Trade Secrets and the Inevitable Disclosure Theory: Generalizations and Speculation Do Not Suffice

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A common assertion in trade secret actions is that the former employee's new employment will inevitably lead him or her to rely on the employer's trade secrets, known as the "inevitable disclosure" theory. Some state and federal courts across the country have adopted the inevitable disclosure theory in trade secret actions. Michigan courts have not formally done so, but an appellate court considered its application in the recent case of *Gen-Wealth, Inc. v. Freckman*, No. 353584, 2021 WL 1941752 (Mich. Ct. App. May 13, 2021).

Gen-Wealth involved a post-termination dispute between an employer and former employee. During defendant Freckman's employment with Gen-Wealth, he executed a confidentiality and non-compete agreement, where he agreed to refrain from engaging in competition with Gen-Wealth for two years and within twenty miles from Gen-Wealth's business location in Zealand, Michigan. After Freckman sought employment as a financial advisor with Kornhorn Financial Group, Inc., he moved to Indiana to advise Kornhorn's existing client base in Granger, Indiana. Upon learning of Freckman's new employment, Gen-Wealth filed suit for a myriad of claims, including breach of employment contract and violation of the Michigan Uniform Trade Secrets Act, ("MUTSA").

After contentious litigation, the trial court ultimately dismissed all claims against Freckman. The trial court found that, as a matter of law, assets under management, the number of clients, customer lists, and the term "consolidated client" did not constitute trade secrets under MUTSA, as Gen-Wealth alleged. In addition, the trial court found that Gen-Wealth merely speculated that some of its clients moved its assets to banks with Freckman's assistance. Gen-Wealth appealed.

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The Michigan Court of Appeals affirmed dismissal of all claims against Freckman. In reviewing the alleged trade secret violations, the Appellate Court found that Gen-Wealth took steps to protect client information with the confidentially agreement. However, this was not enough to establish that the information covered by the agreement was a trade secret. Under MUTSA, the information must be both the "subject of efforts to maintain its secrecy" and must derive "independent economic value… from not being generally known… to persons who can obtain economic value from its disclosure or use." Because there was no evidence that the client information had independent economic value, Gen- Wealth failed to establish that the information constituted a trade secret.

In addition, Gen-Wealth heavily relied on the inevitable disclosure theory in seeking to prove misappropriation of trade secrets. The Court acknowledged that the inevitable disclosure theory permits a plaintiff to prove misappropriation by demonstrating that the defendant's new employment will inevitably lead him or her to rely on the plaintiff's trade secrets. However, the Court held that, "for a party to make a claim of threatened misappropriation, whether under a theory of inevitable disclosure or otherwise, the party must establish more than the existence of generalized trade secrets and a competitor's employment of the party's former employee who has knowledge of trade secrets." *Id*. at 12.

Even if the inevitable disclosure doctrine were applicable in Michigan, the Court found that Gen-Wealth failed to present any evidence that Freckman would inevitably use its trade secrets in his new employment. Gen-Wealth merely claimed that Freckman's misuse of trade secrets was inevitable because Kornhorn had no reason to hire him unless it intended to benefit from his knowledge of Gen-Wealth trade secrets. The Appellate Court found this argument to be speculative and unpersuasive. There was simply no evidence in the record to establish that Freckman used, or intended to use, Gen-Wealth information. Further, there was no evidence to show that Kornhorn hired Freckman for any reason other than his competence as a financial advisor. In other words, there was no evidence that Freckman's skills as an advisor were limited to his ability to exploit trade secrets. In so holding, the court explicitly stated that "An employee has the right to change jobs and the mere fact that the employee might use his skills for another employer is not enough to establish a misappropriation of a trade secret." *Id*.

The Gen-Wealth case is an important illustration of the burden imposed on an employer/plaintiff in asserting a violation of MUTSA, and particularly, the inevitable disclosure theory. In addition to establishing that the information at issue qualifies as a protected trade secret, an employer/plaintiff must be prepared to demonstrate, beyond mere generalizations and speculation, that the employee will inevitably use its trade secrets in his/her new employment. This can include evidence of common projects, specialized skill or knowledge in the industry, among other things. Contact a Butzel Long Trade Secrets attorney to navigate the nuances of MUTSA and the proofs required to succeed on a trade secrets claim.

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