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Trade Secrets: Important Quasi-Property Rights

By Ramon A. Klitzke*

The law has protected trade secrets since the middle of the nineteenth century.¹ Although businesses accumulate and make use of ideas unknown to their competitors, few realize that the law will give redress to anyone whose ideas have been misappropriated. When a business uses information not generally known, the information may qualify as a species of intellectual property classified as a trade secret, and be eligible for strong tort or contract protection against unauthorized disclosure or use. The subject matter of trade secrets has been broadly defined.² Even a small business might use information qualifying for protection as a trade secret.

Until recently, the practicing business lawyer drew upon the law of trade secrets only infrequently. Patent attorneys were aware that inventions and invention know-how, before becoming generally known, were protectible as trade secrets, but little attention was given to other kinds of trade secrets. In 1979, the Commissioners on Uniform State Laws adopted a Uniform Trade Secrets Act,³ which drew general attention to trade secret law. Lobbying efforts to induce state legislatures to consider the act began immediately.⁴ Bar associations, particularly intellectual property associations, suddenly became inter-

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Editor's note: Leslie Bertagnolli of the Illinois bar and L. Richard Fischer of the California and District of Columbia bars served as reviewers for this article.

1. *Morison v. Moat*, 68 Eng. Rep. 492, 9 Hare 241 (1851).
2. Restatement of Torts § 757, comment b. (1939).
3. 14 U.L.A. 537 (1980). The Uniform Trade Secrets Act is discussed and analyzed in Klitzke, *The Uniform Trade Secrets Act*, 64 Marq. L. Rev. 277 (1980).
4. Eleven states have enacted the UTSA: Ark. Stat. Ann. §§ 70-1001 to 70-1007 (Supp. 1985); Cal. Civ. Code § 3426 (West Supp. 1985); 1983 Conn. Acts No. 83-344 (Reg. Sess.); Del. Code Ann. tit. 6 §§ 2001-09 (Supp. 1984); Idaho Code §§ 48-801 to -807 (Supp. 1985); Ind. Code §§ 24-2-3-1 to -2-3-8 (Supp. 1985); Kan. Stat. Ann. §§ 60-3320 to -3330 (1983); La. Rev. Stat. Ann. §§ 51:1431 to 51:1439 (West Supp. 1985); Minn. Stat. §§ 325C.01-.08 (1981); N.D. Cent. Code, §§ 47-25.1-01 to 47-25.1-08 (Supp. 1985); Wash. Rev. Code §§ 19.108.010-.940 (Supp. 1986).

A twelfth state, North Carolina, has enacted a trade secrets statute somewhat different from both the common law and the Uniform Trade Secrets Act. N.C. Gen. Stat. §§ 66-152 to -157 (Supp. 1981). For an in-depth discussion of the North Carolina Act, see Root & Blynn, *Abandonment of Common Law Principles: The North Carolina Trade Secrets Protection Act*, 18 Wake Forest L. Rev. 823 (1982).

ested, and a nationwide campaign was instituted to promote interest in the new uniform act.⁵

This article will offer an analysis of trade secret law as it exists today. While the Uniform Trade Secrets Act will be noted, the emphasis will be on the common law of trade secrets, because the majority of states continue to follow the common law. Moreover, those states that do adopt the Uniform Trade Secrets Act will find that it was meant to substantially embody those common law concepts.⁶ Trade secret law creates a unique quasi-property right that requires the continuing attention of the businessperson if it is to retain its value as the basis of a cause of action against misappropriation. This article will describe and clarify that property right and prescribe the means by which the right is protected and enforced. Finally, this article will suggest the future direction of trade secret law and its prospective relationship to other forms of intellectual property, such as patentable inventions. While the typical business lawyer may not often think about trade secret protection, the law continues to provide a safe harbor for clients who use valuable trade secrets in their various businesses.

THE POLICY UNDERLYING TRADE SECRET PROTECTION

It is generally agreed that the English case of *Morison v. Moat*⁷ marked the genesis of modern trade secret law. In that case, a secret recipe for a patent medicine was accorded trade secret protection against unauthorized use. In this country, trade secret protection is dated from *Peabody v. Norfolk*,⁸ a case involving the machinery for and process of making gunny cloth. The owner of the trade secret disclosed information in confidence to an employee to allow the employee to make the cloth. The court held that this disclosure did not prevent the owner from enjoining the unauthorized use or disclosure of the information.⁹

A new idea is like a new property: it can be possessed by whoever discovers it. While it is convenient to conceptualize trade secret protection as property-like ownership, however, legal rights emanate from the law of unfair competition, not from property law. The policy underlying intellectual property protection is that of fairness and honesty in business competition.¹⁰ An economic order based upon capitalism and free competition must rely to a great extent upon ingenuity and innovation. The law of intellectual property promotes such ingenuity and

5. There was immediate and strong interest among the members of the American Patent Law Association (now the American Intellectual Property Association). Geriak, *Unfair Competition Law—Trade Secrets*, 1979 APLA Bull. 540.

6. Uniform Trade Secrets Act, 14 U.L.A. 537, 538 (1980).

7. 68 Eng. Rep. 492, 9 Hare 241 (1851).

8. 98 Mass. 452 (1868).

9. *Id.* at 461.

10. *Atlantic Wool Combing Co. v. Norfolk Mills, Inc.*, 357 F. 2d 866 (1st Cir. 1966); *Booth v. Stutz Motor Car Co.*, 56 F.2d 962 (7th Cir. 1932); *Kodekey Elecs., Inc. v. Mechanex Corp.*, 486 F.2d 449 (10th Cir. 1973).

innovation by allowing certain exclusive rights in intellectual property. Patent and copyright owners' exclusive rights are stronger but are recognized for only limited periods of time, while trademark and trade secret owners' rights may continue indefinitely.

Fairness and honesty in business competition is fostered by the principle that creating a unique idea giving one an advantage over one's competitor gives rise to a right to prevent others from taking and using the idea. This may be done by bringing an action founded on a tort theory of theft or misappropriation¹¹ or on a contract theory of breach of a confidential relationship.¹² We are indebted to Justice Holmes for breaking the ground of the legal theory that prevails today. In *Board of Trade v. Christie Grain & Stock Co.*,¹³ he noted that trade secret protection is based upon a confidential relation, and "strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust, and using knowledge obtained by such a breach."¹⁴ But his most frequently quoted observation is found in *E.I. du pont de Nemours Powder Co. v. Masland*.¹⁵

The word "property" as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant [a former employee] knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations. If there is any disadvantage in the fact that he knew the plaintiff's secrets he must take the burden with the good.¹⁶

Whatever theory ultimately justifies trade secret protection—tort theory, contract theory, or property theory—it is clear that its home port is fairness and honesty between business competitors. Whether the trade secret is taken and disclosed by a departing employee, is used without permission by a confidant, or

11. *Midland-Ross Corp. v. Sunbeam Equip. Corp.*, 316 F. Supp. 171 (W.D. Pa. 1970), *aff'd*, 435 F.2d 159 (3d Cir. 1970).

12. *Besly-Welles Corp. v. Balax, Inc.*, 291 F. Supp. 328 (E.D. Wis. 1968).

13. 198 U.S. 236 (1905).

14. *Id.* at 251.

15. 244 U.S. 100 (1917).

16. *Id.* at 102. Most courts do not use a property law theory to describe trade secret rights. However, when a property law theory is more appropriate, a court will use it. In *Ruckelshaus v. Monsanto Co.*, 104 S. Ct. 2862 (1984), the Court was faced with whether a trade secret could be property within the meaning of the fifth amendment. The Court observed that "[t]rade secrets have many of the characteristics of more tangible forms of property." *Id.* at 2873. The Court held that, to the extent that Monsanto had an interest in the data in question, its interest was a property right that was protectible under the taking clause of the fifth amendment. *Id.* at 2874.

is stolen by means of industrial espionage, the purpose of the theft is always the same: to neutralize the competitive advantage that the trade secret gives its owner. The courts assume that the time and effort that went into creating the trade secret warrant denying the defendant the right to use the idea without permission. Trade secret protection is not based on a policy of rewarding or encouraging the development of secret devices or processes, however. Its basis is that allowing a free ride on the intellectual endeavor of another is unjust.¹⁷

To enforce trade secret protection, the courts have called for high standards of business ethics. The key ingredient of every trade secret case is the conduct of the defendant. The trade secret should be kept "sacred."¹⁸ In *Kewanee Oil Co. v. Bicron Corp.*,¹⁹ Chief Justice Burger observed that "[t]he maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law."²⁰ Good faith and honest fair dealing have been called "the very life and spirit of the commercial world."²¹ Consequently, the courts have come to enforce morality in business when trade secret protection is upheld.²²

THE SUBJECT MATTER OF TRADE SECRET PROTECTION

The subject matter that has been awarded trade secret protection is extraordinarily broad. Almost any information or method used in business can be a trade secret if it is not generally known and proper precautions are taken to retain secrecy. The term can be applied to a formula, pattern, compilation, program, device, technique, or process.²³ Specific information for which trade secret protection has been granted include a chemical process,²⁴ a welding process,²⁵ a formula for pressurized shaving cream,²⁶ a precision tape recorder-producer,²⁷ a storage system for strategic materials,²⁸ a brick for lining cement kilns,²⁹ a

17. Restatement of Torts § 757, comment a (1939).

18. See *Peabody v. Norfolk*, 98 Mass. at 453.

19. 416 U.S. 470 (1974).

20. *Id.* at 481.

21. *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C. (n.s.) 459, 462 (1902), *aff'd*, 69 Ohio St. 560, 70 N.E. 1127 (1903).

22. *Abbott Laboratories v. Norse Chem. Corp.*, 33 Wis.2d 445, 454, 147 N.W.2d 529, 533 (1967).

23. This list will be found in the definition of a trade secret in the Uniform Trade Secret Act, 14 U.L.A. 537, 542 (1980).

24. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

25. *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934).

26. *Colgate-Palmolive Co. v. Carter Prods., Inc.*, 108 U.S.P.Q. (BNA) 383 (4th Cir. 1956).

27. *Winton Research Corp. v. Minnesota Mining Mfg. Co.* 146 U.S.P.Q. (BNA) 422 (9th Cir. 1965).

28. *Underwater Storage, Inc. v. United States Rubber Co.*, 371 F.2d 950 (D.C. Cir. 1966), *petition for reh'g denied*, Oct. 27, 1966; *cert. denied*, 386 U.S. 911 (1967).

29. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288 (9th Cir. 1969).

process for making compressed cotton bath sponges,³⁰ a portable freight container,³¹ and a scrap metal recovery process.³²

One characteristic of a trade secret is its novelty. Ideas already in the public domain cannot be exclusively owned. This is true in each of the four main areas of intellectual property. For example, the author of a copyrighted work has exclusive rights in the medium of expression, but only if the work has originality.³³ A trademark owner can enjoin others from using a mark that is confusingly similar, but not if the mark is descriptive of the product or has become its generic name.³⁴ There can be no patent granted for an invention obvious to one skilled in the technical art to which the invention pertains.³⁵ Similarly, trade secret protection is given only if the idea is not generally known, and this will usually be true only when the idea is novel. The novelty requirement for trade secrets should not, however, be confused with that required for patents. A trade secret need not be as novel as a patent to be protectible.³⁶ The novelty requirement relates to the secrecy of the information and not to any physical characteristic. If the information is in fact secret, then it is sufficiently novel,³⁷ for this secrecy implies at least minimal novelty.³⁸

Another characteristic of a protectible trade secret is its commercial value. Information that can have no commercial value cannot be the subject of trade secret protection.³⁹ It was originally thought that information must have some impending use in the operation of a business to be a trade secret.⁴⁰ Recently, however, some decisions have held that the trade secret need not be in use to be afforded protection.⁴¹ In addition, the Uniform Trade Secrets Act has defined a trade secret as information that has "actual or potential" economic value.⁴²

This means that information valuable to an individual who has no intention of ever marketing it can be a trade secret. A homeowner, for example, may have devised a method for reducing heating costs. If the method is not generally known, there would be no reason to deny trade secret protection against

30. *Franke v. Wiltschek*, 209 F.2d 493 (2d Cir. 1953).

31. *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953).

32. *Vitro Corp. of Am. v. Hall Chem. Co.*, 254 F.2d 787 (6th Cir. 1958).

33. 17 U.S.C. § 102 (1982).

34. 15 U.S.C. §§ 1051, 1052 (1982).

35. 35 U.S.C. § 103 (1982).

36. *Kewanee Oil Co. v. Bicon Corp.* 416 U.S. 470, 476 (1974); *Atlantic Wool Combing Co. v. Norfolk Mills, Inc.*, 357 F.2d 866, 869 (1st Cir. 1966); *Restatement of Torts* § 757, comment b at 6 (1939).

37. *Henry Hope X-Ray Prods., Inc. v. Marron Carrel*, 674 F.2d 1336, 1340 (9th Cir. 1982).

38. *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 476 (1974).

39. This proviso is a limiting factor in the definition of a trade secret in the Uniform Trade Secrets Act, § 1(4)(i). 14 U.L.A. 537, 542 (1980).

40. See *Restatement of Torts* § 757, comment b at 5 (1939); § 1(4)(i) of the first draft of the Uniform Trade Secrets Act, National Conference of Commissioners of Uniform State Laws (Oct. 1, 1979).

41. *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677 (7th Cir. 1983); *Sikes v. McGraw-Edison Co.*, 671 F.2d 150 (5th Cir. 1982).

42. Uniform Trade Secrets Act § 1(4)(i), 14 U.L.A. 537, 542 (1980).

misappropriation of the information. While the originator of such a method may not at present intend to gain commercial advantage, that does not mean that no future marketing is possible. Moreover, suppose the method is stolen by one who stands to gain commercial advantage. The underlying policy upon which trade secret law depends—fairness and honesty in business competition—demands that the thief compensate the homeowner for the idea, or at least obtain permission to use it.

A closely related characteristic is continuity of use. According to this requirement, to be protectible as a trade secret, the information must not only be in actual use but the use must also be continuous.⁴³ Information with only a fleeting, one-time value is not protectible. This eliminates information developed for the purpose of bidding on a customer's job or of calculating a future sales price. If the information has no further use, it cannot be protected, even during the time that it has temporary value.

Although this requirement continues to be enforced in some jurisdictions,⁴⁴ it has been expressly rejected by the Uniform Trade Secrets Act.⁴⁵ A literal interpretation of this limitation would exclude a novel product from protection during the developmental or experimental stage preceding its public marketing.⁴⁶

A fourth characteristic of the protectible trade secret is its general nonavailability to those outside the circle of trust established by the owner. If the information is readily ascertainable from sources properly available to others, it cannot be a trade secret.⁴⁷ This holds whether or not the information has actually been gathered or assimilated by anyone else. A frequent victim of the application of this characteristic is the owner of a customer list.

While the customer list has been recognized as a possible trade secret,⁴⁸ it has not fared well in the courts.⁴⁹ In some cases customer lists have been upheld as trade secrets,⁵⁰ but such lists have invariably contained information about the

43. Restatement of Torts § 757, comment b at 5 (1939).

44. See *Wisconsin Elec. Power Co. v. Public Serv. Comm'n*, 110 Wis. 2d 530, 536-7, 329 N.W. 2d 178, 181-82 (1983).

45. See Commissioners' comment to § 1 of The Uniform Trade Secrets Act, 14 U.L.A. at 538 (1980).

46. A novel keyholder was the subject of a temporary trade secret in *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

47. Restatement of Torts § 757, comment b at 6 (1939); 1 Milgram, *Trade Secrets* § 2.03 at 2-33 (1984).

48. See Restatement of Torts § 757, comment b (1939).

49. See *McCann Const. Specialties Co. v. Bosman*, 44 Ill. App. 3d 1020, 358 N.E.2d 1340 (1977); *Abbott Laboratories v. Norse Chem. Corp.*, 33 Wis. 2d 445, 147 N.W.2d 529 (1967); *American Welding & Eng'g Co. v. Luebke*, 37 Wis. 2d 697, 155 N.W.2d 576 (1968); *Gary Van Zealand Talent, Inc., v. Sandas*, 84 Wis. 2d 202, 267 N.W.2d 242 (1978); *Corroon & Black-Rutters & Roberts, Inc. v. Hosch*, 109 Wis. 2d 290, 325 N.W.2d 883 (1982); *Steenhoven v. College Life Ins. Co. of Am.*, 458 N.E.2d 661 (Ind. Ct. App. 1984); *Gordon Employment, Inc. v. Jewell*, 356 N.W.2d 738 (Minn. 1984).

50. *Alexander & Alexander, Inc., v. Drayton*, 378 F. Supp. 824, 832 (E.D. Pa. 1974), *aff'd*, 505 F.2d 729 (3d Cir. 1974). See Annot., 28 A.L.R. 3d 7, at 48.

customers not readily available from published directories, trade journals, commercial list compilers, or other nonprivate sources. The trade secret customer list is the product of information gathering assimilated into a working tool for business purposes. Its value lies not in its originality but in the time and effort involved in compiling it. The amount of effort or money expended by the businessperson to develop information is a factor in determining whether a trade secret exists.⁵¹ In enforcing trade secret protection from misappropriation, however, the amount of effort or money expended to develop the information should not be as important as the conduct of the one who has misappropriated it. It is unfair to allow one to gain commercial advantage by freely confiscating another's work.

MAINTAINING TRADE SECRET PROTECTION

Once created, the trade secret must be constantly and carefully maintained. The information must be disclosed only to those who need to use it in the owner's business. It cannot be accessible to the public or attainable through proper means.

The landmark case delineating the care required to maintain trade secret protection is *E.I. du Pont de Nemours & Co. v. Christopher*.⁵² In that case, the plaintiff was building a plant to house its secret methanol process. The defendants were hired by an unknown third party to fly over the plant while it was under construction and take photographs of the process equipment before a roof was placed over the plant. The photographs could then be used to deduce the plaintiff's secret process.⁵³

The court held that, although the plaintiff was required to take precautions to protect its trade secrets, the precautions had only to be "reasonable."⁵⁴ The plaintiff was not required "to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available."⁵⁵ It would be unreasonable, according to the court, to expect the plaintiff to keep everything totally shielded from view during construction. Rather than placing an obligation upon the plaintiff to take every possible precaution, even unreasonable ones, to protect the secrecy of the information, the court instead placed an obligation upon the defendants to refrain from using improper means to discover the plaintiff's secrets.⁵⁶

The secret information will usually have to be disclosed to a limited number of the owner's employees to have practical use. This may be done while still retaining trade secret status, provided that the employer takes the required reasonable precautions. Such precautions include disclosing the secret informa-

51. This was one of the six factors listed by The American Law Institute as determinative of whether given information is a trade secret. Restatement of Torts § 757, comment b at 6 (1939).

52. 431 F.2d 1012 (5th Cir.), cert. denied, 400 U.S. 1024 (1970).

53. *Id.* at 1013-14.

54. *Id.* at 1016.

55. *Id.*

56. *Id.* at 1017.

tion only to those employees who need it for their particular duties, informing those employees that the information is a trade secret, and instructing them not to disclose the secret to others. Failure to take these precautions, however, does not automatically destroy the employer's chances for maintaining trade secret protection. In many cases, the courts may find an implied agreement not to disclose trade secrets when the employer failed to secure an express agreement.⁵⁷

Customers allowed on the premises must not be permitted to view or come in contact with the trade secret. Even though a customer may not be a potential competitor, trade secret protection is recognized only for that information for which reasonable secrecy precautions have been taken, regardless of the relationship between the parties. If the owner of the information does not treat it as confidential, the law should not help the owner to enforce a legal right that is based upon the owner's exercise of that right. The owner should not be allowed to pick and choose the time at which the trade secret exists. Thus, even though a misappropriation might occur at a time when the trade secret owner is taking every precaution to maintain secrecy, a previous laxity in such effort may have obliterated trade secret status. Once information ceases to be a trade secret, trade secret status cannot be revived.⁵⁸

It is often necessary to disclose a trade secret to those outside the owner's employ. For example, in *RTE Corp. v. Coatings, Inc.*,⁵⁹ it was necessary to describe a secret welding process to a welding firm in order for the firm to manufacture a device according to the specifications of the owner of the trade secret. Such a disclosure may be made without loss of the trade secret if it is disclosed in confidence and not indiscriminately.⁶⁰ There must be a legitimate need to disclose,⁶¹ and it must be made clear that the information is a trade secret, that it is being disclosed in confidence, and that no permission is given to disclose the secret to others or to use it beyond the limited purpose for which it is being disclosed.⁶² This will create a contractual relationship between the parties, and the cause of action for breach of the relation sounds more properly in contract than in tort.

Most business firms summarily refuse to consider any outside ideas before receiving a complete waiver from the person submitting the idea because of the

57. *Mercer v. C.A. Roberts Co.*, 570 F.2d 1232 (5th Cir. 1978). Agreement not to disclose information is implied if the employee knew or should have known secrecy was desired by the employer. *Id.* at 1238. See also *U.S.M. Corp. v. Marson Fastener Corp.*, 379 Mass. 90, 393 N.E.2d 895 (1979); *A.H. Emery Co. v. Marcan Prods. Corp.*, 389 F.2d 11 (2d Cir. 1968).

58. There is a contrary argument, of course. Information neglected for a period of years and reviewed by an enterprising businessperson may warrant trade secret protection against competitors who are unaware of its value. This argument does not seem to be persuasive to the courts. Defendants in trade secret cases have been notably successful in dredging up old publications disclosing the information, even though they were unaware of those publications at the time of the alleged misappropriation.

59. 84 Wis. 2d 105, 267 N.W.2d 226 (1978).

60. *Id.* at 117-18, 267 N.W.2d at 232.

61. *Id.* at 118-19, 267 N.W.2d at 233 (quoting from Callmann, *Unfair Competition Trade-marks and Monopolies* § 55.1 at 451-53 (3d ed. 1968)).

62. 84 Wis. 2d, at 117-118, 267 N.W.2d at 232-33.

possibility that a confidential relation may arise.⁶³ Many ideas conceived by outside inventors are trade secrets, even though they may not be patentable subject matter. While the independent inventor or originator may be quite unaware of the law of trade secrets, most idea persons sense that the idea is valuable and, more often, have an exaggerated notion of its value. They are reluctant to disclose the idea, even to a legal counselor, without some assurance that it will not be taken and used before the inventor can receive some compensation. This extreme reluctance inhibits any disclosure whatsoever when the target firm refuses to consider the idea without a waiver of the confidential relation. Too often firms have accepted disclosure only to find that the idea is old or impractical or has been already developed within the firm. The one who submits the idea is not easily convinced of this, however, and cases have been handed down in which recovery has been obtained against the unsuspecting receiving firm on the basis of breach of a confidential relation or misappropriation of a trade secret. When a firm has encouraged the submission of the idea or has promised compensation before knowing the specifics of the idea, recovery is frequently readily obtainable.⁶⁴

THE CONDUCT OF THE DEFENDANT IN THE TRADE SECRET CASE

In a trade secret case, the plaintiff's efforts to maintain secrecy are critical to trade secret status. Once a court has found a trade secret and has traced it to the defendant's business, however, the importance of the defendant's conduct cannot be overemphasized. The cause of action for trade secret misappropriation, founded as it is on the concept of honest and fair business competition, must fail if the defendant can show that his or her conduct was spotless and that the unauthorized disclosure or use was caused by the plaintiff's conduct. Another's trade secret can be acquired in two principal ways: either the secret was, for some purpose, voluntarily disclosed by the owner, or the secret was acquired without any voluntary disclosure.

Loss of trade secret protection through indiscriminate disclosure, sometimes even publication, usually occurs when the owner of the information does not realize its importance or that it is a trade secret. Once the secret is disclosed, the owner cannot change his or her mind and regain protection against unauthorized use. (The exception to this rule is not found in trade secret law.) A second kind of voluntary disclosure occurs when the trade secret is embodied in a product publicly sold. It is possible that a third party may obtain the product and discover the trade secret through "reverse engineering": disassembling the product, if it is mechanical, or subjecting it to chemical analysis, if chemical, to discover the elements of the secret. If the trade secret is discovered by this

63. See Olsson, *Dreams for Sale*, 23 Law & Contemp. Probs. 34 (1958).

64. High v. Trade Union Courier Publishing Corp., 31 Misc.2d 7, 8, 69 N.Y.S.2d 526, 529 (1946); Schonwald v. F. Burkart Mfg. Co., 356 Mo. 435, 202 S.W.2d 7, 13 (1947).

method, then it is no longer a trade secret, and no cause of action will lie for misappropriation of the former secret.⁶⁵

At this point the courts diverge. Some courts hold that a trade secret owner may never bring an action for misappropriation of the secret if it may be discovered through reverse engineering. Even if the accused party used improper means other than reverse engineering, the courts will refuse to grant relief.⁶⁶ Other courts, however, look to the actions of the accused and will find liability if it can be shown that the secrets were obtained improperly.⁶⁷

Courts of the first opinion are concerned solely with the existence of a trade secret. As stated in *Van Products Co. v. General Welding and Fabricating Co.*,⁶⁸ "[t]he starting point in every case of this sort is not whether there was a confidential relationship, but whether, in fact, there was a trade secret to be misappropriated . . ."⁶⁹ If there is no secret because it has been disclosed by sale of the product, then logically there can be no action for misappropriation of the secret.

While at first this approach might seem reasonable, in application it allows parties to steal trade secrets from their owners without fear of reprisal. This does not comport with the underlying policy of fair and honest dealing between competitors stressed by the courts. If there is a misappropriation of another's information by improper means, an action in tort or contract should lie, regardless of whether the trade secret could have been discovered by proper means. There should be, of course, limits to this rule. If a trade secret can be discovered quite easily, as by simple dismantling of a product or fairly straightforward research in pertinent technical journals, there should be no protection accorded a plaintiff because this would allow the monopolization of information in the public domain. The courts should balance the plaintiff's interest in preserving exclusive use of information independently developed through substantial time and effort against the public's interest in preventing exclusive use of information readily available to all competitors.

This same kind of balancing may be found in every area of intellectual property law. To be patentable, an invention cannot be obvious to one skilled in the relevant technical art.⁷⁰ To enforce a patent, the court must balance the knowledge in existence when the invention was conceived against the degree of innovation achieved by the inventor. To enforce a copyright, the court must determine whether the work was original.⁷¹ To determine whether a work is

65. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); see also *Milgrim*, *supra* note 47, at § 2.05 [2].

66. *Henry Hope X-Ray Prods., Inc. v. Marron Carrel*, 674 F.2d 1336, 1341 (9th Cir. 1982); *Definance Button Mach. Co. v. C & C Metal Prods. Corp.*, 225 U.S.P.Q. (BNA) 797, 804 (C.A. 2d Cir. 1985).

67. *American Can Co. v. Mansukhant*, 728 F.2d 818, 820 (7th Cir. 1984); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1228 (7th Cir. 1982).

68. 419 Pa. 248, 213 A.2d 769 (1965).

69. *Id.* at 268, 213 A.2d at 780.

70. 35 U.S.C. § 103 (1982).

71. 17 U.S.C. § 102 (1982).

original, the court must balance prior works against the author's new and inventive expression, if any. Trademark litigation involves balancing the perceived source of an alleged infringing mark against the source of the plaintiff's mark. In each instance, the rights of the owner of the intellectual property to exclusive use are balanced against the interests of the public in allowing free use of the property.

A third kind of voluntary disclosure occurs when the trade secret is disclosed for a business purpose, such as a prospective sale, or to complete the chain of manufacture or distribution. In this instance, the disclosure is not to a competitor but to a friendly participant in the marketing process. It is when the disclosee further discloses the secret or uses it without authorization that a legal problem arises. Again, once the hurdle of the existence of the trade secret is surpassed, it is the conduct of the prospective defendant that determines whether a lawsuit will be successful.

A simple, blatant, unauthorized use of the trade secret is easily recognizable as a breach of the confidential relation created upon first disclosing the trade secret. To create this relation, the defendant must be apprised of the fact of the trade secret, or at least the circumstances must be such that the defendant has reason to know that a trade secret is being disclosed. For example, the prospective licensee of a secret manufacturing process may be permitted to view the process in operation to assess the possible value in its own plant. If the licensee is warned that a patent application on the process will be filed, this is tantamount to advising that the information should be treated as confidential for the time being. If the prospective licensee is exposed to obvious security measures designed to keep the trade secret from general view, the licensee again has reason to know that it may be a valuable trade secret. If the licensee is advised that the process has just recently been developed after considerable time and effort, there is again justifiable reason to know that a trade secret exists.

Once it is shown that the defendant acquired the plaintiff's trade secret through proper means, the focus shifts to the defendant's ensuing conduct. The unauthorized disclosure may be negligent, not deliberate. It is here that the courts are more lenient in finding liability. If fault can be found on the part of the plaintiff in unduly entrusting the secret to an irresponsible defendant or in allowing secret plans or models to be kept by the defendant for an unreasonable length of time, the remedy provided by the court, if any, may be moderate indeed.

A different kind of problem arises when there is a voluntary disclosure and the disclosee makes an unauthorized use of the trade secret. This may occur when the disclosure is to another link in the manufacturing or distribution chain. When a manufacturing job is contracted for outside of the trade secret owner's plant, the disclosee may discover that the information can be conveniently used to advantage for other customers. If the trade secret is a process, its unauthorized use may be difficult to discover, whether or not there has been a voluntary disclosure by the owner. The problem faced by the court when a trade secret is used by a defendant is to distinguish the trade secret from the technical

knowledge or expertise the defendant already possesses. This may be quite difficult when the trade secret represents only a minor advance in technology. Trade secret status can be acquired through a much less significant advance than is required, for example, of an invention proposed for patent protection. One way to determine whether the defendant is using the plaintiff's trade secret is to compare such factors as production efficiency, production costs, production speed, and product quality before and after the disclosure of the trade secret. Substantial changes would indicate that the trade secret had been used.

Unauthorized use by a disclosee is less likely when the defendant is merely a link in the marketing or distribution process. Trade secret disclosure may be necessary at any stage in the sequence that begins with raw materials and ends with sales to consumers. For example, it may be necessary to disclose the composition of a secret chemical to purchase the requisite purity of one of its elements. Similarly, the composition may also have to be disclosed to a distributor of the chemical to enable the distributor to select proper transportation. While unauthorized use of the trade secret would be rare, it is always possible that unauthorized disclosure to other customers may tempt the disclosee.

A frequent source of trade secret litigation is the owner's voluntary disclosure to a prospective customer, whether the secret is a product for sale or a process for licensing. In this situation, the owner of the secret will more aggressively urge its virtues, and indeed these efforts may be instrumental in the disclosee's decision to misappropriate the secret. The puffing by which the owner argues for the advance made over prior knowledge is also an argument for a truly protectible trade secret that may assist a court at a later time. However, the owner of a trade secret is at a serious tactical disadvantage when there is disclosure to a prospective customer. Techniques used by lawyers in patent cases serve them well in trade secret cases. Once the trade secret is disclosed, the prospective customer is in a particularly advantageous position to search the published literature for evidence that the trade secret, or something similar to it, is publicly known and therefore cannot be a trade secret. This after-the-factmanship has been practiced most successfully by defendants attacking patent validity and is well understood by the practicing patent bar.

The owner of a trade secret is far more likely to succeed in maintaining legal protection when the secret has not been voluntarily disclosed but has been ferreted out by some devious means. Two possibilities may be distinguished. First, if a defendant appropriated some physical manifestation of the secret, misappropriation is easily found in the taking itself, whether or not the defendant uses the secret or further discloses it to others. (Trade secret misappropriation is not dependent upon the use or further disclosure of the secret. It is complete upon the unauthorized acquisition.) If possession of the plaintiff's plans, patterns, records, or drawings can be traced to the defendant, the argument that there is really no trade secret to be protected will be hollow indeed. The theft itself argues against that argument.

The plaintiff faces a much more difficult road when the defendant has stolen no physical evidence of the trade secret but only the information. If an unfaith-

ful employee of the owner has divulged the secret, a successful lawsuit is assured, assuming the employee can be forced to testify. The defendant's ill conduct in corrupting the employee's loyalty will be highlighted at the trial. If the theft has occurred through espionage involving memorizing the secret after unauthorized viewing, the plaintiff will have to prove the unauthorized viewing. If this is not shown, the defendant may be able to prove, at least to the satisfaction of the court, that the information was independently developed by the defendant or that the information is readily available by proper means, as in the published literature. If the defendant has used the misappropriated secrets to produce a product similar to the plaintiff's, however, the court may grant the plaintiff trade secret protection if the defendant cannot produce evidence of independent invention. For example, in *Solo Cup Co. v. Paper Machinery Corp.*,⁷² the plaintiff proved that the defendant produced a conical paper cup machine identical or substantially identical in many respects to the plaintiff's machine. The plaintiff also proved that it took adequate precautions to preserve the secrecy of its drawings of the machine and never authorized the defendant or anyone else to use the drawings. The court found that the defendant had used the plaintiff's drawings to make its own machine and, absent any proof by the defendant that it had acquired the drawings by proper means, assumed that the defendant must have used improper means and held the defendant liable.⁷³ Lack of concrete evidence of misappropriation is thus not fatal to a cause of action.⁷⁴

In summary, because trade secret protection is grounded upon fair and honest business competition, the defendant's conduct in a trade secret suit is of singular consequence. Trade secret theft has been classified in the category of business torts for good reason. It is the breach of a duty that has been imposed by law. Even in those cases where a contractual duty has been imposed upon the misappropriator of a trade secret, the cause of action sounds in tort and the emphasis is more on the defendant's conduct than on contractual promises.

THE DEFENDANT-PLAINTIFF RELATION IN THE TRADE SECRET CASE

The legal relationship of the defendant to the plaintiff may also determine the outcome of the lawsuit. There are numerous possible relationships: employer-employee, seller-buyer, principal-agent, corporation-officer, partner-partner, and others. The fiduciary relationship that the law imposes in some of these relationships is unfortunately often ignored by the courts. In a contractual agreement, that arrangement will determine the outcome in a trade secret case. In other cases, the relationship of the parties may have little or no effect on the outcome.

72. 240 F. Supp. 126 (E.D. Wis. 1965).

73. *Id.* at 141.

74. *See also* Black, Sivalls & Bryson, Inc. v. Keystone Steel Fabrication Inc., 584 F.2d 946 (10th Cir. 1978); USM Corp. v. Marson Fastener Corp., 379 Mass. 90, 393 N.E.2d 895 (1979).

During the tenure of employment, the employee who practices the employer's trade secrets develops two kinds of knowledge, distinguishable only in the extreme. The first kind is knowledge of the employer's concrete, definable trade secret, such as a specialized machine. Such knowledge belongs to the employer. The second kind is more abstract, gained through experience in working for the employer. The right to use this kind of knowledge is more problematic. For example, the machine that would be clearly patentable over the prior technology, but for which the employer has chosen trade secret protection, cannot be deemed to be within an employee's expertise or occupational knowledge when the employee changes employment. It cannot be argued that the employee's professional development requires free use of the idea of the secret machine. On the other hand, the trade secret may comprise a process or method that represents only a slight advance over those used by the employer's competitors. As knowledge in a technical field advances, individual employee expertise also develops. Technical advance is not always to be found in the trade journals that trace the history of the industry; instead it is often to be found within the minds and practices of those workers in daily contact with the industry. Such knowledge "cannot be blotted out of an employee's mind"⁷⁵ and may be used by the employee for outside purposes.

Distinguishing these two kinds of knowledge is a difficult task, especially if the trade secret is not embodied in a concrete machine, product, or process that can be compared with the prior art and obviously differentiated. Generally, though, if an employee is knowledgeable in a certain field and leaves one employer to work for another in the same field, the employee is allowed to apply the knowledge and skills developed while with the first employer.⁷⁶ If the employee is not knowledgeable in the particular field but merely memorizes certain information to be used by an outside party, the courts will enjoin the use of such information.⁷⁷

If there is doubt whether the disputed information is a protectible trade secret or merely general skill and knowledge, the doubt is usually resolved in favor of the employee, because courts usually feel that a person is entitled to follow his or her chosen occupation.⁷⁸ Although there should be a balance between the interests of the employer in protecting trade secrets and those of the employee in engaging in his chosen occupation,⁷⁹ the employer should only be granted protection when public policy dictates overriding the general policy of employee freedom.⁸⁰

75. *Abbott Laboratories v. Norse Chem. Corp.*, 33 Wis. 2d 445, 463, 147 N.W.2d 529, 538 (1967).

76. *Midland-Ross Corp. v. Sunbeam Equip. Corp.*, 316 F. Supp. 171 (W.D. Pa. 1970), *aff'd*, 435 F.2d 159 (3d Cir. 1970); *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244 (3d Cir. 1985); *Abbott Laboratories v. Norse Chem. Corp.*, 33 Wis. 2d 445, 147 N.W.2d 529 (1967).

77. *Rohm and Haas Co. v. Adco Chem. Co.*, 689 F.2d 424 (3d Cir. 1982).

78. *Midland-Ross Corp. v. Sunbeam Equip. Corp.*, 316 F. Supp. 171 (W.D. Pa. 1970), *aff'd*, 435 F.2d 159 (3d Cir. 1970).

79. *In re Uniservices, Inc.*, 517 F.2d 492 (7th Cir. 1975).

80. *Gary Van Zeeland Talent, Inc. v. Sandas*, 84 Wis. 2d 202, 267 N.W.2d 242, 249 (1978).

Furthermore, a particular position taken by the courts makes it difficult to restrain a former employee from using or disclosing trade secrets. A person should be allowed to practice his or her chosen occupation. Public well-being dictates that freedom of occupational choice will, in the long run, be conducive to economic progress in a capitalistic economy. Thus in any struggle between an employee and a former employer, the employer is at a disadvantage, and the trade secret rights of the former employer are no exception to this policy.

It is surprising to see how the courts have ignored fiduciary responsibilities in trade secret cases. Reference to fiduciary responsibility is rare and is applied, if at all, only when the lawsuit turns upon the consensual relationship between the parties, irrespective of any misappropriation of trade secrets. Fiduciary responsibility is a powerful tool, however, in the hands of the owner of a trade secret if the misappropriator is an employee, a partner, a corporate officer or director, or an authorized agent.

A cause of action for misappropriation of intellectual property, although the information is not a trade secret, will lie when its use by the defendant is manifestly unjust. The elements of this cause of action, which were developed in *International News Service v. Associated Press*,⁸¹ have survived the test of time. An action for misappropriation may be brought when (i) time, labor, and money have been expended in creating the information misappropriated; (ii) there is competition; and (iii) the plaintiff sustains commercial damage. It is rare for a case to uphold this cause of action because the subject matter is usually of the kind eligible for copyright protection. The qualifying restrictions found in these two other kinds of protection are often used to defeat a misappropriation suit. The argument is that allowing the suit would circumvent the copyright law or the trade secret law.

A legal cause of action for breach of a fiduciary responsibility will lie against an offender, regardless whether the information taken or disclosed can be shown to be a trade secret. The plaintiff need not prove that all of the elements of a trade secret are present if the defendant's action has damaged the plaintiff by breaching a trust. An employee has a fiduciary responsibility to the employer that may be breached either during or after employment. If an employee uses information gained during employment to damage an employer, the employee will be liable for breach of fiduciary duty.⁸² The cause of action is more easily proven, of course, if the breach occurs during employment rather than after it. Similarly, an agent's use or disclosure of information that harms the principal constitutes an actionable breach of fiduciary responsibility. Again, it is not necessary that the information be a trade secret.⁸³ A fiduciary duty is also owed by an officer⁸⁴ or a director⁸⁵ to a corporation and by a partner to other

81. 248 U.S. 215 (1918).

82. *Hunter v. Shell Oil Co.*, 198 F.2d 485, 488-89 (5th Cir. 1952); *Nye v. Lovelace*, 228 F.2d 599, 603 (5th Cir. 1956).

83. *Hunter*, 198 F.2d at 488-89.

84. *Smith v. Robinson*, 343 F.2d 793, 797 (4th Cir. 1965); *Teren v. Howard*, 322 F.2d 949, 953 (9th Cir. 1963).

partners.⁸⁶ Determining whether the misused information constitutes a trade secret should be secondary to determining whether there has been a breach of fiduciary obligation imposed by law.

THE FUTURE OF TRADE SECRET PROTECTION

With the interest in the Uniform Trade Secret Act, the future of American trade secret law is indeed bright. Although its future may have been doubtful, especially when trade secret protection was not included in the Restatement of Torts 2nd, the renewed interest in trade secret protection ensures a continued reliance on this important but heretofore neglected legal right.

Business competitors must be advised of the quasi-property rights they have in the unique and exclusive practices and ideas that permeate daily business activity. They must be cautioned to take reasonable care to maintain secrecy. While some trade secrets require considerable time, effort, and expense to develop, maintaining trade secrecy may involve relatively simple precautions.

When business competitors receive offers of ideas from outside originators, extreme caution is necessary, even if the offers are unsolicited. Outside inventors have a sense of ownership in their ideas, and pecuniary gain is their principal reason for submitting ideas. When an idea has potential as a novel and concrete trade secret of perceivable value to a business, if the business is uninformed, mistakes in dealing with the outsider can be costly. Conversely, the owner must be properly advised as to how the trade secret can be offered to a business without losing valuable legal rights. Too often, both offeror and offeree are either overcautious or completely heedless because of uncertainty and misinformation. Enactment of the Uniform Trade Secrets Act will alleviate much of this confusion by making the law more definite, even though the Act purports to represent, in most of its provisions, the present common law.

There must be a more careful assessment of the permissible limits of trade secret protection within the employer-employee relationship: While employee mobility is to be nurtured, it must be balanced against the legitimate need to protect employer trade secrets. It is truly unfortunate that employers may be forced to take extraordinary measures to prevent employees from walking off with valuable trade secrets when they change jobs. Moreover, harsh employee restrictions hamper sensitive management-labor relations.

Finally, in the litigation of trade secret rights, there should be a shift in focus. In the reported cases, the courts often emphasize unduly whether or not a trade secret exists. The reprehensible conduct of the alleged trade secret misappropriator is too often relegated to a minor role. Furthermore, if there has been a breach of fiduciary responsibility, it is not necessary to prove trade secret protection. The breach gives rise to a cause of action regardless of whether the stolen information is a trade secret.

85. *First Nat'l Co. v. Commissioner of Internal Revenue*, 289 F.2d 861, 867 (6th Cir. 1961); *DePinto v. Landoe*, 411 F.2d 297, 300 (9th Cir. 1969).

86. *Knapp v. First Nat'l Bank & Trust Co.*, 154 F.2d 395, 398 (10th Cir. 1946).