a showing of prior misconduct or other enhanced risks created by the party sought to be enjoined.**[2]**

This interpretation is consistent with the legislature's express approval of the so-called "springing noncompete," in the contemporaneously-enacted Massachusetts Noncompetition Agreement Act, **G.L. c. 149, § 24L(c)**, which allows for "the imposition of a noncompetition restriction by a court, whether through preliminary or permanent injunctive relief or otherwise, *as a remedy for a breach of another agreement or a statutory or common law duty*." (Emphasis added.)

This interpretation is also consistent with the seminal IDD case, *PepsiCo, Inc. v. Redmond*, **54 F.3d 1262 (7th Cir. 1995)**, in which the district court enjoined the defendant based on the inevitable use of trade secrets in his new employment, but only after finding that he had been less than forthright and had "out and out lie[d]," suggesting a lack of trustworthiness. *Id.* at 1270. ("[W]hen we couple the demonstrated inevitability that [defendant] would rely on [plaintiff's] trade secrets in his new job . . . with the district court's reluctance to believe that [defendant] would refrain from disclosing these secrets in his new position (or that [the new employer] would ensure [defendant] did not disclose them), we conclude that the district court correctly decided that [plaintiff] demonstrated a likelihood of success on its statutory claim of trade secret misappropriation." *Id*. at 1271.)

Scope and Application of the IDD

It is well-settled that an employee may not go from one company to another and use the former company's trade secrets for the benefit of new company. Accordingly, the IDD "is really just a common sense response to a common dilemma: an employee who leaves to join a competitor can be tempted to gain an unfair head start by drawing upon proprietary information belonging to a past employer, and once the secret is disclosed, it may be forever lost."**[3]** While we know that employees do not come to their jobs with a "*tabula rasa*" (a clean slate), we also do not allow them to bring and use others' trade secrets.

We prefer to assume that most employees can be trusted to avoid circumstances where they will need to use or disclose their former employer's trade secrets. Accordingly, merely knowing the information is generally not sufficient to trigger the IDD. There must be a reason to believe that the employee will give in to temptation.

It will only be in rare instances that the IDD in its purest form (*i.e.*, without some evidence of misconduct) can be used. As the Court stated in *Earthweb, Inc. v Schlack*:

> [I]n its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory. Absent evidence of actual misappropriation by an employee, the doctrine should be applied in only the rarest of cases. Factors to consider in weighing the appropriateness of granting injunctive relief are whether: (1) the employers in question are direct competitors providing the same or very similar products or services; (2) the employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer; and (3) the trade secrets at issue are highly valuable to both employers. Other case-specific factors such as the nature of the industry and trade secrets should be considered as well.

71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

More typically, however, to establish inevitability, the *Earthweb* factors must be coupled with some evidence of misconduct, which includes but need not go as far as actual misappropriation. For example, deceitfulness may evince a lack of trustworthiness, warranting a finding that the employee cannot be trusted to protect his former employer's trade secrets.

This "something more" serves as the precise justification for the IDD. It allows a company to have a culture where noncompetes are not necessarily required, while not losing the ability to protect itself from the enhanced risks posed by an untrustworthy former employee. Otherwise, without the IDD, every employer would be relegated to requiring every employee with access to trade secrets to sign a noncompete – just in case an employee turns out to be a bad actor. Such a result would either encourage the unnecessary use of noncompetes, despite growing public sentiment seeking to limit their use, or, if noncompetes are not used, reward misconduct at the expense of the victim-employer.

Nevertheless, IDD detractors seek to justify this precise result based on the possibility that companies may see deceit where it does not exist and/or that, because the parties are generally free to contract around those risks, they must. Accordingly, opponents would elevate freedom of contract over compliance with the law (trade secret or otherwise), using the former to excuse violation of the latter. But, why should a company need to impose a noncompete to prevent conduct that the law otherwise prohibits? Must companies also have contracts prohibiting employees from stealing physical property? The absence of a contract reinforcing existing legal obligations does not nullify the law – nor should it.

The IDD also draws criticism based on the mistaken assumption that an injunction necessarily precludes the employee from working at the competitor. The IDD does not. Because an injunction is to be narrowly tailored to prevent only the misappropriation, in most instances, judicial intervention is limited to the specific activity within the employee's role that poses the risk of inevitable use or disclosure. *See, e.g.*, ***Doebler's Pennsylvania Hybrids, Inc. v. Doebler Seeds, LLC,*** **88 Fed. Appx. 520, 523 (3d Cir. Feb. 12, 2004)** ("liability is not premised on the fact that [the former employee] competed with [the former employer], but rather on the fact that they used [the former employer's] own confidential information to compete against them"). That is where the DTSA's limitation actually harmonizes with most courts' interpretation and application of the IDD.

Viewed through this narrow lens, the IDD appropriately balances the interests in protecting companies' trade secrets against employees' job mobility. Absent employee misconduct, mobility will rarely be impacted.

[1] 114th Congress, 2nd Session, Senate, Report 114-220, pp. 8-9; 114th Congress, 2nd Session, House of Representatives, Report 114-529, pp. 12-13.
[2] *See* 114th Congress, 2nd Session, Senate, Report 114-220, pp. 8-9; 114th Congress, 2nd Session, House of Representatives, Report 114-529, pp. 12-13.
[3] William L. Schaller, "*Trade Secret Inevitable Disclosure: Substantive, Procedural & Practical Implications of an Evolving Doctrine*," 86 J. Pat. & Trademark Off. Soc'y 336, 337 (May 2004).

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Counterpoint

By Josh Davis & Andrew O'Connor

The Inevitable Disclosure Doctrine ("IDD") is premised upon fundamental distrust of people and hostility to the notion of freedom of contract. Neither premise justifies the limit on personal liberty that is the price of the doctrine. And, neither premise warrants excusing an employer's failure to take steps necessary to protect its competitive interest through contract – either at the beginning or end of the employment relationship.

Employers operating in competitive spaces understand the degree to which a departing employee can threaten their success. As a consequence, many employers insist that a new employee agree – in multiple ways – to safeguard the employer's interests in the event of a departure. Employers' efforts in this regard have been aggressive enough to compel legislative limitation in Massachusetts and elsewhere. *See e.g.*, **G.L. c. 149, § 24L** (limiting non-competes); Cal. Bus. Prof. Code § 16600 (prohibiting non-competes); N.D. Cent. Code 9-08-06 (prohibiting non-competes); OK Stat. tit. 15, § 219A (prohibiting non-competes). Indeed, President Biden issued an executive order on July 9, 2021 encouraging the Federal Trade Commission to use its rulemaking authority to "curtail the unfair use of non-compete clauses and other clauses or agreements that may unfairly limit worker mobility."

Even within those statutory limits (which reflect state policy against restrictions on employee mobility), employers have ample opportunity to bargain for the kind of protection that aggressive application of the IDD provides them for free. Employers who fail to take steps necessary to protect their most vital confidential information run the risk of losing it. This should hardly be controversial – trade secrets are only trade secrets if the party seeking to protect them has taken the steps necessary to do so. A claim under the IDD only exists in circumstances where a party has failed to do something it now claims is necessary to secure their protection.

Advocates of the IDD suggest that forcing employers to contract to protect their most closely guarded secrets against misappropriation is somehow troubling. They argue, we should be comforted by the idea of court intervention in narrow circumstances – apparently, we are better off with litigation than with arms-length negotiated contracts. Litigation is inherently inefficient and creates an uneven playing field benefiting an employer with significantly greater resources. If the protection afforded by the IDD is sufficiently valuable to compel litigation at the end of the employment relationship, it warrants negotiation at the beginning of the relationship. Application of the IDD deprives the employee of the value they would receive from a negotiated contract and replaces it with a unilateral post-employment restriction that is inherently uncertain because it will shaped, in each instance, by a court.

Rather than grapple with these broad issues, IDD advocates resort to two arguments: (1) the Commonwealth has already adopted the IDD; and, (2) concerns about freedom of contract and employee mobility are misplaced because the IDD's application will be limited to demonstrably untrustworthy employees. Neither argument withstands scrutiny.

Both the Massachusetts Uniform Trade Secret Act, G.L. c. 93, §§42-42G ("MUTSA") and amended noncompete laws, G.L. c. 149, §24L, became effective as of October 1, 2018. It is no coincidence that these statutes were enacted together. The amended noncompete laws, **G.L. c. 149, § 24L**, restrict noncompete agreements in geographic scope, length, and subject matter, include a "garden leave" provision, and bar enforcement against an employee who is terminated without cause or laid-off. In conjunction with the amended noncompete laws, the MUTSA contains specific provisions designed to restrain the use of trade secret laws to circumvent noncompete laws, which is effectively what the IDD does.

For example, the MUTSA includes a heightened pleading requirement stating that a plaintiff must allege with "reasonable particularity" the "circumstances" of the misappropriation, "including the nature of the trade secrets and the basis for the protection." **G.L. c. 93, § 42D(b)**. Similarly, discovery under a MUTSA claim cannot commence until the plaintiff "identif[ies] the trade secret with sufficient particularity under the circumstances of the case to allow the court to determine the appropriate parameters of discovery and to enable reasonably other parties to prepare their defense." **Id**. Additionally, a plaintiff who brings a claim of misappropriation in bad faith may be liable for the defendant's attorneys' fees. **G.L. c. 93, § 42C**. These provisions demonstrate Massachusetts' efforts to restrict vague claims of misappropriation of generalized know-how or swaths of information that a former employee may have learned while employed and might potentially disclose to a new employer, without more. They discourage claims based on "threatened" misappropriation premised on presumptions about how a departing employee will behave.

Additionally, the MUTSA includes a preemption provision that encourages employers to enter into written non-disclosure agreements with their employees that specifically define protected information that meets the definition of a trade secret rather than merely confidential information or information that may otherwise be obtained through lawful means. S**ection 42F of the MUTSA** states that the MUTSA supersedes "any conflicting laws of the commonwealth providing civil remedies for the misappropriation of a trade secret," but does not preempt "contractual remedies, provided that, to the extent such remedies are based on an interest in the economic advantage of information claimed to be confidential, such confidentiality shall be determined according to the definition of trade secret in section 42, where the terms and circumstances of the underlying contract shall be considered in such determination." In other words, the "MUTSA supersedes a claim for breach of a nondisclosure agreement intended to protect economically valuable information unless the information sought to be protected by the agreement meets the statute's definition of a trade secret." ***Needham Bank v. Guaranteed Rate, Inc.*, No. 2184-cv-0661-BLS1, 2021 WL 2019287 (Suffolk Superior, April 17, 2021).** Similarly, the United States District Court of the District of Massachusetts, after a detailed statutory construction analysis, held that the preemption provision of the MUTSA does not preempt certain non-contractual claims, such as those brought under c. 93A, "where these claims rely upon the alleged theft of confidential and [proprietary] information" that does not meet the definition of a trade secret. *Neural Magic, Inc. v. Facebook, Inc.*, 20-cv-10444 (Casper, J.) (D. Mass. Oct. 29, 2020). In reaching this conclusion, the District Court noted that "the focus should be on the causes of action that give rise to such civil remedies, not the factual conduct that give rise to same." *Id.* The IDD contradicts this principle. This risk of preemption encourages employers to be specific in their agreements about the nature of protected information. It discourages employers from bringing claims under the MUTSA where the information comprises generalized knowledge or information that does not constitute a trade secret, which is often the subject of IDD arguments.

The amended noncompete laws and the MUTSA demonstrate Massachusetts' intent to discourage the use of the IDD and, instead, encourage employers to enter into written agreements with employees that specifically define the employee's duties and obligations to the employer that comply with Massachusetts noncompete laws, rather than creating *post hoc* obligations on employees of which the employee was unaware. This is consistent with Massachusetts caselaw prior to the enactment of the MUTSA. ***See, e.g., The Gillette Co. v. Provost,* 33 Mass. L. Rptr. 265 (Mass. Super. Dec. 23, 2015)** ("Massachusetts courts have not embraced the doctrine of inevitable disclosure"); ***Architext, Inc. v. Kikuchi,*** 20 Mass. L. Rptr. 127 (Mass. Super. May 19, 2005) (same). In cases where inevitable disclosure is a concern, it is in the context of breach of a valid noncompete agreement, not purely a trade secrets claim. ***See SimpliVity Corp. v. Moran,* 33 Mass. L. Rptr. 587 (Mass. Super. Aug. 14, 2016)** ("Massachusetts courts have been willing to enforce covenants not to compete to protect against inevitable, even inadvertent, disclosure…"). Contrary to the other side's position, courts addressing this issue since the MUTSA's enactment do not endorse the use of the IDD to support trade secrets claims. *See* ***National Medical Care, Inc. v. Sharif,*** **2020 WL 6318922 (D. Mass. 2020)** (explaining limited use of the IDD to enforce valid noncompete agreements and distinguishing same "as distinct from a pure trade secrets claim").

Finally, the proponents' reassurances of the limitations of the use of the IDD are of little comfort. The "something more" sought in support of an IDD claim rests on deceitfulness. Oftentimes, an employee will, suddenly without warning, leave one employer for another. The manner of departure, although professionally necessary, appears deceitful. In that context, the "something more" is really nothing. Moreover, if there truly is "something more," the MUTSA provides for the recovery of double damages and attorneys' fees if "willful and malicious misappropriation exists." **G.L. c. 93, §§ 42B(b) and 42C.**

Deceitfulness is an argument that is too often available to employers seeking relief under an IDD theory. The IDD rests on a presumption that an employee will be unable to manage to work for a new employer without disclosing trade secret information gained at the prior employer. The word "inevitable" presumes deceit, while contract presumes the opposite. It rests on a premise of honor. People can promise to behave in a certain manner and courts can then intervene when they fail to do so. An employer that fails to act to protect its most vital information does so at its own peril.

The law does not, and should not, give it a backstop.

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