

INTELLECTUAL PROPERTY SURVEYOR

IP Surveyor

Volume: Trade Secret

VERSION 1.0

MUSEUM EDITION



An open casebook
by Eric E. Johnson



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Intellectual Property

Surveyor

Volume: Trade Secret

VERSION 1.01

MUSEUM EDITION

an open casebook

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-EEJ

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S-0: Trade Secret Orientation

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Sources of trade secret law

Trade secret law is **state and federal**, both **civil and criminal**. While copyright and trademark law have provisions for criminal liability in particular circumstances, the criminal side of trade secret law—particularly at the federal level—looms particularly large.

Trade secret law originally grew out of common-law tort doctrine. As of 2022, the common law still reigns in New York. But most U.S. jurisdictions have adopted, in some form, the *Uniform Trade Secrets Act (UTSA)*. Those jurisdictions include 48 states—all except North Carolina, which has its own statute, and New York. The UTSA has also been adopted in DC, Puerto Rico, and the Virgin Islands.

The UTSA preempts common-law civil causes of action for trade secrets. Thus, in states with the UTSA, the UTSA is the sole source of a private cause of action for trade secret misappropriation.

Some states do criminalize trade secret theft. The UTSA itself, however, does not directly provide for or concern criminal liability.

Federal law first explicitly entered into the realm of trade secrets with a criminal statute, the Economic Espionage Act of 1996 (EEA), Pub. L. No. 104-294, 110 Stat. 3489 (1996), its main provisions codified in Title 18, which concerns federal crimes, at 18 U.S.C. §§ 1831-1839. The law, when enacted, did not contain any private civil cause of action. Congress passed the EEA amid a swell of concern about foreign spies stealing America’s industrial edge.

“The EEA became law in October 1996 against a backdrop of increasing threats to corporate security and a rising tide of international and domestic economic espionage. The end of the Cold

War sent government spies scurrying to the private sector to perform illicit work for businesses and corporations, and by 1996, studies revealed that nearly \$24 billion of corporate intellectual property was being stolen each year. The problem was augmented by the absence of any comprehensive federal remedy targeting the theft of trade secrets, compelling prosecutors to shoehorn economic espionage crimes into statutes directed at other offenses.”

United States v. Hsu, 155 F.3d 189, 194 (3d Cir. 1998) (citations and paragraph break omitted).

Twenty years later, in 2016, Congress broadened federal trade secret law to add on civil causes of action with the passage of the ***Defend Trade Secrets Act of 2016 (DTSA)***. The legislative action took place amid a new flood of concern about foreign espionage against U.S. companies—cyberespionage from China being a particular focus of concern.

As it was being considered, the DTSA was criticized by scholars—particularly its powerful ex parte seizure provisions. A letter signed by leading trade-secrets scholars argued, “While we agree that effective legal protection for U.S. businesses’ legitimate trade secrets is important to American innovation, we believe that the DTSA ... will not solve the problems identified by its sponsors. Instead of addressing cyberespionage head-on, passage of the DTSA is likely to create new problems that could adversely impact domestic innovation, increase the duration and cost of trade secret litigation, and ultimately negatively affect economic growth.”

Despite the expression of such concerns, and notwithstanding a strong current of hyper-partisanship on Capitol Hill in the spring of 2016, the DTSA was enthusiastically embraced by Democrats and Republicans alike—passing 410-2 in the House of Representatives and 87-0 in the Senate before being signed into law by President Barack Obama.

In terms of codified language, the DTSA built on, expanded, and modified the statutory law of the EEA, leaving 18 U.S.C. §§ 1831-1839 as the code location of federal trade secret law. Thus, despite now being a comprehensive federal scheme of trade secret law that includes privately enforceable civil causes of action, the DTSA dwells in the federal criminal title on account of its EEA origins.

Federal trade secret law does not preempt state law.

Terminology: “misappropriation” in lieu of “infringement”

With copyright, patent, and trademark, one speaks of *infringement*. In the trade secret context, however, one speaks of *misappropriation*. So, a plaintiff might file a lawsuit against a defendant for “copyright infringement” and “trade secret misappropriation.”

Trade secrets vs. other confidential business information

The term “trade secret” is understood to be distinct from and *not* coextensive with “confidential” or “proprietary.” That is true even though those terms are sometimes thrown around together. The word “confidential” can describe anything someone wishes to keep undisclosed, and “proprietary” is a term that is frequently used for posturing but is close to meaningless as a legal matter. The term “trade secret,” however, is a particular legal term with legally consequential meaning. While all trade secrets are secrets, not all secrets kept in the business context are trade secrets. In other words, trade secrets can be thought of as a particular subset of secret/confidential information held by businesses.

While everyone would agree that not all business secrets are trade secrets, there is controversy and confusion regarding whether there is—and whether there should be—any legal protection for confidential commercial information outside of trade secret law. Some scholars—wary of the potential for abuse and economic harm from doctrinal overreach—believe there should be no legal protection for any secrets that don’t fit the stringent definition of a trade secret. A contrary view is that the law can and should allow for some protectability for non-trade-secret business confidences. This view also springs from wariness about economic harm from doctrinal overreach: If the law precludes any legal redress for spilling ordinary confidential business information, that likely puts pressure on the courts to loosen and expand the definition of trade secrets—perhaps to the point where nearly any secret qualifies.

Regardless of the reason, it is clear that the scope of what can be claimed as a trade secret has been steadily expanding in past decades. Many view this as worrying, because businesses have a tendency to want to keep everything

under wraps that isn't part of an active marketing campaign. Thus liberally construing business information to qualify as trade secrets threatens to bring heavy-handed civil and criminal liability to bear where it is inappropriate.

Extraordinary trade secret liability for the spilling of innocuous non-public information may seem unjust. What is more, playing the trade secret card gives employers ways to frustrate employee mobility and help keep workers from seeking a better job and better pay elsewhere.

Expanding notions of what qualifies as a trade secret also can raise the specter of frightening criminal and civil consequences for employees that have an urge talk to regulators, journalists, or even trusted friends about bad corporate behavior and even criminal conduct they've witnessed.

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S-1

Trade Secret Status: The Basics

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What counts as a trade secret?

An easy and not-so-easy question.

The most crucial question in a great deal of civil litigation and criminal prosecution is whether the information allegedly subject to misappropriation constitutes a trade secret. That is the subject of this chapter and the next.

For the topic of what qualifies as a trade secret, there’s an easy side and a not-so-easy side. This chapter is the easy side. We’ll look at the conventional doctrinal approach to trade secret subject matter. It’s a view that is comprehensible and straightforwardly applied in archetypal fact scenarios. But this easy approach doesn’t do a good job of explaining the contemporary reality of trade secret assertions, litigations, and judgments. We wade into that quagmire in the next chapter.

Trade secret status—the elements

The Uniform Trade Secrets Act (UTSA) § 1 defines a “trade secret” as follows:

“Trade secret’ means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
(i) derives independent economic value, actual or potential, from not

being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

The definition under the federal Defend Trade Secrets Act, 18 U.S.C § 1839(3) is similar:

“[T]he term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—
(A) the owner thereof has taken reasonable measures to keep such information secret; and
(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information[.]”

From these definitions, you can distill four requirements for a genuine trade secret:

- (1) It must actually be secret (i.e., not generally known to those who could use it).
- (2) It must have independent economic value.
- (3) The economic value must result from the secrecy.
- (4) There must be reasonable efforts to keep it secret.

EEJ’s note on *Learning Curve Toys v. Playwood Toys*

The following case, *Learning Curve Toys, Inc. v. Playwood Toys, Inc.*, is provided here because it is a straightforward trade secret case litigated under the Uniform Trade Secrets Act. It also has screenplay-worthy drama. This edit of the case is quite long, but I think it is worth it. The case provides a rich factual

setting to look at questions of trade secret subject matter from a variety of angles.

Case: Learning Curve Toys v. Playwood Toys

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Learning Curve Toys, Inc. v. Playwood Toys, Inc.

United States Court of Appeals for the Seventh Circuit
342 F.3d 714 (2003)

RIPPLE, Circuit Judge.

PlayWood Toys, Inc. (“PlayWood”) obtained a jury verdict against Learning Curve Toys, Inc. and its representatives, Roy Wilson, Harry Abraham and John Lee (collectively, “Learning Curve”), for misappropriation of a trade secret in a realistic looking and sounding toy railroad track under the Illinois Trade Secrets Act, 765 ILCS 1065/1 *et seq.* The jury awarded PlayWood a royalty of “8% for a license that would have been negotiated [absent the misappropriation] to last for the lifetime of the product.” Although there was substantial evidence of misappropriation before the jury, the district court did not enter judgment on the jury’s verdict. Instead, it granted judgment as a matter of law in favor of Learning Curve, holding that PlayWood did not have a protectable trade secret in the toy railroad track. PlayWood appealed. For the reasons set forth in the following opinion, we reverse the judgment of the district court and reinstate the jury’s verdict. We further remand the case to the district court for a jury trial on exemplary damages and for consideration of PlayWood’s request for attorneys’ fees.

I

BACKGROUND

A. Facts

In 1992, Robert Clausi and his brother-in-law, Scott Moore, began creating prototypes of wooden toys under the name PlayWood Toys, Inc., a Canadian corporation. Clausi was the sole toy designer and Moore was the sole officer and director of PlayWood. Neither Clausi nor Moore had prior

experience in the toy industry, but Clausi had “always been a bit of a doodler and designer,” and the two men desired to “create high-quality hard-wood maple toys for the independent toy market.” As a newly formed corporation, PlayWood did not own a facility in which it could produce toys. Instead, it worked in conjunction with Mario Borsato, who owned a wood-working facility. Subject to a written confidentiality agreement with PlayWood, Borsato manufactured prototypes for PlayWood based on Clausi’s design specifications.

PlayWood’s first attempt to market publicly its toys was at the Toronto Toy Fair on January 31, 1992. PlayWood received favorable reviews from many of the toy retailers in attendance; PlayWood also learned that the best way to get recognition for its toys was to attend the New York Toy Fair (“Toy Fair”) the following month. Based on this information, Clausi and Moore secured a position at the Toy Fair in order to display PlayWood’s prototypes. It was during this Toy Fair that Clausi and Moore first encountered Learning Curve representatives Roy Wilson, Harry Abraham and John Lee.

On the morning of February 12, 1993, the first day of the Toy Fair, Roy Wilson stopped at PlayWood’s booth and engaged Clausi and Moore in conversation. Wilson identified himself as Learning Curve’s toy designer and explained that his company had a license from the Britt Allcroft Company to develop Thomas the Tank Engine & Friends™ (hereinafter “Thomas”) trains and accessories. Wilson commented that he was impressed with the look and quality of PlayWood’s prototypes and raised the possibility of working together under a custom manufacturing contract to produce Learning Curve’s line of Thomas products. Clausi and Moore responded that such an arrangement would be of great interest to PlayWood. Later that same day, Harry Abraham, Learning Curve’s vice president, and John Lee, Learning Curve’s president, also stopped by PlayWood’s booth. They too commented on the quality of PlayWood’s prototypes and indicated that PlayWood might be a good candidate for a manufacturing contract with Learning Curve.

Clausi and Moore continued to have discussions with Learning Curve’s representatives over the remaining days of the Toy Fair, which ended on February 14. During these discussions, Lee indicated that he would like two of his people, Abraham and Wilson, to visit PlayWood in Toronto the day after the Toy Fair ended in order to determine whether the two parties could work out a manufacturing arrangement for some or all of Learning Curve’s wooden

toys. Clausi, feeling a little overwhelmed by the suggestion, requested that their visit be postponed a few days so that he could better acquaint himself with Learning Curve's products. The parties ultimately agreed that Abraham and Wilson would visit PlayWood at Borsato's facility on February 18, 1993, four days after the conclusion of the Toy Fair. Clausi spent the next several days after the Toy Fair researching Learning Curve's products and considering how PlayWood could produce Learning Curve's trains and track.

On February 18, 1993, Abraham and Wilson visited PlayWood in Toronto as planned. The meeting began with a tour of Borsato's woodworking facility, where the prototypes on display at the Toy Fair had been made. After the tour, the parties went to the conference room at Borsato's facility. At this point, according to Clausi and Moore, the parties agreed to make their ensuing discussion confidential. Clausi testified:

After we sat down in the board room, Harry [Abraham of Learning Curve] immediately said: "Look, we're going to disclose confidential information to you guys, and we're going to disclose some designs that Roy [Wilson of Learning Curve] has that are pretty confidential. If Brio were to get their hands on them, then we wouldn't like that. And we're going to do it under the basis of a confidential understanding."

And I said: "I also have some things, some ideas on how to produce the track and produce the trains now that I've had a chance to look at them for the last couple of days, and I think they're confidential as well. So if we're both okay with that, we should continue." So we did.

Moore testified to the existence of a similar conversation:

It was at this point that Harry Abraham told us that they were going to disclose some confidential documents, drawings, pricing, margins, and asked us if we would keep that information confidential.

I believe it was Robert [Clausi] who said that, you know, absolutely, we would keep it confidential. In fact, we had some ideas that we felt would be confidential we would be disclosing to them, and would they keep it, you know, confidential? Would they reciprocate? And Harry [Abraham] said: "Absolutely." And then we proceeded to go along with the meeting.

Immediately after the parties agreed to keep their discussion confidential, Wilson, at Abraham's direction, showed Clausi and Moore drawings of various Thomas characters and provided information on the projected volume of each of the products. Clausi testified that he considered the documents disclosed by Learning Curve during the meeting confidential because they included information on products not yet released to the public, as well as Learning Curve's projected volumes, costs and profit margins for various products. After viewing Wilson's various drawings, the parties discussed PlayWood's ideas on how to manufacture Learning Curve's trains. Clausi suggested that they might use a CNC machine, which he defined as a computer numerically controlled drill that carves in three dimensions, to create Learning Curve's trains out of a single piece of wood (as opposed to piecing together separate pieces of wood).

The parties' discussion eventually moved away from train production and focused on track design. Wilson showed Clausi and Moore drawings of Learning Curve's track and provided samples of their current product. At this point, Abraham confided to Clausi and Moore that track had posed "a bit of a problem for Learning Curve." Abraham explained that sales were terrific for Learning Curve's Thomas trains, but that sales were abysmal for its track. Abraham attributed the lack of sales to the fact that Learning Curve's track was virtually identical to that of its competitor, Brio, which had the lion's share of the track market. Because there was "no differentiation" between the two brands of track, Learning Curve's track was not even displayed in many of the toy stores that carried Learning Curve's products. Learning Curve had worked unsuccessfully for several months attempting to differentiate its track from that of Brio.

After detailing the problems with Learning Curve's existing track, Abraham inquired of Clausi whether "there was a way to differentiate" its track from Brio's track. Clausi immediately responded that he "had had a chance to look at the track and get a feel for it [over] the last few days" and that his "thoughts were that if the track were more realistic and more functional, that kids would enjoy playing with it more and it would give the retailer a reason to carry the product, especially if it looked different than the Brio track." Clausi further explained that, if the track "made noise and [] looked like real train tracks, that the stores wouldn't have any problem, and the Thomas the Tank line, product line would have [] its own different track" and

could “effectively compete with Brio.” Abraham and Wilson indicated that they were “intrigued” by Clausi’s idea and asked him what he meant by “making noise.”

Clausi decided to show Abraham and Wilson exactly what he meant. Clausi took a piece of Learning Curve’s existing track from the table, drew some lines across the track (about every three-quarters of an inch), and stated: “We can go ahead and machine grooves right across the upper section ..., which would look like railway tracks, and down below machine little indentations as well so that it would look more like or sound more like real track. You would roll along and bumpity-bumpity as you go along.” Clausi then called Borsato into the conference room and asked him to cut grooves into the wood “about a quarter of an inch deep from the top surface.” Borsato left the room, complied with Clausi’s request, and returned with the cut track three or four minutes later. Clausi ran a train back and forth over the cut piece of track. The track looked more realistic than before, but it did not make noise because the grooves were not deep enough. Accordingly, Clausi instructed Borsato to cut the grooves “just a little bit deeper so that they go through the rails.” Borsato complied with Clausi’s request once again and returned a few minutes later with the cut piece of track. Clausi proceeded to run a train back and forth over the track. This time the track made a “clickety-clack” sound, but the train did not run smoothly over the track because the grooves were cut “a little bit too deep.” Based on the sound produced by the track, Clausi told Abraham and Moore that if PlayWood procured a contract with Learning Curve to produce the track, they could call it “Clickety-Clack Track.”

Both Abraham and Wilson indicated that Clausi’s concept of cutting grooves into the track to produce a clacking sound was a novel concept. Thereafter, Wilson and Clausi began to discuss how they could improve the idea to make the train run more smoothly on the track, but Abraham interrupted them and stated: “No, focus. You guys have to get the contract for the basic product first, and then we can talk about new products, because ... it takes [our licensor] a long time to approve new products and new designs.”

The meeting ended shortly thereafter without further discussion about Clausi’s concept for the noise-producing track. Before he left, Wilson asked Clausi if he could take the piece of track that Borsato had cut with him while the parties continued their discussions. Clausi gave Wilson the piece of track without hesitation. The piece of track was the only item that Abraham and

Wilson took from the meeting. Clausi and Moore did not ask Wilson for a receipt for the cut track, nor did they seek a written confidentiality agreement to protect PlayWood's alleged trade secret. After the meeting, Clausi amended PlayWood's confidentiality agreement with Borsato to ensure that materials discussed during the meeting would remain confidential. Clausi also stamped many of the documents that he received from Learning Curve during the meeting as confidential because they included information on products not yet released to the public. PlayWood never disclosed the contents of Learning Curve's documents to anyone.

During March of 1993, PlayWood and Learning Curve met on three separate occasions to discuss further the possibility of PlayWood manufacturing Learning Curve's Thomas products. At one of the meetings, and at Learning Curve's request, PlayWood submitted a manufacturing proposal for the Thomas products. Learning Curve rejected PlayWood's proposal. Learning Curve told Clausi that its licensor wanted the Thomas products to be made in the United States.

Thereafter, PlayWood had no contact with Learning Curve until late October of 1993, when Abraham contacted Clausi to discuss another possible manufacturing contract because Learning Curve's secondary supplier was not providing enough product. Again, PlayWood submitted a manufacturing proposal at Learning Curve's request, but it too was rejected. Learning Curve later stated that its new business partner had decided to manufacture the product in China.

Clausi and Moore continued to work on PlayWood's toy concepts. After the 1994 New York Toy Fair, which was not particularly successful for PlayWood, Clausi and Moore began to focus their efforts on refining PlayWood's concept for the noise-producing track. During this time, Clausi and Moore made no attempt to license or sell the concept to other toy companies because they believed that PlayWood still had "an opportunity to get in the door" with Learning Curve if they could perfect the concept and also because they believed that they were bound by a confidentiality agreement.

In December of 1994, while shopping for additional track with which to experiment, Moore discovered that Learning Curve was selling noise-producing track under the name "Clickety-Clack Track." Like the piece of

track that Clausi had Borsato cut during PlayWood's February 18, 1993, meeting with Learning Curve, Clickety-Clack Track™ has parallel grooves cut into the wood, which cause a "clacking" sound as train wheels roll over the grooves. Learning Curve was promoting the new track as

the first significant innovation in track design since the inception of wooden train systems.... It is quite simply the newest and most exciting development to come along recently in the wooden train industry, and it's sure to cause a sensation in the marketplace.... [I]t brings that sound and feel of the real thing to a child's world of make-believe without bells, whistles, electronic sound chips or moving parts.

Moore was "stunned" when he saw the track because he believed that Learning Curve had stolen PlayWood's concept. He testified: "This was our idea. This is what we've been working on even up to that day to go back to [Learning Curve] as an opportunity to get in the door, and there it is on the shelf." Moore purchased a package of Clickety-Clack Track™ and showed it to Clausi. Clausi testified that he was disappointed when he saw the track because he believed that Learning Curve had taken PlayWood's name and design concept "almost exactly as per [their] conversation" on February 18, 1993.

PlayWood promptly wrote a cease and desist letter to Learning Curve. The letter accused Learning Curve of stealing PlayWood's concept for the noise-producing track that it disclosed to Learning Curve "in confidence in the context of a manufacturing proposal." Learning Curve responded by seeking a declaratory judgment that it owned the concept.

Previously, on March 16, 1994, Learning Curve had applied for a patent on the noise-producing track. The patent, which was obtained on October 3, 1995, claims the addition of parallel impressions or grooves in the rails, which cause a "clacking" sound to be emitted as train wheels roll over them. The patent identifies Roy Wilson of Learning Curve as the inventor.

Clickety-Clack Track™ provided an enormous boost to Learning Curve's sales. Learning Curve had \$20 million in track sales by the first quarter of 2000, and \$40 million for combined track and accessory sales.

B. District Court Proceedings

Learning Curve responded to PlayWood's cease and desist letter by seeking a declaratory judgment that it owned the concept for noise-producing toy railroad track, as embodied in Clickety-Clack Track.TM PlayWood counterclaimed against Learning Curve, as well as its representatives, Roy Wilson, Harry Abraham and John Lee. PlayWood asserted that it owned the concept and that Learning Curve had misappropriated its trade secret. [PlayWood also asserted a number of other causes, including implied-in-fact contract, quasi-contract, idea misappropriation, state statutory claims for deceptive business/trade practices, and unfair competition under § 43(a) of the Lanham Act. PlayWood lost on those claims on summary judgment and did not appeal those.] Learning Curve voluntarily dismissed its complaint for declaratory relief, and PlayWood's claim for trade secret misappropriation proceeded to trial. The jury returned a verdict in favor of PlayWood. The trial court declined to enter judgment on the verdict and instead asked the parties to brief Learning Curve's Rule 50 motion on the issue of whether PlayWood had a protectable trade secret under the Illinois Trade Secrets Act, 765 ILCS 1065/1 *et seq.* The district court granted Learning Curve's motion and entered judgment in its favor on the ground that PlayWood presented insufficient evidence of a trade secret. Specifically, the court determined that PlayWood did not have a trade secret in its concept for noise-producing toy railroad track under Illinois law because: (1) PlayWood did not demonstrate that its concept was unknown in the industry; (2) PlayWood's concept could have been easily acquired or duplicated through proper means; (3) PlayWood failed to guard the secrecy of its concept; (4) PlayWood's concept had no economic value; and (5) PlayWood expended no time, effort or money to develop the concept. *See id.*

II

DISCUSSION

A. Trade Secret Status

We review the district court's decision to grant Learning Curve's motion for judgment as a matter of law *de novo*, viewing the evidence in the light most favorable to PlayWood. *See Veach v. Sheeks*, 316 F.3d 690, 692 (7th Cir.2003). "We shall not second-guess the jury's view of the contested evidence; the proper inquiry is whether, given the totality of the evidence, [PlayWood]

presented sufficient evidence from which a reasonable jury could find in [its] favor.” *David v. Caterpillar, Inc.*, 324 F.3d 851, 858 (7th Cir.2003).

The parties agree that their dispute is governed by the Illinois Trade Secrets Act (“Act”), 765 ILCS 1065/1 *et seq.* To prevail on a claim for misappropriation of a trade secret under the Act, the plaintiff must demonstrate that the information at issue was a trade secret, that it was misappropriated and that it was used in the defendant’s business. The issue currently before us is whether there was legally sufficient evidence for the jury to find that PlayWood had a trade secret in its concept for the noise-producing toy railroad track that it revealed to Learning Curve on February 18, 1993.

The Act defines a trade secret as:

[I]nformation, including but not limited to, technical or non-technical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers, that:

(1) is sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and

(2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality.

765 ILCS 1065/2(d). Both of the Act’s statutory requirements focus fundamentally on the secrecy of the information sought to be protected. *See Mangren Research & Dev. Corp. v. Nat’l Chem. Co., Inc.*, 87 F.3d 937, 942 (7th Cir.1996); *Pope v. Alberto– Culver Co.*, 296 Ill.App.3d 512, 694 N.E.2d 615, 617 (1998); *Serv. Ctrs. of Chicago, Inc. v. Minogue*, 180 Ill.App.3d 447, 535 N.E.2d 1132, 1136 (1989). However, the requirements emphasize different aspects of secrecy. The first requirement, that the information be sufficiently secret to impart economic value because of its relative secrecy, “precludes trade secret protection for information generally known or understood within an industry even if not to the public at large.” *Pope*, 694 N.E.2d at 617. The second requirement, that the plaintiff take reasonable efforts to maintain the secrecy of the information, prevents a plaintiff who takes no affirmative measures to prevent others from using its proprietary information from obtaining trade secret protection. *See Jackson v. Hammer*,

274 Ill.App.3d 59, 653 N.E.2d 809, 816 (1995) (“[T]he Act requires a plaintiff to take ‘affirmative measures’ to prevent others from using information.”).

Although the Act explicitly defines a trade secret in terms of these two requirements, Illinois courts frequently refer to six common law factors (which are derived from § 757 of the Restatement (First) of Torts) in determining whether a trade secret exists: (1) the extent to which the information is known outside of the plaintiff’s business; (2) the extent to which the information is known by employees and others involved in the plaintiff’s business; (3) the extent of measures taken by the plaintiff to guard the secrecy of the information; (4) the value of the information to the plaintiff’s business and to its competitors; (5) the amount of time, effort and money expended by the plaintiff in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Contrary to Learning Curve’s contention, we do not construe the foregoing factors as a six-part test, in which the absence of evidence on any single factor necessarily precludes a finding of trade secret protection. Instead, we interpret the common law factors as instructive guidelines for ascertaining whether a trade secret exists under the Act. The language of the Act itself makes no reference to these factors as independent requirements for trade secret status, and Illinois case law imposes no such requirement that each factor weigh in favor of the plaintiff. *See ILG Indus., Inc. v. Scott*, 49 Ill.2d 88, 273 N.E.2d 393, 396 (1971) (“An exact definition of a trade secret, applicable to all situations, is not possible. Some factors to be considered in determining whether given information is one’s trade secret are [the six factors enumerated in the Restatement].”) (internal quotation marks omitted). In this respect, Illinois law is compatible with the approach in other states. Courts from other jurisdictions, as well as legal scholars, have noted that the Restatement factors are not to be applied as a list of requisite elements. *See, e.g., Basic American, Inc. v. Shatila*, 133 Idaho 726, 992 P.2d 175, 184 (1999); *Minuteman, Inc. v. Alexander*, 147 Wis.2d 842, 434 N.W.2d 773, 778 (Wis.1989); 2 Gregory E. Upchurch, *Intellectual Property Litigation Guide: Patents & Trade Secrets* § 16.02, at 16–17 to 16–18 (2002) (“On the whole, these factors are a guide to the proper decision on the existence of a trade secret, not a list of requirements.”).

The existence of a trade secret ordinarily is a question of fact. As aptly observed by our colleagues on the Fifth Circuit, a trade secret “is one of the most elusive and difficult concepts in the law to define.” *Lear Siegler, Inc. v. Ark-Ell Springs, Inc.*, 569 F.2d 286, 288 (5th Cir.1978). In many cases, the existence of a trade secret is not obvious; it requires an ad hoc evaluation of all the surrounding circumstances. For this reason, the question of whether certain information constitutes a trade secret ordinarily is best “resolved by a fact finder after full presentation of evidence from each side.” *Id.* at 289. We do not believe that the district court was sufficiently mindful of these principles. The district court, in effect, treated the Restatement factors as requisite elements and substituted its judgment for that of the jury. PlayWood presented sufficient evidence for the jury reasonably to conclude that the Restatement factors weighed in PlayWood’s favor.

1. Extent to which PlayWood’s concept for noise-producing toy railroad track was known outside of PlayWood’s business

PlayWood presented substantial evidence from which the jury could have determined that PlayWood’s concept for noise-producing toy railroad track was not generally known outside of Playwood’s business. It was undisputed at trial that no similar track was on the market until Learning Curve launched Clickety–Clack Track™ in late 1994, more than a year after PlayWood first conceived of the concept. Of course, as Learning Curve correctly points out, “[m]erely being the first or only one to use particular information does not in and of itself transform otherwise general knowledge into a trade secret.” *George S. May Int’l Co. v. Int’l Profit Assocs.*, 256 Ill.App.3d 779, 628 N.E.2d 647, 654 (1993). “If it did, the first person to use the information, no matter how ordinary or well known, would be able to appropriate it to his own use under the guise of a trade secret.” *Serv. Ctrs.*, 129 Ill.Dec. 367, 535 N.E.2d at 1137. However, in this case, there was additional evidence from which the jury could have determined that PlayWood’s concept was not generally known within the industry.

First, there was substantial testimony that Learning Curve had attempted to differentiate its track from that of its competitors for several months, but that it had been unable to do so successfully.

Furthermore, PlayWood’s expert witness, Michael Kennedy, testified that PlayWood’s concept, as embodied in Clickety–Clack Track™, was unique

and permitted “its seller to differentiate itself from a host of competitors who [were] making a generic product.” Kennedy explained that the look, sound and feel of the track made it distinct from other toy railroad track: “[W]hen a child runs a train across this track, he can feel it hitting those little impressions. And when you’re talking about young children [,] having the idea that they can see something that they couldn’t see before, feel something that they couldn’t feel before, hear something that they couldn’t hear before, that is what differentiates this toy from its other competitors.”

Finally, PlayWood presented evidence that Learning Curve sought and obtained a patent on the noise-producing track. It goes without saying that the requirements for patent and trade secret protection are not synonymous. Unlike “a patentable invention, a trade secret need not be novel or unobvious.” 2 Rudolf Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 14.15, at 14–124 (4th ed.2003). “The idea need not be complicated; it may be intrinsically simple and nevertheless qualify as a secret, unless it is common knowledge and, therefore, within the public domain.” *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 624 (7th Cir.1971) (internal quotation marks omitted). However, it is commonly understood that “[i]f an invention has sufficient novelty to be entitled to patent protection, it may be said *fortiori* to be entitled to protection as a trade secret.” 1 Roger M. Milgrim, *Milgrim on Trade Secrets* § 1.08[1], at 1–353 (2002) (internal footnotes omitted). In light of this evidence, we cannot accept Learning Curve’s argument that no rational jury could have found that PlayWood’s concept was unknown outside of its business.

2. Extent to which PlayWood’s concept was known to employees and others involved in PlayWood’s business

The district court did not address the extent to which PlayWood’s concept was known to employees and others involved in PlayWood’s business. However, we agree with PlayWood that the evidence was sufficient to establish that its concept for noise-producing track was known only by key individuals in its business.

At the outset, we note briefly that PlayWood was a small business, consisting only of Clausi and Moore. Illinois courts have recognized on several occasions that the expectations for ensuring secrecy are different for small companies than for large companies. *See Jackson*, 210 Ill.Dec. 614, 653 N.E.2d

at 815 (“[T]he determination of what steps are reasonably necessary to protect information is different for a large company than for a small one.”); *Elmer Miller, Inc. v. Landis*, 253 Ill.App.3d 129, 192 Ill.Dec. 378, 625 N.E.2d 338, 342 (1993) (“[R]easonable steps for a two or three person shop may be different from reasonable steps for a larger company.”). Apart from Clausi (PlayWood’s sole toy designer and the person who conceived of the concept for noise-producing track) and Moore (PlayWood’s sole officer and director), the only person who knew about the concept was Borsato, the person who physically produced PlayWood’s prototype at Clausi’s direction. The concept was disclosed to Borsato in order for PlayWood to develop fully its trade secret. See 1 Roger M. Milgrim, *Milgrim on Trade Secrets* § 1.04, at 1–173 (2002) (“A trade secret does not lose its character by being confidentially disclosed to agents or servants, without whose assistance it could not be made of any value.”) (internal quotation marks omitted). Moreover, Borsato’s actions were governed by a written confidentiality agreement with PlayWood. Indeed, as an extra precaution, Clausi even amended PlayWood’s confidentiality agreement with Borsato immediately after the February 18, 1993, meeting to ensure that materials discussed during the meeting would remain confidential. From this evidence, the jury reasonably could have determined that this factor also weighed in favor of PlayWood.

3. Measures taken by PlayWood to guard the secrecy of its concept

There also was sufficient evidence for the jury to determine that PlayWood took reasonable precautions to guard the secrecy of its concept. The Act requires the trade secret owner to take actions that are “reasonable under the circumstances to maintain [the] secrecy or confidentiality” of its trade secret; it does not require perfection. 765 ILCS 1065/2(d)(2). Whether the measures taken by a trade secret owner are sufficient to satisfy the Act’s reasonableness standard ordinarily is a question of fact for the jury. Indeed, we previously have recognized that “only in an extreme case can what is a ‘reasonable’ precaution be determined [as a matter of law], because the answer depends on a balancing of costs and benefits that will vary from case to case.” *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 179 (7th Cir.1991).

Here, the jury was instructed that it must find “by a preponderance of the evidence that PlayWood’s trade secrets were given to Learning Curve as a result of a confidential relationship between the parties.” By returning a verdict

in favor of PlayWood, the jury necessarily found that Learning Curve was bound to PlayWood by a pledge of confidentiality. The jury's determination is amply supported by the evidence. Both Clausi and Moore testified that they entered into an oral confidentiality agreement with Abraham and Wilson before beginning their discussion on February 18, 1993. In particular, Clausi testified that he told Abraham and Wilson: "I also have some things, some ideas on how to produce the track and produce the trains now that I've had a chance to look at them for the last couple of days, and I think they're confidential as well. So if we're both okay with that, we should continue." In addition to this testimony, the jury heard that Learning Curve had disclosed substantial information to PlayWood during the February 18th meeting, including projected volumes, costs and profit margins for various products, as well as drawings for toys not yet released to the public. The jury could have inferred that Learning Curve would not have disclosed such information in the absence of a confidentiality agreement. Finally, the jury also heard (from several of Learning Curve's former business associates) that Learning Curve routinely entered into oral confidentiality agreements like the one with PlayWood.

PlayWood might have done more to protect its secret. As Learning Curve points out, PlayWood gave its only prototype of the noise-producing track to Wilson without first obtaining a receipt or written confidentiality agreement from Learning Curve—a decision that proved unwise in hindsight. Nevertheless, we believe that the jury was entitled to conclude that PlayWood's reliance on the oral confidentiality agreement was reasonable under the circumstances of this case. First, it is well established that "[t]he formation of a confidential relationship imposes upon the discloser the duty to maintain the information received in the utmost secrecy" and that "the unprivileged use or disclosure of another's trade secret becomes the basis for an action in tort." *Burten v. Milton Bradley Co.*, 763 F.2d 461, 463 (1st Cir.1985). Second, both Clausi and Moore testified that they believed PlayWood had a realistic chance to "get in the door" with Learning Curve and to produce the concept as part of Learning Curve's line of Thomas products. Clausi and Moore did not anticipate that Learning Curve would violate the oral confidentiality agreement and utilize PlayWood's concept without permission; rather, they believed in good faith that they "were going to do business one day again with Learning Curve with respect to the design

concept.” Finally, we believe that, as part of the reasonableness inquiry, the jury could have considered the size and sophistication of the parties, as well as the relevant industry. Both PlayWood and Learning Curve were small toy companies, and PlayWood was the smaller and less experienced of the two. Viewing the evidence in the light most favorable to PlayWood, as we must, we conclude that there was sufficient evidence for the jury to determine that PlayWood took reasonable measures to protect the secrecy of its concept.

4. Value of the concept to PlayWood and to its competitors

There was substantial evidence from which the jury could have determined that PlayWood’s concept had value both to PlayWood and to its competitors. It was undisputed at trial that Learning Curve’s sales skyrocketed after it began to sell Clickety–Clack Track™. In addition, PlayWood’s expert witness, Michael Kennedy, testified that PlayWood’s concept for noise-producing track had tremendous value. Kennedy testified that the “cross-cuts and changes in the [track’s] surface” imparted value to its seller by causing the track to “look different, feel different and sound different than generic track.” Kennedy further testified that, in his opinion, the track would have commanded a premium royalty under a negotiated license agreement because the “invention allows its seller to differentiate itself from a host of competitors who are making a generic product with whom it is competing in a way that is proprietary and exclusive, and it gives [the seller] a significant edge over [its] competition.”

Despite this evidence, the district court concluded that PlayWood’s concept had no economic value. The court’s conclusion was based, in part, on the fact that PlayWood’s prototype did not work perfectly; as noted by the court, the first set of cuts were too shallow to produce sound and the second set of cuts were too deep to permit the train to roll smoothly across the track. In the district court’s view, even if the concept of cutting grooves into the wooden track in order to produce noise originated with Clausi, the concept lacked value until it was refined, developed and manufactured by Learning Curve.

We cannot accept the district court’s conclusion because it is belied by the evidence. At trial, Kennedy was asked whether, in his opinion, the fact that PlayWood’s prototype did not work perfectly affected the value of PlayWood’s concept, and he testified that it did not. Kennedy testified that he

would assign the same value to PlayWood's concept as it was conceived on February 18, 1993, as he would the finished product that became known as Clickety-Clack Track™ because, at that time, he would have known "that most of the design [had] already been done and that [he] just need[ed] to go a little bit further to make it really lovely." Kennedy further testified that it was standard practice in the industry for a license to be negotiated based on a prototype (much like the one PlayWood disclosed to Learning Curve) rather than a finished product and that the license generally would cover the prototypical design, as well as any enhancements or improvements of that design.

Specifically, Kennedy testified:

Q: Now, when you were at Tyco, you were in the toy business and people were bringing you inventions, did people bring you inventions or trade secrets that were in the kind of form that we find Defendants' Exhibit 9 [Clickety-Clack Track], fully polished and finished and so on?

A: I've seen some pretty rough-looking toys in meeting with inventors. I've seen toys that were obviously made by hand. I've seen toys that had cracks, seams and joints that you don't expect to see when they're manufactured. Certainly that's true.... So the answer is: You don't see a final product when you meet with an inventor. You see a preliminary product or a prototype kind of product.

Q: Now, when a prototype is brought to you as a disclosure, as a secret, as an invention that somebody wants to license to you, does it make a difference to you whether it's a prototype or a finished product?

A: Not necessarily, because it depends on who is going to make it, which is uncertain at the time. It depends on how difficult it is to make, which could be uncertain at that time. It's helpful if we know that it's easy to make. It's helpful if we know how much it costs to make. But you don't always know that.

Q: When you go to license that kind of invention that's brought to you, is it your intent to license only the prototype that's brought to you?

A: No. I think every license agreement that I negotiate in the toy industry includes the prototypical design. It includes enhancements and improvements on that design, regardless of whether they're made by the inventor or whether they're made by the manufacturer. It includes something called line extensions, which is the transfer of this invention to a toy which maybe wasn't first thought of for its application. It includes all of those things.

Based on this testimony, we cannot accept the district court's conclusion that PlayWood's concept possessed no economic value.

It is irrelevant under Illinois law that PlayWood did not actually use the concept in its business. "[T]he proper criterion is not 'actual use' but whether the trade secret is 'of value' to the company." *Syntex Ophthalmics, Inc. v. Tsuetaki*, 701 F.2d 677, 683 (7th Cir.1983). Both the Uniform Trade Secrets Act and the Restatement (Third) of Unfair Competition expressly reject prior use by the person asserting rights in the information as a prerequisite to trade secret protection. *See* Unif. Trade Secrets Act § 1 cmt. (1990) ("The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use."); Restatement (Third) of Unfair Competition § 39 cmt. e (1995) ("Use by the person asserting rights in the information is not a prerequisite to protection under the rule stated in this Section," in part, because such a "requirement can deny protection during periods of research and development and is particularly burdensome for innovators who do not possess the capability to exploit their innovations.").

Kennedy's testimony was more than sufficient to permit the jury to conclude that the concept was "of value" to PlayWood. It is equally irrelevant that PlayWood did not seek to patent its concept. So long as the concept remains a secret, *i.e.*, outside of the public domain, there is no need for patent protection. Professor Milgrim makes this point well: "Since every inventor has the right to keep his invention secret, one who has made a patentable invention has the option to maintain it in secrecy, relying upon protection accorded to a trade secret rather than upon the rights which accrue by a patent grant." 1 Roger M. Milgrim, *Milgrim on Trade Secrets* § 1.08[1], at 1-353 (2002). It was up to PlayWood, not the district court, to determine when and how the concept should have been disclosed to the public.

5. Amount of time, effort and money expended by PlayWood in developing its concept

PlayWood expended very little time and money developing its concept; by Clausi's own account, the cost to PlayWood was less than one dollar and the time spent was less than one-half hour. The district court determined that "[s]uch an insignificant investment is ... insufficient as a matter of Illinois law to establish the status of a 'trade secret.'" We believe that the district court gave too much weight to the time, effort and expense of developing the track.

Professor Milgrim, for one, rejects any per se requirement of developmental costs:

Where cost is referred to it is almost always invariably incidental to other, basic definitional elements, such as secrecy. Since it is established that a trade secret can be discovered fortuitously (ergo, without costly development), or result purely from the exercise of creative facilities, it would appear inconsistent to consider expense of development of a trade secret as an operative substantive element.

See 1 Roger M. Milgrim, *Milgrim on Trade Secrets* § 1.02[2], at 1-146 & 1-150 (2002) (internal footnotes omitted).

Although Illinois courts commonly look to the Restatement factors for guidance in determining whether a trade secret exists, as we have noted earlier, the requisite statutory inquiries under Illinois law are (1) whether the information "is sufficiently secret to derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use;" and (2) whether the information "is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality." 765 ILCS 1065/2(d). A significant expenditure of time and/or money in the production of information may provide evidence of value, which is relevant to the first inquiry above. However, we do not understand Illinois law to require such an expenditure in all cases.

As pointed out by the district court, several Illinois cases have emphasized the importance of developmental costs. However, notably, none of those cases concerned the sort of innovative and creative concept that we have in this case. Indeed, several of the cases in Illinois that emphasize developmental costs concern compilations of data, such as customer lists. In that context, it makes sense to require the expenditure of significant time and money because there is

nothing original or creative about the alleged trade secret. Given enough time and money, we presume that the plaintiff's competitors could compile a similar list.

Here, by contrast, we are dealing with a new toy design that has been promoted as “the first significant innovation in track design since the inception of wooden train systems.” Toy designers, like many artistic individuals, have intuitive flashes of creativity. Often, that intuitive flash is, in reality, the product of earlier thought and practice in an artistic craft. We fail to see how the value of PlayWood's concept would differ in any respect had Clausi spent several months and several thousand dollars creating the noise-producing track. Accordingly, we conclude that PlayWood's lack of proof on this factor does not preclude the existence of a trade secret.

6. Ease or difficulty with which PlayWood's concept could have been properly acquired or duplicated by others

Finally, we also believe that there was sufficient evidence for the jury to determine that PlayWood's concept could not have been easily acquired or duplicated through proper means. PlayWood's expert witness, Michael Kennedy, testified: “This is a fairly simple product if you look at it. But the truth is that because it delivers feeling and sound as well as appearance, it isn't so simple as it first appears. It's a little more elegant, actually, than you might think.” In addition to Kennedy's testimony, the jury heard that Learning Curve had spent months attempting to differentiate its track from Brio's before Clausi disclosed PlayWood's concept of noise-producing track. From this evidence, the jury could have inferred that, if PlayWood's concept really was obvious, Learning Curve would have thought of it earlier.

Despite this evidence, the district court concluded that PlayWood's concept was not a trade secret because it could have been easily duplicated, stating that “[h]ad PlayWood succeeded in producing and marketing [the] notched track, the appearance of the track product itself would have fully revealed the concept PlayWood now claims as a secret.” Of course, the district court was correct in one sense; PlayWood's own expert recognized that, in the absence of patent or copyright protection, the track could have been reverse engineered just by looking at it. However, the district court failed to appreciate the fact that PlayWood's concept was not publicly available. As Professor Milgrim states: “A potent distinction exists between a trade secret which *will*

be disclosed if and when the product in which it is embodied is placed on sale, and a ‘trade secret’ embodied in a product which has been placed on sale, which product admits of discovery of the ‘secret’ upon inspection, analysis, or reverse engineering.” 1 Roger M. Milgrim, *Milgrim on Trade Secrets* § 1.05[4], at 1–228 (2002). “Until disclosed by sale the trade secret should be entitled to protection.” *Id.*; see also 2 Rudolf Callmann, *The Law of Unfair Competition, Trademarks and Monopolies* § 14.15, at 14–123 (4th ed. 2003) (“The fact that a secret is easy to duplicate after it becomes known does not militate against its being a trade secret prior to that time.”). Reverse engineering can defeat a trade secret claim, but only if the product could have been properly acquired by others, as is the case when the product is publicly sold. Here, PlayWood disclosed its concept to Learning Curve (and Learning Curve alone) in the context of a confidential relationship; Learning Curve had no legal authority to reverse engineer the prototype that it received in confidence. See *Laff v. John O. Butler Co.*, 64 Ill.App.3d 603, 21 Ill.Dec. 314, 381 N.E.2d 423, 433 (1978) (“[A] trade secret is open to anyone, not bound by a confidential relationship or a contract with the secret’s owner, who can discover the secret through lawful means.”). Accordingly, we must conclude that the jury was entitled to determine that PlayWood’s concept could not easily have been acquired or duplicated through proper means.

B. Exemplary Damages

The Illinois Trade Secrets Act authorizes exemplary damages of up to twice the amount of compensatory damages if there was a “willful and malicious misappropriation.” 765 ILCS 1065/4(b).⁷

We agree with PlayWood that a rational jury could determine that exemplary damages are justified in this case. Specifically, we believe that a rational jury could determine that Learning Curve intentionally misappropriated PlayWood’s trade secret in the noise-producing track and then attempted to conceal the misappropriation by creating false evidence of prior independent development. Accordingly, we remand this case to the district court with the instruction to hold a jury trial on exemplary damages.⁷

REVERSED AND REMANDED.

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–EEJ

S-2

Trade Secret Status: Incoherence and Sprawl

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Scholars on trade secret’s sprawl

In the following snippets, the superscript tilde (~) indicates an ellipsis. Footnotes and footnote references were removed without notation. – EEJ

Deepa Varadarajan, *Business Secrecy Expansion and FOIA*, 68 UCLA L. REV. 462, 473-82 (2021)

The development of trade secret doctrine—from early cases in the nineteenth century~ to its modern incarnation in state and federal statutes—reflects various shifts that have “substantially expanded the potential application of the [doctrine] to virtually any form of information connected to a business.”~

To understand the conceptual distance that trade secrecy doctrine has traveled, it is useful to start at the beginning—with the early cases.~ [T]rade secrecy protections were typically limited to secret manufacturing processes, designs and formulas.~ As Sharon Sandeen has explained, because trade secrecy sprouted from the common law of unfair competition, early courts were “reluctant to grant relief to plaintiffs who were not in competition with the alleged wrongdoer.” In these (and other) ways, early American courts tended to restrict trade secret liability to situations involving limited technical subject matter and direct competitive injury.

Over time, these constraints loosened. As firms claim protection over a wider array of information, individuals may be deterred from leaving their existing jobs, creating new startups, or utilizing their knowledge and training in subsequent employment. Even if employers' trade secret claims are not successful, they can nonetheless create a chilling effect by forcing defendants to litigate even marginal claims.

[And increasingly trade secret is applied outside the context of departing employees and competing uses.] For example, Peter Menell has described how firms have invoked trade secrecy to prevent employee whistleblowers from reporting suspected illegal conduct to law enforcement officials. In a similar vein, firms invoke trade secrecy to avoid scrutiny by government regulators or negative publicity by news media outlets—even when the public has a significant interest in learning the information. Mary Lyndon has described how firms use trade secrecy to resist disclosing the composition and health effects of discharged chemicals in various contexts, from hydraulic fracking to chemical spills. [And] Robin Feldman and Charles Tait Graves have highlighted similar tactics in the context of prescription medicines, when “[m]iddle players in the drug distribution chain ... insist that their pricing arrangements with pharmaceutical manufacturers constitute ‘trade secrets’” to avoid scrutiny from state regulators and consumers in the face of rising drug costs.

David S. Levine, *Secrecy and Unaccountability: Trade Secrets in Our Public Infrastructure*, 59 FLA. L. REV. 135, 180–82 (2007)

[C]onsider Diebold's provision of voting machines to certain states. In November 2005, Diebold refused to comply with a North Carolina law that requires vendors of electronic voting machines to place, among other items, “all software that is relevant to functionality, setup, configuration, and operation of the voting system,” including its source code, “in escrow with an independent escrow agent approved by the State Board of Elections.” The law is designed to “restore public confidence in the election process” by requiring that such information be provided to the state so as to support and test voting systems. In the ensuing action brought by Diebold against the North Carolina State Board of Elections (BOE) to seek a temporary restraining order and preliminary injunction against the enforcement of the statute, Diebold alleged that it could not provide some of the required information because the

information belonged to third parties, and thus was not controlled by, or in the custody of, Diebold.

The court eventually held, in essence, that Diebold must comply with the law if it wanted to do business with the state. After another round of court battles, Diebold chose not to do business with the state.

This is a true Pyrrhic victory: Although the state won the initial court battle, the power of trade secrecy principles presumably remained, because protection of secrets was not overruled or overridden by the concerns of the public as manifested by the laws of the state. Thus, Diebold could focus on states where trade secrecy law is completely impermeable to public-law overrides.

More recently, computer hackers successfully broke into Diebold's voting machines owned by Leon County, Florida to test their vulnerability to manipulation. [T]he hackers were given access to the Diebold machines by Leon County Supervisor of Elections Ion Sancho. Diebold's response to being informed of four successful hacks of their machines, which one hacker likened to "prestuffing a ballot box," was to say that these tests were "invalid" and "potential violations of licensing agreements and intellectual property rights."

Charles Tait Graves & James A. DiBoise, *Do Strict Trade Secret and Non-competition Laws Obstruct Innovation?*, 1 ENTREPRENEURIAL BUS. L.J. 323, 332 (2006)

Employee mobility—or the ease by which a skilled employee can leave one job, join another company, and immediately apply his or her skills—is a necessary ingredient of a successful venture-backed business region. Almost by definition, small and creative start-up companies funded by venture capital are short-lived and require the ready availability of skilled founders and employees. The structure of innovation communities is one of multiplicity and speed—numerous small efforts racing to meet common goals, without direction from above. The structure is not one where a small number of large, hierarchical, and long-established companies maintain a monopoly over local talent.

But in too many jurisdictions in the United States, archaic non-competition rules sideline employees who seek to resign from one company and found or join another. It is astonishing that courts in twenty-first century America still apply restrictive covenants developed to control laborers in feudal

England in order to prevent skilled technical employees from joining the company of their choice, and thus slowing innovation. In turn, overly restrictive trade secret rules operate as court-created non-competition agreements and all too easily allow former employers to bury a new start-up in legal fees and amorphous, ever-changing accusations of trade secret theft.

The lack of clarity in trade secret subject matter

Adapted from Eric E. Johnson Trade Secret Subject Matter, 33 HAMLINE L. REV. 545 (2010) (symposium issue from a symposium issue to mark the 30th anniversary of the Uniform Trade Secrets Act). Text has been liberally rearranged and footnotes have been omitted.

What is the difference between “trade secrets” and other kinds of secrets held in the course of business? Is there any difference at all?

One might think that these questions would have simple answers. In fact, they are terrifically confounding, and the confusion surrounding these questions is growing. Frustratingly, while these issues go straight to the heart of trade-secret law, they have been the subject of scant attention. Most authorities have chosen not to explore them in depth.

Naked statements of blackletter doctrine seem to indicate that trade-secret subject matter is very broad. A typical statement is that a trade secret is any confidentially held information that affords a potential or actual advantage over competitors so long as it is secret. Such a description would seem to make “trade secrets” roughly co-extensive with all confidential information for which there is a business reason to keep it secret.

But other teachings—often from the same authorities—seem to indicate that trade secrets are but a small fraction of the many secrets held by businesses. In explaining what trade secrets are, authorities usually offer a laundry list of examples. The typical list includes “formulas,” “methods,” “patterns,” “devices,” “techniques,” “processes,” and “customer lists.” Immediately, we are confronted with a puzzle. The categories of subject matter appearing in the list describe a very narrow slice of the sorts of information that businesses like to keep secret. What about executive salaries? What about lawsuit settlement terms? What about current cash reserves, negotiated discounts, past problems with quality control, customer complaints, and reservations expressed by executives about their firm’s goods or services?

Companies are extremely keen to keep such information confidential. And the release of it could definitely affect company profits. But are these sorts of things trade secrets? They are not included as examples, and they don't *feel* like trade secrets. But if they are not trade secrets, then why do they often fit within the very broad statements of blackletter doctrine articulated by various sources?

This is a profound tension in trade-secret law: Blackletter statements of the law are very broad, while the list of archetypal examples of trade secrets is narrow. Further tension is felt as firms, trying to keep their information under wraps, push courts to aggressively expand trade-secret subject matter. Yet the remedies available for trade-secret theft have been tailored to a much more limited view of trade-secret subject matter. The result is that the law is disordered, bewildering, unpredictable, and increasingly unfair and unsound.

Given the mixed signals sent about trade-secret subject matter by blackletter sources, it should be no surprise that considerable confusion has arisen in the courts.

Areas of general agreement in trade secret subject matter

Some things are clear. One aspect of trade-secret subject matter that is well understood is that trade secrets must be the subject of sufficient efforts aimed at keeping them secret. Much has been written about this requirement.

It is also clear that a trade secret must have some economic/commercial consequence; that is, the rationale for maintaining secrecy cannot be purely a personal matter that goes to feelings of dignity and privacy.

Still other aspects of trade-secret subject matter are clear, in a theoretical sense, but subject to some confusion in the courts. In particular, for a secret to be a trade secret, the value of the information must come from its secrecy. Professor Sandeen has pointed out that the UTSA does not protect all secret information, but instead only secret information that derives independent economic value from not being generally known to others. *See* Sharon K. Sandeen, *A Contract by Any Other Name is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Databases*, 45 IDEA 119, 130 (2005). Thoughtful cases are in accord, heeding the clear language of the UTSA to hold that for something to qualify as a trade secret, the economic value of the secret must derive from its secrecy. Not all courts are in alignment

on this point, but courts that do not require the putative value to derive from the secrecy commit error.

The problem of independent economic value

Beyond these fundamentals, the question of what turns an ordinary secret into a trade secret is largely unelucidated.

An initial reading of the UTSA should reveal that “independent economic value” is intended to be key limiting language. Yet some treatise authors have declared the issue to be more or less moot. Roger E. Schechter and John R. Thomas have written, “Value is seldom a practical issue in trade-secret cases. The high cost of enforcing intellectual property rights suggests that plaintiffs will only commence litigation concerning information of considerable value.” ROGER E. SCHECHTER & JOHN R. THOMAS, PRINCIPLES OF PATENT LAW 417 (2d ed. 2004)

But, for a couple of reasons, this declaration appears to be in error. To the extent value is not an issue in very many cases, that would seem largely to be because courts have no clear guidance on how to construe the issue. That being the case, courts often choose to ignore it, finding other reasons to rule as they do. But more importantly, Schechter and Thomas’s observation reads words out of the statutory language. Trade secrets must not merely have “value,” they must have *independent economic* value. That is, postponing for the moment the discussion of whatever it is that “independent economic” means, just because litigation concerns something of value, it does not follow that the value is of the *independent economic* type.

As it turns out, the meaning of the phrase “independent economic value” has been contested in many reported cases. But a review of them is not terrifically illuminating. Summing them up, treatise-writer Melvin F. Jager has concluded that the meaning of independent economic value is “unclear.” MELVIN F. JAGER, 1 TRADE SECRETS LAW § 3:35 (2009). His somewhat grim assessment is that “[i]maginative lawyers and courts will continue to have a field day in defining . . . ‘independent economic value.’” *Id.*

Courts confront the chaos in numerous ways. One beginning question is: For whom must the information have value? The courts are not at all in agreement on an answer. Some courts have held that the core inquiry in determining whether information has independent economic value relates to

the value placed by the plaintiff, the putative trade-secret owner, on keeping the information secret from persons who could exploit it to the owner's relative disadvantage. Other courts have held that information has economic value if the defendant, the putative trade-secret thief, derives value from using it. For instance, *Bridge Publ'ns, Inc. v. Vien*, 827 F. Supp. 629 (S.D. Cal. 1993), held that Scientology scriptures possessed commercial value because the defendant used the materials in a course for which she was paid. Still other courts have understood "economic value" as potentially going both ways, meaning that the information has value to either the owner or a competitor.

The question of to whom the value must accrue is uninteresting to some courts, which have used a sweat-of-the-brow theory to explain value. These courts hold that the key factor in determining whether information has independent economic value is the amount of effort and expense that goes into developing it.

Professor Sandeen points out, however, that this conception of value has no place under the UTSA. As she has written, "the Restatement factor that examined the information-owner's investment in the creation and collection of the information is irrelevant, except to the extent it relates to whether the information is readily ascertainable." Sharon K. Sandeen, *The Evolution of Trade-Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 35 HAMLINE L. REV. 521-22 (2010).

Other courts mix and match. In Maine, courts use a five-factor test to determine whether an alleged trade secret has the requisite independent economic value. The factors are: (1) the value of the information to the plaintiff, (2) the amount of effort or money spent developing the information, (3) the measures utilized to protect the information from discovery, (4) the relative ease or difficulty faced by one trying to develop the information for themselves, and (5) the degree to which third parties have placed the information in the public domain or rendered it easily accessible, for instance, through patent applications or in the course of marketing products. See *Bernier v. Merrill Air Eng'rs, Inc.*, 770 A.2d 97, 106 n.6 (Me. 2001). This list combines value-to-the-plaintiff and sweat-of-the-brow, then adds three factors that are redundant in various ways of the requirement that the information actually be successfully held as secret.

Lack of consistency in the cases

The confusion found in explications of permissible subject matter is echoed in the confusion surrounding the results of trade-secret lawsuits.

- In *Religious Tech. Ctr. v. Wollersheim*, 796 F.2d 1076 (9th Cir. 1986), a former practitioner of Scientology was sued by the church for misappropriation of trade secrets. That court held that information was religious rather than commercial, and therefore not protectable as trade secrets. But two other courts held that the secrets of the same church *were* trade secrets. *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 923 F. Supp. 1231 (N.D. Cal. 1995), held that religious texts had independent economic value and thus fell within trade-secret subject matter because church received licensing income from the texts. The other case, *Bridge Publ'ns, Inc. v. Vien*, 827 F. Supp. 629 (S.D. Cal. 1993), held that since the defendant used the church's material in a course for which she was paid, the information therefore had the requisite value.
- In *Buffets, Inc. v. Klinke*, 73 F.3d 965 (9th Cir. 1996), a buffet restaurant's recipes were not held not to be trade secrets. But in *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405 (N.D. Iowa 1996), recipes for bagels were upheld as trade secrets.
- The history of a firm's sales to customers and data on customers' past use of products were not trade secrets in *Vigoro Indus., Inc. v. Cleveland Chem. Co. of Ark., Inc.*, 866 F. Supp. 1150, (E.D. Ark. 1994). But *Star Scientific, Inc. v. Carter*, 204 F.R.D. 410 (S.D. Ind. 2001), held that data on consumer purchasing habits was a trade secret.
- A "generalized" game plan for reaching a "general" goal was not a trade secret according to *Astro Tech., Inc. v. Alliant Techsystems, Inc.*, 2005 WL 6061803 (S.D. Tex. 2005). Yet, in *Avery Dennison Corp. v. Kitsonas*, 118 F. Supp. 2d 848, 854 (S.D. Ohio 2000), a company's "business philosophy" was held to be protectable as a trade secret.

Company financial information is an especially fertile ground for confusion.

Held *not to be* trade secrets:

- ☒ Financial information, including consolidated balance sheets, cash-flow statements, and profit-and-loss statements. See *Prairie Island v. Minn. Dept. of Pub. Safety*, 658 N.W.2d 876, 885–88 (Minn. Ct. App. 2003).
- ☒ Gross-revenue figures. See *Confederated Tribes of the Chehalis Reservation v. Johnson*, 958 P.2d 260, 267 (Wash. 1998).
- ☒ Net profits statements. See *Delmarva Drilling Co., Inc. v. American Water Well Systems, Inc.*, 1988 WL 7396, *6 (Del.Ch. 1988) (“The disclosure of costs and net profits to a direct competitor, although not rising to the level of a trade secret, is certainly of a confidential nature ...”).
- ☒ Various sorts of financial data, including gross-profits information. See *United States v. IBM Corp.*, 67 F.R.D. 40, 47–49 (S.D.N.Y. 1975).

Held *to be* trade secrets:

- ☑ Various sorts of financial information in a company’s accounting database. See *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859 (N.D. Ill. 2001).
- ☑ Forecasts of projected sales figures and information about paid-in capital, debt, and gross margins. See *La Calhene, Inc. v. Spolyar*, 938 F. Supp. 523 (W.D. Wis. 1996).
- ☑ Pricing, profit margins, production costs, pricing concessions, advertising allowances, and other financial facts. See *Schlage Lock Co. v. Whyte*, 125 Cal. Rptr. 2d 277, 287 (Cal. Ct. App. 2002) (reasoning that the disclosure of the information would allow a competitor to undercut the company’s prices).

The pressure to expand trade secret subject matter

Eager to keep a wide spectrum of information under wraps, firms have every incentive to urge courts to construe trade-secret subject matter ever more broadly. Courts should resist. Trade-secret law, with its prison terms and third-party claw-back injunctions, simply packs too much of a wallop for most situations. Thus, courts should only use trade-secret law for the special subset

of confidences for which it was designed. Removing doctrinal confusion is key to helping courts keep the application of trade-secret law within proper boundaries.

For many reasons, the reporter volumes are increasingly filled with cases pushing trade-secret law to become bigger and bigger. The pressure to expand trade-secret subject matter comes from an array of actors in a wide spate of situations.

The most common source of pressure to expand trade-secret subject matter comes from cases with unsympathetic defendants and sour facts. As the maxim goes, “bad facts make for bad law.” The problem may be especially acute in trade-secret cases because, by their very nature, such cases involve spilled secrets and betrayed confidences—a subject that immediately engages our sense of indignity. Moreover, as trade-secret subject matter has been reclassified by some—such as the ALI—from belonging within the category of “torts” to being included within the category of “unfair competition,” there may seem to be something of a rhetorical stamp of approval on a broad reading of trade-secret subject matter. If a fact pattern includes conduct by a defendant that strikes a court as “unfair,” a doctrine of “unfair competition” naturally seems apt.

One particular impetus for growth has come from public-records laws. In any given jurisdiction, the public-records law, also known as a “freedom of information act” or “FOIA,” requires disclosure of government documents in response to a citizen’s request. Issues regarding confidential business information inevitably arise in these contexts, because regulatory or transactional ties cause business information to come into the possession of government agencies. Apparently uncomfortable with some of the demands made under public-records laws, some courts have exempted documents from disclosure by making dubious conclusions about trade-secret subject matter. For example, a landfill operator’s compilation of environmental tests, in the custody of the Ohio EPA, was declared a trade secret. The court in *State ex rel. Lucas Cnty. Bd. of Comm’rs v. Ohio Env’tl. Prot. Agency*, 724 N.E.2d 411 (Ohio 2000), held that a compilation of testing data in the possession of the Ohio EPA, that related to a landfill operator’s records of disposal of electric-arc furnace dust from steel producers—including information on which steel producers shipped dust that failed environmental tests more often—was a trade secret. The court reached this determination notwithstanding the fact

that much of the data was in the public domain in fragmented form. The court reasoned that the information could aid a competitor of the landfill operator. And a federal court in *Star Scientific, Inc. v. Carter*, 61 U.S.P.Q.2d 1252 (S.D. Ind. 2001) held that a tobacco company's sales techniques were protectable as trade secrets and thus safe from disclosure under Indiana's public-records law.

A particularly telling case involving a public-record request is *Progressive Animal Welfare Soc'y v. Univ. of Wash.*, 884 P.2d 592, 603 (Wash. 1994). The Supreme Court of Washington held that state's UTSA trumped the state's public-record law, thus preventing the disclosure of a sought-after document. The document sought in the case was a grant application made by a public university seeking funding for an animal-research project. The court's reasoning in the case was severely strained. Since the grant application could result in the award of funding, the court reasoned, the information therein had economic value. *Ergo*, it was a trade secret. Although difficult to make sense of purely as a matter of trade secret doctrine, the court's holding is not so mysterious when one considers some of the surrounding circumstances. The plaintiffs in this case were animal-rights activists. And the court's decision came at a time when, in recent years past, animal-rights activists had broken into various animal facilities in the Pacific Northwest, including university labs. Some of the incidents included arson. For the court, the case likely conjured up fears of ideologically-driven terrorism.

Prof EEJ's note on *Avery Dennison v. Kitsonas*

The *Avery Dennison v. Kitsonas* case is a useful teaching case for multiple reasons. First, it is an example of a very common context for trade secret litigation: The former employer suing a departing employee to enforce a non-compete, with the former employer asserting the need to protect trade secrets as a key rationale to support the non-compete's enforceability. Second, the case shows a court providing for a paradigmatic trade secret remedy—injunctive relief that is designed to prevent the trade secrets' escape. Third, the case is a useful example of a court making a determination about trade secret status over subject matter that is far removed from the classic examples such as manufacturing methods and recipes. This case, to the contrary, involves a nebulous collection of knowledge that includes "sales strategies and the business philosophy of Avery Dennison." Fourth, the case points up

something puzzling where trade secret subject matter and remedies meet. Consider this: If these things were real, bona fide trade secrets that the defendant had absconded with to his new employer, would an injunction limited to one year actually be adequate to protect them?

Case: Avery Dennison v. Kitsonas

This case abridgement/edit by EEJ. Editing notes: The superscript tilde (~) indicates an ellipsis. I removed citations and portions of citations without indication. Footnotes and footnote references were removed without notation. – EEJ

Avery Dennison Corp. v. Kitsonas

118 F. Supp. 2d 848 (S.D. Ohio 2000)

U.S. District Court for the Southern District of Ohio

MARBLEY, District Judge.

I. INTRODUCTION

This matter is before the Court on the Plaintiff's, Avery Dennison Corporation, Motion for a Preliminary Injunction. On June 16, 2000, pursuant to Local Rule 65.1, a hearing was held on the Plaintiff's Motion for a Temporary Restraining Order. Following the hearing, the Court issued a Temporary Restraining Order against the Defendant, Nicholas Kitsonas. On June 20, 2000, Avery Dennison filed an Amended Complaint. On June 31, 2000, this Court held a preliminary injunction hearing.

II. FACTS

The Plaintiff, Avery Dennison Corporation, is in the business of manufacturing and selling consumer label and fastener materials. Avery Dennison focuses on self-adhesive base materials, consumer and office products, specialized label systems and fastener products. The Defendant, Nicholas Kitsonas, was employed by Avery Dennison from February 6, 1984 to May 16, 2000. Before he submitted his resignation, Mr. Kitsonas was employed as the Western Regional Sales Manager for the Worldwide Ticketing Services Division of Avery Dennison. His sales territory stretched from Columbus, Ohio to California. Mr. Kitsonas was one of two Regional Sales Managers. During his employment, Mr. Kitsonas was provided proprietary information about Avery's technology, products, strategies, costs, pricing, designs, customers and marketing plans.

On February 6, 1984, when Mr. Kitsonas was first hired by Dennison Manufacturing Company, he signed an employment agreement (“First Agreement”). The First Agreement provided [for non-compete covenant that was limited in scope and had a duration of six months following employment.]

On January 16, 1996, following Avery’s merger with Dennison, Mr. Kitsonas signed a second Employment Agreement (“Second Agreement”) whereby he agreed not to compete for two years and to maintain the customer secrecy clause for one year. The relevant language of the Second Employment Agreement provides:

For a period of two years following termination of employment with the Company, Employee will not, without first obtaining the express written consent of a Corporate Officer of Avery Dennison Corporation, render services, engage in or enter the employment of or act as an advisor or consultant to any person, firm or corporation engaged in or about to become engaged in the manufacture or sale of any product substantially similar to or competitive with any product on which or with which Employee worked, or about which Employee obtained information, during the last two years of his or her employment with the Company.

And, the relevant language that relates to Customer Secrecy provides:

Employee will not, without the express written consent of a Corporate Officer of Avery Dennison Corporation, for a period of one year immediately following Employee’s termination of employment with the Company for any reason, either directly or indirectly, call upon, solicit, divert or take away, or attempt to solicit, divert or take away any customers, business or patrons of the Company upon whom Employee called or whom Employee serviced or solicited, or with whom Employee became acquainted as a result of employment with the Company.

On May 15, 2000, Mr. Kitsonas informed Avery Dennison that he was resigning effective May 16, 2000. After leaving Avery Dennison, Mr. Kitsonas accepted the position of National Sales Manager for Security Printing and Identity Packaging Corporation (“Security Printing”), based in Columbus, Ohio. Security Printing is involved in the manufacture and sale of consumer

label and fastener materials and focuses on hang tags and tickets, while Avery Dennison focuses on self-adhesive base materials, consumer and office products, specialized label systems and fastener products.

On May 16, 2000, while Mr. Kitsonas was moving out of his office, he asked an employee from Signature Control to help him back-up files from the computer owned by and provided to him by Avery Dennison. Mr. Kitsonas's secretary informed Avery Dennison officials that Mr. Kitsonas had been downloading his assigned computer since May 16, 2000, and that he and the Signature Control employee refused to give her the computer because they had not finished downloading computer files. On May 18, 2000, in a telephone conversation, Mr. Kitsonas stated that he would not return the computer until he was finished downloading files. Mr. Kitsonas had not returned his computer as of May 18, 2000.

III. LAW

The Sixth Circuit has held that the standards for issuing a temporary restraining order or a preliminary injunction are: (1) the likelihood of success on the merits; (2) the irreparable harm that could result if the injunction is not issued; (3) the impact on the public interest; and (4) the possibility of substantial harm to others. The elements are factors to be balanced against each other, but each element need not be satisfied to issue a preliminary injunction. A preliminary injunction is an extraordinary remedy which should only be granted if the movant carries his or her burden of persuasion.

A. Likelihood of Success on the Merits

The Court will first determine whether the First or the Second Agreement is valid and binding, and after doing so, will next determine whether Avery Dennison has a likelihood of success on the merits of its claim that Mr. Kitsonas violated the applicable agreement when he accepted a position at Security Printing. To reach these questions, first, this Court will determine whether the Second Agreement is valid. If the Second Agreement is found to be invalid, the First Agreement will be relied upon by this Court, as it provides that "it shall be binding upon ... the successors and assigns of the Employer."

B. Second Agreement

Dennison merged with Avery in 1989, and Mr. Kitsonas signed the Second Agreement as an employee of Avery Dennison in 1996. The

Defendant contends that the Second Agreement, signed in 1996, is void for lack of consideration, in that Mr. Kitsonas was already employed by Avery Dennison when he signed it.

This Court subscribes to the view that Kitsonas's continued employment with Avery Dennison constituted adequate consideration. The Court therefore finds that the 1996 Agreement was supported by adequate consideration, and further finds that the 1996 Agreement is binding between Avery Dennison and Defendant Kitsonas. The Court will examine the Second Agreement to determine whether there is a likelihood of success on the merits of this claim.

1. Restrictive Covenants in Ohio

Ohio law favors reasonable restrictive covenants. The Ohio Supreme Court has held that “a covenant restraining an employee from competing with his former employer upon termination of employment is reasonable if it is no greater than is required for the protection of the employer, does not impose undue hardship on the employee, and is not injurious to the public.” *Raimonde v. Van Vlerah*, 42 Ohio St.2d 21, 325 N.E.2d 544 (1975) (syllabus) (finding that courts should look to the individual facts of the case). Courts should look to several factors to determine whether the covenant in question is reasonable, including:

[w]hether the covenant imposes temporal and spatial limitations, whether the employee had contact with customers, whether the employee possesses confidential information or trade secrets, whether the covenant bars only unfair competition, whether the covenant stifles the employee's inherent skill and experience, whether the benefit to the employer is disproportionate to the employee's detriment, whether the covenant destroys the employee's sole means of support, whether the employee's talent was developed during the employment, and whether the forbidden employment is merely incidental to the main employment.

Raimonde, 325 N.E.2d at 547. Covenants that are of one year duration have been found to be reasonable and upheld by Ohio courts. *See Rogers v. Runfola & Assoc.*, 57 Ohio St.3d 5, 9, 565 N.E.2d 540, 544 (Ohio 1991).

Furthermore, Ohio law allows a court to fashion a reasonable restrictive covenant. Under *Raimonde* “[a] covenant not to compete which imposes

unreasonable restrictions upon an employee will be enforced to the extent necessary to protect an employer's legitimate interests." *Raimonde*, 325 N.E.2d at 544 (syllabus ¶ 1). The Court reasoned that "[c]ourts are empowered to modify or amend employment agreements to achieve such results" *Id.* at 548.

Avery Dennison argues that it requires restrictive covenants to be signed by its employees to protect its legitimate business interests, which includes trade secrets, and to protect itself from unfair competition. Avery Dennison's reasons for implementing its restrictive covenant are highlighted by Mr. Kitsonas's actions since leaving his employment. Since leaving Avery Dennison, Mr. Kitsonas, as a representative and employee of Security Printing, met with several contacts he gained as an employee of Avery Dennison. For example, Mr. Kitsonas met with Tom Clemmons, the Vice President of Distribution Services for the Limited; Ron Staub, Director of Distribution for Express; John Culler, Purchasing Supervisor for the Limited, and Dave Delaney, the Limited's Operations Manager. In addition, Mr. Kitsonas has contacted John Washburn of Express, Gary Donovan of Structure, Lori Lausness of Target, Inc.; Donna Wence Weber of Lerner, Tom Clellon of Lerner, and one individual at Lane Bryant. In addition, Mr. Kitsonas, as a Security employee, bid against Avery Dennison to obtain a contract with United Retail Accounts.

Mr. Kitsonas's argument that Security and Avery Dennison are not in competition because Avery Dennison does not manufacture RM-EAS is a red herring. One corporation does not need to manufacture identical products to be in direct competition with another corporation. Although RM-EAS and AM-EAS are different products, they are substitutes for one another — that is, a retailer would use *either* RM-EAS or AM-EAS technology — but not both.

Based on Ohio law, this Court finds that it is likely that Mr. Kitsonas's covenant would be upheld as valid with a modification. First, this Court finds, in accordance with *Raimonde*, that the restrictive covenant was reasonable as: Mr. Kitsonas had extensive contact with customers; he possessed confidential information about customer lists, pricing information, sales strategies and business philosophy; the covenant bars only unfair competition as it seeks to restrict Mr. Kitsonas's employment with companies that produce "substantially similar" or "competitive" products to those of Avery Dennison; next, the covenant does not stifle Mr. Kitsonas's inherent skill and experience

as he is able to seek employment as a salesperson, as long as he does not work for a direct competitor of Avery Dennison; the benefit to the employer is not disproportionate to the employee's detriment as both entities are both burdened and benefited in equal proportion, and finally, the covenant does not destroy the employee's sole means of support as Mr. Kitsonas is permitted to accept any sales job with any company not in direct competition with Avery Dennison.

This Court, however, finds the two year term to be unreasonable, and instead issues the preliminary injunction for one year. The scope is reasonable as it only applies to Mr. Kitsonas becoming employed with a company that produces "substantially similar" or "competitive" products to those of Avery Dennison. Based on this analysis, when applying Ohio law to the 1996 Agreement, Avery Dennison likely would be able to succeed on the merits of its restrictive covenant claim.

2. Trade Secrets

Ohio also has a specific statutory provision that addresses the protection afforded trade secrets. Ohio defines a "trade secret" as:

[a]ny business information or plans, financial information or listing of names, addresses, or telephone numbers, that satisfies both of the following: (1) It derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic values from its disclosure or use. (2) It is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

OHIO REV. CODE § 1333.61. An injunction may be issued if there is "actual or threatened" misappropriation of a trade secrets. OHIO REV. CODE § 1333.62. Ohio law further provides that: "[n]o employee of another, who in the course and within the scope of his employment receives any confidential matter or information, shall knowingly, without the consent of his employer, furnish or disclose such matter or information to any person not privileged to acquire it." OHIO REV. CODE § 1333.81 (Breach of Confidence by Employee).

Mr. Kitsonas is privy to customer lists, pricing information, sales strategies and the business philosophy of Avery Dennison. Not only was Mr. Kitsonas

privity to such information, he trained Avery Dennison employees in the areas of selling and market positioning. This information is a trade secret under Ohio law as it is: “business information or plans, financial information or listing of names, addresses, or telephone numbers...” OHIO REV. CODE § 1333.61. Furthermore, the information “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic values from its disclosure or use.” OHIO REV. CODE § 1333.61. Ms. LaVorgna stated that cost and price files are only provided to employees with limited access, and that the files are password protected. Information on sales volume is also of limited distribution among Avery Dennison employees. Avery Dennison’s customer database has limited access. According to Ms. LaVorgna, Mr. Kitsonas would have had access to customer information, but he would not have had access to cost information. Finally, under the requirements of Ohio’s trade secret statute, the information in Mr. Kitsonas’s possession is the “[s]ubject of efforts that are reasonable under the circumstances to maintain its secrecy.” OHIO REV. CODE § 1333.61. These efforts include password protection and limited distribution.

Based on the evidence presented at the preliminary injunction hearing, it is likely that Avery Dennison will succeed on the merits of its trade secrets claim. There is evidence that Mr. Kitsonas was in the possession of trade secrets that were either misappropriated or were threatened to be misappropriated through his employment with Security.

C. Whether The Movant Has Demonstrated Irreparable Injury

Avery Dennison has argued that the irreparable injuries that it will suffer from Mr. Kitsonas’s breach of his employment agreement include: loss of direct competition; the release of information to Avery’s direct competitors; loss of customer business, business advantage and of good will.

As for the trade secret provision of the Employment Agreement, Avery Dennison contends that it will suffer a loss of proprietary and technical information which constitutes trade secrets. Avery Dennison contends that issuing the preliminary injunction will help to maintain commercial ethics, encourage invention and protect Avery Dennison’s investments in its customer relations, customers, sales strategies and proprietary information.

The Court agrees with Avery Dennison and finds that that failure to enforce the restrictive covenant against Mr. Kitsonas would present irreparable injury to the Plaintiff.

D. Whether the Issuance of a Preliminary Injunction would Cause Substantial Harm to Others

Avery Dennison contends that only Mr. Kitsonas and Avery would be affected by the ruling, as Security has no need for the information and will not suffer if it is forced to wait for Mr. Kitsonas's services. [T]he Court finds that the issuance of a preliminary injunction would not cause substantial harm to others. Security Printing would not be harmed, as it has no right to the information in Mr. Kitsonas's possession. Any harm to Mr. Kitsonas would be as a direct result of his own actions. Mr. Kitsonas was aware of the restrictive covenants, yet he chose to accept employment with Security Printing and to take the risk that the covenant with Avery Dennison would not be enforced. Mr. Kitsonas, a sophisticated businessman, made an economic decision to accept a job with greater salary, and understood that the result herein could be a possible consequence of his decision.

E. Whether The Public Interest is Served by the Issuance of an Injunction.

Avery Dennison argues that a preliminary injunction would preserve business competition and would preserve ethical and orderly conduct of the business. Furthermore, the preliminary injunction would discourage the practice of seeking unfair business advantages. The injunction would also stop competitors from interfering with customer relations and/or raiding key employees of competitors who are in possession of confidential, sensitive business information.

The Court agrees with Avery Dennison and finds that the public interest would be served by the issuance of an injunction. This Court finds that valid contracts are the lynchpin of all commercial activity in society, and therefore, they must be honored. Further, the public interest is served by discouraging practices aimed at surreptitiously acquiring trade secrets, by prohibiting misappropriation of trade secrets, and by condemning the theft of clients through unfair competition.

IV. CONCLUSION

Having found that all four factors have been met for the issuance of a preliminary injunction, this Court hereby issues a preliminary injunction that implements the 1996 Agreement between Avery Dennison and Mr. Kitsonas. The only modification the Court makes to the Agreement is that it will be in effect for one year, instead of two, beginning on the date of Mr. Kitsonas's resignation from Avery Dennison. The Court therefore GRANTS Avery Dennison's Motion for a Preliminary Injunction.

IT IS SO ORDERED.

Transferability—a plausible test for trade secret subject matter and independent economic value

If not all business secrets are trade secrets, what's the distinguishing factor?

We know that under the UTSA and DTSA, for something to qualify as a trade secret, it needs to meet four requirements: (1) it must actually be secret, (2) it must have independent economic value, (3) the economic value must result from the secrecy, (4) there must be reasonable efforts to keep it secret. Elements (1) and (4) don't help to distinguish regular business confidential information from trade secrets. Thus, the key must be (2) and (3). In particular, the key would appear to be (3), the requirement of "independent economic value."

I suggest the following test: A secret has independent economic value if it is information that a competitor could make positive use of, to the same ends as the trade secret owner, to obtain commercial advantage in the same way. That is to say, the economic value is independent economic value if it has an existence that is independent of the context of the originating firm, and the economic value is transferrable to another firm if the secret itself is transferred to that other firm.

Under this transferability test, a secret method for making steel bottle caps that is cheaper, faster, and results in a higher-quality product—that has independent economic value, because any bottle-cap making firm could make use of the secret to obtain a commercial advantage in the same way. Thus, the manufacturing method is a trade secret. Similarly, Google's secret search

algorithms—that provide better, faster search results to internet users—have independent economic value. That is because Microsoft could employ the search algorithms in the same way to obtain the same sort of commercial advantage.

The transferability test fits snugly onto the list of archetypal examples that everyone agrees are trade secrets—formulas, recipes, manufacturing methods, etc. All those things are examples of secrets that could have economic value that would transfer along with the secret.

Other sorts of business confidences—that firms frequently want to claim as trade secrets, but often without success—do not pass the transferability test. Consider an embarrassing reliability problem with a line of microprocessors made by a semiconductor chip manufacturer. There is certainly value for the manufacturer in keeping that information secret. It would hurt the firm's bottom line if the reliability problem became public knowledge because some customers would flee or demand discounts. But there's no positive transferrable economic value with this secret. A competing semiconductor maker couldn't use the information to obtain commercial advantage in the same way as the first firm. The competitor might indeed value getting the secret, but how could they obtain value from it? They could disclose it, harming the first firm's reputation. Or maybe they could blackmail the first firm. The economic value proposition for the first firm, however, is exactly the opposite. Value for the first firm is avoiding embarrassment and reputational harm. For the first firm, the secret's value is latent and negative. There is no transferrable positive value.

Or consider basic accounting information of a business—cash flow statements, balance sheets, and so on. The originating firm uses this information, which it compiles with the help of accountants, to make informed management decisions vis-à-vis its financial situation. That value isn't transferrable to a competing firm. A competing firm will need to hire its own accountants to get financial statements useful for making responsible choices vis-à-vis its financial situation. That's not to say the competing firm wouldn't like to have the first firm's financial statements. Having that intelligence on a rival might help the competing firm to outbid the first firm on contracts, play a game of brinkmanship with advertising expenditures, or do other things to outmaneuver the first firm in the market. But the value in any given firm's financial statements isn't transferrable to another firm if and

when the financial statements are transferred. So a firm's own financial statements are not a trade secret to that firm.

I first articulated this proposed transferability test at a symposium on trade secrets in 2010. See Eric E. Johnson, *Trade Secret Subject Matter*, 33 *HAMLIN L. REV.* 545, 570–73 & 576–77 (2010). I don't know of any instances of a court making explicit use of it. But I do think the transferability test describes or at least coincides with how most courts and scholars have tended to think—even if subconsciously—about trade secret subject matter over the years. And I do think the test describes the concept that the drafters of the original UTSA must have had in mind.

Putting aside whether or not the transferability test *ought* to be the test for independent economic value, I do think it is useful to lawyers as a predictive indicator.

A secret that passes the transferability test will almost always qualify as a trade secret (assuming also that it is secret, it is subject to reasonable efforts to be kept secret, and the value derives from the secrecy). An alleged trade secret that doesn't pass the transferability test may or may not be successfully upheld as a trade secret. But we can predict that an alleged trade secret that fails the transferability test is much more likely to be met skeptically by a court, and for a court to ultimately accept it as a trade secret, it will help matters if the defendant has acted in bad faith or there is some other concatenation of equities that favor the plaintiff.

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S-3

Trade Secret Misappropriation and Remedies

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Misappropriation

When it comes to trade secrets, the cause of action is for “misappropriation”—not “infringement” as is the case for copyright, patent, and trademark.

Some things that constitute misappropriation

The law recognizes various forms of trade secret misappropriation, including:

- *Improper acquisition.* This would embrace acquisitions that involve breaching a contract, fraud, trespassing onto private property, lock picking, cyber espionage, or other acts constituting crimes or torts. But acquisitions need not involve acts that are independently civilly or criminally actionable to be deemed improper and thus counting as misappropriation.
- *Improper use.* The impropriety of use could involve breaching a contract, violating business norms, violating reasonable expectations, or using the secret despite being aware it was improperly obtained.

- *Improper disclosure.* The impropriety could involve, among other things, violating a confidence, breaching a contract, disclosing the secret despite being aware it was improperly obtained, etc.

Some things that are never misappropriation

While the law is pretty open-ended about what can constitute misappropriation, the law is very clear that certain categories of conduct are never misappropriation. One such category is *independent discovery*. If you came up with the trade secret on your own, even if that duplicates someone else's trade secret, there is no misappropriation. And you can even protect the duplicate information yourself as your own trade secret, so long as it hasn't become generally known. Also in the clear is *reverse engineering*—for example, figuring out a trade secret manufacturing process by buying samples of the plaintiff's products and then inspecting them, testing them, and running experiments to figure out how they were made. Reverse engineering is completely fair game.

The UTSA's definition of misappropriation

The UTSA § 1(2) provides the following definition of misappropriation:

“Misappropriation” means:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
 - (A) used improper means to acquire knowledge of the trade secret; or
 - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
 - (I) derived from or through a person who had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

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

Case: DuPont v. Christopher

Editing notes: Typography changed, citations dropped or cleaned up.

EI DuPont deNemours & Company v. Christopher

U.S. Court of Appeals for the Fifth Circuit
431 F. 2d 1012 (5th Cir. 1970)

GOLDBERG, Circuit Judge:

This is a case of industrial espionage in which an airplane is the cloak and a camera the dagger. The defendants-appellants, Rolfe and Gary Christopher, are photographers in Beaumont, Texas. The Christophers were hired by an unknown third party to take aerial photographs of new construction at the Beaumont plant of E. I. duPont deNemours & Company, Inc. Sixteen photographs of the DuPont facility were taken from the air on March 19, 1969, and these photographs were later developed and delivered to the third party.

DuPont employees apparently noticed the airplane on March 19 and immediately began an investigation to determine why the craft was circling over the plant. By that afternoon the investigation had disclosed that the craft was involved in a photographic expedition and that the Christophers were the photographers. DuPont contacted the Christophers that same afternoon and asked them to reveal the name of the person or corporation requesting the photographs. The Christophers refused to disclose this information, giving as their reason the client's desire to remain anonymous.

Having reached a dead end in the investigation, DuPont subsequently filed suit against the Christophers, alleging that the Christophers had wrongfully obtained photographs revealing DuPont's trade secrets which they then sold to the undisclosed third party. DuPont contended that it had developed a highly secret but unpatented process for producing methanol, a process which gave DuPont a competitive advantage over other producers. This process, DuPont alleged, was a trade secret developed after much expensive and time-consuming research, and a secret which the company had

taken special precautions to safeguard. The area photographed by the Christophers was the plant designed to produce methanol by this secret process, and because the plant was still under construction parts of the process were exposed to view from directly above the construction area. Photographs of that area, DuPont alleged, would enable a skilled person to deduce the secret process for making methanol. DuPont thus contended that the Christophers had wrongfully appropriated DuPont trade secrets by taking the photographs and delivering them to the undisclosed third party. In its suit DuPont asked for damages to cover the loss it had already sustained as a result of the wrongful disclosure of the trade secret and sought temporary and permanent injunctions prohibiting any further circulation of the photographs already taken and prohibiting any additional photographing of the methanol plant.

The Christophers answered with motions to dismiss for lack of jurisdiction and failure to state a claim upon which relief could be granted. Depositions were taken during which the Christophers again refused to disclose the name of the person to whom they had delivered the photographs. DuPont then filed a motion to compel an answer to this question and all related questions.

On June 5, 1969, the trial court held a hearing on all pending motions and an additional motion by the Christophers for summary judgment. The court denied the Christophers' motions to dismiss for want of jurisdiction and failure to state a claim and also denied their motion for summary judgment. The court granted DuPont's motion to compel the Christophers to divulge the name of their client. Having made these rulings, the court then granted the Christophers' motion for an interlocutory appeal under 28 U.S.C. § 1292(b) to allow the Christophers to obtain immediate appellate review of the court's finding that DuPont had stated a claim upon which relief could be granted. Agreeing with the trial court's determination that DuPont had stated a valid claim, we affirm the decision of that court.

This is a case of first impression, for the Texas courts have not faced this precise factual issue, and sitting as a diversity court we must sensitize our *Erie* antennae to divine what the Texas courts would do if such a situation were presented to them. The only question involved in this interlocutory appeal is whether DuPont has asserted a claim upon which relief can be granted. The Christophers argued both at trial and before this court that they committed no "actionable wrong" in photographing the DuPont facility and passing these

photographs on to their client 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 short, the Christophers argue that for an appropriation of trade secrets to be wrongful there must be a trespass, other illegal conduct, or breach of a confidential relationship. We disagree.

It is true, as the Christophers assert, that the previous trade secret cases have contained one or more of these elements. However, we do not think that the Texas courts would limit the trade secret protection exclusively to these elements. On the contrary, in *Hyde Corporation v. Huffines*, 1958, 158 Tex. 566, 314 S.W. 2d 763, the Texas Supreme Court specifically adopted the rule found in the Restatement of Torts which provides:

“One who discloses or uses another’s trade secret, without a privilege to do so, is liable to the other if
(a) he discovered the secret by improper means, or
(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him * * *.”

Restatement of Torts § 757 (1939).

Thus, although the previous cases have dealt with a breach of a confidential relationship, a trespass, or other illegal conduct, the rule is much broader than the cases heretofore encountered. Not limiting itself to specific wrongs, Texas adopted subsection (a) of the Restatement which recognizes a cause of action for the discovery of a trade secret by any “improper” means.

The defendants, however, read *Furr’s Inc. v. United Specialty Advertising Co.*, Tex.Civ.App.1960, 338 S.W.2d 762, writ ref’d n.r.e., as limiting the Texas rule to breach of a confidential relationship. The court in *Furr’s* did make the statement that

“The use of someone else’s idea is not automatically a violation of the law. It must be something that meets the requirements of a ‘trade secret’ *and has been obtained through a breach of confidence* in order to entitle the injured party to damages and/or injunction.” 338 S.W.2d at 766 (emphasis added).

We think, however, that the exclusive rule which defendants have extracted from this statement is unwarranted. In the first place, in *Furr’s* the

court specifically found that there was no trade secret involved because the entire advertising scheme claimed to be the trade secret had been completely divulged to the public. Secondly, the court found that the plaintiff in the course of selling the scheme to the defendant had voluntarily divulged the entire scheme. Thus the court was dealing only with a possible breach of confidence concerning a properly discovered secret; there was never a question of any impropriety in the discovery or any other improper conduct on the part of the defendant. The court merely held that under those circumstances the defendant had not acted improperly if no breach of confidence occurred. We do not read *Furr's* as limiting the trade secret protection to a breach of confidential relationship when the facts of the case do raise the issue of some other wrongful conduct on the part of one discovering the trade secrets of another. If breach of confidence were meant to encompass the entire panoply of commercial improprieties, subsection (a) of the Restatement would be either surplusage or persiflage, an interpretation abhorrent to the traditional precision of the Restatement. We therefore find meaning in subsection (a) and think that the Texas Supreme Court clearly indicated by its adoption that there is a cause of action for the discovery of a trade secret by any "improper means." *Hyde Corporation v. Huffines, supra*.

The question remaining, therefore, is whether aerial photography of plant construction is an improper means of obtaining another's trade secret. We conclude that it is and that the Texas courts would so hold. The Supreme Court of that state has declared that "the undoubted tendency of the law has been to recognize and enforce higher standards of commercial morality in the business world." *Hyde Corporation v. Huffines, supra* 314 S.W.2d at 773. That court has quoted with approval articles indicating that the *proper* means of gaining possession of a competitor's secret process is "through inspection and analysis" of the product in order to create a duplicate. *K & G Tool & Service Co. v. G & G Fishing Tool Service*, 1958, 158 Tex. 594, 314 S.W.2d 782, 783, 788. Later another Texas court explained:

"The means by which the discovery is made may be obvious, and the experimentation leading from known factors to presently unknown results may be simple and lying in the public domain. But these facts do not destroy the value of the discovery and will not advantage a competitor who by unfair means obtains the knowledge *without*

paying the price expended by the discoverer.” Brown v. Fowler, Tex.Civ. App.1958, 316 S.W.2d 111, 114, writ ref’d n.r.e. (emphasis added).

We think, therefore, that the Texas rule is 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. To obtain knowledge of a process without spending the time and money to discover it independently is *improper* unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy.

In the instant case the Christophers deliberately flew over the DuPont plant to get pictures of a process which DuPont had attempted to keep secret. The Christophers delivered their pictures to a third party who was certainly aware of the means by which they had been acquired and who may be planning to use the information contained therein to manufacture methanol by the DuPont process. The third party has a right to use this process only if he obtains this knowledge through his own research efforts, but thus far all information indicates that the third party has gained this knowledge solely by taking it from DuPont at a time when DuPont was making reasonable efforts to preserve its secrecy. In such a situation DuPont has a valid cause of action to prohibit the Christophers from improperly discovering its trade secret and to prohibit the undisclosed third party from using the improperly obtained information.

We note that this view is in perfect accord with the position taken by the authors of the Restatement. In commenting on improper means of discovery the savants of the Restatement said:

“f. Improper means of discovery. The discovery of another’s trade secret by improper means subjects the actor to liability independently of the harm to the interest in the secret. Thus, if one uses physical force to take a secret formula from another’s pocket, or breaks into another’s office to steal the formula, his conduct is wrongful and subjects him to liability apart from the rule stated in this Section. Such conduct is also an improper means of procuring the secret under this rule. But means may be improper under this rule even though they do not cause any

other harm than that to the interest in the trade secret. Examples of such means are fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage. A complete catalogue of improper means is not possible. In general they are means that fall below the generally accepted standards of commercial morality and reasonable conduct.” Restatement of Torts § 757, comment f at 10 (1939).

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. Our tolerance of the espionage game must cease when the protections required to prevent another’s spying cost so much that the spirit of inventiveness is dampened. Commercial privacy must be protected from espionage which could not have been reasonably anticipated or prevented. We do not mean to imply, however, that everything not in plain view is within the protected vale, nor that all information obtained through every extra optical extension is forbidden. Indeed, for our industrial competition to remain healthy there must be breathing room for observing a competing industrialist. A competitor can and must shop his competition for pricing and examine his products for quality, components, and methods of manufacture. Perhaps ordinary fences and roofs must be built to shut out incursive eyes, but we need not require the discoverer of a trade secret to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available.

In the instant case DuPont was in the midst of constructing a plant. Although after construction the finished plant would have protected much of the process from view, during the period of construction the trade secret was exposed to view from the air. To require DuPont to put a roof over the unfinished plant to guard its secret would impose an enormous expense to prevent nothing more than a school boy’s trick. We introduce here no new or radical ethic since our ethos has never given moral sanction to piracy. The market place must not deviate far from our mores. We should not require a person or corporation to take unreasonable precautions to prevent another from doing that which he ought not do in the first place. Reasonable precautions against predatory eyes we may require, but an impenetrable

fortress is an unreasonable requirement, and we are not disposed to burden industrial inventors with such a duty in order to protect the fruits of their efforts. “Improper” will always be a word of many nuances, determined by time, place, and circumstances. We therefore need not proclaim a catalogue of commercial improprieties. Clearly, however, one of its commandments does say “thou shall not appropriate a trade secret through deviousness under circumstances in which countervailing defenses are not reasonably available.”

Having concluded that aerial photography, from whatever altitude, is an improper method of discovering the trade secrets exposed during construction of the DuPont plant, we need not worry about whether the flight pattern chosen by the Christophers violated any federal aviation regulations. Regardless of whether the flight was legal or illegal in that sense, the espionage was an improper means of discovering DuPont’s trade secret.

The decision of the trial court is affirmed and the case remanded to that court for proceedings on the merits.

Remedies

The UTSA provides for an award of monetary damages based on the plaintiff’s actual loss, the defendant’s wrongful gains, or a reasonable royalty. In cases of “willful and malicious misappropriation,” courts can award exemplary damages up to double the amount of damages awarded on the basis of loss, gain, or reasonable royalties. UTSA § 3.

The UTSA also provides for injunctions—for either “[a]ctual or threatened misappropriation.” With regard to duration, it provides, “an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.” Where prohibiting use of a trade secret would be unreasonable, the UTSA allows a court to condition the defendant’s continued use of a trade secret on payment of a reasonable royalty. USTA § 2.

The federal DTSA has monetary damages provisions similar to those of the UTSA: plaintiff’s actual loss, the defendant’s wrongful gains, or a reasonable royalty—plus double that “if the trade secret is willfully and

maliciously misappropriated.” 18 U.S.C. § 1836(b)(2.) The DTSA injunction provisions are similar to those of the UTSA as well. *Id.* But the DTSA adds a powerful provision for ex parte seizure—“seizure of property necessary to prevent the propagation or dissemination of the trade secret” in “extraordinary circumstances” 18 U.S.C. § 1836(b)(2). Meant as a counterbalance to this potent remedy for plaintiffs, the DTSA also provides for a cause of action for wrongful seizure.

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Volume Revision Notes

All version numbers beginning with “1.0” (e.g., 1.00 and 1.01) are interchangeable from a teaching/learning/assigning standpoint. Only minor typo-level errors are corrected, and there are no changes to pagination. In support of the point about interchangeability, a pedantic report now follows.

REVISIONS FROM 1.00 TO 1.01: Changes were extremely minor—primarily exorcizing character- and word-level annoyances. There were no changes to pagination and almost none to line breaks. **Changes:** Page numbers had been missing from the first pages of chapters; those were inserted. The word “of” was inserted in “current of hyper-partisanship” (page 13); the word “that” was inserted into “view that is comprehensible” (page 16); an errantly typeset dash was corrected from a hyphen to a true dash (page 41). Awkward instances where small elements were stranded over a line break (e.g., a line break after “18” in “18 U.S.C.” or after a numeral in parentheses where that’s numbering a subsequent clause) were fixed on pages 16 and 17. Indentation for clauses coinciding with a statute’s clause structure was added to quoted statutory text on pages 63 and 64. Some number artifact (e.g., a footnote reference number or headnote reference number) was removed from case text on page 52. In making sure that no pagination changes (i.e., where page breaks fall) would result from accomplishing the version 1.01 changes, some jerry-rigging changes were made to the typography—possibly including leading changes and the insertion of non-breaking spaces. The version number was changed from 1.00 to 1.01 on pages 3 and 4. On page 4 the boxed paragraph was added, and on that same page a parenthetical about the 1.01 version being posted in 2023 was inserted. The Volume Revision Notes (that you are reading now) were added.

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