TRADE SECRET MISAPPROPRIATION: A LAWYER'S PRACTICAL APPROACH TO THE CASE LAW

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INTRODUCTION

Every firm whose profits depend upon the use of confidential business information runs the risk of incurring serious losses if such information were to be acquired and used without authorization by another firm. In recent years, the likelihood that such losses will occur has greatly increased due to a rise in both industrial espionage and employee mobility. Industrial espionage, always in vogue,

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1. As one commentator has noted:

   INDUSTRIAL COMPETITION today is so acute in many instances that very often a few pennies in the selling price of a product or service, or its quality or lack of it, one way or the other, spells success or failure in the sale of that product or service. Frequently the price or quality of such product or service is determined by information gained through painstaking effort on the part of a company, by its so-called "know how," by equipment refinements, by new invention and processing methods, and by other means all of which are to a greater or lesser degree kept from the inquisitive eye of competitors and others not directly concerned with the operation.

   Maruchnics, Industrial Trade Secrets, Their Use and Protection, 4 CLEV.-MAR. L. REV. 69, 69 (1955). See also Grnzeier, Guarding Against Industrial Espionage, 53 MANAGEMENT REV. 40, 41 (Jan. 1974) ("In the U.S. free-enterprise system, research secrets have become the handle to industrial power, and the company that doesn't have any secrets to protect really isn't in the business of competing."); Bender, Trade Secret Protection of Software, 38 GEO. WASH. L. REV. 909, 912 (1970) (research secrets are the sine qua non of market power).

is now easier than ever due to advanced electronic surveillance equipment which dispenses with the need to be physically present upon a firm’s premises.\textsuperscript{3} Paralleling the growth of industrial espionage is the increased frequency with which key executives and technicians change jobs, taking with them confidential information that they acquired during their previous employment.\textsuperscript{4} These employees often do not hesitate to pass on their former employer’s confidential information because their sense of loyalty appears to run entirely in favor of the new employer. Loyalty to the former employer appears to evaporate when the job comes to an end.\textsuperscript{5} One observer has estimated that as a result of these developments, firms now appropriate four billion dollars worth of confidential information each year from competing businesses.\textsuperscript{6}

The owner of valuable confidential information has traditionally had two means of guarding such information: obtaining a patent under the Patent Act\textsuperscript{7} or keeping the information secret and relying

\begin{itemize}
\item \textsuperscript{3} See A. Westin, Privacy and Freedom 365 (1967); Comment, Corporate Privacy: A Remedy for The Victim of Industrial Espionage, 1971 Duke L.J. 391, 395-96. In this regard, one estimate asserted that approximately $300 million is spent on industrial espionage devices. Hunting Industry Spies, Bus. Week, Oct. 1, 1966, at 64. Though dated, this estimate would clearly appear to be the minimum figure spent in recent years, with the total greatly exceeding it.
\item \textsuperscript{4} See, e.g., Note, Trade Secret Protection of Non-Technical Competitive Information, 54 Iowa L. Rev. 1164, 1166-67 (1969); Developments in the Law—Competitive Torts, 77 Harv. L. Rev. 888, 950 (1964). In a survey conducted by the Harvard Business School of readers of The Harvard Business Review, 78% of those surveyed said they would give to their new employers all of their information about their former employer and 45% said they would hire as a new employee one who previously worked for a competitor for the sole purpose of gaining information about that firm. Furasch, Problems in Review—Industrial Espionage, 37 Harv. Bus. Rev. 6, 164, 168 (Nov.-Dec. 1959).
\item Harding, Trade Secrets and The Mobile Employee, 22 Bus. Law. 395, 396 (1967). One court has gone so far as to characterize the former employee who departs with confidential information as the “most exasperating of all competitors.” Belmont Laboratories, Inc. v. FTC, 103 F.2d 538, 542 (3d Cir. 1939).
\item The increasing need for firms to remain competitive with other businesses and keep abreast of technological developments and innovations, and the expense thereof, are generally asserted as the reasons businesses resort to industrial espionage rather than develop such information themselves. See, e.g., Comment, Corporate Privacy: A Remedy for The Victim of Industrial Espionage, 1971 Duke L.J. 391, 394-95; Comment, Industrial Espionage: Piracy of Secret Scientific and Technical Information, 14 U.C.L.A. L. Rev. 911, 912-13 (1967); Note, Industrial Espionage—Nebraska’s New Felony, 45 Neb. L. Rev. 644, 645 (1966).
\item 35 U.S.C. §§ 1-293 (1970). The grant of a patent is the “grant of a statutory monopoly,” Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229 (1964), which gives the patentee the right, limited to a term of 14 or 17 years, to exclude others from the use of his patented item for during that time no one can make, use, or sell the patented item without the patentee’s authority. 35 U.S.C. §§ 154, 173, 271 (1970).
\end{itemize}
on the common law of trade secrets which, under certain circumstances, protects a firm's valuable business information not patented or patentable against unauthorized commercial use by others.\(^8\) However, the availability of patent protection is limited. To obtain a patent, one must make a threshold showing that the confidential information is patentable subject matter.\(^9\) After this initial requirement is met, proof of originality,\(^10\) novelty,\(^11\) utility,\(^12\) and non-obviousness\(^13\) must be presented. Finally, the patent applicant must comply with a host of procedural requirements.\(^14\) Even when a patent can be obtained this form of protection may not make good business sense when compared with reliance on trade secret law. In the first place, the patent application requires full disclosure of all the essential features of the item for which protection is sought.\(^15\)

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\(^8\) R. MILGRIM, TRADE SECRETS § 8.02(1) (1977); S. OPPENHEIM & G. WESTON, UNFAIR TRADE PRACTICES & CONSUMER PROTECTION 317 (1974) [hereinafter cited as OPPENHEIM & WESTON]. See generally Note, Trade Secrets and Patents Compared, 50 J. PAT. OFF. SOC’Y 536 (1968). Unlike patent protection, [t]rade secret protection is theoretically perpetual in duration but the actual length of protection depends upon success in keeping it secret, and it is subject to being lost by independent discovery or other fair means of obtaining the secret, or because the owner otherwise cannot hold another liable for the disclosure or use of a trade secret in numerous situations.

OPPENHEIM & WESTON, supra at 318. One commentator has cited these examples of longevity: “[F]ormulas for the mixing of ingredients for cymbals (336 years in the Zildjian family) or aromatic bitters (Angostura-Wupperman) or Eau de Cologne (‘No. 4711’ made by generations of the Muelhens family in Cologne) or Smith Brother’s Black Cough Drops (said to be over 100 years old).” Klein, The Technical Trade Secret Quadrangle: A Survey, 55 NW. U.L. REV. 437, 438 (1960). Added to this list should be the formula for Coca-Cola which has never been duplicated. See TIME, Aug. 22, 1977, at 44. As to the possibility of securing protection under the Copyright Act, 17 U.S.C. §§ 1-216 (1970), see H. HOWELL, THE COPYRIGHT LAW passim (3d ed. 1952); Note, 64 HARV. L. REV. 976, 985 (1951). Suffice it to say that it is highly improbable that confidential business information would be afforded copyright protection. Comment, Industrial Espionage: Piracy of Secret Scientific and Technical Information, 14 U.C.L.A. L. REV. 911, 924-25 (1967).

\(^9\) 35 U.S.C. § 101 (1970). Thus, for example, in In re Patton, 127 F.2d 324, 327-28 (C.C.P.A. 1942), an applicant was denied a patent on the ground that “a system of transacting business, apart from the means for carrying out such system, is not within the purview of [35 U.S.C. § 101], nor is an abstract idea or theory, regardless of its importance or the ingenuity with which it is conceived . . . patentable subject matter.”


This requirement may be particularly damaging because the patented matter is deemed dedicated to the public when the patent expires. In contrast, trade secret protection is theoretically perpetual. Second, patent infringement suits are costly and it is generally recognized that these suits frequently end with declaration of patent invalidity. Trade secret plaintiffs are more often successful. Finally, the Supreme Court has held that a licensee of a patent who successfully challenges the validity of his licensor's patent is not liable for contract royalties, even if the subject of the patent was secret at the time of the contracting. On the other hand, the case law seems clear in upholding the rights of a licensor of a trade secret to the bargained for royalty despite the fact that the subject matter of the trade secret has become public knowledge. Consequently, more and more firms are opting for trade secret law in order to protect their confidential information.

Thus, it appears that more and more lawyers previously unfamiliar with trade secrets will come into contact with this body of

Pharmaceutical Corp., 443 F.2d 867 (2d Cir. 1971); National Theatre Supply Co. v. Da-Lite Screen Co., 86 F.2d 454 (7th Cir. 1936); Sylgab Steel & Wire Corp. v. Imoco-Gateway Corp., 357 F. Supp. 657 (N.D. Ill. 1973).


17. R. MILGRIM, supra note 8, § 8.02(1).


20. One commentator has concluded from a study that in trade secret cases plaintiffs were successful 47% of the time. Vandervoort, Trade Secrets: Protecting A Very Special "Property," 26 BUS. LAW 681, 683 (1971).


23. Address of Roger Milgrim before the Patent, Trademark and Copyright Section of the American Bar Association (August 8, 1977).
law. Although many states have enacted statutes which make it a crime to appropriate trade secrets,24 and certain federal statutes, such as the National Stolen Property Act,25 the Mail Fraud Statute,26 the Federal Communications Fraud Statute,27 and section 5 of the Federal Trade Commission Act28 may sometimes be employed against trade secret theft, the practitioner will in most cases be retained to bring or defend a civil action involving the alleged misappropriation of trade secrets. This article endeavors to provide the basic background needed by the practitioner to handle such a lawsuit. After a discussion of the basis of the action, the elements necessary to establish liability for trade secret misappropriation will be reviewed in order to assist the practitioner in determining whether the facts of a particular case are sufficient to establish liability. Discussion will then focus upon the relief available once liability has been established. This article does not seek to reconcile the apparent inconsistencies in the cases,29 nor does it attempt to high-


29. For such a discussion, see 2 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES §§ 51-59 (3d ed. 1968); R. ELLIS, TRADE SECRETS (1953); R. MILGRIM, supra note 8, § 7.01; 1 H. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS §§ 141-161a (1947). See also A. TURNER, TRADE SECRETS (1962). For an exhaustive bibliography of trade secret literature as of 1959, see Rossman, Note on Trade Secrets, 3 PAT. T.M. COPYRIGHT J. OF RESEARCH & EDUC. 211 (1959).
light all the pitfalls of trade secret litigation. Rather, its purpose is to assist counsel's educational efforts by providing a foundation for a more detailed analysis of the facts in a given case.

I. BASIS OF THE LAW OF TRADE SECRET MISAPPROPRIATION

Peabody v. Norfolk is frequently cited as the seminal case for much of the development of trade secrets law in the United States. In Peabody, the plaintiff had invented new machinery and a new manufacturing process. He hired the defendant as his machinist. In the employment contract defendant agreed not to disclose knowledge he might gain concerning the machinery and process. Some two years later, defendant quit his job with plaintiff and, in violation of his agreement, communicated the information he had acquired to others. In addition, he began to build machines like those of his former employer. Plaintiff sought to enjoin the defendant from disclosing the secret. Granting the injunction, the court reasoned that one who:

[I]nvents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons.

Although the court’s decision seemed to rest primarily on the theory that the trade secret was a property right of the plaintiff which would be infringed by defendant’s disclosure, it also relied on theories of breach of contract and breach of confidence.

Subsequent cases have invoked all of the bases mentioned in Peabody to provide a remedy to one whose confidential information

31. 98 Mass. 452 (1868). For a discussion of the antecedents of trade secret law see Klein, supra note 8, at 437-40 (English common law); Schiller, Trade Secrets and the Roman Law: The Actio Semi Corrupti, 30 COLUM. L. REV. 837 (1930) (Roman law).
32. Sandlin v. Johnson, 141 F.2d 660, 661 (8th Cir. 1944); Herold v. Herold China & Pottery Co., 257 F. 911, 913 (6th Cir. 1919); Associated Press v. International News Serv., 245 F. 244, 247 (2d Cir. 1917), aff’d, 248 U.S. 215 (1918). See also E. KITCH & H. PERLMAN, supra note 14, at 368.
34. Id.
has been used without authorization.\textsuperscript{35} No single theory has been universally embraced.\textsuperscript{36} As recently as 1939, one commentator observed that the American law of trade secrets had still not "yet crystallized around any particular pattern."\textsuperscript{37} To Mr. Justice Holmes, however, resolution of the issue of what theory should be relied upon was easy:

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. Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.\textsuperscript{38}

This violation of trust theory has been widely accepted in recent years by the courts.\textsuperscript{39} It dispenses with the need to establish the existence of a contract or show that the plaintiff has a property right in the matter for which protection is sought. Using this theory, courts employ a fairness test, asking simply whether use or disclo-


\textsuperscript{38} E.I. duPont deNemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917).

\textsuperscript{39} Atlantic Wool Combing Co. v. Norfolk Mills, Inc., 357 F.2d 866, 869 (1st Cir. 1966) ("In general, the essence of the wrong is the obtaining of unjust enrichment and unfair competitive advantage through inequitable conduct, usually a breach of confidence."); Franke v. Wiltschek, 209 F.2d 493, 495 (2d Cir. 1953) ("The essence of . . . [plaintiff's] action is not infringement [of a property right], but breach of faith."); Junker v. Plummer, 320 Mass. 76, 80, 67 N.E.2d 667, 670 (1946) ("Relief is granted to protect the secret only where one is attempting to use or disclose it in violation of some general duty of good faith such as a breach of contract or abuse of confidence."); Spiselman v. Rabinowitz, 270 App. Div. 548, 551, 61 N.Y.S.2d 138, 141, app. denied, 270 App. Div. 921, 62 N.Y.S.2d 608 (1946) ("Protection is afforded . . . against any one who has obtained the secret process by fraud or bad faith."). See also RESTATEMENT OF TORTS § 757, Comment a (1939); R. ELLIS, TRADE SECRETS § 5 (1953); T. ARNOLD, PROBLEMS IN TRADE SECRET LAW, 1961-62 ABA PATENT, TRADEMARK AND COPYRIGHT SECTION, PROCEEDINGS 248, 251-52.
sure by others would be inequitable. To answer this question, the factfinder must focus upon the wrongfulness or unfairness of the means by which the confidential information was obtained.\footnote{40} Such a theory of protection has been justified on two grounds. First, it encourages future research and development. Second, it helps to maintain proper standards of commercial ethics.\footnote{41}

Trade secret law, it must be noted, provides only such protection as is necessary to promote these policies. Others are free to obtain precisely the same information and to use it so long as they acquire it through fair and honest means, such as their own independent efforts, reverse engineering from the finished product to discover ingredients or production methods, or from inadvertent or intentional disclosure by the trade secret owner.\footnote{42}

\section{Elements Necessary to Establish Liability for Trade Secret Misappropriation}

Although no single formulation for imputing liability for trade secret misappropriation has been universally accepted, the courts are in general agreement that liability requires proof of three essential elements: (A) The existence of a trade secret; (B) the acquisition of the secret by a third party by improper conduct or unfair means; and (C) the use or disclosure (or imminence of use or disclosure) by that person of the trade secret to the trade secret owner's detriment.\footnote{43}

\footnotetext[40]{40} Developments in the Law—Competitive Torts, 77 HARV. L. REV. 888, 948-49 (1964); Comment, Corporate Privacy, supra note 3, at 403. See also Seismograph Serv. Corp. v. Offshore Raydist, Inc., 135 F. Supp. 342, 354 (E.D. La. 1955) ("No single test can be applied in all cases where improper acquisition of business information is charged. The inventiveness of the devious mind staggers the imagination. It is simply the difference between right and wrong, honesty and dishonesty, which is the touchstone in an issue of this kind."). For a discussion of the theory of protection in European countries, see Barton, A Study in the Law of Trade Secrets, 13 U. CIN. L. REV. 507 (1939); Trade Secrets, 7 B.C. IND. & COM. L. REV. 324 (1966).


A. What Constitutes a Trade Secret

The definition of a trade secret most widely followed by the courts is that set forth in the Restatement of Torts, which provides that "[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." Accordingly, in order to establish a trade secret, plaintiff has the burden of proof to show that: (1) the item or object he or she alleges to be a trade secret is subject matter that will be protected as a trade secret; (2) it is not a matter of common knowledge in the trade; (3) reasonable precautions have been taken to maintain secrecy; and (4) it is of some value to plaintiff.

1. Protectible Subject Matter

Consistent with the Restatement's definition, almost any item, knowledge, or information used in the conduct of one's business may be held by its possessor as a trade secret. Thus, the
technology used in production, such as plans, formulae, specifications, and general "know-how," is considered to be protectible trade secret subject matter,\textsuperscript{49} as is the machinery itself.\textsuperscript{50} Similarly, non-technological business information such as customer lists,\textsuperscript{51} raw material sources,\textsuperscript{52} pricing and cost codes,\textsuperscript{53} methods of doing business,\textsuperscript{54} and market research studies\textsuperscript{55} may be protected as trade secrets.\textsuperscript{56} So broad is the definition that only two important types of subject matter cannot be maintained as trade secrets: abstract ideas or general principles which are not embodied in a specific form,\textsuperscript{57} and information used in a business which is nevertheless considered to belong to the firm's employees.\textsuperscript{58} These exceptions are eminently sensible, the former owing to the difficulties of enforcement,\textsuperscript{59} the latter because otherwise the employees would be unable to change employment without leaving their entire professional life and experience behind.\textsuperscript{60}

\textbf{Story, Equity Jurisprudence} § 1283 (1916). See generally R. Milgrim, \textit{supra} note 8, § 2.09 for an exhaustive collection of the cases discussing specific categories of items, information, and knowledge.


\textsuperscript{50} See, e.g., A. O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934), \textit{modified}, 74 F.2d 934 (1935).


\textsuperscript{53} E.g., Simmons Hardware Co. v. Waibel, 1 S.D. 488, 47 N.W. 814 (1891).

\textsuperscript{54} E.g., Clark v. Bunker, 453 F.2d 1006 (9th Cir. 1972); Service Systems Corp. v. Harriss, 41 App. Div. 2d 20, 341 N.Y.S.2d 702 (1973).

\textsuperscript{55} E.g., Western Electroplating Co. v. Henness, 180 Cal. App. 2d 442, 4 Cal. Rptr. 434 (1960).


\textsuperscript{57} E.g., Matarese v. Moore-McCormack Lines, Inc., 158 F.2d 631 (2d Cir. 1946); Lueddecke v. Chevrolet Motor Co., 70 F.2d 345 (8th Cir. 1934). Recovery for the wrongful use of one's ideas has, however, been recognized under contract theories. See, e.g., Minniear v. Tors, 266 Cal. App. 2d 495, 72 Cal. Rptr. 287 (1968).


\textsuperscript{60} See Wexler v. Greenberg, 399 Pa. 569, 160 A.2d 430 (1960); \textit{and see generally} Blake, \textit{Employee Agreements Not to Compete}, 73 Harv. L. Rev. 625 (1960).
The scope of the latter exception has proven difficult to determine. While the courts agree that it encompasses the intellectual equipment the employee brings to the job as well as skills and knowledge that he would equally have acquired had he worked for firms competing with his employer, no satisfactory standard for classifying whether particular knowledge is the employer's trade secret or part of an employee's general competence has emerged from the cases. Consequently, any predictability of results seems impossible. Each case will turn upon its own facts and a court's reaction to them.

Merrill Lynch, Pierce, Fenner & Smith, Inc. v. E.F. Hutton & Co. illustrates the difficulty of distinguishing between knowledge which belongs to a firm and that which belongs to its employees. In Hutton, three account executives, who specialized in option writing and trading, quit plaintiff and joined a competing brokerage firm. The original employer sued both the individuals and their new employer, alleging, inter alia, trade secret misappropriation. Plaintiff claimed that the individuals took to their new employment certain "option ledgers" which contained information concerning the starting price, expiration date, and profit and loss history of various kinds and classes of options. The court rejected plaintiff's trade secret claim. It found that the option ledgers were created by the three individuals, that plaintiff did not require that such records be kept, that the ledgers related to accounts which the individuals themselves had personally obtained rather than accounts given to them by plaintiff, that account executives customarily made photocopies of such records for themselves when they changed employment, and that the removal of such records was in conformity with industry practice. Based upon these findings, the court stated that "it would be difficult for this Court to find, with any degree of assurance at this stage, that the documents are valuable assets of plaintiff's busi-

65. Id. at 339-39.
66. Id. at 339-42.
ness." No criteria were advanced nor competing interests weighed to justify this conclusion; the court simply weighed the facts and circumstances of the case.

In an attempt to establish workable guidelines, some courts have specifically held that if the subject matter of the claimed trade secret had been created through the application of the employee's own skill, such knowledge then belongs to the employee. In such a case, absent an express covenant by the employee not to use or disclose such information, or a situation in which the employer has assigned the employee the task of developing such information and committed company resources to the project, the employee is free to use or disclose it in subsequent activity.

Despite the exceptions, a wide variety of business items and information can qualify as protectible subject matter. From a practical standpoint, therefore, it will be the rare case, such as Hutton, that will involve information that cannot qualify as matter subject to trade secret protection. Dispute as to whether business items or information qualifies as a trade secret typically focuses on the other elements of plaintiff's case.

2. Not Common Knowledge

The fundamental basis for legal protection, as the trade secret name suggests, is that the matter be retained in secrecy. In other words, it "must be the particular secrets of the employer as distinguished from the general secrets of the trade in which he is engaged." Matters which are generally known in the trade or business cannot form the basis of a trade secret since their misappropriation can cause little or no damage.

The determination of whether the matter in question is not

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67. Id. at 341.
69. See R. MILGRIM, supra note 8, § 5.02(3).
71. Klein, supra note 8, at 441.
common knowledge is a question of fact to be answered by the trier of fact. The cases have established guidelines to help the factfinder make this determination. Claims of secrecy will be defeated by a showing that a competitor of the alleged trade secret's owner had previously used the matter in question in its business, that defendant had already been using the information, that the information had been widely circulated before the alleged misappropriation, that the information could be derived from readily available sources, or that it had been published in a patent grant. Moreover, lack of secrecy may be inferred from the manner in which defendants treated the information prior to the litigation.

74. See Kodekey Elecs., Inc. v. Mechanex Corp., 486 F.2d 449 (10th Cir. 1973); see also R. Milgrim, supra note 8, § 2.03. See Cummings, Some Aspects of Trade Secrets and Their Protection: The Public Domain and the “Unified Description” Requirement, 54 Ky. L.J. 190 (1966) for a discussion of many of the problems in determining whether the alleged secret is in fact secret.


77. See Bimba Mfg. Co. v. Starz Cylinder Co., 119 Ill. App. 2d 251, 256 N.E.2d 357 (1969). There is no uniformity in the cases as to how widespread the information has to be before it loses its secrecy.

78. See Leo Silfen, Inc. v. Cream, 29 N.Y.2d 387, 278 N.E.2d 636, 328 N.Y.S.2d 423 (1972). The mere fact that the claimed trade secret consists of several components each of which by itself is in the public domain does not, however, preclude protection so long as the trade secret, as a “unified process,” is kept secret. Imperial Chem. Indus. Ltd. v. National Distillers and Chem. Corp., 342 F.2d 737, 742 (2d Cir. 1965).


80. See, e.g., Materials Dev. Corp. v. Atlantic Advanced Metals, Inc. 172
It is important to distinguish cases in which the possessor of the information has revealed it to another in confidence or under an express or implied obligation not to use or disclose it.\textsuperscript{81} Such a confidential disclosure does not destroy the element of secrecy. Thus, protection has been accorded to information that has been revealed to prospective purchasers or licensees,\textsuperscript{82} to information disclosed to employees involved in the manufacturing process in which it is used,\textsuperscript{83} and to information disclosed to employees in the form of blueprints and drawings.\textsuperscript{84} The theory is that commercial reality requires such disclosure, for otherwise the information would be without practical value.\textsuperscript{85}

Similarly, public marketing does not make trade secrets, that are incorporated into a product, common knowledge if those secrets cannot be discovered by reverse engineering, inspection of the product itself, or similar investigatory methods.\textsuperscript{86} Thus, even after a product is on the market or otherwise placed in the public domain, the process by which it is manufactured, engineering benefits or economic savings derived from certain of its features, or the nature of its constituent elements may still remain the subject of trade secret protection.\textsuperscript{87} The courts have, however, consistently held that when the alleged trade secret is ascertainable by inspection of the product the sale constitutes a public disclosure of these trade secrets.\textsuperscript{88}

\begin{footnotesize}
\textsuperscript{81} RESTATEMENT OF TORTS § 757(c) (1939); OPPENHEIM & WESTON, supra note 8, at 300-01.


\textsuperscript{85} 2 R. CALLMANN, supra note 29, § 53.3.


\textsuperscript{88} See Juliano v. Hobart Mfg. Co., 200 F. Supp. 453 (D. Mass. 1961), aff'd per curiam, 303 F.2d 830 (1st Cir. 1962); Carver v. Harr, 132 N.J. Eq. 207, 27 A.2d 895 (Ch. 1942); RESTATEMENT OF TORTS § 757, Comment b (1939). Even though the product would have to be rendered inoperative and examined by a skilled engineer in order for the trade secret contained therein to be discovered, this rule prevails. See Midland-Ross Corp. v. Yokana, 293 F.2d 411 (3d Cir. 1961).
\end{footnotesize}
Closely related to this point is that once there has been a misappropriation of a trade secret by improper means, the fact that such information was also available to the public, including the defendant, does not preclude plaintiff from securing relief if he can prove the elements of his case. As the court in Franke v. Wiltscheke pointed out, the determinative question is not whether the defendant could have obtained the information from public sources, but rather whether in fact he did so obtain it. This principle was applied in Smith v. Dravo Corp. In Dravo, the plaintiff disclosed the design for steel freight containers to defendant, a prospective purchaser of plaintiff’s business. Shortly afterwards, defendant began manufacturing a container of similar design. At the time plaintiff made the disclosure to defendant, 100 of plaintiff’s containers were in public use. The court held that the information about plaintiff’s design acquired by defendant was, nevertheless, protected against unauthorized use. “[T]he mere fact that such lawful acquisition is available,” the court observed, “does not mean that [defendant] may, through a breach of confidence, gain the information in usable form and escape the efforts of inspection and analysis.”

In several other cases the courts have similarly recognized that the public availability of a trade secret does not defeat a claim of trade secret misappropriation when the owner of the trade secret has conveyed it to another party subject to a contractual duty forbidding its use or disclosure. There are cases, however, that reject the reasoning followed in Dravo. The differing views can be attributed to the courts’ varying opinions as to the appropriate standard of commercial morality. As the court stated in Vulcan Detinning Co. v. American Can Co.:

89. See text infra at notes 126-76 for a discussion of what constitutes improper means.


91. 209 F.2d 493, 495 (2d Cir. 1953).

92. 203 F.2d 369 (7th Cir. 1953).

93. Id. at 375.


95. See Northup v. Reish, 200 F.2d 924 (7th Cir. 1953); Sandlin v. Johnson, 152 F.2d 8 (8th Cir. 1945); Van Prod. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 268, 213 A.2d 769, 780 (1965).

[T]oo much emphasis has perhaps been placed upon the element of absolute secrecy in the process, and that not enough stress has been laid upon the inequitable character of the defendants' conduct in making a use of such process that was inimical to the complainant's interests. . . . [T]he secrecy with which a court of equity deals is not necessarily that absolute secrecy that inheres in discovery, but that qualified secrecy that arises from mutual understanding, and that is required alike by good faith and by good morals.\textsuperscript{97}

Since the tendency of the law has been in the direction of imposing higher standards of commercial morality in trade dealings,\textsuperscript{98} most courts seem to favor the principle espoused in \textit{Dravo}.\textsuperscript{99}

3. \textit{Reasonable Precautions}

The courts have consistently held that reasonable steps must be taken to protect and preserve the secrecy of the subject matter that is the alleged trade secret.\textsuperscript{100} The theory is that the owner of the information, having made no effort to maintain it in secrecy, is indicating that he or she does not consider it to be a trade secret and thus the law should not.\textsuperscript{101} The degree of secrecy required, however, is not absolute.\textsuperscript{102} Plaintiff need only establish that \textit{under the circumstances reasonable precautions} were employed to ensure that the subject matter remained secret.\textsuperscript{103}

A recent case that exemplifies this requirement is \textit{J.T. Healy \& Son, Inc. v. James A. Murphy \& Sons, Inc.}\textsuperscript{104} Defendant, James A.

\textsuperscript{97} \textit{Id.}


\textsuperscript{99} See, e.g., McKinzie v. Cline, 197 Or. 184, 252 P.2d 564 (1953).

\textsuperscript{100} See, e.g., E.I. duPont deNemours \& Co. v. Christopher, 431 F.2d 1012, 1015-16 (5th Cir. 1970), \textit{cert. denied}, 400 U.S. 1024 (1971); General Aniline \& Film Corp. v. Frantz, 50 Misc. 2d 994, 999, 272 N.Y.S.2d 600, 606, \textit{modified}, 52 Misc. 2d 197, 274 N.Y.S.2d 634 (Sup. Ct. 1966); R. Milgrim, \textit{supra}\ note 8, § 2.04 (collecting cases).


\textsuperscript{104} 357 Mass. 728, 260 N.E.2d 723 (1970).
Murphy, had worked for the plaintiff, a jewelry findings business, since 1936. He had served most recently as an officer and director. Murphy quit plaintiff’s employ to set up a rival business. Subsequently, plaintiff charged him and others with trade secret misappropriation. It alleged that defendant was using some of plaintiff’s jewelry findings processes. The Supreme Judicial Court of Massachusetts held that plaintiff had failed to establish that its processes were trade secrets because the requirement of reasonable precautions was not met. The court observed that these processes were openly used as part of plaintiff’s manufacturing processes. No partitions were set up to shield them from disclosure. Employees were not required to sign a nondisclosure agreement, nor were notices posted cautioning workers not to disclose or discuss the processes. The court held that these omissions amounted to a “conscious” decision not to maintain secrecy. To earn trade secret protection, an employer must constantly admonish his or her employees that processes or ideas are secret and must be kept so. An affirmative program of “constant and reasonable steps” to maintain secrecy must be proved, and “eternal vigilance” to ensure its effectiveness must be maintained. While the intent of the program necessarily varies from industry to industry and from plant to plant, each employer must at least give “constant warnings to all persons to whom the trade secret has become known and [obtain] from each an agreement, preferably in writing, acknowledging its secrecy and promising to respect it. To exclude the public from the manufacturing area is not enough.”

Similarly, in Wheelabrator Corp. v. Fogle, the court determined that plaintiff failed to maintain adequate secrecy. In Wheelabrator, plaintiff brought suit to enjoin defendant’s use of an allegedly secret process for making steel shot to be used as an abrasive. Plaintiff argued that defendant had agreed in a written employment contract to respect plaintiff’s trade secrets and that entering into this agreement constituted a reasonable and sufficient precaution. The court held that the contract was not controlling on this point, noting that defendant was in a relatively weak bargaining position when he executed the contract, and, more importantly, that

105. Jewelry findings are pieces of metal that are produced by using dies, and which are then sold to jewelry manufacturers who finish the pieces. Id. at 731, 260 N.E.2d at 726-27.
106. Id. at 738, 260 N.E.2d at 731.
plaintiff failed to take further adequate security precautions. Although plaintiff had fenced in its manufacturing facilities and established guard houses at various entrance points, the court was unimpressed. It observed that rather lax "general security management," which embraced both secret and nonsecret facilities alike, was not by itself a reasonable precaution for purposes of trade secret protection. More must be shown than compliance with the custom of many manufacturers "to exclude the general public from an inspection of their methods."108 The court stressed:

[T]he apparent routineness that customers, potential customers, independent contractors, and repairmen were allowed admission to the plant . . . . [M]any of the people that were allowed to tour the plant were engineers and professionals, some of whom the defendant personally conducted in descriptive tours. Almost all, if not all, of the alleged secret processes were visible, and only a few interior modifications to machinery were not observable. Significantly there was no evidence of contractual relationships between those touring the plant and Wheelabrator. Nor was there evidence of admonitions or notice to the independent contractors and repairmen as to the allegedly confidential nature of the operations.109

For these reasons, among others, the court concluded that plaintiff had failed to take reasonable precautions under the circumstances to preserve the secrecy of its steel shot manufacturing processes.

E.I. duPont deNemours & Co., Inc. v. Christopher110 stresses the point that while precautions must be taken, they need only be reasonable. Plaintiff was constructing an addition to a plant which, when completed, would manufacture methanol by a secret process. Because some of the buildings were unfinished, parts of the process were exposed to aerial view. Defendants were charged with flying over and photographing the unfinished addition. They argued that plaintiffs, in the exercise of reasonable precautions, should have put a roof over the unfinished plant. The court held that failure to construct a roof was not unreasonable in these circumstances. "Reasonable precautions against predatory eyes we may require," the court wrote, "but an impenetrable fortress is an unreasonable requirement. . . ."111

108. Id. at 638 (quoting Excelsior Steel Furnace Co. v. Williamson Heater Co., 269 F. 614, 615 (6th Cir. 1920)).
109. Id.
110. 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971).
111. Id. at 1017.
The lessons of these cases seem clear. Plaintiff must establish at the very least that he or she pursued some of the following: Restricting outside visitors from the manufacturer’s plant where the alleged trade secret is used; limiting access to it only to those who have a need to know; maintaining it in a secure location; and advising those who have access to it that it is confidential. Whether or not more measures will have to be implemented will depend on the circumstances. 112

4. Value

It is clear that courts will not extend trade secret protection to all secret information. Only those secrets which provide a distinct competitive advantage over others who are neither aware of nor use them will be protected. 113 This advantage constitutes value. 114 Expressed another way, this element means that the possessor of an item for which trade secret protection is sought must establish that it involves a discovery or an advance in the industry. 115 Value will then be inferred. 116

This requirement suggests an analogy to patent law, which requires for patentability that the elements of novelty, utility, and nonobviousness must appear to a person “having ordinary skill in the art to which said subject matter pertains.” 117 The cases have, however, explicitly rejected the application of the patent standard to trade secret litigation. 118 As noted above, the definition of value requires some degree of novelty, but the degree required is not as great as it is for patent protection. Some novelty is required “if merely because that which does not possess novelty is usually

112. For discussions of trade secret protection programs, see PROBLEMS OF BUSINESS AND INDUSTRIAL SECURITY (R. Needham ed. 1971); Harding, Trade Secrets and the Mobile Employee, 22 Bus. Law. 395, 402-04 (1967); Vandervoort, supra note 20, at 685-88.


118. Clark v. Bunker, 453 F.2d 1006, 1009 (9th Cir. 1972); A.O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531, 539 (6th Cir. 1934), modified, 74 F.2d 934 (1935); cf. Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250, 258 (S.D. Cal. 1958) (subject matter must be “of a character which does not occur to persons in the trade with knowledge of the state of the art or which cannot be evolved by those skilled in the art from the theoretical description of the process, or compilation or compendia of information or knowledge”).
known," and consequently of no value.\footnote{119}

The fact that the alleged trade secret was inexpensive to develop or that it is easily discoverable does not establish that it has no value.\footnote{120} Such a view is eminently sensible. So long as a trade secret gives one's business a significant competitive advantage over others who do not have it, value should be inferred. Making factors such as cost or ease of development determinative would only invite litigation and result in arbitrary decisions as to how much money establishes "considerable cost" and what constitutes "ease of discovery."\footnote{122}

Several courts require the plaintiff to prove regular use of the alleged secret in his or her business as part of the "value" requirement.\footnote{123} One commentator has observed that this line of cases is based upon judicial reluctance to raise "an untested and perhaps unimplemented idea to the status of a . . . [provable] right"\footnote{124} without some evidence indicating that the discoverer has the capacity to put

\begin{footnotes}
\footnote{120. This does not mean that this element is simple to establish. On the contrary, the courts have shown that the parties will still have to meet their requisite burden of proof. See, e.g., Nickelson v. General Motors Corp., 361 F.2d 196, 199 (7th Cir. 1966) (claimed trade secret was a trivial advance); Wilson Certified Foods, Inc. v. Fairbury Food Prods., Inc., 370 F. Supp. 1081, 1086 (D. Neb. 1974) (value of claimed trade secret was insignificant).}
\footnote{121. International Indus., Inc. v. Warren Petroleum Corp., 99 F. Supp. 907, 913 (D. Del. 1951) (relief will not be refused simply because plaintiff's trade secret might probably be discovered by independent experiment); L. M. Rabinowitz & Co. v. Dasher, 82 N.Y.S.2d 431, 438 (Sup. Ct. 1948) (court will not speculate whether defendant could have discovered plaintiff's trade secret by examining the "prior art"); R. Milgrim, supra note 8, § 2.02(2) ("Since it is established that a trade secret can be discovered fortuitously (ergo, without costly development), or result purely from the exercise of creative faculties, it would appear inconsistent to consider expense of development of a trade secret as an operative substantive element. [footnote omitted]").}
\footnote{122. Contra, Manos v. Melton, 358 Mich. 500, 509, 100 N.W.2d 235, 239 (1960), criticized in 38 N.Y.U. L. REV. 324, 336-38 (1963). Although the Restatement of Torts § 757, Comment b (1939), singles out the amount of money or effort expended as a factor in determining whether a trade secret exists, it does not give controlling weight to such a factor. In this regard, it may be said that if a plaintiff can establish that its secret information was developed only after considerable time and expense such proof may aid the plaintiff's case. Compare Filter Dynamics Int'l, Inc. v. Astron Battery, Inc., 19 Ill. App. 3d 299, 316, 311 N.E.2d 386, 400 (1974) (may be of significance) with Wildowsky v. Dudek, 30 Conn. Supp. 288, 289, 310 A.2d 766, 767 (C.P. 1972) (will not help).}
\footnote{123. E.g., Victor Chem. Works v. Iliff, 299 Ill. 532, 548, 132 N.E. 806, 812 (1921); Restatement of Torts § 757, Comment b (1939); contra, Ferroline Corp. v. General Aniline and Film Corp., 207 F.2d 912, 921 (7th Cir. 1953), cert. denied, 347 U.S. 953 (1954); Smith v. Bravo, 203 F.2d 369, 373 (7th Cir. 1953). The Victor line of cases is criticized in Oppenheim & Weston, supra note 8, at 312-13.}
\footnote{124. R. Milgrim, supra note 8, § 2.02(1).}
\end{footnotes}
the idea to use. In addition, the "regular use" requirement helps the court to fix the value of the secret for the purpose of awarding damages. Although this requirement does not pose any problems where the trade secret is being commercially used, it may create a problem in the research and development, experimental, or other precommercial stages.125

B. What Constitutes Acquisition by Improper or Wrongful Means

Having established the existence of a trade secret, plaintiff must then establish that the defendant obtained that trade secret by improper or wrongful means. No complete catalogue of what constitutes such means can be compiled since, as one court has explained, "Improper' will always be a word of many nuances, determined by time, place, and circumstances."126 Some general guidelines, however, have been developed.

It is well established that when one who stands in neither a fiduciary nor confidential relationship to the trade secret owner acquires a secret by means that are "independently unlawful," the test of improper conduct is satisfied.127 Among such means are: "theft, trespass, bribing or otherwise inducing employees or others to reveal the information in breach of duty, fraudulent misrepresentations, threats of harm by unlawful conduct, wiretapping, procuring one's own employees or agents to become employees of the other for purposes of espionage. . . ."128

The Court of Appeals for the Fifth Circuit recently discussed and extended the definition of "independently unlawful means" in E.I. duPont deNemours v. Christopher.129 The decision is important because of its rationale as well as its result. The court showed its willingness to look beyond current case law categories of tortious conduct and to base a finding of "unlawfulness" upon a careful

125. See Englehard Indus., Inc. v. Research Instrumental Corp., 324 F.2d 347, 353 (9th Cir. 1963), cert. denied, 377 U.S. 923 (1964). See generally R. MILGRIM, supra note 8, § 2.02.


128. RESTATEMENT OF TORTS § 759, Comment c (1939).

129. 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971).
analysis of the challenged conduct and its surrounding circumstances.

In *Christopher*, the defendants were charged with wrongfully obtaining plaintiff’s trade secrets and selling them to an undisclosed third party. The complaint alleged that the defendants took several aerial photographs of one of plaintiff’s facilities that was then in an unfinished condition, which left parts of plaintiff’s secret methanol manufacturing process exposed to view from the air. This process, plaintiff claimed, was developed after much expensive and time-consuming research. The complaint further alleged that the process gave plaintiff a valuable competitive advantage over other producers, and was, consequently, a trade secret which it had taken special precautions to safeguard. Plaintiff sought damages and an injunction. The defendants unsuccessfully moved for dismissal for failure to state a claim.

On appeal, the defendants argued that they had committed no “actionable wrong” either in photographing plaintiff’s facility or in passing the photographs on to another party because “they conducted all of their activities in public airspace, violated no government aviation standard, did not breach any confidential relation, and did not engage in any fraudulent or illegal conduct.” In sum, they argued that misappropriation of trade secrets cannot be actionable where no violation of an explicit legal prohibition has occurred.

The Fifth Circuit, in rejecting these arguments, squarely held that aerial photography, otherwise lawful, is an improper means of obtaining a trade secret. Its rationale was clear:

One may use his competitor’s secret process if he discovers the process by reverse engineering applied to the finished product; one may use a competitor’s process if he discovers it by his own independent research; but one may not avoid these labors by taking the process from the discoverer without his permission at a time when he is taking reasonable precautions to maintain its secrecy.

In other words, one may not obtain knowledge of another’s trade secret without spending the time and money necessary to discover it

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130. The trial court granted the defendant's motion for an interlocutory appeal from the court's ruling that plaintiff had stated a claim upon which relief would be granted.
131. 431 F.2d at 1014.
132. Id. at 1015.
133. Id.
independently, unless the owner voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy. Significantly, the court was unpersuaded by defendant's argument that it had only followed generally accepted standards of commercial morality. It wrote:

In taking this position we realize that industrial espionage of the sort here perpetrated has become a popular sport in some segments of our industrial community. However, our devotion to free wheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality expected in our commercial relations. 134

The significance of Christopher lies in its expansive and flexible definition of what constitutes the acquisition of a trade secret by "independently unlawful" means by one who does not stand in a fiduciary or contractual relationship to the trade secret's owner. Its definition embraces acquisition by any method other than independent development, reverse engineering, or disclosure by the owner, whether or not that method violates specific legal prohibitions.

A second situation in which the courts will find a means of obtaining trade secrets to be improper, though "far less pernicious" 135 than acquisition by inherently unlawful means, occurs when one uses for his or her own purposes a trade secret revealed under an obligation not to use it. 136 It is not necessary to show that there was an express agreement not to use the trade secret. 137 Rather, "[t]he existence of a confidential relationship, arising prior to or concurrent with disclosure of a trade secret, imposes an absolute (as opposed to relative) duty not to use or disclose the secret." 138 Whether or not such a confidential relationship exists will, in turn, depend upon an analysis of the facts and circumstances of each individual case. 139 When the facts show that a disclosure was made

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134. Id. at 1016 (emphasis added). The court further added: "The market place must not deviate from our mores." Id. at 1017 (emphasis added).
136. See R. MILGRIM, supra note 8, §§ 4.03, 5.01-.03 (collecting cases); Annot., 9 A.L.R.3d 665, § 3(a) (1966) (collecting cases).
137. See Smith v. Dravo Corp., 203 F.2d 369, 376 (7th Cir. 1953); Telechron, Inc. v. Parissi, 197 F.2d 757, 761 (2d Cir. 1952); Brown v. Fowler, 316 S.W.2d 111, 114 (Tex. Ct. App. 1958); 31 CORNELL L.Q. 382 (1946). See also Restatement (Second) of Agency §§ 395, 396 (1957).
138. R. MILGRIM, supra note 8, § 4.03 (footnotes omitted).
139. Pachmayr Gun Works, Inc. v. Olin Mathieson Chem. Corp., 502 F.2d 802,
in order to further a particular relationship, confidentiality will be implied. The required element of confidentiality has frequently been found when disclosures have been made in the context of the following business relationships: Manufacturer-independent contractor; manufacturer-distributor; supplier-purchaser; inventor-potential manufacturer; licensor-licensee; and, owner of business-potential buyer of business.

Kamin v. Kuhnau illustrates this principle. Plaintiff had designed a garbage truck that compressed trash through the use of a hydraulically operated "plow," and thereby increased the truck's capacity. The defendant was hired by plaintiff to construct the trucks at defendant's facilities, using plaintiff's design. After ten trucks had been built, defendant terminated the relationship and began to independently manufacture and sell garbage trucks, which were very similar to those which he had manufactured for plaintiff. Plaintiff then sued to enjoin defendant's use of its truck design, contending that the design was a trade secret. After determining that plaintiff's design was indeed secret, the court addressed the question of "whether the disclosure to defendant . . . of plaintiff's design for a garbage packer unit was made under such circumstances as to raise an implication of a promise by Kuhnau not to appropriate the design to his own use." The court held that the relationship between the parties was such that an obligation not to appropriate the design

808 (9th Cir. 1974); Cloud v. Standard Packaging Corp., 376 F.2d 384, 389 (7th Cir. 1967); Kamin v. Kuhnau, 232 Or. 139, 152, 374 P.2d 912, 919 (1962).


142. Franke v. Wiltschek, 209 F.2d 493 (2d Cir. 1953) (disclosure to defendants to assist them in selling plaintiff's product).


144. William A. Meier Glass Co. v. Anchor Hocking Glass Corp., 95 F. Supp. 264 (W.D. Pa. 1951) (plaintiff exhibited article to defendant for purpose of selling or leasing it to latter).


146. See Smith v. Dravo Corp., 203 F.2d 369, 376 (7th Cir. 1953) (disclosure to defendant for purpose of selling business to it).

147. 232 Or. 139, 374 P.2d 912 (1962).

148. Id. at 146, 374 P.2d at 916.
could be inferred. Since the defendant was paid to assist the plaintiff in commercially exploiting the design, the court reasoned that:

It must have been apparent to Kuhnau that plaintiff was attempting to produce a unit which could be marketed. Certainly it would not have been contemplated that as soon as the packer unit was perfected Kuhnau would have the benefit of plaintiff's ideas and the perfection of the unit through painstaking and expensive experimentation.\(^{149}\)

Consequently, the court concluded that the defendant "violated his duty to plaintiff by appropriating the information derived through their business relationship."\(^{150}\)

Similar reasoning was employed in *Smith v. Dravo Corp.*\(^{151}\) In the early 1940's, Leathem Smith had designed and developed steel freight containers, called "Safeway Containers." These containers possessed several novel features which made them very attractive for use in boat and rail shipping. The defendant corporation became interested in the containers after learning how successful they were. It approached Smith's company seeking to purchase the containers. During the course of these negotiations, Mr. Smith died and his heirs decided to sell the container business. Defendant expressed an interest in such a purchase. Consequently, a representative of Smith's company sent detailed information to defendant concerning the container's designs, plans, and prospective customers. The negotiations ultimately broke off. Shortly thereafter, defendant began to manufacture containers adopting many, if not all, of the features of plaintiff's design. Plaintiff then brought an action for trade secret misappropriation alleging that defendant had obtained knowledge of plaintiff's trade secrets through a confidential relationship and then wrongfully violated that confidentiality by using the secrets to its advantage. After rejecting the argument that no trade secrets were involved, the court considered whether defendant had

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\(^{149}\) *Id.* at 142-53, 374 P.2d at 919.

\(^{150}\) *Id.* at 155, 374 P.2d at 920. To further support its holding, the court wrote:

If our system of private enterprise on which our nation has thrived, prospered and grown great is to survive, fair dealing, honesty and good faith between contracting parties must be zealously maintained; therefore, if one who has learned of another's invention through contractual relationship, such as exists in the present case, takes unconscionable and inequitable advantage of the other to his own enrichment and at the expense of the latter, a court of equity will extend its broad equitable powers to protect the party injured.

*Id.* at 155, 374 P.2d at 920 (quoting McKinzie v. Cline, 197 Or. 184, 195, 252 P.2d 564, 569 (1953)).

\(^{151}\) 203 F.2d 369 (7th Cir. 1953).
gained knowledge of those secrets during the existence of a confidential relationship. It concluded that a confidential relationship did exist between the parties:

Here plaintiffs disclosed their design for one purpose, to enable defendant to appraise it with a view in mind of purchasing the business. There can be no question that defendant knew and understood this limited purpose. Trust was reposed in it by plaintiffs that the information thus transmitted would be accepted subject to that limitation.\(^\text{152}\)

That the transactions with plaintiffs were at arms length did not, in the court's view, dictate a contrary result. "That fact," the court wrote, "does not detract from the conclusion that but for those very transactions defendant would not have learned, from plaintiffs, of the container design. The implied limitation on the use to be made of the information had its roots in the 'arms-length' transaction."\(^\text{153}\)

Breach of a confidential relationship as an improper means of acquisition is most frequently invoked when an employee resigns, takes with him his former employer's trade secrets, and joins a competitor or establishes a competing business in which the trade secret is used.\(^\text{154}\) It is frequently held that the employment relationship is confidential\(^\text{155}\) and that "[t]he existence of such relationship between employer and employee imposes a duty upon the employee not to use or disclose the employer's confidential information to the employer's detriment."\(^\text{156}\) A confidential relationship will not arise, however, if the employee does not know that the information is confidential and valuable.\(^\text{157}\) As one commentator has ob-

\(^\text{152\text{. Id. at 376.}}\)
\(^\text{153\text{. Id. at 377.}}\)
\(^\text{154\text{. Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Anti-Trust Supremacy, 80 HARV. L. REV. 1432, 1435 (1967); Klein, supra note 8, at 452-54.}}\)
\(^\text{156\text{. R. MILGRIM, supra note 8, \S 5.02(1).}}\)
served: “There can be no betrayal of confidence unless there is a confidence to betray and it is known to be a confidence.”158 Such knowledge can, of course, be found to exist on the ground that under the circumstances the employee has or should have reason to believe the information is confidential.159

Thus, in Greenberg v. Croydon Plastics Co.,160 one of the defendants, Dobrowolski, who had been plaintiff’s sales manager, left plaintiff to join another company. Plaintiff's company manufactured flavored and unflavored mouthguards. The company that hired defendant had never been in the mouthguard business, but within two weeks of Dobrowolski’s arrival, it studied the product’s potential. Subsequently, the company began to manufacture and market the mouthguard. Plaintiff claimed that Dobrowolski had knowledge of his trade secrets concerning the production and sale of mouthguards, and that he was using them to benefit his new employer. The court held that the manufacturing technique was a trade secret which was disclosed to Dobrowolski. It was further determined that the disclosure was made in the course of a confidential relationship because the evidence, including Dobrowolski’s own testimony, established that he was aware of its confidential nature. The court therefore held that Dobrowolski had gained the trade secret through improper means.161

It is important to note that the employer does not lose his protection when the former employee reconstructs secret technical information from memory.162 Thus, in A.H. Emery Co. v. Marcan Products Corp.,163 plaintiff charged that a former employee, Mills, had memorized its trade secrets regarding the design, construction, and manufacture of a hydraulic load cell, and then disclosed them to the defendant company. The trial court ruled that “it is as much a


158. Blake, Employee Agreements Not to Compete, 73 HARV. L. REV. 625, 668 (1960).

159. A.H. Emery Co. v. Marcan Prods. Corp., 389 F.2d 11, 16-17 (2d Cir.), cert. denied, 393 U.S. 835 (1968); R. MILGRIM, supra note 8, § 5.02(2).


162. A. TURNER, supra note 29, at 169.

breach of confidence for an employee to reproduce his employer's drawings from memory as to copy them directly." On appeal, the Second Circuit affirmed, holding "that the information contained in its parts drawings, which had been reproduced from memory by [the draftsmen] for the use of the defendants, constituted protectable [sic] secrets." Similarly, in Sperry Rand Corp. v. Rothlein, the defendants were charged with trade secret misappropriation. Their defense was that the trade secrets had been copied from memory. To this defense the court responded:

It may be and if so, it was a remarkable display of memory, for numerous measurements were in thousandths of an inch. But it does not matter whether a copy of a Sperry drawing came out in a defendant's hand or in his head. His duty of fidelity to his employer remains the same.

Finally, in Jet Spray Cooler, Inc. v. Crampton, the Supreme Judicial Court of Massachusetts held that even though no list or paper was taken, the former employee would be enjoined from disclosure if the information which he gained through his employment and retained in his memory is confidential in nature.

The cases are less uniform, however, when the former employee memorizes and discloses secret customer lists. A number of jurisdictions have adopted the Restatement of Agency test which prohibits an ex-employee from using or disclosing to competitors his ex-employer's "written lists of names [although he or she is entitled to use] . . . names of the customers retained in his memory, if not acquired in violation of his duty as agent." The majority of those courts that have squarely faced the issue, however, have rejected the Restatement view that no liability should be imposed where the customer list in question had been memorized. As one court has written: "Whether this information was

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164. 268 F. Supp. at 300.
165. 389 F.2d at 15.
167. Id. at 563.
169. E. Kintner & J. Laehr, supra note 46, at 156.
170. See, e.g., Progress Laundry Co. v. Hamilton, 208 Ky. 348, 270 S.W. 834 (1925); E. Kitch & H. Perlman, supra note 14, at 342-43.
171. Restatement (Second) of Agency § 396 (1958).
embodied in written lists or committed to memory is, we believe, of no significance; in either case the data are entitled to protection.”\(^{173}\)

A third type of acquisition of trade secrets by improper means occurs when the appropriation and use of secret information violates specific terms of a contract.\(^{174}\) Many employers, for example, seek to keep their trade secrets from their competitors by executing employment contracts which contain covenants not to divulge secrets as well as covenants not to compete after termination of employment. Such covenants will be enforced so long as they do not unreasonably restrict the employee’s mobility.\(^{175}\) Similarly, firms or individuals which must communicate trade secrets to parties such as customers, manufacturers, or suppliers in order to close business deals, often require the disclosee to contractually promise not to disclose the information. These contractual provisions are also generally upheld and enforced.\(^{176}\)

C. **Use of the Wrongfully Acquired Trade Secret**

Finally, plaintiff must establish either that the defendant has used or disclosed the wrongfully acquired trade secret or that there is a probability of improper disclosure or use to its detriment.\(^{177}\) Proving this element, as one federal judge has noted, can be “an


\(^{174}\) See generally R. Milgrim, supra note 8, § 3.01-05.


\(^{177}\) Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912, 921 (7th Cir. 1953), cert. denied, 347 U.S. 953 (1954); H.B. Fuller Co. v. Hagen, 363 F. Supp. 1325 (W.D.N.Y. 1973); Klein v. Ekco Prods. Co., 135 N.Y.S.2d 391, 395 (Sup. Ct. 1954); R. Milgrim, supra note 8, § 7.05. One commentator has stated the basis for this requirement as follows: “In the law of torts there is the maxim: Every dog has one free bite. A dog cannot be presumed to be vicious until he has proved that he is by biting someone. As with a dog, the [plaintiff] may have to wait for the [defendant] to commit some overt act before he can act.” R. Ellis, supra note 29, § 85.
extraordinarily difficult task"\textsuperscript{178} since direct evidence is usually very
difficult to obtain.

In most cases plaintiffs must construct a web of perhaps ambigu­
ous circumstantial evidence from which the trier of fact may draw
inferences which convince him that it is more probable than not
that what plaintiffs allege happened did in fact take place. Against
this often delicate construct of circumstantial evidence there fre­
frequently must be balanced defendants and defendants' witnesses
who directly deny everything.\textsuperscript{179}

One form of circumstantial evidence that is frequently relied on
to establish use is "similarity."\textsuperscript{180} Thus, for example, in a case in
which it is charged that defendant wrongfully acquired and used
plaintiff's secret blueprints for manufacturing a certain product, the
similarity of defendant's product to plaintiff's is sufficient proof that
defendant used plaintiff's trade secret.\textsuperscript{181} The theory behind such
a holding is simply that "it is hardly probable that different persons
should independently of each other invent devices so nearly similar
at so nearly the same time."\textsuperscript{182} The similarity between the products
need not be identical. Substantial similarity will suffice,\textsuperscript{183} although
proof of some congruence will not by itself support a finding of
use.\textsuperscript{184} The requisite degree of similarity will ordinarily be a ques­
tion of fact.

Likewise, evidence that an employee, who has access to his
or her firm's trade secrets, has left the firm and joined a competing
company, and that shortly afterwards that company has begun to
manufacture and sell a product that incorporates these trade se-

(Lord, C.J.).

\textsuperscript{179} Id.

\textsuperscript{180} Smith v. Dravo Corp., 203 F.2d 369, 377 (7th Cir. 1953); Hoeltke v. C. M.
Chems., Inc., 162 F. Supp. 332, 336 (N.D. Ill. 1958) (formulae of defendant's products
"close enough" to plaintiff's formulae "to rebut the contention of coincidence or
independent discovery").

\textsuperscript{181} Schreyer v. Casco Prods. Corp., 97 F. Supp. 159, 169 (D. Conn.), modi­
ified, 190 F.2d 921 (2d Cir. 1951), cert. denied, 342 U.S. 913 (1952); Kamin v. Kuhnau,
232 Or. 139, 156, 374 P.2d 912, 920-21 (1962).

\textsuperscript{182} Hoeltke v. C. M. Kemp Mfg. Co., 80 F.2d 912, 924 (4th Cir.), cert. denied,
298 U.S. 673 (1935).

\textsuperscript{183} See Forest Labs., Inc. v. Pillsbury Co., 452 F.2d 621 (7th Cir. 1971); Riteoff,

\textsuperscript{184} See National Rejectors, Inc. v. Trieman, 409 S.W.2d 1 (Mo. 1966); R. Mil­
grim, \textit{supra} note 8, § 7.07(1)(a).
crets establish the element of use.\textsuperscript{185} Thus, in \textit{Weil-McLain Co., Inc. v. Andro Corp.},\textsuperscript{186} Andro Corporation charged that Weil-McLain had wrongfully appropriated its trade secrets. Andro alleged that it had employed one Dieter Grether as its Manager of Engineering for several years, and that during this time he had acquired knowledge of trade secrets relating to the manufacture of heating and air conditioning systems. After Grether quit and went to work for Weil-McLain, that company began to manufacture a line of products identical in many respects to Andro's. The court held that when a high-level employee with access to a firm's trade secrets is hired by a competing firm which then markets a product incorporating those secrets, proof of use is present.\textsuperscript{187}

Regardless of similarity or change of employment by key employees, proof of non-copying or independent development of the trade secret will bar liability.\textsuperscript{188} This defense can be established by showing that defendant's employees who developed the trade secret never had access to the allegedly misappropriated information.\textsuperscript{189} It can also be established by proof that experimentation prior to the hiring of plaintiff's former employee led to the development of the trade secret.\textsuperscript{190}

\begin{itemize}
  \item\textsuperscript{186} Id. at A-16 and A-17.
  \item\textsuperscript{187} Id. at A-16 and A-17.
  \item\textsuperscript{190} Id. \textit{See also} Greenberg v. Croydon Plastics Co., 378 F. Supp. 806 (E.D. Pa. 1974) (court recognized defense of prior experimentation but did not believe testimony of key defense witness).
\end{itemize}
In cases in which the defendant has not used the plaintiff's trade secret, plaintiff, to obtain an injunction, must show a substantial threat of use by the defendant.\footnote{191} As with proof of a completed use or disclosure, this burden of proof can be met by circumstantial evidence.\footnote{192} \textit{B.F. Goodrich Co. v. Wohlgemuth}\footnote{193} illustrates this point. Donald Wohlgemuth, while employed by plaintiff B.F. Goodrich worked on the design and construction of certain space suits for Project Mercury. He quit his job and took a higher paid position with a competitor of Goodrich, International Latex Corporation, which had recently been awarded a research and development contract for space suits for Project Apollo. Plaintiff sued to enjoin Wohlgemuth from revealing any of its trade secrets to his new employer. In issuing an injunction, the court observed that there was "no evidence . . . that Goodrich trade secrets have been revealed by Wohlgemuth; however, the circumstances surrounding his employment by Latex, and his own attitude as revealed by statements to fellow Goodrich employees, are sufficient to satisfy this court that a substantial threat of disclosure exists."\footnote{194}

When a trade secret is used by one who has acquired it in good faith without knowledge that the person from whom it was obtained had acquired the trade secret improperly, liability will not be imposed.\footnote{195} But once the innocent user is put on notice that the trade secret had been wrongfully obtained, use must cease.\footnote{196} The Re-
statement of Torts, it should be noted, takes a more relaxed position. It would bar liability even after notice if the user is a bona fide purchaser or "has so changed his position that to subject him to liability would be inequitable." 197

III. Remedies

Remedies available for the misappropriation of trade secrets include equitable relief and monetary damages. 198 In appropriate cases, a court may order both equitable and legal relief. 199 Since misappropriation of trade secrets is an intentional tort, a court has broad discretion to fashion such relief as will best compensate the plaintiff for the harm suffered. 200 Every trade secret case thus requires a flexible and imaginative approach to the issue of relief. Counsel for plaintiff should adjust his or her request for relief to accord with the commercial setting of the injury, the likely future consequences of the misappropriation, and the nature and extent of defendant's use of the trade secret after the misappropriation.

A. Equitable Relief

1. Injunctions

Injunctive relief to prohibit use of the trade secret as well as disclosure to others is the remedy most commonly sought in trade secret cases. 201 As in other contexts, the prerequisites for injunctive relief are a showing of irreparable harm in the absence of such relief and the inadequacy of a remedy at law. 202 In most instances, these


198. RESTATEMENT OF TORTS § 757, Comment e (1939); OPPENHEIM & WESTON, supra note 8, at 308.


201. Hyde Corp. v. Huffines, 158 Tex. 566, 591, 314 S.W.2d 763, 780, cert. denied, 358 U.S. 898 (1958); National Tile Board Corp. v. Panelboard Mfg. Co., 27 N.J. Super. 348, 355, 99 A.2d 440, 443 (Ch. Div. 1953); E. KINTNER & J. LAHR, supra note 46, at 221; Annot., 170 A.L.R. 449, 488-89 (1942). This is understandable since in most instances the immediate priority of the party whose trade secret has been misappropriated will be to enjoin any further use or disclosure of the trade secret. Thus, as a matter of course, injunctive relief should be sought.

criteria will be deemed satisfied once it has been established that a trade secret has been wrongfully acquired. 203

Debate usually centers on the scope rather than the availability of injunctive relief. The general rule is that an injunction should be tailored to meet the requirements of the particular case. It should be neither excessively broad nor unduly restrictive. 204 Accordingly, the courts will attempt "to put the aggrieved party in trade secret cases in as good a position as he would have enjoyed had the misappropriation not occurred." 205

Winston Research Corp. v. Minnesota Mining & Manufacturing Co., 206 provides a striking illustration of the rule as applied to the issue of the duration of the injunction. The Mincom Division of the Minnesota Mining and Manufacturing Company (Mincom), had developed an improved precision tape recorder and reproducer. Subsequently, Winston Research Corporation (Winston) developed a similar product. The lower court found that Winston had drawn on Mincom's trade secrets which it had acquired by hiring several of that firm's employees. The court enjoined Winston from disclosing or using Mincom's trade secrets for two years from the date of entry of the court's judgment. On appeal, Mincom argued that the injunction should have been permanent or at least remained in effect for a much longer period. Winston, on the other hand, contended that no injunctive relief was appropriate. The Ninth Circuit rejected both arguments and affirmed the lower court's order with only slight modifications. It reasoned that a permanent injunction would subvert public policy which encourages technical employees to make full use of their skill and seeks to foster research and development, but that denial of relief would reward unfair practices. Thus, a middle ground was appropriate.

By enjoining use of the trade secrets for the approximate period it would require a legitimate Mincom competitor to develop a successful machine after public disclosure of the secret information,


205. Hawkland, supra note 25, at 130.

206. 350 F.2d 134 (9th Cir. 1965).
the district court denied the employees any advantage from their faithlessness, placed Mincom in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.\footnote{207}

A number of decisions have employed a similar rationale in issuing injunctions that are of limited duration.\footnote{208}

Other courts, however, have not taken such a balanced approach. Thus, in \textit{Shellmar Products Co. v. Allen-Qualley Co.},\footnote{209} the court held that a defendant may be permanently enjoined from using a misappropriated trade secret even after it has become public knowledge and others are thus entitled to use it. The rationale is that the defendant, having acted wrongfully, should be deprived of the right now available to everyone else.\footnote{210} This view has been followed in a number of other cases.\footnote{211} Conversely, some courts have held that permanent injunctions may issue but that they shall automatically end when the trade secret becomes available to the public.\footnote{212}

Courts and commentators alike appear to support the position taken by \textit{Winston} and its progeny: injunctions in trade secret cases should remain in effect long enough to remedy the wrong, but no longer.\footnote{213} Since this standard requires the factfinder to determine how long it would have taken the defendant to duplicate the plaintiff's process or product, counsel for either party must be prepared to present evidence on this point. The period of time will, of course,

\begin{footnotes}
\footnote{207. \textit{Id.} at 142 (footnotes omitted).}
\footnote{208. \textit{K-2 Ski Co. v. Head Ski Co.}, 506 F.2d 471, 474 (9th Cir. 1974); \textit{Plant Indus., Inc. v. Coleman}, 287 F. Supp. 636 (C.D. Cal. 1968).}
\footnote{209. \textit{87 F.2d} 104 (7th Cir. 1936), \textit{cert. denied}, 301 U.S. 695 (1937).}
\footnote{210. \textit{Id.} at 110.}
\end{footnotes}
vary depending on the facts of each case. It may be a year or less or, if the evidence shows that the trade secret could not have been independently developed, a permanent injunction may issue. \(^{214}\)

Where the misappropriation suit arises out of a breach of a covenant not to use or disclose an employer's trade secret for a specified period of time after termination of employment and the time period specified in the covenant has run prior to the entry of judgment, the courts are divided as to the availability of injunctive relief. \(^{215}\) Thus, in *Abalene Pest Control Service, Inc. v. Hall*, \(^{216}\) plaintiff sued one of its ex-employees to enforce a covenant which provided that for a period of five years following termination of employment he would not disclose customer information, and for a period of two years he would not compete with his employer. By the time the case was argued in the Vermont Supreme Court, the two year period had run. Although the court enforced the five year provisions of the covenant, it dismissed as moot that part of the suit which sought to enforce the two year provision despite defendant's continuous violation while the covenant had been in effect. One commentator has criticized the view that "rights already lost and wrongs already committed are not remediable by injunction. . . . [S]uch a rationale ignores the purpose for having these contractual provisions in the first place, thwarts the compensatory goal of the injunctive remedy, and foments . . . ineffective litigation in the form of separate actions for breach of contract." \(^{217}\)

On the other hand, when breach of a covenant not to compete for two years following termination of employment was challenged in *Premier Industrial Corp. v. Texas Industrial Fastener Co.* \(^{218}\) the court held that the employee could be enjoined from working for a period of fourteen months from the date of final judgment, even though the injunction would not end until approximately three years beyond the date on which the employee quit. This extension was necessary in order to protect the plaintiff's "right to enjoyment of its injunctive relief for a meaningful period of time . . . ." \(^{219}\) Other courts have followed this approach, \(^{220}\) which resembles that taken in

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218. 450 F.2d 444 (5th Cir. 1971).
219. *Id.* at 448.
220. American Eutectic Welding Alloys Sales Co. v. Garcia-Rodriguez, 480 F.2d
Winston in its attempt to frame a balanced injunctive decree which truly seeks to make the plaintiff whole.

Another interesting question that has arisen about the scope of injunctive relief is whether a court can enjoin the defendant from continuing to engage in the same line of business in competition with plaintiff after misappropriation of a trade secret has been proved. The answer appears to be "no." While there can be no doubt that a court will enjoin the defendant from manufacturing a product which embodies the trade secret or is produced by using it, the courts will not on the basis of misappropriation alone prohibit the defendant from continuing in that business. He or she is to produce the product using other methods or processes. This result recognized that "[t]he injunctive relief should be restricted to the benefits flowing from the . . . [improper acquisition]."

In sum, the case law recognizes that injunctive relief in trade secret cases is not guided by rigid rules. To the contrary, the formulation of injunctive relief will turn in most cases upon a full consideration of all the surrounding circumstances, guided by the consideration that relief must be tailored to accomplish remedial and not criminal purposes.

2. Other Equitable Relief

Additional equitable remedies which the courts have decreed include an order for the return of the trade secret and copies thereof when physically feasible, and destruction of the products manufactured through the use of the trade secret along with the equipment used by the defendant in the manufacturing process. The scope of such relief also turns upon the circumstances of each case.

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223 (1st Cir. 1973); Schulenburg v. Signatrol, Inc., 37 Ill. 2d 352, 226 N.E.2d 624 (1967); cf. Sanitary Farm Dairies, Inc. v. Wolf, 261 Minn. 166, 112 N.W.2d 42 (1961) (plaintiff entitled to injunction for length of time sufficient to allow him to compete on even terms with ex-employee who solicited customers while still in plaintiff's employ).


222. Smith v. Dravo Corp., 203 F.2d 369 (7th Cir. 1953); R. Milgrim, supra note 8, § 7.08(1)(b).

223. Smith v. Dravo Corp., 203 F.2d 369, 378 (7th Cir. 1953).


225. General Aniline & Film Corp. v. Frantz, 50 Misc. 2d 994, 272 N.Y.S.2d 600.
For example, destruction of all equipment will usually be decreed when the defendant may continue to use the trade secret or sell the product embodying it despite the existence of an injunction. Likewise, an order for the destruction of equipment may issue when it appears that defendant may flee the jurisdiction.\footnote{226} Destruction will not be decreed, however, when the equipment is usable in other manufacturing activities.\footnote{227}

B. \textit{Monetary Damages}

1. \textit{Compensatory Damages}

It is clear that compensatory damages may be awarded in trade secret misappropriation cases.\footnote{228} The two basic measures of recovery include the losses sustained by plaintiff and the profits earned by defendant through the use of the misappropriated trade secret.\footnote{229} In most instances, plaintiff may recover under either theory, but not both, for otherwise there would be a double recovery.\footnote{230} However, recovery under both theories is not precluded when the circumstances so require it to make the plaintiff whole.\footnote{231} Regardless of the method employed, plaintiff has the burden of proving damages.\footnote{232} Damages must be more than merely speculative, although mathe-
mathematical precision is not necessary.\(^\text{233}\) A rational evidentiary basis for a given damage claim will usually suffice.\(^\text{234}\)

a. Losses Sustained

The most obvious example of losses sustained by a plaintiff is profits lost as a result of the misappropriation. For example, the defendant's misappropriation of the trade secret may have enabled it to displace plaintiff's product in the market sooner than would otherwise have been the case. As a consequence, plaintiff may have sold fewer products and suffered a loss of profits. In such a case, damages may be calculated on the basis of those lost profits.\(^\text{235}\) If the misappropriation precludes the plaintiff from manufacturing or marketing its product, the same reasoning should similarly support the recovery of lost profits. In this context, the net profits generally recoverable are computed by subtracting any costs which have been avoided from lost revenues.\(^\text{236}\) This measure, however, does include certain fixed overhead costs.\(^\text{237}\)

Plaintiff's recovery is not limited to lost profits. The cases indicate that costs incurred by the plaintiff as a result of the misappropriation are also recoverable.\(^\text{238}\) Thus, if the misappropriation has led to increased manufacturing costs or added training expenses for personnel, the total amount of such expenditures can be recovered.\(^\text{239}\)


\(^{235}\) Telex Corp. v. I.B.M. Corp., 510 F.2d 894, 931 (10th Cir.), cert. dismissed, 423 U.S. 802 (1975); Clark v. Bunker, 453 F.2d 1006 (9th Cir. 1972); Kamin v. Kuhna, 232 Or. 139, 157, 374 P.2d 912, 921 (1962). Plaintiff's loss of profits may also include the profits he or she could reasonably have expected from follow-up sales of spares or parts to supplement the basic product. Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387 (4th Cir. 1971), cert. denied, 405 U.S. 1017 (1972).

\(^{236}\) See generally Nims, Damages and Accounting Procedure in Unfair Competition Cases, 31 CORNELL L.Q. 431 (1946); 9 U. FLA. L. REV. 336 (1956).


\(^{238}\) See Telex Corp. v. I.B.M. Corp., 510 F.2d 894, 933 (10th Cir.), cert. dismissed, 423 U.S. 802 (1975).

\(^{239}\) D. BOIES, DAMAGES FOR MISAPPROPRIATION OF TRADE SECRETS 231 (1975).
b. Defendant’s Gain

When plaintiff is unable to prove specific injury, the appropriate measure of damages is the benefits, profits, or advantages gained by the defendant in the use of the misappropriated trade secret.\(^{240}\) The cases reveal many variations in the way this benefit to the defendant can be computed. Counsel should consider each standard and then determine which is best suited to his client’s case.

The first method is to measure the defendant’s profits attributable to its use of the trade secret.\(^{241}\) In most instances only the defendant’s actual profits can be considered; speculations and estimates must be excluded.\(^{242}\) Plaintiff is only entitled to net profits; the defendant may deduct the expenses that relate to the new product despite the use of plaintiff’s trade secret. Deduction for recurring general and administrative expenses, however, is not allowed.\(^{243}\)

When no actual profits exist or their determination is impractical, another method referred to as the “reasonable royalty” may be used for purposes of assessing damages.\(^{244}\) A reasonable royalty is that amount which the trier of fact estimates that a party would be willing to pay for use of the trade secret and the owner would be willing to accept.\(^{245}\) In calculating what a fair licensing price would


\(^{243}\) See Carboline Co. v. Jarboe, 454 S.W.2d 540, 553-54 (Mo. 1970); Annot., 63 A.L.R.2d 1433 (1959).

\(^{244}\) University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 536-42 (5th Cir. 1974) (citing cases); Forest Labs., Inc. v. Pillsbury Co., 452 F.2d 621, 627 (7th Cir. 1971). The rationale for resort to another standard when profits cannot be determined was aptly described in Lykes-Youngstown, as follows:

[The risk of defendants’ venture, using the misappropriated secret, should not be placed on the injured plaintiff, but rather the defendants must bear the risk of failure themselves. Accordingly the law looks to the time at which the misappropriation occurred to determine what the value of the misappropriated secret would be to a defendant who believes he can utilize it to his advantage, provided he does in fact put the idea to a commercial use.]

University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d at 536 (footnote omitted).

\(^{245}\) University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 536-38 (5th Cir. 1974). For discussion of the reasonable royalty standard in patent infringement cases, which is used by analogy in trade secret cases, see Foster v. American
have been had the parties agreed, the factfinder should consider such variables as foreseeable changes in the parties' competitive positions; the price past purchasers or licensees may have paid; the total value of the secret to the plaintiff, including the plaintiff's development costs and the importance of the secret to the plaintiff's business; the nature and extent of the use the defendant intended for the secret; and whatever other unique factors in the particular case, such as the ready availability of alternative processes, may have affected the parties' agreement. That the plaintiff had in the past refused to license the trade secret, and thus is unable to introduce past transactions as evidence of the terms of a reasonable license agreement, does not preclude the use of this standard.

A third approach to the determination of defendant's cost savings as a result of the misappropriation is frequently called the "standard of comparison test." This standard "contemplates a comparison of the costs incurred by the defendant using the . . . trade secret, and the costs that would have been incurred had he not used the trade secret. The difference between the two is the 'benefit' accruing to the defendant, and is the measure of plaintiff's damages." Using the defendant's gain as the measure of damages is a most significant standard since it can be computed in various ways. Counsel should not overlook the possibilities it affords for making the plaintiff whole.


247. Id. at 542-43.


249. Telex Corp. v. I.B.M. Corp., 510 F.2d 894, 930 (10th Cir.), cert. dismissed, 423 U.S. 802 (1975). At least one court has considered the plaintiff's actual development costs as the measure of damages under this standard. The court, however, noted that such measurement would be inadequate in most instances because it would not take into account the commercial context in which the misappropriation occurred. University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 538 (5th Cir. 1974).
2. Punitive Damages

Although punitive damages are not generally favored by the law,²⁵⁰ recent trade secret decisions have allowed them in appropriate cases.²⁵¹ This trend has become so marked that one commentator has observed that "[i]f your goal in business tort litigation is to obtain a maximum recovery for your client, you will fall short of that objective if you overlook the possibility of collecting punitive damages."²⁵²

While the law controlling when punitive damages will be imposed varies from jurisdiction to jurisdiction, most courts will assess three fundamental factors: The character of the defendant's conduct, the extent and nature of the harm to the plaintiff caused or intended by the defendant, and the wealth of the defendant.²⁵³ Expressed another way, the courts look to see whether the defendant's conduct is "flagrant."²⁵⁴

3. Attorney's Fees as Damages

The cases differ on the question of whether a successful plaintiff may recover attorney's fees.²⁵⁵ Although some courts have noted the general policy of both state and federal courts not to award such fees in the absence of an agreement or statutory authorization,²⁵⁶ others will nevertheless make such an award.²⁵⁷ Accordingly, counsel should investigate whether the state where suit is brought permits recovery of attorney's fees to a successful plaintiff.

²⁵³. Id. The Galane article is highly recommended because of its thorough discussion of all aspects of punitive damages.
²⁵⁵. See R. Milgrim, supra note 8, § 7.08(3)(e) (collecting cases).
IV. CONCLUSION

Protecting trade secrets has assumed considerable importance in today's corporate world. Cognizant of the role that confidential business information plays in the competitive market, businesses are making substantial investments of time and money to guard against the loss of such information. Nevertheless, despite the most stringent internal security programs, misappropriation does occur. When this happens, the injured firm must turn to the courts for relief.

This article attempts to provide guidelines for the practitioner who is unfamiliar with the subject of trade secret misappropriation. A careful and informed approach is necessary to litigation in this area. As one commentator has observed, "[t]he lawyer cannot and should not regard a trade secret problem as just another tort case." Such litigation presents a host of challenging problems regarding the elements of liability that must be established together with the proof that will satisfy such elements.

Though no one particular theory of liability for trade secret misappropriation has evolved in American legal thought, proof of three elements is essential to establish liability. First, plaintiff must show the existence of a trade secret. This requires proof that: (1) The trade secret is protectible subject matter; (2) it is not common knowledge throughout the trade; (3) efforts have been made to maintain secrecy; and (4) it is of some value to plaintiff. Second, it must be shown that a third party acquired the secret by improper conduct or unfair means. Third, that use or disclosure of the trade secret by that party will be to the owner's detriment must be shown.

Although not essential to establishing liability, the form of relief should be thoroughly examined by counsel. The commercial setting of the injury, the probable future consequences of the misappropriation, and the nature and extent of defendant's use of the trade secret must be assessed when drafting a request for relief which will best compensate plaintiff for the injury.

While many of the practical problems that arise have been discussed, it is evident that others remain. In attempting to resolve these problems, the attorney should consider the four competing interests and demands that have shaped trade secret misappropriation law. They are:

1. The interests, demands and claims of an enterprise which by costly research and experiment has developed information, inven-

258. Berryhill, supra note 202, at 189.
tions, skills and knowledge, e.g., know-how, that gives to such enterprises an advantageous competitive position in the market place. This is a valuable business asset for the acquisition of which other enterprises are willing to pay a price and the unauthorized disclosure or misuse by others would inflict a serious damage to the originating enterprise.

(2) The interests, demands and claims of competing enterprises which desire to obtain the benefit of know-how developed by others as an effective instrument for the promotion of their interests. They are looking out for the publication of any information on such know-how and desire to enter into agreements to obtain communication of know-how maintained in secrecy.

(3) The interests and claims of the community in the widest possible intercommunication of know-how by enterprises and the resulting high quality standards and low cost of goods, and in the avoidance of undue or excessive restraints between those competing in the market place.

(4) The interests of the social and legal order of the country concerned which would be fatally injured if the spirit of invention and creation and the investment in research and development of know-how was to be discouraged, and if it would be permitted to enterprises to engage in unlawful competition and unauthorized use of secret know-how of others, or in the disinclination to share technical knowledge and skills.259

Although they will not provide the attorney with conclusive answers, analyzing a specific problem in light of these interests will at least indicate the approach that a court might deem the most equitable under the circumstances. This will enable the practitioner to better determine the likelihood of success when presented with a potential trade secret misappropriation case.