The Georgia Supreme Court's "Rejection" of the Inevitable Disclosure Doctrine – What it May Mean and What it May Not.

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As readers of this newsletter know, when an employee leaves a company to join a competitor, the company often fears that the employee will use confidential information or trade secrets to unfairly compete. Even if the employee does not take any documents, files, or software, the employer can be unnerved by the thought that an employee may use proprietary information gained in her employment to the detriment of the former employer. The inevitable disclosure of trade secrets doctrine has been used by some courts to address such circumstances. Specifically, some courts have employed the inevitable disclosure doctrine to enjoin a former employee from working for a competitor when that employee will "inevitably" disclose or use trade secrets from the former employer in her new employment. Because of its potentially far-reaching implications, other courts have refused to adopt the doctrine. Until this spring, no Georgia appellate court had provided definitive guidance as to whether this doctrine was cognizable under Georgia law. In early May, however, in *Holton v. Physician Oncology Services, LP*, No. S13A0012, ___S.E.2d ___, 2103 WL 1859294 (Ga. May 6, 2013), the Supreme Court of Georgia declined to adopt the inevitable disclosure doctrine, at least for now.

1. *The Origins of the Inevitable Disclosure Doctrine*

PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995) is considered the foundational decision establishing the inevitable disclosure doctrine. In *PepsiCo*, a high-level manager left PepsiCo, Inc. ("Pepsi") to work for Quaker Oats Company ("Quaker"), one of Pepsi's competitors in the beverage industry. The employee had signed an agreement with Pepsi containing a confidentiality provision that prohibited him from disclosing or making use of confidential information obtained during his employment at Pepsi. When the employee left to work for Quaker, Pepsi filed suit seeking to enjoin the employee from assuming his duties at Quaker and to prevent him from disclosing trade secrets or confidential information to Quaker.

Pepsi asserted that it had developed "particularized plans or processes" relating to its marketing, distribution, and pricing strategies, and that it had disclosed such plans to the former employee when the employee worked for it. Pepsi further asserted that these plans and processes were unknown to others in the industry and that the employee could not help but rely on such trade secrets in helping Quaker develop and implement its strategy. This "inevitable disclosure" would, therefore, lead to Quaker gaining a substantial advantage.

In response to Pepsi's allegations, the employee contended that (i) he did not have and did not intend to use such confidential information, (ii) he had signed an agreement with Quaker not to disclose any trade secrets or confidential information gleaned from Pepsi, and (iii) certain information would be useless to Quaker because of differences in the companies' distribution plans.

The federal district court enjoined the employee from assuming his position at Quaker for a time and permanently enjoined the employee from using or disclosing any of Pepsi's trade secrets or confidential information. In its decision, the trial court found that the employee's new job posed "a clear threat of misappropriation of trade secrets and confidential information." The court also emphasized that two factors leading to its decision were the employee's lack of forthrightness in his activities before accepting his job with Quaker and in his testimony. The employee appealed.

The main issue on appeal was the trade secrets misappropriation claim, which was governed by the Illinois Trade Secrets Act ("ITSA"). Under the ITSA (like the Georgia Trade Secrets Act), a court "may enjoin the 'actual or threatened misappropriation' of a trade secret."

Pepsi was suing to prevent not the actual misappropriation of trade secrets, but to protect itself against the threat of the employee's use of trade secrets. The Court of Appeals for the Seventh Circuit found that Pepsi presented substantial evidence that the former employee possessed "extensive and intimate knowledge" about Pepsi's strategic goals with respect to certain beverage products. The danger for Pepsi of the employee possessing this knowledge did not lie in the fact that such trade secrets may be misappropriated, but that Quaker – "unfairly armed with [Pepsi's] plans" – would be able to anticipate its competitor's moves and thus gain an unfair advantage. The court also noted that the former employee's "lack of candor" with Pepsi regarding his negotiations with Quaker led to a reluctance to believe that the employee would act with the good faith necessary to refrain from using Pepsi's trade secrets in his new employment. The Seventh Circuit, therefore, upheld the district court's order enjoining the employee from assuming his responsibilities at Quaker for a period of time and from ever disclosing Pepsi's trade secret and confidential information.

As demonstrated by the *PespiCo* decision, the inevitable disclosure doctrine can be used for much more than merely protecting an employer against the misappropriation of trade secrets. As stated by one court, "The inevitable disclosure doctrine permits an employer to enjoin the former employee without proof of the employee's actual or threatened use of trade secrets based upon an inference (based in turn upon circumstantial evidence) that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is not merely an injunction against the use of trade secrets, but an injunction restricting employment." *Whyte v. Schlage Lock Co*., 101 Cal. App. 4th 1443, 1461-62 (2002). Accordingly, the doctrine can, in effect, retroactively rewrite employment agreements to include court-imposed restrictive covenants which neither the employee nor the employer bargained for, or extend the time of an already-existing restrictive covenant. *See id.* at 1462-63. The doctrine, therefore, demonstrates the "basic tension" in trade secret law, as courts must balance protecting "standards of commercial morality," as well as "encourage[ing] invention and innovation," with the public interest of having mobile employees and "free and open competition." *PepsiCo*, 54 F.3d at 1268.

Because of the potentially drastic implications of the inevitable disclosure doctrine, "the theory remains the subject of considerable disagreement." *See LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 470 (Md. 2004) (citing several cases). Some courts embrace the doctrine as an avenue to enjoin a former employee from competition. *See, e.g.*, *Lexis-Nexis v. Beer*, 41 F. Supp. 2d 950 (D. Minn. 1999); *American Totalisator Sys, Inc. v. Automatic Totalisators (U.S.A.) Ltd.*, No. 5562, 1978 WL 4479 (Del. Ch. Apr. 20, 1978). Other courts (particularly those with a strict public policy against restrictive covenants) reject the use of the doctrine altogether. *See, e.g.*, *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326 (S.D. Fla. 2001); *Whyte*, 101 Cal. App. 4th 1443; *Gov't Tech. Servs, Inc. v. IntelliSys Tech. Corp.*, 51 Va. Cir. 55 (Va. Cir. Ct. Oct. 20, 1999). And still other courts appear to employ a theory at least similar to the inevitable disclosure doctrine but with other limitations on its applicability, such as a particularized description of the confidential information at issue or a showing of the employee's bad faith. *See, e.g.*, *Merck & Co. Inc. v. Lyon*, 941 F. Supp. 1443, 1459 (M.D.N.C. 1996) ("However, it appears that the North Carolina courts employ their own version of an 'inevitable disclosure rule' . . . ."); *Barilla Am., Inc. v. Wright*, No. 4-02-CV-90267 2002 WL 31165069 (S.D. Iowa July 5, 2002) ("[T]he approach this Court takes will be to simply enforce a stricter standard on inevitable disclosure, and then treat it and the threatened disclosure doctrine as variations of the same standard.").

2. ***The Inevitable Disclosure Doctrine in Georgia***

Until recently, no Georgia appellate court had affirmatively adopted or rejected the inevitable disclosure doctrine. Some have argued that one Georgia Supreme Court decision, *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 501 S.E.2d 501 (1998), indicated Georgia's adoption of the doctrine. In that case, the Supreme Court upheld a five-year injunction prohibiting an employee who headed a three year, $2 million development project from working for a competitor's logistics department despite the absence of a non-compete. In *Essex*, however, the court never used the words "inevitable disclosure," and did not cite any authority referring to that doctrine.

In *Holton v. Physician Oncology Services, LP* the Georgia Supreme Court considered the inevitable disclosure doctrine and explicitly rejected it when construed as a "stand-alone claim." The Court held "[b]ecause a stand-alone claim for the inevitable disclosure doctrine of trade secrets – untethered from the provisions of our state trade secrets statute – is not cognizable in Georgia, we reverse the part of the Order enjoining Holton from the inevitable disclosure and use of trade secrets."

Mr. Holton was a former executive of Physician Oncology Services, LP ("POS"), which provides radiation therapy services to cancer patients. He was responsible for overseeing operations of facilities throughout Atlanta and in other states. In conjunction with being hired at POS, Mr. Holton signed an employment agreement containing a one-year non-compete covenant and a two-year confidentiality covenant. POS subsequently merged with another company, Vantage Oncology, LLC ("Vantage"). Several months later, Vantage terminated Mr. Holton's employment allegedly for cause, shortly after which, Mr. Holton accepted a position as Chief Executive Officer of a competitor of Vantage. The competitor was based in another state, but had four facilities within the non-compete territory in Mr. Holton's employment agreement, none of which fell within Mr. Holton's day to day oversight. Nevertheless, Vantage sought a temporary restraining order and an interlocutory injunction against Mr. Holton, alleging, *inter alia*, that Mr. Holton would inevitably disclose and use Vantage's trade secrets in his new employment.

Judge Kelley A. Lee, a judge in the Superior Court of Fulton County, found that Vantage was likely to prevail on the merits of its claim for the inevitable disclosure of trade secrets, citing the Georgia Trade Secrets Act (the "GTSA") as well as *Essex*. Mr. Holton appealed to the Georgia Court of Appeals, and the case was transferred to the Supreme Court of Georgia.

The Supreme Court first noted that the GTSA prohibits "actual or threatened misappropriation of trade secrets by a person who acquires knowledge of the trade secret 'under circumstances giving rise to a duty to maintain its secrecy or limit its use.'" The court further noted that a Vantage executive testified that he was confident that Mr. Holton retained knowledge of major company initiatives in his head but that Vantage had failed to present any evidence that Mr. Holton had shared or disclosed any trade secrets or confidential information, or that he had any intent to do so.

Citing a California decision, the Georgia Supreme Court continued its analysis by stating that the inevitable disclosure doctrine can impose a non-compete covenant where one does not exist or extend a noncompete covenant beyond the time negotiated by the parties. It also laid out several factors that courts consider in applying the doctrine, including whether (1) the employers are direct competitors providing similar products and services; (2) the employee's position with the new employer has responsibilities similar to the position held with the former employer; (3) the employee will be unable to complete those responsibilities without relying on the former employer's trade secrets, (4) the trade secrets are valuable to both employers; and (5) the employee demonstrated bad faith conduct or intent to disclose trade secrets. Noting that there is considerable inconsistency among the states with respect to the doctrine, and stating that *Essex v. Southwire* did not expressly address the doctrine, the court ultimately reasoned that "the inevitable disclosure doctrine is not a[n] independent claim under which a trial court may enjoin an employee from working for an employer or disclosing trade secrets."

The court seemed to leave open some possibility of adopting the inevitable disclosure doctrine in the future, however, as a latter portion of the opinion reads, "Because it appears that the trial court did not reach Vantage's claim for actual or threatened misappropriation of trade secrets and the case returns to the trial court for a final adjudication on the merits, we decline to address today whether the inevitable disclosure doctrine may be applied to support a claim for threatened misappropriation of trades secrets."

3. ***A Potential Future for the Inevitable Disclosure Doctrine?***

Despite the Supreme Court's holding in *Holton*, the language in the latter portion of the opinion seems to indicate that the inevitable disclosure doctrine may not be ruled out for good in Georgia. Based on the facts in *Holton*, the case appears particularly amenable to the Supreme Court's decision to not recognize the inevitable disclosure doctrine as a separate claim. That is, there was not a clear showing that Mr. Holton would be in an employment position in which he would be directly competing with Vantage, Vantage seemingly did not point to any particularized trade secrets that Mr. Holton allegedly would "inevitably disclose," there was no indication that Mr. Holton acted with bad faith or an intent to disclose any of Vantage's confidential information, and Mr. Holton's non-compete agreement had expired by the time the Supreme Court considered the applicability of the inevitable disclosure doctrine. The combination of all of these facts likely weighed against a finding that Mr. Holton would inevitably disclose trade secrets or confidential information in his new employment.

Additionally, it remains unclear if, under other circumstances – such as when an employee acts in bad faith or the former employer has specific, particularized trade secrets it is concerned about – the Supreme Court will consider an inevitable disclosure argument as evidence of a threatened trade-secret misappropriation.

Finally, Georgia law with respect to contracts in restraint of trade changed drastically in 2011. Mr. Holton's restrictive covenant agreement was signed in 2009, and thus, the issues with his employment agreement were governed by Georgia's old common law, which was enshrouded in a strict public policy against restraints of trade. It is possible that this strict public policy against restrictive covenants influenced the Supreme Court's consideration of whether to impose a further non-compete covenant on Mr. Holton.

Georgia's new law, however, makes it easier for an employer to restrict a former employee from competing. Accordingly, it could be argued that this new, more liberal policy with respect to restrictive covenants is inconsistent with a complete rejection of the inevitable disclosure doctrine. It could be further argued that a limited application of the doctrine, when it is narrowly tailored to specific trade secret information, would be more appropriate. By way of example, if a former employee of an energy drink company, like the employee in *PepsiCo*, has particularized knowledge about the marketing and distribution plans for the year 2013 for an energy drink, it could be reasonable to contemplate that he would inevitably share or use that knowledge with his new employer when plotting out the 2013 marketing and distribution strategy for a competing energy drink. Thus, it may be more reasonable to enjoin the former employee from working in a marketing position with the new company for the year 2013, rather than enjoining him from working for the competitor company altogether.

The Supreme Court's decision in *Holton* seems to have raised more questions than it answered. Nevertheless the opinion does demonstrate that Georgia will not enjoin an employee from working for a competitor of his or her former employer based on little more than a hunch that the employee will disclose trade secrets or confidential information in his or her new employment.

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