

## Did 'Inevitable Disclosure' Survive Enactment of the NJTSA?

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Long gone are the days of a departing employee sneaking surreptitiously into the office after hours to steal his or her employer's valuable information just before starting a new job at a competitor. Today, stealing the information is often as simple as forwarding a few emails to a personal email account or downloading internal documents to a flash drive. In a matter of seconds, the company's most sensitive information leaves the security of its network and enters the world of unknowns—or even worse, the World Wide Web.

Many trade secret litigations begin the same way—with the former employer racing to the courthouse for an injunction to stop the employee from beginning work at the competitor. For a quarter century, New Jersey litigators relied on the seminal case of *National Starch and Chemical Corp. v. Parker Chemical Corp.* to persuade judges to issue injunctions to stop the former employee from letting the cat out of the bag. The so-called "inevitable disclosure" doctrine allowed a judge to issue restraints precluding (or limiting) the employee's job at a competitor, even when the former employer lacked smoking-gun evidence of theft. So long as the companies were competitors, the departing employee had access to the secrets, and the new job and old job were so similar that there existed a "sufficient likelihood of inevitable disclosure," then restraints could be entered against the departing employee.

On Jan. 5, 2012, the New Jersey Trade Secrets Act (NJTSA) took effect. The NJTSA, by its very terms, superseded the existing common law for misappropriation of trade secrets. Over four years later, however, it remains an open question whether the "inevitable disclosure" doctrine survived, and if so, in what function.

### NJ's Inevitable Disclosure Doctrine

The facts of *National Starch* tell the story of a run-of-the-mill trade secrets action. A nine-year employee at an envelope factory, who was "intimately associated" with the development of the company's "highly technical envelope adhesives, through expensive trial and error processes," departed for a competitor company. 219 N.J. Super. 158, 161 (App. Div. 1987). His employer ran to court and won an injunction. The Appellate Division affirmed, holding that the plaintiff need not prove, at the preliminary stage, that any *actual* misappropriation had occurred, but

rather that "[i]t is sufficient that the circumstances give rise to an inference that substantial threat of disclosure exists." *Id.* at 163.

In the 29 years since the Appellate Division decided *National Starch*, it has been cited with approval by multiple federal and state courts in New Jersey. In *National Starch* and its progeny, the underlying substantive law was based on the common-law cause of action for misappropriation of trade secrets. Thus, for decades, the "inevitable disclosure" doctrine was an important weapon for moving parties seeking an injunction.

### **NJ Adopts the UTSA, Pre-empting Much (But Not All) of the Common Law**

In late 2011, the legislature passed the New Jersey Trade Secrets Act (NJTSA), which Gov. Christie signed into law on Jan. 5, 2012. Prior to its enactment, New Jersey was among the last holdouts to adopt the Uniform Trade Secrets Act (UTSA)—today only New York and Massachusetts still ascribe to the common law. The NJTSA effectively supplanted the long-standing common law in numerous areas. It redefined the key phrases of "improper means" and "misappropriation," and it replaced the old Restatement definition and factors of a "trade secret" with a detailed statutory definition. See N.J.S.A. 56:15-2.

Apart from these changes to the substantive law, the NJTSA also included a provision specifically regarding injunctions. The NJTSA states that "[a]ctual or threatened misappropriation may be enjoined." N.J.S.A. 56:15-3. To date, no New Jersey courts have interpreted or construed what constitutes "threatened misappropriation." While the law of injunctions (i.e., Rule 4:52-1 and *Crowe v. De Gioia*, 90 N.J. 126 (1982) in state court, and Fed. R. Civ. P. 65 in federal court) remains unchanged by the enactment of the NJTSA, the new "threatened" misappropriation provision arguably represents a departure from the common-law "inevitable disclosure" doctrine.

At first blush, the NJTSA's pre-emption provisions appear to be inconsistent with each other: while subsection (a) expressly provides that the rights, remedies and prohibitions of the NJTSA are "*in addition to and cumulative of*" any other right, remedy or prohibition provided under the common law or statutory law of New Jersey, subsection (b) states that the NJTSA *supersedes* conflicting law "providing for civil remedies for misappropriation of a trade secret." N.J.S.A. 56:15-9(a)-(b) (emphasis added). To date, only one New Jersey court has attempted to reconcile subsections (a) and (b).

In *SCS Healthcare Marketing v. Allergan USA*, Judge Harry G. Carroll, J.S.C., observed that the NJTSA's preemption provisions were "uniquely adopted" and departed from the model language found in the UTSA. 2012 N.J. Super. Unpub. LEXIS 2704, at \*17 (Ch. Div. Dec. 7, 2012).

Construing subsection (a) together with subsection (b), Judge Carroll concluded that the New Jersey legislature's intent was "to preserve, rather than abrogate or preempt" the rights and remedies afforded aggrieved litigants under the common law. *Id.* at \*17. For that reason, he rejected the defendants' argument that the plaintiff's various common-law claims were preempted by the NJTSA—notwithstanding that each of those claims was based on the same set of operable facts as the plaintiff's NJTSA claim.

### **Reconciling "Threatened" Misappropriation and "Inevitable Disclosure"**

Since the enactment of the NJTSA, no state or federal court in New Jersey has directly addressed its impact on the inevitable disclosure doctrine and its interplay with "threatened" misappropriation. In the few recent written decisions discussing inevitable disclosure at all, the doctrine is referenced as part of the preliminary injunction analysis, not under the lens of the NJTSA. For example, in *SCS Healthcare*, the court simply reaffirmed that inevitable disclosure is not a standalone cause of action and is instead invoked "as a factor guiding the court's determination as to whether injunctive relief is appropriate[.]" *Id.* at \*23. Recent decisions in the District of New Jersey also cited *National Starch* with approval and concluded that application of the inevitable disclosure doctrine supported a finding of irreparable harm. See *Chemetail US v. LaFlamme*, No. 16-780, 2016 U.S. Dist. LEXIS 29644, at \*53-54 (D.N.J. March 8, 2016); [\*Jackson Hewitt v. Cline\*](#), No. 14-6931, 2015 U.S. Dist. LEXIS 147167, at \*12-13 (D.N.J. Oct. 29, 2015).

When ultimately forced to reconcile the inevitable disclosure doctrine with "threatened" misappropriation under the NJTSA, New Jersey courts may draw upon precedent from the majority of UTSA jurisdictions that have adopted some form of the inevitable disclosure doctrine. Some courts view inevitable disclosure as a method of establishing threatened misappropriation. For example, in *Pepsi Co. v. Redmond*, a seminal inevitable disclosure case, the Seventh Circuit held that a plaintiff may prove a claim of trade secret misappropriation "by demonstrating that a defendant's new employment will inevitably lead him to rely on the plaintiff's trade secrets." 54 F.3d 1262, 1269 (7th Cir. 1995). Another court characterized the inevitable disclosure doctrine as "just one way of showing" threatened misappropriation under that state's version of the UTSA, reasoning that while threatened misappropriation is "aimed at

preventing disclosures based on the employee's intentions," the inevitable disclosure doctrine is "aimed at preventing disclosures *despite* the employee's best intentions." [Barilla Am. v. Wright](#), 2002 U.S. Dist. LEXIS 12773, at \*25-26 (S.D. Iowa July 5, 2002). More recently, in *Bimbo Bakeries USA v. Botticella*, the Third Circuit held that a less demanding showing was required when injunctive relief was based on "threatened" misappropriation. According to the court, the threat of disclosure need not amount to inevitability, and a trial court has discretion to enjoin a defendant from beginning new employment if the facts demonstrate "a substantial threat" of trade secret misappropriation. 613 F.3d 102, 113 (3d Cir. 2010) (Pennsylvania law).

Not all UTSA jurisdictions have been as receptive in their treatment of the inevitable disclosure doctrine. A court in California, for example, rejected the inevitable disclosure doctrine altogether, expressly holding that it "cannot be used as a substitute for proving actual or threatened misappropriation of trade secrets." [Whyte v. Schlage Lock Co.](#), 125 Cal. Rptr. 2d 277, 294 (Ct. App. 2002); *see also* *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326, 1335 (S.D. Fl. 2001) (describing it as "a separate and distinct theory" from threatened disclosure). The recent enactment of the federal Defend Trade Secrets Act of 2016 also appears to deal another blow to the inevitable disclosure doctrine: the new act contains a provision that expressly prohibits injunctions that "prevent a person from entering into an employment relationship" and requires that "conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows." S. 1890, 114th Cong. (2016) (enacted).

## Conclusion

Trade secret litigation will only increase in the digitized workplace, and New Jersey courts will face thorny legal issues of pre-emption and which parts of the common law survived the enactment of the NJTSA. While the inevitable disclosure doctrine was a useful tool for many years, it remains to be seen how it will co-exist alongside the NJTSA. For now, it appears that courts in New Jersey remain willing to consider application of the inevitable disclosure doctrine in the context of the standard injunction analysis—in particular, as a factor in the irreparable harm analysis. And if the pre-emption analysis in *SCS Healthcare* is accepted by other courts, the inevitable disclosure doctrine may have even broader application. Either way, further development in New Jersey's trade secret law is, well, inevitable.