A REVIEW AND UPDATE:
TRADE SECRETS
RESTRICTIVE POST-EMPLOYMENT COVENANTS
AND
INEVITABLE DISCLOSURE

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CHAPTER 5
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A REVIEW AND UPDATE: TRADE SECRETS RESTRICTIVE POST-EMPLOYMENT COVENANTS AND INEVITABLE DISCLOSURE

I. BACKGROUND
A. Defining a Trade Secret: Common Law and Statutory Sources of Trade Secret Definitions

1. RESTATEMENT (FIRST) OF TORTS

The most widely quoted definition of a “trade secret,” at least for the 40 years prior to the advent of the Uniform Trade Secrets Act (“UTSA”), was that of the RESTATEMENT (FIRST) OF TORTS:1

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, testing or preserving materials, a pattern for a machine or other device, or a list of customers * * *. Generally, it relates to the production of goods, as for example, a machine or formula for the production of an article. It may, however relate to the sale of goods or to other operations within the business such as a code for determining discounts, rebates or other concessions in a price list or catalog, or a list of specialized customers or a method of bookkeeping or other office management.2

That definition was adopted by a number of states and has been applied in numerous state and federal cases.

2. Uniform Trade Secrets Act

The vast majority (41) of states and the District of Columbia have now adopted a version of the UTSA3 that defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) derives independent economic value, actual or potential from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.4

2 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

3 The original UTSA was adopted in 1979 by the National Conference of Commissioners on Uniform State Laws, and was amended in 1985.

4 Uniform Trade Secrets Act § 1(4). See, e.g., Hydraulic Exch. and Repair, Inc. v. KM Specialty Pumps, Inc., 690 N.E.2d 782, 46 U.S.P.Q.2d 1291 (Ind. Ct. App. 1998)(“We have held that a protectable trade secret has the following four characteristics: (1) information, (2) which derives independent economic value, (3) is not generally known, or readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and (4) the subject of efforts reasonable under the circumstances to maintain its secrecy.”).

1 Although perhaps technically incorrect, the RESTATEMENT OF TORTS (1939) will be referenced in the text as “RESTATEMENT (FIRST)” or “RESTATEMENT (FIRST) OF TORTS” to clearly differentiate the RESTATEMENT (THIRD) OF UNFAIR COMPETITION.
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3. **RESTATEMENT (THIRD) OF UNFAIR COMPETITION**

The **RESTATEMENT (THIRD) OF UNFAIR COMPETITION** defines a trade secret as follows:

A trade secret is any information that can be used in the operation of a business or other enterprise that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.\(^5\)

That definition was intended to be consistent with the definition in the UTSA.\(^6\) The comments to the **RESTATEMENT (THIRD) OF UNFAIR COMPETITION** note:

A trade secret may consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret may relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret may also relate to other aspects of business operations such as pricing and marketing techniques or the identity or requirements of customers.\(^7\)

Several courts have now considered (and quoted) several of the trade secret provisions\(^8\) of the **RESTATEMENT (THIRD) OF UNFAIR COMPETITION** with approval.\(^9\)

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\(^6\) *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 39 cmt. b (1995).

\(^7\) *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 39 cmt. d (1995).


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4. **State Criminal Statutes**

   A number of states have enacted criminal statutes covering trade secrets. The Texas statute, for example, defines a trade secret as:

   “Trade secret” means the whole or any part of any scientific or technical information, design, process, procedure, formula or improvement that has value and that the owner has taken measures to prevent from becoming available to persons other than those selected by the owner to have access for limited purposes.

and defines “theft” of a trade secret as follows:

   A person commits an offense if, without the owner’s effective consent, he knowingly makes a copy of an article representing a trade secret.

Such statutes, in general, have been interpreted in consonance with the RESTATEMENT (FIRST) OF TORTS and the UTSA, and specifically have been held to cover the “theft” of computer software.

Some states also provide for related civil liability. For example, the Texas legislature has provided for civil liability through the Texas Theft Liability Act for unlawfully appropriating or obtaining property in violation of several sections of the Texas Penal Code, including the statute addressing theft of trade secrets. Liability extends to the person who commits the theft, as well as to the parent or other person who has the duty of control and reasonable discipline of a child that commits the theft. A person may recover actual damages plus $1,000 (or a total amount of $5,000 if the theft is committed by a child), and “shall be awarded court costs and reasonable and necessary attorney’s fees.”

5. **Computer Fraud and Abuse Act (“CFAA”)**

   The Federal Computer Fraud and Abuse Act, a criminal statute originally passed in 1984, and amended substantially since then, has provided for a private cause of action since amendments in 1994. Although originally the statute was limited to “federal interest computer[s],” the Act was amended in 1996 to more broadly cover “protected computer[s],” which means a computer, *inter alia*, “which is


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10 See generally Jager, TRADE SECRETS LAW § 4.01[4].
11 TX. PEN. CODE § 31.05.
12 TEX. PEN. CODE § 31.05(b)(2).
14 TEX. CIV. PRAC. & REM. CODE §§ 134.001-005.
used in interstate or foreign commerce or communication.”

6. The Economic Espionage Act of 1996 (“EEA”)

The Economic Espionage Act of 1996 (EEA), signed into law by President Clinton on October 11, 1996, created, for the first time, a broad federal criminal remedy to deter trade secret misappropriation, thus supplementing the CFAA.

The EEA includes an expansive definition of a “trade secret:”

§ 1839 Definitions

As used in this chapter —

* * * *

(3) the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if —

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public; and

(4) the term “owner,” with respect to a trade secret, means the person or entity in whom or in which rightful legal or equitable title to, representations, or promises.” Similarly, the federal mail fraud, 18 U.S.C. § 1341, statute prohibits the use of “any matter or thing” placed in the Postal Service, or received therefrom, “to defraud” or to obtain “money or property by means of false or fraudulent pretenses, representations, or promises.” Although “property” here has been construed to include computer software, United States v. Steidlitz, 589 F.2d 152 (4th Cir. 1978), not all trade secret misappropriation involves use of the mails or interstate communication facilities.

20 18 U.S.C. § 1030(e)(2)(B). See Shurgard Storage Ctrs., Inc. v. Safeguard Self Storage, Inc., 119 F. Supp. 2d 1121 (W.D. Wash. 2000)(concluding that the Act, as amended, was intended to cover using a “protected computer” “without authorization” to misappropriate intellectual property). See also United States v. Galindo, 871 F.2d 99 (9th Cir. 1989)(employee convicted of stealing mail for a jewelry was culpable despite that she had authorization to pick up the mail because she attempted to conceal her receipt by forging another’s signature).


22 Prior to the EEA, there was no federal statute that directly permitted criminal prosecution for theft or misappropriation of trade secrets, with the exception of a single narrow statute, 18 U.S.C. § 1905, that resulted from the 1948 codification of the federal criminal code. As discussed further below, that statute is limited to the unauthorized disclosure of information by federal employees. The statute provides only for misdemeanor penalties and has been rarely used. United States v. Wellington, 889 F.2d 573 (5th Cir. 1989)(the court upheld the defendant’s conviction for running background checks on people for a friend). Indirectly, federal prosecutors have used the Interstate Transportation of Stolen Property Act, 18 U.S.C. §§ 2314, 2315, originally enacted in 1934, with some success in deterring intellectual property misappropriation. In 1991, however, in United States v. Brown, 925 F.2d 1301, 17 U.S.P.Q.2d 1929 (10th Cir. 1991). The Tenth Circuit held that computer source code was not the type of property contemplated by the Act. Specifically, the court held that “[p]urely intellectual property” cannot “constitute goods, wares, [or] merchandise which have been stolen, converted or taken within the meaning of sections 2314 or 2315.” The Federal Wire Fraud Statute, 18 U.S.C. § 1343, prohibits the use of “wire, radio, or television communication in interstate or foreign commerce” to “defraud, or for obtaining money or property by means of false or fraudulent pretenses,
or license in, the trade secret is reposed.

The broad definition of “trade secret” in the EEA indicates that it was intended to be construed at least as broadly as the definitions in its civil counterparts.\(^{23}\) The EEA’s definition also tracks the corresponding civil requirement that the owner of the trade secret has taken reasonable measures to keep such information secret.\(^{24}\) If the owner of the trade secret is subsequently found to have inadequately protected the “secret,” protection will be denied.\(^{25}\) On the civil side, however, the key factor is whether the owner has taken reasonable precautions to protect the subject trade secret,\(^{26}\) and the EEA expressly incorporates that standard by requiring “reasonable measures.”\(^{27}\)

The EEA provides for two separate offenses for the theft of trade secrets, the crime of “economic espionage” under § 1831, and the crime of “theft of trade secrets” under § 1832. For both offenses, the government must prove beyond a reasonable doubt that (1) the defendant stole, or without authorization by the trade secret owner, obtained, destroyed or conveyed information; (2) the defendant knew that information was proprietary; and (3) the misappropriated information was in fact a trade secret as defined in the Act. The offense of “economic espionage” under § 1831 requires that the government also prove that the defendant knew the offense would benefit or was intended to benefit a foreign government, foreign instrumentality, or foreign agent, as also defined in the Act.\(^{28}\)

If there is insufficient proof that the defendant acted with an intent to benefit a foreign entity to establish a violation of § 1831, prosecution may still be possible under § 1832 if the government can prove beyond a reasonable doubt the three elements discussed above, and further that: (4) the defendant intended to convert the trade secret to the economic benefit of anyone other than the owner; (5) the defendant knew or intended that the owner of the trade secret would be injured; and (6) the trade secret was related to or was included in a product that was produced or placed in interstate or foreign commerce.\(^{29}\)

Attempts and conspiracies to engage in economic espionage and steal trade secrets are also prosecutable offenses.\(^{30}\) Further, the knowing receipt, purchase or possession of a stolen trade secret is made an offense.\(^{31}\) Those elements common to both crimes are acts of misappropriation as defined in the statute, knowledge that the subject matter being

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\(^{23}\) In *United States v. Hsu*, 155 F.3d 189, 196 (3d Cir. 1998), the court stated that the “EEA protects a wider variety of technological and intangible information than current civil laws.” That comment, however, was in the context of simply comparing the wording of the EEA against that of the UTSA. There is no indication that the court actually compared the scope of subject matter deemed covered by the UTSA in case law to the language of the EEA.


\(^{25}\) *Soap Co. v. Ecolab, Inc.*, 646 So. 2d 1366 (Ala. 1994)(jury issue whether alleged trade secret owner exercised reasonable precautions when competitor retrieved information and documents from trash container located on owner’s property).

\(^{26}\) *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 17 U.S.P.Q.2d 1780 (7th Cir. 1991)(test is whether the steps taken to protect the trade secret are reasonable in the circumstances of actual use).

\(^{27}\) *Id.*


\(^{29}\) *Id.*

\(^{30}\) The first appellate decision involving the EEA was the Third Circuit’s 1998 opinion in *United States v. Hsu*, 155 F.3d 189, 202 (3d Cir. 1998) holding that a charge of “attempt” under the EEA requires proof of the same elements used in other modern attempt statutes such as the Model Penal Code (MPC) § 5.01(1)(c)(1985). The second appellate decision involving the EEA was the First Circuit’s 2000 opinion in *United States v. Martin*, 228 F.3d I (1st Cir. 2000).

\(^{31}\) *Id.*
misappropriated was proprietary, and the existence of a true trade secret.

7. The Trade Secrets Act

The Trade Secrets Act, 18 U.S.C. § 1905, was originally enacted in 1864 out of Congressional concern over disclosure of business information by “reckless or corrupt revenue agents.” The current version of § 1905 is somewhat limited stemming from Congress’ consolidation of three statutes in 1948 and Congress’ “recogni[zing] that increased governmental access to financial records and commercial operations of individuals and entities had to be accompanied by some restraint on the freedom of governmental employees to disseminate such data to third parties.”

The D.C. Circuit has interpreted the Act as providing that “private commercial and financial information should not be revealed by agencies that gather it, absent a conscious choice in favor of disclosure by someone with power to impart the force of law to that decision.” The Supreme Court has interpreted “authorized by law” in the statute to mean that the exercise by an agency of quasi-legislative power “must be rooted in a grant of such power by the Congress and subject to limitations which that body imposes.” Specifically, the Court held that “[w]hat is important” is whether a reviewing court could reasonably conclude that the statutory grant of authority contemplated the regulations providing for release of information.

B. The Trade Secret Analysis

1. The Fundamental Criteria

The criteria adopted by the RESTATEMENT (FIRST) OF TORTS for determining whether a trade secret exists are:

- (1) the extent to which the information is known outside of the business;
- (2) the extent to which it is known by employees and others involved in the business;
- (3) the extent of measures taken to guard the secrecy of the information;
- (4) the value of the information to the business and to competitors;
- (5) the amount of effort or money expended in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

The courts have relied heavily on those criteria in determining whether or not a trade secret exists, even in jurisdictions that have adopted the Uniform Trade Secrets Act. The Food and

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33 See Nat'1 Parks and Conservation Act'n v. Kleppe, 547 F.2d 673, 687 n.50 (D.C. Cir. 1976)(characterizing the statute as “merely a general prohibition against unauthorized disclosures of confidential financial information”).
34 CNA Fin. Corp. v. Donovan, 830 F.2d 1132, 1149 n.122 (D.C. Cir. 1987). See also Qwest Communications Int'l, Inc. v. Federal Communications Comm'n, 229 F.3d 1172 (D.C. Cir. 2000)(holding that § 220(f) of the Commutations Act of 1934, 47 U.S.C. § 220(f) did not bar release of certain data and was consistent with the Trade Secrets Act).
35 CNA, 830 F.2d at 1141.
36 Chrysler, 441 U.S. at 302.
37 Id.
38 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).
Drug Administration ("FDA") has also adopted those criteria in determining whether an ingredient in a cosmetic is a "trade secret" and therefore may be omitted from an ingredient listing or a label.\(^40\) Similar criteria are used in determining whether a trade secret exists for purposes of the related criminal statutes.\(^41\) Those same six criteria have also been used by some courts to gauge whether a trade secret exists under the Uniform Trade Secrets Act.\(^42\)

2. **Trade Secret Protection May Exist In Combination Of Well-Known Elements**

Trade secret protection may extend to a compilation of information or a combination of well-known elements.\(^43\) Accordingly, the courts have extended trade secret protection to computer software where the overall combination was "unique" even though the individual elements or modules were known.\(^44\)

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\(^{40}\) 21 C.F.R. § 20.61, 20.3(a), 720.8 (1987). See also Zotos Int'l, Inc. v. Young, 830 F.2d 350 (D.C. Cir. 1987)(holding that the FDA acted arbitrarily and capriciously in denying trade secret status to an ingredient simply because it could be identified by reverse engineering; the FDA failed to apply the other factors).


\(^{42}\) See e.g., Am. Airlines, Inc. v. KLM Royal Dutch Airlines, Inc., 114 F.3d 108 (8th Cir. 1997)(trade secret asserted in "yield management" model that allowed airline to balance passenger capacity with demand consisting of five specific elements, individually known in the industry. Summary judgment granted to defendant when discovery showed that KLM had acquired only four of the five elements, despite later change in testimony by American's expert witness that four of the five also constituted a trade secret); Thermodyne Food Serv. Prds. v. McDonald's Corp., 940 F. Supp. 1300, 40 U.S.P.Q.2d 1801 (N.D. Ill. 1996)(applying Illinois law)(interrelationship of component parts constituted trade secret); FMC Corp. v. Spurdon, 596 F. Supp. 609, 612-613 (W.D. Pa. 1984)(a design manual, consisting of a compilation of well-known process elements, held to constitute a trade secret); Amoco Pnd. Co. v. Laird, 622 N.E.2d 912 (Ind. 1993)("It is a well-settled principle 'that a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process and operation of which, in unique combination, affords a competitive advantage and is a protectable secret.'"); Nilsen v. Motorola, 963 F. Supp. 664, 673 (N.D. Ill. 1997); Cont'l Data Sys., Inc. v. Exxon Corp., 638 F. Supp. 432 (E.D. Pa. 1986)(a software program for personal injury lawyers using well-known forms and data constituted a sufficiently "novel compilation" to qualify as a trade secret); Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir. 1986)(the process used well known devices, but that does not prevent protection for the overall process); Water Servs., Inc. v. Texo Chem., Inc., 410 F.2d 163 (5th Cir. 1969)(method of manufacture of automated water purification system which applied known techniques and assembly of available components to create a successful system was protectable).


\(^{44}\) Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955 (2d Cir. 1997), cert. denied, 523 U.S. 1020 (1998)(district court's conclusion that individual software elements/modules were not protectable "does not address Softel's claim that the combination of the elements is a trade secret."); Vermont Microsystems, Inc. v. Autodesk, Inc., 88 F.3d 142, 39 U.S.P.Q.2d 1421 (2d Cir. 1996 ( a "display list driver" described as having a unique "architecture which comprises its data format and organization, its collection of associated display list data processing algorithms, and its software code implementation," held to constitute a "combination" trade secret under California law); Rivenell Forest Prds., Ltd. v. Georgia-Pac. Corp., 28 F.3d 1042 (10th Cir. 1994)("a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design, and operation of which, in unique combination affords a competitive advantage and is a protectable secret."); Anacomp, Inc. v. Shell Knob Servs., Inc., 29 F.3d 621 (2d Cir. 1994)(trade secret exists in the combination of components); Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc., 920 F.2d 171 (2d Cir. 1990)(four utilities making up the ICM system were "generic" programs, yet the "way in which [ICM's] various components fit together as
If the value of the trade secret lies in the combination or integration, of course, that must be proved by the owner of the trade secret.45

The Restatement (Third) of Unfair Competition likewise takes the position that trade secret protection may extend to the overall combination even though the individual elements are well-known: “The fact that some of the components of the trade secret are well-known does not preclude protection for a secret combination, compilation, or integration of the individual elements.”46 Comments to the Restatement (Third) of Unfair Competition further explain: “Self-evident variations or modifications of known processes, procedures, or methods also lack the secrecy necessary for protection as a trade secret. However, it is the secrecy of the claimed trade secret as a whole that is determinative. The fact that some or all of the components of the trade secret are well-known does not necessarily preclude protection for a secret combination, compilation or integration of the individual elements.”47 The comments also importantly point out that: “The theoretical ability of others to ascertain information by proper means does not necessarily preclude protection as a trade secret. Trade secret protection remains available unless the information is readily ascertainable by proper means.”48 [Emphasis added.]

3. The “Secrecy” Requirement
The subject matter of a trade secret must be secret. Trade secret protection is not, however, lost if the secret is discovered through “improper means.” That rule is consistent with the companion rule that “absolute” secrecy is not required, but reasonable precautions to protect the secret must be taken.

a. Relative Secrecy
The Restatement (First) of Torts adopted the “relative” rather than “absolute” standard of secrecy.49 The “relative” standard of secrecy is also the standard adopted by the UTSA (“not *** generally known”) and the Restatement (Third) of Unfair Competition.

b. Duty to Protect Confidentiality
The trade secret owner is under a duty to take reasonable steps to preserve the secrecy of the trade secret.50 If the owner of the trade secret is

building blocks in order to form the unique whole” is a protectable trade secret.


49 Restatement (First) of Torts, § 757 cmt. b (1939) provides:

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. [Emphasis added.]

subsequently found to have inadequately protected the “secret,” protection will be denied.  

Among the factors that the courts have considered in assessing the reasonableness of protective measures are:

1. The existence or absence of an express agreement restricting disclosure;
2. The nature and extent of security precautions taken by the possessor to prevent acquisition of the information by unauthorized third parties;
3. The circumstances under which the information was disclosed to employees to the extent that such circumstances give rise to a reasonable inference that further disclosure, without the consent of the possessor, is prohibited, and
4. The degree to which the information has been placed in the public domain or rendered “readily ascertainable” by the third parties through patent applications or unrestricted product marketing.

“[A] court should consider the relationship and the conduct of the parties,” and it is appropriate to balance the plaintiff’s conduct in maintaining security measures against the defendant’s conduct in acquiring the information. In short, the courts apply a balancing test.

One of the principal precautions taken to protect trade secrets are employee non-disclosure or confidentiality agreements. Some courts have indicated that if a trade secret misappropriation occurs through a breach of confidence, less than adequate protection measures may be excused. But, the requirement to take reasonable steps to preserve the secrecy of the trade secret varies with the circumstances of each case, and simply having each employee sign confidentiality agreements may not be adequate

54 Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 17 U.S.P.Q.2d 1780 (7th Cir. 1991)(test is whether the steps taken to protect the trade secret are reasonable in the circumstances of actual use). See also Simplified Telesys, Inc. v. Live Oak Telecom, L.L.C., 2000 WL 1862122 (Tex. App.-Austin 2000)(non-published, non-precedential)(evidence of substantial time and money invested in developing computer program, that all employees signed confidentiality agreements, and that individual employees were only allowed to learn separate parts of the program was sufficient to withstand summary judgment that no trade secret existed).
55 See Southwest Whey, Inc. v. Nutrition 101, Inc., 117 F. Supp. 2d 770 (C.D. Ill. 2000)(failure to impose confidentiality restrictions, even on customers and truckers, may lead to a finding that no reasonable efforts were undertaken to protect alleged trade secrets.). But see, Surgidev Corp. v. Eye Tech. Inc., 828 F.2d 452, 4 U.S.P.Q.2d 1090 (8th Cir. 1987)(requiring employees to sign non-disclosure agreements, restricting visitor access to sales and administrative areas, keeping customer information in locked files, and distributing customer information on a “need-to-know” basis was sufficient to meet the “reasonable precaution” test).
56 Noddings Inv. Group, Inc. v. Kelley, 1994 U.S. Dist. LEXIS 3246 (N.D. Ill. 1994)(lack of confidentiality agreement not fatal to trade secret misappropriation action where information disclosed to individuals on a need to know basis).
alone to preserve trade secret protection if the other precautions taken are not sufficient.57

c. Difficulty of Acquiring Through Proper Means
   “Relative secrecy” is sometimes measured by the difficulty in acquiring the trade secret by proper means.58 For example, it has been held that distribution of object code did not operate to disclose the underlying source code because of the difficulty in reverse engineering.59

d. Disclosure Outside an Obligation of Confidentiality
   Certainly the surest way to lose a trade secret, however, is to generally disclose it outside of an express or implied obligation of confidentiality.

   If you do not want another to tell your secrets, you must not tell them yourself.

Seneca: Phaedra60

(1) Obligation of Confidentiality Must Be Understood By Both Parties
   Whether there is, in fact, an obligation of confidentiality must be clearly understood by both parties.61

(2) Obligation of Confidentiality May Be Implied
   Whether or not an obligation of confidentiality will be implied sometimes turns on whether the recipient of the information directly or indirectly solicited or encouraged the disclosure.62

57 Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983)(although each employee had signed a confidentiality agreement, and matter had been found to constitute a trade secret and to have been misappropriated, other precautions plaintiff took were found to be inadequate under the circumstances. In response, the Minnesota legislature specifically amended its version of the UTSA to provide that “[t]he existence of a trade secret is not negated merely because an employee or other person has acquired the trade secret without express or specific notice that it is a trade secret if, under all the circumstances, the employee or other person knows or has reason to know that the owner intends or expects the secrecy of the type of information comprising the trade secret to be maintained.”)

58 Celeritas Techs., Ltd. v. Rockwell Int’l Corp., 150 F.3d 1354, 47 U.S.P.Q.2d 1516 (Fed. Cir. 1998);


61 Smead v. Redlen Aggregates, Ltd., 998 F.2d 1325 (5th Cir. 1993), cert. dism’d, 114 S. Ct. 1587 (1994)(non-disclosure agreement was obtained based on representations that patent had been filed when it had not – held that information was not a trade secret and non-disclosure agreement had no effect because based on fraud); Harbor Software, Inc. v. Applied Sys., 887 F. Supp. 86 (S.D.N.Y. 1995)(applying Illinois law, motion for summary judgment denied because whether there was an implied obligation of confidentiality was a question of fact); Cont’l Data Sys., Inc. v. Exxon Corp., 638 F. Supp. 432 (E.D. Pa. 1986)(orally cautioning prospective customers that a computer program manual was confidential was sufficient under the circumstances).

62 Injection Research Specialists, Inc. v. Polaris Indus., I.P., 1998 U.S. App. LEXIS 18745 (Fed. Cir. 1998)(non-precedential)(actual damages of $24 million and punitive damages of $10 million against Polaris, and actual damages of $15 million and punitive damages of $8 million against Fuji (punitive damages vacated by district court) under Colorado Uniform Trade Secrets Act). According to the Federal Circuit, the relevant inquiry was whether Polaris “knew or had reason to know” that it was acquiring information from Injection Research under circumstances giving rise to a duty to maintain its secrecy or limit its use. Based on the evidence before the court, including evidence that Polaris had hired an independent contractor for Injection Research who had access to Injection Research’s trade secret information, there was ample evidence to support the jury’s finding of misappropriation. See also Phillips v. Frey, 20 F.3d 623, 30 U.S.P.Q.2d 1755 (5th Cir. 1994)(disclosure of a manufacturing process had been made without any express obligation of confidentiality, but disclosure had been made during the course of discussions in which the defendants had offered to buy the plaintiff’s business. The Fifth Circuit held that in such a situation, a jury could find that the defendants knew or should have known that the information was a trade secret, and that the disclosure was being made in
Thus, although an obligation of confidentiality may be implied in appropriate instances, that obligation must be one that both parties understand exists based either on the actual dealings between the parties, standard practices in the industry, the parties relationship, or other factors indicating that both parties knew or should have known that the information or materials were confidential.

(3) Simple Mechanical Products

Relatively simple mechanical products may be difficult to protect as a trade secret because of the ease with which they can be reverse engineered from the publicly sold product. However, the manufacturing process may nevertheless constitute a trade secret deserving of protection, especially in instances where that manufacturing process has been learned through “improper means.”

(4) Disclosure in an Issued Patent

“Trade secret” information that is published in a patent is disclosed and no longer entitled to trade secret protection.\(^{64}\) On the other hand, that which is not disclosed in the patent can be retained as a trade secret.\(^{65}\) However, the prevailing rule in Texas and other jurisdictions is that issuance of a patent does not destroy the right of a trade secret owner to recover for misappropriation of a trade secret that occurred before the patent issued.\(^{66}\) Additionally, issuance

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\(^{64}\) **RESTATEMENT (THIRD) OF UNFAIR COMPETITION** § 39 cmt. f (1995) (“[I]nformation that is disclosed in a patent or contained in published materials reasonably accessible to competitors does not qualify for protection under this Section.”); **Forsier v. Microsoft Corp.**, 123 F. Supp. 2d 520 (N.D. Cal. 2000)(confirming that Microsoft could not be liable for misappropriation of trade secrets that had been disclosed in issued patents prior to its acquisition of a company that had allegedly misappropriated those trade secrets); **Adams Bradford Co. v. Tuboscope Co.**, 128 S.W.2d 147 (Tex. Civ. App.–Waco 1940, no writ); **Henry Hope X-Ray Prods., Inc. v. Marron Carrel, Inc.**, 674 F.2d 1264, 1269 n.10 (8th Cir. 1982); **Lamb-Weston, Inc. v. McCain Foods, Ltd.**, 941 F.2d 950 (9th Cir. 1991); **Thermotics, Inc. v. Bat-Jac Tool Co., Inc.**, 941 F.2d 950 (9th Cir. 1991). See also **Modern Controls, Inc. v. Andreadakis**, 578 F.2d 1264, 1269 n.10 (8th Cir. 1978); **Lamb-Weston, Inc. v. McCain Foods, Ltd.**, 941 F.2d 950 (9th Cir. 1991). See also **Modern Controls, Inc. v. Andreadakis**, 578 F.2d 1264, 1269 n.10 (8th Cir. 1978); **Scharmer v. Carrollton Mfg. Co.**, 525 F.2d 95 (6th Cir. 1975); **Feinman v. Lockett**, 351 A.2d 273 (Pa. 1976). That is also consistent with the corresponding rule under patent law that information disclosed, but not claimed, in a patent is deemed dedicated to the public subject to possible recapture if the patentee acts quickly enough. **In re Gibbs**, 437 F.2d 486, 168 U.S.P.Q. 578 (C.C.P.A. 1971).

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\(^{65}\) **Thermotics, Inc. v. Bat-Jac Tool Co., Inc.**, 541 S.W.2d 255, 261 (Tex. Civ. App.–Houston [1st Dist.] 1976, no writ); **Lamb-Weston, Inc. v. McCain Foods, Ltd.**, 941 F.2d 970 (9th Cir. 1991). See also **Modern Controls, Inc. v. Andreadakis**, 578 F.2d 1264, 1269 n.10 (8th Cir. 1978); **Henry Hope X-Ray Prods., Inc. v. Marron Carrel, Inc.**, 674 F.2d 1336, 1342 (9th Cir. 1982). See also **Christian v. Cod Indus. Operating Corp.**, 822 F.2d 1544 (Fed. Cir. 1987), vacated and ordered transferred 108 S. Ct. 2166 (1988), decided, 870 F.2d 1292, 10 U.S.P.Q. 2d 1352 (7th Cir. 1989)(the requirements of 35 U.S.C. § 112 do not require a description of how to mass-produce the inventions).

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of a patent does not foreclose a trade secret misappropriation action for information not disclosed in the patent.67

Courts relying on the “equitable” theory of trade secret law generally rely to some degree on Justice Holmes’ now famous comment in E.I. du Pont de Nemours Powder Co. v. Masland,68 that the “word property as applied to trade-marks 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. * * * The property may be denied by the confidence cannot be.” The UTSA, though, is generally premised on a “property” theory, but with equitable factors, such as acquisition through “improper means.”

Courts in those now few states, like Texas, that have not adopted the UTSA arguably follow the “equitable” theory.69 For example, in Smith v. Snap-On Tools Corp,70 the Fifth Circuit noted that “[t]he essence of the tort of trade secret misappropriation is the inequitable use of the

67 Injection Research Specialists, Inc. v. Polaris Indus., L.P., 1998 U.S. App. LEXIS 18745 (Fed. Cir. 1998)(non-precedential) (“That these claimed trade secrets may have been disclosed by the publication of the ‘701 patent was an affirmative defense raised by Polaris and Fuji. * * * Accordingly, after Injection Research presented a prima facie case establishing to the jury’s satisfaction the element of appropriately safeguarding its claimed trade secrets, the burden shifted to Polaris and Fuji to persuade the jury of their affirmative defense. * * * [T]he question of whether the patent or other form of publication discloses the same subject matter as the claimed trade secret is not assumed, but is a question of fact to be answered by the jury.”).

68 244 U.S. 100, 102 (1917).

69 See, e.g., RESTATEMENT (FIRST) OF TORTS § 757 cmt. (a).

70 833 F.2d 578 (5th Cir. 1987).

secret.” Under an equitable theory, a cause of action for misappropriation and recovery of subsequent damages may be had even though some action, for example the publication of a patent application, has occurred that has resulted in a loss of trade secret protection, provided the act of misappropriation occurred first.71 However, where the public disclosure of a trade secret is due to the trade secret owner’s own actions, i.e., publication of a patent application, under either the “equitable” or “property” theories, there is authority that protection (and liability) should cease at that point.72

(5) Limited Disclosure Does Not Preclude Trade Secret Protection

Limited disclosures, even without express or implied obligations of confidentiality, have been held not to destroy trade secret protection, if the owner otherwise takes adequate security precautions, the disclosure is limited, and the information does not, as a result, become generally known.73

4. Patent Law Type “Novelty” Is Not Required

Comment b to § 757 of the RESTATEMENT (FIRST) OF TORTS makes clear that “novelty” in the patent law sense is not a requirement for trade secret protection.74 Novelty in a patent law sense

71 See e.g., Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 59 USPQ2d 1121 (Fed. Cir. 2001) (holding, despite the lack of any definitive authority, that Missouri followed the “property” theory prior to adoption of the UTSA, and therefore any possible misappropriation ended when a Patent Cooperation Treaty (PCT) patent application was published.)

72 See PETERSON, TRADE SECRET PROTECTION IN AN INFORMATION AGE § 13.3 (1996)(and cases cited therein).

73 Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 229 U.S.P.Q. 945 (5th Cir. 1986).

74 This portion of the comment seems to have been generally accepted by the courts, see, e.g., Dionne v. Southeast Foam Converting & Packaging, Inc., 397 S.E.2d 110, 17 U.S.P.Q.2d 1565 (Va. 1990)(“If... indeed, a trade secret ‘may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make.’”), with some caveats—for example, it is
is not required because trade secret protection does not protect against independent creation, as does patent protection.\textsuperscript{75} Thus, the fact that the U.S. Patent & Trademark Office may have refused to grant a patent on the process that is asserted as a trade secret is not determinative of whether a trade secret exists.\textsuperscript{76} Some minimal amount of novelty, however, is generally required.\textsuperscript{77}

The \textit{Restatement \(\text{III}\)} \textbf{of Unfair Competition} likewise takes the view that “novelty,” in a patent law sense, is not required, but notes that the secrecy requirement effectively creates a minimal level of advance necessary to secure trade secret protection: “However, some novelty will be required if merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimum novelty.”\textsuperscript{78} Clearly, matters of public or general knowledge in an industry cannot be appropriated by one company as a trade secret.\textsuperscript{79}

### C. Potential Trade Secret Subject Matter

#### 1. Trade Secret Information

Computer hardware and software, within limits, have long been held to qualify for trade secret protection.\textsuperscript{80} Additionally, the courts have concluded that a wide variety of types of computer software are available for trade secret protection, including data processing programs in the health care field,\textsuperscript{81} accounting software,\textsuperscript{82} diagnostic

\textsuperscript{75} \textit{Alderman v. Tandy Corp.}, 720 F.2d 1234, 1235-36 (11th Cir. 1983).

\textsuperscript{76} Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955, 43 U.S.P.Q.2d 1385 (2d Cir. 1997)(cautioning district court on remand that “novelty” in the patent law sense is not required for trade secret protection, and that district court should not confuse the use of the term “novelty” in idea submission cases with the use of the same term in trade secret cases because “novelty” is used in this line of cases in a very different, and much weaker, sense than it is used in patent law.

\textsuperscript{77} But see Blank v. Poliack, 916 F. Supp. 165, 174 (N.D.N.Y. 1996)(a trade secret owner "must demonstrate novelty and originality to be protectable as a property right").


\textsuperscript{79} See e.g., \textit{Alderman v. Tandy Corp.}, 720 F.2d 1234, 1235-36 (11th Cir. 1983).

\textsuperscript{80} See e.g., \textit{Vigoro Indus., Inc. v. Crip}, 82 F.3d 785 (8th Cir. 1996)(information concerning the needs of farmers for fertilizer not a trade secret); \textit{Sunward Data Sys., Inc. v. Devlin}, 37 U.S.P.Q.2d 1190, 1995 U.S. Dist. LEXIS 10595 (E.D. Pa. 1995)(injunction denied where information regarding disaster recovery plan was generally known); \textit{Cockerham v. Kerr-McGee Chem. Corp.}, 23 F.3d 101 (5th Cir. 1994)(applying Mississippi law, found that the location of a fill dirt site not a trade secret because it was readily ascertainable); \textit{Hoffman-La Roche, Inc. v. Yoder}, 950 F. Supp. 1348 (S.D. Ohio 1997)(clinical trial information held not to constitute a trade secret where security precautions were inadequate, namely failure to obtain signed confidential agreement from investigator, documents most not marked “confidential,” information was widely disseminated, lack of document control, and no policy on retrieving “confidential documents after dissemination); \textit{Midgard Corp. v. Todd}, 1997 U.S. App. LEXIS 3873 (10th Cir. 1997)(non-precedential)(general business information relating to customers, suppliers, pricing and practices); \textit{RSR Corp. v. Browner}, 924 F. Supp. 504 (S.D.N.Y. 1996), aff’d, 1997 U.S. App. LEXIS 5523 (2d Cir. 1997)(monthly production rates that constitute “effluent data” under the Clean Water Act, 33 U.S.C. §§ 1251 et seq. held not to constitute confidential information for purposes of Freedom of Information Act “confidential business information exception,” 5 U.S.C. § 554(b)(4)).

\textsuperscript{81} See e.g., \textit{Elec. Data Sys. Corp. v. Heinemann}, 268 Ga. 755, 493 S.E.2d 132 (Ga. 1997)(“It is well-accepted that computer software may constitute trade secrets.”).

\textsuperscript{82} See e.g., \textit{Elec. Data Sys. Corp. v. Kinder}, 497 F.2d 222 (5th Cir. 1974).
software,83 and inventory control programs.84 Indeed, there is currently little question that virtually all types of software potentially qualifies for trade secret protection.

The definitions in both Restatements and the UTSA are broad enough to include a variety of technical and non-technical materials and information. Cases within the past few years include, a method of introducing additives to potatoes,85 information learned by an attorney in representing a client,86 process for making and freezing precooked sausage,87 information concerning business methods and procedures, business accounts and names of insurance policy holders,88 warehouse logistics system including architectural layout, customized equipment and computer software designed over a three-year period with a development cost exceeding $2 million,89 business information consisting of a marketing program that contained product-line information and development and sales strategies,90 information concerning a hotel’s occupancy levels, average daily rates, discounting policies, rate levels, long term contracts, marketing plans, and operating expenses,91 customer and pricing information that included profits per customer, sales per customer, special suppliers, overhead and specific pricing information,92 information concerning high-performance upgrades for certain automobiles,93 telemarketing technology,94 fudge making recipe,95 a mailing list strategy, program evaluations and registrant lists for continuing education seminars,96 applications engineering and customer information,97 information in a franchise manual concerning the operation of an advertising circular franchise,98 insurance customer information protected against misappropriation by former agents,99 information obtained from a non-client by an associate in a law firm under confidentiality agreements in connection with the investigation of alleged failure to pay overriding royalties in certain oil and gas properties and later used to...

84 Univ. Computer Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974).
85 Basic Am., Inc. v. Shatilla, 992 P.2d 175 (Idaho 1999).
86 Hyman Cos., Inc. v. Burow, 119 F. Supp. 2d 499 (E.D. Pa. 2000)(an injunction may issue precluding an attorney from representing a new client in areas in which the attorney had trade secret information regarding store profitability and lease negotiations).
87 C&F Packing Co., Inc. v. IBP, Inc., 224 F.3d 1296 (Fed. Cir. 2000).
89 Essex Group, Inc. v. Southwire Co., 501 S.E.2d 501 (Ga. 1998)("The fact that some or all of the components of the trade secret are well-known does not preclude protection for a secret combination, compilation, or integration of the individual elements," quoting with approval RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39(f)).
91 Camp Creek Hospitality Insns., Inc. v. Sheraton Franchise Corp., 139 F.3d 1396 (11th Cir. 1998).
prepare and file a class action suit on behalf of royalty owners,\textsuperscript{100} detailed manufacturing drawings,\textsuperscript{101} and knowledge that a particular feature or compound has certain characteristics that make it useful or an “essential ingredient” even though the feature or compound is otherwise known and the overall combination is known.\textsuperscript{102}

2. Non-Trade Secret Information

Most cases in which the information was found not to constitute a trade secret turn on the lack, or inadequacy, of the precautions taken by the “trade secret” owner, rather than the “type” of information involved. Such cases include, for example, by providing in an employment agreement that an employee agreed not to divulge any trade secret “during or for a period of one year after termination of my employment,” the employer manifested an intent that after the expiration of that period a former employee was under no restrictions,\textsuperscript{103} real estate information held not to be a trade secret under Georgia Uniform Trade Secrets Act when it consisted of knowledge that any sophisticated real estate investor would know or have access to,\textsuperscript{104} a proposal for putting a lye-based hair relaxer in a squeezable tube and using the tube to apply the product, when non-lye-based hair relaxers had been marketed in squeezable tubes and at least one other company had sold hair relaxer in plastic squeezable tubes,\textsuperscript{105} a casino’s record of their “community contribution,” an amount equal to two percent of “Net Wins” from certain gambling operations, was not a protectable trade secret because the tribes failed to establish that the casino’s profitability was not easily accessible to the public,\textsuperscript{106} a beef fajita marinating process,\textsuperscript{107} insurance policyholder information,\textsuperscript{108} clinical trial information held not to constitute a trade secret where security precautions were inadequate, namely failure to obtain signed confidential agreement from investigator, documents most not marked “confidential,” information was widely disseminated, lack of document control, and no policy on retrieving “confidential” documents after dissemination,\textsuperscript{109} general business information relating to customers, suppliers, pricing and practices,\textsuperscript{110} and monthly production rates that constitute “effluent data” under the Clean Water Act, 33 U.S.C. §§ 1251 et seq. held not to constitute confidential information for purposes of Freedom of Information Act “confidential business information exception,” 5 U.S.C. § 554(b)(4).\textsuperscript{111}


\textsuperscript{101} DB Riley, Inc. v. AB Eng’g Corp., 977 F. Supp. 84 (D. Mass. 1997)(but efforts were insufficient to protect trade secret).


\textsuperscript{103} \textit{ECT Int’l, Inc. v. Zwerlein}, 597 N.W.2d 479 (Wis. Ct. App. 1999)(“By limiting the period in which an employee agreed not to divulge trade secrets [the employer] manifested its intent that after one year there was no need to maintain the secrecy of any sensitive and confidential information [the employee] learned while employed.”).

\textsuperscript{104} \textit{Capital Asset Research Corp. v. Finnegan}, 160 F.3d 683 (11th Cir. 1998).

\textsuperscript{105} Pope \textit{v. Alberto-Culver Co.}, 694 N.E.2d 615 (Ill. App. 1998).

\textsuperscript{106} Confederated Tribes \textit{v. Johnson}, 958 P.2d 260 (Wash. 1998)(the casino’s profitability could be ascertained by visiting the casino, reading newspaper articles, or by speaking with employees, tribal members, or local service agencies which received the required community contributions).

\textsuperscript{107} H.E. Butt Grocery Co. \textit{v. Moody’s Quality Meats, Inc.}, 951 S.W.2d 33 (Tex. App.—Corpus Christi 1997, no writ) (“Moody’s process was commonly known because it was published and widely distributed in the industry before HEB began making pre-marinated fajitas.”).


3. Customer Lists
   a. Information Is Readily Ascertainable
      Trade secret protection will not generally attach to customer lists and lists of suppliers where the information is readily ascertainable from public sources.113

   b. Information Is Not Readily Ascertainable
      If the customer list contains information not generally known in the trade and not generally in use by good faith competitors, and if the proprietor has taken reasonable steps to preserve the secrecy of that information, then such lists are protectable.115

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112 See e.g., John Paul Mitchell Sys. v. Randall’s Food Mkts., Inc., 17 S.W.3d 721 (Tex. App.–Austin 2000, denied)(list of suppliers may constitute a trade secret that is privileged from disclosure except on a showing that such a list is necessary for a fair adjudication).

113 See e.g., Harvest Life Ins. Co. v. Gethes, 701 N.E.2d 871 (Ind. App. 1998)(“Our examination of case law shows that where the information in question is a policyholder list of an insurance company, that information, which can include names of customers, policy coverage, premium amounts, and expiration dates, is not a trade secret.”) Early, Ludwig & Sweeney, L.L.C. v. Steele, 1998 WL 526156 (Conn. Super. 1998)(law firm client list of plaintiffs in pediatric lead poisoning cases held not to be a trade secret under the Connecticut Uniform Trade Secrets Act. Twelve of the sixteen clients that the departing lawyer had contacted had filed suit, and their names, addresses etc., were a matter of public record. Of the remaining four, two elected to stay with the original law firm, the firm voluntarily turned the file of a third over to the departing lawyer, and the departing lawyer took the fourth file openly and with the knowledge of the law firm); Am. Red Cross v. Palm Beach Blood Bank, Inc., 43 F.3d 1407, 47 U.S.P.Q.2d 1139 (11th Cir. 1998)(blood donor lists were not protectable where at least portions of the list were posted on computer bulletin boards and many donor groups publicly revealed their sponsorship); H&H Recruiters, Inc. v. Kirkpatrick, 665 N.Y.S.2d 865 (N.Y. App. Div. 1997)(“Under the circumstances of the instant case, the restrictive covenant [not to compete] in the employment agreement is not enforceable because the plaintiff’s client lists do not qualify for trade secret protection.”); Vigor Indus., Inc. v. Crisp, 82 F.3d 785 (8th Cir. 1996)(customer list for Arkansas farm store held not to constitute a trade secret because identity of customers in small geographical area could be easily discovered); Animal Health Clinic, P.C. v. Andrea Autorino, D.V.M., 1998 Conn. Super. LEXIS 801 (1998)(unpublished)(list of veterinarian’s clients obtained from “call-back” slips held not to constitute a trade secret); Russell Cine Photo Tech, Inc. v. Kapudis, 43 U.S.P.Q.2d 1134 (N.Y. Sup. Ct. 1997)(customer lists of borescope [very long lenses which attach to a film camera and permit extreme close-ups] held not to constitute a trade secret because customers were readily ascertainable); Sternberg v. Sato Casting Serv., Inc., 42 U.S.P.Q.2d 1889 (E.D. Pa. 1997)(customer lists, labor costs and names of suppliers held not to constitute trade secrets because information known to all employees, readily ascertainable from public sources, and employer made no effort to protect information); Uncle B’s Bakery, Inc. v. O’Roarke, 920 F. Supp. 1405 (N.D. Iowa 1996)(identity of “brokers” where there was a failure “to demonstrate that this information is not readily ascertainable upon inquiry in the industry”); John Door Ins. Co. v. Riker, 1997 Ohio App. LEXIS 3718 (1997)(customer files of an insurance agent held not to qualify as a trade secret because information concerning customers was readily ascertainable from public sources). But see Fred Siegel Co., L.P.A. v. Artier & Hadden, 1997 Ohio App. LEXIS 3397 (1997)(in action for “business interference” by a law firm against former associate who used the firm’s client list to generate mailing list at new firm, held that a law firm may bring a tort action for business interference against a former employee, but a departing attorney has a privilege to inform those clients for whom he/she worked that he/she was leaving the firm. That privilege does not, however, extend to all clients of the firm. The court further held that the law firm’s client list qualified as a trade secret under the Ohio trade secret statute).

114 See e.g., North Atlantic Instruments, Inc. v. Haber, 188 F.3d 38 (2d Cir. 1999).

115 Fred’s Stores of Mississippi, Inc. v. M & H Drugs, Inc., 725 So. 2d 902, 911 (Miss. 1998)(pharmacy’s master customer list held to constitute a trade secret); Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Davis, 1998 U.S. Dist. LEXIS 20675 (N.D. Tex. 1998)(“This court has routinely held that Merrill Lynch’s customer lists qualify as trade secrets.”); Clifford McFarland Read & Landry, Inc. v. Brier, 1998 WL 269223 (R.I. Super. 1998)(“This Court finds that customer information concerning credit history, sales volume, prospective future business, service relationships, special needs of customers, supplier lists, cost information, pricing
policies, and profitability are trade secrets as defined [by the Rhode Island Uniform Trade Secrets Act].”); Gazelah v. Rome Gen. Pract., P.C., 502 S.E.2d 251 (Ga. App. 1998)(waiting room patient lists in weight loss clinic protected); Eisen’s World Travel, Inc. v. Adams, 978 S.W.2d 225 (Tex. App.—Texarkana 1998, no writ)(travel agency customer lists held to constitute confidential information sufficient to support a covenant not to compete despite minimal evidence of the same); D.L. Rice Corp v. Fornam, 1998 WL 202595 (Minn. Ct. App. 1998)(preliminary injunction granted to enforce non-competition agreement and to protect trade secret rights in certain customer information); Merrill Lynch Pierce Fenner & Smith v. Zimmerman, 42 U.S.P.Q.2d 1149 (D. Kan. 1996)(injunction granted to protect information in documents taken by financial consultant who later solicited former employer’s customers); DeGiorgio v. Megabyte Int’l, Inc., 266 Ga. 539, 468 S.E.2d 367 (Ga. 1996)(customer and vendor lists protected as trade secrets); HBD, Inc. v. Ryan, 642 N.Y.S.2d 913, 1996 N.Y. App. Div. LEXIS 5101 (N.Y. App. Div. 1996)(preliminary injunction granted to protect information in documents taken by financial consultant who later solicited former employer’s customers); Sethscott Collection, Inc. v. Durable, 669 S.2d 1076 (Fla. Dist. Ct. App. 1996)(customer list containing names of several thousand fraternities and sororities was not a protectable trade secret because readily ascertainable, but a list containing purchasing histories for various fraternities and sororities was protected because that information was not readily available to the public); Aloi Elec. Serv. v. ASAP Fire Equip., 1996 Conn. Super. LEXIS 1564 (Conn. Super. Ct. 1996)(“sensitive customer service data that has been accumulated over a number of years *** essential to the effective serving of accounts *** [and that] has been privately maintained by the plaintiff’s president for the plaintiff’s exclusive use and benefit.”). See also Bohler-Uddeholm America, Inc. v. Edlwood Group, Inc., 247 F.3d 79, 107 (3d Cir. 2001)(“Pennsylvania law is *** clear that this kind of information [client lists and profiles, pricing information, and shipping-to information] can be a trade secret.”).

Several states in adopting versions of the UTSA have included language in the definition of a trade secret seemingly in an effort to specifically include customer lists or information. Illinois added “technical or nontechnical data,” “drawings,” and “financial data, or list of actual or potential customers or suppliers.” Connecticut and Oregon added “drawings,” “cost data,” and “customer list.” Colorado omitted some of the laundry list from the “official” definition in the UTSA, but then added “the whole or any portion of phase of any scientific or technical information, design, procedure, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers, or other information relating
c. Work Effort In Developing
In determining whether information has “independent economic value” under the UTSA or would provide a competitive advantage under the RESTATEMENT (FIRST) OF TORTS, one of the key factors used by the courts appears to be the effort and expense that was expended on developing the information. For example, in Morlife, Inc. v. Perry, involving a customer list for a business involved in inspecting, maintaining, and repairing roofs primarily for commercial properties protected as a trade secret which had been developed through telemarketing, sales visits, mailings, advertising, membership in trade associations, referrals and research, and in which only 1 in 10 contacts resulted in a customer, the court held:

[W]here the employer has expended time and effort identifying customers with particular needs or characteristics, courts will prohibit former employees from using this information to capture a share of the market. Such lists are to be distinguished from mere identities and locations of customers where anyone could easily identify the entities as potential customers. *** As a general principle, the more difficult information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a court will find such information constitutes a trade secret. [Citations omitted.]

Or, as the court also explained:

As a general principle, the more difficult information is to obtain, and the more time and resources expended by an employer in gathering it, the more likely a
court will find such information constitutes a trade secret.

[Citations omitted.]

As a result, the courts tend to protect customer lists that have taken a good deal of time and money to develop as trade secrets, sometimes, but not always, on the rationale that such time and money indicates that the list is not “readily accessible.”

d. Acquiring Customer Lists by “Improper Means”

One rationale underlying trade secret protection is to promote at least some degree of commercial morality. Thus some courts have tended to protect customer lists more readily when it appears that such lists have been obtained “improperly.” Improper acquisition includes an agent improperly using information acquired in violation of a duty. “Improper means” can sometimes be inferred based on circumstantial evidence.

e. Other Factors

Other factors can also be used in deciding whether a particular customer list is protectable.

118 Ed Nowogroski Ins., Inc. v. Rucker, 971 P.2d 936, 50 U.S.P.Q.2d 1268 (Wa. 1999)(insurance summaries, customer lists and other documents containing customer names, expiration dates, coverage information and related information held to constitute a trade secret); Sautter v. Comp Solutions Network, Inc., 1998 WL 802481 (Tex. App.–Houston [14th Dist.] 1998, no pet.) (unpublished non-precedential)(Wholesale insurance company’s list of customers and agents developed over a “long time” and maintained on password protected computers protected as a trade secret. Temporary injunction prohibiting former employee from using customer lists of former employer upheld despite lack of non-competition agreement); Hydraulic Esch. and Repair, Inc. v. KM Specialty Pumps Inc., 690 N.E.2d 782, 46 U.S.P.Q.2d 1291 (Ind. Ct. App. 1998) (customer and pricing information that included profits per customer, sales per customer, special suppliers, overhead and specific pricing information. Although customer names in this limited market did not constitute a trade secret, those names coupled with other pricing information constituted a trade secret. Court relied on effort undertaken to daily update customer and pricing information); Stampede Tool Warehouse, Inc. v. May, 651 N.E.2d 209, 35 U.S.P.Q.2d 1134 (Ill. App. [1st Dist.] 1995)(appeal denied)(customer list developed by spending $50,000 per month to “prospect” potential customers was a protectable trade secret); MAI Sys. v. Peak Computer, Inc., 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993)(a computer manufacturer’s customer list had potential economic value, and therefore was protectable under the California UTSA, because it allowed competitors like Peak to direct their sales efforts at specific potential customers); Liberty Mutual Ins. Co. v. Arthur J. Gallagher & Co., 1994 U.S. Dist. LEXIS 18412 (N.D. Cal. 1994)(former insurance agent enjoined from contacting policyholders within defined limits of non-solicitation agreement); Courtesy Temp. Serv. Inc. v. Camacho, 272 Cal. Rptr. 352, 222 Cal. App. 3d 1278 (Cal. App. [2d Dist.] 1990)(UTSA is broader than the Restatement in that it permits the protection of information that has a commercial value from a negative viewpoint, for example, a list of entities that have not used the former employer’s services. A list of such “customers” that was compiled through “lengthy and expensive efforts, including advertising, promotional campaigns, canvassing, and client entertainment” was a protectable trade secret).

119 Scranton Gillette Communications, Inc. v. Dannhausen, 1997 WL 701344 (N.D. Ill. 1997)(evidence that mailing lists should have been in former employee’s offices after they left, and were not; evidence of dummy name appearing on defendant’s list; evidence of misspellings of two names all is evidence from which a trier of fact might infer that the trade secrets were taken without authorization and then used); Merrill Lynch Pierce Fenner & Smith v. Zimmerman, 42 U.S.P.Q.2d 1149 (D. Kan. 1996)(injunction granted to protect information in documents taken by financial consultant who later solicited former employer’s customers); Herrmann & Andreas Ins. Agency, Inc. v. Appleg, 800 S.W.2d 312 (Tex. App.–Corpus Christi 1990)(evidence of same misspellings in client solicitation materials as in “confidential” client list attached to settlement agreement sufficient to raise a fact issue precluding summary judgment); Am. Precision Vibrator Co. v. Nat’l Air Vibrator Co., 764 S.W.2d 274 (Tex. App.–Houston [1st Dist.] 1988)(one set of 2,000-4,000 customer cards “disappeared” at approximately the same time as two long-time employees quit to form a competing company. Held that “where such a list has been unfairly acquired, it will be afforded protection as a trade secret.”).


Illinois, in particular, prior to its adoption of the UTSA, had developed a substantial body of law on protecting customer relations. Although Illinois now expressly protects such information under its version of the UTSA by specifically providing that a trade secret includes a “list of actual or potential customers or suppliers” in the definition of protectable subject matter, the seven evidentiary factors previously articulated by the Illinois courts remain useful (but are no longer controlling in Illinois) in determining whether such information should be protectable: (1) the number of years it takes the employer to maintain the clientele, since that number indicates an intention to remain affiliated indefinitely; (2) the amount of money invested in developing the clientele because that is an objective indication of the employer’s intention to retain the customer relationship in a “near-permanent” status; (3) the difficulty involved in the process of developing the clientele; (4) whether the business is “highly competitive” because in such businesses personal customer contact by an employee is important in maintaining customer relationship; (5) whether the employee has a “storehouse of intimate knowledge of customer requirements” because such knowledge strongly indicates that a protectable interest in “near-permanent” clientele exists; (6) the length of time the company has been in business, or the number of contacts a company has with a client over a relevant time period and how much time passes between each contact; and (7) the “continuity of the relationship” with the customer, meaning how frequently customers need or use the services of the business. Evidence on these seven factors should be persuasive in other courts as well. After 1988, however, the date of enactment of the Illinois Trade Secrets Act (ITSA), those seven factors no longer control in Illinois.

f. RESTATEMENT (THIRD) OF UNFAIR COMPETITION

The RESTATEMENT (THIRD) OF UNFAIR COMPETITION takes the position that “[t]he general rules governing trade secrets are applicable to the protection of information concerning the identity and requirements of customers.” The Restatement, in fact, takes the position that “[c]ustomer identities and related information can be a company’s most valuable asset and may represent a considerable investment of resources.”

At this point it should be explained that the RESTATEMENT (THIRD) OF UNFAIR COMPETITION specifically comments on customer lists in the context of § 42 dealing with “Breach of Confidence by Employees.” That section provides: “An employee or former employee who discloses or uses a trade secret owned by the employer or former employer in breach of a duty of confidence is subject to liability for


123 Curtis 1000, Inc. v. Suess, 24 F.3d 941 (7th Cir. 1994)(J. Posner)(however, “near permanent” customer information was not a protectable interest, if that information had not been otherwise maintained as a trade secret, for employers that are sellers of ordinary goods. The interest of protecting “near permanent” customer relations, according to Judge Posner, is present in the case of service providers such as accounting and consulting firms because it is difficult for customers to assess the quality of the service).

124 Stampede Tool Warehouse, Inc. v. May, 651 N.E.2d 209, 35 U.S.P.Q.2d 1134 (Ill. App. [1st Dist.] 1995)(appeal denied)(6 common law factors are used to decide whether information is a trade secret, namely “(1) the extent to which the information is known outside the employer’s business, (2) the extent to which it is known by employees and others involved in the business, (3) the extent of measures taken by the employer to guard the secrecy of the information, (4) the value of the information to the employer and his or her competitors, (5) the amount of effort or money expended in developing the information, and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”).

125 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. f (1995). The Reporters’ Note to comment f notes that a number of cases have recognized customer lists as “potential subject matter of trade secret law.” Although that is correct, the cases also indicate that courts have many times struggled with the issue.

appropriation of the trade secret under the rule stated in § 40.”

The “Memory Rule”
The Restatement (Second) of Agency § 396, however, also deals with an former employee’s use of confidential information after termination of employment, and provides, in part:

Unless otherwise agreed, after the termination of the agency, the agent:

* * * * *

(b) *** The agent is entitled to use general information concerning the method of business of the principal and the names of the customers retained in his memory, if not acquired in violation of his duty as agent; [Emphasis added.]

Comment b explains that although an agent cannot use copies of written memoranda concerning customers, an agent is normally privileged to use, in competition with the principal, customer names retained in his memory. At least one court has characterized that rule as necessary to preclude forcing departing employees to perform prefrontal lobotomies on themselves.131 In more serious terms, the rule is an example of the courts' attempts at striking a proper balance between trade secret law and the principles of vigorous business competition.132

In actuality, though, the “memory rule” makes little practical sense, and even less legal sense, except in the narrow class of cases exemplified by the Iowa Supreme Court’s opinion


128 MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993) Ninth Circuit held that a computer manufacturer's customer list had potential economic value, and therefore was protectable under the California UTSA, because it allowed competitors like Peak to direct their sales efforts at specific potential customers. MAI's service manager did not physically take the database, but rather announced his new affiliation with Peak to MAI's customers, and then personally visited several of them in an attempt to solicit their business. The Ninth Circuit held that merely announcing a new affiliation, even to existing MAI clients, was not misappropriation. However, according to the court, going the extra step and personally calling on customers and soliciting their business constituted misappropriation. See also ABBA Rubber Co. v. Seaquist, 235 Cal. App. 3d 1, 286 Cal. Rptr. 518 (Cal. App.[4th Dist.] 1991).


130 Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 66 Cal. Rptr. 2d 731, 737-38, 45 U.S.P.Q.2d 1741 (Cal. Ct. App. 1997) (“‘Solicit’ *** means: ‘To appeal to (for something); to apply to for obtaining something; to ask earnestly; to ask for the purpose of receiving.’ *** By contrast, '[m]erely informing customers of one’s former employer of a change in employment, without more, is not solicitation.’”).


132 Georgia in Amerigas Propane, L.P. v. T-Bo Propane, Inc., 972 F. Supp. 685 (S.D. Ga. 1997) has drawn a similar line, but has done so by limiting its trade secret act to tangible information. In 1993, the Georgia Supreme Court held that the Georgia Trade Secrets Act did not extend to information in intangible form. In 1996, the Georgia legislature amended the Act’s definition of a trade secret by, inter alia, adding the phrase “without regard to form.” The court held in Amerigas Propane, L.P. that despite the 1996 amendment, the GTSA continues to apply only to tangible forms of customer information.
in *Lemmon v. Hendrickson*, in which a former employee subsequently contacted only a few (only those he could recall) of several hundred former customers. If the subject matter truly is a trade secret, deciding whether there has been misappropriation should not be based on anatomical distinctions. It should make no difference whether the ex-employee uses his or her head or hands to effect the appropriation. The *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* attempts to reconcile the “memory rule” with traditional trade secret analysis: “[t]he fact that an employee has appropriated a written list or made a special attempt to memorize customer information prior to terminating the employment may justify an inference that the information is valuable and not readily accessible by proper means.”

Hopefully, the Restatement (Third) of Agency will correct its view. In the meantime, some courts have ignored it and others have expressly rejected it. In *Ed Nowogroski Insurance, Inc. v. Rucker*, in a case of first impression in Washington, for example, the court expressly rejected the “memory rule” because

"it does not comport with prior Washington law or meet the goal of promoting standards of commercial ethics and fair dealing by protecting trade secrets.” In *Stampede Tool Warehouse, Inc. v. May*, the court noted that “[i]n fact defendants admitted that they redeveloped their customer lists by remembering the names and locations of at least some of their Stampede customers. Using memorization to rebuild a trade secret does not transform that trade secret from confidential information into non-confidential information. The memorization is one method of misappropriation.” In *Dannenbaum, Inc. v. Brummerhop*, the Houston Court of Appeals observed that Texas courts had not applied the “memory rule.” Instead, the Texas courts had properly focused on the difficulty in obtaining customer lists, and on the method used to obtain the information. In *North Atlantic Instruments, Inc. v. Haber*, the court acknowledged that prior New York law had accepted the “memory rule” as a factor that should

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133 559 N.W.2d 278 (Iowa 1997) (whether customer list is a trade secret or not "need not be decided," because the credible testimony of the ex-employee indicated he recalled only 7 customers out of a list of 300-400 names, and those were the only customers he contacted).

134 See, e.g., *Schoolen v. Signatrol, Inc.*, 212 N.E.2d 865 (Ill. 1965) (“it should, moreover, make no difference whether the information contained in the blueprints * * * has been pilfered by tracing the blueprints themselves * * * or has been memorized by someone with a photographic memory, or has been committed to memory by constant exposure to the prints while in the employ of plaintiffs.”) See also *Custom Mfg., Inc. v. Raymer*, 1995 U.S. Dist. LEXIS 9059 (N.D. Ill. 1995) (“it is irrelevant as a matter of law whether Kuborn took copies of the drawings or memorized them in detail, because he may not take with him particularized confidential drawings developed by CMI and disclosed to him while working there.”)

135 *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 42 cmt. f (1995).


140 The court approved an instruction that read:

You are instructed that confidential information means any process, information or compilation of information, formula, pattern, or device which is used in one’s business and which gives an opportunity to obtain an advantage over competitors who do not know of or use it. In order to be confidential there must be a substantial element of secrecy; however, secrecy need not be absolute. Matters of public knowledge or of general knowledge in an industry cannot be appropriated as confidential. The personal efficiency, inventiveness, skills and experience which an employee develops through his work belong to him and not his employer.

141 188 F.3d 38 (2d Cir. 1999).

be considered, but also noted that was not “a broad rule dictating that anything an employee remembers casually is not a trade secret.” The court also noted that “if a defendant’s solicitation followed ‘a physical taking or studied copying, the court may in a proper case enjoin solicitation, not necessarily as a violation of a trade secret, but as an egregious breach of trust and confidence while in plaintiffs’ service.’”

II. MISAPPROPRIATION ANALYSIS
A. The RESTATEMENT (FIRST) Analysis
1. General Principles of Liability

Section 757, RESTATEMENT (FIRST) OF TORTS, establishes the general rule that:

One who discloses or uses another’s trade secret, without privilege to do so, is liable to the other if

(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person’s disclosure of it was otherwise a breach of his duty to the other, or

(d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

One of the Texas Courts of Appeals has emphasized and expressly held that § 757 of the RESTATEMENT (FIRST) OF TORTS does not provide a basis for a cause of action for misappropriation of confidential information that is not secret. Other jurisdictions, however, such as Massachusetts, have adopted § 759 of the RESTATEMENT (FIRST) OF TORTS which “applies to information about one’s business whether or not it constitutes a trade secret,” but is “applicable only when the information is procured by improper means.”

2. “Improper Means” Under the RESTATEMENT (FIRST) OF TORTS § 757

Trade secret law has historically protected against disclosure or use by “improper means.” But that does not preclude discovery or use by “proper means.” The Supreme Court in Kewanee Oil Co. v. Bicron Corp., for example, expressly noted that “[t]he protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of non-disclosure or non-use. * * * A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.” [Footnotes omitted.]

What is and is not “improper,” of course, varies with the circumstances of the case and depends, to some degree, on the precautions taken by the owner of the trade secret. Further, “improper means” can include otherwise lawful

146 RESTATEMENT (FIRST) OF TORTS § 759 cmt. b (1939). See USM Corp. v. Maron Fastener Corp., 379 Mass. 90, 393 N.E.2d 895, 903 (1979). See also Jet Spray Cooler, Inc. v. Crampton, 361 Mass. 835, 282 N.E.2d 921, 924 (1972)("the duty to use confidential information is not limited to technical trade secrets."). But see Warner-Lambert Co. v. Execuquest Corp., 427 Mass. 46, 691 N.E.2d 545, 547 n. 5 (1998)(citing to the six factors used in assessing whether a trade secret exists in considering whether information was confidential.).
Improper acquisition has also been found where potential buyers of a business learned a manufacturing process under misrepresentations about their ability to finance purchase of the business. Improper acquisition has also been found where potential buyers of a business learned a manufacturing process under misrepresentations about their ability to finance purchase of the business.  

3. Disclosure or Use

The basis for liability under § 757 is the disclosure or use of the trade secret. Unfortunately, comment (c) to § 757, which was intended to explain disclosure and use, offers little guidance in deciding whether particular actions constitute such disclosure or use as to trigger liability:

One who has a trade secret may be harmed merely by the disclosure of his secret to others as well as by the use of his secret in competition with him. A mere disclosure enhances the possibilities of adverse use. The persons to whom the disclosure is made may or may not be liable under Clause (c) for the subsequent use (see also § 758). Since a trade secret is vendible and since its sale value depends in part upon its secrecy, a mere disclosure may reduce the vendibility or sale value of the secret. The rule stated in this Section protects the interest in a trade secret against both disclosure and adverse use.

Comment c, RESTATEMENT (FIRST) OF TORTS § 757 (1939). In some cases, that burden has been held to require direct proof of actual use. In other cases, however, the courts have permitted the trade secret owner to rely on an inference of use. In all events, however, specific evidence that an alleged trade secret was not used negates a claim of trade secret misappropriation.  

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148 E.I. du Pont de Nemours & Co., Inc. v. Christopher, 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971)(flying an airplane over and taking pictures of a partially completed plant held to be “improper” acquisition even though airplane was in legal airspace). Flying an airplane over a plant, that is improper under the circumstances).


150 See e.g., Controls Int’l, Inc. v. Kinstron, Ltd., 1998 U.S. Dist. LEXIS 4794 (N.D. Tex. 1998)(preliminary injunction granted restraining use of plaintiff’s trademark, but denied on related trade secret misappropriation claim because there was no evidence that defendants were using the trade secret information); Zellweger Analytics, Inc. v. Milgram, 1997 WL 667778 (N.D. Ill. 1997)(no evidence of actual use); Omnitech Int’l, Inc. v. Clorox Co., 11 F.3d 1316 (5th Cir. 1994), cert. denied, 115 S. Ct. 71 (1994)(“to sustain a trade secret action under the ‘use’ prong of the statutory definition of ‘misappropriation,’ a plaintiff must necessarily demonstrate that the defendant received some sort of unfair trade advantage.” Here, Omnitech had failed to show that Clorox had actually “used” any trade secrets that were disclosed by Omnitech during an aborted corporate acquisition); Sip-Top, Inc. v. Eko Group, Inc., 86 F.3d 1316 (5th Cir. 1994)(follows Omnitech, and held that the confidentiality agreement did not prohibit the parties from negotiating, or entering into agreements, with other companies, and thus, no inference could arise that Eko used or divulged confidential information); Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp., 139 F.3d 1396 (11th Cir. 1998).


153 See e.g., ADICO Indus. v. Metro Label Corp., 2000 WL 1196337 (Tex. App.–Dallas 2000)(unpublished, non-
Additionally, the alleged misappropriation must occur during the time of the confidential relationship. 154

B. The UTSA Analysis

The UTSA is expressly premised on deterring “breach of faith and reprehensible means of learning another’s secret.”155 Accordingly, the UTSA bases misappropriation on the use of “improper means.” Nevertheless, that analysis only begins after it has been decided that a protectable trade secret exists. Also, the courts have recognized that one hold a trade secret has standing to pursue misappropriation, i.e., an action for misappropriation is not limited to the first or ultimate “owner” of the trade secret. 156

1. Acquisition By Improper Means

The UTSA defines misappropriation under two broad categories: (1) acquisition; and (2) disclosure and use.157 With respect to acquisition, the UTSA defines misappropriation as “(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.”158 Thus, acquisition through improper means is a pleading requirement.159

“Improper means” is defined in the UTSA as including “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”160 That list is not intended to be exhaustive. “Improper means” also includes instances in which the information was originally acquired properly, e.g., under a confidentiality agreement, but then later used in violation of the agreement.161 As should be readily apparent, liability also extends to third parties who “knew or had reason to know” that the information was derived or acquired improperly. A pure heart, empty head defense is not available. 162


155 Commissioners’ prefatory note, UTSA.

156 See, DTM Research, L.L.C. v. AT&T Corp., 245 F.3d 327 (4th Cir. 2001)(misappropriation does not require proof that the plaintiff is a “fee simple” owner of a trade secret. According to the court, “one who possesses non-disclosed knowledge may demand remedies as provided by the [Maryland Uniform Trade Secrets] Act against those who ‘misappropriate’ the knowledge.”). But see RMS Software Dist., Inc. v. LCS, Inc., 1998 Tex. App. LEXIS 1053 (Tex. App.–Houston [1st Dist.], 1998, no writ)(unpublished)(in an unpublished opinion applying Colorado law, affirmed summary judgment dismissing a trade secret misappropriation suit holding that a nonexclusive licensee was not the “owner” of the trade secret and therefore did not have standing to bring the suit.).

157 See e.g., Computer Mgmt. Assistance Co. v. Robert F. deCastro, Inc., 220 F.3d 396 (5th Cir. 2000)(without proof of improper acquisition or use there can be no misappropriation of trade secrets).

158 UTSA § 1.


160 UTSA § 1(1).

161 See e.g., Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp., 139 F.3d 1396 (11th Cir. 1998). See also Raton Barrier, Inc. v. Stanley Works, 79 F.3d 1112 (Fed. Cir. 1996)(applying Illinois Trade Secrets Act, 765 ILCS § 1065)(information obtained under confidentiality agreements during acquisition negotiations and then later misused); Bell Helicopter Textron, Inc. v. Tridair Helicopters, Inc., 982 F. Supp. 318 (D. Del. 1997)(complaint alleging that Bell was provided access to and learned of Tridair’s trade secrets in confidence, and thereafter breached its duty to limit its use of those trade secrets was sufficient to allege misappropriation of trade secrets under the Delaware Uniform Trade Secrets Act).

162 See e.g., EF CO Corp. v. Symons Corp., 219 F.3d 734, 741 (8th Cir. 2000)(hiring a former employee and circumventing severance agreement by having a third party pay the employee is “improper means.”).
2. Disclosure Or Use

The UTSA expressly provides liability for “disclosure or use of a trade secret” without the consent of the trade secret owner who (1) used “improper means” to acquire the trade secret:

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

or (2) had reason to know that his knowledge was derived improperly:

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

or (3) became aware that knowledge had been acquired through accident or mistake before a material change of position:

(C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

As noted above, some courts, including Texas courts, have held that under the RESTATEMENT (FIRST) OF TORTS disclosure or use was necessary to incur liability. Although it is, of course, arguable that those decisions were incorrect, the UTSA expressly now provides liability for improper acquisition of a trade secret regardless of whether it is thereafter used or disclosed:

C. The RESTATEMENT (THIRD) OF UNFAIR COMPETITION Analysis

1. Acquisition By “Improper Means”

The Restatement (Third) similarly imposes liability for acquisition of a trade secret by “improper means:”

One is subject to liability for misappropriation of another’s trade secret if:

(a) the actor acquires information that it knows or should know is the other’s trade secret by means that are improper under the rule stated in § 43; or


165 The RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1995), is in accord.

166 Improper acquisition is defined in § 43 of the RESTATEMENT (THIRD) OF UNFAIR COMPETITION as:

“Improper” means of acquiring another’s trade secret under the rules stated in § 40 include theft, fraud, unlawful interception of communications, inducing or knowingly participating in a breach of confidence, and other means either wrongful in themselves or wrongful under the circumstances of the case. Independent discovery and analysis of publicly available products or information are not improper means of acquisition.
2. **Use or Disclosure**

Secondly, the Restatement (Third) imposes liability for use or disclosure without the trade secret owner’s consent:

One is subject to liability for misappropriation of another’s trade secret if:

* * * *

(b) the actor uses or discloses the other’s trade secret without the other’s consent, and, at the time of the use or disclosure, subject to the following knowledge requirements, namely that the actor knew that the information was a trade secret and (1) was acquired under circumstances creating a duty of confidentiality:

(1) the actor knows or should know that the information is a trade secret that the actor acquired under circumstances creating a duty of confidence owed by the actor to the other under the rules stated in §§ 41-42; or

or (2) was acquired by improper means:

(2) the actor knows or should know that the information is a trade secret that the actor acquired by means that are improper under the rule started in § 43; or

or (3) was acquired through a person who acquired it through improper means or in violation of a duty of confidence:

(3) the actor knows or should know that the information is a trade secret that the actor acquired from or through a person who acquired it by means that are improper under the rule stated in § 43 or whose disclosure of the trade secret to the actor constituted a breach of a duty of confidence owed by that person to the other under the rules stated in §§ 41 and 42; or

or (4) was acquired through accident or mistake, unless that was caused by a failure to properly maintain the trade secret:

(4) the actor knows or should know that the information is a trade secret that the actor acquired through an accident or mistake unless the acquisition was the result of the other’s failure to take reasonable precautions to maintain the secrecy of the information.

Note the somewhat subtle difference from the UTSA. Under the Restatement (Third) of Unfair Competition, the “knows or should know” requirement extends not only to the improper acquisition or derivation, but also to the fact that the information is a trade secret. Thus, a cause of action for improper acquisition by a third party, apparently, must include allegations that the third party had knowledge that the information was a trade secret.

3. **Duty of Confidentiality**

The Restatement (Third) of Unfair Competition provides that a person owes a duty of confidentiality to the owner of a trade secret (1) when there has been an express promise of confidentiality prior to disclosure, or (2) because of surrounding circumstances, the recipient knew or had reason to know that the disclosure was being made in confidence. The confidentiality obligations of employees are treated separately.

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168 Id.
169 Id.
170 Id.
171 Id.
Thus, the Restatement (Third) of Unfair Competition closely parallels, but does not literally follow, the substantive rules of the UTSA.

D. Breach of “Anti-Assignment” Provisions
Non-disclosure and confidentiality agreements frequently contain non-assignment provisions. Are those provisions breached if the promisee is acquired by merger? The general weight of authority (albeit in cases not involving confidential/trade secret information) and at least one of the Texas Courts of Appeal says no.174

E. Insurance Policy Coverage
Policies typically define “advertising injury,” inter alia, as “[m]isappropriation of advertising ideas or style of doing business,” or “[i]nfringement of copyright, title or slogan.” In general, the courts have held that insurance policy coverage for “advertising injury” does not apply to claims for trade secret misappropriation.175

F. Reverse Engineering
1. Lawful Acquisition of a Trade Secret
Reverse engineering is, of course, a lawful means for acquiring a trade secret. Accordingly, a trade secret may be lost by selling or displaying a product, outside of an obligation of confidentiality, where the “secret” of the product can be discovered upon inspection or by reverse engineering.176 The public’s right to reverse engineer is an important element in the delicate balance between federal patent law and state trade secret law.177

However, the mere possibility of reverse engineering is not a defense to a trade secret

172 Restatement (Third) of Unfair Competition § 41 (1995), provides:

A duty of confidence owed to the trade secret owner for purposes of the rules stated in § 40 is created by:

(a) an express promise of confidentiality made to the trade secret owner by the recipient prior to the disclosure of the trade secret; or

(b) a disclosure of the trade secret under circumstances in which the relationship between the parties or other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure, the recipient knew or had reason to know that the disclosure was intended to be in confidence and that the trade secret owner was reasonable in inferring that the recipient consented to an obligation of confidentiality.

173 Restatement (Third) of Unfair Competition § 42 (1995), provides:

An employee or former employee who discloses or uses a trade secret owned by the employer or former employer in breach of a duty of confidence is subject to liability for appropriation of the trade secret under the rule stated in § 40.

misappropriation cause of action. Also, allegations of reverse engineering by former employees are many times suspect. Among other things, former employees may be aware of process steps or “failed experiments” that allow them to produce a competitive product in a fraction of the time that would otherwise be required by normal reverse engineering.179

2. Reverse Engineering—Acquiring Product Properly v. Improperly

It is not a misappropriation to discover a trade secret “properly” by reverse engineering where the product was acquired properly.180 The RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 (1995) expressly provides, in part: “Independent discovery and analysis of publicly available products or publications are not improper means of acquisition.”

It is not “proper” reverse engineering, however, when the device (or software) that is subsequently reverse engineered is obtained improperly.”181 Misleading an employee of a customer to gain access to a competitor’s operating system software in order to develop firmware compatible with that operating system software, for example, has been held to constitute “improper means.”182 Also, enticing one to breach an obligation of confidentiality in order to gain access to and disassemble product is improper acquisition.183

Courts are frequently more apt to find misappropriation in those cases in which the defendants have misappropriated drawings or similar materials, and then have later argued that the drawings or materials cannot constitute trade secrets because the machines or devices depicted in the drawing were capable of being reverse engineered. There is also a valid technical reason for that distinction. Drawings, particularly production drawings, frequently give tolerances that are generally regarded as the epitome of a trade secret because such tolerances cannot be...

178 See e.g., ILG Indus., Inc. v. Scott, 273 N.E.2d 393 (Ill. 1971); Essex Group, Inc. v. Southwire Co., 501 S.E.2d 501 (Ga. 1998)(quoting and adopting the RESTATMENT (THIRD) OF UNFAIR COMPETITION § 39, “The theoretical ability of others to ascertain the information through proper means does not necessarily preclude protection as a trade secret. Trade secret protection remains available unless the information is readily ascertainable by such means. Thus, if acquisition of the information through an examination of a competitor's product would be difficult, costly, or time-consuming, the trade secret owner retains protection against an improper acquisition, disclosure, or use *** However, any person who actually acquires the information through an examination of a publicly available product has obtained the information by proper means and is thus not subject to liability, *** Similarly, the theoretical possibility of reconstructing the secret from published materials unlike to come to the attention of the appropriator will not preclude relief against the wrongful conduct * * *.”).


180 Cataphote Corp. v. Hudson, 422 F.2d 1290, 1293 (5th Cir. 1970); Water Servs., Inc. v. Tesco Chems., Inc., 410 F.2d 163, 172 (5th Cir. 1969).

181 See, e.g., E.I. du Pont de Nemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971). There is an element of commercial morality involved in deciding whether access to the “secret” was “proper” even though the reverse engineering was otherwise legal. If the access was illegal, e.g., through trespass, theft or similar wrongful conduct, then the resulting reverse engineering is likewise illegal. See also Otis Elevator Co. v. Intelligent Sys., Inc., 17 U.S.P.Q.2d 1773 (Conn. Super. Ct. 1990)(obtaining access to competitor’s elevator repair terminals by picking lock on storage box at construction site at night and then reading out software held to be improper acquisition); Reingold v. Swiftships, Inc., 126 F.3d 645, 44 U.S.P.Q.2d 1481 (5th Cir. 1997)(“improper means” was construction of an unauthorized boat hull in violation a lease).

182 Alcatel USA Inc. v. DGI Techs., Inc., 166 F.3d 772, 49 U.S.P.Q.2d 1641 (5th Cir. 1999). See also DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354 (Fed. Cir. 1999)(triable issue of fact Pulsecom’s use of a “snooper board” at BellSouth and NYNEX installations was an “improper means” to determine how DSC’s operating system detected whether a particular card was a DSC card or not).

183 Imax Corp. v. Cinema Techs., Inc., 152 F.3d 1161 (9th Cir. 1998).
obtained from the finished product even with the most accurate of measurements.\textsuperscript{184}

But, tolerances are most important when a defendant is trying to compete in a market where the defendant’s products will need to actually fit together with the plaintiff’s product. In order to determine tolerances accurately from measurements of a finished product, it would be necessary to measure a statistically significant sample of finished products and then determine the range for a particular dimension. That would require a substantial investment of time and expense, and thus such tolerances would not be “readily ascertainable.” On the other hand, if the product does not need to physically fit with the plaintiff’s (or another’s) product and if the tolerances are not all that critical or are within normal tolerances for machining, then the sale of the product may result in a loss of any trade secret claim in such tolerances.\textsuperscript{185}

III. IDENTIFYING TRADE SECRETS DURING LITIGATION

A. Identification of Trade Secrets by the Plaintiff

In general, a defendant is entitled to know what he/she is alleged to have misappropriated.\textsuperscript{186} One of the principal defenses available in trade secret litigation is simply that the asserted subject matter is not, in fact, a trade secret.\textsuperscript{187} Thus, many courts have held that the plaintiff has an obligation to describe the asserted trade secret with sufficient particularity that the defendant knows where the boundaries of the trade secret lie.\textsuperscript{188} California, for example, by statute requires such a disclosure.\textsuperscript{189} That rationale has been followed in other jurisdictions.\textsuperscript{190} Nevertheless, the necessity

\textsuperscript{184} \textit{Imax Corp. v. Cinema Techs., Inc.}, 152 F.3d 1161 (9th Cir. 1998)(trade secret protection claimed in numerical dimensions and tolerances, but summary judgment on trade secret claim properly granted where the plaintiff failed to properly identify those trade secrets during discovery); \textit{Smith v. BLC Corp.}, 869 F.2d 194 (3d Cir. 1989)(district court erred in denying protective order because of affidavit evidence that tolerances on design drawings could not be derived by reverse engineering); \textit{Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.}, 925 F.2d 174, 17 U.S.P.Q.2d 1780 (7th Cir. 1991)(there is a difference between detailed technical drawings with tolerance information used to manufacture parts and less detailed drawings used to assemble a product); \textit{M.I. Handling Sys., Inc. v. Heinsey}, 753 F.2d 1244 (3d Cir. 1985); \textit{Am. Precision Vibrator Co. v. Nat’l Air Vibrator Co.}, 764 S.W.2d 274 (Tex. App.-Houston [1st Dist.] 1988); \textit{Boeing Co. v. Sierrain Corp.}, 738 P.2d 665 (Wash. 1987)(trial court actually excluded evidence of reverse engineering and decision upheld on appeal); \textit{Baker’s Aid v. Hussmann Foodservice Co.}, 830 F.2d 13 (2d Cir. 1987).


\textsuperscript{186} See, e.g., \textit{Litton Sys, Inc. v. Sunstrand Corp.}, 750 F.2d 952 (Fed. Cir. 1984); \textit{Young Dental Mfg. Co. v. Q3 Special Prods., Inc.}, 1995 U.S. Dist. LEXIS 10076 (E.D. Mo. 1995)(“The complaint fails to identify with any particularity the nature of the trade secrets and confidential information allegedly taken and used by the defendants” and in the depositions Young Dental’s president “could not identify a single trade secret or piece of confidential information that he was aware of that defendant Carron had taken or used.”). See also \textit{Stewart & Stevenson Servs., Inc. v. Serv-Tech, Inc.}, 879 S.W.2d 89 (Tex. App.–Houston [14th Dist.] 1994, writ filed)(plaintiff gave a detailed list of 64 items of information allegedly constituting misappropriated trade secrets). \textit{But see Static Controls Components, Inc. v. Darkprint Imaging, Inc.}, 135 F. Supp.2d 722 (M.D.N.C. 2001)(pleading trade secrets generally is sufficient to satisfy Rule 8, Fed. R. Civ. P.).


\textsuperscript{188} \textit{Diodes, Inc. v. Franzon}, 67 Cal. Rptr. 19, 23 (Cal. Ct. App. 1968)(“[T]he complaint [must] describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.”). See also \textit{MAI Sys. Corp. v. Peak Computer, Inc.}, 99 F.2d 511 (9th Cir. 1993).

\textsuperscript{189} \textit{ECT Intl ‘, Inc. v. Zawelin}, 597 N.W.2d 479 (Wis. Ct. App. 1999)(adopting \textit{Diodes} standard, “[w]e hold that a party asserting a protectable trade secret must describe
of safeguarding confidential business information has been specifically recognized by the courts, including the Texas courts, in the context of permitting injunctions to issue that did not specifically list or identify the trade secrets involved.

B. Trade Secret Privilege

Many states have specific statutes or rules governing the disclosure of trade secrets in litigation. Rule 507, TEX. R. EVID., for example, provides a general privilege for trade secret information. When such a privilege is asserted, under In re Continental General Tire, Inc., 979 S.W.2d 609, 611-13 (Tex. 1998), a “trial court is to apply a balancing test that employs shifting burdens.” Specifically, the “party resisting discovery must first establish that the information is a trade secret. The burden then shifts to the requesting party to show that the information is ‘necessary for a fair adjudication of its claims.’ ”

C. Documents Filed Unsealed in Court

Because unsealed court records are public, does that mean that trade secret protection is lost if the trade secret is revealed, perhaps inadvertently, in a publicly filed document? Sometimes, but not necessarily. Depending on whether the forum has adopted a version of the UTSA, the RESTATEMENT (FIRST) OF TORTS, or the RESTATEMENT (THIRD) OF UNFAIR COMPETITION, the question is whether the trade secret, as a result of that filing, is now generally known or readily ascertainable, or no longer “relatively” secret, or now not “sufficiently secret” to qualify as a trade secret. Also, the courts and specifically the Fifth Circuit have recognized that limited disclosures, even without express or implied obligations of confidentiality, may not destroy trade secret protection, if the owner otherwise takes adequate security precautions, the disclosure is limited, and the information does not, as a result, become generally known.

At one extreme of the analysis is information that has been widely disseminated, for example by being placed on-line either through a

195 Id., quoting Cont'l Gen., 979 S.W.2d at 613-14.
196 See Taco Cabánña Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113 (5th Cir. 1991), aff'd on different grounds, 505 U.S. 763 (1992)(filing architectural drawings with municipal clerk's office was a "limited disclosure" and court instructed the jury that "[f]iling of architectural plans with a city does not make them public information within the context of secrecy, that relates to the law of trade secrets.").
197 Uniform Trade Secrets Act § 1(4).
198 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939). The RESTATEMENT (FIRST) OF TORTS adopted the “relative” rather than “absolute” standard of secrecy:
199 The RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995).
200 Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir. 1986).
BBS or the Internet. It has been held that making materials available on-line renders such works “generally known” and effectively injects such materials into the public domain.\textsuperscript{201} Court records are generally not “on-line,” although many court dockets are now available for searching online and the underlying briefs, affidavits, exhibits and so forth are readily available through the clerk’s office for review and copying.

Even before such modern day on-line availability, though, several courts concluded that filing unsealed documents that disclose a trade secret in court records results in a loss of trade secret protection.\textsuperscript{202} Other courts, however, have taken a more conservative view, reasoning that such a filing is one fact, but only one fact, that the court must consider.\textsuperscript{203}

D. Confidentiality Orders

It would, of course, be a hollow victory in trade secret litigation if one were required to disclose the asserted trade secrets during litigation to protect those secrets.\textsuperscript{204} On the other hand, as noted above, a defendant is entitled to know what he/she is alleged to have misappropriated.\textsuperscript{205} In order to balance the interests of the litigants, confidentiality orders are used so frequently to permit mutual disclosure of confidential information that they are considered \textit{de rigueur} in trade secret litigation.\textsuperscript{206} There is, however, also a public component to civil litigation,\textsuperscript{207} and

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  \item\textsuperscript{205} On a related note, the Federal Circuit has held that, under Rule 26, FED. R. CIV. P., a disclosure of information and documents to a testifying expert is discoverable by the opposing party, whether or not the expert relies on such documents and information in preparing her report. \textit{In re Pioneer Hi-Bred Int'l, Inc.}, 238 F.3d 1379, 1375 (Fed. Cir. 2001).
  \item\textsuperscript{206} It should be noted that § 5 the UTSA specifically provides:

  In an action under this [Act], a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.
  \item\textsuperscript{207} See, e.g., \textit{In re Adobe Sys. In re. Litig.}, 141 F.R.D. 155 (N. D. Cal. 1992)(discussing right of access to materials produced during discovery). The common law right of access to judicial documents has been said to predate the Constitution. \textit{Lucadia, Inc. v. Applied Extrusion Tech., Inc.}, 998 F.2d 157 (3d Cir. 1993). \textit{See also} Nixon v. Warner Communications, Inc., 435 U.S. 589 (1978)(“It is clear that the courts of this country recognize a general right to inspect and copy public records and documents, including judicial records and documents. In contrast to the English practice, *** American decisions generally do not condition
confidentiality or sealing orders have sometimes been used improperly to exclude public review.\textsuperscript{208} In \textit{Union Oil Co. of California v. Leavell},\textsuperscript{209} for example, Judge Easterbrook noted that almost every document filed in the district court and on appeal bore the legend “FILED UNDER SEAL.” Although the parties had obtained a sealing order in the district court, the parties apparently had not obtained such an order from the Seventh Circuit. Accordingly, the court issued a show cause order why the documents should not be placed in the public record. In response, Unocal asked the court to not only seal the briefs and record, but to hold oral argument in a courtroom closed to the public and to use only pseudonyms in any opinion. The court declined to do so, ordered that all appellate records be unsealed, and ordered the district court to do the same. Pointing out that litigation concerning trade secrets, national security, and even hydrogen bomb plans were conducted in open courts, the court comments that “[p]eople who want secrecy should opt for arbitration. When they call on the courts, they must accept the openness that goes with subsidized dispute resolution by public (and publicly accountable) officials.”\textsuperscript{210}

Nevertheless, as recognized by the First Circuit in \textit{Anderson v. Cryovac, Inc.},\textsuperscript{211} and the

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  \item Inadmissibility at trial is not a valid ground for objection if the information sought is reasonably calculated to lead to the discovery of admissible evidence.\textsuperscript{214} In its oft-cited opinion on discovery, \textit{Hickman v. Taylor},\textsuperscript{215} the United States Supreme Court emphasized that full disclosure was at the heart of the then relatively new federal discovery rules, and that the intent of broad disclosure was to enable the parties “to obtain the fullest possible knowledge of the issues and facts before trial.”\textsuperscript{216} The Court directed that those “discovery provisions are to be applied as

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  \item \textit{Olds v. Granville, Inc.}, 78 F.3d 137 (3d Cir. 2001).
  \item \textit{Brookeville Bank v. First Commonwealth Bank}, 876 F.2d 1259 (3d Cir. 1989).
  \item \textit{Lerond v. Public Utilities Comm'n of Idaho}, 867 F.2d 807 (9th Cir. 1989).
  \item \textit{Roundtree v. Dep't of Justice}, 77 F.3d 178 (1st Cir. 1996).
  \item \textit{Rosenberg v. United States}, 47 F.3d 284 (7th Cir. 1995).
  \item \textit{Christensen v. Harris County}, 529 U.S. 576 (2000).
\end{itemize}

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broadly and liberally as possible." In fact, Professor Wright has commented that "discovery should be relevant where there is any possibility that the information sought may be relevant to the subject matter of the litigation." 218

There is no general privilege from disclosure of relevant business records, regardless of whether such records contain or reveal trade secrets. 220 It is thus inevitable that such a sweeping scope of permissible discovery will frequently invade privacy interests, including reasonable expectations of privacy in trade secret and other confidential business information. Some intrusion is justified by the offsetting policy of permitting full and complete preparation for trial. But privacy interests and the interests of a full and fair trial must be carefully weighed to obtain a proper balance between those competing interests. The ability for litigants to obtain orders protecting confidential information is essential to maintain that balance. 221

Even though protective orders may be common and serve a very real purpose, parties will not necessarily always agree to entry of such an order, particularly where counsel wants to share information with other litigants. Also, courts have denied entry of even agreed protective orders where the parties did not establish sufficient cause for such an order. 222 Counsel should thus be prepared to justify entry of even an agreed protective order. In federal court, counsel must comply with the "good cause" standard of Rule 26(a).

E. Protection for Trade Secrets in Federal Courts: The Good Cause Standard
Rule 26(c), Federal Rules of Civil Procedure, 223 provides generally for protective orders upon a showing of good cause. 224 Such protective orders can, of course, limit disclosure or discovery, provide for the filing of sealed documents, and the protection of confidential or trade secret information. Contrary to some characterizations and beliefs, however, entry of a protective order is neither automatic nor a mere formality. The parties must show "good cause" under Rule 26(c) to justify entry of a protective order. 225 Further, such protective orders must be definite in describing what is covered. 226

217 Id. at 506.


221 It is also necessary for courts to enforce such orders, which sometimes courts are unwilling to do when violation has been innocent. See Foresight Res. Corp. v. Pfortmiller, 1989 U.S. Dist. LEXIS 16004 (D. Kan. 1989)(refusing to issue sanctions).


224 But see In re Orion Pictures Corp., 21 F.3d 24 (2d Cir. 1994) (there is no requirement to show "good cause" in bankruptcy matters).

225 See Cipollone v. Liggett Group, Inc., 785 F.2d 1108 (3rd Cir. 1986), cert. denied, 479 U.S. 1043 (1987); In re
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But the courts have not been entirely consistent in their articulation of what constitutes “good cause.” According to one court “[i]t must be shown that disclosure will work a clearly defined and serious injury, [citations omitted], and that the party resisting disclosure ‘will indeed be harmed by disclosure.’”227 Another court has articulated the standard as whether disclosure would cause “significant harm” to the movant’s competitive and financial position.228 At a minimum, however, the burden is on the proponent of the protective order to demonstrate that (1) the material in question is within the scope of materials subject to Rule 26(c), and (2) disclosure would cause an identifiable, significant harm.229

A showing of good cause is generally not made simply because opposing counsel will likely share the fruits of discovery with other litigants.230 Also, conclusory statements are not sufficient to satisfy the standard.231 At least one court has held that where it is alleged that disclosure would create a competitive disadvantage, the specific instances must be set forth in more than briefs or counsel’s hearsay allegations in an affidavit.232 In some instances, of course, the harm is readily apparent.233 Nevertheless, counsel should be prepared to allege and offer proof of specific facts in support of the need for a protective order, even if the protective order is presented as an agreed order.234

In cases involving computer hardware and software, the “good cause” standard should be relatively easy to meet.235 Indeed, in actions asserting trade secret misappropriation or copyright infringement or both, disclosure of source code and related confidential information

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226 See Fonar Corp. v. Deccaid Servs., Inc., 983 F.2d 427 (2d Cir. 1993) (in reversing the district court’s grant of a temporary restraining order, contempt citation for violation of that TRO, and a preliminary injunction for being too broad, the Second Circuit, in a somewhat thinly veiled threat of mandamus, urged the district court to “give further consideration to the terms of that order in the light of defendants’ allegations of prior publications and in the interests of certainty.”


230 See e.g., Garcia v. Pappas, 734 S.W.2d 343 (Tex. 1987); Patterson v. Ford Motor Co., 85 F.R.D. 152, 153-154 (W.D. Tex. 1980); Parsons v. Gen. Motors Corp., 85 F.R.D. 724, 726 (N.D. Ga. 1980)(court denied GM’s motion for a protective order where there was no demonstration that the requested information was confidential or that disclosure would create a competitive disadvantage. The allegation that the plaintiff would share the information with other attorneys in pending or planned lawsuits against GM was insufficient to constitute a showing of good cause).

231 See e.g., Gen. Dynamics Corp. v. Selb Mfg. Co., 481 F.2d 1204, 1212 (8th Cir. 1973), cert. denied, 414 U.S. 1162, 94 S. Ct. 926 (8th Cir. 1974)(movant must make specific and particular demonstrations of facts, not stereotyped or conclusory statements); BCI Comm. Sys., Inc. v. Bell Atlanticom Sys., Inc., 112 F.R.D. 154, 160 (N.D. Ala. 1986) (protective order denied where facts alleged were no more than “ordinary garden variety or boilerplate ‘good cause’ facts”).


233 See Zenith Radio Corp., 529 F. Supp. at 891 (“frequently the injury that would flow from disclosure is patent, either from consideration of the documents alone or against the court’s understanding of the background facts”).

234 See Smith v. BIC Corp., 121 F.R.D. 235, 241 (E.D. Pa. 1988) (protective order denied where movant made no showing that the material at issue provided it with some type of competitive advantage).

235 But see Rare Coin-It, Inc. v. I.J.E., Inc., 625 So.2d 1277 (Fla. 1993)(a statutory privilege against disclosing trade secrets can preclude discovery of source code absent a showing that disclosure is “reasonably necessary”).
by both parties is more likely than not essential.236 The court must balance the risks of disclosure to a competitor against elements the parties must prove in asserting their claims and defenses. 237 That is particularly true when the disclosed materials and information will be made available to in-house counsel.238

Umbrella protective orders allow the producing party to designate materials it considers confidential. Such orders also allow a party to challenge a confidentiality designation and obtain a ruling from the court.239 If challenged, the party making the designation has the burden of showing that the material is entitled to the confidentiality designation.240

But, the Seventh Circuit, in an opinion by Chief Judge Posner, has expressly disapproved of such orders. Indeed, the Seventh Circuit indicated that there is a presumption of public access to materials produced during litigation, including discovery materials, and indicated that the district court’s obligation to determine whether “good cause” exists under FED. R. CIV. P. 26(c) to seal certain materials requires the district court to actually review those materials, or, in cases with thousands of documents, (1) to satisfy “himself that the parties know what a trade secret is and are acting in good faith in deciding which parts of the record are trade secrets and (2) makes explicit that either party and any interested member of the public can challenge the secreting of particular documents.”241

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236 See, e.g., Upjohn Co. v. Hygeia Biological Labs., 151 F.R.D. 355 (E.D. Cal. 1993)(owner of animal vaccine was entitled to discover trade information held by California Department of Food and Agriculture and U.S. Department of Agriculture because without disclosure it could not be determined whether owner’s vaccine and competitor’s vaccines were the same or different); Mohawk Mfg & Supply Co. v. Lakes Tool Div & Eng’g, Inc., 1993 U.S. Dist. LEXIS 3196 (N.D. Ill. 1993)(dealing with discovery). See also Brown Bag Software v. Symantec Corp., 960 F.2d 1465, 22 U.S.P.Q.2d 1429 (9th Cir. 1992), cert. denied, 113 S. Ct. 198 (1992); U.S. Steel Corp. v. United States, 730 F.2d 1465 (Fed. Cir. 1984)(cautioning against arbitrary distinctions based on type, in-house/outside, of counsel involved, and encouraging evaluation based on counsel’s relationship to the party demanding access).

237 See Brown Bag Software, 960 F.2d at 1470. See also Amgen, Inc. v. Elanex Pharmas., Inc., 160 F.R.D. 134 (W.D. Wash. 1994)(denying motion to enter protective order excluding in-house counsel from access to certain materials); Liberty Folder v. Curtiss Anthony Corp., 90 F.R.D. 80 (S.D. Ohio 1981)(in a suit between competitors in the paper folding machine industry, the court approved entry of a blanket protective order limiting access to confidential information to counsel and his associates and employees, limiting the number of copies of the information that could be circulated among counsel and limiting use of the information only for purposes of the present litigation); Vesta Corp. v. Carmen Founds. Inc., 50 U.S.P.Q.2d 1219 (S.D.N.Y. 1999)(protective order limiting disclosures to counsel for the parties and experts retained for litigation – excluding the presidents of both parties – approved where data included information relating to pricing, profits, costs, overhead, manufacturing specifications, customer lists, price structure, and dealings with a common customer).


F. Protection for Trade Secrets in Criminal Cases – EEA

Section 1835 of the Economic Espionage Act (EEA), 18 U.S.C. § 1835, provides generally that the court “shall” issue orders necessary to preserve the confidentiality of trade secrets:

In any prosecution or other proceeding under this chapter, the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws. An interlocutory appeal by the United States shall lie from a decision or order of a district court authorizing or directing the disclosure of any trade secret.

In United States v. Hsu,242 the Third Circuit held that there is no requirement that the government show “good cause” or otherwise bear a burden of proving the need for a protective order under § 1835)

G. Spoliation

Courts have held that there is an obligation, in certain instances, to preserve source code and other materials for litigation, and that destroying or disposing of the same can be sanctioned.243 Because such destruction can occur, intentionally or unintentionally, a party believing that evidence will be secreted or destroyed may seek an ex parte order seeking to preserve goods or evidence. Under Rule 65(b), FED. R CIV. P., a district court may issue an ex parte temporary restraining order, but a plaintiff/movant must show that the circumstances are appropriate for ex parte relief, and any resulting order must describe the proscribed conduct with some degree of precision.244

Normally, such circumstances exist where the adverse party is unknown or is unable to be found. Another limited circumstance is when notice to the defendant would result in destruction of evidence. The plaintiff/movant, though, generally must do more than simply allege that the defendant may destroy evidence; there must be a history of such destruction or similar evidence that a validly issued court order will be violated or ignored.245 Also, where there is no valid reason

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242 155 F.3d 189, 198 n. 12 (3d Cir. 1998).
243 Lauren Corp. v. Century Geophysical Corp., 953 P.2d 200 (Colo. Ct. App. 1998)(affirmed trial court’s sanction of a presumption that the defendant had used software on machines other than those described in a licensing agreement and award of the plaintiff’s attorney’s fees and costs when the defendant destroyed certain computer data); Rodriguez v. Schutt, 896 P.2d 881 (Colo. App. 1994), rev’d on other grounds, 914 P.2d 921 (Colo. 1996)(it is within the trial court’s discretion to impose sanctions for spoliation of evidence in the form of an adverse inference where there is a showing that the destruction was intentional); Computer Assocs. Int’l, Inc. v. Am. Fundware, Inc., 133 F.R.D. 166 (D. Colo. 1990) (defendant has an obligation to preserve computer code after the complaint had been served despite corporate practice of retaining only the current version of its program); Cabinetware, Inc. v. Sullivan, 22 U.S.P.Q.2d 1687 (E.D. Cal. 1991)(defendant willfully destroyed code after being served with a requisition for production). See also Pioneer Hi-Bred Int’l v. Holden Found. Seeds, Inc., 31 F.3d 1226, 31 U.S.P.Q.2d 1385 (8th Cir. 1994)(discarding original seed corn progenitor allowed court to shift the burden of proof to defendant to show that seed corn was not derived from protected Pioneer seed). But see Data Gen. Corp. v. Grumman Sys. Support Corp., 803 F. Supp. 487 (D. Mass. 1992), aff’d 36 F.3d 1147 (1st Cir. 1994)(locating and piecing together original code was unreasonable and unnecessary for Grumman’s defense despite that Data General admitted at trial that it had deposited the wrong program with the U.S. Copyright Office in connection with its applications for registration).

244 See Fonar Corp. v. Deccaid Servs., Inc., 983 F.2d 427 (2d Cir. 1993)(injunction describing “Maintenance Software” as “all software other than ‘Operational Software,’ ” and “Operational Software” as that “described in listed menus in the ‘User’s Manual’ ” was not specific and was unintelligible.”).

245 See In re Vuitton et Fils, S.A., 606 F.2d 1 (2d Cir. 1979).
for proceeding ex parte, issuing such a temporary restraining order is an abuse of discretion.\textsuperscript{246}

H. Identification of “Employees” as Expert Witnesses

On a somewhat related note, the Middle District of Alabama, in \textit{KW Plastics v. United States Can Co.,} (\textit{KW I})\textsuperscript{247} in an action involving alleged misuse of trade secrets, joined the Southern District of New York\textsuperscript{248} and the District of Minnesota\textsuperscript{249} in reading Rule 26(a)(2)(B), FED. R. CIV. P., as requiring an identification of, and an expert report from, all witnesses, including employees, who are expected to give expert testimony under Rule 702, FED. R. EVID. According to the Advisory Committee Notes of 1993, the term "expert" in Rule 26(a)(2)(B) refers "to those persons who will testify under Rule 702 of the Federal Rules of Evidence with respect to scientific, technical, and other specialized matters." In this case, U.S. Can proposed using its controller and vice-president to offer expert opinion testimony regarding damages. The court concluded that Rule 26(a)(2)(B) governed such testimony.\textsuperscript{250}

It should be noted, however, that in the case from the Southern District of New York, \textit{Day v. Consolidated Rail Corp.},\textsuperscript{251} the court acknowledged that Rule 26(b)(4)(A) may be read to infer that some category of experts may be exempt from the report requirement, i.e., experts who are testifying as fact witnesses and also express some expert opinions.

The Fifth Circuit has held that “[u]nder Federal Rule of Evidence 701, a lay opinion must be based on personal perception, must ‘be one that a normal person would form from those perceptions,’ and must be helpful to the jury. We have allowed lay witnesses to express opinions that required specialized knowledge.”\textsuperscript{252}

The Federal Circuit, applying regional Fifth Circuit law, has permitted witnesses who had not been designated as expert witnesses under Rule 26(a)(2) to offer opinions regarding “enablement” under 35 U.S.C. § 112.\textsuperscript{253}

IV. PREEMPTION

A. Preemption by the Copyright Act

Copyright protection has been argued to preempt trade secret protection by virtue of § 301(a) of the 1976 Copyright Act. Whether federal copyright law preempts a state law claim is a question of law that is reviewed \textit{de novo} on appeal.\textsuperscript{254}

The statute sets up a two-prong inquiry to determine preemption: first, the work must be “within the scope of the ‘subject-matter of copyright’ as specified in 17 U.S.C. §§ 102, 103,” and second, “the rights granted under state law”

\textsuperscript{246} \textit{See Am. Can Co. v. Mansukhani,} 742 F.2d 314 (7th Cir. 1984) (district court in a trade secret case issued an order authorizing the plaintiff and U.S. Marshals to enter the defendant’s premises and seize samples of allegedly infringing inks and documents relating to the production and sale of those inks. On appeal, the Seventh Circuit reversed holding that there was no evidence that defendants would have altered the inks or secreted pertinent documents).


\textsuperscript{251} 1996 WL 257654 (S.D.N.Y. 1996).

\textsuperscript{252} \textit{United States v. Riddle,} 103 F.3d 423, 428 (5th Cir. 1997), quoting \textit{Lubbock Feed Lots, Inc. v. Iowa Beef Processors,} 630 F.2d 250, 263 (5th Cir. 1980).


\textsuperscript{254} \textit{United States ex rel Bergy v. Bd. of Trs. of the Univ. of Alabama,} 104 F.3d 1453, 41 U.S.P.Q.2d 1481 (4th Cir. 1997); \textit{Roszczewski v. Arete Assocs., Inc.,} 1 F.3d 225, 229 (4th Cir. 1993).
must be “equivalent to any exclusive rights within the scope of federal copyright as set out in 17 U.S.C. § 106.”255 In deciding the issue, the court must first decide whether the work of authorship falls within the subject matter of copyright. The court must next decide whether the state law creates legal or equitable rights equivalent to any of the exclusive rights within the general scope of § 106. If the right created by state law, standing alone would infringe one of the § 106 rights, then the action is preempted. On the other hand, if state law requires additional elements, there is no preemption.256

As to the first prong, the Second Circuit has held that “[c]opyrightable material often contains uncopyrightable elements within it, but Section 301 preemption bars state law misappropriation claims with respect to uncopyrightable as well as copyrightable elements.”257 The subject matter of a trade secret misappropriation claim does not, of course, necessarily overlap that of a copyright infringement claim; subject matter may qualify for copyright protection and not qualify for trade secret protection.258

The second prong of the preemption test is satisfied unless there is an “extra element” that changes the nature of the state law action so that it is “qualitatively different from a copyright infringement claim.”259 In addition, a state law may escape preemption if it involves “qualitatively different” conduct. However, courts have held that it is not sufficient that the state law claim simply require intent or elements similar to intent.260

Most courts applying the “extra-element test”261 have now concluded that there is no

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255 United States ex rel Berge v. Bd. of Trs. of the Univ. of Alabama, 104 F.3d 1453 41 U.S.P.Q.2d 1481 (4th Cir. 1997); Dabah v. Glibion, 42 F.3d 285 (5th Cir. 1995); Racizewski v. Arete Assocs., Inc., 1 F.3d 225, 229 (4th Cir. 1993).


257 Nat'l Basketball Assn. v. Matomia, Inc., 105 F.3d 841, 41 U.S.P.Q.2d 1585 (2d Cir. 1997)(held that basketball games were not copyrightable subject-matter, but recorded broadcasts were copyrightable subject-matter. Nevertheless, once the performance “is reduced to tangible form, there is no distinction between the performance and the recording of the performance for the purpose of preemption under § 301(a),” quoting Baltimore Orioles, Inc. v. Major League Baseball Player’s Ass’n., 805 F.2d 663, 675 (7th Cir. 1986)(the court held “that where the challenged copying or misappropriation relates in part to the copyrighted broadcasts of the games, the subject matter requirement is met as to both the broadcasts and the games”).

258 Koontz v. Jaffarian, 617 F. Supp. 1108 (E.D. Va. 1985), aff’d 787 F.2d 906 (4th Cir. 1986)(although materials may be protected under the copyright laws, “it does not follow that what was developed was a trade secret.” The court found that the method used by the software to compile the data was not a secret: “While not everyone, or even a substantial number of people, could do what he did, his method is a matter of public knowledge, not a secret”).


260 See e.g., Markogianis v. Burger King Corp., 42 U.S.P.Q.2d 1862 (S.D.N.Y. 1997)(state law claims for breach of implied-in-fact contract and breach of confidence dismissed for failure to state a claim because claims as alleged were preempted); Computer Assocs. Int’l, Inc. v. Altai, Inc., 982 F.2d 693, 717 (2d Cir. 1992) (“An action will not be save from preemption by elements such as awareness or intent, which alter ‘the action’s scope but not its nature’ * * * Following this ‘extra element’ test, we have held that unfair competition and misappropriation claims grounded solely in the copying of a plaintiff’s protected expression are preempted by section 301.”); Mayer v. Josiah Wedgewood & Sons, Ltd., 601 F. Supp. 1523, 225 U.S.P.Q. 776 (S.D.N.Y. 1985).

261 Computer Assocs. Int’l, Inc. v. Altai, Inc. (Altai II), 982 F.2d 693 (2d Cir. 1992)(Altai II); Nat’l Car Rental Sys.,
blanket preemption of a trade secret claim asserted with a copyright claim, even though both may be directed toward the same acts, because the two are qualitatively different if the trade secret claim is based on acts involving a breach of confidence and involve more than copying. 262

Also, the Pennsylvania courts have recognized two distinct types of misappropriation of trade secrets: those based upon the use of a plaintiff’s work and those based upon the disclosure of material that a defendant has a duty to keep confidential. Claims of the former type are preempted while claims of the latter type are not. 263

State law claims for “conversion,” which are frequently asserted with trade secret misappropriation claims, have been rather consistently deemed preempted. 264 If, however,

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262 DSC Communications Corp. v. Pulse Communications, Inc., 170 F.3d 1354 (Fed. Cir. 1999)(DSC’s claim for trade secret misappropriation under Virginia Trade Secrets Act is not preempted by § 301(a) of the Copyright Act because that cause of action requires an “extra element.”); Rodríguez v. Rodríguez, 55 F. Supp. 2d 534, 50 U.S.P.Q.2d 1278 (E.D. La. 1999)(Louisiana community property laws preempted by § 301(a) of the Copyright Act); United States Golf Ass’n v. Arroyo Software Corp., 69 Cal. App. 4th 607, 49 U.S.P.Q.2d 1979 (1999)(in a poorly reasoned opinion, the California Court of Appeals held that cause of action for misappropriation of the USGA’s handicapping formulas (which were distributed in software form) was not preempted by § 301(a) of the Copyright Act because the USGA sought to prohibit Arroyo from using those formulas, but not copying those formulas); Expediters Int’l of Washington, Inc. v. Direct Line Cargo Mgmt. Servs., Inc., 995 F. Supp. 468 (D.N.J. 1998)(no preemption of state law misappropriation or breach of contract claims where state law requires extra element); Micro Data Base Sys., Inc. v. Nellcor Puritan-Bennett, Inc., 20 F. Supp. 2d 1258 (N.D. Ind. 1998)(claim for trade secret misappropriation under Indiana Trade Secrets Act involving certain data base software was not preempted by § 301(a) of the Copyright Act because that cause of action required an extra element, i.e., breach of trust, not required by the Copyright Act).


264 See United States ex rel Berge v. Bd. of Trs. of the Univ. of Alabama, 104 F.3d 1453 41 U.S.P.Q.2d 1481 (4th Cir. 1997)(claim for conversion of “intellectual property” in research materials held to have been preempted); Dilisi v. Falk, 916 F. Supp. 985, 992 (C.D. Cal. 1996)(claim for conversion of a television script was preempted because there was no extra element to the essential claim that the ideas were misappropriated); Daboub v. Gibboud, 42 F.3d 285 (5th Cir. 1995)(where the core of the state law theory of recovery goes to wrongful copying the cause of action is preempted); Garrido v. Burger King Corp., 558 So. 2d 79, 82 (Fla. Dist. Ct. App. 1990)(where the gravamen of a conversion...
the plaintiff can prove an extra element, for example that the defendant was unlawfully retaining a physical object embodying the work, then there should be no preemption.\textsuperscript{265} State law “hot-news” misappropriation claims based on \textit{International News Serv. v. Associated Press},\textsuperscript{266} with a narrow exception,\textsuperscript{267} have been held to be preempted.\textsuperscript{268}

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claim is the unauthorized taking or use of ideas, the elements of the claim are not qualitatively different from copyright infringement; \textit{Patrick v. Franci}, 887 F. Supp. 481, 482, 484 (W.D.N.Y. 1995)(conversion claim preempted where the action sought to recover for unauthorized copying of the work and ideas in a research paper).

\textsuperscript{265} \textit{See Oddo v. Reis}, 743 F.2d 630, 635 (9th Cir. 1984)(claim for conversion of tangible property held not preempted); \textit{G.S. Rasmussen \& Assocs. v. Kalitta Flying Serv.}, 958 F.2d 896 (9th Cir. 1992), cert. denied, 508 U.S. 959 (1993)(conversion claim dealing with Supplemental Type Certificate that had been used improperly to obtain an airworthiness certificate from the FAA held not preempted).

\textsuperscript{266} 248 U.S. 215 (1918).

\textsuperscript{267} \textit{See Nat’l Basketball Assoc. v. Motorola, Inc.}, 105 F.3d 841, 41 U.S.P.Q.2d 1585 (2d Cir. 1997)(held that only surviving or non-preempted “hot-news” INJ-like claims are “limited to cases where: (i) a plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant’s use of the information constitutes free-riding on the plaintiff’s efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiff; and (v) the ability of other parties to free-ride on the efforts of the plaintiff or others would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.” The “extra elements” are (i) the time-sensitive value of factual information, (ii) the free-riding by a defendant, and (iii) the threat to the very existence of the product or service provided by the plaintiff).

\textsuperscript{268} \textit{See Akadis USA Inc v. DGI Treks, Inc.}, 166 F.3d 772, 49 U.S.P.Q.2d 1641 (5th Cir. 1999). \textit{See also Daboub v. Gilhousen}, 42 F.3d 285 (5th Cir. 1995)(concluding, in an action centering around ZZ Top’s live performances and studio records, that various state law claims were preempted because the “core of each of the state law theories of recovery *** without detailing the specific elements comprising each claim, is the same: the wrongful copying distribution, and performance of

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B. Preemption by the Patent Laws

In general, the law of trade secrets has been construed to complement, not conflict with, the law of patents.\textsuperscript{269} Indeed, in \textit{Kewanee Oil v. Bicron Corp.},\textsuperscript{270} the Supreme Court held that Ohio state trade secret law was not preempted by the federal patent laws. The Court cautioned, however, that to the extent possible, trade secret law and patent law should be administered in such a manner that the former will not deter an inventor from seeking the benefit of the latter, because the public is most benefited by early disclosure of the invention in consideration of the patent grant.\textsuperscript{271}

Nevertheless, there have been cases in which a court has found a trade secret misappropriation claim\textsuperscript{272} and various forms of

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\textsuperscript{270} 416 U.S. 470 (1974).

\textsuperscript{271} \textit{See, e.g., In re Sarkar}, 575 F.2d 870, 872 (C.C.P.A. 1978).

“unfair competition” to have been preempted by federal patent law.273

C. Preemption of Other State Laws by UTSA

The model UTSA, § 7, has the following preemption provision:

(a) This Act displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret.

(b) This Act does not affect: (1) contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or (2) criminal liability for misappropriation of a trade secret.

The comments to the model Act make clear that the Act was not intended to cover covenants not to disclose trade secrets, covenants not to compete, an employee’s duty of loyalty, or duties voluntarily assumed under express or implied-in-fact contracts.274

Nevertheless, the Northern District of Illinois, now in at least two cases, has held that claims for tortious interference with an employment agreement which contains non-disclosure provisions based on hiring an employee as part of an alleged scheme to misappropriate trade secrets are preempted by the Illinois Trade Secrets Act (ITSA).275

At least two courts have also held that unjust enrichment claims are preempted by the UTSA, as adopted in those jurisdictions, where the unjust enrichment claim was founded on the same alleged ill-gotten gains as those resulting from an alleged misappropriation of trade secrets.276

On the other hand, it has been held that imposing vicarious liability under a theory of respondeat superior is not preempted by the UTSA.277

D. Copyright Registration Affecting Trade Secret Protection

Registration, particularly as an unpublished work, should not preclude later assertion of trade secret rights. Under the 1976 Act, copyright registration is permissive. But registration, subject to certain exceptions, remains a statutory prerequisite to a suit for infringement.278 Further, important remedies of statutory damages and attorney’s fees may be lost, again subject to certain exceptions, if registration is not sought within three (3) months of first publication.279 One of the requirements for

273 See Abbott Labs. v. Brennan, 952 F.2d 1346, 21 U.S.P.Q.2d 1192 (Fed. Cir. 1991)(common law abuse of process action can not be invoked to remedy alleged inequitable conduct before the PTO); Concept Design Elecs. and Mfg., Inc. v. Duplitronic, 34 U.S.P.Q.2d 1789, 1995 U.S. App. LEXIS 848 (Fed. Cir. 1995)(non-precedential)(in a non-precedential opinion, a declaratory judgment plaintiff/alleged infringer was able to recover under a state unfair competition law based on assertions of inequitable conduct and bad faith assertions of patent rights.); Dow Chem. Co. v. Exxon Corp., 139 F.3d 1470, 46 U.S.P.Q.2d 1120 (Fed. Cir. 1998), order denying petition for rehearing and declining suggestion for rehearing en banc, 139 F.3d 1470, 46 U.S.P.Q.2d 1859 (Fed. Cir. 1998)(state law claim for unfair competition that is based essentially on inequitable conduct before the PTO is not preempted by federal law); Hunter Douglas, Inc. v. Harmonic Design, Inc., 153 F.3d 1318, 47 U.S.P.Q.2d 1769 (Fed. Cir. 1998)(state unfair competition claims can escape preemption if the plaintiff alleges that the patentholder was guilty of fraudulent conduct before the PTO or bad faith in the publication of the patent); Zenith Elecs. Corp. v. Exxon, Inc., 182 F.3d 1340 (Fed. Cir. 1999)(court extended rationale to include claims brought under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a)).

274 Model UTSA§ 7, cmt.


obtaining a copyright registration is the deposit of one or two copies of the work.\textsuperscript{280} Section 705(b) of the Act requires that all such deposits “shall be open to public inspection.”\textsuperscript{281} Thus, there is an argument (but only an argument) that registration may preclude assertion of trade secret rights, quite apart from any “admission” of general publication.

Two cases, both decided in 1999, directly address the issue and reach opposite results. The first is the Middle District of Florida’s opinion in \textit{Tedder Boat Systems, Inc. v. Hillsborough County, Florida.}\textsuperscript{282} involving certain boat ramps. The opinion says that in 1992, the plaintiff “copyrighted” one of its systems, presumably meaning that the plaintiff registered a claim of copyright in drawings for such a system, and concludes that “because the design was copyrighted, Plaintiff lost all claims to a misappropriation of a trade secret.”\textsuperscript{283} The rationale and holding of that case are suspect.

The second case is the Eastern District of Michigan’s opinion in \textit{Compuware Corp. v. Serena Software International, Inc.}\textsuperscript{284} Compuware developed and licensed computer software known as File−AID. Compuware charged Serena with trade secret misappropriation, and Serena moved for summary judgment contending that the trade secret claim must fail because Compuware had registered copyrights in its software and had not used those provisions of the rules of the Copyright Office that permitted depositing redacted versions. The district court disagreed. The court noted that even though deposit copies were open for public inspection, the Copyright Office regulations imposed strict limitations on copying, and even on making notes from, deposit copies of works. According to the court, “Serena’s argument would render public availability, alone and apart from public consumption, a dispositive fact in a trade secret misappropriation claim,” and that “is not the present standard under Michigan law.”\textsuperscript{285} The court, for good reason, declined to follow \textit{Tedder Boat.}\textsuperscript{286}

\section*{V. STATUTES OF LIMITATION}

\subsection*{A. Introduction}

In addition to the various state statutes dealing with tortious conduct, a trade secret action may also, or in the alternative, be pleaded as an action for breach of an oral or written contract, breach of an implied-in-fact or implied-in-law contract.\textsuperscript{287} State statutes of limitations applicable to such causes of action vary widely, but are generally from one to four years. The matter is further complicated, though, by varying rules on when the cause of action accrues. Some states apply the rule that a breach of contract action accrues at the time of the breach.\textsuperscript{288} Other states apply the rule of continuing breach in which

\begin{itemize}
  \item \textsuperscript{280} 17 U.S.C. § 408(b).
  \item \textsuperscript{281} 17 U.S.C. § 706(b), however, provides that “[c]opies of deposited articles retained under the control of the Copyright Office shall be authorized or furnished only under the conditions specified by the Copyright Office regulations.” The Copyright Office regulations preclude the public from making copies unless those copies are authorized by the copyright owner, are certified for use in litigation, or a court order so provides. 37 C.F.R. § 201.2(d)(4). The Copyright Office regulations also permit, for some works, the filing of identifying material, \textit{i.e.}, less than complete copies. \textit{See} 37 C.F.R. § 202.20.
  \item \textsuperscript{282} 54 F. Supp. 2d 1300 (M.D. Fla. 1999).
  \item \textsuperscript{283} \textit{Id.} at 1305.
  \item \textsuperscript{284} 77 F. Supp. 2d 816 (E.D. Mich. 1999).
  \item \textsuperscript{285} \textit{Id.} at 824.
  \item \textsuperscript{286} \textit{Id.} at 825 n.24.
  \item \textsuperscript{287} The Texas Supreme Court, in considering actions sounding in contract but pleaded to state a claim under the Deceptive Trade Practices Act, stated: “In deciding whether the facts in [a] case [can] sustain a cause of action [in tort], this Court consider[s] both [1] the source of the Defendant’s duty to act (whether it arose solely out of the contract or from some common law duty) and [2] the nature of the remedy sought by Plaintiff.” \textit{Crawford v. Ace Sign, Inc.}, 917 S.W.2d 12 (Tex. 1997)(per curiam). \textit{See also} \textit{Murr, Contract Trumps Tort Law, Not the Other Way Around}, 61 TX. BAR. J. 334 (April 1998); \textit{Powers, Border Wars}, 72 TEX. L. REV. 1209 (1994).
\end{itemize}
the applicable statute of limitations bars damages for events occurring outside the applicable statute, but does not bar the action itself. 289

Similarly, in tort actions, there is a variety of state statutes and governing court decisions for determining when a cause of action arises, and further whether each act of misappropriation constitutes a continuing tort. One line of cases, exemplified by the Ninth Circuit’s decision in Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., 290 commenting that the “fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated,” and its progeny, holds that a cause of action for trade secret misappropriation accrues on the date the trade secret was first used or disclosed and the applicable statute of limitation continues to run regardless of whether the plaintiff had notice of the misappropriation. The Ninth Circuit subsequently held in Whittaker Corp. v. Execuair, 291 however, that if there has been wrongful acquisition of a trade secret, but not necessarily any disclosure or use, that a cause of action accrues when there has been an “appreciable and actual harm, however uncertain in amount.” The court also held that the same rule applied when the cause of action was directed against a third party. The foregoing cases, however, were decided before California adopted its version of the UTSA and therefore are no longer the rule in California. Nevertheless, Monolith has been followed in several non-UTSA jurisdictions. 292

The second but minority line of authority in some states293 prior to the advent of the UTSA took the view that trade secret misappropriation is a continuing tort. For example in Underwater Storage, Inc. v. United States Rubber Co.294 the D.C. Circuit held “We are of the opinion that, although it is an extremely close question, the misappropriation and continuing use of a trade secret does constitute a continuing tort and that an injured party can recover for use during the statutory period preceding the filing of the suit, assuming, of course, that there had been use during that period.”

Some states, though, added further qualifications. For example in Lemelson v. Carolina Enterprises, Inc.,295 the Southern District of New York held that it makes a difference whether the defendant kept the use of the “secret” confidential: “[I]f the defendant keeps ng Bulk Credit Transactions Held Readily Ascertainable and Not a Trade Secret

2. Arkansas Law: Information in Employee Handbook Containing Marketing and Business Plans,tt v. Morton International, Inc.,296 the District of Massachusetts adopted a similar rule holding that the use of a trade secret in preparing a patent application that was maintained in secret under 35 U.S.C. § 122 was a continuing tort, but that the issuance of a patent destroyed any trade secret protection for “secrets” incorporated in the patent and that act triggered the running of the statute. Many (but not all) of the states that seemed to have adopted the continuing tort theory have now adopted the UTSA or a similar civil trade secret misappropriation statute. It is currently doubtful whether the continuing tort


whether the continuing tort theory is actually alive and well in any jurisdiction.

2. **Fraudulent Concealment**
   In addition, some states prior to the advent of the UTSA adopted the equitable doctrine of fraudulent concealment.\(^{297}\) Under that doctrine, a fraud that goes undiscovered despite the plaintiff’s diligence in attempting to discover it, or a fraud that is undiscovered due to affirmative acts by the defendant, tolls the running of the statute of limitations.\(^{298}\) A decision whether to equitably toll a statute of limitations is generally left to the sound discretion of the district court.\(^{299}\) For example, in *Telex Corp. v. International Business Machine Corp.*,\(^ {300}\) the district court held that Oklahoma’s then two-year statute was tolled by Telex’s fraudulent concealment of its misappropriation up to the time of trial. The court expressly commented on the fact that the extent of the misappropriation would not have been discovered absent IBM’s extensive efforts.\(^ {301}\)

3. **The UTSA**
   Recognizing the split of authority discussed above, § 6 of the model version of the UTSA adopts a three-year statute of limitations for non-contractual causes of action asserting trade secret misappropriation:

\[
\text{An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.}
\]

The Commissioners’ comment to § 6 explains that:

\[
\text{This Act rejects a continuing-wrong approach to the statute of limitations but delays the commencement of the limitation period until an aggrieved person discovers or should have discovered the existence of misappropriation.}\(^ {302}\)
\]

The uniformity envisioned by the UTSA, however, is to some extent illusory. Each of the states adopting the UTSA is free to amend the model version, including the statute of limitations. Thus, counsel should be alert to possible longer and shorter limitations periods even in those states that have adopted a version of the UTSA.

**B. The Discovery Rule**

1. **Introduction**
   Section 6 of the UTSA also adopts the “discovery rule,” namely that the statute of limitations begins to run when “the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” In *Sokol Crystal Products, Inc. v. DSC Communications Corp.*,\(^ {303}\) the Seventh Circuit explained that discovery of a misappropriation occurs when there is knowledge\(^ {304}\) of the use of the trade secret\(^ {305}\)
2. The Discovery Rule in Texas after Seatrax

The Texas Supreme Court has viewed torts as generally arising from the common law action for “trespass.” A tort not expressly covered by a limitation period, nor expressly held to be governed by a different provision would, according to the Court, be presumptively a “trespass” for limitations purposes.\(^\text{306}\) Section 16.003 of the TEXAS CIVIL PRACTICES AND REMEDIES CODE provides a general two-year statute of limitations for trespass:

(a) A person must bring suit for trespass for injury to the estate or to the property of another, conversion of personal property, taking or detaining the personal property of another, personal injury, forcible entry and detainer, and forcible detainer not later than two years after the day the cause of action accrues.

(b) A person must bring suit not later than two years after the day the cause of action accrues in an action for injury resulting in death. The cause of action accrues on the death of the injured person.

Prior to 1997, when § 16.010 was added to the TEX. CIV. PRAC. REM. CODE, that statute had been held applicable to trade secret misappropriation causes of action.\(^\text{307}\)

Historically, Texas viewed the statute of limitations as beginning when some legal injury occurs even if that injury is not discovered until later and even if any damages resulting from that injury have not yet all occurred.\(^\text{308}\) A trade secret misappropriation action, in Texas, was sometimes said to accrue when the trade secret was improperly acquired or used,\(^\text{309}\) although many cases seemed to use the date that the trade secret owner lost control of the trade secret. In general, the Texas courts applied the rule that a “party’s ignorance of material facts or lack of knowledge will not prevent the statute of limitations from running.”\(^\text{310}\) The Texas courts, however, also recognized a narrow class of actions in which the “discovery rule” may be applied. But, the

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\(^\text{307}\) Coastal Distrib. Co., Inc. v. NGK Spark Plug Co., Ltd., 779 F.2d 1033 (5th Cir. 1986); First Nat’l Bank v. Levine, 721 S.W.2d 287 (Tex. 1986)(agreeing with the conclusion in Coastal and also holding that a cause of action for tortious interference with contract was a tort governed by the two-year statute). But see Williams v. Khalaf, 814 S.W.2d 854 (Tex. 1990)(holding that a cause of action for “fraud” is in the nature of an action for debt, and is governed by the four-year statute). See, however, R. Ready Prods., Inc. v. Cantrelle, 85 F. Supp. 2d 672 (S.D. Tex. 2000)(suggesting that claims for unfair competition through misappropriation of trade secrets are governed by two-year statute).

\(^\text{308}\) See Murphy v. Campbell, 964 S.W.2d 265, 270 (Tex. 1997).


discovery rule nevertheless was applied sparingly.311 In general, application of the discovery rule was limited to those types of actions in which the nature of the injury was “inherently undiscoverable.”312

In 1996, in Computer Associates International, Inc. v. Altai, Inc.,313 the Texas Supreme Court held that the discovery rule did not apply to trade secret misappropriation causes of action “[b]ecause misappropriation of trade secrets is not a cause of action that is inherently undiscoverable, permitting application of the discovery rule exception in these cases would do no more than permit the litigation of stale claims.” In 1997, and in response to the Altai holding, the Texas legislature added § 16.010 to the TEX. CIV. PRAC. REM. CODE. Section 16.010 provides:

§ 16.010. Misappropriation of Trade Secrets

A person must bring suit for misappropriation of trade secrets no later than three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.

A misappropriation of trade secrets that continues over time is a single cause of action and the limitations period described by Subsection (a) begins running without regard to whether the misappropriation is a single or continuing act.

Thus, the statute, in terms similar to the UTSA, (1) adopts the discovery rule, but imposes an obligation to exercise reasonable diligence to discover the misappropriation, and (2) rejects the “continuing tort” theory (which had never been an issue in Texas, anyway).314

The question then became whether the statute begins and continues to run even though the trade secret owner had no knowledge of the trade secret misappropriation, i.e., did the discovery rule apply? Secondly, there was a question whether Texas recognized fraudulent concealment as an equitable tolling of the statute? The answer to both, after the adoption of § 16.010, was considered to be a qualified yes, but with limitations.

In Seatrax, Inc. v. Sonbeck International, Inc.,315 however, the Fifth Circuit affirmed the grant of a motion for summary judgment that a trade secret action was time barred finding that, despite Texas’ (albeit not part of the UTSA) statutory adoption of the discovery rule, employers have an obligation to ferret out possible trade secret misappropriations by former employees (indeed, former employees of another company), quoting with approval the Texas Supreme Court’s observation in Computer Associates International, Inc. v. Altai, Inc.,316 that because “[w]e live in a world of high employee mobility and easy transportability of information, *** it is not unexpected that a former employee will go to work for a competitor and that the competitor might thereby acquire trade secrets,”317 especially


313 918 S.W.2d 453, 457 (Tex. 1996).

314 The effective date of the amendment was May 1, 1997, and by its terms applied to all actions commenced on or after that date. Act of Apr. 17, 1997, 75th Leg., R.S. ch. 26, § 3(a), 1997 Tex. Gen. Laws 68. See, however, Baker Hughes, Inc. v. Ken R & D, Inc., 12 S.W.3d 1, 43 Tex. Sup. J. 9 (Tex. 1999)(despite the terms of the statute, retroactive application to a cause of action that was time-barred under the prior two-year statute would violate the prohibition against retroactive laws in art. I, § 16 of the Texas Constitution.).


316 918 S.W.2d 453, 455 (Tex. 1996).

317 200 F.3d at 365, quoting Altai, 918 S.W.2d at 457.
in circumstances where “[s]uspicions should abound.”318 With respect to fraudulent concealment, the court held that “[t]he party asserting the fraudulent concealment defense to the statute of limitations bears the burden of showing that the defendant was under a duty to make a disclosure but fraudulently concealed the existence of a cause of action from the one to whom it belongs.”319 Thus, *Seatrax* should be of concern to anyone wishing to protect valuable trade secret technology in the state of Texas.

3. **The Discovery Rule Elsewhere**

   The Washington statute of limitations, having adopted a version of the UTSA, is similar to the Texas amended statute and provides that “[a]n action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered * * * [and] a continuing misappropriation constitutes a single claim.” In *McLeod v. Northwest Alloys, Inc.*, 320 the Washington Court of Appeals held that a cause of action “accrues when the claimant knows or should know the relevant facts, ‘whether or not the plaintiff also knows that these facts are enough to establish a legal cause of action.’” According to the court, “[g]enerally, the date of an unauthorized disclosure will serve as the event that triggers the statute of limitations where the date of disclosure can be readily determined and it is shown that the claimant was aware of the disclosure.” But “[w]hen the date of an unauthorized disclosure is not immediately discovered by the claimant, the period of limitations will not commence until the claimant knew or should have known of the disclosure. When the disclosure is authorized or the date of disclosure is unknown, facts related to the use of the trade secret and the claimant’s knowledge of this use will be determinative.”

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318 *Id.* at 366, quoting *Altai*, 918 S.W.2d at 457.
319 *Id.* citing *Timberlake v. A.H. Robins Co., Inc.*, 727 F.2d 1363, 1366 (5th Cir. 1984).
322 See *Sokol Crystal Prods., Inc. v. DSC Communications Corp.*, 15 F.3d 1427 (7th Cir. 1994)(discovery of a misappropriation occurs when there is knowledge of the use of the trade secret).
323 *Chasteen v. UNISYS JECS Corp.*, 216 F.3d 1212 (10th Cir. 2000).
324 216 F.3d at 1220-21.
325 *Id.*
2. **California & Tenth Circuit Adopt Intermedics Rationale – When Statute Begins to Run on One Trade Secret Claim It May Begin to Run on All Trade Secrets Claims**

In California, an initial act of misappropriation by A starts the statute of limitations to run for A and also for B who obtained the trade secrets from A and then used them for B’s own purposes.\(^{326}\) What about individual trade secrets? Suppose A misappropriates trade secrets \(X_1, X_2, Y_1\) and \(Y_2\), where \(X_1\) and \(X_2\) are related, and \(Y_1\) and \(Y_2\) are related. If the statute begins to run on \(X_1\), does the statute also begin to run on \(X_2, Y_1\) and \(Y_2\)?

That is, if a party has notice that another party has misappropriated one or more trade secrets, does that notice also impose an obligation to use reasonable diligence to discover other trade secrets that party may have misappropriated? *Intermedics, Inc. v. Ventritex, Inc.*,\(^{327}\) a case characterizing that issue as one of first impression for the California courts, the Northern District of California said yes. Specifically, the court framed the issue as:

> [U]nder California law, when a cause of action accrues against a given defendant for misappropriation of some alleged trade secrets or confidential information, does the statute of limitations also begin to run from that time on possible claims against the same defendant for misappropriation of other alleged trade secrets or confidential information, without regard to whether there is evidence that the defendant has disclosed or used any of those other alleged secrets?\(^{328}\)

The court answered that although the result may be different in other cases, here:

> we hold that when the statute of limitations began to run on claims for misappropriation of some of the alleged trade secrets it simultaneously began running as to claims for alleged misappropriations of the other, related secrets, even if no acts of misappropriation of the other secrets had yet occurred.

[Emphasis added.] \(^{329}\)

In the above example, therefore, under that rationale, the statute begins to run on \(X_1\) and related trade secret \(X_2\), but does not necessarily begin to run on unrelated trade secrets \(Y_1\) and \(Y_2\).

The California Court of Appeals has now adopted that rationale. In *Glue-Fold, Inc. v. Slatterback Corp.*,\(^{330}\) the court concluded that “[w]e agree with the federal court [in *Intermedics*] that California law assumes that once a plaintiff knows or should know that a particular defendant cannot be trusted with one secret, it is unreasonable for that plaintiff simply to assume that defendant can be trusted to protect other secrets,” and that “it is the first discovered (or discoverable) misappropriation of a trade secret which commences the limitations period.” The court also rejected the plaintiff’s argument that the statute should be tolled during a time in which the plaintiff believed the defendant “would desist” from further misappropriation, confirming that “it is the first discovered (or discoverable) misappropriation of a trade secret which commences the limitation period.”

The Tenth Circuit also adopted the *Intermedics* rationale in *Chasteen v. UNISIA JECS Corp.*,\(^{331}\) concluding that limitations begins to

\(^{326}\) *Ashton-Tate Corp. v. Ross*, 728 F. Supp. 597, 603 (N.D. Calif. 1989).


\(^{328}\) 822 F. Supp. at 634, 27 U.S.P.Q.2d at 1641.

\(^{329}\) Id.


\(^{331}\) 216 F.3d 1212 (10th Cir. 2000).
run as to all defendants when the trade secret owner has knowledge of one defendant’s disclosure of his trade secrets.

On a related question, the Ninth Circuit, on June 11, 2001, certified the following question to the California Supreme Court:

Under the California Uniform Trade Secrets Act (“UTSA”), Cal. Civ. Code § 3426, when does a claim for trade secret infringement arise: only once, when the initial misappropriation occurs, or with each subsequent misuse of the trade secret? 332

Although the language of the statute itself, providing that misappropriation is a continuing tort, would appear to answer the question, perhaps not. In any event, the California Supreme Court accepted certification in the Fall of 2001,333 but has not decided the question as of this writing.

VI. RELIEF
A. Actual and Punitive Damages
   In addition to an injunction, money damages may be awarded.334 Such damages may include actual damages and lost profits.335 Some courts have considered profits made by a subsequent employer as a result of the breach of a non-disclosure/non-competition covenant as an element of damages on the rationale that those profits might otherwise have accrued to the former employer.336 Although courts have emphasized the flexibility required in formulating appropriate relief in trade secret cases,337 and that recovery of lost profits does not require that the loss be susceptible to exact calculation, nevertheless, most courts require that the amount of the loss be shown by competent evidence with reasonable certainty. What constitutes reasonably certain evidence of lost profits is a question of fact, but most courts

332 Cadence Design Sys. v. Avant! Corp., 253 F.3d 1147 (9th Cir. 2001).
335 See, e.g., Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955, 43 U.S.P.Q.2d 1385 (2d Cir. 1997)(Softel’s trade secret damages based on Dragon’s profits); Pioneer Hi-Bred Intl v. Holden Found, Inc., 31 F.3d 1226, 31 U.S.P.Q.2d 1385 (8th Cir. 1994)(Courts have used a wide variety of methods to measure damages in trade secret cases, including lost profits, unjust enrichment and reasonable royalty. Here affirmed reliance on Pioneer’s expert testimony that “but for” Holden’s misappropriation, Pioneer would have obtained the same percentage of Holden’s sales as its market share in all other sales (36% average), and subsequent calculation of lost profits of $140 million. Trial court reduced that amount to $46 million reflecting its determination that Pioneer would not have obtained the full 36% market share). See also RoboSource Ltd. v. Tom’s Foods, Inc., 940 F.2d 1441, 20 U.S.P.Q.2d 1321 (11th Cir. 1991); Micro Lithography, Inc. v. Inko Indus., Inc., 20 U.S.P.Q.2d 1347 (Cal. Ct. App. [6th Dist.] 1991)(unpublished); A.F.A. Tours, Inc. v. Whitechurch, 937 F.2d 82 (2d Cir. 1991); Timely Prods. Corp. v. Arron, 523 F.2d 288 (2d Cir. 1975); Hyde Corp. v. Hoffine, 314 S.W.2d 763, 768 (Tex. 1958).
337 Swetzl, Inc. v. Hawk Hill Cookies, 1996 U.S. Dist. LEXIS 8562 (E.D. Pa. 1996)(proper measure of damages is the cost that the misappropriator would have incurred in developing the information independently); Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)(“[E]very case requires a flexible and imaginative approach to the problem of damages. *** [C]ases reveal that most courts adjust the measure of damages to accord with the commercial setting of the injury, the likely future consequences of the misappropriation, and the nature and extent of the use the defendant put the trade secret to after misappropriation.”); But see Webb Communications Group v. Gateway 2000, Inc., 1994 U.S. Dist. LEXIS 5691 (N.D. Ill. 1994). (Webb claimed that Gateway 2000 had misappropriated one of Webb’s “trade secrets,” to wit, a “stepped insert” advertising format. During discovery, Webb sought documents relating to Gateway 2000’s sales and financial information claiming that such documents were necessary to prove damages. Webb was asserting unjust enrichment as a basis for damages. The district court, in denying Webb’s discovery request, held that Gateway 2000’s sales figures had little or nothing to do with what Webb would have charged if Gateway had placed the advertising through Webb, as opposed to a third firm).
require, at a minimum, that opinions or estimates of lost profits be based on objective facts, figures, or data from which the amount of lost profits may be ascertained. The Texas courts require that recovery of lost profits must be predicated in at least one complete calculation.\(^{338}\)

The “lost profits” analysis the courts have used in trade secret cases has been substantially derived from, or similar to, damage calculations in patent infringement cases, particularly the Panduit test.\(^{339}\) The Federal Circuit has expanded the Panduit test to include all compensation that the patent owner would have received “but for” the infringement, subject to the limits of objective foreseeability.\(^{340}\) It is presently unclear whether the scope of recovery in trade secret cases will likewise be expanded will have to await future court review.

Damages may alternatively be based on a reasonable royalty,\(^{341}\) discussed below.

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\(^{339}\) Panduit Corp. v. Stahlin Bros. Fibre Works, 575 F.2d 1152 (6th Cir. 1978)\(^{339}\)(the elements of proof are: (1) demand for the product, (2) an absence of non-infringing substitutes, (3) the ability to exploit the demand, and (4) evidence of the amount of profit the plaintiff would have received).


\(^{341}\) Taco Cabana Int'l, Inc. v. Two Peas, Inc., 932 F.2d 1113, 19 U.S.P.Q.2d 1253 (5th Cir. 1991), aff'd on different grounds, 112 S. Ct. 1555 (1992); Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955, 43 U.S.P.Q.2d 1385 (2d Cir. 1997)(“reasonable royalty calculated on “total value” of the trade secret to the trade owner appropriate only where the defendant destroyed the value of the trade secret); Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 229 U.S.P.Q. 945 (5th Cir. 1986); Sikes v. McGraw-Edison Co., 665 F.2d 731 (5th Cir. 1982); Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)(“the total value of the secret to the plaintiff, including plaintiff’s development costs and the importance of the secret to the plaintiff’s business” are factors that should be considered in determining a reasonable royalty).

Punitive damages may also be awarded where a tort is pled in addition to or contemporaneously with breach of contract,\(^{342}\) and, in UTSA jurisdictions, where the conduct is found to be malicious.\(^{343}\) Breach of a confidential relationship may also justify an award to compensate for necessary remedial expenses, such as for promotional expenses to counter

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\(^{343}\) The UTSA provides that “[i]f willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).” See Raton Barrier, Inc. v. Stanley Works, 79 F.3d 1112 (Fed. Cir. 1996) (applying Illinois Trade Secrets Act, ITSA, held that “there must be knowing disclosure of a trade secret” for a finding of misappropriation and “[i]f an award of exemplary damages, that misappropriation must in addition be willful and malicious”; Accord Solutec Corp., Inc. v. Agnew, 88 Wash. App. 1067, 1997 Wash. App. LEXIS 2130 (Wash. Ct. App. 1997)(“Colorado law is quite clear that if the breach of contract would also constitute an independent tort, punitive damages are recoverable.”).
balance the losses caused by the breach, as well as attorney fees and costs.\textsuperscript{344}

It is presently uncertain what effect, if any, the Supreme Court’s recent decision in \textit{Cooper Indus., Inc. v. Leatherman Tool Group, Inc.}\textsuperscript{345} will have on exemplary or punitive damages in trade secret cases. In \textit{Cooper}, the Supreme Court held that appellate courts must review the constitutionality of punitive damage awards under a \textit{de novo} standard of review, \textit{i.e.}, an independent examination or review. The three factors guiding punitive damage awards, according to \textit{Cooper},\textsuperscript{346} are those cited in \textit{BMW of N. Am., Inc. v. Gore},\textsuperscript{347} namely:

(1) the degree or reprehensibility of the defendant’s misconduct,

(2) the disparity between the harm (or potential harm) suffered by the plaintiff and the punitive damages award [the ratio test], and

(3) the difference between the punitive damages awarded by the jury and the civil penalties authorized or imposed in comparable cases.

One of the presently few cases on the issue is the Federal Circuit’s opinion in \textit{Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp. (Rhone-Poulenc I)}\textsuperscript{348} holding that “[i]ndependent examination or review means a searching review, one that hunts for error and gives virtually no weight to the decisional process under review. Each aspect of the appellate review puts each aspect of the decision under review in sharp focus.” Additionally, the Federal Circuit construed the Supreme Court’s admonition in \textit{Cooper} that the Seventh Amendment would not permit a court, in reviewing a punitive damages award, “to disregard *** jury findings” on factual issues,\textsuperscript{349} to mean “that if a punitive damages determination rests on purely factual issues, we [the court] are to assume that those factual issues have been resolved adversely to the defendant, absent contrary indication.”

The Federal Circuit further viewed \textit{Cooper} as suggesting that the first \textit{BMW} factor could be influenced by the demeanor and credibility of witnesses, matters on which an appellate court must defer substantially to the jury. According to the court, in \textit{Rhone-Poulenc I}, it appeared that much of the “reprehensibility” in this case turned on an evaluation of DeKalb’s witnesses. Even on appeal, the Federal Circuit noted that the “cold record” revealed “several rather implausible explanations and assertions by DeKalb witnesses.” Accordingly, based almost entirely on perceived witness credibility, the Federal Circuit found “that DeKalb’s conduct was sufficiently reprehensible to support the award of punitive damages.”

\textbf{B. Damages Under The UTSA}

As amended in 1985, §3 of the UTSA specifically provides for actual and punitive damages:

(a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual lost caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measure by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a

\textsuperscript{344} See \textit{e.g.}, \textit{Zoecon Indus. v. Am. Stockman Tag Co.}, 713 F.2d 1174 (5th Cir. 1983).

\textsuperscript{345} 121 S.Ct. 1678 (2001).

\textsuperscript{346} 121 S.Ct. at 1687-88.

\textsuperscript{347} 517 U.S. 559, 574-75 (1996).

\textsuperscript{348} \textit{Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.}, 272 F.3d 1335 (Fed. Cir. 2001).

\textsuperscript{349} 121 S.Ct. at 1687.
misappropriator’s unauthorized disclosure or use of a trade secret.

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

The UTSA follows the Conmar350 rule that monetary relief, like injunctive relief, is only appropriate for the period of time in which the subject matter qualifies as a trade secret (namely, during the time that it is secret) plus any additional time necessary to preclude the misappropriator from benefiting from a “head start.” Although both damages and an injunction may be sought, the comments note that ordinarily an injunction would preclude damages for the same period of time.351 Additionally, the 1985 amendment to § 3(a) adopts the Conmar innocent misappropriation rationale that if a person charged with misappropriation shows a material and prejudicial change in position in reliance on knowledge of a trade secret: (1) acquired in good faith, and (2) without reason to know of its misappropriation, both injunctive and monetary relief may be denied.352

Although the UTSA permits exemplary or punitive damages if the misappropriation is “willful and malicious,”353 the UTSA does not say whether the standard of proof for exemplary damages must be (1) by a preponderance of the evidence, or (2) by clear and convincing evidence. Courts that have considered the issue have split,354 and the Supreme Court has held, Pacific Mutual Life Ins. Co. v. Haslip,355 that a standard of proof less than “clear and convincing” does not violate the Due Process Clause. Also, some courts, -- the Illinois courts, in particular -- have emphasized that the UTSA requires both (1) willful and (2) malicious conduct, and have distinguished between “motivation by malice” and

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350 *Conmar Prod. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949). *Compare Shellmar Prod. Co. v. Allen-Quayle Co.*, 87 F.2d 104 (7th Cir. 1937), cert. denied, 301 U.S. 695 (1937) (relief can be awarded even though the secret is no longer secret).

351 Comment, UTSA § 3, as amended in 1985. The 1985 amendment added the “inequitable” proviso in the first clause of § 3(a), clarified that damages for both actual loss and unjust enrichment (to the extent there is no overlap) may be sought, and added the last sentence in § 3(a) dealing with a reasonable royalty.

352 But see *Injection Research Specialists, Inc. v. Polaris Indus., L.P.*, 1998 U.S. App. LEXIS 18745 (Fed. Cir. 1998) (non-precedential) (“Nor do we agree with Polaris and Fuji that the district court erred by allowing trade secret damages for the period following the issuance of the ‘701 patent. *** Injection Research produced evidence that it made substantial efforts to safeguard its secrets both before and after the issuance of its patent. ** ** ** Accordingly, there was evidence in the record from which a reasonable juror could have concluded that Injection Research established the statutory element [under the Colorado Uniform Trade Secrets Act] of safeguarding its claimed trade secrets for the entire period for which damages were awarded.”).

353 *See Injection Research Specialists*, 1998 U.S. App. LEXIS 18745 (Fed. Cir. 1998) (non-precedential) (actual damages of $24 million and punitive damages of $10 million against Polaris, and actual damages of $15 million and punitive damages of $8 million against Fuji (punitive damages vacated by district court) under Colorado Uniform Trade Secrets Act); *Heller Insvs., Inc. v. Kray*, Inc., 1998 WL 422182 (Minn. App. 1998) (unpublished) (award of exemplary damages affirmed under Minnesota’s Uniform Trade Secrets Act — evidence showed that high-level executives deliberately engaged in a scheme to obtain confidential business information, and scheme was carried out through a breach of a confidentiality agreement — such conduct was willful and malicious justifying award of punitive damages and attorney’s fees); *Micro Data Base Sys. Inc. v. Dharma Sys., Inc.*, 148 F.3d 649, 46 U.S.P.Q.2d 1922 (7th Cir. 1998) (“When an award of punitive damages requires that the defendant have committed an aggravated form of the wrongful act sought to be punished, a defendant who commits the barebones tort is not liable for such damages.”); *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112 (Fed. Cir. 1996);


“motivation by competition,” awarding exemplary damages for the former, but not the latter.\footnote{356}{See e.g., Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112 (Fed. Cir. 1996): Damages for both unjust enrichment and actual loss may be recovered, but there can be no double recovery. Exemplary damages up to twice the amount of any actual damages may be awarded by the court. The UTSA thus specifically follows the patent statute, 35 U.S.C. § 284, giving the judge the discretion to award punitive damages even if trial is to a jury.

C. Damages Under the \textit{RESTATEMENT (THIRD) OF UNFAIR COMPETITION}

Section 45 of the \textit{RESTATEMENT (THIRD) OF UNFAIR COMPETITION} provides for damages based on (1) “the pecuniary loss to the other caused by the appropriation,” or (2) for the misappropriator’s “own pecuniary gain resulting from the appropriation, whichever is greater \* \* \* \*.” The Restatement also, however, provides that the court should consider “(a) the degree of certainty with which the plaintiff has established the fact and extent of the pecuniary loss or the defendant’s pecuniary gain resulting from the appropriation; (b) the nature and extent of the appropriation; (c) the relative adequacy to the plaintiff of other remedies; (d) the intent and knowledge of the defendant, and the nature and extent of any good faith reliance on the trade secret by the defendant; (e) any unreasonable delay by the plaintiff in bringing suit or asserting its rights; and (f) any related misconduct on the part of the plaintiff.”\footnote{357}{RESTSTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. B (1995).}

The comments note that courts have recognized at least four methods of measuring monetary relief in trade secret cases.\footnote{358}{See Data Gen. Corp. v. Grumman Sys. Support Corp., 803 F. Supp. 487 (D. Mass. 1992), aff’d 36 F.3d 1147 (1st Cir. 1994), for a discussion of damages in a mixed copyright infringement and trade secret misappropriation suit involving diagnostic software. Here, the jury awarded the identical amount, $27,417,000, for both the copyright infringement and trade secret counts.} The first attempts to measure the plaintiff’s direct loss as a result of the misappropriation. That may include lost profits, loss of royalties or other income, or the value of the trade secret if the misappropriation has destroyed it. The second is based on defendant’s profits attributable to the misappropriation.\footnote{359}{RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. d (1995).} The third, borrowed from patent infringement cases, attempts to measure the savings to the defendant resulting from the misappropriation. The fourth, also borrowed from patent infringement actions, is a reasonable royalty calculated using the legal fiction of a willing buyer-willing seller. The section does not advocate one measure over another, but instead leaves that to the parties and the court.\footnote{360}{Id. cmt. c (1995).}

Like the UTSA, both damages and equitable relief in the form of an injunction or restitution for unjust enrichment may be sought. Indeed, the comments note that often it is difficult in trade secret cases to determine damages, and the equitable remedy of restitution may be most appropriate. The comments likewise indicate that the Restatement would not follow those cases that require a plaintiff to elect between the legal remedy of damages and the equitable remedy of restitution.\footnote{361}{Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d 150 (2d Cir. 1949).}

Also like the UTSA, the \textit{RESTATEMENT (THIRD) OF UNFAIR COMPETITION} adopts the \textit{Conmar} rule that monetary remedies are only available for the period of time that the information would have remained a trade secret (measured by the amount of time it would have taken to discover the trade secret by proper means) plus any additional time to compensate for the defendant’s “head start.”\footnote{362}{RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. h (1995).} The comments further note, however, that such a limitation applies only where the action is based on tortious
conduct. If the action is based on breach of contract, the remedy will most likely be measured by the terms of the agreement.363

Section 45, unlike the UTSA, does not refer to punitive damages per se. The comments though note that punitive damages are generally available for misappropriation under the common law. The list of factors in § 45(2) include factors relating to willfulness (as well as factors relating to innocent misappropriation) and the intent, apparently, is to let the court fashion an appropriate remedy.

D. Prejudgment Interest
Insofar as trade secret claims are concerned, state law determines whether a plaintiff is entitled to prejudgment interest. The Eighth Circuit, in Pioneer Hi-Bred International v. Holden Foundation Seeds, Inc.,364 remarked that one of the major goals of prejudgment interest was to promote settlement, but that where a case involves damages that are “virtually impossible to ascertain prior to trial,” pre-trial settlement becomes a less compelling goal.365 The court held, despite an otherwise applicable Iowa statute providing for pre-judgment interest in virtually all cases, that “when faced with particular situations in which an award of prejudgment interest serves little purpose or would otherwise prove inequitable, the Iowa courts have on several occasions created exceptions to this general rule.”366

That view was reiterated by the court in EFCO Corp. v. Symons Corp.,367 finding that although the time from filing to trial was not as great as in Pioneer (3 years), EFCO’s $13 million compensatory damage award was substantial and the damage amount was hotly contested. The court found that those factors together gave the district court discretion to deny prejudgment interest.

A rule in Illinois, however, is that a party may only recover prejudgment interest by express agreement or by statutory authorization, or if it is “warranted by equitable considerations.” In general, however, that appears to mean instances where there is a fiduciary or confidential relationship. 368 The Federal Circuit reversed the district court’s award of pre-judgment interest because there was a direct relationship between C&F and IBP, the alleged misappropriator, and thus no fiduciary or confidential relationship.

E. Reasonable Royalty
As amended in 1985, § 3 of the UTSA specifically provides for a “reasonable royalty” which can result in large judgments.369 Unlike the patent statute that sets a “reasonable royalty” as a floor to recoverable damages (“Upon finding for the claimant the court shall award * * * in no event less than a reasonable royalty,” 35 U.S.C. § 284), a reasonable royalty in trade secret misappropriation cases is generally treated as an alternative to lost profits or other actual damages.370 Indeed, comment (f) to § 45 of the

363 Id.
364 35 F.3d 1226 (8th Cir. 1994).
365 Id. at 1246.
366 Id.
367 219 F.3d 734, 741 (8th Cir. 2000).
369 See Celeritas Techs., Ltd. v. Rockwell Int’l Corp., 150 F.3d 1354, 47 U.S.P.Q.2d 1516 (Fed. Cir. 1998) ($57 million verdict on breach of contract − non-disclosure agreement − affirmed. Damages based on hypothetical lump-sum paid-up license). The most frequently cited case listing the factors used in determining a “reasonable royalty” in patent infringement cases is Georgia-Pacific Corp. v. United States Plywood Corp., 318 F. Supp. 1116, 166 U.S.P.Q. 235 (S.D.N.Y. 1970). See also Vermont Microsystems, Inc. v. Autodesk, Inc., (Vermont 1), 88 F.3d 142, 151, 39 U.S.P.Q.2d 1421, 1428 (2d Cir. 1996) (defining a reasonable royalty as: “A reasonable royalty award attempts to measure a hypothetically agreed value of what the defendant wrongfully obtained from the plaintiff. By means of a “suppositious meeting” between the parties, the court calculates what the parties would have agreed to as a fair licensing price at the time that the misappropriation occurred.”).
370 See Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp., 139 F.3d 1396 (11th Cir. 1998); Olson v. Nieman’s, Ltd., 1998 Iowa Sup. LEXIS 130 (Iowa


RESTATEMENT (THIRD) OF UNFAIR COMPETITION discusses a reasonable royalty in the context of when an award of a defendant’s entire profit would be unjust, i.e., when a trade secret accounts for only a portion of such profits. Nevertheless, under the language of both the model USTA and the patent statute, plaintiffs entitled to either lost profits or reasonable royalty damages are generally able to choose between the two. Indeed, the Federal Circuit has approved a jury instruction that divided a damage award into a “reasonable royalty” and “damages adequate to compensate for the infringement.” California, however, has not adopted the model form of the USTA verbatim. Under the California version, “[i]f neither damages nor unjust enrichment are provable, the court may order payment of a reasonable royalty * * *.”

There is authority for awarding the total value of the secret to the plaintiff, including all development costs, through a reasonable royalty, but the Second Circuit has held that a reasonable royalty based on the “total value” of the trade secret to the trade secret owner is only appropriate where the misappropriator’s use of the trade secret destroyed the entire value of the trade secret.

In patent infringement actions, the Federal Circuit has disapproved the use of a “Panduit kicker,” i.e., an increase in the royalty rate to compensate the patent owner for various costs or damages incurred in enforcing its patent rights. The Second Circuit in Vermont Microsystems, Inc. v. Autodesk, Inc., (Vermont II), similarly held that it was improper for the district court to double a “reasonable royalty” award to account for the “cost of infringement.”

371 Some states, however, have chosen to modify that provision. Indiana, for example, provides that a reasonable royalty may be awarded (1) when it would be unreasonable to enjoin future use, but then the royalty can only last for a period that otherwise could have been enjoined, or (2) when neither damages or unjust enrichment are provable, but again for only a period of time that otherwise could have been enjoined. IND. CODE §§ 24-2-3-3(b), -4(b).

372 See Cacique Inc. v. Robert Reiser & Co., 169 F.3d 619, 49 U.S.P.Q.2d 1997, 2000 (9th Cir. 1999)(“California law differs on this point from both the USTA and Federal patent law, neither of which require actual damages and unjust enrichment to be unprovable before a reasonable royalty may be imposed.” – in that case finding “no reason to believe that unjust enrichment could not be proved.”).

373 See Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)(“the total value of the secret to the plaintiff, including plaintiff’s development costs and the importance of the secret to the plaintiff’s business” are factors that should be considered in determining a reasonable royalty.).

374 Softel, Inc. v. Dragon Med. and Scientific Communications, Inc., 118 F.3d 955, 43 U.S.P.Q.2d 1385 (2d Cir. 1997)(reasonable royalty calculated on “total value” of the trade secret to the trade owner appropriate only where the defendant destroyed the value of the trade secret). See also Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)(same).


F. Attorney’s Fees

1. General Rule in Texas

In Texas, attorney’s fees for breach of a confidentiality agreement may be awarded under the general Texas attorney’s fees statute, TEX. CIV. PRAC. & REM. CODE ANN. § 38.001. Unlike the attorney’s fees provision in the Deceptive Trade Practices Act (TEX. BUS. & COM. CODE ANN. § 17.50(d)), there is no requirement in TEX. CIV. PRAC. & REM. CODE ch. 38 to show that such fees are “necessary.” The only requirement is that they be “reasonable.” “Reasonableness” is a question of fact for the jury. Although generally the amount of an award of attorney’s fees should bear some reasonable relationship to the amount in controversy, the amount of damages recovered is only one factor to be considered. Other factors include the total amounts of money involved in the case, the nature of the case, the time spent, and the skill and experience required. The statute does not, however, permit an award directly to the attorney, and where both parties are entitled to awards of damages and attorney’s fees, the award of attorney’s fees is included in the overall amount for purposes of offsetting respective awards.

2. Under the UTSA

In those states that have adopted the UTSA: “[i]f (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney’s fees to the prevailing party.” The Commissioners’ comment explains that an award of attorney fees is intended as a deterrent to “specious claims of misappropriation, to specious efforts by a misappropriator to terminate injunctive relief, and to willful and malicious misappropriation.”

In cases with multiple causes of action, some courts have held that there is no requirement to apportion the attorney’s fees. Also, at least two courts have held that attorney’s fees may be recovered even though such recovery is not specifically pleaded.

G. Injunctive Relief

1. General Requirements

Injunctive relief, of course, is a principal remedy in departing employee and trade secret cases. A trade secret owner may obtain both a

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378 Under TEX. CIV. PRAC. & REM CODE § 38.001, a person may recover reasonable attorney’s fees if the claim is for, inter alia, “an oral or written contract.”


380 Id.

381 Id.

382 UTSA § 4. See also Best Indus. v. CIS Bio Int'l, Inc., 134 F.3d 362 (4th Cir. 1998)(where plaintiff voluntarily dismisses claim without prejudice under the Virginia Trade Secrets Act at the close of discovery, the defendant is not a “prevailing party” and is not entitled to attorney’s fees or costs); Trident Perfusion Assocs., Inc. v. Lesnoff, 992 F. Supp. 829 (W.D. Va. 1998)(“when a party to a Virginia Trade Secrets Act case does not prevail and is found to have acted in bad faith, the prevailing party may recover counsel fees not only incurred at the trial level but also those incurred in a successful defense of all or part of the trial court’s final judgment on appeal.”).

383 Commissioners’ comment, UTSA § 4. See Boeing Co. v. Sierracin Corp., 738 P.2d 665 (Wash. 1987); Aries Info. Sys., Inc. v Pac. Mgmt. Sys. Corp., 366 N.W.2d 366 (Minn. Ct. App. 1985). See also Lucas v. Avery Dennison Corp., 141 F.3d 1159 (4th Cir. 1998)(adopting the comment’s meaning of “bad faith” as a “specious” claim, trial court’s award of attorney’s fees for a specious action brought under the South Carolina Uniform Trade Secrets Act affirmed as not being an abuse of discretion); Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112 (Fed. Cir. 1996)(no award of attorney’s fees appropriate if conduct is not willful and malicious).

384 See Data Gen. Corp. v. Grumman Sys. Support, 825 F. Supp. 340, 361 (D. Mass. 1993), aff’d 36 F.3d 1147 (1st Cir. 1994)(in a suit involving claims for both copyright infringement and trade secret misappropriation, successful plaintiff is entitled to full recovery of attorney’s fees under the copyright statute and there is no requirement to apportion). See Engel v. Teleprompter Corp., 732 F.2d 1238 (5th Cir. 1984); Capital Asset Research Corp. v. Finnegan, 216 F.3d 1268 (11th Cir. 2000).

385 See Weed Eater, Inc. v. Dowling, 562 S.W.2d 898 (Tex. Civ. App.–Houston [1st Dist.] 1978, writ ref’d n.r.e.). The right to exclude, indeed, is fundamental to the
preliminary and a permanent injunction.387 Such relief can go both to prohibiting use of the trade secret388 as well as maintaining documents, code, and materials for evidentiary purposes.

In general, the movant for a preliminary injunction has the burden of showing (1) a substantial likelihood of success on the merits; (2) irreparable injuries; (3) that the threatened injury to the plaintiff outweighs the potential damage to the defendant;389 and (4) an injunction would not disserve the public interests.390 Where there are multiple causes of

concept of a property right. Ruckelshous v. Monsanto Co., 104 S. Ct. 2862 (1984). Although injunctive relief is available, prospective plaintiffs should also understand that injunctions under both federal and state law require bonds which can be substantial. See Nintendo of America, Inc. v. Lewis Galoob Toys, 16 F.3d 1032 (9th Cir. 1994)(Nintendo obtained a preliminary injunction and bond was raised to $15 million. Ultimately, the Ninth Circuit affirmed a finding that Galoob’s use was “fair use,” Lewis Galoob Toys, Inc. v. Nintendo of Am., Inc., 964 F.2d 965 (9th Cir. 1992), and subsequently affirmed the district court’s award to Galoob of the $15 million bond plus costs.).


389 The Fourth Circuit has emphasized that district courts are obliged to balance the hardships even if the plaintiff has shown a likelihood of success on the merits. Direx Israel Ltd. v. Breakthrough Med. Corp., 952 F.2d 802 (4th Cir. 1991).

390 See e.g., Honeywell, Inc. v. Brewer-Garrett Co., 145 F.3d 1331 (6th Cir. 1998)(preliminary injunction properly denied where there was insufficient evidence of improper use or disclosure of certain bid information); Controls Int’l, Inc. v. Kinstrad, Ltd., 1998 U.S. Dist. LEXIS 4794 (N.D. Tex. 1998)(preliminary injunction granted restraining use of plaintiff’s trademark, but denied on related trade secret misappropriation claim because there was no evidence that defendants were using the trade secret information); Welch v. Rockmaster Equip. Mfg., Inc., 1998 U.S. Dist. LEXIS 6201 (E.D.

action, courts will balance those factors vis-à-vis each cause of action.391

In Texas state courts, the issue is normally phrased as whether there is a probable right to relief or probability that the plaintiff will ultimately prevail at trial on the merits, and whether the plaintiff risks irreparable harm or injury if a temporary injunction is not issued.392 Irreparable injury is not, of course, a requirement for an injunction following trial on the merits. An injunction prohibiting further use or disclosure of the trade secret is inherent to the recognition of trade secrets as property rights.393 In fact, injunctive relief has been held to be especially appropriate where an employee seeks to disclose or use confidential information.394

2. Irreparable Harm
Irreparable harm is usually based on the irreparable damages flowing from an improper use

Tex. 1998)(preliminary injunction issued preventing defendant patent owners from producing patented device where plaintiff asserted rightful ownership of invention); Allied Mkfg. Group, Inc. v. CDL Mkfg., Inc., 878 F.2d 806, 809 (5th Cir. 1989); Union Carbide Corp. v. UGI Corp., 731 F.2d 1186, 1191 (5th Cir. 1984); Interex Am. v. PPG Indus., Inc., 736 F.2d 194 (5th Cir. 1984); Canal Auth. of the State of Florida v. Callaway, 489 F.2d 567, 573 (5th Cir. 1974).


or disclosure of trade secrets, and may be shown by the misappropriation of a single trade secret.\textsuperscript{395} It may also be based on the employee’s subsequent employment.\textsuperscript{396}

“Irreparable” generally has been held to mean an injury that cannot be compensated by money damages,\textsuperscript{397} or that cannot be measured by any certain pecuniary standard.\textsuperscript{398} If damages are sufficient to compensate the plaintiff for any wrong, and if damages are reasonably ascertainable, then courts have held that an injunction should not issue.\textsuperscript{399} The movant for an injunction bears the burden of showing the lack of adequate legal remedies.\textsuperscript{400}

Once a trade secret is shown, there is an argument that irreparable damage should be presumed because once the secret is disclosed it is irretrievably lost.\textsuperscript{401} The trade secret owner’s loss of control over the secret, and consequently the means for protecting it, have led some courts to presume irreparable injury.\textsuperscript{402} Some courts have required a showing of imminent disclosure or misuse of the trade secret in order to find irreparable harm.\textsuperscript{403} The Fifth Circuit\textsuperscript{404} and Federal Circuit, however, apparently will not presume irreparable harm, and the Federal Circuit has denied a preliminary injunction where “[t]here was no showing [that plaintiff] would suffer injury irreparable and noncompensable by money damages” if the defendants used the allegedly misappropriated trade secrets during the litigation.\textsuperscript{405}

However, a violation of a state trade secrets statute may dispense with any requirement for a separate showing of irreparable harm. In

\textsuperscript{395} F.M.C. Corp. v. Varco Int'l, Inc., 677 F.2d 500 (5th Cir. 1982).

\textsuperscript{396} Williams v. Compressor Eng'g Corp., 704 S.W.2d 469 (Tex. Civ. App.–Houston [14th Dist.] 1986, writ ref'd n.r.e.) (irreparable injury in some cases may be presumed as a matter of law).


\textsuperscript{399} See e.g., Minessa Arizona, Inc. v. Staubach, 667 S.W.2d 563 (Tex. App.–Dallas 1984, no writ).

\textsuperscript{400} Id. at 567.

\textsuperscript{401} In the Ninth Circuit, for example, a showing of reasonable success on the merit in a copyright infringement suit is sufficient to raise a presumption of irreparable harm. Triad Sys. Corp. v. Southeastern Express Co., 64 F.3d 1330, 1334 (9th Cir. 1995)(holding that the presumption of irreparable harm supported the district court’s preliminary injunction order); Johnson Controls, Inc. v. Phoenix Control Sys., Inc., 886 F.2d 1173 (9th Cir. 1989)(same), citing Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521 (9th Cir. 1984); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3rd Cir.1983)(holding that the district court erred when it failed to consider the presumption of irreparable harm).


\textsuperscript{404} DFW Metro Line Servs. v. Southwestern Bell Tel. Co., 901 F.2d 1267, 1269 (5th Cir. 1990)(per curiam)(“There can be no irreparable injury where money damages would adequately compensate a plaintiff.”); FMC Corp. v. Taiwan Tainan Giant Indus. Co., 730 F.2d 61 (2d Cir. 1984). See also Concrete Mach. Co. v. Classic Lawn Ornaments, Inc., 843 F.2d 600, 612 n.12 (1st Cir. 1988)(noting that the Fifth Circuit was the only circuit that did not apply a presumption of irreparable harm once the plaintiff had shown a likelihood of success on the merits).

\textsuperscript{405} Formax, Inc. v. Hostert, 5 U.S.P.Q.2d 1939 (Fed. Cir. 1988); Litton Sys., Inc. v. Sunstrand Corp., 750 F.2d 952 (Fed. Cir. 1984); Reebok Int'l, Ltd. v. J. Baker, Inc., 32 F.3d 1552, 1994 U.S. App. LEXIS 21580 (Fed. Cir. 1994). See also Sampson v. Murray, 415 U.S. 61 (1974)(“[t]he possibility that adequate compensatory or other corrective relief will be available at a later date, in the ordinary course of litigation, weighs heavily against a claim of irreparable harm.”).
EEOC v. Cosmair, the Fifth Circuit held that a violation of the Mississippi Uniform Trade Secrets Act itself constituted irreparable injury.

Although some courts in California have also refused to presume irreparable harm, the general rule in the Ninth Circuit seems to be that a showing of reasonable success on the merits (at least in a copyright infringement suit) is sufficient to raise a presumption of irreparable harm.

Defendants in temporary/preliminary injunction hearings in trade secret misappropriation cases frequently argue that any damages suffered by the trade secret owner are compensable by money damages and therefore not “irreparable.” However, the intervening loss of business and good will, and the loss of a competitive advantage are not easily measured, and may constitute evidence of “irreparable” harm, and there may be evidence that the defendant would, in any event, not be able to respond to a damage judgment.

3. Duration Of Injunction

Once there has been a public disclosure, there is no longer a trade secret to protect, and the “owner” cannot thereafter obtain an injunction against its use.

However, Texas has historically followed the theory that a permanent injunction may issue, even though the “secret” later becomes public, if the defendant learned the trade secret improperly or while under an obligation of confidentiality.

406 821 F.2d 1085, 1090-91 (5th Cir. 1987).
409 Triad Sys. Corp. v. Southeastern Express Co., 64 F.3d 1330, 1334 (9th Cir. 1995)(holding that the presumption of irreparable harm supported the district court's preliminary injunction order); Johnson Controls, Inc. v. Phoenix Control Sys., Inc., 886 F.2d 1173 (9th Cir. 1989)(same), citing Apple Computer, Inc. v. Formula Int'l, Inc., 725 F.2d 521 (9th Cir. 1984); Apple Computer, Inc. v. Franklin Computer Corp., 714 F.2d 1240, 1254 (3d Cir. 1983)(holding that the district court erred when it failed to consider the presumption of irreparable harm).
410 See T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18 (Tx. App.–Houston 1st Dist.), 1998, no writ). (“Injunctive relief is proper to prevent a party, which has appropriated another's trade secrets, from gaining an unfair market advantage. The only effective relief available to [Hennessey] is to restrain [defendants'] use of its trade secrets and confidential information pending trial. At the time of the injunction hearing, [Hennessey] had over 20 Vipers in its shop. Hennessey stated that if the Venom upgrades could be obtained anywhere, there would be no reason for people to send their Vipers to

411 See e.g., GTC Chem. Servs., Inc. v. Borden, 1998 Tex. App. LEXIS 3562 (Tex. App.–Corpus Christi 1998, no writ). (“We have previously held that for purposes of injunctive relief, no adequate remedy at law exists if damages are incapable of calculation or if defendant is incapable of responding in damages which may result pending outcome of the litigation.”). See also Cadence Design Sys., Inc. v. Avant! Corp., 125 F.3d 824 (9th Cir. 1997)(district court's failure to enter a preliminary injunction reversed and remanded where district court allowed defendant to rebut presumption of irreparable harm by showing harm compensable by money damages).
412 See, e.g., Wissman v. Boucher, 240 S.W.2d 278 (Tex. 1951). See also Campbell Soup Co. v. Con-Agra, Inc., 977 F.2d 86, 24 U.S.P.Q.2d 1537 (3d Cir. 1992)(no irreparable harm, and therefore no basis for a preliminary injunction, if the alleged trade secret had already been published in an issued patent, even though the breach of confidence occurred before the issuance of the patent and the patent was obtained by the defendant).
The more modern and prevalent rule, however, is that publication of a trade secret terminates any right to an injunction or damages (post publication), and that the length of an injunction should be limited to the “head-start” time.\footnote{\textit{Bryan v. Kreshaw}, 366 F.2d 497, 503 (5th Cir. 1966), \textit{cert. denied}, 386 U.S. 959 (1967). See also \textit{Surgidev Corp. v. ETI, Inc.}, 828 F.2d 452, (8th Cir. 1987); \textit{Kilbarr Corp. v. Bus. Sys., Inc. B.V.}, 679 F. Supp. 422 (D.N.J. 1988).} Several courts, for example, have held that the duration of the injunction should not go beyond that required for reverse engineering,\footnote{See, e.g., \textit{Data Gen. Corp. v. Digital Computer Controls, Inc.}, 297 A.2d 433 (Del. Ch. 1971), \textit{aff'd}, 297 A.2d 437 (Del. 1972); \textit{K-2 Ski Co. v. Head Ski Co.}, 506 F.2d 471 (9th Cir. 1974).} especially in those states that have adopted the Uniform Trade Secrets Act.\footnote{See e.g., \textit{Stampede Tool Warehouse, Inc. v. May}, 651 N.E.2d 209, 35 U.S.P.Q.2d 1134 (Ill. App. [1st Dist.] 1995)(appeal denied)(court modified a permanent injunction that had been entered by the trial court to expire 4 years after the date of the original temporary restraining order — thus expiring approximately 3 months after the date of the court’s decision — finding that was the amount of time that it would have taken to reconstruct the lists). \textit{See also} \textit{Schulenburg v. Sigmatrol, Inc.}, 212 N.E.2d 865, 147 U.S.P.Q. 167 (Ill. 1965)(holding that an injunction should be limited in duration to the period of time reasonably required to reproduce the trade secret); \textit{Lamb-Weston, Inc. v. McCain Foods, Ltd.}, 941 F.2d 970 (9th Cir. 1991)(approved a preliminary injunction, intended to correspond to the defendant’s head-start time, that extended approximately 7 months after plaintiff’s patent issue); \textit{Integrated Cash Mgmt. Serres., Inc. v. Digital Transactions, Inc.}, 920 F.2d 171 (2d Cir. 1990)(affirmed an injunction prohibiting the defendants from becoming involved in the development of any programs similar to the plaintiff’s programs for six-months and an injunction perpetually enjoining the defendants from distributing any version of the four “generic” programs that made up ICM’s system).}

As amended in 1985, § 2 of the UTSA provides:

\begin{enumerate}
\item [(a)] Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.
\item [(b)] In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.
\item [(c)] In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.
\end{enumerate}

The Commissioners’ comment states that the UTSA specifically declines to follow the rule in some states, including Texas, that an injunction may be punitive in nature and extend perpetually.\footnote{But see \textit{Clifford McFarland Read & Landy, Inc. v. Brier}, 1998 WL 269223 (R.I. Super. 1998)(“[T]his Court finds that customer information concerning credit history, sales volume, prospective future business, service relationships, special needs of customers, supplier lists, cost information, pricing policies, and profitability are trade secrets as defined [by the Rhode Island Uniform Trade Secrets Act].” The court issued a permanent injunction prohibiting the defendants from using that information).}
Instead, the UTSA takes the position that an injunction should terminate once a trade secret becomes generally known or is discovered through “proper means,” plus any additional time necessary to cure a defendant’s unlawful advantage gained through early improper acquisition or use (head start or lead time injunction). According to the Comment, if the misappropriator, at the time of hearing, has not taken advantage of the lead time or if the secret has lost its status as a trade secret at the time of hearing, then no injunction should issue.418

Section 2(b) of the UTSA is directed to the situation where an injunction against future use is considered inappropriate, as was the rule under the common law.419

4. Scope of the Injunction
The injunction must, of course, be phrased broadly enough to accomplish the underlying purpose of protecting the trade secrets at issue, and yet not cast too broad a net for two reasons. First, Rule 65, FED. R. CIV. P. (and most, if not all, corresponding state court rules) requires some specificity in injunctions for the practical reason corresponding state court rules) requires some specificity in injunctions for the practical reason that the enjoined party should know, with little lingering doubt, what he or she is prohibited from doing under penalty of contempt.420

Secondly, excluding those cases in which there has been reprehensible conduct, the injunction should not utterly destroy the defendant’s ability to fairly compete.421 Nevertheless, the injunction should be broad enough to protect the rights of the trade secret owner.422 In some cases, that may require an information that included profits per customer, sales per customer, special suppliers, overhead and specific pricing information, constituted a trade secret. Preliminary injunction prohibiting subsequent employer from using former employee of plaintiff to prepare bids sustained because there was a threat that employee would inherently use trade secret customer information of former employer. However, injunction broadly prohibiting KM from offering certain product lines to “any customer or client of KM” was overly broad. See also Voner Corp. v. Decadit Servs., Inc., 983 F.2d 427 (2d Cir. 1993)(reversing injunction that restrained defendant from “copying, duplicating, distributing, offering for sale, or using plaintiff’s copyrighted ‘Maintenance Software,’ ‘Schematics’ or other trade secrets of the Beta 3000 and Beta 3000M as being unintelligible’); Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc., 986 F.2d 476, 480, 25 U.S.P.Q.2d 1798, 1801 (Fed. Cir. 1993)(Rule 65 requires specificity in order to relieve parties from the burden of adjudicating unwarranted contempt proceedings); KSM Fastening Sys., Inc. v. H.A. Jones Co., 776 F.2d 1522, 1526, 227 U.S.P.Q. 676, 679 (Fed. Cir. 1985)(“If the potent weapon of judicial contempt power is to be brought to bear against a party for violation of an order, ‘one basic principle written into Rule 65 is that those whom an injunction is issued should receive fair and precisely drawn notice of what the injunction actually prohibits.””).

See T-N-T Motorports, Inc. v. Hennessy Motorports, Inc., 965 S.W.2d 18 (Tx. App.–Houston [1st Dist.], 1998, no writ) (injunction that went beyond prohibiting the use of trade secret and confidential information was overbroad and modified on appeal); DiGiorgio v. Megabyte Int’l, Inc., 266 Ga. 539, 468 S.E.2d 367 (Ga. 1996)(“all solicitation and sale to customers that [the defendants] knew or had reason to know were [plaintiff’s] customers during employment” was too broad); Aanson Corp. v. Aloka Co., Ltd., 209 Cal. App. 3d 425, 10 U.S.P.Q.2d 1814 (6th Dist. 1989) (an injunction that prohibited the use of anything learned as a result of reverse engineering is too broad).

See, e.g., Chemetall Gmbh v. ZR Energy, Inc., 138 F. Supp. 2d 1079, 1082 (N.D. Ill. 2001)(“The injunctive relief issued in a trade secret case must be tailored to the facts of the case and must be sufficient to protect the interests of the trade secret holder.”).
injunction that effectively precludes the production of a competitive product.423

Also, at least one court has justified issuance of a broad final injunction on the difficulty of policing the defendants’ activities while a temporary injunction was in place.424 Another court addressed that problem by appointing an independent “verifier” to assure continued compliance with the injunction.425

5. Losing The Right to an Injunction
The right to an injunction may be lost due to “unclean hands” or affirmative defenses such as “copyright misuse” that are based on the “unclean hands” maxim. Under Texas law, a plaintiff with unclean hands is not entitled to equitable relief.426

Also under Texas law, however, the defendant must show some injury resulting from the actions allegedly constituting “unclean hands.”427 If a jury verdict finding “unclean hands” is deemed advisory, however, then the trial court has discretion whether to disregard the jury findings of unclean hands.428

The right to an injunction may also be lost in situations where granting an injunction would result in double recovery, i.e., where damages have been awarded to compensate the plaintiff for future use of the trade secret.429 The right to an injunction can also be lost through misrepresentations (or, at least, perceived misrepresentations).430

6. Under the Restatement (Third) of Unfair Competition
The RESTATEMENT (THIRD) OF UNFAIR COMPETITION, in § 44, provides that “injunctive relief may be awarded to prevent a continuing or threatened appropriation of another’s trade secret * * *,” and that the “duration of injunctive relief in trade secret actions should be limited to the time necessary to protect the plaintiff from any harm attributable to the appropriation and to deprive the defendant of any commercial advantage attributable to the appropriation.” Section 44 further lists eight factors that courts should consider in granting an injunction, namely “(a) the nature of the interest to be protected; (b) the nature and extent of the appropriation; (c) the relative adequacy to the plaintiff of an injunction and of

423 Christopher M’s Hand Poured Fudge, Inc. v. Hennon, 699 A.2d 1272 (Pa. Super. Ct. 1997)("production" injunction permanently prohibiting former employee from making fudge upheld on appeal because former employee’s lack of fudge making experience combined with his knowledge of trade secret recipe and manufacturing process established “an inextricable connection” between the trade secrets and his manufacture of fudge); Post Office v. Portec. Inc., 913 F.2d 802, 15 U.S.P.Q.2d 1865 (10th Cir. 1990)(finding that the trade secrets were “so necessarily intertwined with the manufacture and sale of [the subject devices] that an injunction which falls short of barring the manufacture and sale of any such chutes would fail to adequately apprise defendant as to the prohibited conduct and would create a potential window of opportunity for defendant to engage in conduct which would prevent plaintiff from being adequately protected],” broad injunction affirmed); Gen. Elec. v. Sung, 843 F. Supp. 776 (D. Mass. 1994)("production injunctions,” i.e., an injunction that enjoined “production” of something, are preferred in those situations where a “use injunction,” i.e., an injunction enjoining the “use” of a trade secret, would be ineffective in eliminating the competitive advantage gained by the misappropriation. The rationale for a “production injunction” is that the trade secrets are “inextricably connected” to the defendant’s manufacture of the product).


427 Alcatel USA Inc. v. DGI Techs., Inc., 166 F.3d 772, 49 U.S.P.Q.2d 1641 (5th Cir. 1999).

428 See Thomas v. McNair, 882 S.W.2d 870, 880 (Tex. App.–Corpus Christi 1994, no writ).

429 Next Level Communications L.P. v. DSC Communications Corp., 179 F.3d 244 (5th Cir. 1999). See also DSC Communications Corp. v. Next Level Communications, 107 F.3d 322, 328 (5th Cir. 1997).

430 qad, Inc. v. ALN Assocs., Inc., 974 F.2d 834, 24 U.S.P.Q.2d 1145 (7th Cir. 1992)(injunction dissolved when trial court learned that qad had characterized its software as “wholly original” when, in fact, it was derived from other software).
other remedies; (d) the relative harm likely to result to the legitimate interests of the defendant if an injunction is granted and to the legitimate interests of the plaintiff if an injunction is denied; (e) the interests of third persons and of the public; (f) any unreasonable delay by the plaintiff in bringing suit or asserting its rights; (g) any related misconduct on the part of the plaintiff; and (h) the practicality of framing and enforcing the injunction.” The comments indicate that this section was derived from the RESTATEMENT (SECOND) OF TORTS § 936 generally dealing with factors to be considered when issuing injunctions in tort actions.

The comments also note that the RESTATEMENT (THIRD) follows the lead of the UTSA in limiting the duration of an injunction to the time the trade secret remains a secret plus any additional time necessary to negate a defendant’s head start or lead time. According to the comments, the “appropriateness” of an injunction should be gauged on “the interests of both the parties and the public, including the interest of the plaintiff in preserving the commercial advantage inherent in the trade secret, the interest of the defendant in avoiding interference with legitimate business transactions, and the interest of the public in fostering innovation and promoting vigorous competition.”

Comments to the RESTATEMENT (THIRD) OF UNFAIR COMPETITION indicate that the intent, like the UTSA, was not to follow the RESTATEMENT (FIRST) OF TORTS’ position on good faith purchasers for value. Indeed, the comments suggest that a reasonable royalty such as provided in § 2(b) of the UTSA may be appropriate in that instance.

7. Failure to Comply With Discovery Directed at Whether Defendant Has Complied With Preliminary Injunction May Be Punishable by Contempt

That was the holding by the Georgia Court of Appeals in Gazelah v. Rome General Practice. Rome, a weight loss clinic, sued Dr. Shawn Gazelah and two of Rome’s former management staff for allegedly scheming to divert patients and assets from Rome to Gazelah. During a hearing on Rome’s request for a preliminary injunction, a former receptionist for Rome admitted that she had participated in providing Rome’s waiting list patient’s names to Gazelah. The trial court entered a preliminary injunction prohibiting Gazelah from using those customer lists and scheduling calendars. Through interrogatories, Rome asked Gazelah for each of her patient’s names from the date the clinic opened. Gazelah gave incomplete answers despite a court order to do so, and the trial court held Gazelah in contempt. Gazelah’s “excuse” was that such information constituted a trade secret and they could not be required to reveal that information. On appeal, the court affirmed the finding of contempt: “But to determine their compliance with the court’s order restraining them from using the Practice’s customer list, and to determine their violation, if any, of the Georgia Trade Secrets Act, as well as damages resulting therefrom, this information is essential to the litigation. We cannot endorse the appellants’ disingenuous attempt to conceal information properly subject to discovery by the law they are accused of violating to insulate themselves from disclosing this information.”

H. Officers and Directors Personal Liability for Trade Secret Misappropriation

Can officers and directors who invest in a business be held liable for trade secret misappropriation? In a California case, PMC Inc. v. Kadisha, the California Court of Appeals held yes. According to the court:

In the present case, plaintiffs presented sufficient evidence to

431 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmts. c and f (1995).


raise a triable issue whether, when defendants invested in PWP, became majority shareholders, officers and directors of PWP, effectively took control of the corporation, hired personnel to run it, and continued its operations, they knew or, with respect to trade secret misappropriation, had reason to know, that their codefendants had engaged in tortious conduct harmful to WFI. In a nutshell, there was evidence from which a trier of fact could reasonably infer defendants, in anticipation of enormous corporate and personal profit, knowingly invested at a bargain price in a corporation whose sole business assets consisted of stolen confidential information and processes, and subsequently controlled the entity which was engaging in unlawful conduct.

VII. RECENT CASES INVOLVING TRADE SECRET ISSUES
A. Economic Espionage Act of 1996 (“EEA”)
1. Legal Impossibility is Not a Defense Under the EEA

*United States v. Yang*, 281 F.3d 534 (6th Cir. 2002)

Yang, his company, Four Pillars Enterprise Company, Ltd., and Yang’s daughter Hwei Chen Yang (Sally), were charged, *inter alia*, with conspiracy to commit theft of a trade secret in violation of the EEA. Avery Dennison, Inc. was one of Four Pillars chief competitors in the manufacture of adhesives. Dr. Victor Lee worked for Avery doing adhesive research. Lee met Yang and Sally in 1989 in Taiwan while making a presentation. Yang asked Lee to serve as a “consultant” and paid him $25,000. They agreed to keep the arrangement “secret.” Over the course of the next eight years, Lee provided Yang *et al.* with confidential information concerning Avery’s adhesives. After learning of Lee’s activities, the FBI confronted him. Lee agreed to cooperate with the government in a sting operation. In 1997, Yang told Lee that he and Sally would be in the United States. They met at a hotel room in Ohio. The meeting was videotaped. During the course of the meeting, Lee gave Yang and Sally documents stamped “confidential” which supposedly contained Avery’s confidential information, though apparently the documents did not. Following the meeting, Yang and Sally were arrested with the documents in their possession.

On appeal from a conviction, Yang argued the defense of legal impossibility, *i.e.*, that what they allegedly stole was not, in fact, a trade secret. The Third Circuit’s 1998 opinion in *United States v. Hsu*435 addressed the same argument, and rejected the defense of legal impossibility. Yang argued that the Third Circuit was wrong. The Sixth Circuit disagreed, and adopted the reasoning of the Third Circuit. According to the court, Yang’s conspiracy to steal the trade secrets in violation of § 1832(a)(5) was completed when, with the intent to steal the trade secrets, they agreed to meet with Lee in the hotel room and they took an overt act towards the completion of the crime ***. The fact that the information they conspired to obtain was not what they believed it to be does not matter because the objective of the Yangs’ agreement was to steal trade secrets, and they took an overt step toward achieving that objective.”436

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435 155 F.3d 189, 196 (3d Cir. 1998).
436 281 F.3d at 544.
B. Reasonable Efforts to Maintain Trade Secret

1. Fifth Circuit: Louisiana Law: Allowing Customers to Photograph, Inspect and Examine Units Without an Obligation of Confidentiality Do Not Constitute Reasonable Efforts to Maintain a Trade Secret

*Tubos de Acero de Mexico S.A. v. American Int’l Investment Corp.*, 292 F.3d 471, 63 USPQ2d 1340 (5th Cir. 2002)

Louisiana adopted a version of the UTSA in 1982.437

*Tubos de Acero de Mexico S.A. (TAMSA)* was a Mexican corporation that manufactured and sold steel pipe to the offshore petrochemical industry. TAMSA used ultrasonic testing (UT) equipment for quality control. American was a Louisiana corporation that marketed UT units designed and manufactured by Technical Industries, Inc. of Houston. In 1995, American sold TAMSA a UT unit under a purchase agreement. That agreement had no provisions regarding confidentiality or the proprietary nature of the units, did not have any restrictions that prevented TAMSA from making design changes, and did not require TAMSA to purchase spare parts from American. American provided TAMSA with an operation manual, electrical wiring diagrams, and mechanical drawings, none of which were, apparently, marked confidential.

In mid-1997, TAMSA needed another UT unit. American, this time, leased a UT unit to TAMSA. The lease provided that TAMSA must keep the terms of the lease confidential, but had no provisions regarding the confidentiality or proprietary nature of the units. That lease was the subject of the trade secret allegation.

The 1997 leased unit was actually manufactured before the 1995 unit, and was “extremely similar” thereto. The CEO of American testified that he did not know whether Technical required obligations of confidentiality from other customers, and Technical employees testified that Technical allowed its customers to photograph, inspect and examine the UT unit. Photographs of the UT unit and its components were also available on Technical’s website. American’s CEO also testified that American’s competitors were allowed to view photographs of Technical’s UT units at trade shows.

The 1997 rental was contingent on TAMSA purchasing a new unit from American. Although TAMSA acknowledged that, there was evidence that TAMSA was not going to purchase the unit from American. TAMSA did, in fact, purchase a new unit from another party in 1998. TAMSA also spent $425,000 renovating its UT units, although the lease required that TAMSA purchase spare parts from American. There was also evidence that TAMSA copied electronic circuitry in the 1997 unit.

TAMSA returned the leased unit in 1999. During an inspection, a TAMSA representative acknowledged damage to the unit, as well as, the presence of reproduced and replacement parts. American faxed two invoices to TAMSA for such damage and “downtime” totaling approximately $200,000. TAMSA had secured the lease payments through a $650,000 letter of credit (LOC) with a bank in New Orleans. Shortly after faxing the invoices, American presented the bank with an “invoice” for the entire amount of $650,000, which the bank paid.

TAMSA filed breach of contract, fraud and conversion claims against American. American counterclaimed seeking damages for breach of contract, violations of the Louisiana Unfair Trade Practices and Consumer Protection Act, and violation of Louisiana’s UTSA. The discussion here will focus solely on American’s claim under the LUTSA. The district court denied TAMSA’s motion for summary judgment on, *inter alia*, American’s claim under the LUTSA, but recommended interlocutory appeal under 28 U.S.C. § 1292(b).

TAMSA urged on appeal that it was entitled to summary judgment on the trade secret claim because (1) American did not own the alleged trade secrets, (2) American failed to take reasonable measures to protect the alleged trade

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secrets, and (3) there was insufficient evidence to raise a genuine issue of material fact that TAMSA had misappropriated any trade secrets. The Fifth Circuit concluded that even assuming that American had standing to assert misappropriation (which was doubtful given that the units were designed and manufactured by Technical), the summary judgment evidence demonstrated a lack of any genuine issue of material fact as to whether American used reasonable measures to maintain the secrecy of the alleged trade secrets. The court concluded that American had not.

The court viewed the 1997 lease agreement as the only evidence that American was relying. The lease agreement apparently limited the access that TAMSA employees could have to the UT, but, according to the court, was “silent as to what information American considered to be a trade secret and contains no restrictions on TAMSA’s use of the information or its disclosure to other parties.”\textsuperscript{438} The court further noted that American had sold the 1995 unit to TAMSA with no restrictions, and allowed competitors to view photographs of the UT units. Technical also allowed customers to photograph, inspect and examine the 1997 leased unit without taking any efforts to maintain secrecy. Accordingly, the court concluded that TAMSA was entitled to summary judgment on the trade secret claim.


Illinois initially adopted the UTSA in 1988.\textsuperscript{439}

Compuware licensed certain mainframe software to Health Care Services Corporation of Illinois (HCSC) in 1984. That license was amended by several “product schedules” identifying certain software between 1984 and 2000. In 1997, Compuware began investigating whether Unitech Systems, Inc. might be a potential customer, and discovered that Unitech was running Compuware software that it had obtained from HCSC. Indeed, it turned out that HCSC had been selling Compuware’s software to Unitech since 1984. Compuware did not file suit for breach of contract, copyright infringement and trade secret misappropriation, however, until February 2001.

The 1984 license provided that “no action” under the agreement could be brought more than one year after the cause of action accrued. The court found that Compuware was aware in 1997 that Unitech was using its software, and delayed too long in bringing suit. Compuware asserted that it believed that Unitech was a consultant to HSCS, but the court noted that the license did not provide for use by consultants. Thus, the court reasoned that Compuware had notice in 1997 of a breach of the agreement, and should have brought suit within the one year time deadline set by the agreement.

With respect to the trade secret claim, the Illinois UTSA has a five year statute of limitations. However, the court concluded that Compuware had failed to preserve the confidentiality of the licensed software. Although Compuware required employees and customers to sign non-disclosure agreements, the district court found that such agreements were not enforced. According to the court, “all that matters is that Compuware knew that HSCS had violated its confidentiality agreement by permitting Unitech to use the software, and took no steps to stop this. As a matter of law doing nothing to enforce a confidentiality agreement is not a reasonable effort in the circumstances to maintain a trade secret.”

\textsuperscript{438} 292 F.3d at 485, 63 USPQ2d at 1349.

\textsuperscript{439} 765 ILL. COMP. STAT. ANN. [ILCS] §§ 1065/1-9.
3. **Arkansas Law:**

   (a) Subjective Belief Held By Employee That Information is Confidential and Has Value is “Irrelevant” in Determining Whether Trade Secret Owner Took Reasonable Steps to Preserve a Trade Secret

   (b) Post-Employment Confidentiality Agreement is Not an Absolute Requirement in All Instances

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Note: This case is related to **ConAgra Poultry Co. v. Tyson Foods, Inc.,** 30 S.W.3d 725 (Ark. 2000) (Tyson I).

Arkansas adopted the UTSA in 1988. Arkansas also, however, has adopted the six factor “test” of the First Restatement, that is, the courts will consider:

1. the extent to which the information is known outside the business;
2. the extent to which the information is known by employees and others involved in the business;
3. the extent of measures taken by the company to guard the secrecy of the information;
4. the value of the information to the company and to its competitors;
5. the amount of effort or money expended by the trade secret owner in developing the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated others.

David Purtle joined Tyson in 1984 and at the time of his resignation in 1999 held the position of Senior Vice-President in charge of Retail Poultry. In 1997, he had directed another VP at Tyson, Dr. Brister, to develop two nutrient profiles for use in formulating Tyson’s poultry feed. Dr. Brister did so, and the two profiles were incorporated into a single document termed the “nutrient profile.” When Purtle left Tyson in 1999, he joined a competitor, ConAgra and gave ConAgra Tyson’s nutrient profile. Tyson then commenced trade secret litigation against ConAgra alleging that it had “raided” four top level executives, including Purtle. Tyson prayed for an injunction prohibiting the “inevitable” disclosure of trade secret information, but the case against Purtle was severed because he had already disclosed the nutrient profile to ConAgra. The case involving the other three went to trial. The trial court found that certain pricing and marketing information constituted trade secret information and enjoined the three former Tyson executives from disclosing those trade secrets for one year.

On appeal, in Tyson I, the Arkansas Supreme Court reversed finding that Tyson had not taken reasonable measures to protect its trade secrets, specifically pointing to the absence of any post-employment confidentiality agreement. Here, though, in Tyson II, the Arkansas Supreme Court strenuously denied it had imposed a requirement for such post-employment confidentiality agreements in Tyson I.

Meanwhile, Purtle’s case was tried and resulted in a finding of trade secret misappropriation. The jury returned a verdict against ConAgra of over $20 million. Shortly thereafter, however, Tyson I came down, and the trial court granted ConAgra JNOV concluding that Tyson I “appears to require a written contract prohibiting postemployment disclosure of information and upon no other grounds.” On appeal, the Arkansas Supreme Court affirmed, but on different grounds.

With respect to Tyson I, the court stressed that it had not reached its conclusion solely due to a lack of a post-employment agreement (although it seems clear that was the clear import of the Tyson I opinion). Rather, according to the court, “[t]hat was simply one measure to which we referred that could be taken by the company to assure trade-secret protection postemployment.”

As noted in Tyson I, Tyson had adopted a “Corporate Code” in the mid-to-late 1990s as a result of a special prosecutor’s investigation into the affairs of Michael Espy and Tyson. The Code,

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440 ARK. CODE ANN. § 4-75-602 et seq. (Michie 1996).

441 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).


443 349 Ark. at 477.
inter alia, provided that Tyson’s employees were required to safeguard Tyson’s confidential business and technical information. Additionally, Purtle admitted that he considered the nutrient profile to be confidential and that he had instructed others that it was. There was also testimony that only five people at Tyson had a hard copy of the profile. ConAgra, on the other hand, pointed to testimony that hundreds of Tyson’s managers in the field were given copies of the profile without any admonition of confidentiality.

Over a strenuous dissent, the Arkansas Supreme Court concluded that Tyson had not taken reasonable steps to protect its nutrient profile. The Corporate Code, according to the court, “hardly qualifies as an agreement between Tyson and Purtle not to disclose the nutrient profile,” and pointed to testimony by a former president of Tyson and current member of its board that the standard in the industry was to depend on the honesty and integrity of employees as evidence that there were no other measures taken to protect the nutrient profile. The court also noted that items such as the nutrient profile were not listed in the Corporate Code, and Tyson had not conducted an exit interview with Purtle.

Tyson, of course, concentrated on Purtle’s admission that he knew the profile was confidential. According to the court, however, “[a]bsent clear corporate action to protect the nutrient profile as a trade secret, a subjective belief of an individual employee that the information is confidential or even had value seems largely irrelevant in our analysis.”

The criticisms are, of course, abundant. As in Tyson I, the court nowhere addresses the common law duty obliging former employees to preserve a former employer’s confidential and/or trade secret information. Although written agreements might be preferable, Tyson’s choice, apparently, to rely on an employee’s common law duties, which are roughly equivalent to what courts consider to be reasonable in the case of written restrictions, was not prima facie unreasonable. That the Corporate Code did not specifically list the nutrient profile is not surprising; such “codes” are general statements. Here, though, the Code specifically advised employees of their obligation to protect Tyson’s information, and Purtle admitted that the profile was subject to that obligation. Secondly, many employees leave companies without exit interviews – that does not mean that such employees are released from their common law obligations. In short, although Tyson could, perhaps, have taken additional steps to protect the nutrient profile, and the record as a whole may justify the result, the court’s stated reasons for finding that Tyson had not adequately protected the nutrient profile are simply insufficient to justify the result.

4. Indiana Law: Reliance on Industry Custom Is Not Sufficient to Meet Obligation of Taking Reasonable Precautions to Protect Trade Secret: Internal Measures Do Not Necessarily Protect Against Suppliers and Vendors


Indiana adopted its version of the UTSA in 1982. The Indiana courts have held that a protectable trade secret has four general characteristics: (1) information; (2) deriving independent economic value; (3) not generally known, or readily ascertainable by proper means by others who can obtain economic value from its disclosure or use; and (4) the subject of efforts, reasonable under the circumstances to maintain its secrecy.

Zemco manufactured machined parts for the truck and automotive industry. Navistar was one of its customers. The principal part that Zemco manufactured for Navistar was a “spring shackle” which attached suspension springs to truck frames. Zemco had developed a manufacturing process for such shackles that allowed it to produce the parts to precise

444 349 Ark. at 483.
specifications at a low cost. Zemco had developed special drilling machines that it used in producing those parts.

Zemco was owned by two equal shareholders, Pecoraro and Zemen. In 1995, Pecoraro sold his interest to Zemen under an agreement that allowed Pecoraro to immediately begin a competing business using the same technology under a license that was not transferable without Zemco’s consent. Pecoraro started PMI, using drilling machines that apparently were the same as those at Zemco, and became Navistar’s primary supplier of spring shackles. PMI, however, began to have financial difficulties, and Navistar approached Trayer Products, which produced other products for Navistar, with a request for a quote. In 1998, Navistar told PMI that it was going to transition its shackle business to Trayer. Pecoraro then told Navistar that he wanted to sell PMI. At Navistar’s urging, Trayer purchased PMI’s drilling machines.

Zemco then filed suit alleging, inter alia, trade secret misappropriation. The trial court granted summary judgment to all defendants. On appeal, the Indiana Court of Appeals affirmed.

On the trade secret issue, the court concluded that there were no Indiana cases that directly discussed “reasonable efforts to maintain secrecy.” Accordingly, the court looked to other jurisdictions and focused specifically on the Southern District of Indiana’s opinion in Flotec, Inc. v. Southern Research, Inc.447 In evaluating Zemco’s efforts to maintain its proprietary information, the court noted that Zemco’s machines were located on the third floor of its building, and there were signs prohibiting access by unauthorized individuals. Employee handbooks advised that no equipment or prints were to leave the building, and signs posted by the time clocks advised employees that no information regarding the machines should leave the facility. There was also evidence that it was customary in the industry that customers and vendors who received confidential information would maintain its confidentiality.

On the other hand, the court noted that Zemco had no confidentiality agreements with its employees or customers that toured the building. Navistar employees, for example, were not asked to sign confidentiality agreements. Trayer employees also toured the building and were not asked to sign confidentiality agreements. According to the court, the “secret” to making shackles efficiently was evident from viewing the machines themselves. In response to Zemco’s contention that the “custom in the industry” was to maintain information confidentiality, the court responded that “Flotec demonstrates that is insufficient.”

The court concluded that “[a]lthough Zemco took some measures within its own company and with its own employees to protect the information contained in its shackle machines, it did very little, if anything at all, to protect the information from outside sources. Under these circumstances, the trial court could have found as a matter of law that Zemco had not taken reasonable steps to maintain the secrecy of its proprietary information, and therefore the information did not constitute a trade secret * * *.”448

Although the court’s ultimate conclusion may have been correct, the court is likely giving far too much weight to Flotec. In Flotec, there were few if any measures taken to preserve confidentiality. Nevertheless, the case illustrates the increasing importance courts are placing on written confidentiality agreements.

5. Iowa Law: “Not Doing Much” Internally to Protect Trade Secrets May Nevertheless be Sufficient if Company is Small and Trade Secrets Are Not Disclosed to Competitors


Iowa adopted its version of the UTSA in 1990.449 Iowa has also taken a broad view of the

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448 759 N.E.2d at 250.

types of information that may constitute a trade secret: “There is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret.” The Iowa courts require “some showing” that the trade secret owner took reasonable efforts to protect the trade secret. In determining whether information has independent economic value, the Iowa courts look to whether the information protects the owner’s competitive edge or advantage.

BDI was in the business of using digital thermal resin transfer imaging, and specifically in producing signs and decals for advertising car washes. The owner of BDI spent five months experimenting with various materials in order to produce a product that held up in outdoor conditions. Shaver and Raymond were hired as the only employees. They, plus the owner, comprised the company. Shaver and Raymond, however, left and joined MidNational, a competing company founded by another former BDI employee. Within one week, MidNational was able to ship full sign packages to former customers of BDI, and began taking BDI's business with slightly lower prices. According to the testimony, BDI and MidNational had few competitors that could produce similar high quality products. BDI sued alleging conversion and trade secret misappropriation. On BDI's motion, the trial court issued an injunction prohibiting MidNational and the individual defendants from doing any business with six former BDI customers. On appeal, over a dissent, the Iowa Court of Appeals affirm.

The court concluded that the process of designing, producing and marketing the car wash signs fell within the scope of permissible trade secret subject matter, and that it was clear that BDI's information gave BDI a competitive advantage. As for the efforts undertaken to protect the information, the court acknowledged that “BDI did not do much internally to underscore to Shaver and Raymond that they should not reveal its trade secrets to competitors.” However, the court noted that BDI was a small company, and the owner testified that in order to maintain a congenial office atmosphere, he did not require written non-compete agreements. Additionally, the court noted that BDI had not disclosed the information to competitors. Accordingly, the court affirmed granting of the injunction, modified to permit MidNational to do business with the subject six companies if MidNational developed a new process.

6. Vermont Law: Failure to Take Reasonable Precautions Results in Loss of Trade Secret in Optical Interference Film Technology: One May Not Rely on an Employer-Employee Relationship Alone to Satisfy Trade Secret Owner’s Obligation

Omega Optical, Inc. v. Chroma Technology Corp., 800 A.2d 1064 (Vt. 2002)

Although this case arose prior to Vermont's adoption of a version of the UTSA in 1996, the court concluded that the VUTSA and the RESTATEMENT (THIRD) OF UNFAIR COMPETITION nevertheless provided guidance.

Omega developed and produced certain thin-film optical interference filters used in fluorescence microscopy. A number of Omega employees left the company and started Chroma making the same type of filters. Omega brought suit for, inter alia, trade secret misappropriation. Following a bench trial, the trial court found for the defendants on all issues, including that Omega had not taken proper steps to protect the confidentiality of its technology. On appeal, the Vermont Supreme Court affirmed.

The court pointed to testimony that (1) Omega had no policy of confidentiality,


453 9 VER. STAT. ANN. §§ 4601-4609.
just before the defendants left to form Chroma, Omega recognized a need to create guidelines for distinguishing between confidential and non-confidential information, (3) there was little awareness among employees as to what Omega considered to be proprietary, (4) Omega’s record was sloppy, and in some cases nonexistent, (5) technical information was not kept in an organized or controlled manner, and (6) what security measures Omega had in place, such as signing out keys, were not enforced or even monitored.

Omega argued that its employees owed it a duty of confidentiality simply because of their status as employees and regardless of whether the employer had done anything either to protect the information or to communicate to the employees the confidential and proprietary nature of the information. The court responded that such “argument is simply at odds with the case law, which required something more than the mere employer-employee relationship to establish a duty of confidentiality.”

C. Term Limitations


Because this is a non-precedential opinion, the facts are not fully set out. It appears, though, that Marketel was asserting that Priceline.com had misappropriated certain trade secret information. It also appears that a four-year non-disclosure agreement had been signed in 1987 that expired in 1991. The alleged misappropriation took place in 1996. The relationship was evidently governed by California law. According to the Federal Circuit, “[b]ecause California has not had occasion to discuss the relationship between non-disclosure agreements and implied duties of confidentiality, we look to the Ninth Circuit for guidance,” citing the holding in Union Pac. R.R. Co. v. Mower.454 That “a written non-disclosure agreement supplants any implied duty of confidentiality that may have existed between the parties.” Although Union Pacific so held, the Ninth Circuit was applying Oregon law rather than California law.

In Union Pacific, the Ninth Circuit acknowledged that “Oregon law imposed on every employee a legal duty to protect an employer’s trade secrets and other confidential information, an obligation that continues beyond the term of employment.”455 The court further, however, found that “Oregon also generally permits parties to alter by negotiations duties that would otherwise be governed by state law.”456 The Ninth Circuit concluded that “under Oregon law, parties have the power to alter the implied duty of confidentiality. The existence of an express agreement is relevant both in determining whether a particular employee is bound by a duty of confidentiality and in defining the scope of that duty.”457 The court found that a Resignation Agreement by a former employee clearly addressed the issue of confidential information that the employee was privy to, and with equal clarity expired on December 31, 1995. According to the Ninth Circuit, the “unambiguous meaning of the Resignation Agreement was that, after that date, [the former employee’s] obligation to conduct his affairs in accordance with that agreement terminated and he would no longer be subject to its nondisclosure requirements.”458

Thus, in Marketel, the same rationale may have been applicable, but the Federal Circuit clearly applied the wrong law.

454 219 F.3d 1069, 1076 (9th Cir. 2000).
455 219 F.3d at 1073.
456 Id.
457 Id. at 1074.
458 Id.
2. **Texas Law: Termination of Exclusive License to Manufacture Certain Fish Hooks Does Not Require Cessation of Manufacturing in Absence of a Trade Secret or Patent**


Michael Hollomon designed and produced fish hooks out of his store in Hemphill, Texas. Mustad learned of one of his designs in 1992 and the parties subsequently entered into an agreement under which Mustad would pay Hollomon a royalty of five percent of Mustad’s sales for the exclusive right to produce and market Hollomon’s hook. At Mustad’s urging, Hollomon also filed a patent application on that hook design. The agreement contained no confidentiality provisions, and no term: either party could terminate on giving six months notice.

Hollomon later submitted several additional hook designs to Mustad, and Mustad agreed to pay the five percent royalty on those as well. Although the opinion is unclear, apparently Hollomon sought patent protection on at least some of those additional hook designs as well.

In 1994, the parties amended their agreement to add a five year term, and provided that new designs would be submitted to a patent attorney for review to determine patentability. The 1994 agreement likewise did not contain any confidentiality provisions.

In 1997, Hollomon terminated the ’93 and ’94 agreements, and in his termination letter set out the dates on which he believed each license period would end. Mustad continued to pay royalties on each hook until the date stated in that letter. At that time, none of Hollomon’s patent applications had issued as a patent. Also, other manufacturers had made and sold hooks similar to two of Hollomon’s hooks, and Hollomon conceded that other manufacturers could easily copy the hooks in “about twenty minutes.” Mustad, following termination, also continued to manufacture and sell the hooks that were previously covered by the license agreement.

Hollomon subsequently filed suit alleging, *inter alia*, breach of contract and trade secret misappropriation. The court granted Mustad summary judgment on all of Hollomon’s claims except for a trademark infringement claim. On the breach of contract claim, the district court reasoned that upon termination or completion of the ’93 and ’94 agreements, it lost the exclusive right to manufacture and sell Hollomon’s hooks, but that nothing in the agreements precluded Mustad from continuing to manufacture and sell the hooks (and pay Hollomon nothing) unless and until Hollomon actually secured patent protection. With respect to the trade secret claim, the court found that no confidential relationship existed between the parties, *i.e.*, there was no summary judgment evidence that Mustad was required to keep the hook designs confidential, and Hollomon testified that he was under no obligation to keep the designs confidential.

D. **Publication of Patent Application**


*Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 272 F.3d 1335 (Fed. Cir. 2001)

*Rhone-Poulenc* involved a number of issues, one of which was Rhone-Poulenc’s (now Aventis CropScience, SA) (“RPA”) assertion that it was fraudulently induced to enter into a licensing agreement with DeKalb relating to certain genetically engineered corn that was tolerant to herbicides. That technology resulted in DeKalb’s ROUNDUP READY® corn that permitted a farmer to douse a field with herbicide to kill weeds while allowing the resistant corn to survive. RPA also charged DeKalb with misappropriation of trade secrets.

Inside a plant, the herbicide glyphosate binds to a specific enzyme in a plant chloroplast called EPSPS which cannot then perform its normal critical function in the biosynthesis of aromatic acids, and the plant dies. Calgene, Inc. (not a party to this litigation) owned two patents covering a gene, C-aroA or CT-7, which, when expressed in transgenic plants, encodes the
bacterial EPSPS enzyme thus satisfying the aromatic amino acid needs of the plant in the presence of glyphosate. In 1985, DeKalb and Calgene entered into an agreement for the joint development of crops containing the CT-7 gene. That agreement gave DeKalb an exclusive license in the field of use of corn. In 1991, RPA, DeKalb and Calgene entered into an agreement under which RPA assumed Calgene’s rights and obligations under the 1985 agreement.

DeKalb and RPA were also involved in a broader collaboration to produce glyphosate-resistant corn. RPA performed the initial genetic work by creating “genetic constructs” and DeKalb “transformed” corn cells by introducing such “constructs” into corn cells, growing full corn plants from such cells in a greenhouse, and performing field tests on corn plants grown from seeds from the greenhouse plants.

In 1992, a representative of RPA told his counterpart at DeKalb that RPA would provide DeKalb with new genetic material containing a mutated EPSPS gene from maize/corn rather than the CT-7 gene. RPA then combined an “optimized transit peptide” (OTP) with a mutated maize EPSPS gene (“DMMG”). The new “construct” was designed “RD-125.” RPA transferred the RD-125 construct to DeKalb in 1993. In late 1993 and early ’94, DeKalb was successful in growing herbicide resistant corn plants in its greenhouse, and notified RPA of those results. DeKalb also noted that it would begin field tests during the summer of 1994, which were necessary to determine whether the resistant gene would be passed on to the next generation of plant. Those field tests were conducted in Hawaii and were successful. However, DeKalb did not inform RPA that those tests were successful, but simply informed RPA that those tests were “encouraging,” and asked whether DeKalb could use the gene in soybeans. When asked in a deposition why he did not inform RPA that those tests were successful, DeKalb’s representative said it would have required him to write a longer letter. DeKalb’s representative, Dr. Flick, did not appear at trial, and testified only through his video deposition. The district court noted that Dr. Flick’s manner during the deposition “most reasonably could have been interpreted as indicative of deception.”

Following the field tests, DeKalb began “backcrossing” the successful corn plants containing RD-125 with commercial corn varieties. Such backcrossing, which can take several years, was necessary to ensure that a trait such as glyphosate tolerance was incorporated into a plant genome.

In 1994, Calgene and RPA filed a patent infringement action against Monsanto Co., now Pharmacia Corp. (also a party to this litigation), alleging infringement of Calgene’s patents covering the CT-7 gene. Two agreements were negotiated in settlement of that litigation. In a first agreement, Monsanto paid several million dollars for a co-license, shared with DeKalb, for Calgene’s patents in all fields. In a second agreement, (“the 1994 Agreement”) DeKalb agreed to share its exclusive license under Calgene’s patents for a share of the settlement proceeds and receipt, from RPA, of a “world-wide, paid-up right to use” various technologies in the field of corn, including the RD-125 construct. That agreement also gave DeKalb the right to grant sublicenses. At the time that agreement was prepared, DeKalb’s lawyer was aware of the successful Hawaii field trials. That lawyer’s notes regarding the preparation of that agreement were also destroyed contrary to DeKalb’s document retention policies.

Ultimately, DeKalb developed its ROUNDUP READY® corn, referred to as the “GA21 corn line,” and, in 1996, licensed the GA21 corn line to Monsanto. ROUNDUP® is a glyphosate herbicide manufactured by Monsanto. Sales of such corn began in 1998.

RPA subsequently sued DeKalb asserting that by not providing RPA with the results of the 1994 Hawaii field tests, DeKalb fraudulently induced RPA to enter into the 1994 Agreement giving DeKalb paid-up rights to the RD-125 technology. RPA also asserted that the RD-125 technology was a trade secret that DeKalb had misappropriated, and sued DeKalb for infringement of claim 11 of its patent covering the OTP that was part of the RD-125 technology. On DeKalb’s motion, the district court bifurcated the trial into two different jury trials. The first covered the fraud and licensing issues. The second covered the trade secret and patent issues.
In the first trial, the jury found that DeKalb had fraudulently induced RPA to enter into the 1994 Agreement by not disclosing the Hawaii field trials, and awarded DeKalb, inter alia, $15 million for unjust enrichment, and $50 million in punitive damages. The district court further ordered rescission of the agreement. In the second trial, the jury found that RD-125 was a trade secret from April 1996 until February 1997, and that DeKalb had misappropriated it, that claim 11 of Calgene’s patent was not obvious, and that the asserted patent had not been procured through inequitable conduct. The jury declined to grant punitive damages against DeKalb on the misappropriation claim, and the parties entered into a stipulated agreement regarding damages. On appeal, the Federal Circuit affirmed.

On the misappropriation claim, the jury found that RD-125 ceased to be a trade secret when published in RPA’s patent application under the Patent Cooperation Treaty (PCT) in February 1997. The jury failed to find, however, that DeKalb’s PCT application published in May 1995, constituted a similar disclosure of the RD-125 trade secret.

DeKalb urged that the district court had erred in (1) excluding evidence related to the teachings of DeKalb’s PCT application, and (2) failing to find a judicial admission that the trade secret was disclosed. According to the Federal Circuit, though, “a broader rule of law renders these issues moot.”

The court acknowledged that “[t]ypically, the publication of a patent terminates all trade secret rights.” However, here DeKalb did not have RPA’s permission to include RD-125 in its May 1995 PCT application. According to the court, the consequence is that “whatever disclosure DeKalb made of the RD-125 technology in its PCT application constituted a wrongful use.” The Federal Circuit, reaching back a number of years to a Seventh Circuit decision, concluded broadly that “[c]ourts have carved out an exception to the general rule that publication terminates all trade secret rights in cases where the wrong-doer is the one who has published the trade secret,” citing Syntex Ophthalmics, Inc. v. Tsubata, which in turn cites Shellmar Prods. Co. v. Allen-Quallay Co. for the proposition that “a wrongdoer who has made an unlawful disclosure of another’s trade secrets cannot assert that publication to escape the protection of trade secret law.” Relying on two district court cases from the Eastern District of North Carolina and the Eastern District of Wisconsin, respectively, a 1953 Seventh Circuit decision and a 1963 Ninth Circuit decision, none of which directly support the propositions for which they were cited, the Federal Circuit concluded that “if there is a wrongful use or disclosure prior to the issuance of the patent, the wrongdoer will not be absolved from liability for his wrong committed during that prior period.”

There are a number of problems with the Federal Circuit’s conclusion. First, the parties, the district court and the Federal Circuit all agreed that

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459 272 F.3d at 1359.
460  Id. See also Group One, Ltd. v. Hallmark Cards, Inc., 254 F.3d 1041, 59 USPQ2d 1121 (Fed. Cir. 2001).
461  Id.
462  Id.
463  701 F.2d 677, 683 (7th Cir. 1983).
464  87 F.2d 104 (7th Cir. 1937), cert. denied, 301 U.S. 695 (1937).
465  272 F.3d at 1359.
466  For example, in Glaxo, Inc. v. Novopharm, Ltd., 931 F. Supp. 1280, 1300-02 (E.D.N.C. 1996), aff’d, 110 F.3d 1562 (Fed. Cir. 1997), Novopharm was relying on certain information disclosed in trial transcripts and exhibits. Glaxo argued that Novopharm should not be able to do so because it had precipitated the disclosure by infringing Glaxo’s patents. In response, the district court noted that “[w]hile it is true that parties responsible for the dissemination of another’s trade secret may not benefit from the disclosure, responsibility for dissemination of Glaxo’s ‘confidential’ information must fall on Glaxo. [The North Carolina statute] adopting the language of the Uniform Trade Secrets Act * * * places upon trade secret owners an affirmative duty to take reasonable measures to maintain the information’s secrecy as a definitional element of the property right.”
the misappropriation issue was governed by North Carolina law. North Carolina adopted its version of the UTSA in 1981. The UTSA follows the rule of *Conmar Prods. Corp. v. Universal Slide Fastener Co.* (rather than *Shellmar*) that monetary relief, like injunctive relief, is only appropriate for the period of time in which the subject matter qualifies as a trade secret (namely, during the time that it is secret) plus any additional time necessary to preclude the misappropriator from benefiting from a “head start.” Secondly, citation to pre-1988 Seventh Circuit decisions applying Illinois law is inapposite because Illinois did not adopt its version of the UTSA until 1988.

The Federal Circuit’s conclusion is thus at best questionable, and is likely flat wrong. Further trade secret protection was likely destroyed by publication of DeKalb’s PCT application in 1995, but RPC could, of course, obtain damages as a result.

E. Novelty — Misappropriation of Idea Cases Distinguished From Trade Secret Cases

1. New Jersey Law: (a) Misappropriation of Idea Cases Distinguished From Misappropriation of Trade Secret Cases
   (b) Under New Jersey Law, Novelty (Perhaps in Each Component Part) is Required in Misappropriation of Idea Cases Where There Is No Post-Disclosure Contract
   (c) “Novel to Disclosee” Not Applicable Where Idea is So Lacking in Novelty that Knowledge Can Be Imputed to Disclosee
   (d) Novelty is Decided by the Court as a Matter of Law
   (e) The Definition of a Trade Secret Does Not Include a Marketing Concept or New Product Idea


468 N.C. GEN STAT. §§ 66-152 et seq.

469 172 F.2d 150 (2d Cir. 1949).

New Jersey has not adopted the UTSA, and follows the RESTATEMENT (FIRST) OF TORTS § 757 (1939) in trade secret actions.

In 1995, Johnson met with Benjamin Moore’s (BM’s) merchandising and graphic design manager, Bishop, to discuss painting a mountain scene. Approximately a month later, Johnson called Bishop to tell him that he had a new idea, and the parties later met. Johnson signed what appears to have been a typical submission agreement (i.e., not a non-disclosure or confidentiality agreement) saying generally that BM would pay Johnson reasonable compensation if BM chose to use the idea. The idea was called “Mural in a Can,” and basically provided a paint-by-numbers design. Ultimately, BM did not accept Johnson’s idea.

Meanwhile, another BM employee, Ellen Singer, was working on creating a Crayola Paints project that included selected paints for creating images for children. Singer testified that she had not heard of Johnson or the Mural in a Can idea until her deposition. There was, apparently, no evidence linking anyone involved in the Crayola Paints project to Johnson’s idea. Nevertheless, Johnson filed suit, and the trial court granted the defendants summary judgment. On appeal, the Appellate Division affirmed.

There were a number of points raised on appeal. One point, raised in several contexts, was that novelty was not a requirement for proving misappropriation of an idea. The court disagreed.

As noted above, New Jersey has not adopted the UTSA, and generally follows the RESTATEMENT (FIRST) OF TORTS. Accordingly, New Jersey courts have held that New Jersey trade secret law does not require patent law-type novelty. However, here in
Johnson, the court held, apparently as a matter of first appellate impression in New Jersey, that “[m]isappropriation of ideas is a separate area of law from both patent law and trade secret law,” and adopted the law division’s (trial court’s) holding in Flemming v. Ronson Corp., \(473\) that “our courts have embraced the principle that a showing of novelty or originality is essential in a claim for wrongful use or appropriation of an idea.” Under Flemming, “[a] plaintiff is required to establish as a prerequisite for relief that (1) the idea was novel; (2) it was made in confidence; and (3) it was adopted and made use of.”\(474\) Similarities between the submission and the ultimate product may justify a factual inference of copying.\(475\)

The court noted that the New York courts, as explained in Apfel v. Prudential-Bache Sec. Inc., \(476\) also require novelty (“at least as to the buyer”) in idea submission cases where there has been pre-disclosure contract, but no post-disclosure contract. The rationale is that where there is a post-disclosure agreement, there is no question that the idea had at least some value to the recipient. Thus novelty is not required. However, where there is no post-disclosure agreement, novelty at least to the buyer is required to establish the value of the consideration, i.e., the disclosure, necessary for a contract based claim.

The novelty required, though, is less than that required for a patent under 35 U.S.C. § 102. The court in Johnson, quoting with approval the Second Circuit’s decision in Softel, Inc. v. Dragon Med. and Scientific Communications, Inc.,\(477\) explained that “[t]his quotation (especially the comment ‘at least as to the buyer’) illustrates that the term ‘novelty’ is used in this line of cases in a very different, and much weaker, sense than it is used in patent law.”

Johnson urged, however, that the same phrase “as least as to the buyer” had application here because BM did not have a previous program such as Crayola Paints, and that he did not have to establish novelty for other than BM. The court disagreed, again adopting New York law.

In Nadel v. Play by Play Toys & Novelties, Inc.,\(478\) the Second Circuit observed that: “In some cases an idea may be so unoriginal or lacking in novelty that its obviousness bespeaks widespread and public knowledge of the idea, and such knowledge is therefore imputed to the buyer.” According to the court, “[i]n such cases, a court may conclude, as a matter of law, that the idea lacks both the originality necessary to support a misappropriation claim and the novelty to the buyer necessary to support a contract claim.”\(479\) The court in Johnson expressly adopted that standard: “[W]e adopt that standard. Plaintiff’s ideas may be viewed as so unoriginal that, as a matter of law, they were not novel as to the defendant.”\(480\)

Johnson also asserted that his idea had novelty in the overall combination, relying on trade secret cases. The court rejected that argument noting that “there is no discussion in these cases that the submission of an idea may be novel in a submission-of-idea case when it includes a combination of elements that are not

\(472\) 347 N.J. Super. at 97, 788 A.2d at 923.


\(474\) Flemming, 107 N.J. Super. at 317.

\(475\) Id.


\(477\) 118 F.3d 955, 969 (2d Cir. 1997), cert. denied, 523 U.S. 1020 (1998).

\(478\) 208 F.3d 368, 378-79 (2d Cir. 2000).


\(480\) 347 N.J. Super. at 92, 788 A.2d at 919.
novel, and we have found no reported case in any jurisdiction with such a discussion.”

The court also rejected Johnson’s argument that novelty should be treated as a question of fact. Rather, acknowledging that there was no New Jersey case directly on point other than *Duffy v. Charles Schwab & Co.*, where the court forecast that “the New Jersey Supreme Court would determine that although some of the factors relevant to a determination of novelty may be factual, the ultimate determination of whether an idea is novel is a question of law for the court.” The court in *Johnson* said: “We agree with *Duffy’s* analysis.”

Lastly, the court concluded that Johnson could not rely on trade secret misappropriation, because, in the court’s view, “the definition of trade secret [in the Restatement (First) of Torts § 757 cmt. b (1939)] does not include a marketing concept or a new product idea.”

F. Potential Trade Secret Subject Matter


   Arkansas adopted a version of the UTSA in 1988.

   Prior to November 1993, Sam’s Club did not have a system that allowed purchasers of large quantities of good to finance those purchases: Sam’s Club operated on a “cash and carry” basis. In 1992, Joe O’Banion, one of the principals of P.O. Market, became acquainted with the manager of the Sam’s Club store in Little Rock, Mike Hampson. O’Banion later contacted Hampson with an idea for executing bulk credit transactions, and Hampson put O’Banion in contact with a Sam’s Club executive, Sharon Austin. During the Fall of ’92 and early part of ’93, there were a number of meetings between Austin (and others from Sam’s Club) and O’Banion. During those meetings, O’Banion advised that the system he was proposing was confidential. Eventually, O’Banion prepared an agreement between the parties, and on several occasions Austin told him that the agreement was about to be signed. However, it never was, and Austin eventually stopped returning O’Banion’s calls. O’Banion gave up hope of obtaining an agreement, and returned to his factoring business.

   In November 1993, however, O’Banion became aware of an article in the *Wall Street Journal* and a later article in the *Dallas Morning News* announcing a program at Sam’s Club that allowed bulk purchasers to buy goods on credit. O’Banion tried to get in touch with Austin, but learned that she had left Sam’s Club and now had a consulting business. Eventually he was able to contact her by phone, and unknown to her, taped the phone calls. During the calls, Austin admitted that the idea of the bulk credit purchasing system was O’Banion’s idea, that he had “made it easy for them” to implement the program, that O’Banion had educated Wal-Mart, that Wal-Mart had “stepped on” O’Banion, and that although she could not be sure whether his idea had been reviewed by senior executives, she had “run it by” the then CEO of Sam’s Club.

   In the subsequent action by P.O. Market, the jury awarded lost profits damages of $6.7 million and damages for Wal-Mart’s unjust enrichment of $25 million. The trial court also awarded $5 million in attorneys’ fees. On appeal, however, the Arkansas Supreme Court reversed.

   Although acknowledging that a trade secret may exist in a collection of components even though each of the components individually was generally known, the court nevertheless concluded (without citing any record support), that “[i]t is apparent to this court that any person reasonably well versed in the economics of wholesaling and credit purchasing could have put together the O’Banion concept. Indeed, the O’Banion concept was essentially wholesaling in the sense that it contemplated buying goods in
bulk at a favorable price and selling them at a markup to pre-ordained customers. Even though we look to the combination of the components and not to the individual qualities, the O’Banion concept was hardly unique. * * * In short, there was nothing about this business plan that was not generally known in the industry or readily ascertainable.\(^{484}\)

All of that may be true, but the court cited no evidence or testimony from the record that would support that conclusion. It appears from the opinion, that the court simply made up its own mind on the issue, despite contrary testimony by O’Banion and others involved in developing and presenting the system to Sam’s. The court discredited that testimony as being from interested individuals (which is true), but never cited to any contrary evidence from the record.


   Douglas began work on February 1, 2000, with City Slickers, which provided on-site oil-changes for rental-car companies and the like, as a general manager to develop the Arkansas region. Douglas signed a non-disclosure agreement, a “confirmation” of the same, and later a combined confidentiality and non-disclosure agreement. Douglas quit six weeks later on March 1, 2000 saying that he was going to start his own fleet oil-changing business. City Slickers sued requesting injunctive relief. The trial court refused finding that City Slickers had not shown a likelihood of prevailing on the merits. On appeal, the Arkansas Court of Appeals affirmed.

   City Slickers had conceded at trial that customer and marketing information was readily ascertainable, and suspected that Douglas was not using its pricing information because Douglas disagreed with it. Accordingly, the court concluded that the trial court was correct in finding that none of the documents that Douglas had access to contained trade secret information. As for the confidentiality and non-disclosure agreement, the trial court construed the obligation to preserve confidential and proprietary information for five years as an “overly broad covenant not to compete masquerading as a confidentiality and nondisclosure agreement.” Over a dissent, the Court of Appeals agreed, pointing to testimony by the president of City Slickers that the agreement would have prevented Douglas from working in the oil-changing business for five years. In actuality, the agreements simply prevented Douglas from using confidential or proprietary information. The court’s earlier ruling that the information given Douglas did not contain such confidential or proprietary information essentially rendered the non-disclosure covenants somewhat meaningless, *i.e.*, even if enforced those covenants would not have prevented Douglas from working in the oil-changing business.

3. **Illinois Law: Various Customer Information Held Readily Ascertainable and Not a Trade Secret**

   *Delta Medical Sys., Inc. v. Mid-America Medical Sys., Inc.*, 2002 Ill. App. LEXIS 460 (Ill. App. 2002)

   Illinois adopted the UTSA in 1988, and in doing so modified the Model Act by, *inter alia*, adding “or list of actual or potential customers, or suppliers” to the definition of a trade secret.\(^{485}\) Illinois nevertheless continues to use the six common law factors of the Restatement (First)\(^{486}\) in evaluating whether a trade secret exists.\(^{487}\)

   Delta sold and serviced various types of medical diagnostic equipment used in hospitals

\(^{484}\) 347 Ark. at 672.


\(^{486}\) RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

\(^{487}\) ILG Indus., Inc. v. Scott, 273 N.E.2d 393 (Ill. 1971).
and clinics. An individual defendant, Ottum, had worked for a company that Delta had acquired. After the acquisition, Ottum began working for Delta. At the time of the acquisition, Delta was a dealer of mammography equipment manufactured by Lorad. In February 2001, though, Delta terminated its dealership agreement with Lorad, and became a dealer for Siemens. Delta was aware at the time that another company would likely assume the Lorad dealership. Shortly thereafter, Ottum began discussions with Lorad about a dealership, and incorporated Mid-America. When Lorad awarded the dealership to Mid-America, Ottum resigned from Delta. Several Delta customers with Lorad equipment terminated their relationship with Delta and began doing business with Mid-America. Delta sued alleging trade secret misappropriation and seeking an injunction. The trial court found that certain customer and servicing information constituted trade secret information, and granted the requested injunction. On appeal, the Illinois Court of Appeals reversed.

With respect to the list of Delta’s customers, the court noted that Delta had not maintained a “list” per se, but had simply prepared a list for the purposes of the litigation. The names of the hospitals and medical clinics on that “list” could be easily located in the yellow pages. Additionally, Lorad furnished Mid-America with a list of its customers along with addresses, phone numbers, medical specialization, equipment model numbers and so forth. Lorad also provided Mid-America with information concerning equipment age which could then be used to price service. In short, the court concluded that the information obtained as a result of working for Delta was either readily ascertainable or general knowledge learned as a result of that employment.

4. Iowa Law: Selection of Trade Shows and Magazines for Advertising Can Constitute a Trade Secret


Rocklin Mfg. (RMC) developed and marketed two products, the Rocklinizer and MoldMender. The case concerned the MoldMender which was a “micro-welder” used to repair plastic injection molds. Two employees, Tucker and Willer, began creating a new micro-welder while employed by RMC, and later formed Microweld Technology, Inc. RMC sued and moved for an injunction. The trial court issued an injunction that enjoined the defendants from using trade publications and trade shows that RMC used, and ordered that the injunction would remain in effect for ten years. On appeal, the injunction was affirmed.

The court concluded that the identity of trade publications and trade shows that RMC could use to its best advantage constituted a trade secret, and that the ten year duration was reasonable given testimony that it would take RMC ten years to recoup its costs of development.

5. Colorado Law: (a) A Bid on a Single Project May Constitute a Trade Secret (b) Smiling or Other Non-Verbal Conduct When Confronted With Misappropriation is Admissible

**Ovation Plumbing, Inc. v. Fulton**, 33 P.3d 1221 (Colo. App. 2001)

Colorado adopted a version of the UTSA in 1986. Nevertheless, the Colorado courts continue to apply the six common law factors of the First Restatement in determining whether a protectible trade secret exists.

Ovation was a plumbing subcontractor for a multi-family home developer. Fulton was an independent contractor for Ovation. There was evidence that Fulton had obtained Ovation’s bid on a particular project. Ovation terminated Fulton, and Fulton subsequently submitted a bid for a plumbing contract on an unrelated, but similar, multi-family home construction project. Fulton’s bid was accepted. Ovation filed suit alleging trade

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488 **COLO. REV. STAT. ANN. § 7-74-101 et seq.** (West 1996).

489 **RESTATEMENT (FIRST) OF TORTS § 757 cmt. b** (1939).

secret misappropriation alleging that Fulton had used Ovation’s earlier bid. Judgment was entered against Fulton. On appeal, the Colorado Court of Appeals affirmed.

Fulton argued on appeal that (1) bid pricing information, or (2) a bid that was not used continuously in Ovation’s business, could not constitute a trade secret. The court disagreed. The court noted that the CUTSA definition of a trade secret clearly encompassed “confidential business or financial information,” and did not have any continuous use requirement. The court found that because of the similarities in multi-family projects, the bid would be valuable in formulating a bid on other such projects.

Fulton also argued that there was no evidence that he obtained, or could have obtained, Ovation’s earlier bid. However, there was evidence that the bid was on file in a job-site trailer, and that Fulton had a “friendly social relationship” with an employee for the project. Also, the court observed that when Fulton and that employee were accused of misappropriating the bid information, they did not deny it, but only smiled. The court noted that nonverbal conduct in response to an accusatory statement may show adoption of that statement and was admissible.

The court further noted that the absence of any direct evidence that Fulton had copied Ovation’s bid documents or had used information in those documents was due, at least in part, to the fact that Fulton had destroyed all documents relating to his bid.

6. Florida Law: Subpoena on Attorney to Produce Customer Lists Provided by Client Quashed per Fifth Amendment

**Heddon v. Florida, 786 So.2d 1262 (Fla. App. 2001)**

Florida adopted a version of the UTSA in 1988, which was amended in 1991 and 1997.491

In **Fisher v. United States,**492 the Supreme Court held that if a document in the hands of a client cannot be obtained through subpoena and the client transfers the document to his attorney for the purpose of obtaining legal advice, the document cannot be obtained by subpoena from the attorney because of the attorney-client privilege. The Court also noted that the very act of producing a subpoenaed document can have a testimonial impact apart from the content of the document, i.e., complying with the subpoena concedes the existence of the document and the fact that the accused possesses or controls it.

Heddon left his job at West World Telecommunications Systems, Inc., and West World complained to the state attorney that Heddon was misappropriating West World’s trade secrets. The State subpoenaed a number of documents from Heddon’s company, which he provided. The State also, though, subpoenaed “all documents including vendor/customer list(s) * * *” from Heddon’s former attorney. That attorney acknowledged that Heddon had consulted him for legal advice and that he had a file concerning that representation. He asserted attorney-client privilege in the contents of that file. The trial court denied the attorney’s motion to quash, but on appeal, the Florida Court of Appeals granted a writ of certiorari to quash. Under **Fisher,** the court reasoned, Heddon’s possession of a West World customer list would tend to incriminate him under the Florida Trade Secrets Act.

491 FLA. STAT. ANN. §§ 688,001 et seq.

7. **Colorado Law:**
   (a) **Non-Solicitation Clause Limited to Direct Solicitation**
   (b) **Employee Ranking System Not a Trade Secret**

   *Atmel Corp. v. Vitesse Semiconductor Corp.* 30 P.3d 789 (Colo. App. 2001)

   Colorado adopted a version of the UTSA in 1986.\(^{493}\)

   Atmel and Vitesse were both semiconductor companies, but not competitors, located in Colorado Springs. Atmel employed over 2,200 persons, constituting over two-thirds of the semiconductor labor force in the area. Vitesse built a manufacturing facility and began to hire employees, many of whom had previously worked for Atmel. Thus Atmel and Vitesse both competed for a limited number of qualified employees. Atmel’s employment agreements contained a non-solicitation clause, *i.e.*, that Atmel employees would not “solicit” other Atmel employees for employment elsewhere. Atmel filed suit alleging that Vitesse and several named individual defendants were “raiding” its work force. The trial court entered an injunction that enjoined the individual defendants from participating at all in Vitesse’s hiring practices, even *vis-à-vis* those employees that initiated contact with Vitesse. On appeal, the Colorado Court of Appeals reversed.

   The court construed the non-solicitation language in light of industry custom, the fact that Atmel had drafted the language, and the “necessity for a sensible result,” and concluded that the non-solicitation provision could not be read broadly to preclude these individuals from being involved with Vitesse’s hiring practices *vis-à-vis* Atmel’s employees. The court further concluded that if the provision was interpreted that broadly, it would be unenforceable under Colorado and California law. Atmel urged that the provision was necessary to protect its employee ranking system, *i.e.*, Atmel managers would rank its employees on a scale of 1-4. The court disagreed, concluding that “[n]o court has held, to our knowledge, that an employee’s subjective opinions about his or her co-workers are trade secrets belonging to the employer.”

8. **Vermont Law: Customer List of Bus Tour Groups Not Protectable Because No Effort to Maintain List as a Trade Secret**

   *Dicks v. Jensen*, 172 Vt. 43, 768 A.2d 1279 (Vt. 2001)

   Vermont adopted a version of the UTSA in 1996.\(^{494}\) This appears to have been the first case brought to the Vermont Supreme Court under that statute. Accordingly, in reaching its conclusion, the court relied heavily on decisions in other UTSA jurisdictions.

   Dicks owned the Lodge at Mount Snow in Dover, Vermont. During non-winter months, Dicks relied heavily on business from bus tours of senior citizen groups who were run by organizers that returned to the Lodge year after year. The bus tour industry, though, was highly competitive, and Dicks hired Cary and Brenda Jensen in 1991 to manage the Lodge, as well as to run a bus tour business. Soliciting tour groups involved mass mailings followed by direct telephone solicitation, which resulted in but 20-60 bookings from an initial mailing of 10,000-15,000 advertisements. Also, there was approximately a six month lead time required between the advertisements and actual bookings.

   In 1997, the Jensens left the Lodge to open their own competing lodge, the Autumn Inn, in Bennington. The Jensens contacted Lodge customers, informing them of their move, and also solicited their business. Nine of eleven tours that the Jensens booked in their first season were with former Lodge customers. Dicks sued alleging, *inter alia*, trade secret misappropriation. The trial court, on summary judgment, held that the Lodge’s customer list did not qualify for trade secret protection because it was readily ascertainable. On appeal, the Vermont Supreme Court affirmed, albeit for a different reason.

\(^{493}\) **COLO. REV. STAT. ANN. § 7-74-101 et seq. (West 1996).**

\(^{494}\) **9 VER. STAT. ANN. §§ 4601-4609.**
On the issue of whether the customer list could qualify as a trade secret, Brenda Jensen had admitted that at the time they opened their inn, they did not have the money for marketing. By directly soliciting the Lodge’s customers, the Jensen’s thus saved the costs of marketing as well as the six month lead time. The Jensen’s though argued that all of the customer’s names were available in public documents.

The court noted that other jurisdictions had held that customer lists, particularly customer lists that resulted from parsing profitable customers from larger lists, qualified for trade secret protection. Accordingly, the court held that it could not say as a matter of law whether the Lodge’s customer list constituted a trade secret solely on the basis of whether the customer names were readily ascertainable.

However, the court observed that there was no evidence in the record that Dicks took any measures to maintain the confidentiality of the customer list. Apparently, the list was posted, at least for a time, on a large reservation board, and the names were available to all employees. There was also no evidence of any understanding that the list was confidential. The court concluded: “Because plaintiff has adduced no evidence that he took reasonable efforts to maintain the secrecy of the customer information, we hold, as a matter of law, that this customer list is not a trade secret.”

9. Utah Law: Customer-Specific Chemical Price Lists Deemed Trade Secrets


Utah adopted a version of the UTSA in 1989.

Keil had worked for Water & Energy (WEST) as a sales representative for certain chemicals since 1986. During his employment, he spent the majority of his time with four customers, Alliant Techsystems, Cargill Flour Milling, Magnesium Corporation of America, and Utah State University. Keil also had access to the formulae that WEST used to create its chemicals, as well as to WEST’s customer-specific pricing. In 1997, Brody Chemical (BCC) recruited Keil. Keil and BCC then began discussions concerning the chemical inventory that BCC would carry and a price scheme that would be “competitive” with WEST’s pricing. Following those meetings, Keil prepared six substantially identical letters to clients he had serviced for WEST, including his four principal customers. Keil explained in those letters that he was now working for BCC and could offer “substantially the same” chemicals but at “substantially lower” prices. Keil then terminated his relationship with WEST and delivered the letters the next day. Within two weeks, three of the four principal customers began purchasing their chemicals from BCC, and there was testimony that price was an important factor in that decision.

WEST sued alleging trade secret misappropriation, namely WEST’s confidential prices, and for other causes of action, for example interference with WEST’s business relationships. The jury rendered a verdict for WEST, and awarded $188,675 in lost profits damages. On appeal, the Utah Supreme Court affirmed. Although BCC urged that the evidence was insufficient to establish a trade secret claim, the Utah Supreme Court disagreed finding that “even a cursory review of the record reveals that ample evidence was presented at trial for the jury to find that WEST’s price lists were confidential and expected their employees to keep them as such.”

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495 172 Vt. at 51, 768 A.2d at 1285.
496 UTAH CODE ANN. §§ 13-24-1 et seq.
10. **Customer Lists**

   a. **Nebraska Law:** (a) In a Case of First Impression, Customer Lists Qualify as Trade Secrets
      (b) Damages Are Based on Lost Net Profits, Not Gross Profits
      (c) Error to Award Both Lost Future Profits and a Permanent Injunction

   *Home Price Foods, Inc. v. Johnson*, 262 Neb. 701, 634 N.W.2d 774 (Neb. 2001)

   Nebraska adopted a version of the UTSA in 1988.497

   Home Pride and Consumer’s Choice, a co-defendant, were competing home food service companies, *i.e.*, they deliver food products and appliances to their customers. The parties stipulated that the defendants paid $800 for Home Pride’s customer list and knew that it was stolen when they purchased it. A search warrant executed on Consumer’s Choice premises uncovered the list. Nevertheless, the defendants argued that the list was not a trade secret because the names on the list could be ascertained from publicly available sources. The Nebraska Supreme Court disagreed holding (1) that customer lists could be protected under the NUTSA, and (2) the list at issue contained information that was not available from public sources (the court asked: “if the information was readily available, why did the appellants pay $800 for a stolen list?”). The court also found that the list had been properly protected. The court furthermore found evidence that Consumer’s Choice had used the list.

   With respect to damages, however, the court observed that Home Pride had only provided evidence of its lost gross profits, and concluded, as a matter of first impression, that damages for trade secret misappropriation in Nebraska require proof of lost net profits. Accordingly, the court remanded. The trial court had also awarded both lost future profits (*i.e.*, a reasonable royalty) and an injunction, which the court concluded was error because it resulted in double recovery.

11. **Memory Rule**

   a. **Memory Rule: Connecticut Law:** Employee is Ordinarily Privileged to Use Names of Customers Retained in Memory and Customers Could Be Readily Ascertained From the Internet


   Connecticut adopted a version of the UTSA in 1983, which was amended in 1997.498

   Heritage provided 401k, pension and other plan services to small and medium sized businesses, as well as investment advice. Cole worked for Heritage for seventeen years, and had access to client files, client lists, service agreements and other client information. Another co-defendant, Crocicchia, was employed as a sales representative at Heritage for ten years, and also had access to client information. Cole’s employment contained non-solicitation and non-competition covenants. Cole and Crocicchia became dissatisfied with the way Heritage was managed, and after attempts at purchasing the business failed, both resigned, and started a new business that targeted and solicited Heritage customers. The court found, however, that Cole and Crocicchia did not remove any client lists, documents or other Heritage property.

   The court further found that services on the Internet, such as ERISA.com, made available to the public a list of all employers who had filed a Form 5500, and that list included all of Heritage’s clients. In addition, the court found that at least four other Internet services could provide the names of pension administrators, brokers and actuaries that provide services for particular plans. Using those services could also provide information regarding Heritage’s clients.

   The court also found that Heritage had no written confidentiality policies. File cabinets containing client files were not locked, and all

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497 NEB. REV. STAT. §§ 87-501 et seq.

employees had access to those files. Client lists were not marked confidential, and client files were routinely taken out of the office for work at home or for client meetings.

The court concluded that Heritage’s client information (and other information as well) did not constitute a trade secret because such information was readily ascertainable. With regard to the memory rule, the court noted that the Restatement of Agency (Second) § 396 provided that an employee was ordinarily privileged to use the names of customers retained in memory. Additionally, the court concluded that the names and other information concerning Heritage’s clients were readily ascertainable through the Internet: “The wealth of information that the Internet now provides to businesses precludes a finding that the information sought to be protected in this case should be considered a trade secret.” The court also concluded that Heritage had not taken reasonable measures to protect its information.

The court declined to enforce Cole’s non-competition covenant because Heritage had materially breached the same by not paying Cole for certain stock.

G. Misappropriation Analysis


   (b) Misappropriation Under the UTSA May Occur In Any of Three Forms

   (i) Improper Acquisition, (ii) Disclosure, or (iii) Use

   *BP Chemicals Ltd. v. Jiangsu Sopo Corp.*, 285 F.3d 677 (8th Cir. 2002)

   Missouri adopted a version of the UTSA in 1995.

In 1986, BP acquired Monsanto Corp.’s proprietary technology in a methanol carbonylation process for making acetic acid. Acetic acid is used for making paints, plastics, resins and various pharmaceutical and agrochemical products. BP licensed that technology worldwide to enable companies to build acetic acid production plants. In building those plants, BP and its licensees relied on various vendors – outside engineering firms – to produce certain equipment and components. Many of those vendors are located in the United States. Those vendors operated under contractual duties of confidentiality.

In the mid-1990s, BP learned that one of its vendors, Nooter Corp. in St. Louis, had been asked to manufacture equipment for an acetic acid plant under construction in China. BP started an investigation and learned that other U.S. vendors had received product specifications and directions to prepare materials for that acetic acid plant. Those product specifications closely resembled BP’s specifications, and, in some cases, replicated typographical errors from the original BP documents.

BP traced the disclosures to Sopo, a Chinese corporation owned by the Peoples Republic of China (PRC), and another government owned business, Shanghai Petrochemical Engineering Co., SPECO. BP believed that SPECO was operating as Sopo’s purchasing agent. BP alleged that SPECO had disclosed BP’s trade secrets to U.S. vendors to permit them to assess the cost and feasibility of manufacturing various plant components.

BP sued Sopo, SPECO and Nooter. BP and Nooter quickly settled, and SPECO defaulted. Sopo moved to dismiss on the ground that Sopo was immune from suit under the Foreign Sovereign Immunities Act of 1976 (FSIA). The district court granted Sopo’s motion to dismiss. On appeal, the Eighth Circuit reversed.

Under the FSIA, a “foreign sovereign” is immune from the jurisdiction of U.S. courts. Sopo was considered a “foreign sovereign” because it was owned by the government of the PRC.

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499 MO. REV. STAT. §§ 417.450 et seq.
However, the FSIA contains several exceptions to that jurisdictional immunity. One exception is any case “in which the action is based upon a commercial activity carried on in the United States by the foreign state * * *.”\(^{501}\) A claim is “based upon” events in the United States “if those events establish a legal element of the claim.”\(^{502}\)

The Eighth Circuit observed that the Missouri Uniform Trade Secrets Act (MUTSA) provided for three forms of misappropriation: (1) improper acquisition, (2) disclosure, and (3) use.\(^ {503}\) The court reasoned that BP had decided to pursue its action against Sopo based on Sopo’s alleged wrongful disclosure (rather than acquisition) of BP’s trade secrets to U.S. engineering firms. Thus, BP’s “disclosure” MUTSA claim, according to the court, was “based upon” Sopo’s commercial activity in the United States, and therefore fell within the FSIA exception.\(^ {504}\)

The district court had rejected the “disclosure” rationale, concluding that was a mere “semantic ploy.” The district court viewed BP’s true claim as being one for wrongful acquisition. The Eighth Circuit, though, observed that denigrating a cause of action as a “semantic ploy” was only applicable to legally untenable claims. The court viewed BP’s trade secret cause of action as properly grounded in the MUTSA.

The Eighth Circuit further found that Sopo’s activities constituted “commercial activity,” and that its efforts to obtain “the fruits of American engineering know-how constitute ‘substantial contact’ with the United States.”\(^ {505}\)

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\(^{503}\) 285 F.3d at 683.

\(^{504}\) Id. at 684.

\(^{505}\) 285 F.3d at 686.
that there was no evidence that Landis had misappropriated System 4’s trade secrets. On appeal, the Fourth Circuit affirmed.

The court noted that under the Maryland UTSA (MUTSA), “a plaintiff can state a claim for misappropriation simply by demonstrating that the defendant acquired a trade secret by improper means, even if the plaintiff cannot show use of that trade secret.” 507 The court further noted, however, that the MUTSA defined “improper means” as including “theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy, or espionage through electronic or other means.” 508 Although recognizing that the list was not exhaustive, the court nevertheless concluded that “one can derive some common characteristics of improper means. All of the examples listed in the MUTSA constitute intentional conduct involving some sort of stealth, deception or trickery.” 509 Here, according to the court, “[w]hile [the Landis employee] probably should not have looked at the proposal once he realized it was not his company’s, merely looking at information acquired inadvertently does not constitute improper means.” 510 That was particularly true here, according to the court, in view of the fact that System 4’s proposal did not bear any confidentiality markings.

3. Use May Be Inferred
   a. Federal Circuit Illinois Law: Use of a Trade Secret May be Inferred Based on Access and Similarity and/or Inevitable Disclosure


   L&P owned a patent on a “nestable” box spring, *i.e.*, a box spring that would “nest” without other box springs in order to reduce size during shipping. L&P charged Hickory with patent infringement and trade secret misappropriation. The district court, after construing the patent claims, granted Hickory summary judgment of non-infringement and also concluded that Hickory had not misappropriated L&P’s trade secrets. On appeal, the Federal Circuit reversed.

   The facts *vis-à-vis* the trade secret misappropriation claim are not clear from the opinion. Apparently, Hickory had hired one of L&P’s employees (also one of the co-inventors of the patent-in-suit), and had produced a box spring similar to L&P’s. Hickory’s box spring was different, however, and the Federal Circuit affirmed the district court’s summary judgment that there was no literal infringement. The district court had found that there were genuine issues of material *vis-à-vis* whether L&P possessed any protectable trade secrets, but granted summary judgment to Hickory on the finding that L&P had not shown that Hickory had actually *used* any of L&P’s trade secrets.

   In reversing the district court’s grant of summary judgment on the trade secret issue (as well as the issue of infringement under the doctrine of equivalents), the Federal Circuit generally misstated Illinois law, and its rationale is internally inconsistent. For example, the Federal Circuit says that under Illinois law, “[t]o satisfy the use requirement, L&P must show that Hickory could not have created its product without the use of L&P’s trade secrets,” 511 citing *Mangren Research and Dev. Corp. v. Nat’l Chem. Co.*, 285 F.3d 1361.

507 2001 WL 434586 at **3. *See also Nora Beverages, Inc. v. Perrier Group of Am., Inc.*, 164 F.3d 736, 750 (2d Cir. 1998) ("Thus a violation of the Connecticut Uniform Trade Secrets Act occurs if the defendant either wrongfully acquired plaintiff’s trade secret or used or disclosed the trade secret.").


509 2001 WL 434586 at **3.

510 Id. at **4.

511 285 F.3d at 1361.
Actually, that was not the holding in Mangren, but rather was simply the court’s observation. The Federal Circuit secondly, based on the fact that Hickory had hired one of L&P’s employees and had produced a similar box spring, said that “[t]hese showings – access and similarity – may support a trade secret misappropriation claim,”513 citing Sokol Crystal Prods., Inc. v. DSC Communications Corp.514 What the court actually wrote in Sokol is that the jury must have inferred misappropriation from the defendant’s access to the plaintiff’s confidential information and the similarity between the defendant’s and plaintiff’s devices. The Federal Circuit further observed that “[o]n the issue of access, direct evidence is rarely available, thus requiring a reliance on circumstantial evidence,”515 citing PepsiCo, Inc. v. Redmond,516 which, of course, deals with the issue of inevitable disclosure.

In any event, the Federal Circuit concluded that there were genuine issues of material fact in dispute regarding the trade secret misappropriation claim, and, accordingly, reversed.

4. The “Owner” of the Trade Secret is the One Entitled to Sue

a. Texas Law: (a) The “Owner” of a Trade Secret Includes One Entitled to Assert Secrecy
   (b) Under Rule 507, Tex. R. Civ. P., Once a Trade Secret is Established the Burden Shifts to Requesting Party to Establish that the Information is Necessary for a Fair Adjudication
   (c) If Trade Secret is Established, Trial Court Abuses Its Discretion by Ordering Production Without In Camera Inspection


   Texas has not adopted the UTSA, and currently follows the RESTATEMENT (FIRST) OF TORTS § 757 (1939) in trade secret actions.

   In a class action lawsuit involving over 1,000 Latin American investors brought against a number of defendants, including the Cayman Island Firm of Deloitte & Touche (DT-Cayman), for alleged accounting malpractice, discovery revealed that corporate representatives of DT-Cayman had reviewed a Professional Practice Manual prior to their depositions. The plaintiffs moved for production of the manual. DT-Cayman responded that the manual was highly confidential, and offered to produce the manual for in camera inspection. The trial court, however, ordered the manual to be produced without in camera inspection. That, the Court of Appeals held, was error.

   One of the issues on appeal involved the “ownership” of the asserted trade secret in the manual. The uppermost entity in the DT organization was Deloitte Touche Tohmatsu (DT-Tohmatsu) which was, apparently, the “owner” of the manual. The plaintiffs contended that DT-Cayman did not have standing to assert the privilege of Rule 507, Tex. R. Civ. P.517 The court disagreed, adopting the reasoning of DTM Research, L.L.C. v. AT&T Corp.518 that “[t]he ‘proprietary aspect’ of a trade secret flows, not from the knowledge itself, but from its secrecy. It is the secret aspect of the knowledge that provides value to the person having the knowledge.”519 “As a consequence,” according to the Fourth

512 87 F.3d 937, 944 (7th Cir. 1996).
513 285 F.3d at 1361.
514 15 F.3d 1427, 1429 (7th Cir. 1994).
515 285 F.3d at 1361.
516 54 F.3d 1262, 1269 (7th Cir. 1995).
517 Rule 507 provides:
   A person has a privilege, which may be claimed by the person or the person’s agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by the person, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice.
518 245 F.3d 327 (4th Cir. 2001).
519 Id.
Circuit, “one ‘owns’ a trade secret when one knows of it, as long as it remains a secret.” The court concluded that DT-Cayman “owned” the manual for purposes of asserting a privilege under Rule 507.

On the merits, the court noted that under In re Continental General Tire, Inc., trial court must apply a balancing test that employs shifting burdens. Specifically, the party resisting discovery must first establish that the information is a trade secret. The burden then shifts to the requesting party to show that the information is ‘necessary for a fair adjudication of its claims. Here, the court concluded that DT-Cayman had, through affidavit, established that the manual contained trade secrets and that the burden had thus shifted to the plaintiffs. Thus, the court concluded that the trial court had abused its discretion in ordering that the manual be produced without conducting an in camera inspection.


Klumpe and his stepson, Escamilla, were employed by IBP in Amarillo. Klumpe was a superintendent and Escamilla was a laborer in the slaughter department. Escamilla was injured by a meat cutting machine, and consulted an attorney, Blackburn, who was also Klumpe’s personal attorney. Blackburn referred him to another firm, Fadduol & Glasheen (F&G), who commenced suit against IBP alleging inadequate staffing and negligent production procedures. During discovery, F&G noticed the deposition of Klumpe and directed him to produce various documents. One of those documents was a collection of guidelines for the production process termed “Crewing Guides.”

That deposition notice was served on counsel for IBP and on Blackburn as attorney for Klumpe. Klumpe then delivered various documents to Blackburn, including the Crewing Guides. IBP filed objections and a motion for a protective order asserting that the Guides contained IBP’s trade secret information. IBP’s attorney then made arrangements with Blackburn to review the documents that Klumpe had given him on Monday, June 30th.

On Sunday, June 29th, however, Blackburn, responding to F&G’s request for “informal discovery” faxed copies of the documents that Klumpe had given him, including the Guides, to F&G. When IBP’s attorney discovered that Blackburn had done so, he reached an agreement with F&G to hold the documents in confidence until a hearing could be held. The trial court subsequently ordered that the Guides were not to be disclosed to any third parties except as necessary for prosecuting the Escamilla suit.

The Escamilla suit was settled during trial. While that suit was pending, however, IBP sued Klumpe, Blackburn and F&G seeking an injunction, damages, and attorney’s fees. The essence of the suit was that the Guides constituted IBP’s trade secrets, and that Klumpe had contractual, common law, and statutory obligations not to take or disclose the same. The suit alleged, inter alia, trade secret misappropriation, tortious interference, conversion and civil conspiracy.

The trial court granted summary judgment for Klumpe and Blackburn without specifying its reasons for doing so. On appeal, the Court of Appeals affirmed summary judgment as to both Klumpe and Blackburn insofar as IBP’s causes of action were based upon Klumpe’s disclosure of the Guides to Blackburn and Blackburn’s faxing of the Guides to F&G. The summary judgment was also affirmed as to IBP’s cause of action for trade secret misappropriation. The summary judgment was reversed in all other respects.

The court acknowledged that “[a]s a general rule, neither a party in a lawsuit nor an attorney representing a party in a lawsuit has a right of recovery under any cause of action against another attorney arising from conduct the second attorney engaged in as part of discharging duties
in representing a party in that lawsuit.” However, the court also held that “[a] lawyer is protected from liability claims only as to actions which are ‘within the bounds of the law.’”

With respect to Klumpe, the court concluded that the disclosure to Blackburn and the later disclosure to F&G was privileged, but there was a material issue of fact whether Klumpe’s original taking of the Guides was an unprivileged “stealing.” The court noted that “[a] subpoena duces tecum does not authorize a witness to illegally seize and remove property of another [in violation of Texas Penal Code § 31.05(b)(1)] simply because the property is listed in the subpoena. ** Although an absolute privilege from civil liability is accorded as to claims based on communication by participants in the discovery process, a privilege is not accorded as to claims based on acquiring information or documents illegally.”

As for Blackburn, IBP argued that his actions were outside the bounds of the law because (1) he directly violated Penal Code § 31.05 by faxing the Guides to F&G, and (2) he conspired with Klumpe and F&G to have Klumpe take the Guides in violation of § 31.05. IBP referred evidence such as (1) Blackburn referred Escamilla to F&G, (2) Blackburn would receive a referral fee if the suit against IBP was successful, (3) members of F&G knew of the Guides and had previously been unsuccessful in obtaining those in other lawsuits, (4) members of F&G met with Blackburn on various occasions prior to the time that the Guides were faxed, (5) one of those meetings involved Escamilla, (6) F&G had requested “informal discovery” of all documents received from Klumpe, and (7) Blackburn had faxed the 18 page Guides the day before he was to meet with IBP’s attorney.

The court concluded that Blackburn’s faxing of the Guides was absolutely privileged. However, IBP’s claim, according to the court, that Blackburn had conspired with others regarding the same was not based on that communication, but on Klumpe’s having obtained the Guides illegally. Accordingly, claims against Blackburn based on Klumpe’s activities survived.

With respect to IBP’s trade secret misappropriation claim, the court found that IBP had not provided summary judgment that the Guides were either commercially used or the subject of a non-privileged disclosure. The court reasoned that the disclosures were privileged as discussed above. Unfortunately, the court did not address (or the parties did not argue) that Klumpe’s, and subsequently Blackburn’s, possession of the Guides was obtained through “improper means” and would itself justify a claim for trade secret misappropriation.

H. Identifying Trade Secrets During Litigation

1. Seventh Circuit: Wisconsin Law: (a) 43 Page Description of Software is Insufficient to Identify Plaintiff’s Trade Secrets
(b) Vendor-Vendee Confidentiality Agreements Are Not Unenforceable For Failure to Include Temporal and Geographic Restrictions
(c) Wisconsin’s UTSA Does Not Preempt a Cause of Action for Tortiously Inducing a Customer to Breach a Confidentiality Agreement

IDX Systems, Corp. v. Epic Systems Corp., 285 F.3d 581 (7th Cir. 2002)(Easterbrook, C.J.)

Wisconsin adopted a version of the UTSA in 1986.521

IDX and Epic both produced software for use in managing the financial side of a medical practice, i.e., billing, insurance reimbursement, and the like. IDX sold or licensed its software to two medical groups in the 1980s. Those two groups later merged into the University of Wisconsin Medical Foundation consisting of over 1,000 physicians. In December 2000, the University switched to Epic’s software. IDX charged that two former Epic employees instigated that change, and used their position with the University to transfer IDX trade secrets to Epic.

The district court had granted summary judgment to Epic on IDX’s trade secret misappropriation claim because IDX had failed to

521 WIS. STAT. ANN. §§ 134.90 et seq.
specifically identify its trade secrets. The Seventh Circuit, in an opinion by Circuit Judge Easterbrook, affirmed. IDX urged that “a 43 page description of the methods and processes underlying and the inter-relationships among various features making up IDX’s software package” was specific enough to withstand summary judgment. The Seventh Circuit answered “No, it isn’t.” The court noted that the document did not separate the trade secrets from other information, and that IDX’s tender of the complete documentation for the software did not solve the problem: “a plaintiff must do more than just identify a kind of technology and then invite the court to hunt through the details in search of items meeting the statutory definition.”

The Wisconsin version of the UTSA specifically provides that the statute “does not affect * * *[a]ny contractual remedy, whether or not based upon misappropriation of a trade secret.” IDX and the Foundation (through its predecessors, namely the two medical groups), entered into an agreement under which the Foundation agreed that it would not allow the software to be “examined * * * for the purpose of creating another system” and also agreed not to “use or disclose or divulge to others any data or information relating to” the system or the technology. The district court held that those promises were unenforceable because they were unlimited in temporal and geographic scope, relying on employer-employee non-competition covenant cases. On appeal, the Seventh Circuit reversed.

The Seventh Circuit clearly distinguished confidentiality or non-disclosure agreements from employer-employee non-competition agreements. The court observed that “[r]ules limiting the extent of no-compete clauses are based on the fact that they tie up human capital and, if widely adopted, may have the practical effect of preventing horizontal competition in economically significant markets.” “But neither rationale,” according to the court, “applies to contracts that restrict the use of particular information between businesses that have vertical (supplier-to-customer) rather than horizontal (competitor-to-competitor) relations.” They [supplier-to-customer confidentiality agreements] may compel rivals such as Epic to do more work to develop software independently, but this promotes rather than restricts competition. *** Rivals such as Epic, non-parties to the vertical arrangements, remain entitled to discover and use the information independently and to compete vigorously. Nothing in the antitrust laws gives one producer a right to sponge off another’s intellectual property, even when the producer of that knowledge has a market share much larger than IDX’s.”

The court further noted that geographical restrictions made no sense: “If the Foundation were forbidden to disclose the details to Epic in Wisconsin, but allowed to do so in Indiana, that would be the same thing as permitting disclosure everywhere (and thus nixing all contractual limits) — for Epic could sell worldwide any software derived from what it learned in Indiana.” Temporary restrictions, according to the court, might make sense if, for example, obligations of confidentiality ended when information became generally known, but the court noted that it was too early in the litigation to make that determination.

Lastly, the court addressed IDX’s charge that the Foundation had tortiously induced the Foundation to breach its obligations of confidentiality owed to IDX. The district court dismissed that cause of action on the pleadings finding that Wisconsin’s UTSA preempted that cause of action. The Seventh Circuit reversed for two reasons. First, the Wisconsin statute carved out civil remedies “not based upon misappropriation of a trade secret” from the area of preemption. The tort of inducing breach of a

522 285 F.3d at 583.
523 Id. at 584.
524 Id. at 584.
525 285 F.3d at 585.
526 Id.
527 Id.
528 Id. at 586.
non-disclosure agreement, the court noted, is based on interference with the contract, not misappropriation of a trade secret. Secondly, the statutory preemption only dealt with conflicting tort law. The court noted that enforcement of a non-disclosure agreement did not “conflict” with trade secret law.\footnote{Id. at 586.}

2. **Delaware Law: Trade Secrets Must Be Identified With Sufficient Particularity to Enable a Defendant to Prepare a Defense – Simply Attaching 120 Pages of Miscellaneous Information to the Complaint is Not Sufficient**


   Delaware adopted a version of the UTSA in 1982, that was amended in 1997.\footnote{6 DEL. CODE ANN. §§ 2001 et seq.}

   In 1999, Savor provided information to a senior executive of FMR about a rebate program whereby consumers of certain products and services would receive rebates for investment in designated state qualified tuition plans. No confidentiality agreement was signed, although the executive agreed to “respect the secrecy of the information.” After several more discussions, FMR declined to participate in the program. Later, however, Upromise, Inc. was formed, and news reports described a rebate program that had been initiated by Upromise and managed in part by FMR. Savor contended that Upromise’s rebate program was identical to the one he had proposed, and noted that a former employee of FMR assisted Upromise in developing the program.

   Savor’s initial complaint referred broadly to the rebate program as the trade secret, but Savor conceded that the rebate program \textit{per se} was not a trade secret because such programs were common. Savor then filed a second amended complaint that described the alleged trade secret in general conclusory terms. Savor agreed to rectify the problem if the court entered a protective order which the court did. In a third amended complaint, Savor again referred broadly to “information which included marketing strategies and methods, techniques and processes for extracting payments ***.” Savor also attached an Exhibit A that, according to the court, consisted of 120 pages of “miscellaneous information, appended in no discernable order, which include[d] various letters ***, charts, sales pitches, newspaper articles, pictures of proposed credit cards, a patent application, and copies of websites maintained by organizations unaffiliated with the parties ***.”

   In granting the defendants’ motion to dismiss, the court noted that “Savor attempted to enhance its presentation by fastening to its complaint a compilation of documents *** the content or context of which is nowhere explained in the pleading. By doing so, Savor has sent the Court and the Defendants on an unguided safari through a marsh of seemingly benign information in search of a trade secret.” The court further noted that “[t]o require a plaintiff alleging misappropriation of trade secrets to identify the trade secret at issue with some specificity is not onerous, impractical or inconsistent with notice pleading. *** No amount of discovery from the defendant will assist the plaintiff in better understanding or describing its own trade secret. The trade secret, if it exists, is well-known to the plaintiff at the outset of the litigation.”

3. **Delaware Law: Identification of a Broad Process as a Trade Secret May be Later Narrowed During Trial**


   In 1970, a Japanese scientist Dr. Takahashi isolated a strain of chicken pox virus, successfully developed a vaccine, and published his results. SmithKline obtained an option from Handai Biken, the commercial arm of the university that employed Dr. Takahashi, to evaluate the strain for two years. That option was subsequently extended several times. SmithKline and Biken, though, were unable to reach an agreement, and Biken ultimately granted Merck a license to use “Biken Know-How” and a non-exclusive license to use the strain in the U.S. and
Canada. Later, Biken and SmithKline entered into an agreement giving SmithKline non-exclusive rights in the strain and know-how in Europe. SmithKline, however, had difficulty in applying a new process that it had developed to producing vaccine, and sought Biken’s assistance. Researchers from Biken thereafter gave SmithKline step-by-step instructions. SmithKline thereafter filed information regarding that process with the FDA in preparation for clinical trials in the U.S. which violated the geographical restrictions in its license with Biken. Merck brought suit for trade secret misappropriation seeking to enjoin SmithKline from marketing its vaccine in the U.S.

During discovery, SmithKline requested an identification of the trade secrets that Merck was asserting. In response, Merck provided a 37-page description of the Biken production process and the information that Biken had previously furnished SmithKline. SmithKline argued that Merck was therefore bound to asserting that the entire production process was a trade secret that SmithKline was accused of misappropriating. The court disagreed, holding that Merck could, as it did, later narrow the broad trade secret allegation “to fit the particular aspects of the production process Merck claimed were misappropriated by SmithKline.” Doing so, according to the court, did not prejudice SmithKline.

4. Seventh Circuit: Wisconsin Law:
(a) Trade Secret May Be Asserted in a Combination of Procedures Disclosed in 500 Pages of Manuals
(b) Misappropriation May Be Inferred From Defendants’ Ability to Produce Product Within a Short Time Span
(c) Injunction That Encompasses Information in 500 Pages of Manuals and Public Domain as Well as Trade Secret Information Nevertheless Complies with Rule 65(d)
(d) Proof that the Defendants Did Not Use an Asserted Trade Secret Furnishes Grounds for JMOL
(e) Injunctions Are Not Punitive: Damages Equaling Plaintiff’s Development Costs and an Injunction Against Future Disclosure But Not Use, Rather Than Permanent Injunction, is Appropriate

Minnesota Mining & Manufacturing Co. v. Pribyl, 259 F.3d 587 (7th Cir. 2001)

3M manufactured, among other things, “carrier tape,” i.e., tape used to transport sensitive electronic components. Such tape was made from a thin layer of plastic called “resin sheeting.” Pockets were formed in the “resin sheeting” to fit the components to be transferred. 3M manufactured the resin sheeting, but did not sell it in the open market, other than to its foreign subsidiaries.

Three employees, Pribyl, Skrtic and Harvey, had positions “integral” to 3M’s resin sheet manufacturing. In 1996, 3M announced that it was moving its plant from Menominee, Wisconsin to Hutchinson, Minnesota. For a variety of reasons, those three employees decided not to move. Instead, they formed Accu-Tech, while still employed by 3M, which manufactured and sold resin sheeting to various companies. Three years later, 3M discovered the existence of Accu-Tech and terminated the three employees. 3M also filed suit alleging, inter alia, trade secret misappropriation.

The jury concluded (1) that the three former employees had breached a duty of loyalty owed 3M, (2) 3M owned four trade secrets, and (3) Accu-Tech and its founders had misappropriated two of those four trade secrets. The district court granted a permanent injunction precluding Accu-Tech and its founders from disclosing (but not from using) those trade secrets, and awarded 3M damages.

On appeal, Accu-Tech et al. argued that although 3M maintained elaborate security measures, the various operating procedures and manuals that 3M said constituted its trade secrets encompassed a broad category of items, many of which were in the public domain. Accu-Tech et al. pressed 3M to specify what specific information in the more than 500 pages of information should be considered a trade secret. The court concluded that 3M need not do so, noting that a “trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a
competitive advantage and is a protectable secret.”

Secondly, the Seventh Circuit agreed with the district court “that there was a powerful inference that defendants used 3M’s operating procedures and manuals in establishing Accu-Tech’s operations.” The court observed that it had taken 3M six years to make its carrier tape operations efficient, and yet Accu-Tech was able to do so almost immediately. There was also evidence that Accu-Tech had discloses processes disclosed in 3M’s manuals to its customers.

Accu-Tech additionally argued that the district court’s injunction order did not meet the specificity requires of Fed.R.Civ.P. 65(d) in that it encompassed some 500+ pages of information and included admittedly public domain information. The Seventh Circuit was not persuaded. As noted above, the court found that 3M could validly assert trade secret protection in a combination of procedures and the like contained within those 500 pages, and that the injunction sufficiently informed the defendants of what they were to avoid even though the injunction encompassed public domain information.

3M additionally asserted trade secrets rights in a customized resin formulation. The process for manufacturing resin sheeting began with a “resin pellet.” Such pellets were available commercially in a number of different formulations. 3M experimented with a number of different pellets, and also developed its own formulation. Although one of the defendants had access to that formulation, the evidence was undisputed that Accu-Tech used commercially available resin pellets. The district court had granted Accu-Tech JMOL on this issue, and the Seventh Circuit agreed: “the evidence at trial specifically established that Accu-Tech was not using 3M’s polystyrene resin.”

With respect to the district court’s injunction prohibiting Accu-Tech from disclosing, but not from using, 3M’s trade secrets, 3M argued that was equivalent to forcing 3M to sell its trade secrets to those who stole them. The Seventh Circuit disagreed. The jury had granted damages based in part on what it would have cost the defendants to independently develop the trade secrets at issue. The district court reasoned, relying on the Fifth Circuit’s decision in Next Level Communications L.P. v. DSC Communications Corp. (awarding a permanent injunction where the damages already included lost future profits would result in double recovery), that once the defendants had paid the damages based on 3M’s development costs, the defendants should be free to use the secrets that they had misappropriated. 3M argued that the damages here were not for future lost profits as in Next Level, and, in any event, Next Level was wrongly decided.

Although affirming, the Seventh Circuit adopted a different rationale. The court noted that “[t]he purpose of a permanent injunction is to protect trade secret owners from the ongoing damages caused by the future use of trade secrets, rather than to compensate for those damages.” The court reasoned that “[a]n injunction is not a punitive tool, but rather a vehicle for preventing injury. * * * According to Wisconsin law, though a court may grant injunctive relief against a person who misappropriated a trade secret, the court should continue the injunction only for a period of time reasonable to eliminate commercial advantage which the person who misappropriated a trade secret would otherwise derive from the violation.” Here, the district court had made a

531 259 F.3d at 595-96.
532 Id. at 596.
533 Id. at 597-98.
534 Id. at 605.
535 179 F.3d 244 (5th Cir. 1999).
536 The Seventh Circuit noted that to the extent that Next Level could be read as suggesting that the payment of any damages for misappropriation gives the misappropriator ownership of the trade secret, the Seventh Circuit would disagree. 259 F.3d at 607 n. 7.
537 259 F.3d at 607.
538 259 F.3d at 609.
factual determination that Accu-Tech would have been able to develop 3M’s trade secrets in a period of less than two years. The district court further determined that once payment to 3M had been made to offset any commercial advantage gained from the misappropriation, any future injunctive relief would have been punitive. The Seventh Circuit accordingly held that the district court had not abused its discretion in not granting 3M a permanent injunction against further use of the trade secrets. In a footnote, the Seventh Circuit also noted that the district court’s injunction against future disclosure, in fact, deprived Accu-Tech of the right of ownership, a right it otherwise would have had if it had developed the trade secrets independently. According to the Seventh Circuit, “the district court’s decision has provided 3M with a blanket of protection that it would not have received otherwise.”539

I. Spoliation

1. Wisconsin Law: Pointing a Finger at One’s Children to Explain Repeatedly Downloading 6 GB of Music on Hard Drive That Was to be Produced for Inspection is Not Credible

The Seventh Circuit affirmed the district court’s grant of JMOL for the defendants on one of the trade secret misappropriation issues where the evidence clearly showed that the defendants had not used 3M’s resin formulation, i.e., one of 3M’s asserted trade secrets. 3M urged that the jury’s verdict should not have been overturned on insufficiency of evidence grounds because the district court had determined that the defendants had engaged in spoliation of evidence. Specifically, the evening before one of the defendants was to turn over his computer pursuant to a discovery request, six gigabytes of music was repeatedly downloaded to his hard drive over a short time span. The defendant pointed to his children who used the computer. The district court did not buy that explanation, and instructed the jury that they could draw a negative inference from that act of destruction.

On appeal, the Seventh Circuit agreed that the district court was correct in giving that instruction, but also noted that “the fact that hard drive space was destroyed * * * does not relieve 3M of having to prove the elements of its claims.”540 The court also noted that “the district court was in a unique position to examine the impact that any spoliation may have had on 3M’s claims,” and that the district court “while aware of the spoliation, was still comfortable in determining that there was insufficient evidence to support 3M’s claim.”541

2. Illinois Law: Repeatedly Defragmenting Hard Drive to Remove Evidence is Strong Circumstantial Evidence of Misappropriation and May Justify Willful and Malicious Misappropriation

Minnesota Mining & Manufacturing Co. v. Pribyl, 259 F.3d 587 (7th Cir. 2001)

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The first opinion addresses RKI’s causes of action for trade secret misappropriation and breach of a non-competition covenant. The second opinion addresses post-trial motions.

RKI d/b/a Roll-Kraft, based in Mentor, Ohio, produced tube and pipe mill rolls. Grimes was employed in 1999 as a salesman to service accounts in Illinois, Indiana, Iowa, Missouri and Wisconsin. Grimes had no prior experience in the field, and was given an initial 90 day training course, during which he received information regarding Roll-Kraft’s customers, their buying histories, and other confidential information. Grimes signed a two-year employment agreement containing non-disclosure and non-solicitation provisions.

Initially, Roll-Kraft used ACT! as its customer contact management system, but in 2001

539 Id. at 610 n. 8.

540 259 F.3d at 606 n. 5.

541 Id.
developed its own proprietary system known as BAM. Grimes had access to both ACT! and BAM, as well as another system known as NPI that contained information regarding pricing, margins, shipping and strategic plans. All three systems were password protected, and individuals such as Grimes had access only to those portions of the system that related to their jobs.

Roll-Kraft required its salesmen to add all customer contact information to ACT! and BAM weekly. Grimes was apparently not doing so, and after a warning, Roll-Kraft reduced his salary by $2,500. Grimes then initiated discussions with a competitor, Chicago Roll. In e-mail correspondence to a friend of his at Chicago Roll, Grimes bragged about taking an order from an active Roll-Kraft account and that he was looking forward to “stealing” Roll-Kraft’s customers. When Roll-Kraft learned that Grimes was talking to Chicago Roll, Roll-Kraft contacted Grimes. Grimes twice denied that he was talking to Chicago Roll, but that same evening accessed the Roll-Kraft computer system from his home to download the ACT!, BAM and NPI databases. Later, when joining Chicago Roll, Grimes signed an indemnity agreement indemnifying Chicago Roll in the event of an action by Roll-Kraft.

During discovery, Grimes and Chicago Roll refused to appear or produce documents at scheduled depositions leading the court to order Grimes and Chicago Roll to produce their computers for inspection. On the same day, Grimes defragmented his computer allegedly on the advice of PCPitstop, an Internet based troubleshooting company. However, a partner with PCPitstop testified that Grimes’ computer was not fragmented, and they had not advised him to defragment it. Two days later, Grimes defragmented his computer again, also allegedly on the advice of PCPitstop, but PCPitstop denied having given that advice. Four days later, Grimes defragmented his drive a third time, and despite saying once again that he had done so on the advice of PCPitstop, records indicated that he had not visited their website.

The district court also found that Chicago Roll had deleted data from its salesmen’s computers after suit had been filed, despite that it had no policy for deleting data on a set schedule, no deletions had been made before that, and there was plenty of room on their computer hard drives. One laptop computer had been defragmented two days prior to a scheduled inspection by Roll-Kraft’s computer forensics expert.

The district court concluded that the information contained in Roll-Kraft’s ACT!, BAM and NPI databases was trade secret customer information under the Illinois UTSA, and that Roll-Kraft had taken reasonable measures to protect the same. The court further concluded that from the foregoing, there was strong circumstantial evidence that Grimes had used “improper means” to acquire those databases: “Defendants never placed any witness on the stand to explain: 1) why Grimes accessed Roll-Kraft’s computers on October 16, 2001 after business hours from his home computer, or 2) why 60 megabytes of information was deleted from Grimes’ home computer between November 15 and December 8, 2001, or 3) why he defragmented his home computer four times in ten days in November 2001, when no mechanical or engineering reason required it.”

J.

Identifying ISP User

1. New Jersey Law: Procedures and Test for Disclosing Identity of Anonymous User of ISP Message Board: Plaintiff Must Product a Prima Facie Case, i.e., More Than What Would Be Required To Survive a Motion to Dismiss


The court noted that the “trial court must consider and decide [applications for orders compelling an ISP to disclose the identity of an anonymous user] by striking a balance between the well-established First Amendment right to speak anonymously, and the right of the plaintiff to protect its proprietary interests and reputation through the assertion of recognizable claims based on the actionable conduct of the anonymous, fictitiously-named defendants.”

542 177 F. Supp.2d at 875.
According to the court:

- “the trial court should first require the plaintiff to undertake efforts to notify the anonymous posters that they are the subject of a subpoena or application for an order of discovery, and withhold action to afford the fictitiously-named defendants a reasonable opportunity to file and serve opposition to the application. These notification efforts should include posting a message of notification of the identity discovery request to the anonymous user on the ISP’s pertinent message board.”

- “The court shall also require the plaintiff to identify and set forth the exact statements purportedly made by each anonymous poster that plaintiff alleges constitutes actionable speech.”

- “The complaint and all information provided to the court should be carefully reviewed to determine whether plaintiff has set forth a prima facie cause of action against the fictitiously-named anonymous defendants.”  [That is, more is required than that simply to survive a motion to dismiss – “the plaintiff must produce sufficient evidence supporting each element of its cause of action, on a prima facie basis, prior to a court ordering the disclosure of the identity of the unnamed defendant.”]

- “Finally, assuming the court concludes that the plaintiff has presented a prima facie cause of action, the court must balance the defendant’s First Amendment right of anonymous free speech against the strength of the prima facie case presented and the necessity for the disclosure of the anonymous defendant’s identity to allow the plaintiff to properly proceed.”

543 See also In re Subpoena Duces Tecum to America Online, 2000 WL 1210372 (Va. Cir. Ct. 2000)(a court should only order disclosure of the identity of a subscriber “(1) when the court is satisfied by the pleadings or evidence supplied to that court (2) that the party requesting the subpoena has a legitimate, good faith basis to contend that it may be the victim of conduct actionable in the jurisdiction where suit was filed and (3) the subpoenaed identity information is centrally needed to advance that claim.”); Columbia Ins. Co. v. Sexscandy.com, 185 F.R.D. 573 (N.D. Cal. 1999)(adopting four prong approach in a trademark case similar to that adopted by the New Jersey court).
employee” and stated that Immunomedics was “out of stock for diagnostic products in Europe” and that there would be no more sales if the situation did not change. A second message stated that Immunomedics was going to fire the European manager. Immunomedics conceded that the information was true, but asserted that the statements violated Immunomedics’ confidentiality agreement and “several provisions” of the Employee Handbook.

Immunomedics served a complaint on Yahoo! seeking discovery of Moonshine’s true identity. Yahoo! contacted Moonshine, and she filed a motion to quash. The trial court denied that motion, and the Appellate Division affirmed. The court reasoned: “With evidence demonstrating Moonshine is an employee of Immunomedics, that employees execute confidentiality agreements, and the content of Moonshine’s posted messages providing evidence of the breach thereof, the disclosure of Moonshine’s identity, which can be reasonably calculated to be achieved by information obtained from the subpoena, was fully warranted.”

K. Preemption

1. Oklahoma Law: Action for Fraud and Deceit Not Preempted by Oklahoma UTSA

Craig Neon, Inc. v. McKenzie, 2001 WL 1338434 (10th Cir. 2001)

Oklahoma adopted a version of the UTSA in 1986.

Craig Neon prepared sketches and a model for new signs at McKenzie’s automobile repair business locations. The sketches and model were presented during a meeting between the parties. Although the evidence was conflicting, the district court found that Craig Neon had insisted that the sketches and model remain confidential, and McKenzie had agreed. Thereafter, McKenzie had taken the sketches to another company for construction of new signs. Craig Neon sued alleging fraud and deceit, i.e., failure to keep the sketches confidential, and for misappropriation. The jury found for Craig Neon on the fraud and deceit claim. McKenzie argued that the Oklahoma UTSA preempted the cause of action for fraud and deceit.

The Oklahoma UTSA provides that it “displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret, [but] does not affect * * * other civil remedies that are not based upon misappropriation of a trade secret.” In rejecting McKenzie’s argument, the court concluded that the elements of the UTSA were different from those of a claim of fraud and deceit, and the claim for fraud and deceit could stand alone without proving that the sign plans were a trade secret. Accordingly, the court concluded that there was no preemption.

L. Statutes of Limitations

1. Indiana UTSA Statute of Limitations is Not Tolled Where French Defendant Was Subject to Jurisdiction Under Long-Arm Statute and Service of Process Through Certified Mail

Research Systems Corp. v. IPSOS Publicité, 276 F.3d 914 (7th Cir. 2002)

Indiana adopted its version of the UTSA in 1982, including the three year statute of limitations of § 7 of the model UTSA.

RSC was an advertising company that produced a product known as “ARS Persuasion” for testing the effectiveness of television commercials. In 1989, IPSOS Publicité, a French advertising research company, approached RSC regarding a possible joint venture, specifically to attract the business of Procter & Gamble. The presidents of IPSOS and a related parent company signed confidentiality agreements with RSC. Over the course of the next year or so, RSC disclosed

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544 342 N.J. Super. at 167, 775 A.2d at 778.
545 OKLA. STAT. tit. 78, §§ 85-94.
546 OKLA. STAT. tit. 78 § 92(A) & (B)(2).
547 IND. CODE § 24-2-3-1 et seq.
various information to IPSOS, but the parties were not able to reach an agreement. In 1991, IPSOS in collaboration with a German company revised its existing Pre*Vision product to make it compatible with the system used by P&G. RSC filed suit in 1996 alleging, *inter alia*, trade secret misappropriation.

The district court dismissed the misappropriation claim as being time-barred. The jury found for IPSOS on the remaining claims. On appeal, the Seventh Circuit affirmed that the misappropriation claim was time barred.

The Indiana UTSA provides for a three-year limitations period. RSC conceded that it learned of the alleged misappropriation in 1991 and did not file suit until 1996. Indiana’s tolling statute, however, provides that “[t]he time during which the defendant is a nonresident of the state [and does not] maintain in Indiana an agent for service of process or other person who, under the laws of Indiana, may be served with process as agent for the defendant.” IPSOS, of course, had never been a resident of Indiana and had never maintained an agent for service of process there. The Indiana Court of Appeals, however, had held that the tolling provision did not apply where the party claiming the benefit of the period of limitations was subject to the jurisdiction of a court in the state. The district court held that the UTSA limitations period was not tolled because RSC could have served IPSOS by certified mail under the Indiana long-arm statute when it learned of the misappropriation.

The Seventh Circuit agreed. The rationale underlying the tolling statute, according to the Indiana Court of Appeals, was that the statute was to protect the right of a plaintiff to bring an action and to prevent a defendant from defeating a claim by absenting himself from the jurisdiction. When a defendant was amenable to service, however, according to the court, the tolling provision served no purpose. Although the present case involved a nonresident defendant that the court had yet to subject to its jurisdiction, the Seventh Circuit concluded that the underlying rationale was the same. Because IPSOS could be served by certified mail under the Indiana long-arm statute, the court concluded that the tolling provision did not apply.

Query: even though IPSOS could have been served, what happens if IPSOS’s activities within the Indiana forum did not otherwise meet the requirements of Indiana’s long-arm statute? That a nonresident defendant may be served does not necessarily mean that the court has jurisdiction.

2. **New York Law: Trade Secret Actions That Are Time-Barred May Be Filed In Original Counterclaim But Not Amended Counterclaims**


Under N.Y. C.P.L.R. § 203(d), counterclaims that would otherwise be time-barred at the time the complaint is filed may be asserted as claims for equitable relief if they arose from the same transactions or occurrences asserted in the complaint. The New York courts, however, have held § 203(d) does not apply to counterclaims asserted in an amended answer.

Here, Amex filed a declaratory judgment action seeking a declaration that Mopex’s patents for certain business methods were invalid and not infringed. Mopex, in turn, filed a state court suit in Illinois alleging that Amex had misappropriated its trade secrets. That action was removed to federal court and transferred to the S.D.N.Y. The district court dismissed all trade secret claims against Amex as being time barred. Mopex then filed a motion for leave to amend in the New York action to add the trade secret claims. The court denied that motion finding that because § 203(d) applied only to original answers, Mopex’s trade secret claim remained time-barred.

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548 IND.CODE § 34-11-4-1.

Chapter 5

M. Relief


\[ \text{Nilssen v. Motorola, Inc.}, 255 \text{ F.3d 410 (7th Cir. 2001).} \] (Easterbrook, J.)

Nilssen, fired by Motorola in 1972, was a litigious inventor who had been threatened on at least two occasions by the Federal Circuit with sanctions for making frivolous claims. The present suit arose from discussions between Nilssen and Motorola in the late 1980s concerning his ideas for a new electronic ballast (used for fluorescent lamps). Nilssen contended that Motorola had either stolen his ideas, or had proceeded in making ballasts without using his ideas in violation of an alleged agreement. In any event, the district court decided that the case should be bifurcated between the trade secret and related state law claims, and Nilssen's patent infringement claims. The district court ordered Nilssen to file a new complaint with the patent infringement claims, and retained the original complaint with the trade secret and related state law claims which the court ultimately dismissed. Appeal was originally taken to the Federal Circuit because original jurisdiction was founded on 28 U.S.C. § 1338. However, a divided panel of the Federal Circuit transferred the appeal to the Seventh Circuit.\[550\] The Seventh Circuit expressly refused to consider any of the issues presented, and remanded to the case for consolidation with the still-pending patent case.

2. Damages

a. Colorado Law: (a) An Award of Attorney’s Fees Requires a Finding of Willful and Malicious Misappropriation (b) An Award of a Reasonable Royalty is Appropriate Where the Defendant Proves It Made No Profit

\[ \text{Weibler v. Universal Technologies, Inc.}, 2002 \text{ WL 119267, 61 USPQ2d 1599 (10th Cir. 2002).} \]

UTI held a contract with the United States Navy to supply heat exchangers used in a plastic waste disposal unit. The initial contract required UTI to purchase the heat exchangers from Tranter, a company based in Georgia. The cost was approximately $3,400 per unit, which UTI thought was too high. UTI convinced the Navy to amend the contract to provide that UTI could purchase the heat exchangers from any manufacturer provided the product met Navy parameters. UTI located Weibler, and gave him a copy of the Navy’s specifications along with a drawing that UTI had created of a “reverse-engineered” Tranter heat exchanger. As they began working together, Weibler told UTI that that Weiblers’ ideas were to remain secret, and UTI agreed. Later when Weibler was unable to produce shop drawings, a UTI employee did so. UTI ultimately produced its own heat exchangers from those shop drawings when Weibler was unable to develop an interior component for the exchangers that met Navy parameters.

The district court, in a bench trial, found that UTI had misappropriated Weibler’s trade secrets. The district court awarded Weibler a reasonable royalty of approximately $111,000 calculated on 15% of the cost of a Tranter unit

\[550\] \text{Nilssen v. Motorola, Inc.}, 203 \text{ F.3d 782 (Fed. Cir. 2000).} \]

\[551\] 255 F.3d at 414.
($3,400) multiplied by the number of exchangers delivered to the Navy. The district court declined to award Weibler attorneys fees. On appeal, the Tenth Circuit affirmed.

The Colorado UTSA provides that if “willful and malicious misappropriation exists, the court may award reasonable attorney fees to the prevailing party.” The standard of review is an abuse of discretion. The Tenth Circuit held that the district court did not abuse its discretion in finding that the misappropriation was neither willful nor malicious.

With respect to damages, the Colorado UTSA provides for damages that “include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss,” or in lieu thereof, a “reasonable royalty.” The district court had determined that based on UTI’s costs for manufacturing the heat exchangers, UTI had received no profits. Thus, a disgorgement of profits was not an appropriate measure of damages. The Tenth Circuit concluded that the district court’s reasonable royalty was therefore proper.

b. Montana Law: (a) Montana’s UTSA Did Not Incorporate Montana’s General Punitive Damages Statute – The Court May Find “Willful and Malicious Misappropriation” and Award Exemplary Damages and Attorney Fees Despite a Jury Verdict of No Actual Fraud and/or Actual Malice (b) Ninth Circuit: “Willful and Malicious Misappropriation” Need Not Be Proved by Clear and Convincing Evidence

**Yeti by Molly, Ltd. v. Deckers Outdoor Corp., 259 F.3d 1101 (9th Cir. 2001)**

Montana adopted a version of the UTSA in 1985.554

In 1989, Molly Strong invented an improved winter boot having improved traction, warmth and dryness. She named it the “Yeti.” Strong received a patent on the shoe in 1992. In 1993, Strong incorporated Yeti by Molly, Ltd. and sought a partner to help mass produce her products. She met an “old shoe dog” James Granville. Granville signed a nondisclosure agreement, and Strong disclosed several trade secrets in the shoe design, including trade secrets embodied in a second patent application, as well as details about her company’s attempts to expand production and sales. Unbeknownst to Strong, Granville told Peter Link, Vice-President of Deckers – maker of the popular Teva line of sandals – about Strong and the Yeti. Link hired Granville as a consultant, and then approached Strong about a possible business relationship. Link too signed a nondisclosure agreement with Strong/Yeti. The parties, however, were not able to come to terms, and in 1994, Strong/Yeti began to suspect that Deckers had incorporated their trade secrets into its products. Strong/Yeti filed suit for, inter alia, trade secret misappropriation. The jury found in favor of Strong/Yeti on the trade secret claim, and awarded Yeti approximately $1.3 million and Strong $425,000.

The jury verdict form asked whether the jury found “by clear and convincing evidence” that Deckers acted “with actual fraud and/or actual malice,” pursuant to Montana’s general punitive damages statute. The jury answered “No.” Accordingly, the district court declined to award punitive damages or attorneys fees. The district court felt bound by that verdict, and refused to consider exemplary damages or an award of attorneys fees under Montana’s UTSA, providing that “[i]f willful and malicious misappropriation exists, the court may award exemplary damages,” and “[i]f * * * willful and malicious misappropriation exists, the court may award

554 Mont. Code Ann. § 30-14-401 et seq.
reasonable costs and attorney fees to the prevailing party.\footnote{557}{MON.CODE ANN. § 30-14-405.}

On appeal, the Ninth Circuit reversed, concluding that “the Montana legislature did not incorporate the definition of punitive damages into the trade secrets act.”\footnote{558}{259 F.3d at 1111.} In doing so, the Ninth Circuit made two rulings that likely go beyond Montana law \textit{per se}, and apply to the UTSA in general.

First, the court observed that under the Montana general statute, punitive damages must be proved “by clear and convincing evidence,” and “[n]othing in the MUTSA suggests that exemplary damages and attorneys’ fees need to be provided by clear and convincing evidence.”\footnote{559}{Id.} Although the Ninth Circuit did not acknowledge the same, actually the courts are split on the issue.\footnote{560}{Trandes Corp. v. Guy F. Atkinson Co., 996 F.3d 655, 666 (4th Cir. 1993), cert. denied, 510 U.S. 965 (1993)(Maryland law-clear and convincing); Control, Inc. v. Morrow, 489 N.W.2d 890, 896 (S. Dak. 1992)(clear and convincing); Zawels v. Edutronics, Inc., 520 N.W.2d 520, 523-24 (Minn. Ct. App. 1994)(preponderance).} The Ninth Circuit, though, cited a Minnesota Court of Appeals decision on the preemption issue (discussed below), \textit{Zawels v. Edutronics, Inc.}\footnote{561}{520 N.W.2d 520, 523-24 (Minn. Ct. App. 1994).} and Minnesota in that case adopted the preponderance of the evidence standard. It is thus likely that the Ninth Circuit will be disposed to applying the same standard to the UTSA in general.

The Ninth Circuit secondly noted that the Montana legislature had, in other contexts, specifically referenced the general punitive damages statute, but in enacting the MUTSA had not done so. Lastly, the Ninth Circuit noted that in \textit{Zawels}, the Minnesota Court of Appeals had decided that the preemption provisions of the UTSA, namely that the UTSA prevailed over conflicting law providing civil remedies for trade secret misappropriation, meant that by adopting the UTSA a state legislature must have intended that the exemplary damage provisions prevailed over general punitive damage provisions.

c. Arkansas Law: A Trade Secret Owner May Recover Either Its Lost Net Profits or That Portion of the Misappropriator’s Net Profits Resulting From Unjust Enrichment

\textit{Brown v. Rullam Enterprises, Inc.}, 73 Ark. App. 296, 44 S.W.2d 740 (Ark. App. 2001)

Arkansas adopted the UTSA in 1988.\footnote{562}{ARK. CODE ANN. § 4-75-602 et seq. (Michie 1996).}

In \textit{Saforo & Assoc. Inc. v. Porocel Corp.},\footnote{563}{337 Ark. 553, 567, 991 S.W.2d 117, 124 (Ark. 1999).} the Arkansas Supreme Court held that damages under the Arkansas UTSA should be calculated by determining either the plaintiff’s lost profits or the defendant’s gain, but not a combination of the two. The court did not, however, specifically address whether profits or gain should be calculated on a gross or net basis, and did not discuss what deductions were permissible.

In \textit{Brown}, Rullam, d/b/a Lam Containers (“Lam”) and the defendants Brown \textit{et al.}, employees of Unique Design Wholesale (“Unique”), competed in the telemarketing business for baskets, silk flowers and other items used in the florist industry. Lam charged that its former employees, now working for Unique, had taken its index cards containing customer information. The trial court found that Unique had, indeed, misappropriated Lam’s trade secrets, and Unique apparently conceded the same. The trial court calculated damages, though, by taking Unique’s gross sales, then deducting freight costs, and multiplying by a ten percent profit multiplier. The court then doubled the result and rounded it off to $50,000. On appeal, the Arkansas Court of Appeals held that was error, and remanded.

The court held that “the proper method of calculation [of damages] is on the basis of net profit, whether lost by the injured party or gained...
by the wrongdoer ***. Due to Unique’s appropriation of Lam’s trade secrets, Lam is entitled to recover either its resulting lost net profits or that portion of Unique’s net profits by which it has been unjustly enriched, which affords the greater relief.” The court further held that there was no authority for doubling that figure because punitive damages were not permitted by the Arkansas UTSA. The court further held that there was no authority for “rounding off.”

d. Colorado Law: Damages for Trade Secret Misappropriation May Be Based on the Defendants’ Cost of Capital Savings

Sonoco Products Co. v. Johnson, 23 P.3d 1287 (Colo. App. 2001)

Sonoco and The Newark Group were direct competitors in manufacturing paper spiral tubes and cores for carrying paper towels, tape, newsprint and so forth. James Johnson had worked for Sonoco for thirty years, but then resigned and joined Newark. The trial court found that Johnson had misappropriated a number of items from Sonoco, including manufacturing technology, floppy disks, manuals, manufacturing processes, customer lists and pricing information. The trial court awarded Sonoco approximately $4.6 million in actual damages, $22,165.50 in damages against Johnson, and punitive damages of $2.3 million. Sonoco asserted on appeal that there was no support for the $4.6 million award. The Colorado Court of Appeals disagreed.

Sonoco had presented expert testimony: Newman saved between $19.7 and $25 million in “cost of capital” by obtaining Sonoco’s trade secrets through Johnson. During closing arguments, Sonoco’s counsel alternatively suggested that if the trial court granted an injunction against future use (which the court subsequently granted), the actual damages would be $4.6 million. The court found that was sufficient to support the award.

e. Florida Law: Damages: (a) Pre-Judgment Interest Is Only Available for Liquidated Damages (b) Exemplary Damages Are Limited to Cases of Aggravated Misconduct

Perdue Farms Inc. v. Hook, 777 So.2d 1047 (Fla. App. 2001)

Florida adopted a version of the UTSA in 1988, which was amended in 1991 and 1997.

Dennis Hook, developed a proprietary process for preparing, storing and reheating rotisserie style chicken. Under that process, chicken pieces were seasoned, cooked in a vacuum-sealed bag, and then refrigerated, but not frozen. The chicken parts could be refrigerated for up to nine weeks. The chicken pieces could then be “rethermalized” by microwaving and browning in an oven or deep fryer. The principal advantage was that fast-food restaurants could prepare and serve rotisserie-style chicken in less than ten minutes.

Pizza Hut agreed to test market the process, and brought in Perdue. Kentucky Fried Chicken also agreed to test market the process. All signed confidentiality agreements with Hook. Hook then disclosed his process to Perdue, although Perdue claimed that the only proprietary portion was Hook’s seasonings. In any event, sometime later, the test marketing was cancelled. Hook thereafter attempted unsuccessfully to market the product through other companies in the U.S., although he did enter into an agreement that licensed the in Europe, Russia, the Middle East and South Africa.

Perdue, meanwhile, began developing its “TenderReady” chicken, which Hook believed had resulted from a misappropriation of his process. Hook sued, and the jury awarded $25 million in actual damages for trade secret misappropriation and $2 million in damages for unjust enrichment. The trial court further awarded Hook $6.7 million in exemplary damages and assessed $14.8 million in prejudgment interest.

564 Arkansas specifically deleted the exemplary damage provision of § 3(b) of the Model UTSA. ARK. CODE ANN. § 4-75-606.

565 FLA. STAT. ANN. §§ 688,001 et seq.
The Florida Court of Appeals affirmed the $25 million damage award even though the evidence was somewhat slim. The court, however, reversed the award of exemplary damages finding noting that “[e]xemplary damages are given solely as a punishment where torts are committed with fraud, actual malice or deliberate violence or oppression, or when the defendant acts willfully, or with such gross negligence as to indicate a wanton disregard of the rights of others.” The court concluded that Perdue’s conduct here simply did not reach that level.

The court further reversed the award of prejudgment interest noting the general rule that “[o]nce damages are liquidated, prejudgment interest is considered an element of those damages as a matter of law * * *,” and that prejudgment interest involved equitable considerations. Based on the evidence, the court concluded that the damages could not have been liquidated on the date that Perdue began developing its TenderReady product, or on any other date certain. The court held that damages were not liquidated until the jury’s verdict, and that Hook was only entitled to prejudgment interest from that time until the date of judgment, a period of about one month.


World Wide Prosthetic Supply, Inc. v. Mikulsky, 251 Wis.2d 45, 640 N.W.2d 764 (Wis. 2002)

Wisconsin adopted a version of the UTSA in 1986. Under the Wisconsin version of the UTSA, “[d]amages may include both the actual loss caused by the violation and unjust enrichment * * *.”

World Wide designed and distributed endoskeletal prosthetic components. Robert and Karen Mikulsky, d/b/a Voyager, Inc., produced components for World Wide. When World Wide’s customers began complaining that some of the components produced by Voyager were cracked and broken, the parties’ relationship deteriorated, and World Wide eventually arranged for another company to manufacture its components. Voyager, however, continued to manufacture and distribute the components, without making changes to their appearance or design. World Wide sued alleging trade secret misappropriation, and claimed that it was entitled to recover its lost profits due to the fact that the Voyager components were defective and that these defective components, which looked like World Wide’s components, caused buyers to lose confidence in World Wide’s products.

The trial court, over objection, admitted some testimony on World Wide’s damage theory, but later reconsidered and granted Voyager a new trial. World Wide petitioned the court of appeals for leave to appeal, which the court granted. The court of appeals held that under § 134.90(4) World Wide could recover damages that were the natural and proximate result of Voyager’s wrongful conduct, including losses suffered because Voyager distributed a defective product incorporating World Wide’s trade secret. On appeal, the Wisconsin Supreme Court affirmed.

The court relied heavily on the Seventh Circuit’s 1998 decision in Micro Data Base Sys. Inc. v. Dharma Sys., Inc., in which Dharma put into evidence that Micro Data had soured Dharma’s relationship with another entity, who otherwise would have purchased at least 1000 copies of Dharma’s software. The court held that Dharma could recover its resulting lost profits. Although Micro Data was based on New Hampshire law, the court noted that both Wisconsin and New Hampshire had adopted a version of the UTSA.

The court concluded that World Wide’s lost profits would be the reasonably foreseeable damages flowing from Voyager’s marketing of its own defective product. The court found that result was supported by the Restatement (Third) of

567 § 134.90(4).
Unfair Competition commenting that: “A plaintiff may also recover any other proven pecuniary loss attributable to the appropriation ***. The plaintiff is also entitled to recover losses associated with sales of its own goods at reduced prices resulting from the wrongful competition of the defendant.”569 The court additionally reasoned that trade secret misappropriation is often characterized as sounding in tort, and ordinarily tort damages are limited only by the concept of “proximate cause” and public policy concerns.

Accordingly, the court held “that ‘actual loss’ as used in § 134.90(4) may include lost profits resulting from Voyager’s manufacture and distribution of a defective product incorporating World Wide’s trade secret.”570

g. Texas Law: (a) Lost Profit Damages Are Net Lost Profits Reached by Deducting All Expenses From Gross Receipts (b) Opinions on Lost Profits Must Be Based on Objective Evidence (c) Plaintiff Must Demonstrate One Complete Calculation of Lost Net Profits


Texas has not adopted the UTSA.

Few facts are given in this non-precedential opinion, but it appears that AAS sued Neal for breach of non-solicitation and non-competition covenant, tortious interference with contracts and business relations, and trade secret misappropriation. The trial court granted Neal a directed verdict on all claims, and the Court of Appeals affirmed.

On the issue of damages, the court reminded the bar that the proper measure of lost profit damages is net profits,571 and that “[n]et profit is that which remains in the conduct of a business after deducting from its total receipts all of the expenses incurred in carrying on the business.”572 According to the court, “[a]t a minimum, opinions or estimates of lost net profits must be based on objective facts, figures, or data from which the amount of lost net profits can be ascertained.”573 Also, according to the court, a “plaintiff must demonstrate one complete calculation of lost net profits,” and “a party must show either the actual existence of future contracts from which lost net profits can be calculated with reasonable certainty or a history of profitability.”574

Here, AAS’s expert witness estimated lost gross profits, meaning total receipts minus variable costs, and there was no evidence of a history of profitability. Accordingly, the court concluded that without the requisite element of damages, AAS had failed to prove breach of the non-solicitation or non-competition covenants, as well as the tortious interference claims. With respect to the trade secret misappropriation claim, the court concluded that AAS had presented no evidence that its information was secret or that it made an effort to keep the information confidential. The court noted that information was not locked up or marked confidential, when Neal left, AAS did not ask him to return any information, and much of the information was otherwise available.

570 251 Wis.2d at 61, 640 N.W.2d at 770.
A Review and Update: Trade Secrets Restrictive Post-Employment Covenants and Inevitable Disclosure Chapter 5

h. North Carolina Law: Legal Malice (Wrongful Intent) in Bringing a Trade Secret Misappropriation Suit May Constitute Tortious Interference with Contract Regardless of Whether the Suit is Objectively Reasonable

Reichhold Chemicals, Inc. v. Goel, 555 S.E.2d 281 (N.C. App. 2001)

North Carolina adopted a version of the UTSA in 1981.\(^{575}\) However, North Carolina continues to use the six common law factors of the Restatement (First) of Torts.\(^{576}\)

Goel, a recognized expert, began working for Swift Adhesives, a division of Reichhold Chemicals, in 1990, as VP of R&D because of his extensive experience in moisture cured adhesives. Goel and Swift negotiated a non-competition covenant that would permit Goel to compete in reactive adhesives after leaving Swift. In 1994, Reichhold eliminated Goel’s position, and moved him to an automotive adhesives unit. That was a demotion, and an effort to force Goel out of the company. From that time, Goel was not involved with R&D for Reichhold. Goel initiated discussions with Imperial Adhesives, and at some point Imperial hired Goel as a consultant. Imperial’s legal counsel advised Goel that the discussions with Imperial would not violate Goel’s non-competition covenant with Swift. Goel and Imperial specifically agreed that there would be no transfer of confidential or trade secret information.

A secretary at Imperial contacted Reichhold in 1996 and indicated that she believed that Goel was involved in improper conduct. Reichhold made a report to the FBI who investigated and indicated that the allegations of trade secret misappropriation were not substantiated. Nevertheless, Reichhold had Goel escorted from the premises, told Goel that his reputation would be ruined, that Goel would never get another job in the adhesives industry, and that Imperial would never get into the reactive urethane adhesives business. Reichhold then filed a complaint against Imperial alleging that Goel had misappropriated Reichhold’s trade secrets. Imperial abandoned its consulting agreement with Goel, feeling intimidated by Reichhold, a much larger company. Reichhold also attempted to coerce Imperial into cooperating in its suit by threatening to sue Goel, which it did anyway.

The trial court found that at the time of his termination, Goel was entitled to certain payments for vacation time and other benefits, and ordered that those payments be doubled because of Reichhold’s failure to show that they were withheld in good faith. The trial court further found that Imperial’s adhesive was not the same as Reichhold’s, and that both could be easily derived from information provided by raw material suppliers. The trial court further found that all of the information Goel provided to Imperial was either widely known, or known to Goel prior to joining Reichhold. The trial court concluded that Reichhold and tortiously interfered with the consulting agreement between Goel and Imperial by maliciously filing a lawsuit for trade secret misappropriation against Imperial, and awarded Goel compensatory and punitive damages.

On appeal, the court affirmed. The court observed that “malice” in this context meant legal malice, namely intentionally doing some harmful act without legal justification. The court concluded that “a showing of legal malice will defeat plaintiff’s defense of justification in filing suit against Imperial, and that insofar as legal malice related to intent, the ‘objective reasonableness’ of the suit is irrelevant.”\(^{577}\) The court further concluded that the trial court’s conclusion that Reichhold’s information was not trade secret because it was commonly known was supported by competent evidence.

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\(^{575}\) N.C. GEN. STAT. §§ 66-152 et seq.


\(^{577}\) 555 S.E.2d at 288.
i. North Carolina Law: Trial Court is Justified in Entering a Broad Injunction (Ordering That Defendant’s Business be Permanently Closed) Where Defendants Attempted to Evade Prior Injunction by Adding Trace Amounts of Inert Elements


Barker manufactured high grade, inorganic and organo-metallic chemical compounds resulting from twenty-five years of research. In 1993, Barker hired Gould to perform clerical work. Gould had no previous experience of the area of manufacturing chemicals. In 1997, however, Gould complied Barker’s customer, supplier and pricing information in an “Address Book,” and also made copies of Barker’s product formulations. After Gould’s termination, he began manufacturing chemical compounds in direct competition with Barker using information he had obtained from Barker, and supplies from Barker’s suppliers. Gould also attempted to sell those chemicals to Barker’s customers. The trial court enjoined Gould and his company from all operations, ordering that the business be permanently closed. The trial court also awarded Barker compensatory and punitive damages. On appeal, the Court of Appeals affirmed.

With respect to the scope of the injunction, the court found that the defendants were “solely responsible for their plight by actively ignoring the terms of the preliminary injunction against them.” In the preliminary injunction, the trial court set out a list of specific chemicals that Gould could not manufacture, as well as the specific suppliers and customers covered by the injunction. Gould, however, added trace amounts of chemicals to his compounds that did not affect the compound’s performance, and then sold those chemicals to affiliates of the prohibited customers. Noting that broad injunctive relief is available where there has been a showing of bad faith or underhanded dealings, the court concluded that the injunction was within the trial court’s proper exercise of discretion.

j. North Carolina Law: (a) Mere Enticement and Hiring of an At-Will Employee is Not Tortious

(b) Outside the Context of a Fiduciary Relationship, There is No Independent Tort for Breach of Loyalty by an At-Will Employee


Combs provided sales representation services for manufacturers of water and wastewater equipment. Defendant American Sigma (Sigma) was a subsidiary of a manufacturer of such equipment. Sigma appointed Combs its exclusive sales representative for North and South Carolina, and Virginia. The agreements were terminable on thirty days notice.

Kennedy started working for Combs in 1994, and, in 1996, approached co-defendant Miller about forming a new sales representative company. Miller was a former employee of Combs. Kennedy and Miller subsequently exchanged e-mails about forming a new company, Carolina Environmental Technologies, LLC (CET), and began identifying potential customers, which included Sigma. They incorporated CET in November 1998, and Kennedy resigned from Combs in December.

Meanwhile, Sigma’s Regional Sales Manager had had meetings with Combs beginning in early 1998 in an attempt to increase sales. Sigma, however, became convinced that Combs would not be able to increase sales, and began looking for a replacement. After meeting with Combs, Sigma moved its business to CET. Combs sued alleging, *inter alia*, trade secret misappropriation and tortious interference. The trial court granted the defendants summary judgment, and the Court of Appeals affirmed.

With respect to trade secret misappropriation, the court concluded that the information Combs alleged constituted trade secret information was either readily ascertainable or had not been properly protected. With respect to the tortious interference claim, Combs alleged that Sigma and Miller had tortiously interfered with Kennedy’s employment. The court noted, however, that “our Supreme Court has held that the mere enticement and hiring of an at-will employee by a competing company, absent an
improper motive, does not give rise to a tortious interference with a contract claim.” Combs also argued that Kennedy had interfered with its contract with Sigma by breaching his “fiduciary duty of loyalty.” The court disagreed, noting that “[t]he Supreme Court has recently addressed the issue of an at-will employee’s duty of loyalty to his employer in the context of starting a competing company. * * * the Court held that, outside the purview of a fiduciary relationship, our State does not recognize an independent tort for breach of duty of loyalty by an at-will employee.”


McFarland v. Brier, 769 A.2d 605 (R.I. 2001)

Rhode Island enacted a version of the UTSA in 1986, and a revised version in 1992.578

Ready & Lundy (R&L) was an industrial supply business that McFarland owned. In the early 1980s, McFarland hired Bibeau as a sales representative. In 1990, McFarland and Bibeau entered into an agreement under which McFarland financed Bibeau’s purchase of R&L and Bibeau would repay the loan from company profits. That agreement was modified in 1995 to include reciprocal non-competition provisions as well as other provisions. During the time that Bibeau was president of R&L, Brier and his accounting firm were retained to R&L to assist in financing the buyout. Thus, both Bibeau and Brier had full access to all of the information of R&L. Bibeau and Brier, however, formed another company, Consigned Systems, Inc. (CSI) to engage in head-to-head competition with R&L. In doing so, Bibeau and Brier used R&L’s customer and other information. Indeed, in a meeting with a potential customer, Bibeau advised that if the customer was ever questioned, he was “not present” at the meeting (due to his non-competition covenant), but that he possessed all of R&L’s computer programs as well as all customer information needed to compete with R&L.

Bibeau filed an action to be relieved of the non-competition agreement, and R&L counterclaimed. Bibeau was permanently enjoined from using any of the information stolen from R&L, and was enjoined for three years from competing with R&L vis-à-vis any customers who were R&L’s customers at the time Bibeau left. McFarland and R&L subsequently filed the present lawsuit against Brier and CSI alleging, *inter alia*, tortious interference and trade secret misappropriation. The trial court found that CSI had misappropriated trade secrets from R&L, that Brier had tortiously interfered with the contractual relation between McFarland and Bibeau, *i.e.*, the non-competition covenant, that Brier and CSI had interfered with the prospective business advantage of R&L, and that Brier had disclosed confidential business information belonging to his former client in violation of his fiduciary duty.

The trial court, however, denied punitive damages relying on the common law standard rather than the standard set by the Rhode Island Uniform Trade Secrets Act. On appeal, the court reversed noting that the RIUTSA specifically provided for exemplary damages for willful and malicious misappropriation, and that standard did not require misconduct amounting to criminal conduct. According to the court, “[u]pon careful review of [R.I. GEN. LAWS] § 6-41-3, it is clear that the Legislature intended to relax this stringent common law standard to deal with the intentional and egregious misconduct found in this case. * * * We are satisfied that if ever egregious misconduct deserving of punitive damages has occurred, this is such a case.”

3. Vicarious Liability
   a. Minnesota Law: Absent Evidence That Misappropriation by New Employee is Forseeable, New Employer is Not Vicariously Liable for Misappropriation

Hagen v. American Agency, Inc., 633 N.W.2d 497 (Minn. 2001)

578 R.I. GEN. LAWS §§ 6-41-1 et seq.
Minnesota adopted a version of the UTSA in 1981. The Minnesota statute added the following definition of a trade secret:

The existence of a trade secret is not negated merely because an employee or other person has acquired the trade secret without express or specific notice that it is a trade secret if, under all the circumstances, the employee or other person knows or has reason to know that the owner intends to expects the secrecy of the type of information comprising the trade secret to be maintained.

Burmeister purchased the assets of Hagen’s insurance agency in 1991. Hagen went to work for Burmeister, first as an independent contractor and later as an employee under an employment agreement that contained a non-disclosure covenant vis-à-vis Burmeister’s policyholders. The identification of those policyholders, per the agreement, was “deemed to be [a] ‘trade secret[ ]’ within the meaning of the Minnesota Uniform Trade Secrets Act.” The employment agreement also contained a non-competition covenant.

In 1994, Hagen met with a branch manager of American Agency to explore employment, and told American about the non-disclosure and non-competition covenants. Hagen then resigned from Burmeister. Apparently there was a discussion between Hagen and the owner of Burmeister to the effect that if Hagen’s family and friends wanted to keep their business with Hagen, that was acceptable, but if Hagen took 90% of the accounts, that would be a problem. Hagen went to work for American about one week later, and discussed his parting with American’s branch manager. American’s branch manager testified that he was under the impression that Hagen had a good exit interview and that he was free to solicit some of the accounts.

Hagen then sent out solicitation letters to more than 200 of Burmeister’s accounts. American was aware that he had done so, and had reviewed a draft of his letter. Burmeister’s attorney sent Hagen a letter charging him with violating the non-competition covenant. Hagen then filed a declaratory judgment action against Burmeister. Meanwhile, American’s branch manager, Hagen and the owner of Burmeister met and agreed to send a joint customer letter saying that they had the right to select the insurance agent of their choice. Burmeister viewed the letter as “damage control,” while Hagen and American viewed it as resolving the conflict. Burmeister then counterclaimed for breach of contract, unjust enrichment and trade secret misappropriation. Burmeister named American in a tortious interference count, but later tried the case based on vicarious liability.

The trial court held that Hagen was liable for breach of contract and trade secret misappropriation. The court, however, held that American could not be liable for violating the MUTSA under a theory of vicarious liability. On appeal, the Minnesota Court of Appeals reversed holding that American could indeed be vicariously liable under the MUTSA, but that an essential element was whether Hagen was acting within the course and scope of his employment when he mailed the solicitation letter. On remand, the trial court held that Hagen was not acting within the course and scope of his employment. On appeal, the Minnesota Court of Appeals disagreed and reversed. On further appeal, however, the Minnesota Supreme Court reversed concluding that although there could be vicarious liability, none was shown here.

Under Minnesota law, vicarious liability will not be imposed unless there is some connection between the tort and the business “such that the employer in essence assumed the risk when it chose to engage in the business.” Specifically, “an employer is vicariously liable for an employee’s intentional tortious acts when: (1) the tort is related to the employee’s duties; and (2) the tort occurs within the work-related limits of time and place.” Additionally, under

579 MINN. STAT. §§ 325C.01-.08.

580 Hagen, 633 N.W.2d at 504, citing Fahrendorff v. North Homes, Inc., 597 N.W.2d 905, 910 (Minn. 1993).

581 Id.
Minnesota law, “it is a question of fact whether the employee’s acts were foreseeable, related to, and connected with acts otherwise within the scope of employment,” and foreseeability is an important consideration. In determining foreseeability, the courts do not require that the employer actually foresee the tortious act, but require that “an employee’s conduct is not so unusual or startling that it would seem unfair to include the loss resulting from it among other costs of the employer’s business.” The court noted that “[t]his standard of foreseeability is commonly proven, or a question of fact is raised, when a party establishes that the type of tortious conduct involved is a well-known industry hazard.”

Here, the court noted that the trial court had concluded that American did not know or have reason to know that Hagen had not made appropriate arrangements with Burmeister before he sent out the letters. Thus, according to the court, Burmeister was required to introduce some evidence at trial that Hagen’s tortious act was foreseeable, for example, evidence showing that the risk of employees misappropriating trade secrets was a well-known hazard in the insurance industry. Because such evidence was lacking, the court concluded that Burmeister could not succeed on its vicarious liability theory.

N. Insurance


Sometime prior to 1991, an inventor, Dennis Hook, developed a proprietary process for preparing, storing and reheating rotisserie style chicken. Under that process, chicken pieces were seasoned, cooked in a vacuum-sealed bag, and then refrigerated, but not frozen. The chicken parts could be refrigerated for up to nine weeks. The chicken pieces could then be “rethermalized” by microwaving and browning in an oven or deep fryer. The principal advantage was that fast-food restaurants could prepare and serve rotisserie-style chicken in less than ten minutes.

Pizza Hut agreed to test market the process, and brought in Perdue. Kentucky Fried Chicken also agreed to test market the process. All signed confidentiality agreements with Hook. Hook then disclosed his process to Perdue. Sometime later, however, the test marketing was cancelled.

In 1996, Hook say advertisements and a display at a Paris trade show for Perdue’s “TenderReady” chicken which Hook believed had resulted from a misappropriation of his process. He sued, and ultimately received a damage award of almost $50 million. While the case was on appeal, Hook and Perdue entered into a “high-low” settlement agreement which resulted in Hook recovering $30 million. Perdue now sought coverage for those damages.

Perdue urged that advertising injury coverage existed because the misappropriation claim arose from the advertisements for the “TenderReady” product in Paris. The court, however, concluded, after reviewing the record from the trial, that the jury found that Perdue misappropriated the Hook process by developing and marketing the “TenderReady” product, not through the advertisements in Paris. Further, the policy-in-issue defined “Advertising Liability” as “piracy or unfair competition or idea misappropriation under an implied contract.” Here, liability arose from the express contracts that the parties had signed with Hook. Perdue countered that its liability arose under the Florida UTSA, rather than under contract. The court disagreed, finding that Perdue’s liability arose from Perdue’s failure to perform the express confidentiality agreements it had with Hook, and that avoided coverage.

582 Id.


In both cases, Lexmark and McDonald’s, respectively, sought insurance coverage under a theory of advertising injury in instances in which Lexmark and McDonald’s had been sued for trade secret misappropriation. In *McDonald’s*, McDonald’s urged that the real cause of action was not for trade secret misappropriation, but for “cloud on title.” In *Lexmark*, Lexmark argued that certain allegations regarding “copying” brought the action within the policy definition of “advertising injury.” In both cases, the Illinois Court of Appeals disagreed. In both cases, the court viewed the underlying trade secret cause of action as having little, if anything, to do with advertising or promotion, or other activities covered by the insurance contracts.

c. Wisconsin Law: Cause of Action for Trade Secret Misappropriation Does Not Fall Within “Advertising Injury” Coverage


Bradley and Lawler Mfg. Co., a co-defendant, were competitors in the development and sale of thermostatic mixing systems, *i.e.*, systems that mixed hot and cold water to produce tempered water that was used in emergency shower and eyewash systems. In an underlying lawsuit for, *inter alia*, trade secret misappropriation brought by Lawler, Lawler alleged that a former Lawler employee stole Lawler’s designs for its thermostatic mixing technology, and that Bradley then hired that employee and used the stolen technology to create its own emergency showers and eyewash systems. Bradley notified its carrier, Fireman’s Fund, and Fireman’s Fund sought a declaratory judgment that it had no obligation to defend or indemnify Bradley. The trial court ordered Fireman’s Fund to pay Bradley approximately $2.8 million for defense and indemnification costs. On appeal, the Wisconsin Court of Appeals reversed.

The policy defined “advertising injury” as, among other things, “misappropriation of advertising ideas or style of doing business; ord. infringement of trademark, copyright, title or slogan.” The court noted that in order for there to be coverage, (1) the injury must fall within one of the categories covered under the insurance policy; and (2) there must be a causal connection between the advertising and the injury. The court concluded that although the trade secret misappropriation count might be “liberally” construed to fall within the definition of “advertising injury,” there nevertheless was no coverage because there was no connection between the advertising and the injury, *i.e.*, Bradley’s “injury” – its liability to Lawler – was caused by theft of Lawler’s trade secrets, not any subsequent advertising.

VIII. OBLIGATIONS ARISING FROM EMPLOYMENT

A. Implied Obligations

1. General Rule

One of the implied duties of an employee is to refrain from using confidential or proprietary information acquired during the employment relationship in a manner adverse to the employer, regardless of any written employment agreement. That duty, however, does not bar the use of general knowledge, skill and experience, but that duty prevents a former employee from using confidential information or

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trade secrets acquired during the course of employment.584

That obligation survives termination of employment.585 Indeed, it has been held that such an obligation extends beyond employees to individuals or companies acting in an agency capacity.586 Also, at least one court has held that the obligations arising from employment may furnish sufficient basis for an injunction even though a written non-disclosure agreement was found to fail for lack of consideration.587

However, those implied obligations, in the absence of an express agreement, do not cover general information learned as the result of employment and do not expressly include an obligation not to solicit former customers or clients.588

2. An Essentially Unlimited Implied Obligation of Confidentiality May be Limited by an Express Agreement of the Parties

That was the Ninth Circuit’s holding (interpreting Oregon law) in Union Pac. R.R. Co. v. Mower,589 and is certain to influence courts in a variety of situations. Basically, the court held that if the parties impose a limit on an obligation of confidentiality, that limit prevails. Although this case involved a departing employee, by analogy, temporal limitations in non-disclosure agreements may be interpreted to inject the subject matter of the NDA into the public domain upon expiration of such limitations.

Mower was employed by UP from 1979 to 1992 first as a low-level claims adjuster and later as Director of Occupational and Environmental Issues. In that later position, he had responsibility for investigating and resolving thousands of occupational illness claims filed against UP, and worked closely with UP’s law department in doing so. In 1992, Mower was asked to resign. Mower and UP entered into a “Resignation Agreement” under which Mower served as a consultant to UP for three years. The agreement contained provisions requiring Mower to maintain UP’s confidential information in confidence and not to consult with any person asserting claims against UP. The agreement terminated on December 31, 1995.

In May 1997, an individual filed a complaint against UP in Idaho alleging that he had sustained personal injuries while employed by UP. Mower was added to a witness list in that litigation in 1998. Mower, in an affidavit, said that he would testify about a study he had conducted for UP in 1989 relating generally to the same type of injury alleged to have been suffered here. UP objected, and also brought a second action in Oregon seeking an injunction prohibiting Mower from testifying in the Idaho case or any other case. The district court granted the injunction. On appeal, the Ninth Circuit reversed.

The court acknowledged that “Oregon law imposed on every employee a legal duty to protect an employer’s trade secrets and other confidential information, an obligation that continues beyond the term of employment.”590 The court also, however, found that “Oregon also generally permits parties to alter by negotiations duties that would otherwise be governed by state law.”591

586 RESTATEMENT (SECOND) OF AGENCY § 396. See also Micromanipulator Co. Inc. v. Bough, 779 F.2d 255, 257 n.5 (5th Cir. 1985).
589 219 F.3d 1069 (9th Cir. 2000).
590 219 F.3d at 1073.
591 Id.
The court concluded that “under Oregon law, parties have the power to alter the implied duty of confidentiality. The existence of an express agreement is relevant both in determining whether a particular employee is bound by a duty of confidentiality and in defining the scope of that duty.”\textsuperscript{592} The court found that the Resignation Agreement clearly addressed the issue of confidential information that Mower was privy to, and with equal clarity expired on December 31, 1995. According to the court, the “unambiguous meaning of the Resignation Agreement was that, after that date, Mower’s obligation to conduct his affairs in accordance with that agreement terminated and he would no longer be subject to its nondisclosure requirements.”\textsuperscript{593} The court also rejected UP’s other arguments that Mower should nevertheless be enjoined from testifying based on attorney-client privilege, work-product privilege, or “self-critical analysis” privilege, finding the later privilege “particularly questionable.”\textsuperscript{594}

B. Express Obligations

Although the law will imply certain obligations as a result of the employer-employee relationship, an express agreement is preferred. Express contractual commitments not to disclose or use confidential information are regularly enforced by the courts.\textsuperscript{595} Indeed, courts have effectively enforced such agreements although the agreements could not be found at the time of trial.\textsuperscript{596}

C. Departing Employees

Departing employees either lured or leaving voluntarily to join a competitor, or to start their own business, have frequently spawned trade secret misappropriation litigation. The courts have long recognized the balancing necessary between promoting competition and in protecting business from unfair competition. The California Supreme Court in \textit{Continental Car-Na-Var Corp. v. Moseley},\textsuperscript{597} noted:

Equity will to the fullest extent protect the property rights of employers in their trade secrets and otherwise, but public policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary, to follow any of the common occupations of life. Every individual possesses as a form of property, the right to pursue any calling, business or profession he may choose. A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his

\textsuperscript{592} Id. at 1074.

\textsuperscript{593} Id.

\textsuperscript{594} Id. at 1076 n.7.


\textsuperscript{596} See Mangren Research and Dev. Corp. v. Nat’l Chem. Co., Inc., 87 F.3d 937 (7th Cir. 1996)(all employees were required to sign confidentiality agreements, and non-employees were not permitted in the company’s laboratory. The agreements for ex-employees here, however, could not be found at the time of trial. Nevertheless, the court granted relief as if those agreements had been introduced into evidence); \textit{Uncle B’s Bakery, Inc. v. O’Rourke}, 920 F. Supp. 1405 (N.D. Iowa 1996). Uncle B’s brought suit against a former manager for violation of a covenant not to compete and trade secret misappropriation after he had gone to work for a competitor, Brooklyn Bagel Boys. Apparently, Uncle B’s had invested a number of years of research and several million dollars in developing a process to preserve the shelf life of bagels without freezing. The agreement containing the non-disclosure and non-competition provisions was missing from O’Rourke’s personnel file, and O’Rourke claimed that he had never signed one. In granting a preliminary injunction, the court found that Uncle B’s had shown a reasonable likelihood of success in proving that O’Rourke had agreed to the terms of the agreement, even though the agreement was missing from the files.

\textsuperscript{597} 24 Cal. 2d 104, 148 P.2d 9 (Cal. 1944).
former employer, provided such competition is fairly and legally conducted.

1. Trade Secrets and Corporate Opportunities

Employees who depart and form new businesses using proprietary information of their former employer are potentially liable under several possible causes of action. Among the possible causes of action are (1) trade secret misappropriation; (2) breach of express or implied contract; (3) “generic” unfair competition; (4) false advertising/false designation of origin/trademark infringement; (5) interference with existing or prospective contracts/business relations; (6) diversion of corporate opportunity; (7) conversion; (8) unjust enrichment; (9) civil conspiracy; and (10) RICO. However, the Fifth Circuit held in United Teachers Assoc. Inc. Co. v. MacKeen & Bailey, Inc., that, under Texas law, the usurpation of corporate opportunity doctrine is inapplicable to any fiduciary who is not also an officer, director, or major shareholder of a corporate entity.

2. Discovery Actions

It is sometimes difficult to know, of course, whether a former employer’s trade secret information is being used by former employees at their new employment. Most states permit a little-used “discovery action” which is intended to permit limited discovery usually in preparation for a main action. In Ohio, for example, OHIO REV. CODE § 2317.48 provides that a party “claiming to have a cause of action” against another party, but who is unable to file a complaint against that party “without the discovery of a fact” from that party, may institute an action for discovery in order to learn the needed fact. The complaint in the action for discovery is to include “the necessity and the grounds for the action, with any interrogatories relating to the subject matter of the discovery that are necessary to procure the discovery sought.”

3. Advising Customers/Clients of New Affiliation

The general rule is that, in the absence of an express contractual provision and provided


599 See e.g., DSC Communications Corp. v. Next Level Communications, 107 F.3d 322 (5th Cir. 1997).

600 99 F.3d 645 (5th Cir. 1996).

601 See Bridgestone/Firestone v. Hankook Tire Mfg. Co., Inc., 687 N.E.2d 502 (Ohio Ct. App. 1996). In Paulus v. Parker Sweeper Co., 44 Ohio St. 3d 124 (1989), the Ohio Supreme Court explained that: “§ 2317.48 occupies a small niche between an unacceptable ‘fishing expedition’ and a short and plain statement of a complaint or defense filed pursuant to the Civil Rules.” Here, the court held that it was not enough to allege “reason to believe.” According to the court, the discovery action must allege “underlying facts and circumstances constituting” the “reason to believe.”); Nat’l City Bank, N.E. v. Amedia, 1997 Ohio App. LEXIS 745 (1997)(same result).
there is no “business interference,”602 upon assuming a new and competitive employment, an
ex-employee may advise former clients of his or her new affiliation, but may not properly solicit his
former employer’s customers, and may not use the
former employer’s trade secret customer list to do
so.603 Further, even though a customer list per
se may not be protectable as a trade secret, at least

602 The Ohio courts have held that a law firm may bring
a tort action for “business interference” against a
Zaransky, 83 Ohio App. 3d, 169, 179, 614 N.E.2d 807,
814, the court explained that “[t]he tort of ‘business
interference’ occurs when a person, without privilege,
induces or otherwise purposefully causes a third party
not to enter into, or continue, a business relationship,
or perform a contract with another.”

603 See Merrill, Lynch, Pierce, Fenner & Smith, Inc. v. Garcia,
127 F. Supp. 2d 1305 (C.D. Cal. 2000)(in action by
Merrill Lynch against former employees in which the
former employees, now working for Smith Barney,
sent Merrill Lynch customers letters including forms
to be used in transferring their accounts, the court
granted a preliminary injunction finding that such
letter crossed the line into solicitation); Fred Siegel Co.,
L.P.A. v. Arter & Hadden, 1997 Ohio App. LEXIS
3397 (1997) (in action for “business interference” by
a law firm against former associate who used the
firm’s client list to generate mailing list at new firm,
firm may bring a tort action for business interference
against former employee, but a departing attorney has
a privilege to inform those clients for whom he/she
worked that he/she was leaving the firm. That
privilege does not, however, extend to all clients of
the firm. Law firm’s client list qualified as a trade secret
under the Ohio trade secret statute); Morlife, Inc. v.
Ct. App. 1997)(using trade secret customer
information to solicit customers constitutes “use” or
“misappropriation” under the California UTSA); Animal
a list of customers of customers is, because of some peculiarities of the business, a trade secret an employee
who has obtained such a list in confidence will be
restrained from using that list against his employer’s
interest; but where the identity of the customers are
readily ascertainable through ordinary channels or
directions, the list will not be accorded the protection
of a trade secret.”); Holiday Food Co. v. Mauro, 426
A.2d 814 (Conn. 1981)(“after the termination of
an employee’s agency, in the absence of a restrictive
agreement, the agent can properly compete with his
principal as to matters for which he was employed”).

one court has held that the fiduciary
responsibilities of an employee would ordinarily
preclude such an employee from contacting
existing customers, while the employee was
employed, in an effort to entice them to a new
business.604

IX. COVENANTS NOT TO COMPETE
A. Texas
1. Brief Background
For 27 years, between 1960 and 1987,
Texas law on covenants not to compete was
succinctly stated in the four part test of
Weatherford Oil Tool Co. v. Campbell, namely:
(1) the covenant must be necessary for the
protection of the promisee; (2) the covenant
must not be oppressive to the promisor; (3) the covenant
must not be injurious to the public; and (4) the
covenant must be supported by consideration.605

In January 1987, the Texas Supreme Court
held in Hill v. Mobile Auto Trim, Inc.,606 the first
of a series of controversial cases, that the
enforceability of covenants not to compete would
turn largely on what particular training or
additional knowledge the employee received from
the employment. The court refused to reform the
covenant at issue viewing it as a naked restraint of
trade. In doing so, the court adopted the reasoning
of a 1982 Utah Supreme Court opinion refusing to
enforce a hearing-aid distributor’s non-
competition agreement against a former salesman
stating “[c]ovenants not to compete which are
primarily designed to limit competition or restrain
the right to engage in a common calling are not
enforceable.”607

602 See Merrill, Lynch, Pierce, Fenner & Smith, Inc. v. Garcia,
127 F. Supp. 2d 1305 (C.D. Cal. 2000)(in action by
Merrill Lynch against former employees in which the
former employees, now working for Smith Barney,
sent Merrill Lynch customers letters including forms
to be used in transferring their accounts, the court
granted a preliminary injunction finding that such
letter crossed the line into solicitation); Fred Siegel Co.,
L.P.A. v. Arter & Hadden, 1997 Ohio App. LEXIS
3397 (1997) (in action for “business interference” by
a law firm against former associate who used the
firm’s client list to generate mailing list at new firm,
firm may bring a tort action for business interference
against former employee, but a departing attorney has
a privilege to inform those clients for whom he/she
worked that he/she was leaving the firm. That
privilege does not, however, extend to all clients of
the firm. Law firm’s client list qualified as a trade secret
under the Ohio trade secret statute); Morlife, Inc. v.
Ct. App. 1997)(using trade secret customer
information to solicit customers constitutes “use” or
“misappropriation” under the California UTSA).

604 Vigoro Indus., Inc. v. Crisp, 82 F.3d 785 (8th Cir. 1996).

605 Weatherford Oil Tool Co. v. Campbell, 340 S.W.2d 950
(Tex. 1960).

606 Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168(Tex.
1987); Bergman v. Norris of Houston, 734 S.W.2d 673
(Tex. 1987); DeVantis v. Wackenhut Corp., 757 S.W.2d
29 (Tex. 1988), opinion on rehearing, 793 S.W.2d 667
(Tex. 1990); Martin v. Credit Prot. Axi’n, 757 S.W.2d 24
(Tex. 1988), opinion on rehearing, 793 S.W.2d 667 (Tex.
1990).

607 Robbins v. Finley, 645 P.2d 623, 627 (Utah 1982).
Thus, beginning in 1987, Texas experienced several divisive decisions by its Supreme Court, a first legislative attempt in 1989 to return Texas law on covenants not to compete to the law as it existed immediately prior to Hill, and a second legislative effort in 1993 again in an effort to return Texas law to conform with the common law as it existed prior to 1987. In 1994, however, the Texas Supreme Court decided Light v. Centel Cellular Co. of Texas which presently is the prevailing law and is discussed further below.

2. The “Old” 1989 Statute

The initial, now revised, 1989 statute set criteria for the enforceability of covenants not to compete, as well as procedures and remedies in actions to enforce such covenants. First, the statute required that an enforceable covenant be “ancillary to an otherwise enforceable agreement.” However, “if the covenant not to compete is executed on a date other than the date on which the underlying agreement is executed, such covenant must be supported by independent valuable consideration.” Secondly, the statute provided that an enforceable covenant must “contains reasonable limitations as to time, geographical area, and scope of activity to be restrained that do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.”

The statute received mixed interpretations in the Texas courts of appeal. It was held, for example, that the legislature intended to codify the common law as articulated in Weatherford. One court held that the legislative intent was to overturn Hill and its progeny. Yet another court, however, held that a covenant must first pass muster under the “common law principles” and secondly must meet the requirements of the statute.

3. The 1993 Revisions

Legislative action in 1993 was intended to resolve questions left open in the 1989 statute and subsequent decisions by the Texas Supreme Court and the several courts of appeal. In 1993, Texas House Bill No. 7 amended § 15.50 to read:

Notwithstanding Section 15.05 of this code, a covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it:

(1) is ancillary to an otherwise enforceable agreement but, if the covenant not to compete is executed on a date other than the date on which the underlying agreement is executed, such covenant must be supported by independent valuable consideration; and

(2) contains reasonable limitations as to time, geographical area, and scope of


609 The statute was also amended in 1999 to add specific provisions for physicians. Act of May 26, 1999, 76th Leg., ch. 1574, § 1, eff. Sept. 1, 1999.


611 TEX. BUS. & COM. CODE § 15.50 (1989).

612 At least one court, shortly after the effective date of the statute, did not appear to realize that the statute had been passed. Spicer v. Tacito & Assocs., Inc., 783 S.W.2d 220 (Tex. App.–Dallas 1989, no writ).

613 Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381 (Tex. 1991); Wabash Life Ins. Co. v. Garner, 732 F. Supp. 692 (N.D. Tex. 1989). See also Oliver v. Rogers, 976 S.W.2d 792, 800 (Tex. App.–Houston [1st Dist.] 1998) (“We and the parties agree that the purpose of the statute was to return the law to the way it was before Hill, that is, to testing the enforceability of covenants not to compete by the ‘reasonableness’ test laid down in Weatherford ** *.”).


activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.

4. Statutory Requirements for Enforceability: A Question of Law for the Court

a. Ancillary To An Otherwise Enforceable Agreement

The 1993 statutory amendments have been construed by the Texas Supreme Court as requiring a court to initially decide two questions before the reasonableness of the restraint is even considered, namely “(1) is there an otherwise enforceable agreement, to which (2) the covenant not to compete is ancillary to or a part of at the time the agreement is made.”616 The Court also held that the enforceability of a covenant not to compete is a question of law for the court.617 Non-solicitation covenants have been construed under the same criteria.618

(1) “At Will” Employment

It has been the law in Texas for some that a restrictive covenant that is not ancillary to an otherwise enforceable agreement or transaction is a “naked” or “bold” restraint that is invalid per se.619 In Light, the Texas Supreme Court observed that parties to an “at-will” employment agreement may agree on a variety of matters, except for the duration of employment. Employment “at-will” allows either the employer or employee to terminate the employment relationship at any time for any reason620 and therefore means that there are no limitations on the employer’s right to terminate.621 In order to alter the “at will” relationship, the employment agreement must “in a meaningful and special way” limit the employer’s right to terminate the employment.622 In non-“at-will” agreements, the employer must unequivocally indicate a definite intent to be bound not to terminate the employee except under clearly specified conditions.623

Thus, the Court in Light reasoned that consideration for a non-competition promise based on employment in an “at-will” context would be illusory because there was no obligation to continue employment. In order to find “an otherwise enforceable agreement” in the context of “at will” employment, the Court reasoned that there must be one or more non-illusory mutual promises that are not dependent upon continued employment or otherwise conditioned upon something that is exclusively within the control of the promisor.624 When there are only illusory promises, then there is no contract.625

616 Light, 883 S.W.2d at 644.
617 Id. See also CRC-Evans Pipeline Int’l, Inc. v. Myers, 927 S.W.2d 259, 262 (Tex. App. – Houston [1st Dist.] 1996, no writ).
618 See Miller Paper Co. v. Roberts Co., 901 S.W.2d 593 (Tex. App.–Amarillo 1995, no writ).(non-competition clause — characterized by the plaintiff as a “diversion of trade or nonpiracy clause” — prohibiting the solicitation of certain customers was unenforceable because it was part of “at-will” employment).
619 See Tech v. Eric Schuster Corp., 490 S.W.2d 618, 621 (Tex. Civ. App.–Dallas 1972, writ ref’d n.r.e); Coiffure Cont’l, Inc. v. Allert, 518 S.W.2d 942 (Tex. Civ. App.–Dallas 1975, writ ref’d n.r.e).(fact that employee was fired does not affect enforcement of the covenant). If the non-competition agreement has the removal of a competitor as its sole object, then the agreement is considered void as against public policy. See, e.g., Potomac Fire Ins. Co. v. State, 18 S.W.2d 929 (Tex. Civ. App.–Dallas 1929, writ ref’d). See also RESTATEMENT (SECOND) OF CONTRACTS § 187.
624 883 S.W.2d at 645 n.6.
625 883 S.W.2d at 644. See also Burgess v. Permian Court Reporters, Inc., 864 S.W.2d 725 (Tex. App.–El Paso 1993, writ dism’d w.o.j) (on a motion for rehearing, Permian argued that the 1993 amendments to the statute removed “at will” distinction, but the court adhered to its original opinion concluding that the
Some of the Texas Courts of Appeal have, accordingly, distinguished Light in situations where there was an additional covenant providing that the employee would receive certain trade secret information and would not disclose such information, or other non-illusory promises. 626 agreement, being an “at-will” agreement, was not an “otherwise enforceable agreement.” According to the court, the “recent legislative amendments to the relevant statutes do not change our conclusion”).

626 See e.g., Evan’s World Travel, Inc. v. Adams, 978 S.W.2d 225 (Tex. App.–Texarkana 1998, no writ)(agreement provided for a three year term of employment, but also provided that the employee could be terminated prior to that term “for any reason, including, but not limited to, the commission by the Employee of any act constituting a dishonest *** [other ‘for cause’ acts].” The agreement also included a 90-day probationary period during which the employee could be dismissed “without cause.” The trial court held that the agreement established “at will” employment. On appeal, the Texarkana court reversed finding that the agreement provided for employment for a term of years and limited the employer’s ability to terminate to only “for cause” reasons); Zep Mfg. Co. v. Hartbock, 824 S.W.2d 654 (Tex. App.–Dallas 1992, no writ)(“satisfaction” agreement was not an “at will” agreement); Goodyear Tire and Rubber Co. v. Portilla, 836 S.W.2d 664 (Tex. App.–Corpus Christi 1992, writ granted)(oral statements by an employee’s supervisor that her job was secure as long as her job performance remained satisfactory operated as an oral modification from an “at-will” relationship to a “satisfaction” contract of employment). See also, Ireland, D.C. v. Franklin, D.C., 950 S.W.2d 155 (Tex. App.–San Antonio 1997, no writ)(“The clause’s consideration is not tied to the illusory term of employment. Instead, Franklin’s consideration was its promise to share the listed trade secrets with Dr. Ireland and Dr. Ireland’s consideration was her promise not to disclose or use the trade secrets during or after her employment.”); Donabue v. Bowles, Troy, Donabue, Johnson, Inc., 949 S.W.2d 746 (Tex. App. – Dallas 1997, writ denied)(acknowledging in dicta that an exchange of promises regarding trade secret or confidential information in an “at will” employment contract would be non-illusory, but finding that covenant was nonenforceable); Totino v. Alexander & Assoc., Inc., 1998 WL 552818 (Tex. App.–Houston [1st Dist.] – 1998, no pet.)(unpublished, non-precedential)(promises by employees (a) not to recruit A&A employees or disclose A&A confidential information after termination, (b) to return all A&A property and confidential and business information upon termination, (c) to conduct exit interviews, if asked, (d) to inform A&A of new employment after termination, (e) not to disparage A&A, and (f) to submit to certain restrictions and remedies upon breach or litigation after termination, held to constitute all non-illusory promises in “at will” employment agreements. A&A, in return, awarded the employees stock options, the parties mutually agreed to provide each other two weeks notice of termination, and there were certain other provisions regarding various payments, all of which the court deemed as non-illusory promises. Covenant upheld despite “at will” employment agreement); Houston Solvents and Chem. Co., Inc. v. Montealegre, 1999 WL 219366 (Tex. App. – Houston [14th Dist.] 1999)(unpublished, non-precedential)(court found the following non-illusory promises “(1) the employee was obligated to give Southwest 14 days written notice to terminate his employment with or without cause; (2) Southwest was obligated to give the employee 45 days written notice to terminate the employment without cause; (3) upon termination of employment, the employee was obligated to return to Southwest all files, records, and the like pertaining to Southwest’s business; and (4) the employee was obligated not to divulge any trade secrets of Southwest.” Nonetheless, the court held that the only non-illusory promise that Southwest gave was the 45 notice of termination provision and that was not related to the non-competition provision.). But see Ad Com, Inc. v. Helms, 1998 WL 884509 (Tex. App. – Dallas 1998)(unpublished, non-precedential)(under trade secret non-disclosure provision, Helms made a non-illusory promise not to disclose confidential information of employer, but there was no non-illusory promise on the part of Ad Com that would constitute consideration for that promise not to disclose).


628 It has also been held that the agreement must be one the parties intend to perform, and not one merely used as a sham for insurance or other reasons. Larock
consideration given by the employer in the otherwise enforceable agreement must give rise to the employer’s interest in restraining the employee from competing; and (2) the covenant must be designed to enforce the employee’s consideration or return promise in the otherwise enforceable agreement.” 629

(a) Confidential Information

One employer’s “interest” worthy of protecting is the protection of good will and confidential or proprietary information. In Light, the Court acknowledged that customer information could constitute a legitimate, protectable interest. 630

Subsequent cases have found such confidential information to exist in some instances,631 but there must be an affirmative duty on the party of the employer to disclose such trade secrets.632 Also, it has been held that past disclosures of trade secrets will not support a subsequent promise not to disclose that information.633

(b) Specialized Training or Knowledge

Opinions prior to the 1993 statutory amendments and the Court’s opinion in Light deal with specialized knowledge and training as part of the inquiry whether the promisee received consideration other than simply employment in exchange for the covenant not to compete.634

More recent cases tend to analyze whether the specialized training is sufficient to meet the first prong of the Light two-prong test, namely whether “(1) the consideration given by the employer in the otherwise enforceable agreement must give rise to the employer’s interest in restraining the employee from competing” and secondly whether the covenant is designed to protect the employer’s interest in having given that training, i.e., the

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Light, 883 S.W.2d at 646-47.

883 S.W.2d at 647 n.14:


Curtis v. Ziff Energy Group, Ltd., 12 S.W.3d 114 (Tex. App.–Houston [14th Dist.] 1999, no pet.) (a promise as part of a non-disclosure agreement to share trade secrets and confidential information with an employee suffices for an “otherwise enforceable agreement.”). But see Bandit Messenger of Austin, Inc. v. Contreras, 2000 WL 1587664 (Tex. App. – Austin 2000)(unpublished, non-precedential) (agreement was “somewhat vague,” and spoke in terms of employee having access to confidential information, but did not affirmatively obligate employer to disclose confidential information to employee.).

Security Telecom Corp. v. Law Enforcement Techs., Inc., 2000 Tex. App. LEXIS 1818 (Tex. App.–Dallas 2000)(unpublished) (at the time the agreement was executed, the asserted trade secrets were in existence and “[p]ast disclosure of trade secrets to an employee will not support a subsequent promise not to disclose the information,” citing CRC-Evans Pipeline Int’l, Inc. v. Myers, 927 S.W.2d 259, 265 (Tex. App. – Houston [1st Dist.] 1996, no writ)).

See e.g., DeSantis v. Wackenhut Corp., 793 S.W.2d 670, 677 (Tex. 1990), cert. denied, 498 U.S. 1048 (1991)(prior to its opinion on rehearing, the Court discussed whether the employee received specialized training or knowledge or other “valuable consideration”); Picker Int’l, Inc. v. Blanton, 756 F. Supp. 971, 17 U.S.P.Q.2d 1036 (N.D. Tex. 1990)(interpreted DeSantis prior to rehearing as requiring specialized training to serve as consideration for the covenant, but found that a ten-week training course and on-the-job training in servicing magnetic resonance imaging systems were insufficient; Recon Exploration, Inc. v. Hodges, 798 S.W.2d 848 (Tex. App.–Dallas 1990, no writ)(several months of intensive training in using a process known as microwave spectrometry was insufficient to provide adequate consideration to support covenant); Daytona Group of Texas, Inc. v. Smith, 808 S.W.2d 287 (Tex. App.–Corpus Christi 1990, no writ)(viewing readily available video tapes on advertising was deemed insufficient consideration).
second prong of the Light test, namely “(2) the covenant must be designed to enforce the employee’s consideration or return promise in the otherwise enforceable agreement.”

(3) Stock Options

A covenant not to compete that is “ancillary” to a stock option agreement might be enforceable.

(4) Consideration

The statute as originally enacted in 1989 also provided that if the covenant was executed other than on the date that the underlying agreement is executed, then “independent valuable” consideration was required. That language was removed in the 1993 revisions. Prior to Hill, employment alone was considered adequate consideration to support a non-competition covenant. Presumably, that remains the law in employment-for-express term agreements. The law also, however, was that non-competition covenants executed during employment, but conditioned on continued employment, were enforceable. After Light, something more than simply employment may be required to support a covenant not to compete, especially if employment is “at will.” It is questionable whether that remains the law.

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635 See, e.g., Evan’s World Travel, Inc. v. Adams, 978 S.W.2d 225 (Tex. App.–Texarkana 1998, no writ)(at the time that Adams, the employee, joined Evan’s World Travel and signed the subject employment agreement, she had ten years of experience as a travel agent, and did not receive any “specialized training” other than in general procedures. The court noted that “[g]eneral skills and knowledge developed through the course of employment are not the type of interest which justifies protection under a non-competition covenant”). 978 S.W.2d at 231.


638 Payment of a partial salary during the prohibited period, however, substantially increases the probability that a court will find consideration adequate to support the covenant. See Hekimian Labs., Inc. v. Domain Sys., Inc., 664 F. Supp. 493 (S.D. Fla. 1987). In drafting such an agreement, however, it should be clear that the obligation to make payments terminates on the death of the promisor. TPS Freight Distribs., Inc. v. Texas Commerce Bank-Dallas, 788 S.W.2d 456 (Tex. App.–Fort Worth 1990, writ denied)(covenant not to compete as part of the sale of a business and which did not require any continuing services was not a personal services contract and survival was not an implied condition. Promisor’s heirs were entitled to receive continued payments under the agreement.). But see Koonsman v. Comstock, 1994 WL 60783 (Tex. App.–Dallas 1994)(non-precedential, TEX. R. CIV. APP. 90)(non-assignment clause may prevent estate from continuing to receive payments for non-compete after death of promisor).

639 See Garcia, 601 S.W.2d at 99, citing McAnally v. Person, 57 S.W.2d 945, 948-49 (Tex. Civ. App.–Galveston 1933, writ ref’d); Bettinger v. N. Ft. Worth Ice Co., 278 S.W. 466, 469 (Tex. Civ. App.–Fort Worth 1925, no writ). It was also the law that salary increases in part attributable to a non-competition covenant could provide sufficient evidence of consideration. Garcia, supra.

640 Compare Daytona Group of Texas, Inc. v. Smith, 800 S.W.2d 287 (Tex. App.–Corpus Christi 1990, no writ)(covenant that was part of an agreement signed after employment, but conditioned upon further employment, was impliedly not sufficient consideration to support the covenant) with Property Tax Assocs., Inc. v. Stafford, 800 S.W.2d 349 (Tex. App.–El Paso 1990, no writ)(employment agreement containing a covenant not to compete was signed two months after employment upheld because the covenant was signed on the same day as the “ancillary” agreement, and no “independent” consideration need be shown). But see Posey v. Monier.
b. Reasonable As To Time, Geography and Scope

The second requirement of the statute (which was left undisturbed by the 1993 amendments) essentially restates the *Weatherford* “reasonable” tests, *i.e.*, the covenant must be reasonable as to time, geography and scope. “Reasonableness” is determined in the context of whether the restraint imposes a greater restraint than necessary to protect the goodwill or other legitimate business interest of the promisee. Whether a covenant is “reasonable” is a question of law, not fact.642

The Texas Supreme Court has held that the lack of any one of the required geographic, time or scope of employment restrictions render non-competition covenants unenforceable per se.643 Thus, the first issue becomes whether the covenant contains express or implied geographic, time and scope limitations.644 If the covenant does not, some courts have concluded that it is unenforceable per se,645 despite authority in other

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641 In general, two to five years has historically been held to be reasonable time in non-competition agreement cases, although that is obviously dependent on the facts of each case. *Property Tax Assocs., Inc. v. Staffeld*, 800 S.W.2d 349 (Tex. App.–El Paso 1990, writ ref’d n.r.e.); *AMF Tuboscope v. McBryde*, 618 S.W.2d 105,108 (Tex. Civ. App.–Corpus Christi 1981, writ ref’d n.r.e.); *French v. Cnty. Broad. of Coastal Bend, Inc.*, 766 S.W.2d 330 (Tex. App.–Corpus Christi 1989, writ dism’d w.o.j.)(3 years held to be a reasonable time). A survey of reported cases over a period of twenty years reported that two years was the average permissible limitation. White, *Common Callings and the Enforcement of Post-Employment Covenants in Texas*, 19 ST. MARY’S L.J. 589 (1988). Whether a time restraint is unreasonable, however, will depend entirely upon the particular products, services and markets involved. In a computer case, for example, the Southern District of New York enforced a one-year world-wide covenant against a senior level programming consultant due primarily to the programmer’s unique knowledge of the software and the fact that the former employer’s business was indeed world-wide. The court recognized that the consultant would inevitably reveal or use knowledge in working for a principal competitor marketing highly competitive products. *Bus. Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068 (S.D.N.Y. 1984). See also *Bertotti v. C.E. Shepard Co., Inc.*, 752 S.W.2d 648 (Tex. App.–Houston [1st Dist.] 1988, no writ)(2-year covenant without geographical restriction upheld). *Contra Mailbox v. Data Processing Servs., Inc.*, 618 S.W.2d 327 (Tex. 1981)(2-year nationwide restriction held unenforceable due to the fact that the employer could not serve the whole of the United States). See also *Oliver v. Rogers*, 976 S.W.2d 792, 800 (Tex. App. – Houston [1st Dist.] 1998)(“the lack of a fixed time limitation cannot, in and of itself, render a covenant unreasonable”).


643 See *Juliette Fowler Homes, Inc. v. Welch Assocs., Inc.*, 793 S.W.2d 660 (Tex. 1990). See also *John R. Ray & Sons, Inc. v. Stroman*, 923 S.W.2d 80 (Tex. App.–Houston [14th Dist.] 1996, writ denied (court sustained findings by the trial court that portions of an employment agreement that created an industry-wide restriction on Stroman’s ability to work in the insurance business in and around Harris County, and that contained restrictions unlimited in time and extended to customers Stroman had no contact with were unenforceable.).

644 See, e.g., *Car Wash Sys. of Texas, Inc. v. Briggan*, 856 S.W.2d 853 (Tex. App.–Fort Worth 1993, no writ)(although covenant somewhat indefinite as to time, nevertheless enforceable — one of the cases in which the appellate court reversed the trial court’s denial of a temporary injunction to enforce the terms of the covenant, and directed the trial court to enter the injunction after remand).

645 See, e.g., *Zep Mfg. Co. v. Hartshock*, 824 S.W.2d 654 (Tex. App.–Dallas 1992, no writ) (covenant having no geographical boundaries unenforceable as a matter of law. Although the court recognized that what constitutes a reasonable area is typically the territory in which the employee worked, the court was unwilling to “read” that limitation into the otherwise unlimited non-competition covenant. Accordingly, the court held that the covenant was unenforceable); *Butts Retail, Inc. v. Diversifoods, Inc.*, 840 S.W.2d 770 (Tex. App.–
jurisdictions that unlimited covenants may be upheld where, for example, the market is concentrated in a few companies that truly compete world-wide.646 In any event, a covenant that does not contain an express geographical limitation may be upheld if the covenant implicitly imposes such a limitation by, for example restricting the promisee to those customers while whom he/she dealt.647

In general, the breadth of enforceability of territorial restrictions in covenants not to compete depends upon the nature and extent of the employer’s business and the degree of the employee’s involvement.648 The covenant must bear some relationship to the activities of the employee, but if the covenant is overbroad, a court may reform it.649 A reasonable area is generally construed as the territory in which the employee worked.650 A covenant that is broader than the area in which the employee actually worked is generally unenforceable as written.651 The same general rule applies to determining the reasonableness of scope of activities covenants.652

Beaumont 1992, writ denied)(franchise agreement providing that (1) if the franchisor terminated the franchise agreement, the franchisee would not operate a business selling fruit and nuts (the franchise business) in a specific shopping mall for 2 years, held enforceable, but the second provision (2) that during the first 5 years of the franchise, the franchisee would not operate another business selling fruit and nuts within the “metropolitan area of the Parkdale Mall store in Beaumont, Texas,” held unenforceable; Gen. Devices, Inc. v. Bacon, 836 S.W.2d 172 (Tex. App.–Dallas 1991)(covenant unlimited in time or geography held unenforceable).


647 See e.g., Tootino v. Alexander & Assoc., Inc., 1998 WL 552818 (Tex. App.–Houston [1st Dist.] – 1998, no pet.) (unpublished, non-precedential)(Houston court held that “the trial court did not abuse its discretion in implicitly finding the noncompetition covenants contained a reasonable geographic restriction as written by virtue of their limiting the restriction to ‘A&A Clients,’ as defined in the employment agreements.”); Investors Diversified Servs., Inc. v. McElroy, 645 S.W.2d 338 (Tex. App.–Corpus Christi 1982, no writ)(covenant without express geographical limitations upheld as being limited to clients contacted by former employee); Am. Express Fin. Advisors, Inc. v. Soil, 955 F. Supp. 688 (N.D. Tex. 1996)(territory undefined, but covenant upheld as being limited to customers former employer actual dealt with); Stocks v., Banner Am. Corp., 599 S.W.2d 665 (Tex. Civ. App. – Texarkana 1980, no writ)(use of a customer list as an alternative to setting a specific geographical limit was reasonable).


649 Allan J. Richardson, 718 S.W.2d at 835.


651 Evan’s World Travel, 978 S.W.2d at 233. See also McNelis Cos., Inc. v. Sams, 1997 Tex. App. LEXIS 5427 (Tex. App. – Dallas 1997, no writ)(covenant covering Texas, Louisiana, Arkansas, and Oklahoma, prohibiting employment by any competitor for 3 years held overly broad and unenforceable); NCH Corp. v. Share Corp., 757 F.2d 1540 (5th Cir. 1985)(applying Texas law).

652 See Butler v. Arrow Mirror & Glass, Inc., 51 S.W.3d 787, 2001 Tex. App. LEXIS 4144 (Tex. App.–Houston [1st Dist.] 2001)(covenant defined a competitive business as “a business that provides or offers the same or similar type or [sic. of] services, goods and materials as provided or offered by Employer during the term of
c. Reformation

Until Hill, Texas followed the rule of reformation that permitted a court to reform or “blue pencil” a covenant if the court found that the covenant was unreasonable as written. Courts would do so using their equitable powers recognizing that the reasonableness of a non-competition covenant may change over the period of employment. Hill strongly suggested that courts would no longer use reformation to cure overly broad covenants. In a legislative response, the statute, as originally enacted in 1989, made reformation mandatory subject to qualifications, e.g. if the promisee requested reformation in the trial court and if the covenant met the other criteria of being ancillary to an otherwise enforceable agreement.

As a result of the 1993 amendment, reformation is now mandatory “If the covenant is found to be ancillary to or part of an otherwise enforceable agreement.” What happens if the trial court refuses to reform a covenant found to be overly broad? The Houston court has held that the trial court may refuse to reform an overly broad covenant if doing so would have been “futile.” Other courts in other jurisdictions have also refused to reform or “blue pencil” overly broad covenants, but for questionable reasons. The Texas Court of Appeals -Dallas has also held that there is no appellate jurisdiction to consider a trial court’s refusal to reform an overly broad covenant in the context of an interlocutory appeal from the trial court’s refusal to grant a temporary injunction.

d. Effect Of Unenforceability On Severance Payments

If the covenant is not severable from the remainder of the employment agreement, the Fifth Circuit has held that a corresponding obligation to

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653 Weatherford Oil Tool Co. v. Campbell, 340 S.W.2d 950 (Tex. 1960); NCH Corp. v. Share Corp., 757 F.2d 1540 (5th Cir. 1985).
656 B.J. Software Sys., Inc. v. Oshima, 827 S.W.2d 543 (Tex. App.–Houston [1st Dist.] 1992, no writ) (trial court was required to reform the agreement if requested to do so by the promisee); Gomez v. Zamora, 814 S.W.2d 114 (Tex. App.–Corpus Christi 1991, no writ) (covenant precluding Gomez from competing, after termination of employment, in an “existing marketing area” and any “future marketing area of the employer begun during employment,” too indefinite to stand, reformation must be requested first in the trial court, and failure to do so constitutes a waiver); Daytona Group of Texas, Inc. v. Smith, 800 S.W.2d 285, 290 (Tex. App.–Corpus Christi 1990, no writ) (reformation must be requested in trial court); Recon Exploration, Inc. v. Hodges, 798 S.W.2d 848 (Tex. App.–Dallas 1990, no writ).
657 See, e.g., Evan’s World Travel, Inc. v. Adams, 978 S.W.2d 225 (Tex. App.–Texarkana 1998, no writ) (covenant in a case involving a travel agent that extended to “the counties of Gregg and Harrison, State of Texas, or any State in which the Employer is conducting or has conducted its business during the Term of Employment” reformed to Harrison county alone, namely the county where the travel agent worked).
659 See, e.g., Trailor Leasing Co. v. Assoc. Commercial Corp., 1996 U.S. Dist. LEXIS 9654 (N.D. Ill. 1996) (the district court judge refused to enforce an over-broad non-competition covenant and further refused to “blue pencil” to covenant to make it enforceable saying that he was refusing to do so “to encourage employers to write restrictive covenants more narrowly.” Here the covenant would have restricted the ex-employee from contacting both existing customers — regardless of whether he had actually had any contact with them, as well as prospective customers).
make severance payments is unenforceable as well.661

5. Procedures and Remedies in Actions to Enforce Covenants not to Compete

a. Under the Texas Statute

Section 15.51, both before and after the 1993 amendments, in three subsections, covers four topics: (1) relief and remedies available to a promisee; (2) burden of proof; (3) reformation; and (4) relief available to a promissory.662 Section 15.51(a) provides that the court may award the promise damages, injunctive relief, or both for a breach of the covenant by a promisee. Damages, however, may not be awarded “for a breach of the covenant before its reformation and the relief granted to the promise shall be limited to injunctive relief,”663 continues the common law rule that in an action for damages, the covenant stands or falls as written.664

With respect to the burden of proof for establishing that the covenant meets the enforceability standards of § 15.50, the statute draws a distinction between covenants ancillary to an agreement to provide personal services and one that is not. In the case of the former, the promisee has the burden of establishing enforceability. In the case of all other agreements, the promissory has the burden of establishing that the covenant does not meet those standards.665

(1) Costs and Attorney’s Fees

It is unfortunately the case that threats of suit on non-competition covenants can be used to keep ex-employees in line, even though the covenant may not be enforceable. That was a concern voiced during pendency of this legislation. As a result, the second sentence in § 15.51(c) of the statute includes a somewhat unique, one-way costs and attorney’s fees provision. If the primary purpose of the underlying agreement is to render personal services (i.e., an employment contract),666 and if the promissor proves that the promisee knew at the time of the execution of the contract that the

661 Sheline v. Dun & Bradstreet Corp., 948 F.2d 174 (5th Cir. 1991). The covenant did not contain a geographical limitation, and the district court held that rendered the covenant unenforceable per se. On appeal, both parties and the Fifth Circuit agreed that was a correct holding. The Fifth Circuit also, however, held that the covenant was not severable from the remainder of the agreement. Thus, the agreement as a whole, including D&B’s obligation to make severance payments, was unenforceable. This is at least arguable inconsistent, though, with the Texas Supreme Courts opinion in Frankiewicz v. National Corp Associates, 633 S.W.2d 505 (Tex. 1982). There a covenant was held unenforceable also because there was no territorial limitation. That covenant was part of an agreement providing that an insurance agent would continue to receive renewal commissions so long as he did not violate the non-competition covenant. The agent went to work for a competing insurance company. Although the covenant was declared unenforceable, the court enforced the remainder of the agreement.


663 TEX. BUS. AND COM. CODE § 15.51(c). See Butler v. Arrow Mirror & Glass, Inc., 51 S.W.3d 787, 2001 Tex. App. LEXIS 4144 (Tex. App. – Houston [1st Dist.] 2001)(if a covenant is reformed, the promisee is not entitled to damages).

664 Weatherford Oil Tool Co. v. Campbell, 340 S.W.2d 950 (Tex. 1960); Peat, Marwick, Mitchell & Co. v. Sharp, 585 S.W.2d 905 (Tex. Civ. App.–Amarillo 1979, writ ref’d n.r.e.). See also United Mobile Networks, L.P. v. Deaton, 939 S.W.2d 146 (Tex. 1997)(trial court had reformed a non-competition covenant’s geographical boundaries, but nevertheless entered judgment for $100,000 for an alleged breach of the covenant — reversed. The court of appeals upheld the reformation, but held that reformation precluded the award of damages per § 15.51(c). That was affirmed on appeal.) See also Deaton v. United Mobile Networks, L.P., 926 S.W.2d 756 (Tex. App.–Texarkana 1996, writ granted), aff’d-in-part, rev’d-in-part, 939 S.W.2d 146 (Tex. 1997); Peat Marwick Main & Co. v. Haas, 818 S.W.2d 381 (Tex. 1991). See Ex parte Chambers, 898 S.W.2d 257 (Tex. 1994) for enforcing injunctions through contempt proceedings.

665 TEX. BUS. AND COM. CODE § 15.51(b).

covenant was not reasonable, then the promissory may recover costs and attorney’s fees if the promisee attempts to enforce the covenant to a greater extent than necessary to protect goodwill or other business interests. Reasonableness per se is a subjective standard and proving that the promisee knew that a covenant was unreasonable is a heavy burden to carry.667 The promissor also has a “second bite at the apple”; the promissor can unilaterally narrow the covenant before attempting to enforce it.

One court has held that a promisee is entitled to an award of attorneys’ fees if the trial court issues an injunction enforcing the covenant, even after reformation, and even though no damages have been awarded.668 Attorneys’ fees may also be awarded the promisee under the Texas Declaratory Judgments Act.669

(2) Statute Must Be Specifically Pledged
At least one court has held that if the procedures and remedies of the statute are desired, the statute must be specifically pleaded.670 The case, however, arose from a partial denial of a temporary injunction, and its broader application is therefore questionable. At least one court, however, has also held that a showing of irreparable harm is not required for an injunction if the statute is specifically pleaded.671

(3) Appellate Review Of A Trial Court’s Grant Or Denial Of A Temporary Injunction Should Not Be Used To Obtain A Ruling On The Merits
The Dallas court has expressly noted that appeals from temporary injunctions are not intended to provide a means to obtain an advance ruling on the merits from the appellate court.672

b. Under the Common Law
The cases that follow discuss various remedies approved and disapproved by the Texas courts. Counsel should be cautious, however, in relying on these cases in view of Hill and its progeny, and the statute. In short, these cases may or may not reflect the current view of the Texas Supreme Court.

667 See Schneider v. Acoustic Eng’g Co. of Florida, 1993 WL 415481 (Tex. App.–Houston [1st Dist.] 1993)(unpublished, non-precedential)(former employee was not entitled to a jury question on attorney’s fees under § 15.51 because he never obtained, either through summary judgment or at trial, a finding that the former employer sought to enforce the non-competition agreement to a greater extent than was necessary to protect the goodwill or other business interests of former employer, or that the former employer knew at the time of the execution of the non-competition agreement that the covenant was unreasonable.). But see Evan’s World Travel, Inc. v. Adams, 978 S.W.2d 225 (Tex. App.–Texarkana 1998, no writ)(restrictive covenant that extended for three years and to “the counties of Gregg and Harrison, State of Texas, or any State in which the Employer is conducting or has conducted its business during the Term of Employment,” read by the trial court and the Texarkana court to mean the entire state rather than as modifying Gregg and Harrison counties, and was “clearly” unreasonable. The court approved an award of attorney’s fees to promisor for trial, but not for appeal due to a lack of evidence that would support an award of attorney’s fees on appeal).


Breach of Non-competition Covenant May Not Excuse Payments Under Agreement of Sale
The Texas Supreme Court has held that breach of a non-competition agreement in connection with the sale of a business does not necessarily excuse payments under the agreement of sale.\(^{673}\) The Texas Supreme Court has also held that the unenforceability of a non-competition covenant does not justify withholding insurance renewal premiums.\(^{674}\)

Liquidated Damages
The Texas Supreme Court has, however, approved liquidated damages provisions for violation of a covenant not to compete.\(^{675}\)

Arbitration
Arbitration clauses and contracts are increasingly being used in an effort to reduce the time and expense of litigation. The Texarkana court’s decision in a mandamus action, strongly suggests that non-competition agreements are subject to arbitration.\(^{676}\) Nevertheless, there are limitations on the validity of arbitration agreements, and one of those is that a party to the contract cannot be designated as the arbitrator.\(^{677}\)

Contract Provisions Having the Same Effect As Covenants Not to Compete
Personal services business such as accounting firms rely heavily on the value of their client bases. When such firms are sold or are merged, much of the evaluation centers on that client base. It is thus typical to include provisions in sale or merger agreements that are intended to protect that client base.\(^{678}\) However, if such provisions have the practical effect of restraining competition, the Texas Supreme Court has held that such provisions will be judged by the same standards as non-competition agreements.\(^{679}\)

Covenant Not to Compete Contrasted With Covenant Not to Disclose Trade Secrets
Although covenants not to disclose trade secrets have historically been deemed consistent with public policy, while covenants not to compete have not,\(^{680}\) a 1984 Illinois decision, \textit{Disher v. Faulgoni},\(^{681}\) initially created some doubt. \textit{Disher} and its progeny, unfortunately, use deceptively simple logic to reach a patently wrong result. The first issue, of course, is whether the information sought to be protected qualifies as a trade secret. The Texas Code of Professional Responsibility DR2-108, however, expressly prohibits the use of such agreements among attorneys. Whitehead v. Griffin & Griffin, P.C., 902 S.W.2d 739 (Tex. App. Austin 1995, no writ).\(^{679}\)

Disher and its progeny, unfortunately, use deceptively simple logic to reach a patently wrong result. The first issue, of course, is whether the information sought to be protected qualifies as a trade secret. The court found that the information was not a trade secret because it was not subject to reasonable secrecy. However, the court’s analysis is flawed because it ignores the fact that the information was subject to reasonable secrecy. The court also fails to consider the fact that the information was subject to reasonable secrecy because it was not publicly known or generally available. The court’s failure to consider these factors results in a conclusion that is unsupported by the evidence.

\[673\] Hanks v. GAB Bus. Servs., Inc., 644 S.W.2d 707 (Tex. 1982).

\[674\] Frankiewicz v. Nat’l Comp Assocs., 633 S.W.2d 505 (Tex. 1982).

\[675\] Henshaw v. Kroenecke, 656 S.W.2d 416 (Tex. 1983).


\[677\] Henshaw v. Kroenecke, 656 S.W.2d 416 (Tex. 1983).


\[679\] Manes v. Dallas Baptist College, 638 S.W.2d 143 (Tex. App.—Dallas 1982, writ ref’d n.r.e.)(College Board of Trustees could not serve as arbitrator in employment dispute between college and an employee). See also BDO Seidman v. Miller, 1996 Tex. App. LEXIS 1278 (Tex. App.—Austin 1997, no writ)(unpublished)(the court, citing New York case law, noted that although “parties may designate arbitrators of their choice and may, with the knowledge of the parties, designate arbitrators who have some interest in the dispute or maintain a relationship with a party,” nevertheless, “[t]o allow a party to act as its own judge necessarily tainted the process and is repugnant to a proper sense of justice.” According to the court, “[a]n agreement in which a party is designated as an arbitrator is illusory and becomes ‘not a contract to arbitrate, but an engagement to capitulate.’” The court concluded that here there was no valid arbitration agreement as a result of the designation of arbitrators).


\[681\] 464 N.E.2d 639 (Ill. App. 1984)(confidentiality agreements are invalid, in the same vein as non-competition agreements, if they are overly broad in scope or duration). See also AMP Inc. v. Fleischhacker, 823 F.2d 1199, 3 U.S.P.Q.2d 1421 (7th Cir. 1987)(the Seventh Circuit adopted the Disher rationale).
Trade secret. If it does, then a non-disclosure agreement can and should continue indefinitely; at least until the trade secret is discoverable through proper means, i.e., until it loses its status as a trade secret. That is the normal and natural consequence of a trade secret, and there is nothing oppressive or unreasonable about it. Similarly, trade secrets have no geographical boundaries. Disclosure such that the trade secret becomes widely known or readily accessible (or otherwise “non-secret” under the relative secrecy rules discussed above) anywhere would cause the trade secret owner damage and loss of the trade secret. Unlimited geographic restraints would not only be reasonable, but seemingly required.

Although the Illinois legislature has recognized the folly of Disher and AMP, and has now legislatively superceded it, the deceptively simple logic of Disher, like a virus, has escaped and spread. Death of the original host does not seem to have stemmed the spread of the infection. Some courts are now analyzing non-disclosure agreements in terms of their competitive effects.

682 The Illinois Trade Secrets Act, adopted in 1988, specifically provides that “a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of duration or geographical limitation on the duty.” Ill. Rev. Stat. ch. 765, § 1065/8(b)(1). See also, Pepisco, Inc. v. Redmond, 54 F.3d 1262 n. 7, 35 U.S.P.Q.2d 1010 n. 7 (7th Cir. 1995).

683 See e.g., Carolina Chem. Equip. Co. v. Muckenfus, 471 S.E.2d 721, 39 U.S.P.Q.2d 1642 (S.C. Ct. App. 1996)(agreement provision that defines trade secrets “so broadly that virtually all of the information [an employee] acquired during his employment would fall within its definition” is unenforceable.); Nalco Chem. v. Hydro Technologies, Inc., 984 F.2d 801, 25 U.S.P.Q. 1719, 1993 U.S. App. LEXIS 1195 (7th Cir. 1993)(the Seventh Circuit, applying Wisconsin law, discussed the overlap of covenants not to compete and non-disclosure agreements, and held both to be unenforceable as lacking time and geographical limitations.); Machen, Inc. v. Aircraft Design, Inc., 828 P.2d 73, 1992 Wash. App. LEXIS 178 (Wash. Ct. App. 1992)(“Although cases cited by the parties involve non-competition agreements rather than confidentiality agreements, we see no reason to distinguish between the two when the issue is the sufficiency of consideration to support them.”); Tech. for Energy Corp. v. Integrated Sys., Inc., 895 F.2d 1414 (6th Cir. 1990)(discussion of “competitive effect” of a non-disclosure agreement.); United Corp. v. Decker, 731 S.W.2d 636 (Tex. App. –Houston [14th Dist.] 1987, no writ)(Houston court interpreted an employment agreement containing a provision that had both non-disclosure and non-competition language under the time, geography, and scope of activity standards applicable to covenants not to compete.);

684 See e.g., Sautter v. Comp Solutions Network, Inc., 1998 WL 802481 (Tex. App. – Houston [14th Dist.] 1998, no writ)(unpublished, non-precedential)(temporary injunction prohibiting former employee from using customer lists of former employer upheld despite lack of non-competition agreement); Miller Paper Co. v. Roberts Co., 901 S.W.2d 593 (Tex. App.–Amarillo 1995, no writ); Ragen v. Interactive Bus. Systems, Inc., 864 S.W.2d 548 (Tex. App.–Dallas 1993, no writ)(non-competition provision held unenforceable, but non-disclosure agreement enforced.); Zep Manufacturing Co. v. Hartbock, 824 S.W.2d 654 (Tex. App.–Dallas 1992, no writ)(held non-competition provisions were unenforceable, but corresponding non-disclosure provisions were severable and that the unenforceability of invalidity of the non-competition provision did not impair the validity or enforceability of the non-disclosure provisions. The Dallas court expressly held that non-disclosure covenants are not subject to the time, geographic and scope-of-activity limitations applicable to non-competition agreements, and to the extent that Unitel suggests otherwise, the Dallas court would not follow it. The opinion is particularly pertinent because the agreement did not have any limitations regarding time, geography or scope-of-activity.); The Murrco Agency, Inc. v. Ryan, 800 S.W.2d 600 (Tex. App.–Dallas 1990, no writ history)(non-disclosure provisions held enforceable); Eaton Corp. v. Giere, 971 F.2d 136, 23 U.S.P.Q.2d 1705 (8th Cir. 1992)(court upheld a permanent injunction against a former employee who had signed a confidentiality agreement restricting disclosure of trade secret information gained during the course of employment.); But see, Hargrave v. Giuffre, ___ S.W.2d ___, 1999 Tex. App. LEXIS 9618 (Tex. App. – Beaumont 1999) ("[i]n any event, we note that whether an agreement not to solicit accounts of a former employer is called a non-compete agreement or an anti-piracy agreement, such an agreement must
Environmental Pest & Termite Control, Inc., 685 the Georgia Supreme Court reiterated:

When a duty has been imposed upon an employee pursuant to contract not to disclose confidential business information upon termination of employment, public policy is swung in favor of protecting these commercial intangibles and of preventing unfair method of exploiting them in breach of duty ***. Covenants not to disclose and utilize confidential business information are related to general covenants not to compete because of the similar employer interest in maintaining competitive advantage. Unlike general noncompetition provisions, however, specific non-disclosure clauses bear no relation to territorial limitations and their reasonableness turns on factors of time and the nature of the business interest sought to be protected. In determining whether restraints on disclosure are reasonable, two factors are of importance: (1) whether the employer is attempting to protect confidential information relating to the business, such as trade secrets, methods of operation, names of customers, personnel data, and so on – even though the information does not rise to the stature of a trade secret; and (2) whether the restraint is reasonably related to the protection of the information. [Citations omitted.] 686

D. Recent Cases Involving Non-Competition Covenants

1. Texas Cases

a. Texas Law: A Covenant That Is Not Limited to the Employee’s Employment Capacity at the Former Employer is Unreasonable


Hartnett worked for APRM, a company that sells, installs and services refractory and corrosion materials, in Houston as a salesman and project manager. His employment agreement contained a non-competition covenant that extended for three years and to “any business within any geographic location the employee performed duties for or on behalf of employer that is in competition with the business of the Employer.” Hartnett moved to California to establish an APRM office there, but that office was not successful. Hartnett terminated his employment, and joined a competitor, Philip Corrosion Services, Inc. APRM sued to enforce the non-competition covenant. The trial court refused finding the covenant was unreasonable, and the Court of Appeals affirmed finding that “the covenant’s restraint is not limited to the capacity in which Harnett worked for APRM. Thus, the restraint is overbroad and unreasonable.” Query: what about reformation?

b. Texas Law: Covenant in Franchise for Real Estate Inspection Services Enforced as Modified to Cover Area Actually Covered by Franchise


The court emphasized that the issue here arose on a motion for a preliminary injunction. Thus, the court’s holding should be considered accordingly.

Wayne and Deborah Holt had a ten-year franchise agreement with AmeriSpec for a residential home inspection service operated under the AmeriSpec® mark. The agreement contained

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685 516 S.E.2d 76 (1999).
a post-termination non-competition covenant that extended for one year, to building inspection services, and encompassed the Holt’s designated territory of portions of Dallas and Tarrant counties, within ten miles thereof, and within ten miles of the location of any other AmeriSpec office. The Holts elected not to renew the agreement, and began providing home inspection services through their new company, Metro Inspection Services. AmeriSpec sued to enforce the non-competition covenant.

The court rejected the Holt’s argument that the non-competition covenant was not necessary to protect any legitimate business interest (i.e., AmeriSpec retained the good will in its name and marks, and there were no trade secrets involved), although on somewhat cryptic grounds. The court concluded that AmeriSpec had developed good will in its name and marks, and that it was entitled to protect that good will by preventing a former franchisee from competing against it. What? Assuming that the Holts had relinquished all use of the AmeriSpec name and marks (and there was some doubt about that), what “good will” is the court referring to? Possibly the court is referring to customer relationships, but that is nowhere mentioned in the opinion. The court also noted that AmeriSpec was not obligated to that trade secrets were involved. That is true, but AmeriSpec nevertheless has the obligation of showing that the non-competition covenant protected some legitimate business interest other than simply restricting competition. Again, possibly AmeriSpec could have relied on the training given the Holts, but that also is not mentioned in the opinion.

The court concluded that the one year time period was reasonable, and that the scope of activities was reasonable. The court also concluded that the ten-mile buffer zone was reasonable, but that the geographical exclusion that extended outside their actual franchised territory was not. Accordingly, the court reformed the covenant to extend to the Holt’s designated territory and within ten miles thereof.

c. Texas Law: (a) Non-Competition and Non-Disclosure Covenants Are Subject to Separate Analyses
(b) Stock Option Agreements “In This Case” Do Not Give Rise to Interest in Restraining Competition
(c) Confidentiality Agreements Are Evaluated As Of The Time Made


Olander worked in mortgage lending for Compass Bank from 1988 until 2001, and was a valued employee. At the time he left, he was Executive Vice President in the real estate lending department. Every year since 1990, Olander and Compass entered into stock option agreements. Beginning in 1994, those agreements contained non-competition and non-solicitation covenants that extended for two years. The geographical area was essentially any territory in which Compass had been conducting business. The agreements also contained non-disclosure covenants. Although the parties differed on the extent of confidential information that Olander had access to, Olander did not deny that he had access to at least some confidential information.

Olander voluntarily resigned from Compass in 2001, and joined Whitney National Bank to head up its fledgling real estate lending group. Olander also brought a declaratory judgment action in state court that was removed. Compass sought to enforce the non-competition and non-disclosure covenants.

The court observed that “[u]nder Texas law, employees’ non-disclosure provisions are more readily enforced than non-compete covenants because the non-disclosure provisions are not restraints on trade, they do not prevent the employee from making use of the general experience he acquired during employment.” The court further observed that although Olander may have had access to confidential information during his tenure with Compass, the confidentiality provisions in the stock option agreements did not obligate Compass to provide any confidential information in exchange for Olander’s non-competition covenant. The court held that “[e]ven if the confidentiality provisions are currently enforceable, the non-compete provision must be evaluated as of the time it was made; prior or future performance by Compass does not suffice.” [Emphasis by the court]

The court lastly observed that “Compass has not articulated any coherent theory explaining
how Compass’ promise to Olander, i.e., to grant the right to buy stock at a set price during his employment, gives rise to an interest in restraining Olander from competing after he has left Compass’s employ.” The court was careful to note that it was not ruling that a stock option agreement could never give rise to an interest in restraining competition, but found no interest here.

d. Texas Law: Interests (1) That Defendants Not Use Confidential Information to Plaintiff’s Detriment, (2) In Preserving Plaintiff’s Anatomic Pathology Business, and (3) That A Transfer of the Cytology Operations Would Be Protected by a Contemporaneous Non-Compete Provision, Were Sufficient to Justify Enforceability of the Covenant


The issue arose on a motion for summary judgment. ProPath, d/b/a Medical Laboratory Service Southwest (MLSS) was a partnership of physicians specializing in pathology. Quest (previously SBCL) owned and operated clinical laboratories, and provided laboratory services. In 1992, the parties’ predecessors entered into an agreement under which Quest agreed to provide MLSS with technical and support services. In 2000, Quest notified ProPath that it was terminating the agreement. ProPath responded that it would require transfer of cytology operations, and Quest allegedly refused to comply. The parties met and reached an accommodation, but in 2001, Quest again notified ProPath that it was terminating the agreement. ProPath again responded that it would require a transfer of the cytology operations.

The majority of the court’s opinion is devoted to resolving various questions concerning the parties’ agreement. With respect to the non-competition covenant, Quest’s predecessor SBCL had agreed that for a period of six months following termination neither it nor any of its affiliates would solicit any of ProPath’s business in 48 Texas counties. The court concluded that the covenant was enforceable finding that ProPath had a legitimate business interest (1) in preserving ProPath’s anatomic pathology business [Query: Isn’t this simply a naked restraint?], and (2) that transfer of the cytology operations would be protected by a contemporaneous non-competition covenant. Despite that there does not (at least from the opinion) appear to be any obligation on ProPath to disclose confidential information to Quest, the court nevertheless accepted ProPath’s argument and found the agreement enforceable. The court found that the six month term and the 48 county geographical restraints were reasonable.

e. Texas Law: (a) In “At-Will” Employment, A Promise to Share Confidential Information Is A Sufficient Non-Illusory Promise to Support A Non-Competition Covenant

(b) Interest in Preserving Client Database Developed Through Spending $3 Million is Sufficient to Support Non-Competition Covenant


Rimkus was an engineering consulting firm that analyzed accidents and failures of various kinds for insurance companies. Budlinger was a licensed engineer and architect, and joined Rimkus in 1992. He signed a non-competition covenant that extended for eighteen months and to “any geographical area where [Rimkus] has done business during the term hereof.” The scope of activities was “any business service similar to that which are carried on by the Company.” Budlinger left Rimkus in 1997 and joined a competitor ProNet. Rimkus filed suit to enforce the non-competition covenant. The trial court held that the covenant was written was unenforceable, but reformed the covernant to one year and restricted the geographical area to Harris County. On appeal, the court affirmed.

The court found that although Budlinger’s employment was “at will,” “[t]he original employment agreement contained a clause whereby Rimkus promised to share secret and proprietary information with Budlinger, and Budlinger promised not to disclose such
information * * *.” In actuality, the agreement simply said that “in consideration of the Company’s agreement to engage Employee to perform personal services and the resulting access by Employee to customer names and files, training and techniques given by the Company, trade secrets and other proprietary and confidential information * * *.” It is questionable whether that is an affirmative obligation that goes beyond employment.

The court also found that Rimkus had developed various specialized techniques for analyzing failures, and had spent more than $3 million in developing an extensive customer database, which was a sufficient legitimate business interest to protect using a non-competition covenant.


Friedman, Clark & Shapiro, Inc. v. Greenberg, Grant & Richards, Inc., 2001 WL 1136169 (Tex. App. – Houston [14th Dist.] 2001)

This is splitting hairs. GGR was a commercial debt collection firm. Individual defendants King, Hausman and Bregenzer were GGR employees. Because GGR’s employees had been leaving and taking business with them, in 1996, GGR had its existing employees sign employment agreements containing non-competition and non-solicitation covenants. The non-competition covenant extended for one year within Harris County. Two of the agreements (one of the three was a letter agreement containing only a non-competition covenant) at issue provided that the “employment of Employee shall continue only so long as services rendered by Employee are satisfactory to Employer” and “Employer shall be the sole judge as to whether such services of Employee are satisfactory.”

In 1998, King et al., while still employed by GGR, started their own debt collection firm, FCS. GGR sued, and as the result of summary judgments and a trial, the non-competition covenant was essentially enforced. On appeal, the court affirmed finding that the covenant was enforceable.

With respect to the enforceability of the non-competition covenant, the court deemed the two employment agreements as “satisfaction” agreements, rather than employment “at will,” which thus avoided any necessity for finding another enforceable agreement. The court also found consideration to support the non-competition covenant in King et al.’s agreement not to disclose or use confidential information, such as customer names etc. Query: Was there an agreement requiring GGR to disclose such information?

g. Texas Law: (a) No Promise to Give Employee Confidential Information At The Time of the Agreement
(b) Promise of Promotion Was Illusory
(c) Obligation on Employee Give Notice Prior to Termination Is Not Sufficient Consideration for Non-Competition Covenant
(d) Non-Disclosure Obligations Enforceable Independent of Non-Competition Covenant

Anderson Chemical Co., Inc. v. Green, 66 S.W.2d 434 (Tex. App. – Amarillo 2001)

The case arise from the trial court’s refusal to grant Anderson a temporary injunction enforcing a former employee’s non-competition and non-disclosure covenants. The court found that the trial court had not abused its discretion.

Green worked for Anderson Chemical for approximately eleven years from 1990 to 2001 as a salesman for water treatment systems. Green had an employment agreement that contained a non-competition covenant that extended for one year and covered a defined “Territory” in West Texas that he had served for Anderson. In 2001, Green went to work for Alpha Labs, a co-defendant and one of Anderson’s competitors. In his new position, Green solicited customers that he had serviced while employed by Anderson within

687 In Light, the Texas Supreme Court held that a promise of continued employment was illusory if it was within the sole control of the employer. Light, 883 S.W.2d at 644 n. 5.
the same geographic area proscribed by his non-competition covenant. Anderson sued, and this appeal was from the trial court’s denial of a temporary injunction to enforce the terms of Green’s non-competition covenant. The court affirmed.

The court concluded that Green had given a number of non-illusory promises in his employment agreement, i.e., that upon termination he would return Anderson’s property, (2) that for one year he would not solicit Anderson’s employees, (3) that following termination he would keep various items of information confidential, and (4) to give ten days notice prior to terminating employment. The court did not, however, find any non-illusory promises flowing from Anderson: “A promise not to disclose an employee’s [sic. employer’s] proprietary information which is later accepted by the employer’s performance in providing that information to the employee is a unilateral contract that cannot support a covenant not to compete because it is not otherwise enforceable at the time it was made. * * * The instant agreement contains no promise on the part of *** [Anderson] to furnish Green with confidential information. Thus, even if *** [Anderson] gave such information to Green, at the time it was made, there was no enforceable agreement.” [Emphasis added.]

Anderson also promised that if it failed to promote Green to manager of its West Texas territory when another employee, Bill Dawson, ceased to work for Anderson, then the non-competition covenant would not bind Green. The court concluded that was an enforceable agreement because Anderson could terminate Green at any time prior to Dawson’s retirement.

The court further held that Green’s return promise to give ten days notice was not sufficient to support the non-competition covenant. Accordingly, the court concluded that the trial court could have concluded that the non-competition covenant was not enforceable because it was not ancillary to an otherwise enforceable agreement.

Green’s employment agreement also included a non-disclosure covenant. The court acknowledged that a “non-disclosure covenant may be enforceable even if a non-compete provision is not enforceable and such a provision is not required to contain reasonable restrictions as to time, geography, and scope of activity.” The court noted, though, that Green had returned all of Anderson’s materials upon his termination, and that the record revealed that Green had not used any of Anderson’s proprietary information. Accordingly, the court concluded that there was no error in refusing to grant a temporary injunction.

2. Cases Outside Texas
   a. Arizona Law: Geographical Covenant Limited By Sales Volume Enforced


   In Arizona, a covenant not to compete is “valid and enforceable by injunction when the restraint does not exceed that reasonably necessary to protect the employer’s business, is not unreasonably restrictive of the rights of the employee, does not contravene public policy, and is reasonable as to time and space.”

   Kelley began working for Bed Mart as a salesman in January 2000, and signed an employment agreement containing confidentiality and non-competition covenants. The non-competitive covenant extended to “any business for which the sale of mattresses accounts for more than fifty percent (50%) of sales revenue” and “within ten (10) miles of any location where [Bed Mart] conducts business.” The covenant had a term of six months. The trial court found that the geographical restriction was unreasonable. On appeal, the Arizona Court of Appeals reversed.

   The court observed that a “restrictive covenant is reasonable and enforceable when it protects some legitimate interest of the employer beyond the mere interest in protecting itself from competition * * *.” The court found that Bed Mart, Inc. v. Kelley, 45 P.3d 1219 (Ariz. App. 2002)


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   45 P.2d at 1221.
Mart had several legitimate interests for its non-competitive covenant, chiefly the need to protect its pricing information. Each salesman was given a “Product Bible” that included wholesale prices and promotional deals from suppliers because each salesman could determine the price at which a product would be sold to a customer.

The court found that the six month term was reasonable because (1) that was how long it took to train a new employee, and (2) the Product Bible was revised approximately every six months. The court further found that the geographical term was reasonable given the 50% of sales limitation, i.e., the limitation precluded Kelley from working at the 5-6 bedding superstores in the Phoenix area, but not in other numerous department and furniture stores.

b. Arkansas Law: Failure to Impose Post-Termination Non-Competition/Non-Disclosure Restraints Is Evidence of a Failure to Properly Protect Trade Secrets


Tyson and ConAgra are, of course, competitors and major producers of poultry products. Tyson filed suit alleging that ConAgra had “raided” Tyson by hiring away three of its top management executives. According to Tyson, those executives had access to confidential information concerning pricing, pricing programs, cost of goods sold, profit margins, and marketing strategies. Tyson’s complaint alleged that those individuals would inevitably disclose such confidential and/or trade secret information in their new positions with ConAgra. The trial court agreed and entered an injunction prohibiting ConAgra from misappropriating Tyson’s trade secrets for one year, prohibiting two of the former employees from engaging in the sale or marketing of poultry for one year, and prohibiting the third former employee from continuing his involvement in sales and marketing with various subsidiaries, e.g., Burger King, KFC, etc. On appeal, the Arkansas Supreme Court reversed finding that the information that Tyson alleged to be confidential and/or a trade secret had not been properly protected.

ConAgra argued that the pricing information had been disclosed in customer contracts that did not contain confidentiality restrictions. Tyson argued, in response, that it was unlikely that Tyson’s customers would disclose such information because that would benefit competitors. Nevertheless, the Arkansas Supreme Court noted that “the fact remains that Tyson neglected to include any restriction in its customer contracts which prevented disclosure to third parties. Regardless of whether proof was presented that such disclosure by Tyson customers had transpired, Tyson manifestly failed to take steps to guard the secrecy of this information.” Moreover, according to the court, “without a curb or some restriction on its customers, the information was readily ascertainable by third parties from some, if not all, of Tyson’s customers. This lapse is important to this court. If Tyson did not consider it necessary to preclude the dissemination of pricing information by its customers, why should this court * * * enforce the secrecy of that same information?”690

The court further held that the trial court had clearly erred in relying on Tyson’s Corporate Code of Conduct and Compliance Policy in finding that Tyson had met its responsibility of safeguarding its trade secrets. The Code, according to the court, only applied to employees, and noted that “Tyson had not entered into a covenant not to compete with the three executives to be effective for a certain period of time after the three men left Tyson **”. Nor did Tyson have a separate confidentiality agreement with these executives which extended the period of time for confidentiality ** for a period of one year after the three men left the company’s employment.”691 Those factors were clearly important to the court’s conclusion that Tyson had not properly protected its trade secrets.

The criticisms are abundant, but two stand out. As discussed above, one of the considerations in determining whether a trade secret owner has taken reasonable precautions to protect a trade secret is the relationship between the owner and

690 30 S.W.2d at 729.
691 Id.
those to whom the trade secret has been disclosed. Tyson, it seems, made a reasonable argument that although its customers may not be under a contractual obligation of non-disclosure, their relationship with Tyson rendered any disclosure unlikely. Viewed from a perspective of what was “reasonable,” Tyson’s failure to include confidentiality restrictions would appear to have been reasonable. Secondly, the court nowhere addresses the common law duty obliging former employees to preserve a former employer’s confidential and/or trade secret information. Although post-termination express written restrictions might be preferable, Tyson’s choice, apparently, to rely on an employee’s common law duties, which are roughly equivalent to what courts consider to be reasonable in the case of written restrictions, is not prima facie unreasonable. In short, Tysons may not have protected its confidential or trade secret information through the types of written obligations the Arkansas Supreme Court was accustomed to seeing, but that does not mean that Tysons failed to meet the “reasonableness” standard generally applicable.

c. Colorado Law: Restrictive Covenant May Not Be Used to Preclude Use of Something That is Not a Trade Secret – Here a Method of Teaching Infants To Swim


The Colorado statute governing non-competition agreements generally renders all such provisions void, but then creates four narrowly defined exceptions:

Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void, but this subsection (2) shall not apply to:

(a) Any contract for the purchase or sale of a business or the assets of a business;
(b) Any contract for the protection of trade secrets;
(c) Any contractual provision providing for recovery of the expense of educating and training an employee who has served an employer for a period of less than two years;
(d) Executive and management personnel and officers and employees who constitute professional staff to executive and management personnel.


The plaintiffs over a number of years developed techniques for teaching infants and toddlers to survive in the water. Basically, they were taught to swim, flip over and float, swim etc. Instructors were trained, who in turn trained other instructors, and so forth, leading to nationwide programs. The defendants trained as instructors in the 1980s. While associated with the plaintiffs, the defendants had signed a “License Agreement” that contained confidentiality and non-competition provisions. The defendants ultimately started their own company teaching infants and children to swim, including using the swim-float-swim method, but, according to the court, used methods that were substantially different that the plaintiffs’ methods.

The plaintiffs conceded that their instructing methods were used in public without any obligations of confidentiality, and were not trade secrets, prior to 1996. They alleged, however, that the program “came together” in 1996 and constituted a trade secret thereafter. The district court disagreed, finding that the plaintiffs had not sufficiently distinguished the current program from the prior non-trade secret program. As a result, the covenant did not fall within one of the statutory exceptions. The court also found that the language of the covenant was overly broad and unenforceable even if it fell within a statutory exception.
d. Georgia Law: Non-Solicitation Covenant Extending for 12 Months and Personal Customers Was Not Overly Broad

In Georgia, the reasonableness of a covenant not to compete is determined by the reasonableness of its duration, territorial coverage, and scope of prohibited activity.692


There, apparently, are several different types of firms that sell stocks and securities, i.e., large national brokerage houses that trade in their own names on the floor of stock exchanges, regional brokers who trade in their corporate names, and independent brokers who contract with licensed securities salesmen to are employees of local “stock stores.” D.L. Pimper was a local “stock store.” IJL Wachovia was a regional broker. Although the court acknowledged that there were differences between the two, the court concluded that the relevant fact was that they were direct competitors.

Covington had worked for Pimper and had entered into an agreement containing non-disclosure, non-solicitation, and non-competition provisions. Covington resigned in August, 2000, and promptly began soliciting Pimper clients using his Pimper client list. Indeed, prior to leaving Pimper, Covington had removed client information regarding various accounts and had given that information to Wachovia. Pimper sued and the trial court entered an interlocutory injunction against Covington and Wachovia.

The non-competition provision extended for one year and to Floyd County, Georgia. Covington did not contend that the covenant was too broad as to territory or time. Rather Covington argued that as a registered agent with Royal Alliance, he technically was soliciting sales for Royal Alliance rather than Pimper during his employment. The court rejected that argument outright, finding that the evidence was clear that he solicited sales on behalf of Pimper. The court also found that the terms of the non-solicitation covenant, extending for twelve months following termination of employment, and prohibiting Covington from “solicit[ing], contact[ing], call[ing] upon, communicat[ing] with” “any client or prospective client” of Pimper, was not overly broad.693

e. Illinois Law: A Non-Competition Covenant Given in Connection With a Gift May Be Enforceable – But Here It Was Not

*Liautaud v. Liautaud*, 221 F.3d 981 (7th Cir. 2000)

This involved a feud between cousins having the same surname. Jim owned a chain of successful gourmet sandwich shops in Illinois under Jimmy John’s, Inc. In 1988, Jim’s cousin, Michael, asked Jim about opening a submarine sandwich shop in Madison, Wisconsin, under the name “Big Mike’s Super Subs.” Jim agreed to provide Michael with his “secrets of success” and sent Michael a letter outlining their relationship. That letter provided that Michael could not open a shop outside Madison using Jimmy John’s products or services without involving Jimmy John’s. Michael returned the letter with a handwritten notation on the bottom: “Jim, If I agree on all items stated above, you must agree that you (Jimmy Johns Inc.) won’t enter the Madison WI market.” Jim then helped Michael open a shop in Madison, but, in 1991, Michael opened a shop in LaCrosse, outside Madison, in violation of the agreement. Jim brought suit attempting to enforce the agreement.

The Seventh Circuit viewed the transaction, not as a franchise, but as a gift. According to the court, under Illinois law, “[a] ‘naked’ promise by one merchant not to compete against another merchant is against public policy because it injures the public and the promissory, while at the same time it serves no protectable

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693 But see, First Miami Sec., Inc. v. Bell, 758 So. 2d 1229 (Fla. Ct. App. 2000)(injunction denied on similar facts).
interest of the promisee.” Thus, the court reasoned that “[i]n order for a noncompetition agreement to be valid * * * it must be ancillary to a valid transaction, such that the covenant not to compete is subordinate to the main purpose of the transaction.” A “gift,” the court stated, “is a voluntary gratuitous transfer of property from donor to donee where the donor manifests an intent to make such a gift and absolutely and irrevocably delivers the property to the donee.” The court reasoned that the “donor may wish to protect both his generosity and his business interests from exploitation; therefore, he may desire to impose a covenant not to compete on his donee.” Here, the court held that the covenant not to compete was ancillary to the gift transaction, and “because the gift relationship [was] a valid relationship or transaction and the noncompetition agreement [was] subordinate to that relationship, the noncompetition agreement meets the first requirement that it be ancillary to a valid relationship or transaction.”

The court, however, found that the covenant was unreasonable in preventing Michael from expanding outside of Madison, in preventing such expansion regardless of whether Michael used Jim’s trade secrets, and because there was no limitation on time. Accordingly, the court concluded that the covenant, as written, contravened public policy and was unenforceable.

Indiana Law: Good Will Is A Legitimate Interest That May Be Protected By Non-Competition Covenants


FFW was a holding company that owned FirstFed Financial of Wabash, Inc. that offered non-retail deposit and brokerage services. Unger was eventually promoted to president of FirstFed under an employment agreement that contained a non-competition covenant. The covenant extended geographically to Wabash and adjacent counties. The term was one year following termination of employment. In December, 2000, the CEO of FFW informed Unger that his contract would not be renewed in April, 2001, and that he should not return to work. Unger, though, was paid his salary and benefits until his contract expired. During the spring of 2001, Unger sent between 1000 and 1500 letters to “everybody and anybody that he could think of” explaining that his contract had not been renewed. One of those letters went to the father-in-law of FFW’s CEO. The evidence indicated that Unger had used FirstFed’s customer list to obtain that address (and possibly others). Unger also ran an advertisement in the local newspaper indicating that he provided full brokerage services. FFW filed suit to enforce the non-competition covenant, and the trial court issued the requested injunction. On appeal, the Indiana Court of Appeals affirmed.

Unger argued that FFW did not have a protectible interest in the bank’s customer list. According to the court, “[w]e need not determine whether the bank’s customer list was a protectible interest because FFW Corp. established a protectible interest in its good will.” There was testimony that the banking industry was based on trust and reputation, and that the confidentiality of client lists were part of that.


695 Id.

696 Id.

697 Id.

698 Id.
g. Indiana Law: Trade Secrets, Confidential Information, and Good Will Are Legitimate Interests That May Be Protected By Non-Competition Covenants


Under Indiana law, noncompetition covenants are construed as being in restraint of trade, and are not favored. 699 Accordingly, such covenants are construed against the employer and are enforced only if reasonable. The courts first determine whether the employer has asserted a legitimate interest that may be protected by a non-competition covenant, and then determine whether the scope of the agreement is reasonable in terms of time, geography and prohibited activities. The employer bears the burden of proof, and must demonstrate that “the former employee has gained a unique competitive advantage or ability to harm the employer before such employer is entitled to the protection of a noncompetition covenant.” 700 Covenants have been upheld to protect trade secret and confidential information, and to protect a company’s good will: “Elements of this good will include ‘secret or confidential information,’ such as the names and addresses and requirements of customers and the advantage acquired through representative contact with the trade in the area of their application.” 701

Rheitone was a pre-press business, *i.e.*, preparing materials for printing presses by transforming text and graphics into finished pages, and making printing plates of those pages. Titus worked for Rheitone for nine years, most recently as Vice President of Operations, at salaries ranging from $26,000 to $84,000. In 1995, she signed an employment agreement that contained confidentiality and non-compete provisions. The non-competition covenant had a term of three years, extended to the entire state of Indiana, and generally covered the pre-press business. Titus was terminated in September 2000, and she began searching for work. She received, but declined, offers from Eli Lilly and Conseco. In October 2000, she explored work with Midwest Graphics, which was also in the pre-press business. Correspondence indicated that she was intending to contact former Rheitone customers, and she actually did so after being hired. Rheitone filed suit and moved for an injunction. The trial court issued an injunction enforcing the non-competition covenant and, on appeal, the Indiana Court of Appeals affirmed.

According to the court, the pre-press business was “extremely” competitive, and that Titus had traveled throughout Indiana. Titus furthermore had access to customer purchase and preference information, discount levels, and pricing on a pass-word protected computer. Additionally, Titus apparently controlled the entire sales force, and had more knowledge of Rheitone’s customers than anyone else in the company. The court found that the customer information constituted a trade secret, and that Rheitone had shown a legitimate protectible interest in such information. The court also found that the three year term of the non-competition covenant was reasonable in light of the nature of the pre-press industry and Rheitone’s legitimate interest in protecting its customer information. The court further held that the statewide geographical restriction was reasonable under the circumstances, and that “Titus knowingly executed the employment agreement” and “was handsomely compensated as an employee.”

h. Indiana Law: A Non-Competition Covenant May Be Enforced to Protect Promisee’s Good Will Including Customer Contacts

In Indiana, covenants not to compete are generally disfavored, but will be enforced if (1) the restraint is reasonably necessary to protect the employer’s business; (2) the restraint is not unreasonably restrictive of the employee; and (3) the covenant is not antagonistic to the general public. 702 In applying that test, the Indiana courts


700  *Burk*, 737 N.E.2d at 811.


have held that an employer must demonstrate some special facts giving the former employee a unique competitive advantage or ability to harm the employer before such a covenant will be enforced.\textsuperscript{703} Such special facts include such things as trade secrets that the employee knows, an employee’s unique services, confidential information such as customer lists that the employee knows, or the existence of a confidential relationship.\textsuperscript{704} On the other hand, an employer is not entitled to protection against an employee’s knowledge, skill, or general information gained through experience or instruction while employed.\textsuperscript{705}


McGlothen worked for Heritage for six years from 1992 to 1998. McGlothen’s employment agreement had confidentiality, non-solicitation and non-competition provisions. The non-solicitation provision extended for twelve months following termination and extended to any of Heritage’s customers. The non-competition provision also extended for twelve months and to the principal State in which he was employed and beyond that to any city or county or state where he had “rendered services” for Heritage. McGlothen left and joined a competitive firm, but then shortly left that firm and joined another competitive firm where he began soliciting Heritage’s customers. Heritage obtained a temporary restraining order, and at a preliminary injunction hearing, McGlothen turned over materials that he had taken with him from Heritage, including a spreadsheet program that included Heritage’s direct costs, customer lists, target customer lists, completed proposals, completed project lists, and fee schedules. The trial court enjoined McGlothen from soliciting work from Heritage customers, working in the industry in the territory where he had previously worked for Heritage, divulging confidential information, and soliciting Heritage employees to work for other firms, for a period of one year following the termination of his employment with Heritage. On appeal, the Indiana Court of Appeals affirmed.

Although McGlothen argued that the information that he had appropriated was not confidential, the court noted that the weight of the evidence was to the contrary. The court also noted that, apart from the confidential information, an employer is entitled to contract to protect the good will of the business, and such good will includes the names, addresses, and requirements of its customers, and the advantage gained through contacts between customers and its representatives. McGlothen argued that Heritage did not have a protectable interest in its good will unless it could show that there was an exclusive relationship between its employees and its customers. The court rejected that argument noting whether the relationship was exclusive or not goes to the degree of good will developed, not to whether the employer is entitled to protection.\textsuperscript{706}

i. Iowa Law: Extensive Personal Contacts May Justify Enforcing Covenant Not to Compete


Madden worked for White Pigeon, an insurance agency, for approximately seventeen years. She had executed an employment agreement that contained a non-competition covenant, but the precise terms are unclear from the opinion. In 1999, her employment agreement was not renewed, and she began working for an insurance company that she had previously formed with her husband. White Pigeon subsequently filed suit alleging that she was violating the terms of her non-competition covenant, and was soliciting clients from its policyholder list. The trial court, \textit{inter alia}, refused to enforce the three year term of her non-competition covenant (but entered a one-year injunction). On appeal, the

\textsuperscript{703} Id.

\textsuperscript{704} Id.


\textsuperscript{706} McGlothen, 705 N.E.2d at 1073.
Iowa Court of Appeals held that the trial court should have enforced the three year covenant.

The court reasoned that “[i]n situations where an employee has extensive personal contacts with an employer’s customers, personal loyalties develop which leads the customer to follow the employee upon termination of employment. * * * Therefore, the covenant is necessary to protect White Pigeon.” The court also noted that nothing in the covenant prevented Madden from selling insurance. It only prevented her from selling insurance to White Pigeon clients in a five county region.

j. Fourth Circuit: Maryland/Delaware Law: Injunction Enforcing Covenant Not To Compete Issued on Two Days Notice Upheld

CIENA Corp. v. Jarrard, 203 F.3d 312 (4th Cir. 2000)

CIENA was a Delaware corporation headquartered in Maryland. CIENA designed, manufactured, and marketed hardware and software for increasing the capacity of fiber-optic networks. In 1997, CIENA hired Jarrard as its Western Regional Director of Sales. She was based in Kansas City, Missouri, and supervised CIENA’s sales force in the western part of the United States. She received a salary of $300,000 per year plus bonuses. During her last year, she was paid $500,000.

On taking her position, Jarrard signed an employment agreement that contained non-solicitation and non-competition provisions. The non-competition covenant extended to “any party who, at any time during the term of my employment, was a competitor or a client of [CIENA] * * *.” The covenant (at least that portion reproduced in the opinion) did not have any geographical limitation, but terminated one year following termination of employment.

Jarrard resigned her position to take a high-level sales position with a start-up company, Sycamore Networks, Inc. based in Massachusetts. Apparently she received in excess of $5 million in compensation and stock options. Sycamore’s business was improving the optical network infrastructure available to the telecommunications industry.

CIENA promptly filed suit alleging breach of her employment agreement and trade secret misappropriation. CIENA notified her on a Friday that suit had been filed in the District of Maryland and delivered the suit papers to her on Saturday. Those papers included a motion for a TRO that was set on the following Monday. That Monday, the district court announced that it would handle the TRO as a preliminary injunction. After hearing the arguments of counsel, the district court granted a preliminary injunction enforcing the terms of Jarrard’s employment agreement. On appeal, the Fourth Circuit affirmed.

Jarrard argued (1) the court lacked personal jurisdiction, (2) the short notice of the injunction hearing denied her due process, and (3) the non-competition covenant was unenforceable. With respect to jurisdiction, the court concluded that “[t]his case arises out of Jarrard’s alleged breach of her noncompetition agreement entered into with her Maryland-based employer; her knowledge of company trade secrets that she allegedly acquired during her numerous visits to the company’s headquarters in Maryland; and her abrupt departure from the company to work for a competitor, an action implicating the training and experience she acquired in Maryland when she regularly traveled to the company’s headquarters over a period of two years. Under all of these circumstances, we conclude that Jarrard’s repeated trips to Maryland and the injury that she threatens in Maryland provided sufficient contacts with Maryland to enable a federal court in Maryland constitutionally to assert personal jurisdiction over her.”

With respect to the short notice, the court was obviously troubled. However, the court noted that the district court was faced with allegations that Jarrard had just commenced work for a competitor in violation of her employment agreement, and that once she disclosed CIENA’s trade secrets irreparable damage would result. The court further noted that the district court had expressly mentioned that Jarrard may want to file

707  203 F.3d at 318.
a motion for reconsideration, which Jarrard did not do. Nevertheless, the court remanded the case to the district court with instructions that Jarrard should be allowed expedited discovery and the option to file a motion to dissolve the injunction within thirty days.

With respect to the covenant, the court noted that under Delaware law, covenants not to compete with reasonable time and geographical restrictions are enforceable. The court held that the district court had not erred “as a preliminary matter” from enforcing the covenant “at least until Jarrard advances facts to show otherwise.”

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k. Massachusetts Law Court Applying Connecticut Law: Six Month Non-Competition/Non-Solicitation Agreement Enforceable

Under Connecticut law, five factors are considered when evaluating the reasonableness of restrictive covenants, namely: (1) the length of time of the restriction; (2) the geographical area(s) to which the agreement applies; (3) the fairness of the employer’s protection; (4) the extent of the impact of the restraint on the employee’s opportunity to pursue his livelihood; and (5) the extent of interference with the interests of the public.


TKO was a manufacturer’s representative for medical equipment. Gentle and Reilly, the defendants, worked for TKO as sales representatives. Both had signed agreements, governed by Connecticut law, with TKO having non-competition and non-solicitation provisions. Reilly left and opened a competing company. Gentle followed later joining Reilly’s business. TKO filed the present action to enforce the non-competition and non-solicitation covenants. The restrictions in the agreements that Gentle and Reilly signed were different. Gentle, however, did not respond to TKO’s motion for summary judgment. Thus, only Reilly’s covenant was actually at issue which had a six-month term and covered his sales territory. The court found that the restriction was “narrowly tailored to TKO’s particular business situation,” was reasonable, and was enforceable.

1. New York Court Applying Massachusetts Law: Restrictive Covenant May Be Enforced to Protect Good Will Even in the Absence of Trade Secrets or Confidential Information

Under Massachusetts law, “a former employer may enforce the restrictive covenants executed by an employee when the employer demonstrates that the agreement is necessary to protect the employer’s legitimate business interests and that the covenants are reasonably limited in time and space.” In general, Massachusetts recognizes three business interests that may be protected by restrictive or non-competition covenants, namely: (1) trade secrets; (2) confidential data; and (3) goodwill. Good will is the “company’s positive reputation in the community, particularly in the eyes of its customers and potential customers.”


Garber, a wholesale service company, brought suit against one of its former employees, Evlek, to enforce “Employee Confidentiality and Noncompetition Agreement.” The agreement contained a “confidentiality covenant” that generally provided that Evlek would maintain the confidentiality of Garber’s proprietary information, including the “identity of all customers, vendors, suppliers and prospects and *** pricing methods and other confidential trade secrets and techniques” and would return any materials containing such information at the conclusion of his employment.

708 Id. at 324.
709 Weiss and Assocs., Inc. v. Wiederlight, 546 A.2d 216 (Conn. 1988).
The agreement also contained a “noncompetition covenant” prohibiting Evlek from working in a business that competes with Garber for two years after termination of his employment “in any area where any Garber customers are located and/or in which Garber now or at any time during the term of this agreement conducts business and in any event in any geographical location within 500 miles of Stoughton, Mass.”

The agreement thirdly contained a “nonsolicitation covenant” that provided that Evlek, for a period of two years after termination of his employment, “will not directly or indirectly * * * call upon, solicit, divert or take away or attempt to solicit, divert or take away, any of the customers, business or suppliers of Garber,” and “will not solicit or discuss with any employee * * * of Garber the potential employment or other engagement of such Garber employee * * * by any business, firm, company, partnership, association, corporation or any other entity other than for the benefit of Garber * * *.”

The evidence showed that Garber’s sales representatives were the primary contact between Garber and its customers, which were gas stations and convenience stores selling various convenience store products. The court found that the process of developing customers was a time consuming and costly process – for every ten prospects contacts, only approximately one customer was obtained, at a cost of several thousands of dollars.

The court concluded that Garber had shown sufficient good will to enforce the agreements. The court rejected one of Evlek’s claims that the customers were his because he had developed those customers through his contacts in the Turkish community noting that was his job with Garber. The court, however, found that the two-year covenant was unreasonable in time, and reformed the covenant to one year. The court also found that the scope of the covenant was to broad, and reformed the covenant to preclude Evlek from soliciting only those customers with which he had developed a relationship will working for Garber.


The court similarly found that the non-competition provision before the court was governed by Massachusetts law. Markovits was one of the founders and principal shareholders of Venture Info Capital (VIC). His employment agreement contained various provisions relating to termination, both for cause and not for cause. VIC had the option to purchase 2/3 of the stock Markovits held, but the price depended on whether termination was for cause. The agreement also included non-disclosure provisions and a non-competition covenant that extended to the 48 contiguous states and Canada, and extended for 3 years. The court determined that Markovits was terminated without cause and granted Markovitz partial summary judgment of over $900,000 for the value of his stock. The court also, however, found that the non-competition covenant was enforceable because it protected VIC’s good will in its customer base and proprietary information. Even following various preliminary injunctions issued by the court, Markovits, apparently, had persisted in contacting VIC’s customers and in using VIC’s proprietary information. The court, though, reformed the covenant to exclude Canada, and shortened the term to two years.


An employment agreement containing non-disclosure and non-competition covenants, characterized by the court as ambiguous and poorly drafted, was not enforced. McSherry began work with FLEXcon as a quality analyst in 1986. FLEXcon manufactured, *inter alia*, pressure-sensitive adhesive coated film products for use as identification stickers and decals, and as manufacturing labels for high-temperature printed circuit boards. Three days after joining FLEXcon,
McSherry signed an employment agreement that provided that, for a period of two years following termination, he would not accept employment with a competitor “in the territories” in which he had worked. McSherry was ultimately promoted to Manager of FLEXcon’s Nebraska operations, but left in November, 2000, to join Avery-Dennison, one of FLEXcon’s principal competitors, as Director of Operations of the Graphics Media Division (Ohio). FLEXcon brought suit attempting to enforce the employment agreement alleging that “territories” should be construed to cover the entire United States. The court refused to issue a preliminary injunction finding that FLEXcon had not shown a likelihood of success on the merits or irreparable harm. The court noted that McSherry’s original offer of employment and subsequent promotions made no mention of, and were not conditioned on, the restrictive covenant, and his employment agreement was signed at a time when he had accepted an entry level position that was unlike his later manager’s position. The court further found that McSherry had not been involved with “the inner sanctum of running the corporation” and apparently had received information regarding strategic planning, marketing, customers “on a distribution basis only.” The court further found that McSherry’s job responsibilities with Avery would not require him to use or disclose any of FLEXcon’s allegedly confidential information that “he might retain in his head.”

Prior to 1905, the Michigan Supreme Court applied the rule of reason to determine the enforceability of non-competition covenants. In 1905, the Michigan legislature adopted a general rule rendering non-competition covenants “illegal and void.” In 1985, the MARA repealed that statutory provision, but contained no sections specifically addressing non-competition covenants. In 1986, the Michigan Court of Appeals held that non-competition agreements were therefore construed under a rule of reason. In 1987, the legislature amended the MARA to include § 4a, MCL 455.774a(1) that provides that “An employer may obtain from an employee an agreement or covenant which protects an employer’s reasonable competitive business interests * * * if the agreement or covenant is reasonable as to its duration, geographical area, and the type of employment or line of business. * * *.” Thus, the amendment itself applied strictly to agreements between employers and employees, but the prevailing common law at the time was that non-competition covenants in general would be reviewed under a rule of reason.

The Michigan Court of Appeals viewed the foregoing as a clear legislative intent to return the analysis of non-competition covenants in Michigan to a rule of reason, and that there was no intent to generally prohibit all non-competition covenants other than those between employers and employees.

Bristol offered various home improvement products to residential home owners. The individual defendants worked for Bristol as independent contractors until they all ceased working for Bristol and started a competing business. Each of their contracts had a three year non-competition covenant. When Bristol sued, the defendants counterclaimed arguing that the non-competition covenants were unreasonable restraints of trade under the Michigan Antitrust Reform Act (MARA), MICH. COMP. LAWS ANN. (MCL) §§ 445.771 et seq. The trial court agreed and dismissed Bristol’s claims. On appeal, the Michigan Court of Appeals reversed and remanded.

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Mississippi Law: Covenant Enforced Prohibiting Insurance Salesman From Soliciting Former Customers

In Mississippi, whether a non-competition covenant is enforceable or not “is largely predicated upon the reasonableness and specificity of its terms, primarily the duration of the

restriction and its geographic scope.” The courts must also consider the effect of the covenant on “the rights of the employer, the rights of the employee, and the rights of the public,” and then balance those concerns.


An employment agreement with an insurance salesman provided that for a one-year period, the salesman could not sell insurance to, or solicit policyholders of, the former employer within the geographical region formerly served by the salesman. The district court found that covenant reasonable and granted a preliminary injunction enforcing the same, as well as a covenant of the same agreement requiring the former employer to protect the former employer’s trade secrets.

q. Missouri Law: Two Year Restrictive Covenants Covering Supervised Region Enforced

Covenants not to compete are enforceable in Missouri if they “serve a proper interest of the employer in protecting the good will of a business” and are “reasonably limited in time and space.”


The defendants, Enchura and Fortner, were Regional Directors for H&R Block. Their duties generally included establishing financial and other goals for company-owned offices in their regions. They did not have responsibilities for franchised operations or for marketing. Both had signed employment agreements that included non-competition covenants providing that they would not, for a period of two years after termination of employment, engage in any business involving the preparation or electronic filing of income tax returns within their assigned regions. Both became disenchanted with their employment, and joined H&R Block’s principal competitor, Jackson Hewitt, Inc. Jackson-Hewitt, unlike H&R Block, uses franchises exclusively. Fortner in his new position had nationwide responsibility, and therefore his area of responsibility included his formerly assigned region with H&R Block. Enchura’s area of responsibility did not, however, include is formerly assigned region. At a hearing on H&R Block’s application for a preliminary injunction, both Fortner and Enchura indicated that they did not object to entry of an injunction, but asserted that an injunction was not necessary because they were not violating their covenants. The court, nevertheless, entered an injunction enforcing the terms of the covenants finding that Fortner was, in fact, violating the covenant. The court concluded that the covenant, as written, was not limited to company-owned outlets, and covered franchise operations as well, even though Fortner had no responsibility for the same with H&R Block.

r. New York Law: Court Finds Testimony by Wife That She Set Up Business in Direct Competition With Husband’s Employer Solely Because of “Empty Nest Syndrome” Not Credible


Unisource sold paper and protective packaging products. In 1996, Unisource bought a company called Spero Wallach. Defendant Anthony Valenti was a shareholder and employee of Spero Wallach, and was employed by Unisource as an Executive Vice-President and salesman. Valenti had an employment agreement with Unisource that included a non-competitive covenant prohibiting him from accepting employment for two years within 100 miles of New York City or “within any other marketing area currently serviced by the Company, or within any other marking areas which come under Employee’s supervision or responsibility * * *”

In March 2001, Valenti attended an awards banquet where a Unisource VP announced

714 Empiregas, Inc. v. Bain, 599 So.2d 971, 975 (Miss. 1992).
715 Texas Road Boring Co. v. Parker, 194 So.2d 885, 888 (Miss. 1967).
716 Osage Glass, Inc. v. Donovan, 693 S.W.2d 71, 75 (Mo. 1985)(en banc).
that it was his intention to “get rid of” all of the old owners of purchased companies. Valenti urged that announcement initiated the start of a scheme to force him out of the company. Valenti subsequently sued Unisource and that action remained pending.

Meanwhile, Valenti’s wife, Kathleen, met with the couple’s accountant and developed a business plan to set up a business identical to Valenti’s business at Unisource. She also met with their attorney, who advised her that Valenti’s employment agreement should not be a problem so long as Valenti was not involved in the business. Mrs. Valenti then withdrew $500,000 from their joint brokerage account, allegedly without telling Valenti, and started Matrix Group Ltd. Their accountant thereafter arranged for Matrix to hire several key Unisource employees. Mrs. Valenti and the accountant testified that they undertook these actions without any advice or leads from Valenti.

The district court characterized Mrs. Valenti’s testimony as incredible: “Like most of the testimony by the defendants and their witnesses, these claims are utterly incredible. The defendants would have this court believe that Kathleen Valenti started Matrix, a company in direct competition with her husband’s employer’s company, to alleviate the “empty nest syndrome” she was suffering from; that she started Matrix without any involvement of her husband; that she never discussed the formation of her company with him; that she did not mention to him that she took $500,000 out of a joint account to start Matrix; and that it is mere coincidence that all the key personnel hired for Matrix were former Unisource employees.”

The court found that the temporal restrictions in the non-competition covenant were reasonable, but that the geographic restrictions were not given that the accounts that it serviced were throughout the United States. Nevertheless, the court concluded that regardless of how that restriction should be amended, it would preclude Valenti from starting a competing business in Lake Success or Syossett. The court also concluded that Unisource’s customer information constituted a trade secret, and that enforcement of the non-competition covenant was necessary to protect such information.

s. New York Law: A Company in Bankruptcy That Lets Its Employees Go Because of an Inability to Pay Them Might Not Be Able to Enforce Covenants Not To Compete, But May Be Able to Enforce Nondisclosure Agreements


UFG was an insurance brokerage firm handling both commercial and personal lines of insurance. Handel was employed by UFG, ultimately becoming manager of the personal lines department. Handel had signed a nonsolicitation/non-competition and confidentiality agreement that, among other things, prohibited Handel, following termination of employment, from (1) “having any dealings with present accounts” at UFG, and (2) disclosing confidential information and trade secrets.

In 1995, UFG’s president notified the company’s entire staff that UFG was unable to pay them and thus their employment was ended. Handel obtained a position at another company. Handel took with him a customer list belonging to UFG, and solicited former UFG customers. The Trustee in Bankruptcy sold UFG’s book of business to another brokerage firm under terms requiring that firm to pay the Trustee 50% of its commissions for the first three years. The brokerage firm, however, later reported that it had been unable to retain many accounts. The Trustee subsequently brought the present action seeking to enforce the covenant not to compete.

The bankruptcy judge found the covenant reasonable and enforceable. Handel appealed, and the district court reversed. The district court found that termination because of an inability to pay its employees was a termination “without cause” under New York law. The court further concluded that, in a bankruptcy context, “that in enforcing a non-competition covenant, a court must first find that the employer was willing to continue providing employment to the employee.” The

717 196 F. Supp.2d at 275.
court further concluded, quoting the opinion in a companion case, “the cases which hold that a covenant not to compete is unenforceable against an employee who is terminated without cause are premised on the unfairness of permitting an employer who has destroyed the mutuality of obligation on which the covenant rests to benefit from the covenant * * *. Regardless of the scope of the restrictive covenant, an employer cannot hobble his employee by terminating him without cause and then enforcing a restriction that diminishes his ability to find comparative employment.”718

The district court, on the other hand, noted that the Trustee may have an action against Handel for violating the confidentiality provisions of his agreement by using UFG’s customer lists. The court remanded the case to the Bankruptcy Court for further proceedings.

t. Ohio Law: Continued Employment is Sufficient Consideration to Support Non-Competition Covenant

The Ohio Supreme Court has held that “a covenant restraining an employee from competing with his former employer upon termination of employment is reasonable if it is no greater than is required for the protection of the employer, does not impose undue hardship on the employee, and is not injurious to the public.”719 The factors that a court should consider include “[w]hether the covenant imposes temporal and spatial limitations, whether the employee had contact with customers, whether the employee possess confidential information or trade secrets, whether the covenant bars only unfair competition, whether the covenant stifles the employee’s inherent skill and experience, whether the benefit to the employer is disproportionate to the employee’s detriment, whether the covenant destroys the employee’s sole means of support, whether the employee’s talent was developed during the employment, and whether the forbidden employment is merely incidental to the main employment.”720 Covenants of one-year duration have generally been found to be reasonable.721 Unreasonable restraints may be modified by the courts under the courts’ inherent power.722

The Ohio courts, however, are split on whether continued employment alone constitutes adequate consideration to support a restrictive covenant signed in the midst of employment.723 The Ohio Supreme Court has not resolved the issue. Some Ohio intermediate appellate courts have held that continued employment does not furnish adequate consideration to support a restrictive covenant reasoning that such covenants are frequently the result of unequal bargaining power, and cannot provide adequate consideration unless supported by new consideration such as an increase in salary, a promotion, or any additional inducements.724 Other courts have held that, in the case of at-will employment, continued employment alone is sufficient consideration to support a restrictive covenant reasoning that continued employment goes beyond what the employer and employee are already obligated to do.725

_Avery Dennison Corp. v. Kitsonas_, 118 F. Supp.2d 848 (S.D. Ohio 2000)

Kitsonas was first hired by Dennison Manufacturing Co. in 1984 and signed an agreement providing, _inter alia_, that “for a period of six (6) months following termination of employment, employee will not accept employment * * * by or for any person * * * engaged in the sale * * * of products in competition with any product of the Employer or in any sales * * * territory in which the Employee worked during the one (1) year period prior to


720 Id. at 547.


722 Raimonde, 325 N.E.2d at 548.


724 Id.

725 Id.
termination.” Avery Corp. merged with Dennison in 1989. In 1996, Kitsonas signed a second agreement providing, *inter alia*, that (1) “[f]or a period of two (2) years following termination of employment ***, Employee will not *** enter the employment of *** any person *** engaged in *** the manufacture or sale of any product substantially similar to or competitive with any product on which *** Employee worked *** during the last two years of *** employment ***, and (2) “Employee will not *** for a period of one (1) year *** following *** termination *** call upon *** or attempt to solicit *** any customers *** upon whom Employee called *** as a result of employment with the Company.

In 2000, Kitsonas told Avery that he was leaving, and he joined a competitor as National Sales Manager. At that time, Kitsonas was Western Regional Sales Manager for the Worldwide Ticketing Services Division of Avery having a sales territory extending from Columbus, Ohio to California. While he was leaving, Kitsonas refused to return a computer belonging to Avery stating that he would not return the computer until he had finished downloading files. That computer had not been returned as of the date of the hearing on Avery’s application for a preliminary injunction. The evidence showed that after he left, he began trying to divert former Avery customers to his new employer.

The district court granted a preliminary injunction enforcing the restrictive covenant, but shortened the time period from two years to one year. The court resolved the Ohio courts’ conflict, finding that, in this case, the second agreement was enforceable. The 1996 agreement provided that the contract was “in consideration of his or her employment, promotion, salary or benefit increase, bonus or transfer by the Company *** and the compensation to be paid by the Company ***.” Under Kitsonas’ signature there was a notation: “NOTE: Agreed to in consideration for 1/96 compensation which was not implemented until this Agreement was signed.” Testimony at trial indicated that employees who refused to sign the agreement were not given pay increases. The court found that Kitsonas’ continued employment was adequate consideration to support the covenant.

There was testimony that, while employed by Avery, Kitsonas had extensive customer contact, and held confidential information about customer lists, pricing information, sales strategies, and “business philosophy.” The court concluded that the restrictive covenant was reasonable under the circumstances, and that Avery had shown a reasonable likelihood of prevailing on its action for breach of the restrictive covenant. The court also found that Avery’s customers, pricing information, and sales strategies constituted trade secrets under the Ohio Uniform Trade Secrets Act, and concluded that Avery had shown a reasonable likelihood of prevailing on its trade secret misappropriation w: Information in Employee Handbook Containing Marketing and Business tain irreparable injury if the injunction was not granted, and that such injunction would not cause substantial harm to others: “Any harm to Mr. Kitsonas would be as a direct result of his own actions. He was aware of the restrictive covenants, yet he chose to accept employment with [a competitor].” With respect to the public interest, the court found that “valid contracts are the lynchpin of all commercial activity in society, and therefore, they must be honored. Further, the public interest is served by discouraging practices aimed at surreptitiously acquiring trade secrets, by prohibiting misappropriation of trade secrets, and by condemning the theft of client through unfair competition.” [Emphasis added.]

Ohio Law: Clear and Convincing Proof is Necessary to Support Either a Preliminary or Permanent Injunction For Violation of Ohio’s Uniform Trade Secrets Act or Breach of Employment Agreements


Paul Stoneham worked for P&G for 13 years, most recently in the hair care division having responsibility for international marketing. As a member of P&G’s several teams of managers formulating its global goals and strategies, Stoneham was required to know and use a variety of information, such as market research results, financial data related to the costs and profits of the products, and the technological developments underway for existing and new products. The
court concluded that no one was more knowledgeable about the foreign marketing of P&G’s hair care products, and the products themselves, than Stoneham.

When Stoneham reached a certain management level, he was given an opportunity to obtain P&G stock options in exchange for executing a three-year covenant not to compete. Signing was voluntary, but if he had not signed he would not have received the stock options. Stoneham also had signed a confidentiality agreement the day he was hired.

In 1998, Stoneham took a job with Alberto-Culver, whose hair care products competed with P&G’s hair care products, at least to some extent. Stoneham’s new position was President of Alberto-Culver International. In response, P&G filed suit alleging breach of the covenant not to compete and the confidentiality agreement. Following a consolidated hearing on P&G’s application for a preliminary injunction and on the merits for P&G’s application for a permanent injunction, the trial court denied P&G’s requests for both. On appeal, the Ohio Court of Appeals found that the trial court had clearly erred.

The first issue on appeal concerned the “clear and convincing” burden of proof that the trial court had imposed on P&G in deciding P&G’s claim for misappropriation of trade secrets.

Under Ohio law, a party seeking either a preliminary or permanent injunction must ordinarily prove the required elements by clear and convincing proof. The Supreme Court of Ohio, however, held in Ackerman v. Tri-City Geriatric & Health Care, that when an injunction is authorized by statute, normal equity considerations do not apply, and a party is entitled to an injunction by showing that the party has met the requirements of the statute for issuance of an injunction, without proving the ordinary equitable requirements. However, the Ohio Court of Appeals has held that the Auckerman rule is limited to those statutes that contain specific criteria that the court must use in determining whether an injunction should issue. When a statute simply provides that a party is entitled to injunctive relief, there is no “statutory injunction” such as at issue in Auckerman and the party requesting relief must use the general equitable principals governing injunctive relief. According to the court, Ohio’s Uniform Trade Secrets Act provides for injunctive relief, but does not contain statutory guidelines. Thus, the court held that that P&G would be required to prove by clear and convincing evidence that it was entitled to an injunction on either its trade secret misappropriation or breach of contract claims.

v. Ohio Law: Non-Competition Agreement Entered Into by Executive in Exchange for Stock Options is Enforceable


The facts are discussed above. The court found that the trial court had clearly erred in finding that Stoneham’s covenant not to compete was not enforceable. According to the court, the record clearly demonstrated that Stoneham was privy to “massive amounts” of confidential and trade secret information, and that P&G had undertaken reasonable efforts to protect the same. The court also concluded that the terms of the covenant were reasonable.


w. Ohio Law: Injunction Prohibiting Breach of Non-Competition Agreement Requires Only a Showing of Threatened Harm and May Be Shown Through Inevitability of Disclosure


The facts are discussed above. The trial court had held that P&G had not shown any evidence of actual or threatened harm, and that the “inevitable-disclosure” rule did not apply. The Ohio Court of Appeals held that was clear error.

The court held that, as a matter of law, a threat of harm is sufficient basis on which to grant injunctive relief. Furthermore, according to the court, “[i]n actions to enforce covenants not to compete, Ohio courts have held that an actual threat of harm exists when an employee possesses knowledge of an employer’s trade secrets and begins working in a position that causes him or her to compete directly with the former employer or the product line that the employee formerly supported. Although the courts do not refer to this evidentiary proposition as ‘inevitable use’ or ‘inevitable disclosure,’ the concepts are the same.”

The court reasoned that Stonham had intimate knowledge of P&G’s confidential information and trade secrets, and that his position with Alberto-Culver resulted in a direct competition between the products that he had formerly supported and the new products for which he now had responsibility. “Under these circumstances, Stoneham’s use of P&G’s information and secrets was a very real threat.” The court also pointed to evidence that Stoneham’s use or disclosure of P&G’s information was not only a threat, but was “substantial probability.”

x. Non-Competition Covenant versus Non-Disclosure Agreement

(1) Maine Law: Non-Disclosure Covenant May Be Breached Even Though Subject Matter Being Protected Is Not A Trade Secret?

*Bernier v. Merrill Air Engineers*, 770 A.2d 97 (Me. 2001)

Maine adopted its version of the UTSA in 1987. However, Maine continues to apply a slightly modified form of the common law factors of the Restatement (First) of Torts, that is, the courts will consider (1) the value of the information to the plaintiff and to its competitors; (2) the amount of effort or money the plaintiff expended in developing the information; (3) the extent of measures the plaintiff took to guard the secrecy of the information; (4) the ease or difficulty with which others could properly acquire or duplicate the information; and (5) the degree to which third parties have placed the information in the public domain or rendered the information “readily ascertainable” through patent applications or unrestricted product marketing.

Bernier worked as an engineer for Merrill from 1988 to 1997. In 1993, Merrill’s president signed a memorandum promising engineers a three-percent commission on projects. Bernier qualified for, but was not paid, three commissions allegedly due to Merrill’s cash flow constraints. Bernier sued, and the trial court found Merrill liable for those past commissions. The trial court also trebled those commissions and awarded Bernier attorney fees as provided in 6 M.R.S.A. § 626.

Bernier’s employment agreement contained non-competition and non-disclosure covenants. When Bernier left Merrill he accepted a job with Henry Molded Products. Henry had

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729 747 N.E.2d at 278-79.
730 Id. at 279.
made a commitment to buy a product dryer from Merrill before Bernier left, and canceled that order after Bernier joined Henry. Bernier subsequently built a dryer for Henry that varied from the Merrill design, although the parties disagreed on the degree of variation. The trial court found that Bernier had breached his non-disclosure covenant because it was more likely than not that Henry would have ordered the dryer from Merrill if Bernier had not gone to work for Henry. Accordingly, the trial court awarded Merrill damages based on Merrill’s lost net profit from that dryer.

Merrill also, however, brought an action for trade secret misappropriation, and the trial court, after weighing the foregoing factors, concluded that the information that Bernier used to design the dryer for Henry was not a trade secret.

On appeal, the Maine Supreme Court affirmed both holdings. On the trade secret misappropriation issue, the court concluded that the trial court’s ultimate conclusion was not clearly erroneous. On the non-disclosure issue, the court found that Bernier had violated the non-disclosure agreement by using “particularized, highly specialized proprietary protected original work” from Merrill in building Henry’s dryer. The non-disclosure covenant, though, referred generally to “any confidential or secret development or other original work of [Merrill].”

The two holdings, accordingly, are difficult to reconcile. Apparently the court viewed the non-disclosure covenant as broadly covering “original designs” even though such designs were not trade secrets and could, according to findings by the trial court on the trade secret issue, be easily reverse engineered (although Merrill made the point that doing so may involve acquiring one through “improper means” because Merrill required its customers to sign confidentiality agreements).


Warner & Co., v. Solberg, 634 N.W.2d 65 (N.D. 2001)

North Dakota adopted a version of the UTSA in 1983.734

Solberg worked as personal lines underwriter, marketing manager and insurance agent for Warner for approximately sixteen years. She had signed a “producer agreement” in 1992 that contained non-disclosure and non-solicitation covenants. In 1997, she resigned and joined a competing insurance company. When she left, she took files containing information about Warner’s clients as well as personnel files. Those files were retrieved some weeks after she began work at the competing agency. Within a few months, Warner began to lose business to Solberg, and sued alleging breach of the non-solicitation and non-disclosure covenants. The district court granted Solberg summary judgment finding that the covenants were in violation of N.D. CENT. CODE [N.D.C.C.] § 9-08-06.

N.D.C.C. § 9-08-06 generally provides that “[e]very contract by which anyone is restrained from exercising a lawful profession, trade or business of any kind is to that extent void, except * * *.” The exceptions are (1) when one sells the goodwill of a business, and (2) during the dissolution of a partnership.

The North Dakota statute is similar to CAL. BUS. AND PROF. CODE § 16600 providing that “every contract by which anyone is restrained from exercising a lawful profession, trade or business of any kind is to that extent void,” and the court acknowledge that both had a common heritage. The court also acknowledged that it had relied on California court decisions in construing the North Dakota statute. The Eighth Circuit, as a

result, had decided in 1997, in *Kovarik v. American Family Ins. Group*, by reference to California cases, that non-solicitation covenants were enforceable under North Dakota law.

The court was urged to follow those California decisions and *Kovarik*. The North Dakota Supreme Court declined to do so, finding that the language of the statute was clear, and could not be extended to non-solicitation covenants. Furthermore, the court noted that the North Dakota legislature had turned down proposed legislation that would have done just that.

However, the court noted that in *Kovarik* the Eighth Circuit had held that customer information of the type involved here could qualify for trade secret protection. Here, the court noted, the customer data included not only names and addresses, but amounts and types of insurance purchased, the dates of premiums, the character of insured property, and personal information of the insured such as age, driver’s license number and so forth. Accordingly, the court remanded the case to the trial court to determine whether the files and information that Solberg had retained constituted trade secret misappropriation.

X. THE INEVITABLE DISCLOSURE DOCTRINE

If the circumstances indicate that a former employee will be required to use trade secret or confidential information of a former employer in his/her position with a new employer, an injunction may be obtained in some jurisdictions precluding the employee from working in that position. Although such circumstances form part of the rationale and justification for granting an injunction and therefore do not define a “doctrine” *per se*, nevertheless, that analysis is currently referred to as the “inevitable disclosure doctrine,” meaning that because of the job requirements for the new employer, the former employer will “inevitably” be required to use or disclose trade secrets of the former employer.

A. Background

Texas and other states have long recognized the underlying rationale for the “doctrine,” although not dubbed by that name. In *Electronic Data Systems Corp. v. Powell*, for example, the Dallas Court of Appeals in 1975 stated the rationale:

Even in the best of good faith, a former technical or “creative” employee such as Powell working for a competitor such as SRI can hardly prevent his knowledge of his former employer’s confidential methods from showing up in his work **.* If Powell is permitted to work for SRI in the same area as that in which he was trained by EDS, injunctive relief limited to restraint of imparting such special knowledge as prepayment utilization review, is likely to prove insufficient. The mere rendition of service in the same area would almost necessarily impart some knowledge to some degree in his subsequent employment. Powell cannot be loyal both to his promise to his former employer, EDS, and to his new obligation to his present employer, SRI. In these circumstances, the most effective protective device is to restrain Powell from working in the computer field in which he was associated while employed by EDS.

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735 108 F.3d 962, 965 (8th Cir. 1997).

736 524 S.W.2d 393, 398 (Tex. Civ. App.–Dallas 1975, writ ref’d n.r.e.).

737 See also Weed Eater, Inc. v. Dowling, 562 S.W.2d 898 (Tex. Civ. App.–Houston [1st Dist.] 1978, writ ref’d n.r.e (same rationale); Williams v. Compressor Eng’g Corp., 704 S.W.2d 469, 471-72 (Tex. App.–Houston [14th Dist.] 1986, writ ref’d n.r.e.) . The Houston court noted:

Texas courts clearly recognize the right of an employer to insist that the non-disclosure provisions of his contract with
The Fifth Circuit also long ago adopted the rationale.738 Under that rationale, the new employer may also be enjoined from using misappropriated trade secrets.739 The trade secret owner may also obtain an injunction against those who are in active concert or participation with the former employee, including a corporation created and made capable of competing by the former employee.740

Although the underlying rationale has long been recognized at least by some courts, the Seventh Circuit’s 1995 decision in PepsiCo, Inc. v. Redmond741 is typically cited as giving the doctrine increased recent prominence, and is generally regarded as having given the doctrine the moniker of “inevitable disclosure.” Certainly cases and articles discussing the doctrine have been legion since PepsiCo. One article asserts that 21 states (not including California) currently permit a showing of liability for trade-secret misappropriation under the inevitable disclosure theory.742 And courts have increasingly been expressly adopting the doctrine by name. For example, the Arkansas Supreme Court recently adopted the doctrine expressly by name in Cardinal Freight Carriers v. J.B. Hunt Transportation Service,743 and shortly thereafter reiterated that it had done so in Bendinger v. Marshalltown Trowell Co.744

Other jurisdictions, however, have not. In California, for example, as of the date this paper was prepared, the doctrine has been expressly rejected by several courts, including, by implication, the California Supreme Court.745 In Maxxim Medical, Inc. v. Michelson,746 the Southern District of Texas, applying California law, concluded that “although only a California Superior Court has had the opportunity to determine whether to follow Redmond, this Court believes that the California Supreme Court would follow the overwhelming majority of other jurisdictions to do so.”747 The Maxxim court, however, relied on the finding of a California Superior Court to support its conclusion that the doctrine of inevitable disclosure would be adopted as the law of California. The Northern District of California, though, noted in Bayer Corp. v. Roche Molecular Systems, Inc.,748 (discussed

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738 FMC Corp. v. Varco Int'l, Inc., 677 F.2d 500 (5th Cir. 1982); Union Carbide Corp. v. UGI Corp., 731 F.2d 1186 (5th Cir. 1984).
741 54 F.3d 1262 (7th Cir. 1995).
743 987 S.W.2d 642, 646 (Ark 1999).
744 994 S.W.2d 468 (Ark. 1999).
745 Section 16600 of the California Business and Professions Code provides that “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” The California courts have typically construed § 16600 broadly and have observed that “[s]ection 16600 has specifically been held to invalidate employment contracts which prohibit an employee from working for a competitor when employment has terminated, unless necessary to protect the employer’s trade secrets.” Metro Traffic Control, Inc. v. Shadow Traffic Network, 27 Cal. Rptr. 2d 573, 577, 22 Cal. App. 4th 853, 859 (Cal. Ct. App. 1994). Indeed, § 16600 has been characterized as a “fundamental public policy” of California. Int’l Bus. Machs. Corp. v. Bajorek, 191 F.3d 1033, 1038 (9th Cir. 1999). California courts have also expressed the view that “the interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers” if the employee has not been otherwise engaged in any illegal conduct. Metro Traffic Control, 27 Cal. Rptr. 2d at 577, 22 Cal. App. 4th at 860 (citations omitted).
746 51 F. Supp.2d 773 (S.D.Tex. 1999), rev’d without opinion, 182 F.3d 915 (5th Cir. 1999).
747 Maxxim Med., Inc., 51 F. Supp. 2d at 786.
748 72 F. Supp. 2d 1111 (N.D.Cal. 1999).
below) that California Superior Court decisions are not citable authority. In a similar vein, in Electro Optical Industries, Inc. v. White, the California Court of Appeals wrote that: “Although no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and calls for a fact specific inquiry. We adopt the rule here.” The California Supreme Court, however, ordered that the opinion not be published in the official reports, thus effectively withdrawing it.

In Danjaq LLC v. Sony Corp., a case involving an alleged misappropriation of trade secrets relating to a “James Bond” movie, the Central District of California wrote:

[1]acking proof of actual disclosure and actual use, the Plaintiffs fill-in the gaps in the record with the “inevitable disclosure doctrine” articulated in PepsiCo v. Redmond. But the Plaintiffs’ reliance on the inevitable disclosure doctrine is misplaced. PepsiCo is not the law of the State of California or the Ninth Circuit. [Citations omitted.]

Danjaq was followed in Computer Sciences Corp. v. Computer Associates Int‘l, Inc., in which the same court reiterated that the inevitable disclosure doctrine “is not the law of the State of California or the Ninth Circuit.”

In Bayer Corp. v. Roche Molecular Systems, Inc., mentioned briefly above, the Northern District of California similarly concluded that “California trade-secrets law does not recognize the theory of inevitable disclosure,” reasoning:

In determining the law of California, the Court agrees with Danjaq and Computer Sciences. California public policy favors employee mobility and freedom. California Business and Professions Code Section 16600 provides that “every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.” Reading this language broadly, California courts generally do not enforce covenants not to compete. Nor do they generally enforce covenants that seek to avoid the policy by penalizing former employees who compete with their former employers. In the words of the California Supreme Court:

Equity will to the fullest extent protect the property rights of employers in their trade secrets and otherwise, but public policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary, to follow any of the common occupations of life. Every individual possesses as a form of property, the right to pursue any calling, business or profession he may choose.

A former employee has the right to engage in a competitive business for himself and to enter


751 Id. at 1640.


753 72 F. Supp. 2d 1111 (N.D.Cal. 1999) .
into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is fairly and legally conducted.

*Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 110, 148 P.2d 9 (1944). To the extent that the theory of inevitable disclosure creates a *de facto* covenant not to compete without a nontrivial showing of actual or threatened use or disclosure, it is inconsistent with California policy and case law. * * *

In sum, the Court holds that California trade-secrets law does not recognize the theory of inevitable disclosure; indeed, such a rule would run counter to the strong public policy in California favoring employee mobility. [Citations omitted.]

But that does not necessarily mean that the underlying rationale of the doctrine will not be applied. The district court in *Bayer* explained:

A trade-secrets plaintiff must show an actual use or an actual threat. Once a nontrivial violation is shown, however, a court may consider all of the factors considered by the jurisdictions allowing the theory in determining the possible extent of the irreparable injury. In other words, once the employee violates the trade-secrets law in a nontrivial way, the employee forfeits the benefit of the protective policy in California. For example, that a high-level employee takes a virtually identical job at the number one competitor in a fiercely competitive industry would be a factor militating in favor of a broader injunction once sufficient evidence of a nontrivial violation is shown. [Emphasis added.]

Thus, although the California courts appear to have rejected inevitable disclosure as a doctrine, nevertheless, if one shows a “nontrivial violation,” which presumably means a strong showing of actual misappropriation, at least the Northern District of California would apparently permit reliance on the inevitable disclosure factors in deciding whether injunctive relief was appropriate.

B. 7th Circuit – *PepsiCo v. Redmond*

As noted above, the case currently regarded as the seminal case for the “inevitable disclosure doctrine” is the Seventh Circuit’s decision in *PepsiCo, Inc. v. Redmond*. Quaker Oats Co., a co-defendant, and PepsiCo were fierce competitors in the beverage industry. Redmond worked for 10 years in PepsiCo’s North American (PCNA) division in various capacities, ultimately becoming general manager for a business unit covering all of California and having annual revenues of more than $500 million. In 1994, after several months of negotiation, Redmond was offered, and accepted, a position as Vice-President-Field Operations for Gatorade with Quaker. PepsiCo brought suit shortly after Redmond announced that he was leaving. PepsiCo asserted that Redmond was privy to trade secret and confidential information while at PepsiCo that he would inevitably use in his position with Quaker. Specifically, PepsiCo asserted that Redmond was privy to trade secret and confidential information while at PepsiCo that he would inevitably use in his position with Quaker. Specifically, PepsiCo asserted that he had knowledge of various strategic marketing, pricing and competition plans, as well as innovations in its selling and delivery systems. Quaker responded that Redmond was in a position to simply implement pre-existing plans, that Quaker’s distribution system was in place and could not be modified to duplicate PepsiCo’s, and that he had signed an agreement expressly precluding him from disclosing or using PepsiCo’s confidential information.

The trial court, after an evidentiary hearing, issued a preliminary injunction prohibiting Redmond from assuming any duties that related to beverage pricing, marketing and

754 54 F.3d 1262 (7th Cir. 1995).
distribution. On appeal, the Seventh Circuit affirmed. According to the court, “PepsiCo presented substantial evidence at the preliminary injunction hearing that Redmond possessed extensive and intimate knowledge about PCNA’s strategic goals for 1995 sports drinks and new age drinks,” and “unless Redmond possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of PCNA’s trade secrets.” As for Quaker’s argument that even if Redmond had knowledge of PepsiCo’s distribution strategies, Quaker was not in a position to change its system to duplicate PepsiCo’s, the court noted that argument missed the point: “PepsiCo finds itself in the position of a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game.” The point was that Quaker through Redmond’s knowledge could anticipate PepsiCo’s marketing strategy. Lastly, as to Redmond’s and Quaker’s denials that any confidential information would be used, the district court simply did not believe the denials and, according to the Seventh Circuit, “had reason to do so” noting “Redmond’s lack of forthrightness on some occasions and out and out lies on others.”

C. Factors That Might Be Considered

There currently are several different proposed listings of the PepsiCo “factors” that a court might consider. In Maxim Medical, Inc. v. Michelson,755 in granting a preliminary injunction that prevented a former employee from working for a direct competitor of Maxim for one year in any of the product lines that he had been associated with at Maxim during the last two years, Judge Harmon of the Southern District of Texas adopted eight factors, namely:

1. Is the new employer a competitor?
2. What is the scope of the defendant’s new job?
3. Has the employee been less than candid about his new position?
4. Has actual trade secret misappropriation already occurred?
5. Did the employee sign a non-disclosure and/or non-competition agreement?
6. Does the new employer have a policy against use of others’ trade secrets?
7. Is it possible to “sanitize” the employee’s new position?756

The district court had determined that California law applied and that California would adopt the inevitable disclosure doctrine. As discussed above, on that score, the district court was simply wrong and the Fifth Circuit reversed Maxim without opinion on appeal. The factors the court lists, however, remain instructive.

Other writers have shortened the list to four factors, namely:

1. whether the former employer has protectable trade secrets;
2. whether the former employer disclosed those trade secrets to the former employee in confidence;
3. whether the former employee is going to work for a competitor; and
4. whether the former employee will be in a comparable position when working for the competitor, such that the


employee may inevitably use or disclose the former employer’s trade secrets when performing his duties.\footnote{N. Setty \& T. McKeon, “Making Use of the Inevitable Disclosure Doctrine,” paper presented at The 14th Annual Spring CLE Program, ABA Section of Intellectual Property Law, Washington, D.C. (April 12-13, 1999).}

Yet another writer has suggested that there is a “strong” version of PepsiCo that uses those four factors, but also a “weak” version that adds a fifth factor, namely a showing of bad faith or some other indication that the former employee is likely to disclose the former employer’s trade secrets.\footnote{Bradford P. Leyrla, “Thirteen Rules for Inevitable Disclosure Trials,” Vol. 15, No. 6 Computer Lawyer 10 (June 1998).}

Another writer has suggested a three-part PepsiCo “test” for evaluating inevitable misappropriation, namely:

1. Knowledge:
The departing employee knows the former employer’s trade secrets.

2. Job Similarity:
The departing employee’s new job duties at the competitor, and the technology or products s/he plans to work on at the new job, are so similar to those in the former job that it would be extremely difficult for him/her to avoid relying on or using the former employer’s trade secrets.

3. Untrustworthiness / Undependability:
The departing employee and the new employer cannot be depended upon to avoid using the former employer’s trade secrets.\footnote{Thomas H. Zellerbach, “Safeguarding Your Trade Secrets: Strategies for Dealing With Employee Mobility,” overhead slides presented at the ABA Section of Intellectual Property Law Summer Conference, San Francisco, CA (June 23, 1999).}

Suffice it to say that the analysis is presently a “work in progress.”

In listings of factors and attempts to parse PepsiCo into a “test” satisfy the need of those that require a convenient checklist of elements (and to that extent maybe useful), but those listings and such a “test” lose sight of what PepsiCo and the prior cases mentioned above are all about, namely fashioning effective relief that balances the important interests of both the former employer/trade secret owner and the former employee. To that extent, those listings and such a “test” draw attention from the underlying rationale – and therefore are potentially dangerous. Rather, the underlying rationale of PepsiCo, and the cases discussed above that preceded it, rest on three criteria, namely:

1. Has the plaintiff proved the factors necessary for an injunction?
2. Is the potential disclosure “inevitable” or “probable”?
3. Does the scope and substance of the proposed injunction match the injunction proof?

Most, if not all, of the cases potentially involving the “inevitable disclosure doctrine,” will be brought in the context of a plaintiff pursuing a preliminary injunction, as was the case in PepsiCo. Although phrased differently by some state courts, in general the movant for a preliminary injunction has the burden of proving four prerequisites, namely (1) a substantial likelihood of success of prevailing on the merits; (2) irreparable injury; (3) that the threatened injury to the plaintiff outweighs the potential damage to the defendant;\footnote{The Fourth Circuit has emphasized that district courts are obliged to balance the hardships even if the plaintiff has shown a likelihood of success on the merits. Direx Israel Ltd. v. Breakthrough Med. Corp., 952 F.2d 802 (4th Cir. 1991).} and (4) that an injunction would
not disserve the public interest.\textsuperscript{761} The first question must always be whether the plaintiff is entitled to an injunction. Under the UTSA either “actual” or “threatened” misappropriation may be enjoined. “Misappropriation,” in turn, is defined as being either acquisition of a trade secret by improper means, or, “disclosure or use of a trade secret” without the consent of the trade secret owner. Both bases for liability require, of course, that the plaintiff prove the existence of one or more trade secrets.

In order to satisfy the first prerequisite for an injunction, namely proving a substantial likelihood of success on the merits, a plaintiff must therefore prove that the plaintiff (1) owns information qualifying as a trade secret, and (2) there is either (a) an actual misappropriation, or (b) a threatened misappropriation. If, under the facts of the case, the former employee has been caught absconding with the corporate jewels, \textit{i.e.}, computer software, customer lists, marketing plans etc., that likely would qualify as actual misappropriation and the plaintiff should be entitled to an injunction restraining further misappropriation, assuming that the other three prerequisites of an injunction are extant. Once such a former employee has control over such materials, of course, there is the danger of “disclosure” or “use,” \textit{i.e.}, “threatened” misappropriation, possibly resulting in a loss of trade secret rights. Thus, the plaintiff should be entitled to an injunction that further restrains any “threatened” disclosure or use of such materials, and further that requires the affirmative act of returning those materials to the rightful owner or perhaps to an escrow agent for safekeeping pending trial. All of that is not particularly problematic.

Similarly, if the former employee has engaged in some “bad faith” or an overt act indicating an intention to misappropriate trade secret information of her former employer, that would signal an actual “threat” of misappropriation which may justify injunctive relief, assuming that the other prerequisites of an injunction are present.

The second question is whether potential disclosure is “inevitable.” The actual problem arises when the proof indicates only that (a) the plaintiff owns information qualifying as a trade secret, (b) that the former employee knows or otherwise had access to, and (c) the only “threatened” misappropriation arises simply from the fact that the former employee is going to work for a competitor in a position where she \textit{might} disclose or use trade secret information. Thus, the balancing is between that “threat,” real or imagined, and the interests of the former employee in pursuing her career and livelihood lawfully using general knowledge and skills gained from her previous employment. That is frequently not an easy balance.

Under the Restatement (Second) of Agency § 387, a \textit{current employee} has a general duty of loyalty to the employer, and the Restatement (Second) of Agency § 395, \textit{again in the case of a current employee}, explains that there is a general obligation of confidentiality for information given to the employee. Comment b to § 42 of the \textit{RESTATEMENT (THIRD) OF UNFAIR COMPETITION} adopts the same position. All of that changes, however, once an employee departs. As comment e to the Restatement (Second) of Agency § 393 notes, an employee can properly “compete” with her former employer after termination of employment (assuming that there are no enforceable restrictive covenants precluding the same) and may indeed make “arrangements” to compete while she is still employed. In short, in the absence of a restrictive covenant, there is nothing inherently wrong, evil or illegal when a former employee that knows or otherwise had access to an employer’s trade secret goes to work for a competitor in a similar position.

Additionally, as important as effective protection for trade secrets is to our modern information technology society, an individual’s fundamental freedom of association and the equally fundamental right to choose gainful employment in pursuit of a career using acquired knowledge and skills is no less important. Certainly, a court would not be justified in restricting that freedom based solely on a

\textsuperscript{761} See, e.g., \textit{Allied Mktg. Group, Inc. v. CDL Mktg., Inc.}, 878 F.2d 806, 809 (5th Cir. 1989); \textit{Union Carbide Corp. v. UGI Corp.}, 731 F.2d 1186, 1191 (5th Cir. 1984); \textit{Interox Am. v. PPG Indus., Inc.}, 736 F.2d 194 (5th Cir. 1984).
suspicion that the former employee might disclose or use trade secret information.

After all, the burden is on the plaintiff to prove the prerequisites for injunctive relief. There is no recognized presumption or other theory that would shift the burden of proof or persuasion to the former employee. The burden thus remains with the plaintiff to prove, as part of the burden of inter alia proving a likelihood of success on the merits, that in fact there is a “threatened” misappropriation substantial enough to conclude that an injunction restraining personal freedoms is necessary to prevent actual misappropriation.

That is not, of course, to say that a former employee’s conduct before and after termination of employment is irrelevant. Certainly if the former employee has engaged in a course of conduct that raises questions regarding the individual’s personal honesty and integrity, that conduct should be considered in deciding the substantiality of the “threatened” misappropriation, i.e., whether such conduct increases or decreases the “threat.” Indeed, a number of courts have recognized that an underlying rationale of trade secret law is to impose an acceptable level of commercial morality to the marketplace. Conduct indicating that the subject individual may possess only marginal levels of commercial morality, or perhaps even below par levels, naturally increases the likelihood – or probability – that misappropriation will occur if that individual is allowed to take a position with a competitor that has duties and responsibilities similar to those borne while employed by the trade secret owner.

The conduct of the new employer may also be evaluated. For example, unusual signing bonuses and indemnification agreements have lead courts to conclude that the new employer knew or should have known that it was acquiring trade secrets through the hiring of a competitor’s former employee. The converse is not, however, true. Although some cases such as PepsiCo involve alleged conduct that may call into question an individual’s integrity, the underlying rationale for the “inevitable disclosure doctrine” does not depend on a court judging the pureness of one’s soul – even if that were possible for mere mortals. Rather, the doctrine stems from the rationale explained by the Dallas court in Electronic Data Systems Corp. v. Powell764 that “[e]ven in the best of good faith, a former technical or “creative” employee such as Powell working for a competitor such as SRI can hardly prevent his knowledge of his former employer’s confidential methods from showing up in his work * * *. [Emphasis added.] Or, as the Seventh Circuit in PepsiCo concluded, that because of Redmond’s particular knowledge of PepsiCo’s strategic plans, Redmond would “inevitably disclose” trade secret information as a result of his employment in that particular position.

In short, even assuming that the former employee observed the highest standards of personal honesty and integrity, and subscribed to the highest principles of commercial morality, the query becomes whether the position with the new employer would “inevitably” require that the employee compromise those standards and principles to some degree resulting in a whole or partial misappropriation of the former employer’s trade secrets.

That analysis becomes clearer when the focus turns to the available remedies. If a plaintiff/trade secret owner successfully proves a substantial “threatened” misappropriation (along with the other prerequisites of an injunction), one available remedy is an injunction restraining the former employee from using or disclosing the trade secret information of a former employer. Violation of such an injunction is, of course, serious and may result ultimately in various monetary and other sanctions – possibly, albeit improbably, in a loss of freedom. Courts and attorneys understand that. Private individuals

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764 524 S.W.2d 393, 398 (Tex. Civ. App.–Dallas 1975, writ ref’d n.r.e.).
likely understand that, or can be so counseled or instructed. Thus, an injunction short of prohibiting specific employment carries significant weight and penalties. Why is that not sufficient?765

Once again, the Texas Court of Appeals−Dallas in Powell explained that “The mere rendition of service in the same area would almost necessarily impart some knowledge to some degree in his subsequent employment. Powell cannot be loyal both to his promise to his former employer, EDS, and to his new obligation to his present employer, SRI.” The point once again is that an injunction prohibiting the former employee from using or disclosing the trade secrets of her former employer is inadequate, not because the former employee may choose to disregard it or may choose to try and circumvent it, but rather because even assuming that the former employee has the personal integrity, courage and moral standards of Moses, and has every intention of complying with such an injunction completely and fully in form and spirit, nevertheless, the former employee’s job responsibilities at the new employer simply make it “inevitable” that misappropriation will result.

Some courts have been unwilling to grant injunctions for threatened misappropriation unless there is a “high degree of probability of inevitable and immediate *** use of *** trade secrets.”766 Other courts have been willing to accept an ex-employee’s express denial that any confidential information would be used or disclosed.767

The Eighth Circuit, for example, has held that if the evidence is that the employee is not required to use or disclose confidential information, then he/she will not be enjoined from working for a competitor absent an enforceable non-competition agreement. In Baxter International, Inc. v. Morris,768 a research scientist for Baxter, Morris, left and went to work for a competitor, bioMerieux Vitek, Inc. Baxter sought to enforce Morris’ 1-year non-competition agreement. The trial court, however, found that California law applied and that the agreement was unenforceable under California law. The district court also found that Morris was able to work in his new job without using or disclosing Baxter’s trade secrets, and that bioMerieux would not encourage Morris to do so. It was also unclear, apparently, whether bioMerieux would develop products similar to Baxter’s. On appeal, the Eighth Circuit affirmed the denial of a preliminary injunction prohibiting Morris from working at his employer. The court concluded that the trial court’s findings were not clearly erroneous, and supported the denial of the requested injunction.769

The First Circuit has similarly so held in Campbell Soup Co. v. Giles.770 Giles is, in many respects, similar to PepsiCo, discussed above, but the First Circuit reached the opposite result primarily due to the differences between the responsibilities of the individuals involved. Giles had worked in a series of sales positions at Campbell Soup for 13 years, most recently as an “Area Director,” a position in which he developed and implemented various marketing plans. In 1994, he left and joined Pet, Inc. in a similar capacity. Campbell sued alleging that Giles had possession of trade secret information relating to marketing information for the 1995 fiscal year (running from August 1994 to July 1995) and to a “secret project” involving a new product line. Campbell asserted that Giles, in undertaking to market Pet’s competitive Progresso line of soups,

765 See Ackerman v. Kimball Int’l, Inc., 652 N.E.2d 507, 1995 Ind. LEXIS 101 (Ind. 1995)(“Were the trial court not permitted, on facts such as these, to enjoin Ackerman for a limited period from being employed by any of Kimball’s competitors, Kimball might, under the Trade Secrets Act, have a right without a remedy.”).


767 See, e.g., Cincinnati Tool Steel Co. v. Bred, 482 N.E.2d

768 976 F.2d 1189 (8th Cir. 1992).

769 The trial court did, however, enter an injunction prohibiting Morris from using or disclosing any of Baxter’s trade secrets.

770 47 F.3d 467, 33 U.S.P.Q.2d 1916 (1st Cir. 1995).
would be unable, even in good faith, to avoid using such information. Giles responded that most of the marketing information had already been disclosed, and was available from public sources. Further, Giles argued, even if he had such confidential information, his position at Pet was to implement marketing strategy that had long since been finalized. In short, he was not in a position to adjust Pet’s marketing strategy. As for the “secret project,” Giles flatly denied any knowledge of it.

The district court refused to enter a preliminary injunction, and on appeal the First Circuit affirmed. The court noted that Campbell did not seriously contest that most of the marketing information had been disclosed to customers at the start of the fiscal year. Further, Campbell did not dispute that most customers placed their orders 4 months in advance. Thus, there was little that Giles could do even if he possessed confidential information. As for the “secret project,” the trial court held that Giles was unlikely to disclose the project to Pet, even if he knew about it, and secondly that Campbell had not shown that it would be irreparably harmed even if he did so. On appeal, the First Circuit agreed.

The last question is does the scope and substance of the proposed injunction match the injunction proof. Although the foregoing discussion has focused on the first requirement of an injunction, namely proving a substantial likelihood of success on the merits, one seeking a preliminary injunction must bear the burden of proof on the other prerequisites as well. Thus, at the end of the day, before the court may set about fashioning an appropriate injunction, the court also has before it proof of (1) irreparable injury; (2) that the threatened injury to the plaintiff outweighs the potential damage to the defendant; and (3) that an injunction would not disserve the public interest.

Thus, in fashioning the substance and scope of an injunction, the court should be mindful of the actual proof adduced on the extent of any “threatened” misappropriation, as well as the extent of the “irreparable injury” shown. Although the plaintiff/trade secret owner may (and likely will) seek an injunction carving out proscribed activity with the precision of a chain saw in unskilled hands, the obligation of the court, in light of the respective interests of the parties, is to use more refined surgical excision in crafting the forbidden activity. In spite of everything else, the former employee likely has personal and family obligations that depend on receiving a paycheck, and also likely has career dreams/plans that extend beyond the current controversy. Utter fairness and equity are required by the very act of enjoining otherwise lawful activity, if not by the injunction prerequisites of balancing the potential damage to the plaintiff and the defendant and determine whether the injunction would disserve the public interest.

Among the possible innovative approaches is one approved by the Georgia Supreme Court that involved the appointment of an independent “verifier” to assure continued compliance with the injunction.771 Although clearly that would not be appropriate in every case (or, indeed, perhaps in many cases), yet such an approach may offer an alternative to an injunction that would effectively deprive an individual of an opportunity to pursue a chosen career path. Similarly, however, the court is entitled to consider instances of an employee’s conduct that would indicate less than good faith. In such instances, broader proscriptions may clearly be not only justified but required.

D. Cases Expressly or Implicitly Applying The Inevitable Disclosure Doctrine

In Procter & Gamble Co. v. Stoneham,772 Paul Stoneham worked for P&G for 13 years, most recently in the hair care division having responsibility for international marketing. As a member of P&G’s several teams of managers


formulating its global goals and strategies, Stoneham was required to know and use a variety of information, such as market research results, financial data related to the costs and profits of the products, and the technological developments underway for existing and new products. The court concluded that no one was more knowledgeable about the foreign marketing of P&G’s hair care products, and the products themselves, than Stoneham.

When Stoneham reached a certain management level, he was given an opportunity to obtain P&G stock options in exchange for executing a three-year covenant not to compete. Signing was voluntary, but if he had not signed he would not have received the stock options. Stoneham also had signed a confidentiality agreement the day he was hired.

In 1998, Stoneham took a job with Alberto-Culver, whose hair care products competed with P&G’s hair care products, at least to some extent. Stoneham’s new position was President of Alberto-Culver International. In response, P&G filed suit alleging breach of the covenant not to compete. Signing was voluntary, but if he had not signed he would not have received the stock options. Stoneham also had signed a confidentiality agreement the day he was hired.

The trial court had held that P&G had not shown any evidence of actual or threatened harm, and that the “inevitable disclosure” rule did not apply. The Ohio Court of Appeals found that the trial court had clearly erred.

The court reasoned that Stonham had intimate knowledge of P&G’s confidential information and trade secrets, and that his position with Alberto-Culver resulted in a direct competition between the products that he had formerly supported and the new products for which he now had responsibility. “Under these circumstances, Stoneham’s use of P&G’s information and secrets was a very real threat.” The court also pointed to evidence that Stoneham’s use or disclosure of P&G’s information was not only a threat, but was “substantial probability.”

In Essex Group, Inc. v. Southwire Co., the court noted that “McMichaels brought to Essex not only the general information acquired in his job, i.e., that a certain logistical factor such as the positioning of storage containers would need to be resolved before certain other factors were decided: McMichaels also brought specific information, such as how, where and when those storage containers had to be positioned so as to accommodate most efficiently the very same product Essex was producing in competition with Southwire. It was the disclosure of this specific information that Southwire sought to enjoin * * *.”

In Hydraulic Exchange and Repair, Inc. v. KM Specialty Pumps Inc., although customer names in the limited market at issue here did not constitute a trade secret, according to the court, those names coupled with other pricing information that included profits per customer, sales per customer, special suppliers, overhead and specific pricing information, constituted a trade secret. The court issued a preliminary injunction prohibiting subsequent employer from using former employee of plaintiff to prepare bids

773 747 N.E.2d at 278-79.
774 Id. at 279.
775 501 S.E.2d 501 (Ga. 1998).
sustained because there was a threat that employee would inherently use trade secret customer information of former employer.777

In Southwestern Energy Co. v. Eickenhorst,778 in an action to protect information obtained from a non-client by an associate in a law firm under confidentiality agreements in connection with the investigation of alleged failure to pay overriding royalties in certain oil and gas properties and later used to prepare and file a class action suit on behalf of royalty owners, the court held, despite denials by attorney, that reasonable trier of fact could conclude that disclosure will inevitably occur.

In La Calhene, Inc. v. Spolyar,779 at a hearing on La Calhene’s motion for a preliminary injunction to preclude subsequent employment at a competitor, the evidence showed that La Calhene had no formal program for marking documents as “confidential” nor did La Calhene have restrictions or policies on leaving sensitive documents on desktops or other reasonable standard trade secret precautions. Nevertheless, La Calhene argued that it restricted particularly sensitive information to only three people in upper management, of which the departing employee, Spolyar, was one. The evidence further showed that after Spolyar had left La Calhene, he had contacted all but one of La Calhene’s customers that he had previously provided bids to, and had provided a modified bid to one on behalf of Walker Stainless. Although the court found that certain of La Calhene’s asserted trade secrets were not protectable, it held that other information was protectable despite the general lack of security precautions. One factor for that decision may have been that instituting such a security program had been one of Spolyar’s job requirements. The court further, in granting the preliminary injunction, held that “it is all but inevitable that he [Spolyar] will utilize that knowledge during his work with Walker Stainless or any other competitor so long as he is selling a competing product.”

Uncle B’s Bakery, Inc. v. O’Rourke,780 probably represents the broadest current application of the inevitable disclosure doctrine. Uncle B’s sued Kevin O’Rourke, its former manager, for trade secret misappropriation after he went to work for Brooklyn Bagel Boys. The court found that Uncle B’s had invested a number of years of research and several million dollars into its “fresh, never-frozen” packing and processing technology. O’Rourke, however, testified that because of the differences between the recipes and processes used at the respective companies it was not necessary for him to reveal any of Uncle B’s trade secrets. Nevertheless, the district court concluded that there was a “significant danger of an inadvertent disclosure.” The court noted that “Although an employee is entitled to use the fund of general knowledge he or she has accumulated in the course of employment, that entitlement does not extend to use of trade secrets.” Due to the uncertainty of “[w]here the one kind of knowledge ends and the other begins,” the court said that it could infer there was a “realistic threat of inadvertent disclosure of trade secrets, and consequently a threat of irreparable harm” to Uncle B’s. The irreparable harm, according to the court, came from Uncle B’s “reason to fear” that O’Rourke “will be motivated to appropriate its technology and processes.”781

In Sperry Rail, Inc. v. Herzog Services, Inc.782 Sperry Rail had been in the business of providing rail testing services for railways and subways to detect flaws and defects in rail lines.

777  See also Novell, Inc. v. Timpanogos Research Grup, Inc., 46 U.S.P.Q.2d 1197 (Utah 1998); DSC Communications Corp. v. Next Level Communications, 107 F.3d 322 (5th Cir. 1997).


781  See also Lumex, Inc. v. Highsmith, 919 F. Supp. 624 (E.D.N.Y. 1996)(where there is “evidence that there will inevitably be immediate disclosure of trade secrets” at new employment, six-month preliminary injunction is justified); Nerveco v. Welcraft Techs, 921 F. Supp. 1568 (E.D. Mich. 1996)(declaratory relief for former employee denied where evidence indicated employee would inevitably use or disclose trade secrets).

since 1928. Sperry Rail used two types of detector systems, one that used magnetic induction technology and another that used ultrasonic technology. Fitzgerald, one of Sperry Rail’s long time R&D engineers, announced his “retirement” effective on January 9, 1996. On a Sunday, however, he put his retirement letter in Sperry Rail’s mailbox and then removed several boxes containing books and documents from the R&D department. He then met with a representative of Herzog and negotiated an “Independent Contractor’s Agreement” that provided for a salary of $75,000 and a signing bonus of $54,000. Herzog had never paid a signing bonus before, but was likewise involved in the rail testing business. Herzog, however, only used the ultrasonic technology. Herzog also provided Fitzgerald with an indemnification agreement in which Herzog agreed to indemnify, defend and hold Fitzgerald harmless from any claims that Sperry Rail might make for breach of Fitzgerald’s employment. Herzog assigned Fitzgerald the task of reviewing Herzog’s rail testing technology and to prepare a report and recommendation.

The district court granted a preliminary injunction concluding that Sperry Rail had shown a likelihood of success in prevailing on its cause of action under the Missouri Uniform Trade Secrets Act. The court concluded that the unusual signing bonus and indemnification agreement indicated that Herzog knew or should have known that it was acquiring Sperry Rail’s trade secrets through Fitzgerald: “Defendant’s actions in hiring Fitzgerald were calculated to misappropriate plaintiff’s trade secrets concerning its technology, marketing strategies and pricing structure.” The injunction prohibited Herzog from, among other things, employing Fitzgerald in any capacity in which Fitzgerald would be required to use or disclose Sperry Rail’s trade secret or confidential information.

In *Merck & Co, Inc. v. Lyon*, contrary to the result in *Cyprus Foote*, discussed below, the Middle District of North Carolina applied the “inevitable disclosure doctrine.” Lyon was employed by Merck for five years, from 1990 to 1995. In 1995, he was recruited, both directly and through an executive search firm to join competitor, Glaxo Wellcome, PLC. On December 15, 1995, Glaxo extended an offer to Lyon, and Lyon’s last day at Merck was March 1, 1996. Nevertheless, in the interim, Lyon twice denied that he was going to work for a competitor. Although the court found that Merck had not shown any actual misappropriation of trade secrets, the court nevertheless found that “actual or threatened misappropriation” could be enjoined under the North Carolina Trade Secrets Act.

The court further distinguished the case from *Cyprus Foote*. Unlike *Cyprus Foote*, here, according to the court, Merck was not seeking a broad injunction preventing him from working in the area of his general expertise and, further, here Merck had identified the precise nature of its trade secret information and the project they wished to enjoin Lyon from working on. According to the court, in deciding whether disclosure will be likely or inevitable, the court should consider (a) the degree of competition between the former and new employers, (b) the new employer’s efforts to safeguard the former employer’s trade secrets, (c) the former employee’s forthrightness (or lack thereof) before accepting the new job, and (d) the similarity between the employee’s former and current positions.

E. Cases Declining to Apply The Inevitable Disclosure Doctrine Rationale

Several courts have expressly or impliedly refused to apply or adopt the inevitable disclosure doctrine. The rationale that the courts have

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784 *See, e.g.*, *In re Wilson*, 47 U.S.P.Q.2d 1212 (4th Cir. 1998)(affirming order of Bankruptcy Court allowing disclosure of certain trade secret information to two high-level employees of defendant in state misappropriation action and holding, in response to arguments that such individuals would inevitably use or disclose the trade secret information, that need for information outweighed probable harm); *Campbell Soup Co. v. Giles*, 47 F.3d 467, 33 U.S.P.Q.2d 1916 (1st Cir. 1995); *Dulitz v. Park Int’l Corp.*, 45 U.S.P.Q.2d 1688 (N.D.Ill. 1998); *International Paper Co. v. Suwyn*, 966 F. Supp. 246 (S.D.N.Y. 1997); *Carboline Co. v.*
used is exemplified in *FMC Corp. v. Cyprus Foote Mineral Co.* 786 FMC and Cyprus Foote were head to head competitors in the business of producing battery-quality lithium products. Fickling, apparently, was a key FMC metallurgical engineer who had been involved with inventing or developing at least some of FMC’s current products, and had survived several layoffs. He had executed an employee non-disclosure agreement while at FMC. In 1995, Fickling left and joined Cyprus Foote to work in the same general area as he had at FMC. FMC brought suit and moved for a preliminary injunction. In denying the injunction, the court noted that FMC had asserted broad allegations of trade secrets in every stage of its production, and was seeking an injunction that would preclude Fickling from doing any work in his area of expertise. The court refused to apply the “inevitable disclosure” doctrine here noting that Fickling had 14 years general knowledge, skill and experience in lithium production. The court further noted that under its view of North Carolina law, the “inevitable disclosure” doctrine would not be invoked absent some “bad faith, underhanded dealing, or employment by an entity so plainly lacking comparable technology that misappropriation can be inferred.”

In *H&R Block Eastern Tax Servs., Inc. v. Enchura,* 787 the defendants, Enchura and Fortner, were regional directors for H&R Block. Their duties generally included establishing financial and other goals for company-owned offices in their regions. They did not have responsibilities for franchised operations or for marketing. Both had signed employment agreements that included non-competition covenants providing that they would not, for a period of two years after termination of employment, engage in any business involving the preparation or electronic filing of income tax returns within their assigned regions. Both became disenchanted with their employment, and joined H&R Block’s principal competitor, Jackson Hewitt, Inc. Jackson-Hewitt, unlike H&R Block, uses franchises exclusively. Fortner in his new position had nationwide responsibility, and therefore his area of responsibility included his formerly assigned region with H&R Block. Enchura’s area of responsibility did not, however, include his formerly assigned region. At a hearing on H&R Block’s application for a preliminary injunction, both Fortner and Enchura indicated that they did not object to entry of an injunction, but asserted that an injunction was not necessary because they were not violating their covenants. The court, nevertheless, entered an injunction enforcing the terms of the covenants finding that Fortner was, in fact, violating the covenant. The court concluded that the covenant, as written, was not limited to company-owned outlets, and covered franchise operations as well, even though Fortner had no responsibility for the same with H&R Block.

H&R Block additionally urged that Enchura and Fortner should be enjoined from working for Jackson Hewitt under the inevitable disclosure doctrine. The district court declined to do so. The district court read *PepsiCo* as suggesting that “demonstrated inevitability alone is insufficient to justify injunctive relief.” Rather, according to the court, an injunction requires finding “demonstrated inevitability in combination with a finding that there is unwillingness to preserve confidentiality * * *” 788 [Emphasis in original.] The district court found no evidence of an unwillingness to preserve confidentiality. Even if that was not a requirement, however, the district court concluded that “what is necessary is some

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788 122 F. Supp. 2d at 1075.
 indication that Enchura and Fortner will be making decisions for JH in the same areas covered by Plaintiffs’ trade secrets and that Enchura and Fortner have been so involved with Plaintiffs’ trade secrets that they cannot help but consider them while performing duties for JH.\textsuperscript{789} In other words, the district court would limit the doctrine of inevitable disclosure to those cases in which the former employee not only had knowledge of trade secret or confidential information, but had actually been involved in developing such information. Such an interpretation would limit PepsiCo essentially to its facts. In any event, the district court found that the general information the former employees held regarding H&R Block’s business was so unrelated to their current positions that there was little danger of “inevitable” use or disclosure, and that specific trade secret information they had recently acquired was simply too voluminous to memorize or otherwise use.

In FLEXcon Co., Inc. v. McSherry,\textsuperscript{790} an employment agreement containing non-disclosure and non-competition covenants, characterized by the court as ambiguous and poorly drafted, was not enforced. McSherry began work with FLEXcon as a quality analyst in 1986. FLEXcon manufactured, \textit{inter alia}, pressure-sensitive adhesive coated film products for use as identification stickers and decals, and as manufacturing labels for high-temperature printed circuit boards. Three days after joining FLEXcon, McSherry signed an employment agreement that provided that, for a period of two years following termination, he would not accept employment with a competitor “in the territories” in which he had worked. McSherry was ultimately promoted to Manager of FLEXcon’s Nebraska operations, but left in November, 2000, to join Avery-Dennison, one of FLEXcon’s principal competitors, as Director of Operations of the Graphics Media Division (Ohio). FLEXcon brought suit attempting to enforce the employment agreement alleging that “territories” should be construed to cover the entire United States. The court refused to issue a preliminary injunction finding that FLEXcon had not shown a likelihood of success on the merits or irreparable harm.

With respect to likelihood of success on the merits, the court noted that McSherry’s original offer of employment and subsequent promotions made no mention of, and were not conditioned on, the restrictive covenant, and his employment agreement was signed at a time when he had accepted an entry level position that was unlike his later manager’s position. The court further found that McSherry had not been involved with “the inner sanctum of running the corporation” and apparently had received information regarding strategic planning, marketing, customers “on a distribution basis only.”

The court further found that McSherry’s job responsibilities with Avery would not require him to use or disclose any of FLEXcon’s allegedly confidential information that “he might retain in his head.” Although “inevitable disclosure” was not specifically mentioned, that finding would, of course, preclude a finding that McSherry would necessarily use or disclose confidential information in performing his new job responsibilities with Avery Dennison.

\textbf{F. Recent Cases}

\textit{Avery Dennison Corp. v. Finkle,} 2002 Conn. Super. LEXIS 329 (Conn. Super. 2002)

Connecticut adopted a version of the UTSA in 1983, which was amended in 1997.\textsuperscript{791}

Avery, of course, manufactured and distributed office products and writing instruments. Finkle was employed as director of product development and engineering from 1998 until 2001. His employment agreement contained a non-competition covenant that extended for a period of two years (apparently without any geographical limitations) and to “any business engaged in the manufacture or sale of products

\footnotesize{\textsuperscript{789} Id.}

\footnotesize{\textsuperscript{790} 123 F. Supp. 2d 42 (D. Mass. 2000).}

\footnotesize{\textsuperscript{791} CONN. GEN. STAT. §§ 35-50 et seq. See also, Robert S. Weiss \& Assoc., Inc. v. Wiederlight, 208 Conn. 525, 546 A.2d 216 (1988).}
similar to those on which the employee worked while at Avery Dennison.” Finkle accepted an offer of employment with Bic Corp, and Avery brought suit seeking, *inter alia*, an injunction. The court granted the injunction.

The court found that as a result of his position, Finkle had access to, and contributed to the formulation of procedures and information relating to concept testing data, including “dead ends,” pertaining to writing instruments being developed at Avery. The court found that Finkle also had access to Avery’s business plan, including projected product revenues, marketing support, component part suppliers, and capital investment information, all of which the court found constituted trade secret information. The court found that such information had independent economic value, and that Avery had taken reasonable precautions to protect such information, including having employees sign non-competition covenant, having suppliers sign nondisclosure agreements, having employees keep logs as to the products that they were working on, by giving employees yearly refresher courses in intellectual property, by using “read only” files to prevent printing, and by having employees sign “check out” forms when they ended their employment.

The court further found that Finkle’s job at Bic would inevitably lead to disclosure of those trade secrets, although the court did not adopt the inevitable disclosure doctrine *per se*. The court found that “[h]owever well intentioned the defendants may be, it seems virtually impossible for Avery Dennison’s trade secret information, particularly as to ‘dead ends,’ to not affect the employment relationship of * * * Finkle while in the employ of Bic. From the evidence submitted, the court finds that it is likely or probable that the plaintiff will be successful in showing, at a minimum, a threatened misappropriation of trade secrets by the defendants in Bic Corporation’s employment of * * * Finkle in a capacity dealing with the manufacture or sale of writing instruments.”