THE INEVITABLE DISCLOSURE
DOCTRINE: A Common-Sense Application
That Considers the Rights of Trade Secret Holders
and Employees

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I. INTRODUCTION

Under the inevitable disclosure doctrine, a court may enjoin a person accepting employment with a direct competitor of a former employer to protect a trade secret. Most states that have adopted the doctrine do not limit its application. Such broad application of the doctrine can be harsh and unfair if the former employee lacked any intent to disclose a trade secret. Moreover, it encourages frivolous lawsuits by employers and discourages bargained-for non-compete agreements. Some states, notably California, citing these policy concerns, have declined to adopt the doctrine. This extreme approach is equally troublesome because it ignores that the protection of trade secrets is vital to society.

This article advocates for a common-sense application of the doctrine that considers its two competing policy interests: A person’s right to work and the protection of trade secrets. States should adopt the doctrine, but limit its application to encourage the formation of noncompete agreements, discourage frivolous lawsuits, and protect a person’s right to choose their profession and employer. This could be accomplished with a strict standing requirement, by

barring an injunction against employment when it would harm public health or welfare, and by applying several factors to determine the equities of an injunction. This would correctly balance the competing policy interests of trade secret holders and their employees.

II. BACKGROUND.

A. Trade Secrets Protection Under the Inevitable Disclosure Doctrine.

The doctrine seeks to prevent inevitable disclosure of a trade secret by a former employee of a trade-secret holder to a direct competitor by enjoining employment. Two circumstances, distinguished by the former employee’s conduct, support that disclosure of a trade secret is inevitable:

1. Bad Faith: The employee will intentionally disclose his former employer’s trade secrets to the competitor. The trade secrets may be tangible (e.g., in electronic or paper form) or intangible (memorized).

2. Good Faith: The employee will unintentionally disclose his former employer’s trade secrets to the competitor because the trade secrets are memorized and necessary to
performing his or her duties with the new employer (direct competitor).\textsuperscript{2}

As Part III will discuss, distinguishing good faith and bad faith is important because enjoining an employee who acted in good faith—the innocent employee—is unfair, particularly in the context of the right to work. Moreover, it is not always possible to say with certainty that a former employee will disclose a trade secret. Often, the trade secret holder’s case is grounded in circumstantial evidence from one which must infer the possibility of disclosure. In the absence of direct evidence, disclosure seems more speculative than inevitable. This raises the question of whether good faith conduct should be enjoined.

Enjoining an employee from accepting a position with a direct competitor to protect the disclosure of a trade secret is not a novel idea. Most jurisdictions agree that inevitable disclosure satisfies the Uniform Trade Secrets Act’s (“UTSA”) definition of “threatened misappropriation.”\textsuperscript{3} And even before adoption of the UTSA, the common law recognized inevitable disclosure as a form of threatened misappropriation.\textsuperscript{4}

\textsuperscript{2} In \textit{C \& F Packing Co., Inc. v. IBP, Inc.}, the “plaintiff alleged that defendant had hired its former employee and placed him in a position which inherently required him to disclose confidential information concerning plaintiff's process for making pre-cooked Italian sausage pizza topping.” Computer Science Corp. v. Computer Assoc. Int’l, Inc., 1999 WL 675446 (C.D. Cal. 1999) (citing C \& F Packing Co., Inc. v. IBP, Inc., 1998 U.S. Dist. Lexis 3221 *7 (N.D. Ill. 1998)). “During his deposition, the employee could not guarantee that he had not disclosed the confidential information to his new employer or relied on such information in his new employment: ‘I tried to keep things separate. Whether I did it unknowingly or not, I cannot say.’” \textit{See id.}

\textsuperscript{3} \textit{UNIFORM TRADE SECRETS ACT} § 2 (1985).

\textsuperscript{4} \textit{See Allis-Chalmers Manufacturing Co. v. Continental Aviation \& Engineering Corp.}, 255 F. Supp. 645 (E.D. Mich.1966) (enjoining a former employee from working from a direct competitor when it would have been
The controversy that the doctrine has stirred in modern times can be attributed to a national economy that is more reliant than ever on intangible intellectual property.\textsuperscript{5} Often the trade secret is a process or strategy that is easily memorized in the course of employment, for example marketing strategies and methods for compiling customer lists. Thus, an employee may retain a trade secret long after employment has ended. And because it is impossible to erase the employee’s mind, one could argue that disclosure of the trade secret is simply a matter of time, and that enjoinment of employment is necessary to protect the trade secret. This has led to a resurgence of litigation to prevent good-faith disclosure of trade secrets. This resurgence began with the \textit{PepsiCo v. Redmond} decision in 1995.\textsuperscript{6}

In \textit{PepsiCo}, the famous soft drink maker sued to enjoin a former general manager of its California region, William Redmond Jr., from accepting a similar
position with Quaker, the manufacturer of Gatorade.\(^7\) PepsiCo did not argue that Redmond had stolen \textit{tangible} information that he intended to disclose.\(^8\) Rather, PepsiCo argued that Redmond had \textit{memorized} information about PepsiCo’s “pricing architecture” and “attack plans,” which he would unintentionally disclose because the knowledge was necessary to perform his duties at Quaker.\(^9\) Some of the facts suggested the Redmond would intentionally disclose the trade secrets:

Donald Uzzi, who had left PepsiCo . . . to become the head of Quaker's Gatorade division, began courting Redmond for Quaker in May, 1994. . . . Redmond kept his dealings with Quaker secret from his employers . . . . Uzzi's actions in hiring Redmond and Redmond's actions in pursuing and accepting his new job demonstrated a lack of candor on their part and proof of their willingness to misuse [PepsiCo's] trade secrets.\(^10\)

The court reasoned that disclosure was inevitable.\(^11\) Under a bad-faith analysis, Redmond could not be trusted with protection of the trade secrets because he had kept his job change a secret and lied about the circumstances.\(^12\)

And even assuming Redmond had acted in good faith, his intent to maintain

\(\text{\footnotesize 7. See id. at 1263–64.}\)
\(\text{\footnotesize 8. See id. at 1265.}\)
\(\text{\footnotesize 9. See id. at 1265. PepsiCo’s argument that memorized knowledge could be a trade secret was not new. Memorized knowledge can be a protectable trade secret provided that the knowledge is not actually general skills or job experience. See CAMERON G. SHILLING, THE INEVITABLE DISCLOSURE DOCTRINE: A NECESSARY AND PRECISE TOOL FOR TRADE SECRET LAW (2004), available at http://library.findlaw.com/2004/Mar/1/174690.html. Distinguishing between trade secrets and general-skills knowledge is difficult in practice because both types of information are legitimately gathered (or memorized) while on the job. See id. The inquiry turns in part on whether the knowledge consists of “particularized plans or processes, . . . which are unknown to other in the industry and which [give a company] an advantage over its competitors.” See PepsiCo, 54 F.3d at 1269. In PepsiCo, the court reasoned that the sales strategies and product placement information memorized by the former employee were sufficiently particularized, valuable, and secret to satisfy the definition of trade secrets.}\)
\(\text{\footnotesize 10. See PepsiCo, 54 F.3d at 1264, 1270.}\)
\(\text{\footnotesize 11. See id. at 1271 (“[W]hen we couple the demonstrated inevitability that Redmond would rely on [PepsiCo] trade secrets in his new job at Quaker with the district court's reluctance to believe that Redmond would refrain from disclosing these secrets in his new position . . . , we conclude that . . . PepsiCo demonstrated a likelihood of success on its statutory claim of trade secret misappropriation.”).}\)
\(\text{\footnotesize 12. See id. at 1268.}\)
confidentiality would not guarantee protection of the trade secrets because it is impossible to “wipe clean” a person’s memory.\textsuperscript{13} The combination of good-faith and bad-faith disclosure made disclosure inevitable, and thus justified restricting Redmond from pursuing his livelihood.\textsuperscript{14} Yet despite the high likelihood of disclosure in such circumstances, other jurisdictions have rejected adoption of the doctrine on public policy grounds.

\textbf{B. The Tension Between the Protection of Trade Secrets and the Right to Work.}

Nineteen jurisdictions have considered adoption of the inevitable disclosure doctrine. Fifteen states have adopted the doctrine\textsuperscript{15} and four states have rejected it.\textsuperscript{16} Arizona has not considered whether to adopt the doctrine.

\begin{itemize}
\item \textbf{Arkansas:} Cardinal Freight Carriers, Inc. v. J.B. Hunt Transport Services, Inc., 987 S.W.2d 642 (Ark. 1999);
\item \textbf{Delaware:} E.I. DuPont de Nemours & Co. v. American Potash & Chem. Corp., 200 A.2d 428 (Del. Ch. 1964);
\item \textbf{Illinois:} PepsiCo v. Redmond, 54 F.3d 1262 (7th Cir. 1995); Strata Marketing, Inc. v. Murphy, 740 N.E.2d 1166 (Ill. Ct. App. 2000);
\item \textbf{Indiana:} Ackerman v. Kimball Int'l, Inc., 652 N.E.2d 507 (Ind. 1995);
\item \textbf{Iowa:} Barilla America, Inc. v. Wright, 2002 WL 31165069 (S.D. Iowa Jul. 5, 2002);
\item \textbf{Michigan:} Kelly Svcs. v. Greene, 535 F. Supp. 2d 180 (D. Me. 2008);
\item \textbf{Missouri:} H&R Block Eastern Tax Svcs., Inc. v. Enchara, 122 F. Supp. 2d 1067 (W.D. Mo. 2000)
\item \textbf{New York:} Marietta Corp. v. Fairhurst, 754 N.Y.S.2d 62 (N.Y. Ct. App. 2003);
\item \textbf{Ohio:} Procter & Gamble Co. v. Stoneham, 747 N.E.2d 268 (Ohio Ct. App. 2000);
\item \textbf{Texas:} Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230 (Tex. Ct. App. 2003);
\item \textbf{Utah:} Novell, Inc. v. Timpanogos Research Group, Inc., 46 U.S.P.Q.2d 1197 (Utah Dist. Ct. 1998);
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Courts that have considered adoption of the doctrine have balanced two competing policy interests. Supporters argue that employers should be able to benefit from the fruits of their labor by protecting their trade secrets.\(^{17}\) This benefits all of society because trade secrets encourage innovation because they force competitors to design alternatives. Consistent this view, Judge Posner once remarked that the “future of the nation depends in no small part on the efficiency of industry, and the efficiency of industry depends in no small part on the protection of intellectual property.”\(^{18}\)

In conflict with these policy interests are a person’s right to work in their chosen profession and the freedom of contract. The doctrine restricts the right to work because an employee enjoined from taking a job with a direct competitor may be forced to change careers or relocate his or her family to another state.\(^{19}\)

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\(^{18}\) See Rockwell Graphic Systems, Inc. v. DEV Industries, Inc., 925 F.2d 174, 180 (7th Cir. 1991).

\(^{19}\) See McCormick v. Empire Accounts Service, Inc., 364 N.E.2d 420 (Ill. Ct. App. 1977) (denying injunction to restrict employment when it would have forced employee to move out of state); see also Central Indiana Podiatry, P.C. v. Krueger, 882 N.E.2d 723 (Ind. 2008) (holding that restriction in employment agreement with physician was unreasonable because it would have forced the “physician to relocate outside the geographic area of the physician's practice,” which would have impaired his “patients' legitimate interest in selecting the physician of their choice”).

In denying the injunction, the court in McCormick, reasoned,

Enforcement of the restrictive covenant by injunction will exclude a 40-year-old man from his primary occupation, and possibly force him to move his family from the area in which he has lived for many years. Such a result does not involve a small and insignificant inconvenience to McCormick . . . . For this reason alone, the application was properly denied.

See id. at 422 (emphasis added).
And because these restrictions are imposed by a post-employment injunction, the employee never has an opportunity to bargain the terms of employment. 20

These competing policy interests are further complicated by the fact that the protection of both interests is critical to the “vitality of American industry.” 21 This is because an injunction against employment bars direct competitors from hiring talented and skilled workers. 22 Consequently, a lack of skilled labor cripples the competition and innovation that trade-secret protection seeks to promote. 23

Opponents of the doctrine argue that it is unfair when applied to employees who lack intent to disclose (good faith). 24 It can also be oppressive; an employer may use the threat of costly litigation as a weapon to retain employees. 25

Because it serves a vital societal need, the inevitable disclosure doctrine should be adopted. However, should be limited to serve the policy interest that is more deserving of protection under the circumstances. For instance, if the circumstances suggest bad faith on the part of the employee, then protecting the trade secret becomes more compelling. Conversely, if the circumstances suggest good faith, then protecting the right to work is more compelling. To craft

22. See id.
23. See id.
24. See generally Rachel S. Arnow-Richman, Bargaining for Loyalty in the Information Age: A Reconsideration of the Role of Substantive Fairness in Enforcing Employee Noncompetes, 80 Or. L. Rev. 1163 (2001) (arguing that noncompete agreements should be enforced in light of the “substantive effects of enforcement . . . and the fairness of the agreement at the time it was drafted”).
limitations that properly balance these competing policy interests, it is useful to review the rationale of courts that have considered adoption the doctrine.

California is among the minority of states that have rejected the inevitable disclosure doctrine on policy grounds.\(^{26}\) In *Whyte v. Schlage Lock Company*, the California Court of Appeals reasoned that the right to work outweighed the protection of trade secrets—even if the former employee acted in bad faith.\(^ {27}\) Apart from the names of the parties, the facts in *Whyte* were nearly identical to the facts in *PepsiCo*. The plaintiff, Douglas Whyte, had worked for Schlage as vice-president of sales.\(^ {28}\) Whyte dealt with large retailers such as Home Depot and Sears.\(^ {29}\) Like in *PepsiCo*, Whyte had been wooed away by Kwikset, one of Schlage’s many “fierce competitors” who battled “for shelf space at Home Depot.”\(^ {30}\) Whyte had knowledge of Schlage’s sales strategies, marketing plans, and advertising allowances, which the court reasoned were trade secrets.\(^ {31}\) Because of the similarity in positions and customers, there was a risk that Whyte would unintentionally disclose the trade secrets to Kwikset (good faith).\(^ {32}\) Moreover, Whyte had not been “forthright” with Schlage about the reasons for his departure (bad faith).\(^ {33}\) Despite the likelihood of unintentional disclosure (good

\(^{26}\) 101 Cal. App. 4th at 1443–1463.
\(^{27}\) See id. at 1463.
\(^{28}\) See id. at 1447–48.
\(^{29}\) See id. at 1447.
\(^{30}\) See id. at 1447.
\(^{31}\) See id. at 1454–56.
\(^{32}\) See id.
\(^{33}\) See id. at 1461.
faith) \textit{and} intentional disclosure (bad faith), the court declined to enjoin Whyte from working for Kwikset.

Behind the court’s decision to reject the inevitable disclosure doctrine was California’s strong protection of the right to work and its prohibition on most noncompete covenants.\textsuperscript{34} The court noted that the doctrine would have imposes a “de facto covenant not to compete.”\textsuperscript{35} The lack of negotiation made the “de facto” covenant worse than the negotiated covenants expressly prohibited by California law. Thus, although Whyte had acted in bad faith, total rejection of the doctrine “correctly balance[d] competing public interests of employee mobility and protection of trade secrets.”\textsuperscript{36}

The court also noted that it was not necessary to enjoin Whyte’s employment because an injunction preventing Whyte from dealing with Home Depot would adequately protect Schlage’s trade secrets.\textsuperscript{37} This part of the opinion might seem illogical because Kwikset sold to many of the same large retailers that Schlage sold to. Thus, Kwikset would still gain a substantial competitive edge. However, it makes sense in light of California’s strong rejection of noncompete agreements and the importance it places in a person’s right to work.

\textsuperscript{34} See id.; see also WEST’S ANN. CAL. BUS. & PROF. CODE § 16600 (2007) (“Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”).

\textsuperscript{35} See id. at 1462-1463.

\textsuperscript{36} See id. at 1461.

\textsuperscript{37} See id. at 1462.
Although Florida and Maryland do not prohibit noncompete agreements, both states have rejected the doctrine based on similar policy concerns. In *Del Monte Fresh Produce*, a federal district court applying Florida law, the court reasoned that inevitable disclosure should not be used to create an “after-the-fact noncompete agreement to enjoin an employee from working at the employer of his or her choice.”\(^\text{38}\) Similarly, in *LeJeune v. Coin Acceptors*, the court noted that Maryland favored “employee mobility,” over an inference of threatened misappropriation from an employee’s mere “exposure” to trade secrets.\(^\text{39}\)

Some jurisdictions have struck a middle ground between *PepsiCo* and *Schlage* by balancing the equities in a particular case. In *EarthWeb, Inc. v. Schlack*, the court recognized inevitable disclosure as a form of misappropriation, but noted that the doctrine treaded a “narrow path through judicially disfavored territory” because it created “implied-in-fact restrictive covenant[s]” that avoid “strict judicial scrutiny.”\(^\text{40}\) Moreover, a former employer could use the threat of

\(^{38}\) *DelMonte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1326 (S.D. Fla. 2001). Virginia is the only other jurisdiction that has rejected the inevitable disclosure doctrine. See Gov’t Technology Svcs., Inc. v. IntelliSys Technology Corp., 51 Va. Cir. 55 (Va. Cir. Ct. 1999) (holding that “only actual or threatened misappropriation may be enjoined . . . [because] . . . Virginia does not recognize the inevitable disclosure doctrine”). The court did not discuss policy reasons for rejecting the doctrine; it relied on a strict interpretation of “threatened” that excluded inevitable disclosure. Whether inevitable disclosure is merely a set of circumstances that prove threatened misappropriation is subject to some debate among courts. One view is that inevitable disclosure is an alternative cause or action when threatened misappropriation cannot be established. *See DelMonte Fresh Produce*, 148 F. Supp. 2d at 1337-38. Most courts, however, recognize that inevitable disclosure is a “form of ‘threatened misappropriation.’” *See LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 469 (Md. Ct. App. 2004); This paper assumes that a jurisdiction would recognize inevitable disclosure as a set of circumstances that satisfy threatened misappropriation, and thus the only issue addresses is whether competing policy concerns outweigh the protection of trade secrets.

\(^{39}\) *LeJeune*, 148 F. Supp. 2d at 471. Moreover, the doctrine created a de facto noncompete agreement “even though Coinco chose not to negotiate a restrictive covenant . . . with LeJeune.” *See id.* at 471.

\(^{40}\) *See EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999)
litigation to prevent an employee from changing jobs.\textsuperscript{41} Furthermore, blanket application of the doctrine discouraged contract formation.\textsuperscript{42} Thus, the court reasoned that application of the doctrine should be limited to instances where the equities balanced in favor of the employer (e.g., the employee acted in bad faith).\textsuperscript{43} The court set forth several factors that a trial court must weigh:

(1) “[T]he employers . . . are direct competitors providing the same or very similar products or services.”\textsuperscript{44}

(2) “[T]he employee's new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets . . . .”\textsuperscript{45}

(3) The “trade secrets . . . are highly valuable to both employers.”\textsuperscript{46}

(4) “[T]he nature of the industry and trade secrets.”\textsuperscript{47}

As Parts III and IV of this paper will discuss, states that adopt the inevitable disclosure doctrine should apply similar factors to determine, on a case-by-case basis, whether injunctive relief is appropriate, and if so, to tailor relief based on the equities of a particular case. This would allow application of the inevitable disclosure doctrine in a manner than respects the policy interests of trade-secret holders and their employees.

\textsuperscript{41} See id. at 310
\textsuperscript{42} See id. at 311.
\textsuperscript{43} See id. at 310.
\textsuperscript{44} See id.
\textsuperscript{45} See id.
\textsuperscript{46} See id.
\textsuperscript{47} See id.
III. **RECOMMENDED LIMITATIONS ON APPLICATION OF THE INEVITABLE DISCLOSURE DOCTRINE**

Application of the doctrine must balance the protection of trade secrets with the right to work and public policy. Thus, the doctrine should not be applied when it would harm public health or welfare. Additionally, an employer-plaintiff should be required to meet a strict standing test that requires proof that 1) a former employee has acquired a trade secret, 2) there is direct competition between the former and prospective employers, and 3) disclosure of the trade secret is likely. Finally, if a plaintiff satisfies standing, a court should enjoin employment only if the facts suggest inequitable conduct by the employee (bad faith); or when the circumstances suggest that the protection of trade secrets is equitable, regardless of whether the employee acted in bad faith.

A. *A Court Should not Enjoin Employment When it Would Harm Public Health or Welfare.*

In the absence of public health or welfare implications, an injunction against employment is undesirable for two reasons. First, it creates an implied noncompete agreement that restricts a person’s right work.48 And second, because

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48. *See supra* notes 33–35 and accompanying text.
the noncompete agreement is implied after the fact, the employee does not have an opportunity to bargain for the terms of his or her employment.\textsuperscript{49}

Noncompete agreements that restrict the right to work and implicate public health and welfare are even less desirable.\textsuperscript{50} As the court reasoned in \textit{Valley Medical Specialists v. Farber}, the health and welfare of the public is more important than the protection of competition. Therefore, a court should not bar physicians, attorneys, or similar professionals, from changing job positions.

\textbf{B. Standing Requirement for Trade Secrets Misappropriation Claims Grounded in a Theory of Inevitable Disclosure.}

In most jurisdictions, standing requires that a plaintiff establish:

1. A present or imminent injury, rather than a speculative injury that may never materialize;\textsuperscript{51}

2. That the defendant caused the injury,\textsuperscript{52} and

3. That the court can redress the injury through the award of damages or an injunction.\textsuperscript{53}

This ensures that “courts do not issue mere advisory opinions, that the case is not moot, and that the issues will be fully developed by true adversaries.”\textsuperscript{54} In

\textsuperscript{49} See supra notes 33–35 and accompanying text.
\textsuperscript{52} See 81 P.3d at 1022.
\textsuperscript{53} See id. at 1022.
an inevitable-disclosure case, a plaintiff who cannot establish that a former employee acquired a trade secret is speculating as to an injury that may never occur. And even if a plaintiff can prove acquisition of a trade secret; this does not necessarily mean that the former employee will use the trade secrets in his new position. Thus, a court should require a plaintiff to show that:

1. The former employee acquired trade secrets.

2. The former and new employers are in direct competition.\(^55\)

3. The former employee cannot perform his duties without using the trade secrets (good faith) or the former employee intends to use the trade secrets (bad faith).\(^56\)

The third prong of this proposed standing test may seem unfair because it enjoins employment of an employee who acted in good faith and lacked intent to disclose the trade secret. However, standing is merely a gateway through which a plaintiff must pass through to assert a claim. Under the approach discussed in Part

\(^{55}\) This standing requirement is similar to one of the factors evaluated by the court in *EarthWeb, Inc. v. Schlack*, see *supra* notes 39–46 and accompanying text. This factor is better suited to a threshold determination of standing for three reasons. First, there can be no injury unless the former and new employers are in direct competition. Second, the existence of direct competition should not be given much weight because it supports a weak inference of threatened disclosure. Third, it does not consider the employee’s interests, and thus may not be the best way to determine the equities in enjoining his or her employment.

\(^{56}\) This standing requirement is identical to one of the factors evaluated by the court in *EarthWeb, Inc. v. Schlack*, see *supra* notes 43–46 and accompanying text. This article supports using this factor as both a standing requirement and for tailoring relief. *See* infra Parts IV.B and IV.C.1–2. As a gateway to the courthouse, this factor looks at whether there is any possibility of disclosure. This may be either the threatened disclosure in the traditional sense where an employee intends to disclose (bad faith), or inevitable disclosure where an employee does not intend to disclose, but the “nature of the new position is nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer” (good faith). *See* *EarthWeb* at 310. As a factor in deciding whether an injunctions is proper, this factor takes into account that the enjoinment of employment to prevent good faith disclosure is less equitable that enjoinder to protect bad faith disclosure. *See* infra Part IV.C.1–2.
IV.D., good faith would weigh strongly against an injunction. The goal at this stage is to allow a trade-secret holder access to justice.

One benefit of this proposed standing requirement is that it would decrease one of the harsh effects of the doctrine—frivolous and oppressive litigation. For example, an employee might decline a position with a direct competitor simply to avoid costly litigation. To guard against such oppression, employers should satisfy heightened pleading.

Another benefit of a strict standing requirement is that it would encourage employers to negotiate noncompete agreements with employees who might be exposed to trade secrets. In the absence of such motivation, employers will avoid noncompete agreements because the bargained-for terms often will be less favorable than a post-employment injunction. For example, a noncompete agreement that precludes a former employee from taking a position with any direct competitor in any locale and for an unlimited period of time would be unreasonable, and thus unenforceable. However, these broad restrictions on employment might be possible under the inevitable disclosure doctrine.

57. *See infra* Part IV.D.
58. *See Schlage*, 101 Cal. App. 4th at 1463 (reasoning that the inevitable disclosure doctrine “can be a powerful weapon in the hands of an employer; the risk of litigation may have a chilling effect on the employee”) (quoting *EarthWeb*, Inc. v. Schlack, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999)); *see also* *Angelucci* v. *Century Supper Club*, 158 P.3d 718, 728 n.10 (Cal. 2007) (explaining that narrowed standing requirement enacted by voters intended to reduce “frivolous litigation” that coerced defendant business entities into settling with plaintiffs); *see also* *John Owens, Comparative Law and Standing to Sue: A Petition for Redress for the Environment*, 7 ENVTL. L. W., 321, 326 (Feb. 2001) (explaining that one of the goals of the standing requirement is “preventing increased frivolous litigation”).
It could be argued that this standing test will not motivate employers to form noncompete agreements because, in the context of trade secrets, unlimited geographic and time scope is reasonable. This is because once a trade secret is disclosed to a third party; it is no longer a trade secret.\textsuperscript{60} Therefore, the noncompete agreement would be just as broad as a post-employment injunction. But even assuming this is true, an employee must be afforded an opportunity to negotiate the terms of his or her employment; or to reject the position if he or she disagrees with those terms.

\textbf{C. Factors that Should be Applied in Determining Whether to Enjoin a Former Employee from Accepting a Position with a Direct Competitor}

Once a plaintiff has established standing, a court must decide the propriety of an injunction. Arizona Revised Statutes section 44-402 allows a trade secret holder to enjoin “threatened misappropriation” by prohibiting a “particular act,” including employment with a direct competitor.\textsuperscript{61} Because injunctions are an equitable remedy,\textsuperscript{62} a court must weigh the competing policy interests (the protection of trade secrets and the right to work). If the likelihood of disclosure is high or there evidence of bad faith on the part of the employee, then protecting the

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60. See \textsc{Ariz. Rev. Stat. Ann.} § 44-401(4)(b) (requiring that a party claiming to assert protection of information as a trade secret have taken reasonable security measures to protect its secrecy).
62. See City of Tucson v. Clear Channel Outdoor, Inc. 218 Ariz. 172, 187, 181 P.3d 219, 234 (Ariz. Ct. App. 2008) ("An injunction is an equitable remedy, which allows the court to structure the remedy so as to promote equity between the parties.") (citation omitted).
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right of that employee to work in his or her chosen profession seems less compelling. Conversely, no injunction might be the proper remedy if the likelihood of disclosure is low or there is no evidence of bad faith. Because this inquiry turns on whether an injunction is equitable under the circumstances, a court should look at the following factors:

1. The likelihood of disclosure of the trade secret.
2. Whether the employee acted in bad faith.
3. Whether an injunction would injure a public interest.
4. The balance of hardships between the parties.
5. Whether the parties could have formed a noncompete agreement.

None of these factors is dispositive. The inquiry turns on whether the totality of the circumstances, in light of the importance of the trade secret and the employee’s right to work, justify an injunction against employment.

1. Enjoining employment becomes more equitable as the likelihood of disclosure increases.

A court should not enjoin employment unless it is likely that the trade secret will be disclosed—in other words, disclosure is inevitable. Disclosure is inevitable when:
(1) The former employee has acquired a trade secret, and

(2) The former employee cannot perform his duties without using the trade secrets (good faith) or the former employee intends to use the trade secrets (bad faith).

These two elements might seem unnecessary because they are identical to two prongs of the proposed standing requirement. However, standing is question of whether evidence exists to support the claim. In contrast, the inquiry at this stage should focus on the nature, probative value, and cumulative weight of the evidence. This inquiry is important to balancing the equities because an injunction is less equitable when issued on an inference drawn from circumstantial evidence, rather than direct evidence. Thus, it would not be sufficient for a plaintiff to allege “exposure to trade secrets.” But if an employee:

- Worked for the former employer for six months,
- Was responsible for developing the technology that the trade secret comprises,
- Lied about the reasons for his job change, and
- The new employer is a direct competitor who sells the identical product to the same customers.

63. See supra Part II.
Then the evidence in support of inevitable disclosure would go above and beyond mere speculation. In those circumstances, the nature, probative value, and cumulative weight of the evidence, strongly support an injunction.

But just because disclosure is likely does not mean employment should be enjoined because of a competing interest: the right to work. To account for this competing interest, a trial court could place the likelihood of disclosure in a particular case along a continuum as shown in Figure 1. At one end of the continuum is the traditional notion of threatened disclosure: The employee intends to disclose the trade secret to a direct competitor (bad faith). At the other end of the continuum is inevitable disclosure: The employee may use the trade secret unintentionally because it is necessary to his or her job function (good faith). Because a theory of inevitable disclosure grounded solely in good faith disclosure presumes a threat that may never materialize, a court should evaluate other factors before issuing an injunction against employment.

![Fig. 1 - Continuum of Inevitable Disclosure](image)

**Fig. 1 - Continuum of Inevitable Disclosure**
2. Whether the employee acted in bad faith.

Enjoining employment is more equitable when the former employee has acted in bad faith because it suggests intent to disclose the trade secret. A court can look at several facts to determine bad faith. One is the length of the employee’s former employment.\(^{66}\) If a person stays at a job just long enough to acquire trade secrets, then it is more likely that the employee took the job to acquire trade secrets (e.g., corporate espionage). Conversely, someone who has worked for the same company for over twenty years is much less likely to have taken that position to misappropriate trade secrets.

Length of employment should not be dispositive. A court should keep in mind that while it is less likely that a long-term employee engaged in espionage, a long-term employee may cause *more harm* than a short-term employee. This is because the long-term employee often has better knowledge of the trade secret and how to use it. Thus, a court might conclude that a short-term employee who acted in bad faith does not create a threat sufficient to justify enjoining employment.

A former employee’s candor in his or her decision to change jobs also is relevant to the good-faith/bad-faith inquiry.\(^{67}\) Lack of candor suggests *intent* to

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\(^{67}\) See JANKOWSKI, *supra* note 72.
disclose trade secrets to a direct competitor. Moreover, it suggests that the former employee “could not be trusted” to maintain confidentiality.  

Another way to determine bad faith is to look at the employee’s reasons for changing jobs. For instance, the direct competitor may have a better retirement plan, longer maternity leave, or better pay. Other important considerations are the employee’s own testimony (e.g., in an affidavit, deposition) and any steps the employee has taken to destroy or return tangible trade secrets.

In sum, an employee’s reasons for changing jobs, coupled with length of employment and the employee’s candor, are highly probative in the determination of bad faith. If the employee lacked bad faith, an injunction should not issue unless other factors tip the equities back in favor of the protection of trade secrets.

3. Whether an injunction serves a public interest.

Enjoining employment of an employee who lacked bad faith might be equitable if it would serve a public interest; for example, the trade secret is vital to national security. Another consideration should be the size of the former employer’s business. If disclosure of a trade secret threatens to put a Fortune 500 company with hundreds of thousands of employees out of business, then an injunction may not be the best answer because, as proponents of bailing out the

68. See PepsiCo, 54 F.3d at 1270.
69. Courts that have weighed the protection of national security and trade secrets against the restraint of the freedom of speech have reasoned that national security is a more compelling interest than trade secrets. See Religious Technology Center v. Lerma, 897 F. Supp. 260, 262-63 (E.D. Va.1995).
automotive industry have argued, the failure of a major player within an industry may wipe out the entire industry, which consequently harms all consumers.\textsuperscript{70} Conversely, there is less at stake if the trade secret is owned by a small mom-and-pop operation. One thing to keep in mind, however, is that many small mom-and-pop operations have gone on to become Microsoft and Apple. Therefore, while important in determining the public benefits of an injunction, the size of a business should not be dispositive.

4. The balance of hardships between the parties.

This factor weighs the harm that would be caused to the trade-secret holder and the former employee. Because a trade secret provides an economic benefit, a court must determine the value of the trade secret. If the trade secret is a company’s only product then its disclosure could force the company into bankruptcy. Under those circumstances, the high value of the trade secret would justify an injunction. On the other hand, if the trade secret is responsible for a fraction of a company’s profits, there would be less justification for an injunction.

Trade secrets also derive value from the competitive advantage they provide. This inquiry turns on whether the former and prospective employers are direct competitors. To determine whether the new employer is a direct competitor, a court should look at the similarity in goods and services. But just because two

companies are in the same industry does not necessarily mean they are direct competitors because they might serve a different geographic scope region or customers. The key question is whether disclosure of the trade secret would give the new employer a substantial competitive advantage.

In balancing the hardships, a court also must ask whether the former employee has reasonable employment alternatives because an employee with alternatives will not suffer a great loss of income. The alternative could be a different position within a broad occupational class. For instance, a professional salesperson who currently sells promotional and rebate-redemption services could sell cars. But even if the employee is qualified, the alternative must be reasonable. An injunction should not force the employee to move to another state or suffer a financial loss (e.g., in selling his or her home).

5. Whether the parties could have formed a noncompete agreement.

This factor addresses the concern that the doctrine discourages bargained-for noncompete agreements. A court should look at whether there was an opportunity to negotiate a noncompete agreement. If so, the court must determine why the parties did not form a noncompete agreement.

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71. See Memorandum in Support of Application for Preliminary Injunction at 10, Continental Promotion Group, Inc. v. Dailey, NO. CV2001-001088 (Super. Ct. April 2001) (supporting injunction to enforce restrictive covenant that barred, inter alia, employment with a direct competitor). In applying for an injunction against Dailey’s employment at a direct competitor, the plaintiff reasoned that such a restriction would not “create an unreasonable restriction on Mr. Dailey’s ability to earn a living. Before joining CPG, Mr. Dailey was an experienced and successful salesman in other industries. The covenant does not restrict him from working as a salesman in any industry other than the promotion and marketing industry.” See id.
It would seem that it is always be possible to negotiate a noncompete agreement, but this is not the case. The trade secret may have been developed after the employee was hired. And even if the trade secret was developed before the employee was hired, there may be bona fide reasons why the employer did not seek or form a noncompete with the employee.

- The employer may not have realized that the employee would be exposed to the trade secret.
- The employer lacked knowledge of the legal consequences of the inevitable disclosure doctrine and noncompete agreements (e.g., small business owners).
- The employer may have disagreed with the premise of restricting an employee’s future employment.
- There may be legal or regulatory restrictions on agreements entered into with some professionals (e.g., attorneys and doctors).
- The employee might have rejected a noncompete agreement.

Thus, a court should consider not only whether the parties had an opportunity to negotiate such an agreement, but also who rejected the noncompete agreement and the reasons for the rejection. A party with unclean hands should not benefit from equitable relief.

The foregoing factors are not exclusive and courts should be free to evaluate each case based on its particular circumstances. The common thread among these factors is that as evidence of bad faith and likelihood of disclosure
increases, then the protection of an employee’s right to work and to bargain the terms of the employment agreements becomes less important. Under such circumstances, an injunction would be proper to protect the trade secret.

IV. CONCLUSION

Because it promotes an important policy interest, a jurisdiction considering the issue should adopt the inevitable disclosure doctrine, but limit its application by 1) precluding application of doctrine when it would implicate public health or welfare, 2) enacting a strict standing requirement, and 3) tailoring injunctive relief depending on the likelihood of disclosure or the presence of bad faith. This would protect the trade secrets of former employees while encouraging the formation of bargained-for noncompete agreements, discouraging frivolous lawsuits, and protecting the right to choose one’s profession and employer.