

Inevitable Disclosure Theory Helps Plaintiff Overcome Standing Hurdle

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Earlier this month, a federal court judge in the United States District Court for the Central District of Illinois denied a defendant's motion to dismiss a plaintiff's amended complaint for, among other claims, trade secret misappropriation, based on a theory of inevitable disclosure in the future. The plaintiff had admitted at oral argument that, after three years or so of discovery, it had no direct evidence of actual disclosure of its trade secrets by the defendant, and that it was instead relying in its amended complaint on the threat of future disclosure. The Court rejected the defendant's position that a future disclosure threat as pled by plaintiff was insufficient to give the plaintiff standing to proceed, because the plain language of both the federal Defend Trade Secrets Act ("DTSA") and the Illinois Trade Secrets Act ("ITSA") expressly provide that actual or *threatened misappropriation* may be enjoined. The decision provides a useful illustration of the

applicability of the doctrine of inevitable disclosure in the realm of trade secret litigation.

The plaintiff Marquis ProCap System, LLC (“Marquis”) is a renewable energy company based in Illinois, and alleges that it operates the largest dry-mill ethanol facility in the United States. Marquis has developed proprietary processes, technology, and systems for processing the co-products of corn-to-ethanol production at the alleged cost of more than \$30 million. For over a decade, defendant Novozymes North America, Inc. (“Novozymes”) had been a supplier to the Marquis companies, providing enzymes and microbes that Marquis used in its processes. For over a year or so, the parties explored forming a partnership. As part of this process, they entered into a mutual confidentiality agreement and, as claimed by Marquis, Novozymes was provided with Marquis’ trade secret information. Marquis alleged that, without any notice to it, and just four days after a knowledge-sharing meeting, Novozymes publicly announced that it was entering into an exclusive partnership with Green Plains, Inc. (“Green Plains”), Marquis’ competitor. Marquis claimed that the same Novozymes’ scientists worked on both the attempted partnership with Marquis and the partnership with Green Plains, and that Novozymes would not have been able to proceed with its partnership with Green Plains without misusing Marquis’ trade secrets. As a result, Marquis asserted trade secret misappropriation by Novozymes in violation of the DTSA, the ITSA, and the parties’ confidentiality agreement.

After three years of discovery, Marquis amended its complaint to add allegations that Novozymes poses a future threat that it will inevitably use or disclose Marquis’ trade secrets, and Marquis even admitted during oral argument that it had no direct evidence that Novozymes had already shared its trade secrets with Green Plains. Rather, the plaintiff acknowledged that its focus was on the threat of future breach. Novozymes moved to dismiss the amended complaint arguing that Marquis lacked standing because of lack of evidence of actual misappropriation and because allegations of future threats of misappropriation are insufficient for establishing standing.

The Court denied the motion, finding that Marquis had standing under both the ITSA and DTSA as both statutes allow the enjoining of not only actual but also threatened misappropriation. Relying on the Seventh Circuit decision in *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), the Court recognized that a trade secret misappropriation claim could be established where a defendant’s new employment will inevitably lead him or her to rely on a plaintiff’s trade secrets. When determining if a defendant will inevitably disclose trade secrets in his or her new position, courts consider (1) the level of competition between the former and the new employer; (2) whether the employee’s new position is comparable to the position she or he held with the former employer; and (3) the new employer’s actions to prevent the employee from using or disclosing trade secrets of the former employer. The Court held that Marquis pointed to sufficient evidence at the motion to dismiss stage on each of these factors that: (1) Green Plains is Marquis’ direct competitor, (2) Novozymes is in a similar position of assisting Green Plains in improving its processes as when Novozymes was collaborating with Marquis, and (3) Novozymes failed to sufficiently protect Marquis’ trade secrets. In reaching its decision, the Court pointed to evidence that, while pursuing its partnership with Green

Plains, Novozymes sent the same group of scientists who worked on the Green Plains project to learn about Marquis' trade secrets and that Green Plains' subsidiary filed a patent application pursuing protection for the same technology as Marquis without any explanation by the inventor as to how he came up with the invention, among other facts. The Court concluded that the facts as presented by Marquis at the motion to dismiss stage reflected that Novozymes would inevitably use Marquis' trade secrets when partnering with Green Plains.

The Court's decision serves as a useful reminder of the importance of considering not just actual but also threatened misappropriation of trade secrets while asserting misappropriation claims, including the applicability of the inevitable disclosure doctrine. However, it is important to remember that the inevitable disclosure doctrine is applied differently (if at all) in various jurisdictions. In 2019, an Oregon federal court judge surveyed the status of the inevitable disclosure doctrine between the various states at the time, and found that: (a) seventeen (17) states appear to have adopted the inevitable disclosure doctrine in one form or another: Arkansas, Connecticut, Delaware, Florida, Indiana, Illinois, Iowa, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas, Utah, and Washington; (b) five (5) states appear to have rejected the doctrine: California, Colorado, Louisiana, Maryland, and Virginia; and (c) the remaining twenty-eight (28) states had not yet decided whether to follow the inevitable disclosure doctrine. Phoseon Tech., Inc. v. Heathcote, No. 3:19-cv-2081-SI, 2019 U.S. Dist. LEXIS 221633, at *30-31 (D. Or. Dec. 27, 2019). Since then, a Florida federal court has indicated that Florida has not adopted or declined to adopt the inevitable disclosure doctrine and an Oregon federal court has opined that Oregon would be unlikely to adopt the doctrine. Thus, an up-to-date canvassing of which jurisdictions recognize the inevitable disclosure doctrine is critical.