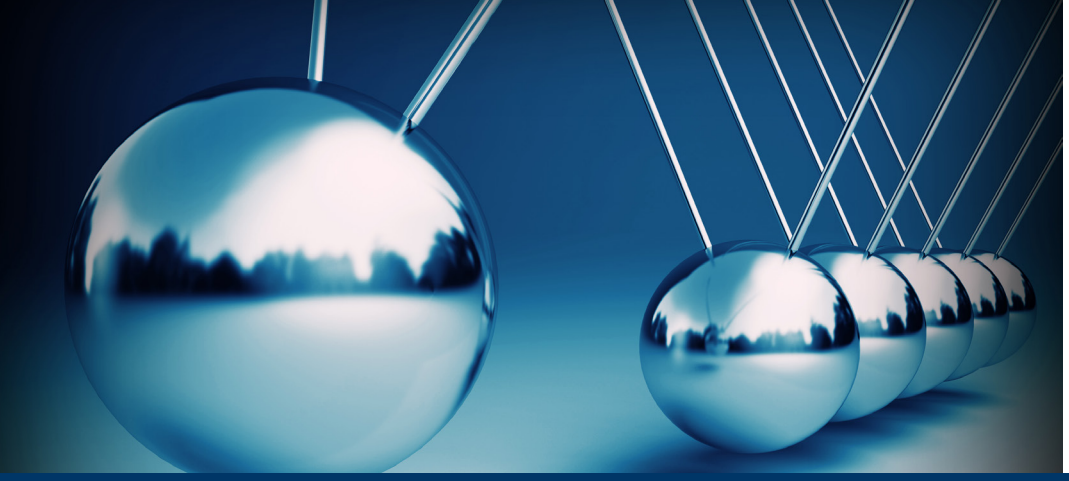

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TRADE SECRETS LAW: THE INEVITABLE DISCLOSURE DOCTRINE IS NOT YET DEAD

By Barry J. Waters

A Memorandum and Order issued on August 3, 2016 by a United States District in Missouri is an early illustration of the interplay between state non-competition and trade secret law and the recently enacted (May 11) federal Defend Trade Secrets Act of 2016 ("DTSA").

The DTSA provides a federal, civil cause of action for misappropriation of a trade secret but it does not preempt state law regarding trade secret protection and does not impact non-compete law. In Panera, LLC v. Nettles and Papa John's International, Inc., 2016 U.S. Dist. LEXIS 101473 (E.D. Mo. 2016), the Court issued a Temporary Restraining Order (subject to a $200,000 bond) enjoining Papa John's from 1) employing Nettles, the former Vice President of Architecture in Panera's Information Technology Department, and 2) using any confidential information "derived from Nettles". Similarly, the Court enjoined Nettles from working for or disclosing any trade secrets or confidential information to Papa John's. The Court issued the injunction under state law but also stated that "an analysis under the Defend Trade Secrets Act would likely [produce] a similar conclusion."

Injunction Prohibiting Work for a Competitor Under the DTSA

Under the DTSA, if a company seeks an injunction limiting a former employee's employment with a competitor, the company must demonstrate more than that disclosure of a trade secret to the new employer is "inevitable" merely because: 1) the former employee had access to the trade secret; and 2) he would naturally disclose it to his new employer to gain a competitive advantage. The DTSA requires a showing that a disclosure is actually "threatened". One knowledgeable commentator has stated that the evidence must demonstrate that the former employee and/or his new employer "can't be trusted" to honor the integrity of the company's trade secrets. This showing might be made through evidence that the former employee downloaded confidential information before leaving the company.

Nettles and Papa John's argued that Panera had made "no showing whatsoever beyond pure speculation and conjecture that misappropriation had occurred or is likely to occur", and that under the DTSA, "Panera will have to establish that Mr. Nettles acquired, disclosed, and/or used Panera's trade secrets." Panera argued that Nettles had access to trade secret information and was likely in possession of it. The fact that Nettles "was privy to and worked extensively with Panera's trade secrets regarding such matters as innovations in ordering and delivering technologies", and had deleted certain documents from his computer before returning it to Panera, "suggests that Nettles may have violated his undisputed duty to maintain or limit the use of the information he possessed." (Emphasis added.) The Court did not make a finding that a misappropriation was actually "threatened". These preliminary findings would seem a weak basis for the issuance of an injunction under the DTSA.

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The Continuing Primacy of State Law in the Federal Courts

The Court found that Nettles' violation of his non-compete agreement supported the temporary restraining order. In addition, while "Missouri has not formally adopted the doctrine of inevitable disclosure", the Court found that "the rationale underpinning such a theory helpful to understanding why Nettles' performance of his new role would almost certainly require him to draw upon and use trade secrets and the confidential strategic planning to which he was privy at Panera".

The "inevitable disclosure" doctrine is still alive in some states even in the absence of a non-competition agreement, and in other states (including Connecticut and Massachusetts), it can support a claim for injunctive relief provided there is an enforceable non-competition agreement. In these states, where it may be difficult to muster enough evidence of an actual or "threatened" disclosure of trade secret information under the DTSA, federal jurisdiction under the DTSA can be invoked and state law claims may provide the basis for injunctive relief under a less stringent standard. In that instance, the usual arguments concerning the enforceability of a noncompete agreement will take center stage. Interestingly, in the Nettles case, Nettles and Papa John's argued that it sells pizzas and does not compete with Panera, "which sells sandwiches, soups, salads, bagels and pastries. Furthermore, because they have completely different business models, Panera's technology is not transferable and is of no use to Papa John's." At least preliminarily, the Court found that they were competitors as "both target the so-called 'clean ingredient consumer' and that they are direct competitors in the realm of carryout options for such a consumer base."

The Importance of the DTSA

In addition to providing a basis for invoking federal court jurisdiction even in the absence of diversity, the DTSA represents a valuable litigation tool when there is no non-competition agreement if the company seeking injunctive relief can produce evidence of an actual or threatened disclosure of trade secrets.

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