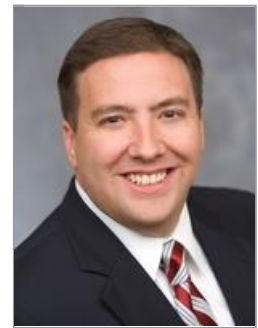


Using The Inevitable Disclosure Doctrine In DTSA Cases

By **Robert Duda Jr. and Terry Smith**

Law360, New York (July 14, 2017, 11:50 AM EDT) -- Employers should take note of a recent decision by the U.S. District Court for the Northern District of Illinois in Chicago in which the court applied the inevitable disclosure doctrine to an employer's misappropriation of trade secrets claim against a competitor under the federal Defend Trade Secrets Act of 2016. In *Molon Motor & Coil Corp. v. Nidec Motor Corp.*, No. 16-cv-03545, 2017 U.S. Dist. LEXIS 71700 (N.D. Ill. May 11, 2017) (Chang, J), the district court denied the competitor's Rule 12(b)(6) motion to dismiss, finding that the complaint alleged a plausible claim that the competitor misappropriated, i.e., acquired or used, the trade secrets through its hiring of the plaintiff's former employee even though there were no direct or specific facts alleged in the complaint of such acquisition or use.



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Inevitable Disclosure and the DTSA

The court held that the allegations of the complaint were sufficient to "trigger the circumstantial inference that the trade secrets inevitably would be disclosed" to the competitor. In so ruling, the court opened the door to applying the inevitable disclosure doctrine to claims under the Defend Trade Secrets Act — at least in the context of a motion to dismiss at the outset of a case. This is an important development given the belief among many that the inevitable disclosure doctrine has no application under the act.



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Federal Court Ruling

Molon Motor & Coil Corp. involves the very common scenario of a departing employee copying information — allegedly trade secrets concerning the employer's design and production of electric motors — to a USB thumb drive prior to his departure to a competitor. While there was evidence of the predeparture copying, the employer did not have evidence (as is often the case) that the departing employee had passed on the copied information to the competitor at the time the lawsuit was brought. The competitor filed a motion to dismiss based on the failure to allege a plausible claim that it had acquired or used the alleged trade secrets — asserting that the departing employee's possible misappropriation is not automatically attributed to the new employer. The competitor's motion to dismiss effectively sought to avoid discovery that might lead to evidence of such acquisition or use by the competitor.

The court addressed the trade secrets claim against the competitor under both the federal Defend Trade Secrets Act and the Illinois Trade Secrets Act, noting that under both statutes the plaintiff can prove misappropriation by establishing the competitor acquired the trade secrets by improper means or used or disclosed the trade secrets. The court focused on three specific factors in determining that the plaintiff had adequately pled a claim for misappropriation against the competitor and that an inference was triggered that the competitor would inevitably acquire, use or disclose the trade secrets: (1) the level of competition between the former employer and the new employer; (2) the extent to which the employee's position with the new employer is comparable to his prior position; and (3) the actions taken by the new employer to prevent the former employee from using or disclosing his former employer's trade secrets.

Impact on Claims Under the Defend Trade Secrets Act

The court's ruling is noteworthy because of a provision in the Defend Trade Secrets Act that permits courts to grant an injunction where there is actual or threatened misappropriation, but not enjoin an employee from going to work for a competitor merely because of the information the person knows. Commentators have suggested this provision of the act broadly prohibits application of the inevitable disclosure doctrine to claims brought under the federal act.

Courts are split on whether the inevitable disclosure doctrine can be used to establish a claim for misappropriation of trade secrets or to enjoin certain conduct under state trade secret acts, i.e., some states such as Illinois permit the use of the doctrine, whereas California and some other states do not. While the court's decision in *Molon Motor & Coil Corp.* does not deal with a request for an injunction, it supports the application of the inevitable disclosure doctrine to claims for damages brought under the Defend Trade Secrets Act.

Lessons for Employers

The Defend Trade Secrets Act was enacted in May, 2016 and provides a federal cause of action for misappropriation of trade secrets but does not preempt state trade secret laws. It may be attractive to employers as a means of pursuing claims in federal court and in some instances, may provide broader relief than state trade secret laws. In addition, employers should note the following implications of this recent decision:

- Use and application of the inevitable disclosure doctrine at the outset of a case brought under the federal act is an important tool available to employers to overcome an early legal challenge by a departing employee or a competitor seeking to avoid the discovery phase, and would permit developing evidence that the employee or competitor has acquired, used or disclosed the trade secret.
- The court noted that to ultimately prevail at trial, the employer has the burden of proving — not just alleging based on unsubstantiated fears — enough facts to establish that the former employee disclosed the trade secrets to his new employer.
- Finally, application of the inevitable disclosure doctrine to claims under the Defend Trade Secrets Act may provide employers with the option of arguing that access to the former employer's trade secrets plus some evidence of additional misconduct — such as the competitor quickly going to market with a similar product or an undercut bid and resulting lost sale — constitute threatened or actual misappropriation by the competitor sufficient to warrant injunctive relief under the federal act.

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