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Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act

Robert T. Neufeld*

INTRODUCTION

Imagine yourself as a young entrepreneur whose fledgling company just had its first big breakthrough. One of your engineers serendipitously discovers a cheaper method of making a chemical compound. The discovery promises to revolutionize industries, help your company get off the ground, and even make the world a better place. However, your joy quickly turns to dismay when you learn that one of your fiercest competitors has been spying on your company and has stolen the new discovery. This competitor also needs to survive economically and will stop at nothing to steal your company's secrets and drive you out of business.

Although this scenario may sound like a tale of industrial espionage gleaned from the pages of a Hollywood script, it closely resembles the facts of an actual case in Texas.¹ In *E.I. duPont de Nemours & Co. v. Christopher*,² competitors of a chemical company hired photographers to take aerial photographs of a manufacturing plant with the hope of stealing secret information.³ Fortunately, the victim of this espionage was able to invoke trade secret law to protect

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1. See generally *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971).

2. *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971).

3. *Id.* at 1013.

its proprietary information.⁴ *Christopher* highlights the problems facing companies, both large and small, that are trying to protect the valuable information that is integral to their economic survival.

Trade secrets have traditionally been defined as “any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”⁵ The essence of trade secret law is that it provides rules of fair play in business transactions and stabilizes the relations between otherwise competing parties.⁶ Instead of hoarding ideas and information, the owner of a trade secret is encouraged to share her knowledge through contracts and license agreements, primarily because she is assured continued ownership of the trade secret.⁷ This dissemination of knowledge results in increased efficiency and productivity for the entire economy.⁸

Trade secret law a category of the larger field of intellectual property.⁹ Intellectual property laws seek to promote creation and invention by striking a delicate balance be-

4. *Id.* at 1015-16.

5. RESTATEMENT OF TORTS § 757, cmt. b (1939).

6. Dan L. Burk, *Misappropriation of Trade Secrets in Biotechnology Licensing*, 4 ALB. L.J. SCI. & TECH. 121, 128-29 (1994) (“Trade secret laws promote ‘ethical’ behavior among competing businesses by penalizing misappropriation of a competitor’s proprietary information.”); MELVIN F. JAGER, TRADE SECRETS LAW HANDBOOK 1 (1983); J. H. Reichman, *Beyond the Historical Lines of Demarcation: Competition Law, Intellectual Property Rights, and International Trade After the GATT’s Uruguay Round*, 20 BROOK. J. INT’L L. 75, 77 (1993).

7. Dan L. Burk, *supra* note 6, at 129, 131; JAGER, *supra* note 6, at 7.

8. David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 71 (1991) (noting the efficiency properties of trade secret law); Lawrence D. Graham & Richard O. Zerbe, Jr., *Economically Efficient Treatment of Computer Software: Reverse Engineering, Protection, and Disclosure*, 22 RUTGERS COMPUTER & TECH. L.J. 61, 72-73 (1996).

9. Friedman et al., *supra* note 8, at 61-63; Roger E. Meiners & Robert J. Staaf, *Patents, Copyrights, and Trademarks: Property or Monopoly?*, 13 HARV. J.L. & PUB. POL’Y 911, 926 (1990).

tween two important policies.¹⁰ First, the laws strive to create incentives to research and invent by providing exclusive property rights in ideas and expressions of ideas.¹¹ Providing a legally protected monopoly over a new idea or discovery transforms intangible capital into valuable assets.¹² This incentive compensates the inventor or artist for the costs and risks involved in researching and developing new ideas.¹³

Second, intellectual property laws seek to promote free competition through the dissemination of information and knowledge.¹⁴ Inherent in this policy is a presumption that, in a free market, the open exchange of information and rigorous, unhampered competition yield the best products and ideas.¹⁵ Therefore, in exchange for granting exclusive rights, the inventor or artist must disclose her creation to the pub-

10. JAGER, *supra* note 6, at 4-5; Peter C. Quittmeyer, *Trade Secrets and Confidential Information Under Georgia Law*, 19 GA. L. REV. 623, 626 (1985) (discussing the “balance between encouraging the development of useful ideas and promoting free competition in the exploitation of existing ideas”); Meiners & Staaf, *supra* note 9, at 913; Edmond Gabbay, *All The King’s Horses—Irreparable Harm in Trade Secret Litigation*, 52 FORDHAM L. REV. 804, 815 (1984) (stating that the encouragement of research and innovation is a major policy underlying trade secret law).

11. Meiners & Staaf, *supra* note 9, at 913 (noting that exclusive rights prevent competitors from copying an invention without incurring any costs); Quittmeyer, *supra* note 10, at 626 (“[s]trong protection . . . creat[es] incentives for development and innovation”); Graham & Zerbe, *supra* note 8, at 71-72.

12. Graham & Zerbe, *supra* note 8, at 71-72; Meiners & Staaf, *supra* note 9, at 913; JAGER, *supra* note 6, at 4-5 (“rewarding inventors and innovators with some measure of exclusive property rights in the idea”).

13. Meiners & Staaf, *supra* note 9, at 913; see Thomas L. Hayslett III, *Antitrust Guidelines for the Licensing of Intellectual Property: Harmonizing the Commercial Use of Legal Monopolies with the Prohibitions of Antitrust Law*, 3 J. INTELL. PROP. L. 375, 378-79 (1996) (stating that intellectual property law provides supracompetitive profits to the creator as an enticement to innovate).

14. Graham & Zerbe, *supra* note 8, at 71-72 (discussing the goal of enlarging the quantity of ideas in the public domain); Quittmeyer, *supra* note 10, at 627 (“Public interest favors the unfettered communication of ideas . . .”); Burk, *supra* note 6, at 129 (“Trade secret laws also promote the sharing of knowledge by facilitating licenses under agreements of confidentiality.”); Meiners & Staaf, *supra* note 9, at 913.

15. Quittmeyer, *supra* note 10, at 627 (noting the dangers of excessive regulation and the need for free competition); Hayslett, *supra* note 13, at 376-77; Graham & Zerbe, *supra* note 8, at 71-73.

lic.¹⁶ These two policies are related in that their ultimate goal is the advancement of society.¹⁷

The focus of intellectual property has been in the areas of patent, trademark, and copyright law,¹⁸ each of which is governed by federal legislation.¹⁹ Trade secret law, however, is rooted in the common law and historically has served as a backdrop to patent law.²⁰ Interestingly, there is no comprehensive federal law governing trade secrets.²¹ Rather, there exist distinct mixtures of common law and statutes regulating trade secrets in each state.²² Nonetheless, the increasing complexity of technology and information in the U.S. economy requires enhanced protection of trade secrets, a need which will only continue to grow in the twenty-

16. Graham & Zerbe, *supra* note 8, at 73; Thomas L. Irving et al., *The Significant Federal Circuit Cases Interpreting Section 112*, 41 AM. U. L. REV. 621, 623 (1992); 2 DONALD S. CHISUM, PATENTS: A TREATISE ON THE LAW OF PATENTABILITY, VALIDITY AND INFRINGEMENT § 7.01 (1996) ("The requirement of adequate disclosure assures that the public receives 'quid pro quo' for the limited monopoly granted to the inventor.").

17. Graham & Zerbe, *supra* note 8, at 71-73; Hayslett, *supra* note 13, at 378.

18. Friedman et al., *supra* note 8, at 61-63; see Daniel P. Powell, *An Introduction to The Law of Trade Secrets*, 23 COLO. LAW. 2125, 2125 (1994) (distinguishing trade secret law from the more familiar areas of patent and copyright law).

19. The power to grant patents and copyrights is granted to Congress in Article I, sec. 8 of the United States Constitution. U.S. CONST. art. I, § 8, cl. 8. Patent law is contained in Title 35 of the United States Code. Copyright law is contained in Title 17 of the United States Code. Federal trademark law is set forth in the Lanham Act, 15 U.S.C. §§ 1051-1127. The Lanham Act is enforced through Congress' power to regulate interstate commerce, as granted in Article I of the United States Constitution. See Ethan Horowitz & Benjamin Levi, *Fifty Years of the Lanham Act: A Retrospective of Section 43(a)*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 59, 61 (1996).

20. Friedman et al., *supra* note 8, at 62-63; ROBERT MERGES, PATENT LAW AND POLICY 953-54 (1992).

21. Christopher Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 442 (1995). Federal legislation was recently passed criminalizing the theft of trade secrets for the benefit of foreign governments or foreign agents. Economic Espionage Act of 1996, Pub. L. No. 104-294, § 1, 110 Stat. 3488 (1996). Nonetheless, this is not a comprehensive trade secret statute because it does not provide definitions of a trade secret and misappropriation and does not provide for civil remedies.

22. MERGES, *supra* note 20, at 953-54; Gale R. Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385, 387 (1995).

first century.²³

Trade secret law is unique from other forms of intellectual property in that it is a hybrid of state property, contract, and tort law.²⁴ Patents and copyrights, in contrast, are protected by the federal statutory scheme which grants these

23. See Michael J. Mandel, *The Digital Juggernaut*, BUS. WK., June 6, 1994, at 22. Trade secret law is emerging as a vital field of law because it affords greater protection of ideas, may be implemented with greater ease, and is less expensive than other forms of intellectual property. Powell, *supra* note 18, at 2125. The Coca-Cola formula is one of the most famous trade secrets that has been successfully protected for over 100 years. See *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 227 U.S.P.Q. (BNA) 18, 22 (D. Del. 1985). Compare, for example, trade secret protection and patent protection: first, trade secret offers greater protection in that the issuance of a patent makes the subject matter public knowledge, whereas a trade secret maintains the confidentiality of the subject matter. Meiners & Staaf, *supra* note 9, at 927 (noting that the success Coca-Cola formula and Smith Brothers' cough drops attained would not have been possible with the limited protection of a patent); Lisa A. Jarr, *West Virginia Trade Secrets in the 21st Century: West Virginia's Uniform Trade Secrets Act*, 97 W. VA. L. REV. 525, 526-27 (1995). Moreover, courts may subsequently invalidate a patent, leaving the subject matter devoid of any protection. See Peterson, *supra* note 22, at 386-87; Jarr, *supra* note 23, at 527. Second, trade secret offers a greater period of protection: while patent protection exists for only 20 years after the patent is issued, trade secret protection is indefinite. The GATT Implementing Legislation has changed the term of a patent such that a patent granted on an application filed on or after June 8, 1995 commences on the date of grant and expires 20 years from the application filing date, or the date from which priority is claimed. See Uruguay Round Agreements Act, Pub. L. No. 103-465, §§ 531-533, 108 Stat. 4809, 4882-90 (1994); Meiners & Staaf, *supra* note 9, at 927; Peterson, *supra* note 22, at 386-87. Third, trade secrets are more efficient: maintaining a trade secret does not involve the time and expense of processing a patent. Friedman et al., *supra* note 8, at 63; Pace, *supra* note 21, at 437-38. Finally, trade secret protection is more expansive than patent protection, as it extends to many forms of intellectual property that do not satisfy the stringent requirements of the federal patent laws. Meiners & Staaf, *supra* note 9, at 926; Pace, *supra* note 21, at 437-38. Trade secrets, unlike patents, do not have to be novel and non-obvious, and protection will extend to such areas as ideas, customer lists, financial information, and special training or knowledge provided to employees. Victoria A. Cundiff, *Protecting Computer Software as a Trade Secret*, in SIXTEENTH ANNUAL INSTITUTE ON COMPUTER LAW, at 7, 12-20 (PLI Pats., Copyrights, Trademarks & Literary Prop. Course Handbook Series No. 444, 1996).

24. MERGES, *supra* note 20, at 960; see also Peterson, *supra* note 22, at 387-88 (describing trade secret law as a "marriage of tort- and property-based principles").

exclusive rights.²⁵ Trade secrets can be protected through traditional property rights, tort principles, or contractual agreements.²⁶ For example, one may have an exclusive property right to knowledge and information such as formulae, manufacturing processes, and customer lists.²⁷ When an employee breaches an agreement and discloses trade secrets belonging to her employer, the employer can seek redress under contract principles. Finally, if an employee violates a duty of care owed to an employer by disclosing a trade secret, the employer may have a cause of action under tort law.²⁸ This distinct mixture in the nature of trade secrets may explain why courts and legislatures have struggled with this area of the law.²⁹

Due to the lack of federal law, states have formulated their own trade secret law. Using the Uniform Trade Secret Act ("UTSA")³⁰ as an impetus, over forty states and the District of Columbia have enacted versions of a trade secret act.³¹ These jurisdictions recognize that trade secrets are a valuable commodity which require laws to define, regulate, and protect them accordingly.³² New York is one of the few

25. The federal patent laws are codified under Title 35 of the United States Code. *See* 35 U.S.C.A. §§ 1-376 (West Supp. 1996). The federal copyright laws are codified under Title 17 of the United States Code. *See* 17 U.S.C.A. §§ 101-210 (West Supp. 1996).

26. MERGES, *supra* note 20, at 960; JAGER, *supra* note 6, at 43-54.

27. *See* Meiners & Staaf, *supra* note 9, at 915 (discussing a private property rights approach to intellectual property); Gabbay, *supra* note 10, at 814-15 (advocating a property rights approach to trade secrets when there is no trust relationship between the parties).

28. Burk, *supra* note 6, at 125.

29. *See, e.g.,* Rohn & Haas Co. v. Adco Chem. Co., 213 U.S.P.Q. (BNA) 723, 751 (D.N.J. 1981), *rev'd*, 215 U.S.P.Q.(BNA) 1081 (3d Cir. 1982) (stating that trade secret cases "are not marked by any discernible consistency" and "vary quite widely").

30. UNIF. TRADE SECRETS ACT, 14 U.L.A. 433 (1990).

31. Cundiff, *supra* note 23, at 23.

32. *See, e.g.,* Rockwell Graphics Sys. v. DEV Indus., 925 F.2d 174, 180 (7th Cir. 1991) (stating "this is an important case because trade secret protection is an important part of intellectual property, a form of property that is of growing importance to the competitiveness of American industry"); *see also* Reichman, *supra*

states that has not enacted a comprehensive trade secret act.³³ Instead, New York courts continue to rely on the common law principles of trade secret law embodied in the First Restatement of Torts.³⁴ Although these common law principles form the basis of much of trade secret law, the recent widespread adoption of comprehensive trade secret acts indicates the inadequacies in these principles.³⁵

This Note discusses the outdated condition of trade secret law in New York. Part I explains the historical background and evolution of trade secret law. Part II discusses the current state of the law in New York and other representative states. Part III argues that New York would benefit from adopting a modified version of the UTSA. Accordingly, this Note concludes that New York should adopt a version of the UTSA, because doing so would greatly enhance the protection of intellectual property.

I. HISTORICAL PERSPECTIVE OF TRADE SECRET LAW

Other than principles borrowed from English common law, American courts had little to rely on in fashioning trade secret law.³⁶ Although case law on trade secrets was relatively sparse throughout the nineteenth century,³⁷ by the mid-twentieth century, judicial decisions increased as the importance of trade secret law became increasingly evident.

note 6, at 80, 93 (noting that scientific and technical knowledge that cannot be patented or copyrighted is vulnerable to appropriation by free-riders); Melvin F. Jager, *Illinois Returns to the Mainstream of Trade Secret Protection*, 2 CHI. B. ASSOC. REC. 18, 18 (1988) (noting the importance of the Illinois Trade Secret Act to the state's economy); Paul Thiel, *Virginia Law Puts High-Tech Emphasis on the Protection of Trade Secrets*, WASH. POST, June 30, 1986, at 3.

33. Victoria A. Cundiff, *The New York Law of Trade Secrets: A Practical Guide*, N.Y. ST. B.J., May/June 1995, at 32, 34.

34. RESTATEMENT (FIRST) OF TORTS §§ 757-759 (1939).

35. See Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 282-84 (1980) (noting the incomplete and outdated nature of common law trade secret principles embodied in the first Restatement of Torts).

36. JAGER, *supra* note 6, at 13 (citing *Vickery v. Welch*, 36 Mass. 523 (1837)), 27.

37. See *infra* part I.A.

This part details the historical growth of this field of law. First, this part tracks some of the early trade secret cases decided by the Supreme Court and various state courts. Second, this part analyzes the developments in trade secret law since the 1930s, focusing on efforts to harmonize trade secret law throughout the United States.

A. *Early Historical Development of Trade Secret Law*

Trade secret law developed slowly in the United States, yielding only a few noteworthy decisions from the United States Supreme Court prior to the 1960s.³⁸ The threshold issue in many early cases was whether trade secrets were legally protectable.³⁹ In 1889, for example, the Court granted trade secret protection for the ingredients of a medicine, despite the argument that doing so would be a restraint of trade.⁴⁰ The Court revisited trade secret protection of medicinal ingredients in 1911, when, in *Dr. Miles Medicine Co. v. John D. Park & Sons Co.*,⁴¹ it recognized that, while the ingredients of a medicine do constitute a trade secret, such rights do not justify price fixing.⁴² Lastly, in the 1917 case, *E.I. DuPont de Nemours Powder Co. v. Masland*,⁴³ the Supreme Court upheld a preliminary injunction against the disclosure of trade secrets to experts and witnesses during a trial.⁴⁴ Although *Masland* was the last significant Supreme Court decision on trade secrets until the 1970s,⁴⁵ trade secret law con-

38. See, e.g., *Fowle v. Park*, 131 U.S. 88 (1889); *Dr. Miles Medical Co. v. John D. Park & Sons*, 220 U.S. 373 (1911); *E.I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

39. See, e.g., *Fowle v. Park*, 131 U.S. 88, 97 (1889) (holding that a property right existed in the secret ingredients of a medicine).

40. *Fowle*, 131 U.S. at 97.

41. 220 U.S. 373 (1911).

42. *Id.* at 402-03.

43. 244 U.S. 100 (1917).

44. *Masland*, 244 U.S. at 102-03.

45. See, e.g., *Kewanee Oil Co. v. Bicron*, 416 U.S. 470 (1974); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

tinued to evolve in certain state courts.⁴⁶

At the state level, trade secret law developed in a haphazard manner: some courts had numerous decisions, while others had very few.⁴⁷ In many of the early decisions, state courts borrowed from the common law principles of English courts.⁴⁸ As is the case today, most of the early controversies involved disputes between employers and their employees.⁴⁹

In *Peabody v. Norfolk*,⁵⁰ one of the earliest state court cases dealing with trade secrets, the plaintiff, Peabody, sued his employee, Norfolk.⁵¹ Norfolk had signed a contract with Peabody, agreeing not to disclose information about Peabody's secretly developed machinery.⁵² Norfolk subsequently left Peabody's employ to work for a competitor and, despite his contract with Peabody, disclosed information about Peabody's machinery to the competitor.⁵³ The *Peabody* court held that Norfolk had breached the non-disclosure agreement, and emphasized three points in its decision. First, the court recognized the existence of a property right in trade secrets, regardless of patentability, and that such a right is not an unnecessary restraint of trade.⁵⁴ Second, the court set a precedent by applying injunctive relief in a trade secret case, a remedy that was subsequently utilized by other state courts.⁵⁵

46. JAGER, *supra* note 6, at 26.

47. See Jarr, *supra* note 23, at 531.

48. JAGER, *supra* note 6, at 13 (citing *Vickery v. Welch*, 36 Mass. 523 (1837)), 27.

49. *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 382 (1971) [hereinafter *Theft of Trade Secrets*].

50. 98 Mass. 452 (1868).

51. *Id.* at 453.

52. *Id.*

53. *Id.* at 454.

54. *Id.* at 458. There was an ongoing debate as to whether federal patent law preempts state trade secret law. This debate was arguably settled in favor of state trade secret law by the Supreme Court in *Kewanee Oil* and *Aronson*. See Powell, *supra* note 18, at 2125.

55. *Id.* at 460. See, for example, in Pennsylvania, *Fralich v. Despar*, 30 A. 521

Finally, the *Peabody* court held that, although a company's employees, in addition to its owner, may know the trade secret, the owner is still entitled to legal protection.⁵⁶ In so holding, the court envisioned a flexible concept of secrecy whereby an owner could disclose a trade secret to an employee in the course of business on a need-to-know basis.⁵⁷ This third point is of particular importance because employees generally need to know a company's trade secrets as part of their routine employment.⁵⁸ Accordingly, were the *Peabody* court to have required absolute secrecy of proprietary information, it would have made trade secret protection a virtual impossibility.⁵⁹

Early trade secret cases in other states focused on the employer-employee relationship as well. In *Eastman Kodak Co. v. Reichenbach*,⁶⁰ the New York Court of Appeals enjoined highly trained chemists from disclosing certain trade secrets they had learned while employed at Eastman.⁶¹ In reaching this decision, the court reasoned that the employees were under a contractual obligation to maintain secrecy, and that the Eastman Company had made significant efforts to maintain its trade secrets.⁶²

In 1897, the Michigan Supreme Court held that an implied agreement to maintain the secrecy of trade secrets between an employer and former employee can exist in the absence of an express agreement.⁶³ In making this determination, the court examined the measures taken to maintain secrecy and the relationship between the employer

(Pa. 1894); and in New York, *Champlin v. Stoddard*, 30 Hun. 300 (N.Y. Ch. 1883).

56. *Id.* at 461.

57. *See id.* at 461.

58. JAGER, *supra* note 6, at 15.

59. *Id.*

60. 20 N.Y.S. 110, 112-13 (N.Y. Sup. Ct. 1892), *aff'd*, 29 N.Y.S. 1143 (N.Y. App. Div. 1894).

61. *Id.*

62. *Id.*

63. *O. & W. Thum Co. v. Tloczynski*, 72 N.W. 140 (Mich. 1897).

and employee.⁶⁴ Indeed, these are factors which courts continue to consider today.⁶⁵

As these cases demonstrate, trade secret law had rather humble beginnings. Nonetheless, trade secret law fills economic gaps left by other areas of intellectual property law.⁶⁶ This gap, combined with the increasingly complex and technical society of the twentieth century guaranteed a place for trade secret law.⁶⁷

B. *Modern Trade Secret Law and the Drive for Uniformity*

Much like corporate or tax laws,⁶⁸ favorable trade secret laws attract businesses to a particular jurisdiction.⁶⁹ For example, a state willing to protect customer lists as a trade secret would be more attractive to companies with valuable customer contacts than a state not offering such protection.⁷⁰ This is particularly true in the modern global economy, where high technology, computer, and information processing industries are growing at amazing rates.⁷¹ The significant value of certain technologies and information correlates to greater importance for the laws that protect and regulate such assets.⁷²

The need for clear, standardized trade secret laws therefore intensified as information came to be recognized as a

64. *Id.* at 140-41.

65. *See infra* notes 77-130 and accompanying text.

66. Friedman et al., *supra* note 8, at 64.

67. *See* Klitzke, *supra* note 35, at 277.

68. Numerous factors are involved when deciding in which state to incorporate, including tax rates, fiduciary duties imposed on officers and managers, restrictions on dividends, and shareholder rights. LEWIS D. SOLOMON ET AL., *CORPORATIONS LAW AND POLICY* 208-12 (3d ed. 1994).

69. ALLISON COLEMAN, *THE LEGAL PROTECTION OF TRADE SECRETS* 1 (1992).

70. *See infra* notes 89-90 and accompanying text.

71. *See* Mandel, *supra* note 23, at 22.

72. Melvin Jager & William Cook, *Trade Secrets & Industrial Espionage—Online Piracy*, in *SECOND ANNUAL INSTITUTE FOR INTELLECTUAL PROPERTY LAW*, at 91, 93 (PLI Pats., Copyrights, Trademarks & Literary Prop. Course Handbook Series No. 454, 1996).

valuable asset.⁷³ The first attempt to establish general principles of trade secret law was in the Restatement of Torts.⁷⁴ Although this attempt was successful in many respects, it was later improved upon by the National Conference of Commissioners on Uniform State Laws (“NCCUSL” or “Commissioners”)⁷⁵ with the UTSA, a second attempt to establish trade secret principles.⁷⁶ This section discusses both of these efforts in turn.

1. The Restatement of Torts

Paralleling the growing importance of trade secret law was the general need for comprehensive organization and standardization of basic trade secret law concepts.⁷⁷ As noted above, early trade secret law developed haphazardly from state to state, with little guidance from the federal government.⁷⁸ In response, the American Law Institute’s (“ALI”) Restatement of Torts (“Restatement”), published in 1939, defined trade secrets and provided factors which courts should consider in determining whether certain in-

73. See UNIF. TRADE SECRETS ACT prefatory note, 14 U.L.A. 433 (1990) (explaining that state trade secret law has not developed satisfactorily and recognizing the need for clear, uniform trade secret protection); see also *Theft of Trade Secrets*, *supra* note 49, at 380-81 (“Under technological and economic pressures, industry continues to rely on trade secret protection despite the doubtful and confused status of both common law and statutory remedies.”).

74. RESTATEMENT (FIRST) OF TORTS (1939).

75. Trade secret law was not included in the Restatement (Second) of Torts because the ALI apparently decided that trade secret law belonged in a separate volume. The NCCUSL was organized in 1892 to promote uniformity in state law on all subjects where it is desirable. The NCCUSL is composed of members of the bar from each state, the District of Columbia and Puerto Rico. Explanation, National Conference of Commissioners on Uniform Laws, 14 U.L.A. iv (1990).

76. A third and more recent compilation of trade secret law is the Restatement (Third) of Unfair Competition. RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1993). This Note will not analyze the Restatement (Third) of Unfair Competition provisions on trade secret law because they are largely similar to and contemporaneous with the UTSA. See Peterson, *supra* note 22, at 391, 397-98, 429.

77. JAGER, *supra* note 6, at 27.

78. See *supra* notes 38-76 and accompanying text.

formation qualified as a trade secret.⁷⁹

The Restatement defines a trade secret as any type of information which is used in one's business and which provides an advantage over competitors lacking such information.⁸⁰ Examples include a formula, a process of manufacturing, a pattern for a machine, and a list of customers.⁸¹ Some of the factors a court should consider in making this determination include the value of the information and the extent of measures taken to guard its secrecy.⁸²

Many state courts looked for guidance to the Restatement, the principles of which have been noted extensively throughout trade secret case law.⁸³ Pennsylvania courts, for instance, looked to the Restatement in defining a trade secret as "almost any knowledge or information," used in the conduct of business, which is held "in secret."⁸⁴ Other courts have also looked to the Restatement in determining that the required novelty for a trade secret is marginal and that an owner of a trade secret is entitled to legal protection of the information.⁸⁵

The Illinois Supreme Court cited the Restatement when it stated that "trade secrets may cover a wide spectrum of categories" and are decidedly fact dependent.⁸⁶ Illinois courts have also determined that the essential elements of a trade secret cause of action are: (1) the existence of a secret; (2) its acquisition in confidence; and (3) unauthorized use of

79. RESTATEMENT (FIRST) OF TORTS § 757 (1939).

80. *Id.*

81. *Id.*

82. *Id.*; see also *supra* notes 64-65 and accompanying text.

83. ROGER M. MILGRIM, 12 MILGRIM ON TRADE SECRETS § 1.01 (1994).

84. *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1955) (applying Pennsylvania law).

85. See, e.g., *Greenberg v. Croydon Plastics Co.*, 378 F. Supp. 806 (E.D. Pa. 1974); *CPG Prods. Corp. v. Mego Corp.*, 214 U.S.P.Q. (BNA) 206, 212 (S.D. Ohio 1981); *K & G Oil Tool Serv. Co. v. G & G Fishing Tool Serv.*, 314 S.W.2d 782 (Tx. 1958).

86. *ILG Indus., Inc. v. Scott*, 273 N.E.2d 393, 395 (Ill. 1971).

the secret.⁸⁷ Likewise, Wisconsin relied heavily on the Restatement for the definition of a trade secret and the factors to be reviewed in a trade secret case.⁸⁸ As a noteworthy comparison, the Wisconsin Supreme Court has held that there is no trade secret protection for customer lists because, the court reasoned, such lists would be compiled regardless of an incentive created by the law.⁸⁹ This is contrary to Pennsylvania law, which provides trade secret protection for customer lists.⁹⁰

Despite the success of the Restatement's trade secret provisions and its widespread acknowledgment in the fifty states, commentators have noted some significant shortcomings.⁹¹ Such commentators criticize the Restatement provisions as being over-complicated because they merely restate, rather than clarify, the common law and all of its subtle details.⁹² In addition, they argue that the provisions are not exhaustive and that they fail to adequately cover injunctive relief and the statute of limitations as related to trade secrets.⁹³ Finally, by definition, the Restatement is a compendium and serves only as a model.⁹⁴ State courts may choose varying interpretations of its principles because they are not required to follow the Restatement.⁹⁵ For example, most states reject the Restatement requirement that a trade secret be continuously used in business.⁹⁶ Therefore, commentators largely agree that the Restatement falls far short of har-

87. See, e.g., *Davis v. General Motors Corp.*, 196 U.S.P.Q.(BNA) 218 (N.D. Ill. 1977).

88. *Abbott Lab. v. Norse Chem. Corp.*, 33 Wisc.2d 445, 456 (1967).

89. *Corroon & Black v. Hosch*, 325 N.W.2d 883, 885-86 (Wisc. 1982).

90. *Ecolaire Inc. v. Crissman*, 542 F. Supp. 196, 206 (E.D. Pa. 1982).

91. See, e.g., *JAGER*, *supra* note 6, at 39; *Klitzke*, *supra* note 35, at 282-83.

92. See *Klitzke*, *supra* note 35, at 282-83; *Peterson*, *supra* note 22, at 392.

93. *JAGER*, *supra* note 6, at 39; *Pace*, *supra* note 21, at 445.

94. *Klitzke*, *supra* note 35, at 282-83; *Pace*, *supra* note 21, at 445; *COLEMAN*, *supra* note 69, at 19-20.

95. *Klitzke*, *supra* note 35, at 283; *Jarr*, *supra* note 23, at 529-30.

96. *COLEMAN*, *supra* note 69, at 20.

monizing trade secret law among the states.⁹⁷

2. Introduction of the UTSA

Under pressure from the Patent Law Section of the American Bar Association (“ABA”), the NCCUSL responded to the call for unified trade secret law.⁹⁸ In 1979, after ten years of study, the NCCUSL approved the UTSA.⁹⁹ The need for uniformity is professed in the Commissioners’ Prefatory Note, which states that trade secret law had not developed satisfactorily despite its importance in interstate business.¹⁰⁰ Furthermore, even in those states that had a substantial number of decisions on trade secret law, there was still “undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation.”¹⁰¹

The UTSA, like the Restatement, is not law, but rather it merely establishes a set of model rules that states can either reject, accept in part, or accept in full. The UTSA is similar to the Restatement in many ways because it “codifies the basic principles of common law trade secret protection, preserving its essential distinction from patent law.”¹⁰²

However, there are also noteworthy differences between the Restatement and the UTSA. The UTSA provides a new definition of a trade secret, the main elements of which include: that the secret be information; that it have independent economic value because of its secrecy; and that reasonable measures be taken to maintain its secrecy.¹⁰³ The UTSA

97. See *id.* at 19-20; Pace, *supra* note 21, at 443-45; Klitzke, *supra* note 35, at 282-83.

98. COLEMAN, *supra* note 69, at 22.

99. UNIF. TRADE SECRETS ACT, 14 U.L.A. 539 (1980).

100. *Id.* prefatory note.

101. *Id.*

102. *Id.*

103. *Id.* § 1(4). The UTSA defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that:

definition is broader than that of the Restatement, and expands on the list in the Restatement to include “program[s], method[s], and technique[s].”¹⁰⁴ Conspicuously absent from the UTSA definition is the Restatement’s requirement that the trade secret be in “continuous use.”¹⁰⁵ As noted above, this requirement was rejected by the majority of states prior to the UTSA.¹⁰⁶ Finally, the UTSA also protects negative information about research or a process that does not work.¹⁰⁷ Although this information can have significant commercial value, it was not protectable as a trade secret under the Restatement.

The UTSA also diverges from the Restatement regarding trade secret misappropriation by creating two separate torts.¹⁰⁸ The first tort is the unauthorized use or disclosure

(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.

UNIF. TRADE SECRETS ACT, 14 U.L.A. 539 (1990).

104. *Id.*; compare UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 539 (1990) with RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (1939).

105. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 539 (1990)

106. See *supra* note 96 and accompanying text.

107. UNIF. TRADE SECRETS ACT § 1, cmt. 14 U.L.A. 539 (1990) (citing *Telex Corp. v. IBM Corp.*, 510 F.2d 894 (10th Cir. 1975) (per curiam), *cert. dismissed*, 423 U.S. 802 (1975)); see also Cundiff, *supra* note 33, at 35.

108. UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 539 (1990); see also COLEMAN, *supra* note 69, at 47-48. Misappropriation is defined as:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; 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

of a trade secret.¹⁰⁹ The second is improper acquisition of a trade secret, including computer hacking and industrial espionage.¹¹⁰ Under the Restatement, a trade secret case could be based on both tort and contract law, thus leading to greater inconsistency.¹¹¹ However, the UTSA bases liability strictly in tort law, which is more flexible and allows for the formulation of new torts without contradicting prior law.¹¹²

Finally, the UTSA also responds to the two areas in which the Restatement was deficient: injunctive relief and the statute of limitations.¹¹³ Injunctive relief is vital to trade secret cases where damages are often difficult to prove and money may be insufficient to remedy the misappropriation.¹¹⁴ A plaintiff can obtain an injunction where he or she demonstrates a reasonable likelihood of success or when the plaintiff's harm exceeds the potential harm to the defendant if the injunction is granted.¹¹⁵ The plaintiff must also show that the public interest would be served by granting the injunction.¹¹⁶

The UTSA sets the statute of limitations at three years after the discovery of the misappropriation.¹¹⁷ Rather than adopt a continuing wrong approach,¹¹⁸ the Commissioners

(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.

Id.

109. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 539 (1990).

110. *Id.*

111. Jarr, *supra* note 23, at 538.

112. COLEMAN, *supra* note 69, at 49.

113. See *supra* note 23 and accompanying text.

114. Jarr, *supra* note 23, at 542-43.

115. See *Kozuch v. CRA-MAR Video Ctr., Inc.*, 478 N.E.2d 110, 113-14 (Ind. Ct. App. 1985).

116. *Id.*

117. UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 539 (1990). If reasonable diligence should have led to the discovery of the misappropriation, the clock will begin to run for statute of limitations purposes. *Id.*

118. The continuing wrong approach takes the view that for every instance

note that the wording of section 6 of the UTSA provides a fair opportunity to bring an action.¹¹⁹ Despite this reasoning, jurisdiction continue to conflict as to whether misappropriation is a continuing wrong.¹²⁰

Despite the improvements the UTSA brought to the original trade secret provisions in the Restatement, commentators also note shortcomings with the act.¹²¹ Critics note that, while the UTSA revised and broadened the definition of a trade secret, at the same time, it created further ambiguities.¹²² The UTSA's broad description of trade secrets as information is tailored by the requirements that it have "independent economic value" and that it not be "readily ascertainable" by others.¹²³ This definition focuses on what is known in the relevant industry, but the provisions are open to varying interpretations.¹²⁴ The definition also fails to clarify the distinction between general knowledge and employee know-how.¹²⁵ Regarding the areas of the law to which the UTSA applies, section 7 states, "this Act displaces conflicting tort, restitutionary, and other law."¹²⁶ The reference to "other law" creates further ambiguity. A final shortcoming is that the UTSA does not fully address the question of remedies.¹²⁷

that misappropriated information is used, a new time period is begun for the statute of limitations. *Id.* commissioners' comment § 6.

119. *Id.*

120. Compare *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288 (9th Cir. 1969) (rejecting the continuing wrong theory under California law) with *Underwater Storage v. United States Rubber Co.*, 371 F.2d 950 (D.C. Cir. 1966) (adopting the continuing wrong approach), *cert. denied*, 386 U.S. 911 (1967).

121. See, e.g., Klitzke, *supra* note 35, at 290-92, 305-06; Pace, *supra* note 21, at 443-44; Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States Response*, 24 CREIGHTON L. REV. 49, 94-95 (1990).

122. JAGER, *supra* note 6, at 39-41.

123. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 539 (1990).

124. JAGER, *supra* note 6, 40-41; Klitzke, *supra* note 35, at 289.

125. Jarr, *supra* note 23, at 534.

126. UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 539 (1990) (emphasis added). The 1985 revisions to the UTSA attempt to clear up this ambiguity somewhat.

127. See Jarr, *supra* note 23, at 544-45.

The UTSA came about in response to the need for uniform principles of trade secret law throughout the United States.¹²⁸ Although disparities still exist, the UTSA has been adopted, in some form, in the majority of states and has thus made important strides towards uniformity from the days of the Restatement and the development of the common law.¹²⁹ The UTSA offers the potential for greater uniformity among the states and a model for the more contemporary problems in trade secret law.¹³⁰

II. THE CURRENT STATUS OF INDIVIDUAL STATE TRADE SECRET LAW

The desire for uniform trade secret law is evident from the efforts of the ALI and the NCCUSL. Currently, the majority of states have adopted the UTSA, at least in part.¹³¹

128. See *supra* notes 98-101 and accompanying text (discussing the lack of a uniform trade secret law among the states and the impetus for the UTSA).

129. MILGRIM, *supra* note 83, at app. AA.

130. Samuels & Johnson, *supra* note 121, at 53.

131. See Cundiff *supra* note 23, at 23. For states with trade secret statutes modeled on the UTSA, see ALA. CODE §§ 8-27-1 to -6 (1993 & Supp. 1996); ALASKA STAT. §§ 45.50.910-945 (Michie 1996); ARIZ. REV. STAT. ANN. §§ 44-401 to -407 (Supp. 1996); ARK. CODE ANN. §§ 4-75-601 to -607 (Michie Supp. 1996); CAL. CIV. CODE §§ 3426.1-11 (West Supp. 1996); COLO. REV. STAT. §§ 7-74-101 to -110 (Supp. 1996); CONN. GEN. STAT. §§ 35-50 to -58 (Supp. 1996); DEL. CODE ANN. tit. 6, §§ 2001-2009 (1996); D.C. CODE ANN. §§ 48-501 to -510 (1996); FLA. STAT. ANN. §§ 688.001-009 (West 1996); GA. CODE ANN. §§ 10-1-760 to -767 (Supp. 1996); HAW. REV. STAT. §§ 482B-1 to -9 (1995 & Supp. 1996); IDAHO CODE §§ 48-801 to -807 (Supp. 1996); ILL. ANN. STAT. ch. 1065, paras. 1-9 (Smith-Hurd 1996); IND. CODE §§ 24-2-3-1 to -8 (1996); IOWA CODE ANN. §§ 550.1-8 (West Supp. 1996); KAN. STAT. ANN. §§ 60-3320 to -3330 (1996); KY. REV. STAT. ANN. §§ 365.880-900 (Michie/Bobbs-Merrill 1996); LA. REV. STAT. ANN. §§ 51:1431-1439 (West Supp. 1996); MD. CODE ANN., Com. Law I §§ 11-1201 to -1209 (1996); ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (West 1996); MINN. STAT. ANN. §§ 325C.01-08 (West 1996); MISS. CODE ANN. §§ 75-26-1 to -19 (1996); MO. ANN. STAT. §§ 417.450-467 (Vernon Supp. 1996); MONT. CODE ANN. §§ 30-14-401 to -409 (1995); NEB. REV. STAT. §§ 87-501 to -507 (1996); NEV. REV. STAT. §§ 600A.010-100 (1996); N.H. REV. STAT. ANN. §§ 350-B:1 to :9 (1996); N.M. STAT. ANN. §§ 57-3A-1 to -7 (Michie 1996); N.D. CENT. CODE §§ 47-25.1-01 to -08 (1995); OHIO REV. CODE ANN. §§ 1333.61-69 (Anderson Supp. 1996); OKLA. STAT. tit. 78, §§ 85-94 (1996); OR. REV. STAT. §§ 646.461-475 (1996); R.I. GEN. LAWS §§ 6-41-1 to -11 (1996); S.C. CODE ANN. §§ 39-8-1 to -11 (Law. Co-op. Supp. 1996); S.D. CODIFIED LAWS ANN. §§

The remaining states' trade secret laws consist of mixtures of rules from the Restatement and common law principles.¹³² Of these states, three have considered, and rejected, the UTSA.¹³³

This part examines the current status of trade secret law in three representative states. First, this part analyzes the trade secret law of two states that have enacted comprehensive trade secret acts: Illinois, which largely follows the UTSA, and Alabama, which loosely follows the UTSA, albeit with some significant changes. The law of these two states serves as a comparative background. Second, this part examines the trade secret law of New York, one of the few states that has not enacted any comprehensive trade secret legislation.

A. *States Following the UTSA*

Modern trade secret law consists of similar, but distinct, sets of rules in each state.¹³⁴ Both states discussed below have adopted the UTSA, at least in part. Therefore, unlike New York, these states have codified definitions of a trade secret, the elements for misappropriation, and the corresponding legal relief. The following examples provide a cross section of the varying trade secret laws among the states. The Illinois statute provides an example of state trade secret law that closely follows the UTSA. In contrast, the Alabama statute illustrates state trade secret law based on the UTSA with major modifications.

37-29-1 to -11 (1996); UTAH CODE ANN. §§ 13-24-1 to -9 (1996); VT. STAT. ANN. tit. 9, §§ 4601-4609 (Supp. 1996); VA. CODE ANN. §§ 59.1-336 to -343 (Michie 1996); WASH. REV. CODE §§ 19.108.010-.940 (1997); W. VA. CODE §§ 47-22-1 to -10 (1996); WIS. STAT. ANN. § 134.90 (West 1996).

132. See *supra* notes 19-21 and accompanying text (noting the lack of federal trade secret law and the common law roots of state trade secret law).

133. The three states that have rejected the UTSA are Texas, Ohio, and New Hampshire. James C. Lydon, *The Deterrent Effects of the Uniform Trade Secrets Act*, 69 J. PAT. & TRADEMARK OFF. SOC'Y 427, 441-42 (1987).

134. See *supra* notes 19-21 and accompanying text.

1. Illinois Trade Secret Law

Illinois joined the ranks of many other states in 1987 when it adopted a trade secret law based on the UTSA: the Illinois Trade Secrets Act (“Illinois Act”).¹³⁵ For the most part, the Illinois legislature incorporated sections from both the 1979 and 1985 versions of the UTSA in formulating its trade secret statute.¹³⁶ The Illinois Act largely parallels the structure and net effect of the UTSA,¹³⁷ yet includes some modifications which generally favor the trade secret owner.¹³⁸

Beginning with the definition section of the Illinois Act, the statute and the UTSA define the terms “misappropriation” and “person” almost identically.¹³⁹ However, the Illinois Act’s definitions of what constitutes “improper means” of appropriation and a “trade secret” do contain noteworthy differences from the UTSA version.¹⁴⁰ In defining what actions constitute “improper means” of acquiring a trade secret, the Illinois Act includes the phrase “breach or inducement of a breach of a *confidential relationship* or other duty to maintain secrecy,” while the UTSA does not mention “confidential relationship.”¹⁴¹ This addition expands the scope of liability beyond those people who have an explicit duty to

135. ILL. ANN. STAT. ch. 1065, paras. 1-9 (Smith-Hurd 1996).

136. Compare ILL. ANN. STAT. ch. 1065, paras. 1-9 with UNIF. TRADE SECRETS ACT, *supra* note 30 and UNIF. TRADE SECRETS ACT, *supra* note 99; see also Samuels & Johnson, *supra* note 121, at 52.

137. Compare ILL. ANN. STAT. ch. 1065, paras. 1-9 with UNIF. TRADE SECRETS ACT, 14 U.L.A. 433 (1990) and UNIF. TRADE SECRETS ACT, 15 U.L.A. 433 (1980); see generally Jager, *supra* note 32.

138. See Samuels & Johnson, *supra* note 121, at 52.

139. Compare ILL. ANN. STAT. ch. 1065, paras. 2(b)-2(c) with UNIF. TRADE SECRETS ACT §§ 1(2)-1(3), 14 U.L.A. 433 (1990).

140. Samuels & Johnson, *supra* note 121, at 56. Compare ILL. ANN. STAT. ch. 1065, paras. 2(a)-2(d) with UNIF. TRADE SECRETS ACT §§ 1(1), 1(4), 14 U.L.A. 433 (1990).

141. Compare ILL. ANN. STAT. ch. 1065, para. 2(a) with UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 433 (1990).

maintain secrecy.¹⁴² The Illinois Act also adds, for clarification, that “[r]everse engineering¹⁴³ or independent development shall not be considered improper means.”¹⁴⁴

The changes in the Illinois definition of a trade secret provide clearer provisions and broader protection of intangible property than the UTSA definition.¹⁴⁵ First, the list of examples of a trade secret in the UTSA definition is arguably exclusive.¹⁴⁶ However, the Illinois Act contains the phrase “but are not limited to” before the list of examples it provides.¹⁴⁷ This wording both increases the breadth of the Illinois Act’s definition over its UTSA counterpart and establishes protection for a greater variety of information.¹⁴⁸

Recent case law demonstrates the broad protection that the Illinois Act offers. In *ISC Bunker Ramo Corp. v. Altech, Inc.*,¹⁴⁹ for example, the court held that service manuals and

142. Samuels & Johnson, *supra* note 121, at 56; *see* Stampede Tool Warehouse Inc. v. May, 651 N.E.2d 209, 216 (Ill. App. Ct. 1995) (holding that misappropriation does not necessarily have to be a physical taking, but rather can also be a copying or memorization).

143. Reverse engineering is a process whereby one skilled in a particular technical field can take a finished product and disassemble it to discover the maker’s trade secrets. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 476 (1974); Bonito Boats Inc. v. Thunder Craft Boats Inc., 489 U.S. 141, 155 (1989).

144. ILL. ANN. STAT. ch. 1065, para. 2(a). Patent law deters independent discovery by an individual other than the patent holder because the patent holder’s exclusive monopoly would prevent an independent discoverer from profiting on the invention. *See* Friedman, *supra* note 8, at 65. Trade secret law, however, prohibits only misappropriation of the secret and not its independent discovery. *Id.* at 66-67. Therefore, one is free to discover and profit from a trade secret held by another, as long as the information was not misappropriated. *Id.* at 70.

145. Samuels & Johnson, *supra* note 121, at 64; Jager, *supra* note 32, at 18, 21.

146. *See* UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990).

147. Chapter 1065, paragraph 2(d) of the Illinois Act provides, in relevant part: “‘Trade Secret’ means information, *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” ILL. ANN. STAT. ch. 1065, para. 2(d) (emphasis added).

148. John Bostajancich & Patricia Smart, *Survey of Illinois Law: Intellectual Property Law Developments*, 19 S. ILL. U. L.J. 855, 855-56 (1995); *compare* ILL. ANN. STAT. ch. 1065, para. 2(d) *with* UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990); *see also* Samuels & Johnson, *supra* note 121, at 64.

149. 765 F. Supp. 1310 (N.D. Ill. 1990).

technical bulletins constitute trade secrets under Illinois law.¹⁵⁰ Similarly, the Illinois courts stretched the bounds of trade secrecy in *Hexacomb Corp. v. GTW Enterprises*,¹⁵¹ in which the court held that a trade secret can exist in a combination of characteristics and components that affords a company a competitive advantage.¹⁵²

The Illinois Act expands the definition of trade secrecy beyond that encompassed by the UTSA in other respects as well. For example, the Illinois statute adds “technical or non-technical data,” “drawing,” and “financial data, or list of actual or potential customers or suppliers” to the list of examples of trade secrets.¹⁵³ Indeed, prior to the Illinois Act, the status of customer lists as trade secrets in Illinois was unsettled and often litigated.¹⁵⁴ Some decisions considered customer lists potential trade secrets, while others required restrictive covenants or examined the customer relationship.¹⁵⁵ Nonetheless, under the new statute, courts have held that, although an employee’s general knowledge is not protectable, actual customer information learned during employment does constitute a trade secret.¹⁵⁶

Finally, the Illinois Act clarifies the secrecy requirement by foregoing the UTSA’s language, “derives independent economic value,” which some commentators found confusing,¹⁵⁷ and adopting, instead, the phrase, “is sufficiently se-

150. *Id.* at 1321.

151. 875 F. Supp. 457 (N.D. Ill. 1993).

152. *Id.* at 463.

153. Compare ILL. ANN. STAT. ch. 1065, para. 2(d) with UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990); see *Gillis Assoc. Indus. Inc. v. Cari-All, Inc.*, 564 N.E.2d 881, 885 (Ill. App. Ct.) (noting that customer list of 3,000 names was type of information that the Illinois Act was intended to protect), *appeal denied*, 571 N.E.2d 147 (Ill. 1990).

154. Jager, *supra* note 32, at 18.

155. *Id.*

156. See, e.g., *Stampede Tool Warehouse, Inc. v. May*, 651 N.E.2d at 216; *IDS Fin. Servs. Inc. v. Smithson*, 843 F. Supp. 415, 418 (N.D. Ill. 1994) (noting the economic value of confidential information regarding clients).

157. Jager, *supra* note 32, at 20; Samuels & Johnson, *supra* note 121, at 65.

cret to derive economic value.”¹⁵⁸ In so doing, the Illinois legislature enacted a law that focuses on the relative secrecy of the particular information.¹⁵⁹ Accordingly, the Illinois Act’s definitions generally strengthen and clarify trade secret protection.¹⁶⁰

The Illinois Act also contains modifications from the UTSA regarding equitable relief and damages. First, the Illinois Act grants judges greater discretion in determining how long an injunction will last.¹⁶¹ While the UTSA requires that an injunction terminate when a trade secret ceases to exist, the Illinois Act allows a judge to determine when an injunction will end.¹⁶² The Illinois Act also provides additional examples of situations in which an injunction should be issued,¹⁶³ and provides that a reasonable royalty may be ordered in lieu of an injunction when public interest so requires.¹⁶⁴

One aspect in which the language of the Illinois Act and

158. Compare ILL. ANN. STAT. ch. 1065, para. 2(d) with UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990); see also Jager, *supra* note 32, at 20.

159. Jager, *supra* note 32, at 20; see *IDS Fin. Servs.*, 843 F. Supp. at 418 (noting the economic value of confidential information regarding clients); *George S. May Int’l Co. v. International Profit Assocs.*, 628 N.E.2d 647, 653 (Ill. App. Ct. 1993) (reasoning that a trade secret imparts economic value to both its owner and his competitors).

160. Jager, *supra* note 32, at 18-20.

161. *Bostajancich & Smart*, *supra* note 148, at 863-64; see *Stampede Tool Warehouse*, 651 N.E.2d at 217-18 (holding that a four year injunction against former employees was proper).

162. Compare ILL. ANN. STAT. ch. 1065, para. 3 with UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 433 (1990); see *PepsiCo Inc. v. Redmond*, 54 F.3d 1262, 1272 (7th Cir. 1995) (holding that a six-month injunction against an employee who went to work for a competitor was appropriate).

163. These added examples include: for “deterrence of willful and malicious misappropriation, or where the trade secret ceases to exist due to the fault of the enjoined party or others by improper means.” ILL. ANN. STAT. ch. 1065, para. 3. Compare ILL. ANN. STAT. ch. 1065, para. 3 with UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 433 (1990).

164. ILL. ANN. STAT. ch. 1065, para. 3(b). This language more closely parallels the 1979 version of the UTSA than the more stringent 1985 version. Compare ILL. ANN. STAT. ch. 1065, para. 3 with UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 433 (1990) and UNIF. TRADE SECRETS ACT § 2 (1980).

the 1979 version of the UTSA sharply diverge is damages.¹⁶⁵ While the first two sentences of the Illinois Act track the meaning of the 1979 version of the UTSA, the third sentence provides for a reasonable royalty where the plaintiff is unable to prove misappropriation by a preponderance of the evidence.¹⁶⁶ There is an important distinction between the common law principles for damages and the provisions of the Illinois Act and the 1985 version of the UTSA.¹⁶⁷ The common law provided that damages may be granted in addition to *or in lieu of* injunctive relief.¹⁶⁸ However, an injunction is the only way to effectively preserve an owner's property right.¹⁶⁹ An award of damages in lieu of an injunction would allow a trade secret misappropriator merely to pay a fine and then to continue using the trade secret.¹⁷⁰ Therefore, the 1985 version of the UTSA and the Illinois Act close this loophole by separately providing for injunctive relief and damages.¹⁷¹

Finally, the Illinois Act and the UTSA also differ concerning the statute of limitations for trade secret misappropriation.¹⁷² While the UTSA provides for a three-year limitation, the Illinois Act adopts a five-year period.¹⁷³ Although this is not a major difference, the additional two years will allow trade secret owners more time to bring their claims.

165. Samuels & Johnson, *supra* note 121, at 76-77.

166. Compare ILL. ANN. STAT. ch. 1065, para. 4 with UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 433 (1990) and UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 433 (1980); see also Samuels & Johnson, *supra* note 121, at 77.

167. Jager, *supra* note 32, at 21.

168. *Id.*

169. *Id.* (citing *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011 (1984)).

170. *Id.* at 21.

171. See *id.*

172. Compare ILL. ANN. STAT. ch. 1065, para. 7 with UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 433 (1990).

173. Compare ILL. ANN. STAT. ch. 1065, para. 7 with UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 433 (1990).

2. Alabama Trade Secret Law

Like Illinois, the state of Alabama adopted a trade secret act in 1987.¹⁷⁴ However, unlike Illinois and most other states, the Alabama Trade Secrets Act (“Alabama Act”)¹⁷⁵ is a significant departure from the UTSA.¹⁷⁶ Prior to adopting the Alabama Act, Alabama courts recognized the Restatement provisions on trade secret law.¹⁷⁷ Although the Alabama Act is unique, the advisory committee that formulated the statute borrowed significantly from both the Restatement and the UTSA.¹⁷⁸

Structurally, the Alabama Act is set up differently than the UTSA.¹⁷⁹ While the UTSA is divided into six main sections,¹⁸⁰ the Alabama Act consists of four.¹⁸¹ Section 2 of the Alabama Act defines trade secret, person, and those actions which constitute improper means.¹⁸² Section 3 defines misappropriation,¹⁸³ section 4 contains the corresponding remedies,¹⁸⁴ and Section 5 codifies the statute of limitations.¹⁸⁵

Beginning with the definition of a trade secret, the Ala-

174. ALA. CODE § 8-27 (1993 & Supp. 1996).

175. *Id.* §§ 8-27-1 to -6.

176. Samuels & Johnson, *supra* note 121, at 52. Both the Alabama and North Carolina trade secret statutes are substantially different from the UTSA. *Id.*

177. *See, e.g.*, *Drill Parts & Serv. Co. v. Joy Mfg. Co.*, 439 So.2d 43 (Ala. 1983) (citing the Restatement and recognizing the tort of trade secret misappropriation).

178. Thad G. Long, *The Alabama Trade Secrets Act*, 18 CUMB. L. REV. 557, 557, 560-61 (1988).

179. *Compare* ALA. CODE § 8-27-1 to 8-27-6 with UNIF. TRADE SECRETS ACT §§ 1-7, 14 U.L.A. 433 (1990).

180. The six main sections are: section 1—definitions, section 2—injunctive relief, section 3—damages, section 4—attorney’s fees, section 5—preservation of secrecy, and section 6—statute of limitations. UNIF. TRADE SECRETS ACT §§ 1-6, 14 U.L.A. 433 (1990).

181. The four main sections of the Alabama Act are: definitions, misappropriation, remedies, and statute of limitations. ALA. CODE § 8-27-2 to -5; Long, *supra* note 178, at 561.

182. ALA. CODE § 8-27-2.

183. *Id.* § 8-27-3.

184. *Id.* § 8-27-4.

185. *Id.* § 8-27-5.

bama Act combines principles from the Restatement and the UTSA with additional language, resulting in a more narrow version of the UTSA definition.¹⁸⁶ Specifically, the Alabama Act requires that there be at least an “intention to use the secret in trade or business.”¹⁸⁷ There is also a restrictive “embodiment limitation,”¹⁸⁸ which effectively eliminates abstract ideas from trade secret status.¹⁸⁹ Furthermore, the Alabama Act requires a trade secret to have “significant” value, whereas the UTSA requires only “independent economic value, actual or potential.”¹⁹⁰ Thus, the Alabama Act provides a finely etched definition that eliminates frivolous claims of misappropriation.¹⁹¹

Section 2 also contains the “improper means” definition that is modified somewhat from the UTSA.¹⁹² The Alabama Act excludes the UTSA’s broadly worded, “espionage through electronic or other means,” and instead proscribes, “[o]ther deliberate acts taken for the specific purpose of gaining access to the information of another by means such as electronic, photographic, telescopic, or other aids to enhance normal human perception, where the trade secret owner rea-

186. Compare § 8-27-2(1) with UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990) and RESTATEMENT, *supra* note 34, § 757; see Randall Scott Hetrick, *Employee “Head Knowledge” and the Alabama Trade Secrets Act*, 47 ALA. L. REV. 513, 522, 526 (1996).

187. ALA. CODE § 8-27-2; see *Public Sys. v. Towry*, 587 So.2d 969, 973 (Ala. 1991) (holding that a client list is not a trade secret where the company openly advertises its client list); *Allied Supply Co. v. Brown*, 585 So.2d 33, 36 (Ala. 1991) (denying trade secret protection for customer and vendor lists where the company did not take adequate steps to ensure confidentiality).

188. ALA. CODE § 8-27-2(1). This element of the definition requires the trade secret to be more than an abstract idea, but actually “embodied in a formula, pattern, compilation, computer software, drawing, device, method, technique or process.” *Id.*

189. *Id.*; see Hetrick, *supra* note 186, at 524, 534 (distinguishing tangible lists from abstract knowledge).

190. Hetrick, *supra* note 186, at 534; ALA. CODE § 8-27-2(1); UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990).

191. See Long, *supra* note 178, at 562-66; Samuels & Johnson, *supra* note 121, at 65-66.

192. ALA. CODE § 8-27-2.

sonably should be able to expect privacy.”¹⁹³ This change prevents the application of the Alabama statute in some situations, such as casual observations in the everyday workplace, which would constitute improper means under the UTSA.¹⁹⁴

Section 3 of the Alabama Act, which covers misappropriation, is intended to codify the common law principles of the Restatement.¹⁹⁵ However, unlike the Restatement and the UTSA, the Alabama Act provides no recourse against an innocent recipient of a trade secret.¹⁹⁶ In contrast, the UTSA defines misappropriation as including mistaken disclosure, where the recipient knew or should have known certain information was a trade secret.¹⁹⁷ On balance, the Alabama Act’s misappropriation section is more restricted than the UTSA and the Restatement.¹⁹⁸

In contrast to the previous sections of the Alabama Act, Section 4, which provides remedies for misappropriation, favors the plaintiff who has established tortious conduct.¹⁹⁹ The Alabama Act provides courts with broad discretion in fashioning the equitable relief that “may be appropriate,”²⁰⁰ including an injunction—perhaps the most important remedy in halting further misappropriation.²⁰¹ The statutory comment to Section 4 also alludes to the possibility of grant-

193. UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 433 (1990); ALA. CODE § 8-27-2(2).

194. Samuels & Johnson, *supra* note 121, at 56; see Hetrick, *supra* note 186, at 523 (discussing Avnet Inc. v. Wyle Labs. Inc., 437 S.E.2d 302 (Ga. 1993), where the defendant was ordered to turn over all written information).

195. ALA. CODE § 8-27-3 commissioners’ comment.

196. *Id.*; Samuels & Johnson, *supra* note 121, at 58; see Imed Corp. v. Systems Eng’g Assocs. Corp., 602 So.2d 344, 346 (Ala. 1992) (holding a third party liable who uses a trade secret and knows it was misappropriated).

197. UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 433 (1990).

198. Samuels & Johnson, *supra* note 121, at 59.

199. Long, *supra* note 178, at 571.

200. ALA. CODE § 8-27-4(1).

201. Samuels & Johnson, *supra* note 121, at 69; see Hetrick, *supra* note 186, at 525 (comparing the requirements to obtain an injunction under common law and the Alabama Act).

ing a permanent injunction.²⁰²

In addition to equitable relief, the Alabama Act provides for recovery of lost profits, actual damages, and the potential for attorney's fees and exemplary damages.²⁰³ The UTSA provision for attorney's fees in egregious situations was a remedy unavailable under common law.²⁰⁴ However, the Alabama Act went even further than the UTSA by including "actual or threatened" misappropriation claims "resisted in bad faith."²⁰⁵ Moreover, the Alabama Act's exemplary damages provision prescribes a statutory minimum of \$5,000.²⁰⁶ The statute excludes the UTSA treble damages provision because of the available statutory minimum.²⁰⁷ Nonetheless, the Alabama Act's exemplary damages provision may prove more beneficial in cases where actual damages are small or difficult to prove.²⁰⁸

Finally, the Alabama Act establishes a two-year statute of limitations, as opposed to the UTSA's three-year period.²⁰⁹ As stated in the statutory comment, the Alabama legislature chose a two-year period to conform the statute to other Alabama tort law and to encourage potential litigants to bring claims quickly.²¹⁰ Overall, the Alabama Act is somewhat more narrow than the UTSA in defining a trade secret and misappropriation, but provides potentially stronger remedies.²¹¹

202. ALA. CODE § 8-27-4 comment.

203. *Id.* § 8-27-4; see *Corson v. Universal Door Sys. Inc.*, 596 So.2d 565, 570 (1991) (awarding damages for breach of nonsolicitation agreements).

204. Samuels & Johnson, *supra* note 121, at 85.

205. ALA. CODE § 8-27-4(2).

206. *Id.* § 8-27-4(3).

207. Long, *supra* note 178, at 568.

208. *Id.* at 569.

209. Compare ALA. CODE § 8-27-5 with UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 433 (1990).

210. ALA. CODE § 8-27-5 comment.

211. Long, *supra* note 178, at 571.

B. Current Trade Secret Law in New York

New York is one of the few states that has not adopted the UTSA.²¹² In fact, there is no comprehensive statute under New York law covering the complexities of trade secret law.²¹³ The few New York statutes that do mention trade secrets are primarily concerned with disclosure of secrets when public agencies or officials are involved.²¹⁴ Therefore, New York courts continue to rely on the Restatement provisions on trade secret law, combined with the common law rules that the state's courts have developed.²¹⁵ As a result, New York trade secret law mainly consists of case law that defines what information qualifies as a trade secret, and how a party can protect its trade secrets.

Recent decisions indicate that New York courts continue to adhere to the Restatement's definition of a trade secret.²¹⁶ Nonetheless, commentators note that what exactly constitutes a trade secret is still unclear.²¹⁷ Some courts consider all six factors listed in Section 757 of the Restatement.²¹⁸ Other courts only consider certain of these factors important

212. Cundiff, *supra* note 33, at 34.

213. HUGH C. HANSEN, NEW YORK INTELLECTUAL PROPERTY HANDBOOK §§ 7[5], 2[170-196] (1996).

214. See, e.g., N.Y. PUB. HEALTH LAW § 3222 (McKinney 1993); N.Y. PUB. OFF. LAW § 87 (McKinney 1988 & Supp. 1996); N.Y. GEN. MUN. LAW § 805 (McKinney 1986 & Supp. 1996); see also HANSEN, *supra* note 213, § 2[170-196].

215. Cundiff, *supra* note 33, at 33-34; HANSEN, *supra* note 213, § 7[5].

216. See, e.g., *Ashland Management Inc. v. Janien*, 624 N.E.2d 1007, 1012-13 (N.Y. 1993); *Eagle Comtronics, Inc. v. Pico, Inc.*, 453 N.Y.S.2d 470, 472 (N.Y. App. Div. 1982). This is also true of federal courts applying New York law. See, e.g., *Fabkom, Inc. v. R.W. Smith & Assoc., Inc.*, 1996 WL 531873, at *5 (S.D.N.Y. 1996); *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61, 63 (2d Cir. 1984) (*per curiam*); see *supra* notes 80-82 and accompanying text (defining a trade secret under the Restatement).

217. Steven R. Kramer, *Protecting Dissemination of Business Secrets During Discovery*, N.Y. ST. B.J., Jan. 1997, at 24; see also *Ashland Management*, 624 N.E.2d at 1012-13 (stating that, although the Restatement has provided general guidance, "there is no generally accepted definition of a trade secret" in New York).

218. See, e.g., *United States v. IBM*, 67 F.R.D. 40, 46-47 (S.D.N.Y. 1976); see *supra* note 82 and accompanying text (discussing the Restatement's factors).

in determining whether information qualifies as a trade secret.²¹⁹ Still other courts look only to the general definition provided in Section 757, while ignoring the Restatement's factors altogether.²²⁰ Therefore, the definition of a trade secret varies considerably among New York courts.²²¹

New York courts often consider the extent of the measures an entity has taken to guard the secrecy of the information as an important factor.²²² Such measures may include both physical and contractual safeguards.²²³ Physical safeguards might include locking information in a secure place, strictly monitoring areas containing sensitive information, or requiring electronic passwords on computers containing proprietary data.²²⁴ Contractual safeguards might include confidentiality and licensing agreements, both of which allow an entity to deliberately reveal the proprietary information to certain people, yet impose a duty on such people not to reveal the information to non-parties.²²⁵ Although New York has recognized such a duty in the absence of an express contract,²²⁶ commentators strongly advise always taking the affirmative step of obtaining an express agreement.²²⁷

219. See, e.g., *Lehman v. Dow Jones & Co., Inc.*, 783 F.2d 285, 298 (2d Cir. 1986); *Julie Research Lab., Inc. v. Select Photographic Eng'g, Inc.*, 810 F. Supp. 513, 520 (S.D.N.Y. 1992), *aff'd in pertinent part*, 998 F.2d 65, 67 (2d Cir. 1993) (per curiam).

220. See, e.g., *Shamrock Technologies, Inc. v. Medical Sterilization, Inc.*, 808 F. Supp. 932, 936-37 (E.D.N.Y. 1992), *aff'd*, 6 F.3d 788 (2d Cir. 1993).

221. See, e.g., *IBM*, 67 F.R.D. at 46-7 (considering all six factors in the Restatement as part of the definition of a trade secret); *Shamrock Technologies*, 808 F. Supp. at 937 (defining trade secret as "whether the manufacturer, by combining all of the components, has developed a system or process that affords a competitive advantage").

222. *Lehman*, 783 F.2d at 298-99; *Julie Research Lab.*, 810 F. Supp. at 520.

223. Cundiff, *supra* note 33, at 35-38.

224. *Id.*; see also *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985) (describing the extensive lengths to which the Coca-Cola Company goes to protect the formula for its famous beverage).

225. See Cundiff, *supra* note 33, at 38-39.

226. See, e.g., *L. M. Rabinowitz & Co., Inc. v. Dasher*, 82 N.Y.S.2d 431, 435 (N.Y. Sup. Ct. 1948).

227. Cundiff, *supra* note 33, at 38.

Similarly, critics also suggest restrictive covenants to protect trade secrets.²²⁸ New York enforces restrictive covenants to the extent necessary to prevent the disclosure of trade secrets and confidential information.²²⁹ New York law requires only that restrictive covenants meet a reasonableness standard.²³⁰ Therefore, these covenants can be a useful tool in protecting trade secrets.

Despite the various protective measures available to maintain secrecy, it is sometimes necessary for a party to resort to litigation to protect its property.²³¹ In New York, it is not clear what claims are available for trade secret misappropriation.²³² Cases have been brought under theories of tort law, contract law, or as a breach of fiduciary duty.²³³

Likewise, in the absence of codified remedies, the relief available to a trade secret owner varies considerably from case to case.²³⁴ Equitable relief in the form of an injunction is often sought to stop further misappropriation.²³⁵ The general standards regarding injunctions apply, but there is little guidance for judges as to when and how long an injunction should be imposed.²³⁶ The availability of a “lead time” in-

228. See, e.g., *Reed, Roberts Assocs., Inc. v. Strauman*, 353 N.E.2d 590, 593 (N.Y. 1976).

229. See Cundiff, *supra* note 33, at 39.

230. See *ABC v. Wolf*, 420 N.E.2d 363, 367 (N.Y. 1981); *Columbia Ribbon & Carbon Mfg. Co. v. A-1-A Corp.*, 369 N.E.2d 4, 6 (N.Y. 1977) (holding noncompetition agreements enforceable to the extent necessary to protect the employer from unfair competition).

231. Cundiff, *supra* note 33, at 39-40.

232. See *id.* at 40 (stating that trade secret misappropriation claims are generally available under tort law and possibly under contract law).

233. See *Meyers v. Waverly Fabrics*, 479 N.E.2d 236, 237-38 (N.Y. 1985); *Julie Research Lab.*, 810 F. Supp. at 517; *MILGRIM*, *supra* note 83, § 13.03.

234. See, e.g., *Ashland Management*, 624 N.E.2d at 1010-12 (awarding damages for lost profits); *Henderson v. Rep Tech, Inc.*, 557 N.Y.S.2d 224, 225 (N.Y. App. Div. 1990) (holding forfeiture and a permanent injunction to be appropriate remedies for trade secret misappropriation).

235. See, e.g., *FMC Corp. v. Taiwan Tainan Giant Indus. Co.*, 730 F.2d 61 (2d Cir. 1984) (*per curiam*) (granting a preliminary injunction).

236. See, e.g., *Lumex Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (holding that once trade secret misappropriation is established, irreparable harm

junction is also open to speculation.²³⁷ This type of injunction prevents the misappropriator from using trade secrets for the length of time it would take to develop the information independently.²³⁸

In addition to equitable relief, money damages in the form of lost profits and development costs may be available for the trade secret owner.²³⁹ Regardless of whether the suit is based on tort or contract theories, compensatory damages are often necessary to make the trade secret owner whole again.²⁴⁰ Although the assessment of damages often calls for flexibility on the part of the court,²⁴¹ without statutory guidance, damage awards vary among the courts in New York.²⁴² Punitive damages, however, are rarely awarded because it requires proof of willful and wanton malicious conduct.²⁴³ Lastly, New York trade secret misappropriation claims are governed by the three-year statute of limitations for suits based on injury to property.²⁴⁴

III. NEW YORK SHOULD ADOPT A VERSION OF THE UTSA

While New York courts continue to rely on the Restate-

is presumed).

237. The Restatement does not provide for a "lead time" injunction and New York courts have yet to employ this remedy on their own.

238. See, e.g., *Integrated Cash Management Servs. Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 175 (2d Cir. 1990).

239. Cundiff, *supra* note 33, at 40.

240. JAGER, *supra* note 6, at 182-83.

241. *Id.* at 185-86.

242. See, e.g., *Matarese v. Moore-McCormack Lines Inc.*, 158 F.2d 631, 637 (2d Cir. 1946) (discussing uncertainty concerning the amount of damages); *Franke v. Wiltschek*, 209 F.2d 493 (2d Cir. 1953) (focusing on the profit made by the defendant); *Minnesota Mining & Mfg. Co. v. Technical Tape Corp.*, 192 N.Y.S.2d 102, 123 (N.Y. Sup. Ct. 1959), *aff'd*, 226 N.Y.S.2d 1021 (N.Y. App. Div. 1962) (awarding both defendant's profits and plaintiff's damages).

243. See *Walker v. Sheldon*, 179 N.E.2d 497, 500-01 (N.Y. 1961) (noting that punitive damages will be awarded where deliberate misappropriation was calculated to create harm).

244. N.Y. CIV. PRAC. L. & R. § 214(4) (McKinney 1990 & Supp. 1996).

ment and common law for guidance on trade secret law,²⁴⁵ there is a pervasive uncertainty in this area of the law.²⁴⁶ Trade secret owners, their employees, and the people with whom they conduct business are left with anxiety and suspicion regarding the bounds of trade secret law and the remedies available to them. The widespread adoption of the UTSA among the states indicates that the time is ripe for a trade secret act in New York.²⁴⁷

This part advocates that New York should adopt a comprehensive trade secret act. First, this part argues that, in relying on the Restatement and the common law, New York is at a disadvantage compared to the majority of states that have enacted trade secret legislation. Second, this part proposes the New York Trade Secret Act, modeled largely on the UTSA. Finally, this part applies the proposed New York act to a hypothetical situation to illustrate the value and importance of such legislation.

A. *A Trade Secret Act Will Benefit New York*

There are several important reasons why New York should adopt new trade secret legislation. First, the original trade secret principles in the Restatement, which New York courts still apply, are simply outdated.²⁴⁸ The writers of the Restatement Second chose not to update the original provisions because they decided that trade secret law did not belong in the Torts Restatement.²⁴⁹ Although many states con-

245. See *supra* notes 215-16 and accompanying text (outlining the basis of trade secret law in New York).

246. See *supra* notes 217-21 and accompanying text (discussing the disorganized state of New York trade secret law due to the absence of a comprehensive trade secret legislation).

247. See *supra* note 131 and accompanying text (explaining that the majority of states have adopted some type of trade secret act incorporating the UTSA).

248. Samuels & Johnson, *supra* note 121, at 53. The ALI wrote the first Restatement in 1939. RESTATEMENT (FIRST) OF TORTS (1939); see *supra* notes 215-16 and accompanying text (noting that New York courts apply the Restatement).

249. See *supra* note 75 (noting the exclusion of trade secret law from the Restatement (Second) of Torts).

tinue to consult the original Restatement regarding trade secret issues, the majority recognize its limitations and have adopted modified versions of the UTSA.²⁵⁰ Continued adherence to the antiquated Restatement will leave New York at a distinct disadvantage in facing the problems of our modern economy.²⁵¹

Rather than leaving trade secret law to the courts and common law, the New York State Legislature should take the initiative and enact a trade secret statute modeled on the UTSA. Over forty states have already adopted a version of the UTSA,²⁵² most of which experimented with various modifications to the model.²⁵³ New York would have the benefit of these states' experiences, in addition to the UTSA, as a guide for formulating its own law. Moreover, trade secret law fills a gap left in intellectual property law by protecting innovations that cannot be patented or copyrighted.²⁵⁴ Trade secret law serves both to maintain commercial morality and to encourage innovation and invention.²⁵⁵ Legislation offering vigorous protection for trade secrets would not only encourage investment and research by current businesses, but also would attract new industries to New York State.²⁵⁶

Reliance on the Restatement and common law in New York has created ambiguous trade secret law, leaving trade

statement (Second) of Torts).

250. Samuels & Johnson, *supra* note 121, at 53; *see supra* note 131 (listing the states that have enacted trade secret legislation based on the UTSA).

251. *See* Jager, *supra* note 32, at 18 (noting the importance of trade secret law in modern economy); Jager & Cook, *supra* note 72, at 93.

252. *See supra* note 131 (listing the states that have adopted a comprehensive trade secret statute).

253. Pace, *supra* note 21, at 443-44.

254. *Id.* at 428; *see supra* notes 18-23 and accompanying text (highlighting the differences between trade secret law and other intellectual property law).

255. Jager, *supra* note 32, at 18; *see supra* notes 10-17 and accompanying text (discussing the policies underlying trade secret law).

256. *See supra* note 69 and accompanying text (noting the economic value of vigorous trade secret protection).

secret owners uncertain of the protection available for their property.²⁵⁷ This ambiguity is largely a result of the Restatement's use as merely a guide, and that without a trade secret statute, New York courts have broad discretion in deciding what qualifies as a trade secret and the remedies available for misappropriation.²⁵⁸ Furthermore, the Restatement itself is not comprehensive and is often unclear.²⁵⁹ In particular, the Restatement does not clearly define a trade secret, as the UTSA does, but rather merely lists certain factors to be considered.²⁶⁰ Additionally, the Restatement neither explains the phrase "improper means," nor provides a statute of limitations.²⁶¹ A comprehensive trade secret statute would eliminate most of these ambiguities, providing trade secret owners with greater certainty regarding their rights and duties.

B. *A Proposed New York Trade Secret Act*

The following is a suggested New York Trade Secret Act ("NYTSA"). It is largely based on the UTSA, but incorporates some useful modifications that other states have employed in formulating their own trade secret statutes.

THE NEW YORK TRADE SECRET ACT

§ 1. Definitions.

257. See *supra* notes 217-221 and accompanying text (explaining the unsettled status of New York trade secret law).

258. For example, there is much debate within New York and among other states as to when customer lists qualify for trade secret protection. See JAGER, *supra* note 6, at 28; see also *supra* notes 89-90 and accompanying text (discussing the differences between Wisconsin and Pennsylvania law).

259. Samuels & Johnson, *supra* note 121, at 53; see *supra* notes 91-97 (noting the shortcomings of the Restatement).

260. Compare RESTATEMENT (FIRST) OF TORTS § 757 (1939) with UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990); see *supra* notes 80-82 and accompanying text (discussing the Restatement's definition of a trade secret).

261. Long, *supra* note 178, at 558; see *supra* notes 91-97 and accompanying text.

As used in this Act, unless the context requires otherwise:

(1) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

(2) “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.

(3) “Person” means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) “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 the public or to 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.

§ 2. Injunctive Relief.

(a) Actual or threatened misappropriation may be enjoined. Upon application of the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

§ 3. Damages.

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

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a) but not less than \$5,000.00.

§ 4. Attorney's Fees.

If (i) a claim of misappropriation is made in bad faith, (ii)

a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

§ 5. Statute of Limitations.

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this section, a continuing misappropriation constitutes a single claim.

§ 6. Effect on Other Law.

(a) Except as provided in subsection (b), this Act displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.

(b) This Act does not effect: (1) contractual remedies, whether or not based upon misappropriation of a trade secret; (2) other civil remedies that are not based upon misappropriation of a trade secret; or (3) criminal remedies, whether or not based upon misappropriation of a trade secret.

The immediate benefit of the NYTSA is the clarity provided by codified definitions and prescribed remedies. The NYTSA provides owners of trade secrets with a better understanding about both what property is protectable as a trade secret and how to protect it.²⁶² Furthermore, the proposed act elucidates the responsibilities and potential liabilities for employees of trade secret owners and the people with whom they conduct business.²⁶³ Thus, the act provides

262. See *supra* notes 217-21 and accompanying text (discussing the unsettled status of the trade secret definition in New York).

263. See *supra* notes 222-30 and accompanying text (discussing the various protective measures currently utilized to protect trade secrets in New York).

equitable treatment for all parties concerned.

In addition to supplying much needed precision, the act adds New York to the long list of other states that have already enacted trade secret legislation.²⁶⁴ This furthers uniformity and provides a signal to business and industry that New York provides favorable protection for this form of intellectual property.²⁶⁵ Understandably, many companies are concerned about trade secret litigation.²⁶⁶ Greater clarity in this field results in more efficient use of legal resources and potentially reduces litigation expenses.²⁶⁷ Lastly, the existence of statutory bounds is a useful guide and reduces some of the wide discretion courts enjoyed in this area of the law.²⁶⁸

Drawing on the experiences of other states, the proposed NYTSA incorporates a few changes to the UTSA. The first modification is to the definition of a trade secret where the words “and not being readily ascertainable by proper means” are omitted.²⁶⁹ This phrase was deleted by the California legislature when adopting its own version of the UTSA in 1984.²⁷⁰ Deleting these words clarifies the level of secrecy required and broadens the ambit of the definition.²⁷¹ Eliminating this phrase also vitiates the defense that, despite the use of improper means, the misappropriator could have

264. See *supra* note 131 and accompanying text (enumerating the states that have already enacted a comprehensive trade secret statute).

265. See *supra* notes 69 and accompanying text (highlighting the economic importance of trade secret protection).

266. See Kramer, *supra* note 217, at 24 (discussing litigation of trade secret cases in New York, particularly at the pre-trial stage).

267. See *supra* notes 231-32 and accompanying text (noting the uncertainties of litigation in New York).

268. See *supra* notes 217-21 and accompanying text (discussing the broad discretion afforded courts in New York regarding the definition of a trade secret).

269. See UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1990).

270. CAL. CIV. CODE ANN. § 3426.1(d) (West Supp. 1996); see *supra* note 103 (providing the definition of a trade secret under the UTSA).

271. See Samuels & Johnson, *supra* note 121, at 54-57.

learned the secret through proper means.²⁷² This deletion is an improvement on the UTSA because it strengthens the definition of a trade secret and furthers the underlying purpose of trade secret protection.²⁷³

The other change incorporated in the NYTSA is Alabama's unique approach to exemplary damages.²⁷⁴ Combining the UTSA's provision for a maximum of twice the damages under section (a) with Alabama's statutory minimum of \$5,000 creates a range of potential damages.²⁷⁵ This creates the two-fold effect of limiting excessive awards while avoiding the possibility of nominal exemplary damages.²⁷⁶ This range of damages also gives some teeth to the statute and enforces the notion that trade secrets are valuable property.

C. *Application of the Proposed Act*

Applying the NYTSA to a hypothetical case highlights the benefits of adopting the act. Assume that X Inc. ("X") is a company that develops state-of-the-art software packages for a variety of applications. Also assume that one of X's employees, Ms. Holmes, recently left the company to work for a competitor, Z Inc. ("Z"). Ms. Holmes is a computer engineer who previously worked in X's research and development department. While working at X, Ms. Holmes had access to many of the new projects then being developed. Presently, Z begins selling a new software package that has striking similarities to work being done at X. X suspects that its research was misappropriated and plans to bring a civil suit against Ms. Holmes and Z under the NYTSA.

272. *Id.* at 65.

273. *See supra* note 69 and accompanying text (noting that broad trade secret protection benefits commerce and encourages research and development).

274. *See supra* notes 206-08 and accompanying text (discussing the Alabama Act's damages provision).

275. UNIF. TRADE SECRETS ACT § 3(b), 14 U.L.A. 433 (1990); ALA. CODE § 8-27-4(3); *see supra* notes 206-08 and accompanying text.

276. Samuels & Johnson, *supra* note 121, at 82; *see supra* notes 206-08 and accompanying text.

Before X files suit, the NYTSA provides all three parties with immediate benefits. Concrete, statutory definitions of what constitutes a trade secret and misappropriation gives all three parties a better idea of their positions, and clarifies the issues at stake.²⁷⁷ In some New York cases interpreting the definition of a trade secret, courts have considered all of the factors provided in the Restatement.²⁷⁸ However, other courts have taken a less stringent approach and have merely relied on the general definition of a trade secret in the Restatement.²⁷⁹

Assuming X proceeds with its case, the discovery stage in litigation will be of great concern to the trade secret owners.²⁸⁰ Throughout the case, both X and Z will not want to disclose their trade secrets, particularly because they are competitors.²⁸¹ Although the Federal Rules of Civil Procedure (“FRCP”)²⁸² and New York’s Civil Practice Law and Rules (“CPLR”)²⁸³ provide qualified protection for trade secrets,²⁸⁴ there is much uncertainty as to what information should be protected.²⁸⁵ The three requirements a party must meet to obtain an order of protection are: (1) that the subject matter is a trade secret; (2) that disclosure of the subject matter would result in a cognizable harm; and (3) that the moving party demonstrates good cause.²⁸⁶ Although the pro-

277. See *supra* notes 217-21 and accompanying text (discussing alternate approaches taken by New York in defining a trade secret).

278. See *supra* note 218 and accompanying text.

279. See *supra* note 220 and accompanying text.

280. Kramer, *supra* note 217, at 24.

281. See *id.* (noting that maintenance of trade secrets is vital to a company’s survival).

282. FED. R. CIV. PROC. 26(c)(7).

283. N.Y. CIV. PRAC. L. & R. 3103(c) (McKinney 1991 & Supp. 1996).

284. FED. R. CIV. PROC. 26(c)(7) (providing that the court “may make any order . . . [to protect] a trade secret or other confidential research, development, or commercial information”); N.Y. CIV. PRAC. L. & R. 3103(c) (indicating that a court may suppress improperly obtained information).

285. Kramer, *supra* note 217, at 24.

286. *Cuno Inc. v. Pall Corp.*, 117 F.R.D. 506 (E.D.N.Y. 1987) (denying an order of protection for scientific information because the moving party failed to

posed NYTSA does not include discovery rules, its precise definition of a trade secret may clarify the information that can be protected in the discovery stage of litigation.

Finally, if X does prevail, the injunctive relief and damages provisions of the NYTSA will be of assistance. The Restatement and the common law provide even less guidance concerning the remedies available to trade secret owners.²⁸⁷ Leaving remedies to the broad discretion of the court only leads to inconsistent results among jurisdictions. However, by codifying definite remedies, the NYTSA gives substance to this vital area of trade secret law. For example, one valuable feature available under Section 2 of the NYTSA is a lead time injunction. Moreover, the statutory minimum provided in Section 3(b) of the NYTSA may be important if it is difficult for X to prove damages.²⁸⁸

CONCLUSION

Trade secret law, although once relegated as a backdrop to patent law, is of growing importance. Like other forms of intellectual property, this field fosters development of new technology and products by protecting one's work product. In particular, trade secret law maintains standards of commercial morality while encouraging innovation. The rigid requirements in other areas of intellectual property law leave many new ideas and innovations unprotected from free-riders. Trade secret law plays an important role by filling the gaps between patent, trademark, and copyright protection.

The widespread adoption of trade secret statutes among the states indicates the vital role of trade secret law. These states recognize that today's sophisticated economy de-

show good cause).

287. See *supra* notes 91-97 and accompanying text (noting the shortcomings of the Restatement).

288. See *supra* notes 263-65 and accompanying text (discussing the benefits of the prescribed range of damages in the NYTSA).

mands comprehensive trade secret protection. New York is one of the few remaining states that has ignored this demand. Consequently, New York trade secret law is decidedly ambiguous and lags behind other states' corresponding law.

New York should be prepared to handle our modern, evolving economy and offer the same protections that other states offer. Enacting a trade secret statute modeled on the UTSA will equip New York to compete and thrive in today's high technology world. Adoption of such a statute would also bring New York more in line with other states' laws and provide much needed clarity in this integral area of intellectual property.