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Bridging the “Trade Secret” Gap: Protecting “Confidential Information” Not Rising to the Level of Trade Secrets

Robert Unikel*

I. INTRODUCTION

Sir Francis Bacon wrote in 1597 that “knowledge itself is power.”¹ In no arena of economic and social relations has this statement proved more true than in the context of modern business. In today’s highly competitive economic environment, even slight advances in technology, minor improvements in production, and small refinements in business methods can afford companies tremendous competitive advantages over their market rivals. Indeed, maintaining exclusive possession of valuable technical and commercial information often can mean the difference between cornering a particular market and fighting for financial survival.²

Given the potential competitive benefits of obtaining advantageous information,³ modern business relations frequently resemble a Road Runner cartoon, as innovative companies zealously endeavor to protect their technical knowledge, procedural know-how, and client data from the attempts of corporate predators to acquire that information.⁴ The law plays an important role in this ongoing battle for information by protecting information owners from the improper tactics of their

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1. FRANCIS BACON, *MEDITATIONES SACRAE* (1597), reprinted in XIV THE WORKS OF FRANCIS BACON 95 (James Spedding et al. eds., Scholarly Press 1969).

2. See Christopher Rebel J. Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 427 (1995); Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States’ Response*, 24 CREIGHTON L. REV. 49, 49 (1990).

3. “Advantageous” information includes any type of data that provides an economic or technical benefit to the owner.

4. See Thomas P. Heed, Comment, *Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action that Works*, 30 J. MARSHALL L. REV. 207, 210-12 (1996); William J. Holstein, *Corporate Spy Wars*, US NEWS & WORLD REP., Feb. 23, 1998, at 46 (discussing the tremendous loss that American companies are experiencing due to misappropriation of technical information).

hungry competitors.⁵

To date, the imposition of liability for the misappropriation of “trade secrets” has served as one of the most potent and widely-used legal mechanisms for the protection of commercially valuable knowledge.⁶ The common-law and statutory prohibitions of trade secret misappropriation are important, if not the most important, components in a legal regime that shelters intellectual investment.⁷ However, a detailed and thoughtful analysis of both the nature of valuable commercial information and the various policies supporting protection for such information reveals that defining and protecting only a single class of proprietary data—“trade secrets”—is either underinclusive or overinclusive, depending upon the breadth with which “trade secrets” are defined.⁸ Consequently, what is needed is a second class of protectable, proprietary information—“confidential information.”⁹ This category would fill the theoretical and practical gap between “trade secrets” and “general skill and knowledge.”¹⁰ Indeed, as this

5. See 1 INTELLECTUAL PROPERTY COUNSELING AND LITIGATION (MB) § 5.03[2][c]-[5], at 5-31 to 5-34 (Lester Horwitz & Ethan Horwitz eds., 1997) [hereinafter INTELLECTUAL PROPERTY]; Dan L. Burk, *Misappropriation of Trade Secrets in Biotechnology Licensing*, 4 ALB. L.J. SCI. & TECH. 121, 128-30 (1994); Stephen J. Davidson & Robert L. DeMay, *Application of Trade Secret Law to New Technology—Unwinding the Tangled Web*, 12 WM. MITCHELL L. REV. 579, 581-82 (1986); Pace, *supra* note 2, at 427.

6. See Burk, *supra* note 5, at 139-40; Davidson & DeMay, *supra* note 5, at 581-82; Miles J. Feldman, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 HIGH TECH. L.J. 151, 159-61 (1994); Pace, *supra* note 2, at 428; Samuels & Johnson, *supra* note 2, at 49-50.

A trade secret generally may be defined as “economically valuable information that is not readily available to the public or to competitors, and which is the subject of reasonable efforts undertaken to maintain its secrecy.” Denise H. McClelland & John L. Forgy, *Is Kentucky Law “Pro-Business” in Its Protection of Trade Secrets, Confidential and Proprietary Information? A Practical Guide for Kentucky Businesses and Their Lawyers*, 24 N. KY. L. REV. 229, 230-31 (1997). One commentator has noted that, “While many cases seek to define the term ‘trade secret,’ those definitions must be read critically, because often they embody the specific fact patterns presented by the case, and cannot be extended to a more universal fact situation.” INTELLECTUAL PROPERTY, *supra* note 5, § 5.01[2], at 5-5.

For a more detailed discussion of the most widely used definitions of “trade secret”—the definitions contained in the *First Restatement of Torts*, the Uniform Trade Secrets Act, and the *Third Restatement of Unfair Competition*—see *infra* note 120.

7. See Burk, *supra* note 5, at 129; Davidson & DeMay, *supra* note 5, at 581-82; Feldman, *supra* note 6, at 159; Pace, *supra* note 2, at 428; Samuels & Johnson, *supra* note 2, at 49-50.

8. See Davidson & DeMay, *supra* note 5, at 596-98 (discussing judicial interpretation of the definition of trade secret and what is protected).

9. See *infra* Part II.B.

10. Courts and commentators traditionally have used the term “general skill and knowledge” to denote non-protectable information generally and “personal knowledge based on an employee’s education, ability, and experience, and knowledge general to the

Article reveals, courts frequently have recognized the existence of, and afforded protection to, "confidential information" without formally defining that category of knowledge.¹¹

This Article examines the courts' historical willingness to safeguard valuable commercial information that does not rise to the level of technical trade secrets.¹² Further, this Article analyzes the intellectual and pragmatic inadequacy of modern trade secret law with respect to the protection of such information.¹³ The Article divides commercial information into three basic categories based on the relative secrecy of such information and explores the level of protection that should properly be afforded each category in light of the various competing policy interests sought to be served.¹⁴ The Article then discusses the various theories under which courts traditionally have protected "confidential information."¹⁵ Further, the Article explains the theoretical and practical undesirability of protecting all commercially valuable information as "trade secrets," the approach adopted by the *Restatement (First) of Torts* (the "First Restatement"), the Uniform Trade Secrets Act (the "UTSA"), and the *Restatement (Third) of Unfair Competition* (the "Third Restatement").¹⁶ Next, this Article argues for the creation of a formal category of "confidential information" to minimize and/or to alleviate the problems associated with the current two-tiered protective scheme, in which valuable commercial data, technology and know-how is classified only as either protectable "trade secrets" or unprotectable "general skill and knowledge."¹⁷ Finally, this Article suggests that, even absent the legislative or judicial creation of a formal category of "confidential information," litigants, even litigants in UTSA jurisdictions, may

trade as a whole, as opposed to knowledge peculiar to the employer" specifically. Feldman, *supra* note 6, at 165; *see also* MELVIN F. JAGER, 2 TRADE SECRETS LAW § 8.01[3], at 8-13 (rev. 1995).

The term "confidential information" historically has been used to denote non-technical or transitory "business information of importance" or both—information such as customer lists, supplier information and the like. Peter C. Quittmeyer, *Trade Secrets and Confidential Information Under Georgia Law*, 19 GA. L. REV. 623, 624 (1985); *see also* INTELLECTUAL PROPERTY, *supra* note 5, § 5.03, at 5-32 to 5-33.

11. *See* Quittmeyer, *supra* note 10, at 628; *infra* notes 68-117 and accompanying text.

12. *See infra* Part II.B.

13. *See infra* Part III.

14. *See infra* Part II.

15. *See infra* Part II.

16. These theories include: breach of contract, interference with contractual relations, breach of fiduciary duty, unfair competition, fraud, conversion, unjust enrichment, and conspiracy. *See infra* Parts III.A-C.

17. *See infra* Part IV.

continue to seek protection for “confidential information” using the various theories identified and discussed in Part II of this Article.¹⁸ Accordingly, this Article analyzes the preemptive scope of the various state statutes based on the UTSA and identifies the remaining viable theories for protecting confidential information in UTSA states.¹⁹

II. THE NEED TO PROTECT “CONFIDENTIAL INFORMATION”

Courts and commentators historically have been and continue to be perplexed by the perceived intellectual and practical problems associated with the problem of “confidential information.” Confidential information roughly can be defined as data, technology, or know-how that is known by a substantial number of persons in a particular industry (such that its status as a technical “trade secret” is in doubt) but that, nonetheless, retains some economic and /or competitive value by virtue of the fact that it is unknown to certain industry participants. Although such confidential information unquestionably is worth less than a true “trade secret”—that is, knowledge possessed by one or very few actors in a particular field—that information still is worthy of legal protection. Indeed, an analysis of the three categories of commercial information, an examination of the policies sought to be served by confidentiality law, and a review of the courts’ historical treatment of confidential information all reveal the desirability and the feasibility of protecting confidential information from “piracy” and/or wrongful disclosure.

A. *The Three Categories of Commercial Information and the Propriety of Protection*

The first step in creating a comprehensive legal framework for the protection of valuable commercial information is to classify the various types of technical data and business knowledge that companies and their employees may possess. Commercial information generally can be divided into three basic categories: (1) information that is known to substantially all persons in a particular field or industry (hereinafter “Category 1 information”); (2) information that is known to a majority, but unknown to a minority, of persons in a particular field or industry (hereinafter “Category 2 information”); and (3) information that is known to a minority, but unknown to the majority, of persons in a particular field or industry (hereinafter “Category 3 information”).²⁰

18. See *infra* Part V.

19. See *infra* Part V.

20. Without question, some commentators will maintain that this breakdown of

1. Policy Concerns Underlying Confidentiality Law

To determine the level of legal protection that should be afforded to each of these three categories of information, it is necessary to identify the competing policy concerns that underlie and drive the law pertaining to the preservation of commercial secrecy (hereinafter "confidentiality law").²¹ The primary, long term goal of confidentiality law is maintaining commercial morality.²² The tremendous economic advantages that exclusive knowledge of technological and/or methodological advances affords to companies in highly competitive industries create enormous incentives for business rivals to acquire their competitors' "secret" information, thereby eliminating, or even reversing, legitimately gained competitive imbalances.²³

commercial information is overly simplistic and ignores the various factors aside from secrecy which may be used to define proprietary knowledge. These factors include: utility, public and/or industry availability, costs of development, and novelty. Yet, while all of these factors are certainly significant and must be considered in formulating a protective scheme, secrecy is the single most important variable in determining information's commercial value. See 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS (MB) § 1.03, at 1-86 to 1-98 (1997). As is discussed later in greater detail, information's level of secrecy in a particular field impacts directly upon: (1) that information's competitive worth to its owner or owners; (2) the existence of incentives for competitors to attempt to acquire that information; and (3) the impact of protecting that information upon employees' mobility. See *infra* notes 24-45 and accompanying text. Accordingly, level of secrecy represents the simplest, yet most telling, basis for differentiating and classifying proprietary data and know-how. See 1 MILGRIM, *supra*, § 1.07, at 1-308 to 1-323.

21. As used in this Article, the term "confidentiality law" refers to a body of law that encompasses any and all statutory and common-law causes of action with respect to the improper acquisition, discovery, or use of valuable commercial information. While "trade secret law" is the term most commonly used to describe this area of jurisprudence, that term, by definition, suggests that protection for commercial knowledge rests primarily, if not exclusively, with an action for misappropriation of trade secrets. Yet, as this Article illustrates, business information should be protected despite such information failing to rise to the level of a statutorily-defined trade secret. Consequently, the term "trade secret law" does not reflect the breadth of the law with respect to the protection of commercial data as well as the term "confidentiality law" does.

22. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-82 (1974); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1995); INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-58; Stephen J. Davidson, *The (Un)Faithful Employee: A Review of Recent Copyright, Trade Secret and Related Cases Focusing on Employees and Independent Contractors in the Computer Area*, in COMPUTER LAW: CURRENT TRENDS AND DEVELOPMENTS A SATELLITE PROGRAM 425, 430 (PLI.: Patents, Copyrights, Trademarks, and Literary Course Handbook Series No. 272, 1989); Davidson & DeMay, *supra* note 5, at 582-86; McClelland & Forgy, *supra* note 6, at 233.

23. One commentator recently explained:

If there's any one trend driving the surge in corporate intelligence gathering, it is the ceaseless rise in the commercial value of technology. The huge research and development investments required to invent and perfect new

Consequently, in the absence of any counterbalancing force, these incentives would lead, and have led, corporations to employ immoral tactics, including theft, fraud and corporate espionage, and to engage in improper schemes to “obtain[] the desired knowledge without paying the price in labor, money, or machines expended by the discoverer.”²⁴

Confidentiality law purports to eliminate or, at least, to minimize the incentives to obtain competitively valuable information through corrupt practices, rather than through independent effort.²⁵ Confidentiality law effectuates this goal by punishing businesses and/or individuals who engage in commercially undesirable practices and by protecting businesses and/or individuals who acquire economically advantageous knowledge through hard-work and extensive experimentation from competitors’ attempts to poach that knowledge.²⁶ By increasing the costs of employing immoral acquisition tactics and enhancing the benefits of independent development efforts, confidentiality law attempts to impose a moral code upon the business world with respect to the procurement of proprietary information.²⁷ Accordingly, confidentiality law assures that commercial actors do not employ theft or chicanery in their quests to improve their competitive positions.²⁸ As one court noted: “The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world.”²⁹

A second and closely related goal of confidentiality law is encouraging invention.³⁰ More often than not, technological innovations require substantial investments of time, money and

technologies, plus the sheer speed of product cycles, have raised the stakes in the age-old quest to learn the other guy’s secrets.

Holstein, *supra* note 4, at 48; *see also* INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-58 to 5-59; Pace, *supra* note 2, at 427.

24. *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531, 539 (6th Cir. 1934), *modified*, 74 F.2d 934 (6th Cir. 1935); *see also* INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-58 (discussing briefly incentives to appropriate trade secrets).

25. *See* Burk, *supra* note 5, at 128-29; Davidson & DeMay, *supra* note 5, at 582-84.

26. *See* Burk, *supra* note 5, at 128-29.

27. *See* INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-58 to 5-59; 3 MILGRIM, *supra* note 20, §13.03, at 13-47 to 13-49; Burk, *supra* note 5, at 128-29.

28. *See* INTELLECTUAL PROPERTY, *supra* note 5, § 5.06 at 5-58 to 5-59.

29. *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C.(n.s.), 459, 462 (1902), *aff’d*, 70 N.E. 1127 (1903), *quoted in* *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974)); *see also* Quittmeyer, *supra* note 10, at 626-27 (discussing the trade secret law’s importance in maintaining “commercial morality” and good faith in the market place).

30. *See* *Kewanee Oil*, 416 U.S. at 481-482; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a. (1995); Davidson & DeMay, *supra* note 5, at 583-84.

effort.³¹ Given these high costs, companies face a problem: If they cannot be assured that they will profit or gain a competitive advantage by exploiting their innovations, then they cannot be confident that they will recoup their initial investments in those innovations; and, if companies cannot be confident that they will recoup their initial investments, then they are without an economic motivation to innovate in the first instance.³²

In the absence of legal protection for valuable, independently developed information, businesses would be less likely to commit their finite resources to the creation of new technology because there is no guarantee that they will benefit from that development.³³ Moreover, without legal protection against corporate theft, those businesses that continued to invest in innovation would be forced to expend a disproportionate amount of money on "self-help" measures designed

31. See Pace, *supra* note 2, at 436.

32. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-59; Andrew Beckerman-Rodau, *Are Ideas Within the Traditional Definition of Property?: A Jurisprudential Analysis*, 47 ARK. L. REV. 603, 613 (1994); Pace, *supra* note 2, at 436; Quittmeyer, *supra* note 10, at 626-27 (discussing the importance of the trade secret laws in maintaining competition and rewarding innovation).

33. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.06, at 5-58 to 5-59. The patent laws are designed to encourage invention and product development by conferring upon inventors the exclusive rights to exploit their works commercially for a term of years. See 35 U.S.C.A. § 154(a)(2) (West 1984 & West Supp. 1998); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. c (1995); INTELLECTUAL PROPERTY, *supra* note 5, § 5.02, at 5-22 to 5-23. Yet, the patent laws are, by themselves, insufficient for two reasons. First, the protection offered by the patent laws would not encourage innovation with respect to nonpatentable subject matter or to patentable subject matter which, for one reason or another, would not meet the standards of patentability. As noted by the Supreme Court:

Even as the extension of trade secret protection to patentable subject matter that the owner knows will not meet the standards of patentability will not conflict with the patent policy of disclosure, it will have a decidedly beneficial effect on society. Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with the discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of valuable, if not quite patentable, invention.

Kewanee Oil, 416 U.S. at 485 (citations omitted).

Second, the ambiguity associated with the granting of patent protection may seriously discourage inventors from making the necessary initial investment:

The risk of eventual patent invalidity by the courts and the costs associated with that risk may well impel some with a good-faith doubt as to patentability not to take the trouble to seek to obtain and defend patent protection for their discoveries, regardless of the existence of trade secret protection. Trade secret protection would assist those inventors in the more efficient exploitation of their discoveries and not conflict with the patent law.

Id. at 487.

to protect their innovations from piracy.³⁴

By enabling companies to exclude rivals from utilizing innovations obtained through improper conduct, confidentiality law eliminates the need for inventive corporations to spend extraordinary sums on precautionary confidentiality measures that increase the level of investment required for profitable innovation and, consequently, reduce both the incentives and the resources available to corporations to innovate.³⁵ Confidentiality law, therefore, decreases the amount of time, money and effort that corporations must expend to assure that they will be able commercially to exploit their inventions. This savings decreases the total costs and enhances the overall profitability of innovation.³⁶ Further, confidentiality law enables an inventor to

34. As the Supreme Court has noted:

Alternatively with the effort that remained, however, would come an increase in the amount of self-help that innovative companies would employ. Knowledge would be widely dispersed among the employees of those still active in research. Security precautions necessarily would be increased, and salaries and fringe benefits of those few officers or employees who had to know the whole of the secret invention would be fixed in an amount thought sufficient to assure their loyalty. Smaller companies would be placed at a distinct economic disadvantage, since the costs of this kind of self-help could be great, and the cost to the public of the use of this invention would be increased. The innovative entrepreneur with limited resources would tend to confine his research efforts to himself and those few he felt he could trust without the ultimate assurance of legal protection against breaches of confidence. As a result, organized scientific and technological research could become fragmented, and society, as a whole, would suffer.

Kewanee Oil, 416 U.S. at 485-86 (citations omitted); see also Holstein, *supra* note 4, at 46; Pace, *supra* note 2, at 439.

35. See Burk, *supra* note 5, at 128-29; Pace, *supra* note 2, at 440-41; Quittmeyer, *supra* note 10, at 626-28.

36. See Pace, *supra* note 2, at 441; Quittmeyer, *supra* note 10, at 626-27.

It should be noted that, unlike patent law, confidentiality law does not seek solely to safeguard the interests of the first company to develop an innovation; but, rather, seeks to foster the maximum beneficial amount of innovation by all companies. As explained by one commentator:

Thus, while affording each company extra protection for its innovations against disclosure by improper means and mistake, [confidentiality law] still allows all other companies an equal opportunity to discover the same innovation independently or by acceptable commercial means. This trade-off leads to several desirable effects, each of which is related to the other. First, the trade-off encourages companies to invest in complex innovations that are not easily duplicated by its competitors, and discourages them from over-investing in simple innovations. Second, it prevents companies from obtaining monopolies over innovations that do not qualify for patent protection and provides a strong incentive for companies to pursue patent protection for innovations that do so qualify Finally, the [confidentiality law] trade-off allows each company to search for new, non-patentable innovations secure in the knowledge that it will be able to use any

maintain the secrecy of new technologies and/or business methods during the early stages of development and commercialization.³⁷ Thus, confidentiality law preserves the time-advantage associated with being the first producer of a new product or process and maximizes an inventor's ability to capitalize on its discovery.³⁸

Balanced against confidentiality law's concerns for preserving commercial morality and fostering innovation is the recognized need for free competition and employee mobility.³⁹ Technological and methodological innovation, as well as true price and product competition, strongly benefit from the unfettered communication of ideas and the unrestricted use of products and services based upon those ideas.⁴⁰ Only when inventive companies possess knowledge of existing technologies can those companies advance the "state of the art" by providing consumers with truly new, better or more efficiently produced products.⁴¹ Further, it is generally accepted that "no restrictions should fetter an employee's right to apply to his own best advantage the skills and knowledge acquired by the overall experience of his previous employment."⁴²

Given the importance of information exchange, if the law allowed companies to preclude the unauthorized transfer or dissemination of *all* useful data and knowledge ostensibly "owned" by them, other commercial actors would be prevented from adapting or improving upon even basic techniques.⁴³ Such preclusion would substantially

innovation it finds even if it is not the first acquirer of the innovation.

Pace, *supra* note 2, at 441-42 (footnotes omitted).

37. See Quittmeyer, *supra* note 10, at 626-27.

38. See *id.*

39. See *Brunswick Corp. v. Outboard Marine Corp.*, 404 N.E.2d 205, 207 (Ill. 1980); Davidson, *supra* note 22, at 427-29; Davidson & DeMay, *supra* note 5, at 585-86; Quittmeyer, *supra* note 10, at 627.

40. See Davidson, *supra* note 22, at 429-30; Quittmeyer, *supra* note 10, at 627.

41. See Gale R. Peterson, *Trade Secrets in an Information Age*, 32 HOUS. L. REV. 385, 423-24 (1995) (discussing the current evolution of trade secret law through the courts and identifying areas of uncertainty); Quittmeyer, *supra* note 10, at 626-27.

42. *Jim W. Miller Constr., Inc. v. Schaefer*, 298 N.W.2d 455, 459 (Minn. 1980). As noted by the court in *Standard Brands v. Zumpe*:

[T]he employee who possesses the employer's most valuable confidences is apt to be highly skilled. The public is interested in the reasonable mobility of such skilled persons from job to job in our fluid society, which is characterized by and requires the mobility of technically expert persons from place to place, from job to job and upward within the industrial structure. And the employee must be afforded a reasonable opportunity to change jobs without abandoning the ability to practice his skills.

Standard Brands v. Zumpe, 264 F. Supp. 254, 259 (E.D. La. 1967).

43. See Feldman, *supra* note 6, at 171-72.

hinder competition, and employees effectively would become “slaves” to their employers, being prohibited from taking even the most elemental knowledge with them from position to position. Thus, confidentiality law attempts to walk the “razor’s edge” between the promotion of invention and the maintenance of free and open economic markets by endeavoring to safeguard *only* information that is, to some degree, unique and valuable to its owner.⁴⁴ Such information is the type that rivals might seek to acquire quickly and cheaply (rather than to develop through potentially costly and time-consuming independent effort) and which employees do not need to work in their chosen fields.⁴⁵

2. Leaving Category 1 Information Unprotected

In light of confidentiality law’s primary concern with providing a beneficial balance between innovation and competition, there has been little dispute as to the nature of legal protection which Category 1 and Category 3 information should receive.⁴⁶ Because Category 1 information⁴⁷ is known to substantially all persons in a particular industry, businesses have little incentive to attempt to acquire such information from their competitors. Enabling companies to limit the use and/or dissemination of such information would unnecessarily restrict employees’ mobility and would unduly hamper legitimate competition.⁴⁸ Consequently, Category 1 information should not be,

44. See Robert T. Neufeld, *Note: Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act*, 7 *FORDHAM INTL. PROP. MEDIA & ENT. L.J.* 883, 884-85 (1997).

45. See *Sun Dial Corp. v. Rideout*, 108 A.2d 442, 447 (N.J. 1954). As the court in that case explained nearly a half century ago:

There is undoubtedly . . . an important policy which ‘encourages employee [sic] to seek better jobs from other employers or to go into business for themselves.’ . . . But there is also a policy which is designed to protect employers against improper disclosures of information which their employees have received in confidence Our judicial decisions have faithfully sought to vindicate both policies by preserving to employees their unfettered right to leave their employment and use elsewhere their acquired skill and knowledge of the trade generally as distinguished, however, from any trade secrets imparted to them in confidence and which they must continue to honor as such.

Id. at 447 (citations omitted); see also Feldman, *supra* note 6, at 155-56.

46. See *supra* note 20 and accompanying text.

47. Category 1 information is commonly referred to as “general skill and knowledge.” See *supra* note 20 and accompanying text.

48. See Davidson & DeMay, *supra* note 5, at 584-86; Feldman, *supra* note 6, at 171-74; Edmund W. Kitch, *The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem for the Law*, 47 *S.C. L. REV.* 659, 664-66 (1995-96).

and is not, entitled to legal protection.⁴⁹

3. Affording Legal Protection to Category 3 Information

Protecting Category 3 information, however, is entirely consistent with the fundamental goals of confidentiality law. By definition, Category 3 information is known only to a minority of persons in a particular industry.⁵⁰ Consequently, assuming that such information provides its owner or owners some economic, technological or other productive benefit, Category 3 information derives tremendous competitive value because it is unknown to a substantial number of individuals and/or companies who properly could use such information to their advantage. The more significant the benefit the information affords and the greater the information's secrecy, the larger the information's value.⁵¹

Given the competitive value of useful Category 3 information, there typically exists enormous incentives for competitors to attempt to obtain that information for their own use.⁵² Moreover, it generally is less costly and less time-consuming for competitors to seek to acquire Category 3 information from its rightful owner or owners, rather than to recreate that information through an independent research and

49. See Quittmeyer, *supra* note 10, at 655-57 (noting that people should not be prevented from practicing their professions for the reason that they have enhanced their abilities as a result of prior experience and business affiliation).

50. See *supra* note 20 and accompanying text.

51. This point can be illustrated by using a basic (albeit simplistic) numerical analysis. First, assign a particular piece of information a numerical value between 0 and 10 representing the economic, technological or productive benefit that the information affords its owner—0 being no benefit and 10 being tremendous benefit. Next, assign that same piece of information a numerical value between 1 and 10 representing that information's level of secrecy in the relevant field or industry—0 being "known by everyone in the field" and 10 being "known by no one in the field other than the inventor" (for Category 3 information this second numerical value will always be 5 or greater, as such information, by definition, is known only to a minority or persons in a field). See *supra* note 20 and accompanying text. Finally, multiply the two numbers to arrive at a composite score—on a 100 point scale—representing the competitive value of the piece of information in the relevant industry.

For example, assume that a process for forming (shaping) bicycle helmets has a benefit level of 7.5 and a secrecy level of 8.25 (i.e. the process is unknown to 82.5% of bicycle helmet manufacturers). That forming process has a value score of 61.86. Now assume that a process for marking bicycle helmets has a benefit level of 7 but a secrecy level of 8.9, yielding a value score of 62.3. The marking (etching or imprinting the design) process would have a greater competitive value than the forming process—despite the fact that the forming process is technically more beneficial to its owner—because of the fact that fewer competitors are aware of and can capture the benefits of owning the marking process.

52. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.06[1], at 5-58 to 5-59; Pace, *supra* note 2, at 427.

development effort, because valuable Category 3 information typically is the result of extensive investment and/or creative genius.⁵³ Providing legal protection for Category 3 information is necessary both to minimize the incentives for business rivals to procure such information through theft and/or chicanery and to reduce rightful information owners' costs in protecting such information from piracy.⁵⁴ This added protection will enhance the overall profitability of developing valuable Category 3 information in the first instance.⁵⁵ Further, because Category 3 information is unknown to a majority of persons in a particular field and, therefore, is not crucial (even though potentially useful) to those persons' participation in that field, protecting Category 3 information will not unreasonably preclude employees from changing employers or practicing their trade.⁵⁶ Thus, affording Category 3 information owners legal protection against the unauthorized use of that information encourages innovation, promotes commercial morality without stifling economic competition, and substantially advances the fundamental goals of confidentiality law.⁵⁷

4. Assessing the Proper Level of Protection for Category 2 Information

Unlike Category 3 information, for which legal protection clearly is warranted, and Category 1 information, for which legal protection is unquestionably inappropriate, Category 2 information lies within a troubling gray area of confidentiality law. Even useful Category 2 information is known to the majority in a particular industry; therefore, Category 2 information's overall competitive value is generally lower than the value of similarly useful Category 3 information. It is,

53. This conclusion appears self-evident in light of the fact that if useful information truly were cheap and easy to develop, then all individuals who could benefit from such information presumably would own that information, a situation which, by definition, does not exist with respect to Category 3 information.

54. See Pace, *supra* note 2, at 427; Quittmeyer, *supra* note 10, at 626-27.

55. See Quittmeyer, *supra* note 10, at 627.

56. See Kitch, *supra* note 48, at 665; Pace, *supra* note 2, at 427.

57. As one scholar explained:

By recognizing the special competitive advantage of information known only to a few, and the resultant acknowledgment of the property interests in such information, the interests of the owner, the mobile disclosee, and the consuming public appear to be fairly balanced. The departing employee is not permitted to carry off something of great value to his employer, whether it is tangible, such as securities or plans and drawings, or intangible, such as valuable data which constitutes a protectable trade secret.

3 MILGRIM, *supra* note 20, § 13.03[2][c], at 13-54.

therefore, less likely to be the target of corporate piracy.⁵⁸ Moreover, a *blanket* prohibition on a Category 2 information owner's employees' use of that information following the termination of their employment would unnecessarily restrict those employees' abilities to move between companies possessing that information.⁵⁹

Notwithstanding these facts, divesting Category 2 information of all legal protection is inconsistent with the goals of confidentiality law. Although Category 2 information's absolute value⁶⁰ is less than that of similarly useful Category 3 information, nevertheless, Category 2 information's relative value⁶¹ still may be great.⁶² Consequently, the owners of Category 2 information must still be wary of rivals' attempts to pilfer that information for their own use. In the absence of legal protection, the owners of Category 2 information must expend a portion of their finite resources—time, money, and effort—to protect their innovations from piracy.⁶³

Moreover, permitting employers to prevent employees from transferring Category 2 information to competitors who do not already possess it, would not limit the employees' economic opportunities unfairly. Employees could still market their services, including their knowledge of the Category 2 information, to the majority of

58. See 3 MILGRIM *supra* note 20, § 1.03, at 1-86 to 1-98.

59. See Feldman, *supra* note 6, at 171-74; Kitch, *supra* note 48, at 664-65.

60. "Absolute value" denotes information's value to its owner in the relevant marketplace as a whole.

61. "Relative value" denotes information's value to its owner vis-a-vis a specific competitor.

62. For example, although a bicycle helmet manufacturer's awareness of a particularly cost-effective plastic forming process that is known to seven of the manufacturer's ten competitors is unlikely to afford the manufacturer a large competitive advantage in the bicycle helmet marketplace as a whole, that awareness will afford the manufacturer a tremendous competitive advantage over any one of the three competitors who do not already possess knowledge of the forming process. For these three competitors, there are enormous incentives to acquire knowledge of the process. See, e.g., A.L. Labs., Inc. v. Philips Roxane, Inc., 803 F.2d 378, 381-82 (8th Cir. 1986); C.R. Bard, Inc. v. Intoccia, Civ. A. No. 94-11568-Z, 1994 WL 601944, at *3 (D. Mass. Oct. 13, 1994); Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 900 (Minn. 1983); Ultra-Life Labs., Inc. v. Eames, 221 S.W.2d 224, 232 (Mo. App. 1949); Sybron Corp. v. Wetzel, 385 N.E.2d 1055, 1056 (N.Y. 1978); Dionne v. Southeast Foam Converting & Packaging, Inc., 397 S.E.2d 110, 112-13 (Va. 1990); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmts. e-f (1995) (stating that the advantage over others who do not possess the trade secret need not be great and as long as the information remains secret from others, not necessarily all, to whom it has "potential economic value," it retains trade secret status); INTELLECTUAL PROPERTY, *supra* note 5, § 5.05[3], at 5-49 to 5-51; Peterson, *supra* note 41, at 416-17 (finding that "secrecy need not be absolute" for the information to warrant protection).

63. See *supra* notes 33-34 and accompanying text.

companies in the field already aware of the information.⁶⁴ Thus, granting some measure of protection to Category 2 information is necessary to strike a balance between information owners' interests in maintaining their commercial advantages, employees' interests in unrestricted movement between positions, and society's interests in preserving commercial morality and promoting innovation.⁶⁵ Accordingly, protection for Category 2 information is entirely consistent with, and significantly furthers, the objectives of confidentiality law.⁶⁶

In sum, the foregoing analysis suggests that commercial information should be afforded the following varying degrees of legal protection: Category 1 information should be entitled to no legal protection; Category 2 information should be entitled to a modicum of legal protection; and Category 3 information should be entitled to the greatest level of legal protection. This graduated scheme provides the appropriate level of protection to each category of commercial information in light of the fundamental policies confidentiality law seeks to serve.⁶⁷

B. *Historical Protection of Category 2 Information*

Even without the benefit of a formally defined category of protectable "confidential information" encompassing only Category 2 data, technology and know-how,⁶⁸ courts historically have safeguarded information that does not rise to the level of technical "trade secrets"⁶⁹ through a variety of legal theories—conversion, breach of contract, breach of fiduciary duty, unfair competition, unjust enrichment, and conspiracy.⁷⁰

64. See *supra* note 39 and accompanying text.

65. See Davidson & DeMay, *supra* note 5, at 582-86, 598.

66. See *id.* at 606-08.

67. See *supra* notes 43-63 and accompanying text.

68. See *infra* Part II.B.1.

69. See "trade secret" definitions *supra* note 6 and *infra* note 122.

70. For a comprehensive discussion of all of the various legal theories available to information owners, see 3 MILGRIM, *supra* note 20, § 13.03, at 13-34 to 13-55.

It is axiomatic that none of the theories described in this Part can properly be asserted against an individual or company that acquires or learns of "confidential information" through proper means. The comment to section 1 of the UTSA defines "proper means" as follows:

- (1) Discovery by independent invention;
- (2) Discovery by "reverse engineering," that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must, of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse

1. Breach of Contract

a. Express Contracts

Express contracts, whether in the form of covenants not to compete⁷¹ or non-disclosure/confidentiality agreements,⁷² are perhaps the most frequently employed devices for the protection of proprietary information.⁷³ Presuming that such contracts are supported by valid consideration⁷⁴ and are reasonable in

engineering to be lawful;

(3) Discovery under a license from the owner of the trade secret;

(4) Observation of the item in public use or on public display;

(5) Obtaining the trade secret from published literature.

UNIF. TRADE SECRETS ACT § 1, Commissioners' cmt., 14 U.L.A. 438 (1990).

71. A covenant not-to-compete, also known as a "restrictive covenant," is a promise by an employee, after leaving the employ of the employer, to not engage in activities that compete directly with those of his former employer. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.02[5]-[6], at 5-21.

72. A non-disclosure agreement is a promise by an employee that the employee will not disclose any trade secrets or other confidential information that the employee acquires during his or her employment. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.02, at 5-20 to 5-21.

73. See 3 MILGRIM, *supra* note 20, § 13.03, at 13-34; INTELLECTUAL PROPERTY, *supra* note 5, § 5.02, at 5-20 to 5-22.

74. In the employment context, restrictive covenants ancillary to initial employment contracts are almost always considered to be supported by consideration—employment. See McClelland & Forgy, *supra* note 6, at 235. However, courts disagree as to whether restrictive covenants entered into after the commencement of employment need to be supported by independent consideration. Many courts support the position that continued employment constitutes sufficient consideration for a covenant-not-to-compete or a non-disclosure agreement; while other courts require something in addition to the mere continuance of employment. Compare MAI Basic Four, Inc. v. Basis, Inc., 880 F.2d 286, 287-88 (10th Cir. 1989); Curtis 1000 v. Youngblade, 878 F. Supp. 1224, 1259 (N.D. Iowa 1995); Nestle Food Co. v. Miller, 836 F. Supp. 69, 77 (D.R.I. 1993); Ferrofluidics Corp. v. Advanced Vacuum Components, Inc., 789 F. Supp. 1201, 1210 (D.N.H. 1992), *aff'd*, 968 F.2d 1463 (1st Cir. 1992); Jak Prods., Inc. v. Wiza, No. IP 92-110-C, 1992 WL 472277, at *3 (S.D. Ind. Mar. 11, 1992); Robert Half Int'l Inc. v. Van Steenis, 784 F. Supp. 1263, 1273 (E.D. Mich. 1991); ISC-Bunker Ramo Corp. v. Altech, Inc., 765 F. Supp. 1310, 1338 (N.D. Ill. 1990); Hughes Assocs., Inc. v. Printed Circuit Corp., 631 F. Supp. 851, 857 (N.D. Ala. 1986); Olin Water Servs. v. Midland Research Labs., Inc., 596 F. Supp. 412, 415 (E.D. Ark. 1984), *appeal dismissed*, 774 F.2d 303 (8th Cir. 1985); Mouldings, Inc. v. Potter, 315 F. Supp. 704, 713 (M.D. Ga. 1970), *modified*, 465 F.2d 1101 (5th Cir. 1972); Mattison v. Johnston, 730 P.2d 286, 290 (Ariz. Ct. App. 1986); Insurance Assocs. Corp. v. Hansen, 723 P.2d 190, 191-92 (Idaho Ct. App. 1986), *with* Curtis 1000, Inc. v. Suess, 24 F.3d 941, 946-47 (7th Cir. 1994); Robinson v. Ada S. McKinley Community Servs., Inc., 19 F.3d 359, 364 (7th Cir. 1994); Admiral Servs., Inc. v. Drebit, No. Civ. A. 95-1086, 1995 WL 134812, at *4 (E.D. Pa. Mar. 28, 1995); Herr v. McCormick Grain—The Heiman Co., 841 F. Supp. 1500, 1508 (D. Kan. 1994), *aff'd in part, vacated in part sub nom.* Herr v. Heiman, 75 F.3d 1509 (10th Cir. 1996); Nat'l Risk Management, Inc. v. Bramwell, 819 F. Supp. 417, 429 (E.D. Pa. 1993); Scherer v. Rockwell Int'l Corp., 766 F. Supp. 593, 604 (N.D.

scope,⁷⁵ contracts prohibiting the unauthorized use of confidential knowledge, even knowledge that fails to qualify for protection under traditional trade secret law, have been found to be valid and enforceable in virtually every jurisdiction.⁷⁶ In fact, many courts have

Ill. 1991), *aff'd*, 975 F.2d 356 (7th Cir. 1992); *Reiver v. Murdoch & Walsh, P.A.*, 625 F. Supp. 998, 1011 (D. Del. 1985); *Haney v. Laub*, 312 A.2d 330, 334 (Del. Super. Ct. 1973); *Mid-Town Petroleum, Inc. v. Gowen*, 611, N.E.2d 1221, 1227 (Ill. App. Ct. 1993); *Maintenance Specialties, Inc. v. Gottus*, 314 A.2d 279, 282 (Pa. 1974). For a more detailed discussion of the continued employment consideration problem, see Annotation, *Sufficiency of Consideration for Employee's Covenant not to Compete, Entered Into After Inception of Employment*, 51 A.L.R.3d 825 (1973 and 1997 Supp.).

75. Each jurisdiction has its own unique rules pertaining to the "reasonableness" of various restrictive covenants. Most jurisdictions, for example, require covenants-not-to-compete to be limited in duration and geographical scope. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.02, at 5-21 to 5-22 (citing cases as examples); *McClelland & Forgry*, *supra* note 6, at 234-35. Several states have legislation specifically governing the enforcement of covenants-not-to-compete. See, e.g., ALA. CODE § 8-1-1 (1975 & Supp. 1997); COLO. REV. STAT. § 8-2-113(2) (1973 & Supp. 1997); FLA. STAT. ANN. § 542.33 (West 1982 & Supp. 1997); HAW. REV. STAT. § 480-4 (1976 & Supp. 1997); LA. REV. STAT. ANN. § 23:921 (West 1964 & Supp. 1998); MICH. COMP. LAWS § 28.70 (4a)(1997); N.C. GEN. STAT. § 75-2 (1975); N.D. CENT. CODE § 9-08-06 (1975); OKLA. STAT. tit. 15 §§ 217-219 (1971); OR. REV. STAT. § 653.295 (1981 & Supp. 1996); S.D. LAWS §§ 53-q-9 to 53-q-11 (1980 & Supp. 1997); WIS. STAT. ANN. § 103.465 (West 1974 & Supp. 1995-96).

There is considerable disharmony, however, as to whether non-disclosure agreements must be similarly limited. Compare *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1202 (7th Cir. 1987); *TDS Healthcare Sys. Corp. v. Humana Hosp. Ill. Inc.*, 880 F. Supp. 1572, 1585 (N.D. Ga. 1995); *Thomas v. Best Mfg. Corp.*, 218 S.E.2d 68, 71 (Ga. 1975); *Cincinnati Tool Steel Co. v. Breed*, 482 N.E.2d 170, 175 (Ill. App. Ct. 1985), with *Nordson Corp. v. Plasschaert*, 674 F.2d 1371, 1377 (11th Cir. 1982); *Altech*, 765 F. Supp. at 1336-37; *Salsbury Labs., Inc. v. Merieux Labs., Inc.*, 735 F. Supp. 1545, 1551 (M.D. Ga. 1988); *Sigma Chem. Co. v. Harris*, 586 F. Supp. 704, 710 (E.D. Mo. 1984); *Ackerman v. Kimball Int'l, Inc.*, 634 N.E.2d 778, 782 (Ind. Ct. App. 1994), *aff'd in part, vacated in part*, 652 N.E.2d 507 (Ind. 1995).

Further, courts of various jurisdictions disagree as to whether a confidentiality agreement need list the particular information deemed confidential in order to be enforceable. Compare *Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452, 455 (8th Cir. 1987); *Anacomp, Inc. v. Shell Knob Servs., Inc.*, No. 93 Civ. 4003 (PKL), 1994 WL 9681, at *12 (S.D.N.Y. Jan. 10, 1994); *Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.*, 732 F. Supp. 370, 377 (S.D.N.Y. 1989), *aff'd*, 920 F.2d 171 (2d Cir. 1990); *USM Corp. v. Marson Fastener Corp.*, 393 N.E.2d 895, 901 (Mass. 1979); *Eastern Marble Prods. Corp. v. Roman Marble, Inc.*, 364 N.E.2d 799, 802 (Mass. 1977); *Aries Info. Sys., Inc. v. Pacific Management Sys. Corp.*, 366 N.W.2d 366, 369 (Minn. Ct. App. 1985); *Schalk v. State of Texas*, 823 S.W.2d 633, 643 (Tex. Crim. App. 1991), with *Motorola, Inc. v. Fairchild Camera & Instrument Corp.*, 366 F. Supp. 1173, 1185 (D. Ariz. 1973).

76. See, e.g., *Eaton Corp. v. Giere*, 971 F.2d 136, 139-40 (8th Cir. 1992); *Fleischhacker*, 823 F.2d at 1199; *Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1269 (8th Cir. 1978); *Innovative Networks Inc. v. Satellite Airlines Ticketing Ctrs., Inc.*, 871 F. Supp. 709, 728-29 (S.D.N.Y. 1995); *Humana Hosp. Ill., Inc.*, 880 F. Supp. at 1572; *Anacomp*, 1994 WL 9681, at *12; *Ecolab Inc. v. Paolo*, 753 F. Supp. 1100, 1113 (E.D.N.Y. 1991); *Salsbury Labs., Inc.*, 735 F. Supp. at 1545; *Organic Chems.*

noted that the use of express contracts to safeguard valuable information is essential to advance the goals of confidentiality law.⁷⁷

b. Implied Contracts

In addition to express contracts, implied contracts⁷⁸ have also been found to limit an individual's or company's ability to use confidential information. As its name suggests, a contract implied-in-fact is a *de facto* agreement⁷⁹ between an information owner and another party.⁸⁰ A contract implied-in-fact often is relied upon in the same sense as an oral, express contract to protect confidential information.⁸¹

Inc. v. Carroll Prods., Inc., 211 U.S.P.Q. (BNA) 628, 631-32 (W.D. Mich. 1981); *USM Corp.*, 393 N.E.2d at 895; *see also e.g.*, *Saliterman v. Finney*, 361 N.W.2d 175, 177-78 (Minn. Ct. App. 1985).

77. One such court commented:

Often, the value of a firm is its special knowledge, and this knowledge may not be an idea protectible by patent or copyright. If that firm cannot protect that knowledge from immediate dissemination to competitors, it may not be able to reap the benefits from the time and money invested in building that knowledge. If firms are not permitted to construct a reasonable legal mechanism to protect that knowledge, then the incentive to engage in the building of such knowledge will be greatly reduced. Free riders will capture this information at little or no cost and produce a product cheaper than the firm which created the knowledge, because it will not have to carry the costs of creating that knowledge in its pricing. Faced with this free rider problem, this information may not be created, and thus everybody loses. To counteract that problem, an employer can demand that employees sign an employment agreement as a condition of their contract, and thus protect the confidential information.

Eden Hannon & Co. v. Sumitomo Trust & Banking Co., 914 F.2d 556, 561 (4th Cir. 1990).

78. There are two types of implied contracts: contracts implied-in-fact and contracts implied-in-law. *See* 3 MILGRIM, *supra* note 20, § 13.03, at 13-36.

79. Implied-in-fact contracts include non-disclosure/confidentiality agreements and agreements to pay for use.

80. An implied-in-fact contract can be defined as:

[a contract] not created or evidenced by the explicit agreement of the parties, but inferred by the law, as a matter of reason and justice from their acts or conduct, the circumstances surrounding the transaction making it a reasonable, or even a necessary assumption that a contract existed between them by tacit understanding.

Black's Law Dictionary 323 (6th ed. 1990).

81. *See, e.g.*, *Landsberg v. Scrabble Crossword Game Players, Inc.*, 802 F.2d 1193, 1196-97 (9th Cir. 1986); *Whitfield v. Lear*, 751 F.2d 90, 92-93 (2d Cir. 1984); *Airborne Data, Inc. v. United States*, 217 U.S.P.Q. (BNA) 297, 298 (Fed. Cir. 1983); *Tele-Count Eng'rs, Inc. v. Pacific Tel. & Tel. Co.*, 226 U.S.P.Q. (BNA) 790, 793-94 (Cal. Ct. App. 1985); *Apfel v. Prudential-Bache Sec. Inc.*, 616 N.E.2d 1095, 1097 (N.Y. 1993); *Oasis Music, Inc. v. 900 U.S.A., Inc.*, 614 N.Y.S.2d 878, 881 (N.Y. 1994); *Schott v. Westinghouse Elec. Corp.*, 259 A.2d 443, 449 (Pa. 1969).

Unlike contracts implied-in-fact, contracts implied-in-law do not derive from the conduct or intentions of the parties. Rather, these contracts arise from the judicial conclusion that disclosures made within the context of certain relationships, such as employee-employer or agent-principal, carry the implied contractual duty to not use the disclosed information to the detriment of the discloser.⁸² Courts have used contracts implied-in-law to protect a myriad of confidential information that does not rise to the level of technical "trade secrets."⁸³

2. Interference with Contractual Relations

Different from, but often joined with, claims for breach of express or implied contract are actions for tortious interference with contractual relations.⁸⁴ Such actions typically are asserted against a third party (generally a competing company) that knowingly and intentionally entices an information owner's employees to breach their contractual duties of confidentiality or loyalty.⁸⁵ Because express and implied-in-fact contracts can protect commercially valuable knowledge that does not constitute technical trade secrets,⁸⁶ tortious interference with contractual relations claims further expand the scope of available legal

82. One court stated:

The courts recognize by the language of their opinions two classes of implied contracts. The one class consists of those contracts which are evidenced by the acts of the parties and not by their verbal or written word—true contracts which rest upon an implied promise in fact. The second class consists of contracts implied by the law where none in fact exist—quasi or constructive contracts created by law and not by the intentions of the parties.

....

In truth, [a contract implied-in-law] is not a contract or promise at all. It is an obligation which the law creates Duty, and not a promise or agreement or intention of the person sought to be charged, defines it. It is fictitiously deemed contractual, in order to fit the cause of action to the contractual remedy.

Miller v. Schloss, 113 N.E. 337, 338-39 (N.Y. 1916); see also *Airborne Data, Inc.*, 217 U.S.P.Q. at 297.

83. See, e.g., *In re Uniservices, Inc.*, 517 F.2d 492, 497 (7th Cir. 1975); *Anacomp, Inc. v. Shell Knob Servs., Inc.*, No. 93 Civ. 4003 (PKL), 1994 WL 9681, at *12 (S.D.N.Y. Jan. 10, 1994); *Prudential Ind. Co. of America v. Crouch*, 606 F. Supp. 464, 469-70 (S.D. Ind. 1985), *aff'd*, 796 F.2d 477 (7th Cir. 1986); *Jet Spray Cooler, Inc. v. Crampton*, 174 U.S.P.Q. (BNA) 272, 274 (Mass. 1972).

84. See 3 MILGRIM, *supra* note 20, § 13.03, at 13-37.

85. See, e.g., *InterRoyal Corp. v. Sponseller*, 889 F.2d 108, 111 (6th Cir. 1989); *American Air Filter Co. v. McNichol*, 527 F.2d 1297, 1300 (3d Cir. 1975); *Innovative Networks, Inc. v. Satellite Airlines Ticketing Ctrs., Inc.*, No. 92 Civ. 2408 (SWK), 1995 WL 3972, at *18 (S.D.N.Y. Jan. 4, 1995); *Walt Peabody Adver. Serv., Inc. v. Pecora*, 393 F. Supp. 328, 330-33 (W.D. Ky. 1974); *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301, 304-06 (Minn. Ct. App. 1987).

86. See *supra* notes 71-83 and accompanying text.

protection for confidential information.⁸⁷

3. Breach of Fiduciary Duty

In addition to any specific contractual non-disclosure or non-competition obligations, individuals and/or companies may be bound to maintain the strict confidence of certain information by virtue of their fiduciary relationships with the information's owner.⁸⁸ Indeed, breach of fiduciary duty claims—claims that may be subdivided into actions for breach of confidence and actions for breach of loyalty—may be the basis for damages and/or injunctive relief despite the absence of any specific “trade secret” wrongdoing.⁸⁹

87. See, e.g., *Smithfield Ham and Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346, 349-50 (E.D. Va. 1995); *ITT Schadow Inc. v. Stein*, 7 U.S.P.Q.2d (BNA) 1348, 1351 (D. Minn. 1988).

Closely related, but distinct from, actions for intentional interference with contractual relations are claims for inducement of breach of duty. Inducement claims may arise where a third party knowingly and intentionally entices an information owner's employees or agents to breach their common-law, fiduciary duties of confidentiality and/or loyalty—duties that shall be detailed in the next subsection. See *Northwest Airlines v. American Airlines*, 853 F. Supp. 1110, 1117 (D. Minn. 1994); *BIEC Int'l, Inc. v. Global Steel Services, Ltd.*, 791 F. Supp. 489, 537-48 (E.D. Pa. 1992); *Houston Oil & Minerals Corp. v. SEEC, Inc.*, 616 F. Supp. 990, 991 (W.D. La. 1985); *Mixing Equip. Co. v. Philadelphia Gear, Inc.*, 312 F. Supp. 1269, 1275 (E.D. Pa. 1970), *modified*, 436 F.2d 1308 (3d Cir. 1971); *205 Corp. v. Brandow*, 517 N.W.2d 548, 551 (Iowa 1994); *Morris v. Consolidation Coal Co.*, 446 S.E.2d 648, 657-58 (W.Va. 1994).

88. See 3 MILGRIM, *supra* note 20, §13.03, at 13-53.

89. Both types of breach of fiduciary duty claim have their roots in section 757 of the *Restatement (First) of Torts*. The First Restatement established liability for persons who use or disclose information received in a confidential relationship or learned from a third-party with notice that the information was secret and that the information was improperly acquired or revealed in the first instance. Comment j to section 757 states:

A breach of confidence under the rule stated in this Clause [section 757(b)] may also be a breach of contract which subjects the actor to liability under the rules state in the Restatement of Contracts. But whether or not there is a breach of contract, the rule stated in this Section subjects the actor to liability if his disclosure or use of another's trade secret is a breach of the confidence reposed in him by the other in disclosing the secret in him.

RESTATEMENT (FIRST) OF TORTS § 757 cmt. j (1939).

The new *Restatement (Third) of Unfair Competition* also addresses liability for breach of a duty of confidentiality generally and breach of an employee's confidentiality obligations specifically. Section 41 of the Third Restatement provides that a duty of confidence is created when:

- (a) the person made an express promise of confidentiality prior to the disclosure of the trade secret; or
- (b) the trade secret was disclosed to the person under circumstances in which the relationship between the parties to the disclosure or the other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure,
 - (1) the person knew or had reason to know that the disclosure was

a. Breach of Confidence

Where an information owner discloses in confidence its valuable, non-public information to an otherwise unaffiliated third party,⁹⁰ the disclosee may be legally obligated to hold that information in strictest confidence. Under such circumstances, it is the disclosure itself that creates a confidential (or fiduciary) relationship.⁹¹ Further, the specific information's failure to qualify as a "trade secret" does not excuse or justify a disclosee's disregard of its confidentiality obligations.⁹²

b. Breach of Loyalty or Trust

Even more stringent than the duties of confidentiality imposed upon third-party recipients of advantageous commercial information are the strict fiduciary obligations imposed on employees, agents, directors and officers that prohibit them from using or disclosing for their own advantage (or to the detriment of their employers, principals and companies) confidential information imparted to them in the course of

intended to be in confidence, and

(2) the other party to the disclosure was reasonable in inferring that the person consented to an obligation of confidentiality.

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 (1995).

90. This is a common occurrence in the negotiation and execution of mergers, joint-ventures, licenses, vendor contracts, and subcontractor agreements.

91. *See, e.g.*, Phillips v. Frey, 20 F.3d 623, 632 (5th Cir. 1994); Computer Assocs. Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 717 (2d Cir. 1992); A.L. Labs., Inc. v. Philips Roxane, Inc., 803 F.2d 378, 381-83 (8th Cir. 1986); Metallurgical Indus. Inc. v. Fourtek, Inc., 790 F.2d 1195, 1200-04 (5th Cir. 1986); Goldberg v. Medtronic, Inc., 686 F.2d 1219, 1223-29 (7th Cir. 1982); Roberts v. Sears, Roebuck & Co., 573 F.2d 976, 983-84 (7th Cir. 1978); Cloud v. Standard Packaging Corp., 376 F.2d 384, 388-89 (7th Cir. 1967); Copley v. Northwestern Mut. Life Ins. Co., 295 F. Supp. 93, 97 (S.D. W.Va. 1968); Schreyer v. Casco Prods. Corp., 97 F. Supp. 159, 167 (D. Conn. 1951), *aff'd in part, rev'd in part*, 190 F.2d 921 (2d Cir. 1951); Howard Schultz & Assocs., Inc. v. Broniec, 236 S.E.2d 265, 267 (Ga. 1977); Meyers v. Waverly Fabrics, 489 N.Y.S.2d 891, 894 n.2 (1985); Hyde Corp. v. Huffines, 314 S.W.2d 763, 769 (Tex. 1958); Boeing Co. v. Sierracin Corp., 738 P.2d 665, 673-74 (Wash. 1987).

92. One court commented:

[A]n item may be considered confidential in the context of a business relationship without rising to the level of a trade secret. A confidential relationship is distinguished by the expectations of the parties involved, while a trade secret is identified through rigorous examination of the information sought to be protected.

Roboserve, Ltd. v. Tom's Foods, Inc., 940 F.2d 1441, 1456 (11th Cir. 1991) (citations omitted); *see also* Self Directed Placement Corp. v. Control Data Corp., 908 F.2d 462, 466-67 (9th Cir. 1990); Sandlin v. Johnson, 152 F.2d 8, 11 (8th Cir. 1945); Editions Play Bac, S.A. v. Western Publ'g Co., 31 U.S.P.Q.2d (BNA) 1338, 1343-44 (S.D.N.Y. 1993); Neil and Spencer Holdings Ltd. v. Kleen-Rite, Inc., 206 U.S.P.Q. (BNA) 350, 355 (E.D. Mo. 1979); Crocan Corp. v. Sheller-Globe Corp., 385 F. Supp. 251, 254 (N.D. Ill. 1974).

their duties.⁹³ These fiduciary obligations are a function of, and are attendant to, employees', agents', directors' and officers' fundamental duties of trust and loyalty; these obligations do not depend solely on the confidential disclosure of non-public knowledge for their existence.⁹⁴ Courts repeatedly have found employees and other

93. See *Prudential Ins. Co. of Am. v. Sipula*, 776 F.2d 157, 163-64 (7th Cir. 1985), *aff'd* 796 F.2d 417 (1986); *Molex, Inc. v. Nolen*, 759 F.2d 474, 479-80 (5th Cir. 1985); *NCH Corp. v. Broyles*, 749 F.2d 247, 253-54 (5th Cir. 1985); *Uniservices, Inc. v. Dudenhoffer*, 517 F.2d 492, 496-97 (7th Cir. 1975); *Smith v. Dravo Corp.*, 203 F.2d 369, 377-78 (7th Cir. 1953); *Advanced Power Sys., Inc. v. Hi-Tech Sys., Inc.*, 801 F. Supp. 1450, 1455 (E.D. Pa. 1992); *Bancroft-Whitney Co. v. Glen*, 411 P.2d 921, 935-36 (Cal. 1966); *By-Buk Co. v. Printed Cellophane Tape Co.*, 329 P.2d 147, 151 (Cal. Ct. App. 1958); *Kaufman v. Int'l Bus. Machs. Corp.*, 470 N.Y.S.2d 720, 723 (App. Div. 1983), *aff'd*, 61 N.Y.2d 930 (1984); *Forrest Paschal Mach. Co. v. Milholen*, 220 S.E.2d 190, 197 (N.C. Ct. App. 1975); *Classic Instruments, Inc. v. VDO-Argo Instruments, Inc.*, 226 U.S.P.Q. (BNA) 894, 904 (Or. Ct. App. 1985).

94. As one court specifically noted:

An employee is a fiduciary with respect to the information which comes to him in the course of his employment. He must exercise the utmost good faith, loyalty and honesty towards his employer whether coupled with an interest or not, and whether the compensation is small or large. The duty to be faithful does not cease when the employment ends. He has a duty not to reveal confidential information obtained through his employment, and not to use such confidential information after he has left his employment. Even where the contract of employment does not prohibit an employee from engaging in competitive businesses after the termination of his employment, there is a restraint that he may not use "confidential information or trade secrets obtained from the former employer, appropriating, in effect, to his competitive advantage what rightfully belongs to his employer."

Bull v. Logetronics, Inc., 323 F. Supp. 115, 132-33 (E.D. Va. 1971) (quoting *Community Counselling Service v. Reilly*, 317 F.2d 239, 244 (4th Cir. 1963)). The duty of an employee, agent, or other fiduciary to refrain from using or disclosing confidential information acquired in the course of his or her duties has its roots in sections 395 and 396 of the *Second Restatement of Agency*. Section 395 provides:

Unless otherwise agreed, an agent is subject to a duty to the principal not to use or to communicate information confidentially given him by the principal or acquired by him during the course of or on account of his agency or in violation of his duties as agent, in competition with or to the injury of the principal, on his own account or on behalf of another, although such information does not relate to the transaction in which he is then employed, unless the information is a matter of general knowledge.

Section 396 states:

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

....

has a duty to the principal not to use or to disclose to third persons, on his own account or on account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty.

RESTATEMENT (SECOND) OF AGENCY §§ 395, 396 (1958); see *NCH Corp.*, 749 F.2d at 254; *Nucor Corp. v. Tenn. Forging Steel Serv., Inc.*, 476 F.2d 386, 392 (8th Cir. 1973);

fiduciaries liable for breach of loyalty and trust for the unauthorized dissemination of confidential information that does not rise to the level of "trade secrets."⁹⁵

4. Unfair Competition

Another commonly utilized theory for the protection of confidential information is "unfair competition."⁹⁶ The doctrine of unfair competition has its roots in both common law and in section 759 of the First Restatement of Torts.⁹⁷ The doctrine contemplates liability

Tlapek v. Chevron Oil Co., 407 F.2d 1129, 1134 (8th Cir. 1969); *Tan-Line Studios, Inc. v. Bradley*, 1 U.S.P.Q.2d (BNA) 2032, 2039-40 (E.D. Pa.), *aff'd sub nom. Paul v. Tanning, Health & Fitness Equip. Co.*, 808 F.2d 1517 (3d Cir.), and *aff'd sub nom. Tan-Line Sun Studios, Inc. v. Paul*, 808 F.2d 1518 (3d Cir. 1986); *Organic Chems., Inc. v. Carrol Prods., Inc.*, 211 U.S.P.Q.(BNA) 628, 631 (W.D. Mich. 1981); *TIE Sys., Inc. v. Telcom Midwest, Inc.*, 560 N.E.2d 1080, 1085 (Ill. App. Ct. 1990); *Defcon, Inc. v. Webb*, 687 So.2d 639, 642-43 (La. Ct. App. 1997); *Bellboy Seafood Corp. v. Nathanson*, 410 N.W.2d 349, 352-53 (Minn. Ct. App. 1987).

95. See, e.g., *Eaton Corp. v. Giere*, 971 F.2d 136, 141 (8th Cir. 1992); *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 298 (2d Cir. 1986); *Nucor Corp.*, 476 F.2d at 392; *Tlapek*, 407 F.2d at 1133-34; *American Visuals Corp. v. Holland*, 261 F.2d 652, 655 (2d Cir. 1958); *Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953); *Coulter Corp. v. Leinert*, 869 F. Supp. 732, 734-35 (E.D. Mo. 1994); *Anacomp, Inc. v. Shell Knob Servs., Inc.*, No. 93 Civ. 4003 (PLL), 1994 WL 9681, at *12-13 (S.D.N.Y. Jan. 10, 1994); *Avtec Sys., Inc. v. Peiffer*, 805 F. Supp. 1312, 1321 (E.D. Va. 1992), *aff'd in part, vacated in part*, 21 F.3d 568 (4th Cir. 1994); *MAI Sys. Corp. v. Peak Computer, Inc.*, Civ. A. No. CV 92-1654-R, 1992 WL 159803, at *18 (C.D. Cal. April 14, 1992), *aff'd in part, rev'd in part*, 991 F.2d 511 (9th Cir. 1993); *Salsbury Labs., Inc. v. Merieux Labs., Inc.*, 735 F. Supp. 1545, 1552-53 (M.D. Ga. 1988); *Tan-Line Studios, Inc. v. U.S.P.Q.2d* (BNA) at 2039; *Prudential Ins. Co. of Am. v. Crouch*, 606 F. Supp. 464, 471-72 (S.D. Ind. 1985), *aff'd*, 796 F.2d 477 (7th Cir. 1986); *Abraham Zion Corp. v. Lebow*, 593 F. Supp. 551, 569 (S.D.N.Y. 1984), *aff'd* 761 F.2d 93 (2d Cir. 1985); *Wesley-Jessen, Inc. v. Armento*, 519 F. Supp. 1352, 1361 (N.D. Ga. 1981); *Organic Chems.*, 211 U.S.P.Q. at 631-32; *Bull.*, 323 F. Supp. at 132-33; *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 262-63 (E.D. La. 1967); *Components for Research, Inc. v. Isolation Prods., Inc.*, 241 Cal. App. 2d 726, 729, 50 Cal. Rptr. 829 (Cal. Ct. App. 1966); *Conant v. Karris*, 520 N.E.2d 757, 762 (Ill. App. Ct. 1987); *Comedy Cottage, Inc. v. Berk*, 495 N.E.2d 1006, 1011-12 (Ill. App. Ct. 1986); *Saliterman v. Finney*, 361 N.W.2d 175, 178-79 (Minn. Ct. App. 1985); see also, 1 MILGRIM, *supra* note 20, § 4.03 ("There can be no betrayal of a confidential relationship if a trade secret has not been imparted, or at least the information imparted is not generally available, although not technically a trade secret.").

96. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.02, at 5-17.

97. Section 759 of the *Restatement (First) of Torts* states as follows: "One who, for the purpose of advancing a rival business interest, procures by improper means information about another's business is liable to the other for the harm caused by his possession, disclosure or use of the information." RESTATEMENT (FIRST) OF TORTS § 759 (1939). Comment b to section 759 states that the rule "applies to information about one's business whether or not it constitutes a trade secret . . ." *Id.* § 759 cmt. b.

As to the types of "improper means" contemplated by this rule, comment c to section 759 refers to "theft, trespass, bribing or otherwise inducing employers or others to

against those individuals who obtain or learn of confidential information by improper means for the purpose of advancing a rival business interest.⁹⁸ The essence of a claim for unfair competition is “the taking and use of [a] plaintiff’s property to compete against the plaintiff’s own use of the same property.”⁹⁹ Thus, the law of unfair competition is broad enough to disallow the unauthorized acquisition and use of information that does not necessarily constitute a “trade secret.”¹⁰⁰

reveal the information in breach of duty, fraudulent misrepresentations, threats of harm by unlawful conduct, wire tapping, procuring one’s own employees or agents to become employees of the other for purposes of espionage and so forth.” *Id.* § 759 cmt. c. It is clear from this list of “improper means” that claims for unfair competition under section 759 often encompass claims for breach of confidence, breach of loyalty, tortious interference with contract, etc. See Kitch, *supra* note 48, at 661.

98. See *American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655, 662 (2d Cir. 1979); *TDS Healthcare Sys. Corp. v. Humana Hosp. Ill., Inc.*, 880 F. Supp. 1572, 1584-85 (N.D. Ga. 1995); *Anacomp, Inc. v. Shell Knob Servs., Inc.*, No. 93 Civ. 4003 (PKL), 1994 WL 9681, at *13 (S.D.N.Y. Jan. 10, 1994).

“Unfair competition is not a tort with specific elements; it describes a general category of torts which courts recognize for the protection of commercial interests.” *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301, 305 (Minn. Ct. App. 1987) (citing *W. PAGE KEETON ET AL. ON THE LAW OF TORTS* § 130, at 1015 (5th ed. 1984)).

99. *Roy Export Co. Establishment of Vaduz v. Columbia Broadcasting Sys., Inc.*, 672 F.2d 1095, 1105 (2d Cir. 1982); see also *Computer Assocs. Int’l, Inc. v. Computer Automation, Inc.*, 678 F. Supp. 424, 429 (S.D.N.Y. 1987) (stating that the “essence” of an unfair competition claim under New York common law is “the bad faith misappropriation of the labor and expenditures of another, likely to cause confusion or to deceive purchasers as to the origin of goods”); *Advanced Magnification Instruments, Ltd. v. Minuteman Optical Corp.*, 522 N.Y.S.2d 287, 290 (App. Div. 1987) (“An employee’s illegal physical taking or copying of an employer’s files or confidential information constitutes actionable unfair competition.”).

As expressed by the court in *E.I. DuPont DeNemours & Co. v. Christopher*, “industrial espionage . . . has become a popular sport in some segments of our industrial community. However, our devotion to free wheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality expected in our commercial relations.” *E.I. DuPont DeNemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970).

100. As one court explained:

Although at one time the law of unfair competition was limited to claims that one party had attempted to pass off his goods as those of another party, unfair competition is now held to encompass a broader range of unfair practices which may be generally described as a misappropriation of the skill, expenditures, and labor of another.

American Footwear Corp., 609 F.2d at 662 (citing *Flexitized Inc. v. Nat’l Flexitized Corp.*, 335 F.2d 774, 781 (2d Cir. 1964)). “[E]ven where the information would not otherwise qualify as a trade secret, the unauthorized physical taking and exploitation of internal company documents . . . by an employee for use in his future business or employment is to be enjoined as unfair competition.” *Ecolab Inc. v. Paolo*, 753 F. Supp. 1100, 1111 (E.D.N.Y. 1991) (citing *Advanced Magnification Instruments*, 522 N.Y.S.2d 287); *Anacomp, Inc.*, 1994 WL 9681, at *13 (citations omitted); see also *Self*

5. Fraud and Misrepresentation

Another doctrine used to protect confidential information is the common-law prohibition of fraud and misrepresentation. Courts frequently impose liability on individuals and businesses who, through material misstatements or omissions, induce information owners to reveal their valuable, non-public knowledge.¹⁰¹ The duty to refrain from engaging in fraud and misrepresentation is independent of the duties of confidentiality created by law and by contract.¹⁰² Moreover, fraudulently-acquired information need not attain formal legal status as a "trade secret" to support a fraud or misrepresentation claim.¹⁰³

6. Conversion

There is little doubt that a person or corporation who takes tangible property that includes confidential information may be liable for conversion.¹⁰⁴ Further, that person or corporation may also be liable for wrongful conversion of the confidential information itself.¹⁰⁵

Directed Placement Corp. v. Control Data Corp., 908 F.2d 462, 466-67 (9th Cir. 1990); SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 1264-65 (3d Cir. 1985); *TDS Healthcare Sys. Corp.*, 880 F. Supp. at 1584 (N.D. Ga. 1995); Innovative Networks, Inc. v. Satellite Airlines Ticketing Ctrs., Inc., No. 92 Civ. 2408 (SWK), 1995 WL 3972, at *19 (S.D.N.Y. Jan 4, 1995); Jensen Tools, Inc. v. Contact E., Inc., Civ. A. No. 92-10970-Z, 1992 WL 245693, at *2 (D. Mass. Sept. 9, 1992); Micro Display Sys., Inc. v. Axtel, Inc., 699 F. Supp. 202, 204-05 (D. Minn. 1988); Continental Data Sys., Inc. v. Exxon Corp., 1986 WL 20432, at *3 (E.D. Pa. June 30, 1986); Crocan Corp. v. Sheller-Globe Corp., 385 F. Supp. 251, 254 (N.D. Ill. 1974); Continental Dynamics Corp. v. Kanter, 408 N.Y.S.2d 801, 802 (App. Div. 1978); Den-tal-ez, Inc. v. Siemens Capital Corp., 566 A.2d 1214, 1230-31 (Pa. Super. 1989).

101. See, e.g., Computer Sys. Eng'g, Inc. v. Qantel Corp., 571 F. Supp. 1365, 1372-73 (D. Mass. 1983), *aff'd*, 740 F.2d 59 (1st Cir. 1984); *Crocan Corp.*, 385 F. Supp. at 253-55; *Den-tal-ez*, 566 A.2d at 1230-31.

102. See *Micro Display Sys.*, 699 F. Supp. at 203-05; *Crocan Corp.*, 385 F. Supp. at 254-55; *Den-tal-ez*, 566 A.2d at 1231.

103. See *supra* note 95 and accompanying text.

104. See, e.g., United States v. Bottone, 365 F.2d 389, 393 (2d Cir. 1966); Bloom v. Hennepin County, 783 F. Supp. 418, 440-41 (D. Minn. 1992); ITT Schadow Inc. v. Stein, 7 U.S.P.Q.2d (BNA) 1348, 1351 (D. Minn. 1988).

The tort of conversion consists of "a distinct act of dominion wrongfully exerted over another's personal property in denial of or inconsistent with his title or rights therein, . . . without the owner's consent and without lawful justification." Moore v. Regents of Univ., 249 Cal. Rptr. 494, 503 (Ct. App. 1988) (quoting 18 AM. JUR. 2D, *Conversion*, § 1, at 145-46 (1985)), *aff'd in part, rev'd in part*, 793 P.2d 479 (Cal. 1990).

105. See, e.g., FMC Corp. v. Capital Cities/ABC, Inc., 915 F.2d 300, 304-05 (7th Cir. 1990); Advanced Power Sys., Inc. v. Hi-Tech Sys., Inc., 801 F. Supp. 1450, 1458 (E.D. Pa. 1992); *Bloom*, 783 F. Supp. at 439-40; *Micro Display Sys.*, 699 F. Supp. at 203-04 (D. Minn. 1988); Nat'l Surety Corp. v. Applied Sys., Inc., 418 So.2d 847, 849-50 (Ala. 1982); Annis v. Tomberlin & Shelnut Assocs., 392 S.E.2d 717, 723 (Ga. Ct. App. 1990); Conant v. Karris, 520 N.E.2d 757, 763 (Ill. App. Ct. 1987); Datacomm Interface, Inc. v. Computerworld, Inc., 489 N.E.2d 185, 194-95 (Mass. 1986); Tennant

While historically it was thought that property in a purely intangible form (such as confidential business information) could not be the subject of an action for conversion or trover,¹⁰⁶ recently, this notion has been changed.¹⁰⁷ The Supreme Court stated that “[c]onfidential information acquired or compiled by a corporation in the course . . . of its business is . . . property to which the corporation has the exclusive right and benefit, and which a court of equity will protect through the injunctive process or other appropriate remedy.”¹⁰⁸ Thus, conversion actions afford information owners yet another mechanism with which to protect their competitively advantageous, confidential information.¹⁰⁹

7. Unjust Enrichment and Constructive Trust

Where a fiduciary wrongfully uses or otherwise misappropriates an owner’s valuable confidential information, the wrongdoer may be required to forfeit the benefits he improperly obtained. Thus, the fiduciary may be required to forfeit the full amount of his “unjust

Co. v. Advance Mach. Co., 355 N.W.2d 720, 725 (Minn. Ct. App. 1984). Cf. Kendall/Hunt Publ’g Co. v. Rowe, 424 N.W.2d 235, 247 (Iowa 1988).

106. See *Miles, Inc. v. Scripps Clinic & Research Found.*, 810 F. Supp. 1091, 1094 (S.D. Cal. 1993); *ITT Shadow Inc.*, 7 U.S.P.Q.2d at 1351; *Freedman v. Beneficial Corp.*, 406 F. Supp. 917, 921 n.6 (D. Del. 1975); *Olschewski v. Hudson*, 262 P. 43, 45 (Cal. Ct. App. 1927).

107. One commentator notes:

[The] conception that an action for conversion lies only for tangible property capable of being identified and taken into actual possession is based on a fiction on which the action of trover was founded—namely, that the defendant had found the property of another which was lost—and that such conception has become, in the progress of law, an unmeaning thing which has been discarded by most courts

FMC Corp., 915 F.2d at 304-05 (quoting Annotation, *Nature of Property or Rights Other than Tangible Chattels Which May Be Subject of Conversion*, 44 A.L.R.2d 927, 929 (1955)).

108. *Carpenter v. United States*, 484 U.S. 19, 26 (1987) (quoting 3 WILLIAM MEADE FLETCHER, FLETCHER CYCLOPEDIA OF THE LAW OF PRIVATE CORPORATIONS § 857.10, at 260 (perm. ed. rev. vol. 1994) (footnote omitted)); see also *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-04 (1984) (holding that trade secrets may be protected as property under the taking clause of the fifth amendment).

109. For purposes of the UTSA preemption analysis contained *infra* Part V, conversion claims may be divided into actions for “conversion of tangible property,” those in which a defendant actually takes property embodying or containing confidential information, and actions for “conversion of invention”, those in which a defendant merely takes and/or improperly utilizes the intangible, confidential information itself). See 3 MILGRIM, *supra* note 20, § 13.03[2][c].

An action for breach of bailment may also be available to information owners. When “tangible property in which a trade secret is embodied is bailed by the owner, the bailee (such as an independent contractor) is under a fiduciary obligation not to wrongfully use the tangible object of the bailment to the owner’s detriment.” *Id.*

enrichment."¹¹⁰

Often coupled with actions for "unjust enrichment" are claims for the imposition of constructive trusts.¹¹¹ Significantly, a constructive trust may be imposed upon the tangible profits and property acquired as a result of the breach of fiduciary duty, as well as on the profits or property actually obtained.¹¹²

8. Conspiracy

As a general rule, the law does not recognize civil conspiracy as a distinct, substantive tort.¹¹³ However, courts often permit plaintiffs alleging conspiracy to show that a series of tortious acts relating to the misappropriation of confidential information flowed from a common scheme or plan.¹¹⁴ Thus, courts may allow a plaintiff to connect multiple defendants to an actionable breach of contract, breach of confidence, breach of loyalty, fraud or other act of unfair competition, notwithstanding that the defendant may not have directly violated a fiduciary duty.¹¹⁵ By so establishing joint liability for co-conspirators,

110. See, e.g., *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 560 (4th Cir. 1990); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 736 (5th Cir. 1982); *Servo Corp. of Am. v. Gen. Elec. Co.*, 337 F.2d 716, 725 (4th Cir. 1964); *Avtec Sys., Inc. v. Peiffer*, 805 F. Supp. 1312, 1322-23 (E.D. Va. 1992), *aff'd in part, vacated in part*, 21 F.3d 568 (4th Cir. 1994); *Sheridan v. Mallinckrodt, Inc.*, 568 F. Supp. 1347, 1352 (N.D.N.Y. 1983); *Robert B. Vance & Assocs., Inc. v. Baronet Corp.*, 487 F. Supp. 790, 800 (N.D. Ga. 1979); *B&Y Metal Painting, Inc. v. Ball*, 279 N.W.2d 813, 817 (Minn. 1979); *Schott v. Westinghouse Elec. Corp.*, 259 A.2d 443, 448 (Pa. 1969); *Chandler v. Mastercraft Dental Corp.*, 739 S.W.2d 460, 469 (Tex. Ct. App. 1987).

111. See 3 MILGRIM, *supra* note 20, § 13.03[2][a].

112. Many courts have held that "[w]here a fiduciary in violation of his duty to the beneficiary acquires property through the use of confidential information, he holds the property so acquired upon a constructive trust to the beneficiary." *Tlapek v. Chevron Oil Co.*, 407 F.2d 1129, 1134 (8th Cir. 1969) (quoting RESTATEMENT OF RESTITUTION § 200 (1937)); see also, *Eden Hannon*, 914 F.2d at 560-61; *ABKCO Music, Inc. v. Harrisongs Music, Ltd.*, 722 F.2d 988, 996 (2d Cir. 1983); *Tenneco Oil Co. v. Joiner*, 696 F.2d 768, 775-76 (10th Cir. 1982); *Funchion v. Somerset Knitting Co.*, 158 F. Supp. 57, 62-63 (M.D.N.C. 1958); *By-Buk Co. v. Printed Cellophane Tape Co.*, 329 P.2d 147, 151 (Cal. Ct. App. 1958); *Hill v. Names & Addresses, Inc.*, 571 N.E.2d 1085, 1096 (Ill. App. Ct. 1991); *Cornale v. Stewart Stamping Corp.*, 129 N.Y.S.2d 808, 814 (App. Div. 1954); *Rosenblum v. Judson Eng'g Corp.*, 109 A.2d 558, 562-63 (N.H. 1954).

113. See, e.g., *Innovative Networks, Inc. v. Satellite Airlines Ticketing Ctrs., Inc.*, 871 F. Supp. 709, 731 (S.D.N.Y. 1995); *Advanced Power Sys., Inc. v. Hi-Tech Sys., Inc.*, 801 F. Supp. 1450, 1458 (E.D. Pa. 1992); *S & D Foods, Inc. v. Consol. Pet Foods, Inc.*, 144 B.R. 121, 167 (D. Col. 1992); *Micro Display Sys., Inc. v. Axtel, Inc.*, 699 F. Supp. 202, 203-04 (D. Minn. 1988); *Commodity Credit Corp. v. Transit Grain Co.*, 157 F. Supp. 527, 538 (S.D. Tex. 1957); *S. Cal. Disinfecting Co. v. Lomkin*, 7 Cal. Rptr. 43, 54 (Ct. App. 1960); *Fox v. Wilson*, 354 S.E.2d 737, 742-43 (N.C. Ct. App. 1987).

114. See cases cited *supra* note 113.

115. See *supra* notes 68-87, 90-114.

conspiracy claims often expand the reach of tort and contract protection for valuable, confidential information.¹¹⁶

III. INSUFFICIENCY OF THE CURRENT TWO-TIERED SYSTEM

Recognizing the need for a framework with which courts can identify, and differentiate between, legally protectable and unprotectable information, yet emphasizing the need for simplicity, many courts and commentators assert that all commercially valuable, proprietary information, including both Category 2 and Category 3 information, should be defined and protected as "trade secrets."¹¹⁷ According to these courts and commentators, establishing a single category of legally protectable information promotes uniformity because a solitary set of standards which can be applied in all cases and to all forms of technical data or business knowledge is created.¹¹⁸ Further, advocates contend that in a commercial world in which only two spheres of information—"general skill and knowledge" and "trade secrets"—exist, businesses will be able more readily to determine which of their methods and technologies are entitled to legal protection; employees will be able more easily to ascertain what skills and know-how learned from their employers they may take with them to new jobs; and competitors will be able more accurately to assess the limits of their potential liability for obtaining competitively valuable information from their rivals.¹¹⁹ The First Restatement, the UTSA and

116. In addition to conspiracy liability, defendants also may be jointly and severally liable for breach of contract, breach of fiduciary duty or unfair competition by virtue of an agent-principal relationship. For example, where an employee breaches his contractual, common-law or fiduciary confidentiality obligations to a former employer while employed by, or at the direction of, a subsequent corporate employer, that employee may be deemed to have acted as an agent of the corporate employer. In that case, the corporate employer may be liable for the damages resulting from the employee's improper breach. See, e.g., *Olin Hunt Specialty Prods., Inc. v. Advanced Delivery & Chem. Sys.*, No. 88 C 20364, 1991 WL 294970, at *4 (N.D. Ill. May 9, 1991); *Koehring Co. v. E.D. Etnyre & Co.*, 254 F. Supp. 334, 362 (N.D. Ill. 1966); *Conant v. Karris*, 520 N.E.2d 757, 762 (Ill. App. 1987); *Cherne Indus., Inc. v. Grounds & Assocs., Inc.*, 278 N.W.2d 81, 90-91 (Minn. 1979); *Tennant Co. v. Advance Mach., Co.*, 355 N.W.2d 720, 723 (Minn. Ct. App. 1984).

117. See *Kitch*, *supra* note 48, at 663-64; *Neufeld*, *supra* note 44, at 916-922; *Pace*, *supra* note 2, at 445-49.

118. As one commentator stated:

One consequence of this expansion [in the definition of trade secrets] is that the conceptual structure of the law is simplified. Now instead of one set of rules for the protection of trade secrets, another for the protection of confidential information from business rivals, and yet a third applicable to idea submitters, all are handled under a single rubric: trade secrecy law.

Kitch, *supra* note 48, at 663.

119. See *Feldman*, *supra* note 6, at 170-01; *Kitch*, *supra* note 48, at 663; *Neufeld*,

the Third Restatement all accept and attempt to implement this “two-tiered” approach to the protection of commercial knowledge—an approach in which information is classified only as either a protected “trade secret” or unprotected “general skill and knowledge.”¹²⁰

A. *Difficulties in Determining Whether Category 2 Information Is Protected*

Protecting both Category 2 and Category 3 information as “trade secrets” appears to be theoretically sound. In practice, however, the ambiguities inherent in various definitions of “trade secrets” makes it very difficult, if not impossible, for businesses and their employees to predict whether Category 2 information will qualify for legal protection.¹²¹ The First Restatement, the UTSA, and the new Third Restatement all afford trade secret protection only to information that is

supra note 44, at 916-922; Pace, *supra* note 2, at 445-49.

120. RESTATEMENT (FIRST) OF TORTS § 757 (1939); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39, 41 (1995); UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438 (1990).

Comment c to section 41 of the Third Restatement reveals that although the Third Restatement provides increased protection for various forms of commercial information, it effectively maintains a two-tiered protective system:

Some courts have recognized liability in tort for the unauthorized disclosure of confidential business information found to be ineligible for protection as a trade secret. In some cases the claim is designated as one for “breach of confidence,” while in others it is described as one for “unfair competition.” Many of these cases rest on a narrow definition of “trade secret” that excludes non-technical information such as customer identities or information that is not subject to continuous, long-term use. Such information is now subsumed under the broader definition of “trade secret” adopted in [section] 39. In other cases the imposition of liability for breach of confidence may be justified by interests other than the protection of valuable commercial information, such as the interests that prompt recognition of the general duty of loyalty owed by an employee to an employer . . . or the special duties of confidence owed in particular relationships such as attorney and client or doctor and patient. However, in the absence of interests justifying broader duties, the plaintiff should be required to demonstrate that the information qualifies for protection as a trade secret under the rule stated in [section] 39. The recognition of more extensive rights against the use or disclosure of commercial information can restrict access to knowledge that is properly regarded as part of the public domain.

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. c (1995); *see also* Kitch, *supra* note 48, at 662-63 (explaining how the UTSA and the *Restatement of Unfair Competition* have eliminated the difference between trade secrets and other confidential information and included all secret information of economic value within the definition of trade secrets).

121. *See* Davidson & DeMay, *supra* note 5, at 596-602; Feldman, *supra* note 6, at 170-71; Samuels & Johnson, *supra* note 2, at 50-52; Neufeld, *supra* note 44, at 918.

“not generally known” in the relevant trade or business.¹²² However, the phrase “not generally known” is not specifically defined in any of these legal authorities.¹²³

What is clear from the courts’ application of the “not generally known” requirement, however, is that at some indefinite point along the continuum between absolute secrecy and universal knowledge, commercially valuable information loses its status as a “trade secret” and becomes unprotected “general skill and knowledge.”¹²⁴ Some

122. The First Restatement provides that “[a] trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.” RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939). The First Restatement asserts that “[a]n exact definition of a trade secret is not possible.” *Id.* It suggests the following six factors for courts to consider in determining whether particular information constitutes a trade secret:

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

Id. The First Restatement makes clear that, “[m]atters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret.” *Id.*

The UTSA defines trade secret as essentially any information that:

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

Uniform Trade Secrets Act § 1(4), 14 U.L.A. 463 (1990).

The Third Restatement takes a more expansive view and defines a trade secret as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.” RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995). Yet, the comments to the Third Restatement note that, “[i]nformation that is generally known or readily ascertainable through proper means . . . by others to whom it has potential economic value is not protectable as a trade secret.” *Id.* cmt. f.

123. See *supra* note 122.

124. See *Jostens, Inc. v. Nat’l Computer Sys., Inc.*, 318 N.W.2d 691, 698 (Minn. 1982); INTELLECTUAL PROPERTY, *supra* note 5, § 5.05, at 5-49 to 5-51; 1 MILGRIM, *supra* note 20, § 1.07, at 1-308 to 1-323; Burk, *supra* note 5, at 149-50; Davidson & DeMay, *supra* note 5, at 601-02; Peterson, *supra* note 41, at 429-30; Samuels & Johnson, *supra* note 2, at 69-72.

One commentator describes the diminishing nature of a “trade secret” as follows:

Adopting the relative view, one might conceptualize a trade secret as a sand castle. At low tide, the castle stands strong and unmarred. As dusk approaches and the tide rises, fingers of water set upon the castle, and slowly wash away its outer walls until the castle founders. At sometime during dusk our castle, the trade secret, ceases to have an independent distinct existence and becomes

courts define this point where a majority of persons in industry are aware of the information.¹²⁵ Others subscribe to the view that information is entitled to trade secret protection so long as the information affords its owner an advantage over even a single competitor who does not possess it.¹²⁶

B. The Problems Created by the Ambiguous "Not Generally Known" Standard

The ambiguity inherent in the "not generally known" requirement for trade secret status is fundamentally undesirable for two principal reasons. First, at worst, courts adopting a restrictive definition of "not generally known"¹²⁷ leave valuable Category 2 information entirely unprotected.¹²⁸ Such an absence of legal protection creates incentives for businesses to acquire quickly and/or cheaply Category 2 information from their rivals, rather than to engage in potentially difficult, time-consuming, and expensive independent development efforts. Further, it discourages innovation with respect to methods and machines which, while unquestionably useful, are not truly novel or unique; companies could not be assured that such innovation would yield short and/or long-term competitive benefits vis-a-vis rivals who could "steal" the information at little or no cost.¹²⁹

Secondly, the ambiguity created by the "not generally known" requirement is undesirable because, at best, such ambiguity raises the costs of innovation.¹³⁰ Businesses committed to improving and refining their technology, but unsure as to whether "trade secret" law will protect independently-derived Category 2 information, are forced to employ expensive "self-help" measures to assure that their

and indistinguishable heap of sand.

1 MILGRIM, *supra* note 20, §1.07, at 1-320.

125. See, e.g., TGC Corp. v. HTM Sports, B.V., 896 F. Supp. 751, 759-60 (E.D. Tenn. 1995); AMP Inc. v. Fleischacker, No. 84 C 1676, 1986 WL 3598, at *18 (N.D. Ill. Mar. 18, 1986), *aff'd* 823 F.2d 1199 (7th Cir. 1987); Wilson Certified Foods, Inc. v. Fairbury Food Prods., Inc., 370 F. Supp. 1081, 1083-85 (D. Neb. 1974); Midland-Ross Corp. v. Yokana, 185 F. Supp. 594, 603 (D.N.J. 1960), *aff'd*, 293 F.2d 411 (3d Cir. 1961); MBL (USA) Corp. v. Diekman, 445 N.E.2d 418, 425 (Ill. App. Ct. 1983).

126. See *Vendo Co. v. Long*, 102 S.E.2d 173, 175 (Ga. 1958); *Wilson v. Barton & Ludwig Inc.*, 296 S.E.2d 74, 75 (Ga. Ct. App. 1982); *Sybron Corp. v. Wetzel*, 385 N.E.2d 1055, 1056-57 (N.Y. 1978); see *Quittmeyer, supra* note 10, at 652-53.

127. That is, courts who decline to afford trade secret status to commercial information that is known either to a simple majority (i.e. 51% or more) or a substantial majority (i.e. roughly 65% to 85%) of persons in the relevant field.

128. See cases cited *supra* note 62.

129. See *Pace, supra* note 2, at 438-39.

130. See *Pace, supra* note 2, at 447; *Quittmeyer, supra* note 10, at 644-45.

commercially valuable “know-how” is not acquired by competitors. As previously discussed,¹³¹ forced reliance on “self-help” measures increases the level of investment required for profitable innovation.¹³² Consequently, this allocation of funds reduces both the incentives and the resources available for product and process development.

C. The Inadequacy of Only One Category of Protectable Information

In addition to the predictability problems associated with current “trade secret” definitions, the maintenance of only one category of legally protectable information—“trade secrets”—is theoretically unsatisfactory, because lumping together all proprietary knowledge effectively ignores the essential differences between Category 2 and Category 3 information. As previously indicated, Category 2 information is qualitatively different from Category 3 information.¹³³ Yet, both Category 2 and Category 3 information are worthy of legal protection because both categories of information afford their owners competitive advantages over rivals who do not actually possess such information and who might seek to “obtain” (rather than to develop) that information in the absence of legal barriers.¹³⁴ Thus, while

131. See *supra* note 34 and accompanying text.

132. The ambiguity inherent in the “not generally known” requirement for trade secret protection is further exacerbated by the “relative secrecy” doctrine accepted and applied by most courts. Under this doctrine, the fact that a feature, concept, or process is known or used by others in an industry does not alone indicate lack of trade secret status. As explained in the *Restatement (First) of Torts*:

It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.

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

While the relative secrecy doctrine dispels the notion that an idea must be absolutely secret or unique to warrant legal protection and, accordingly, seemingly opens the door for the protection of Category 2 information, the doctrine provides courts and corporations with little guidance as to where on the continuum between absolute secrecy and universal knowledge specific information will become “generally known,” thereby losing trade secret status. Thus, rather than clarifying the law of trade secrets, the relative secrecy doctrine merely adds one more layer of ambiguity to the confusion created by the “not generally known” requirement. See cases cited *supra* note 62.

133. See *supra* notes 20, 51-68 and accompanying text. Category 3 information, by virtue of its heightened secrecy level, generally has a much greater absolute value (i.e. value vis-a-vis the marketplace as a whole) to its owner than does Category 2 information.

134. See *supra* notes 54-57, 60-63 and accompanying text.

safeguarding both Category 2 and Category 3 information is wholly consistent with, and, indeed, is necessary for the fulfillment of the central goals of confidentiality law, an appropriate protective and remedial scheme should account for the value differential between the two categories of knowledge¹³⁵ A system that simply divides the world of commercial information into two spheres, "trade secrets" and "general skill and knowledge," fails to acknowledge this informational "hierarchy." Consequently, such a system impedes courts' abilities to, in certain cases, fashion relief that is commensurate with the competing policy interests the confidentiality law seeks to serve.

A host of courts have recognized the theoretical inadequacy of the "one category of protectable information" system. These courts, uncomfortable with classifying particular Category 2 information as "trade secrets," but unwilling to countenance the deceptive methods employed by competitors to acquire that information, have taken a variety of measures to protect non-trade secret information from piracy using trade secret law.¹³⁶ For example, a number of judges effectively have afforded trade secret protection to information that is "generally known" or "readily ascertainable" by precluding alleged misappropriators from challenging that information's trade secret status, unless the alleged misappropriator actually acquired the information through independent investigative efforts or other proper means.¹³⁷ Similarly, many courts have employed the doctrine of

135. For example, in recognition of Category 3 information's greater absolute value and, accordingly, of the substantial policy interests to be served by affording such information the highest level of protection, punitive damages and/or attorney fee awards may be appropriate in actions for the unauthorized appropriation, disclosure, or use of Category 3 data; however, such awards may not be warranted in similar actions involving Category 2 knowledge. Similarly, "perpetual" injunctive relief—that is, injunctive relief barring the use of proprietary data until such time as that data is publicly disclosed, displayed, or otherwise revealed—may be warranted with respect to unique and/or novel Category 3 information, whereas it may be appropriate to limit the duration of injunctive relief with respect to Category 2 information to the time required to independently develop such information. For discussions of the various considerations relevant to affording relief in information misappropriation cases, see 3 MILGRIM, *supra* note 20, §15.02, Davidson & DeMay, *supra* note 5, at 617-20, and Ruth E. Leistensnider, *Trade Secret Misappropriation: What is the Proper Length of an Injunction After Public Disclosure*, 51 ALB. L. REV. 271 (1987).

136. See, e.g., Davidson & DeMay, *supra* note 5, at 596-604.

137. See, e.g., Richardson v. Suzuki Motor Co, 868 F.2d 1226, 1243-44 (Fed. Cir. 1989); Goldberg v. Medtronic, Inc., 686 F.2d 1219, 1225-28 (7th Cir. 1982); FMC Corp. v. Varco Int'l, Inc., 677 F.2d 500, 503 (5th Cir. 1982); Droege v. Welsh Sporting Goods, Corp., 541 F.2d 790, 793 (9th Cir. 1976); *In re Uniservices, Inc.*, 517 F.2d 492, 496 (7th Cir. 1975); Nucor Corp. v. Tennessee Forging Steel Serv., Inc., 476 F.2d 386, 392 (8th Cir. 1973); Servo Corp. of America v. Gen. Elec. Co., 393 F.2d 551, 555 (4th Cir. 1968); Bolt Assoc., Inc. v. Alpine Geophysical Assoc., Inc., 365 F.2d

equitable estoppel to prevent defendants from challenging the protectability of knowledge that the defendant previously protected as a "trade secret." Courts allow this despite the fact that the particular knowledge at issue may have failed to satisfy the technical requirements needed to acquire trade secret status.¹³⁸ Finally, numerous courts have protected non-trade secret, Category 2 information by utilizing the various legal theories identified in Part II.¹³⁹

The various judicial attempts to broaden the protective scope of "trade secret" law, without expressly rejecting or redefining that law's central tenets, are undesirable for two reasons. First, the sporadic judicial willingness to circumvent the threshold requirements for "trade secret" status seriously complicates businesses' and other private actors' attempts to define accurately the boundaries of "trade secret" law and to predict whether specific commercial data will qualify for legal protection.¹⁴⁰ As previously indicated, such ambiguity is

742, 749-50 (3d Cir. 1966); Franke v. Wiltschek, 209 F.2d 493, 495 (2d Cir. 1953); Smith v. Dravo Corp., 203 F.2d 369, 374-75 (7th Cir. 1953); Hoeltke v. C.M. Kemp Mfg. Co., 80 F.2d 912, 928 (4th Cir. 1935); Rodgard Corp. v. Miner Enter., Inc., 12 U.S.P.Q.2d 1353, 1360 (W.D.N.Y. 1989); Moore v. American Barmag Corp., 710 F. Supp. 1050, 1060-61 (W.D.N.C. 1989), *aff'd*, 902 F.2d 44 (Fed. Cir. 1990); Telerate Sys., Inc. v. Caro, 689 F. Supp. 221, 232-33 (S.D.N.Y. 1988); Coca-Cola Co. v. Reed Indus. Inc., 10 U.S.P.Q.2d (BNA) 1211, 1217 (N.D. Ga. 1988), *aff'd*, 864 F.2d 150 (Fed. Cir. 1988); Biodynamic Technologies, Inc. v. Chattanooga Corp., 644 F. Supp. 607, 611 (S.D. Fla. 1986); Klockner-Humboldt-Deutz Aktiengesellschaft, Koln v. Hewitt-Robins Div. of Litton Sys., Inc., 486 F. Supp. 283, 286-87 (D.S.C. 1978); Crocan Corp. v. Sheller-Globe Corp., 385 F. Supp. 251, 253-55 (N.D. Ill. 1974); Sperry Rand Corp. v. Rothlein, 241 F. Supp. 549, 562 (D. Conn. 1964); Affiliated Hosp. Prods., Inc. v. Baldwin, 373 N.E.2d 1000, 1005-06 (Ill. App. Ct. 1978); Amoco Prod. Co. v. Laird, 622 N.E.2d 912, 918 (Ind. 1993); Travenol Labs., Inc. v. Turner, 228 S.E.2d 478, 484-86 (N.C. Ct. App. 1976); Classic Instruments, Inc. v. VDO-Argo Instruments, Inc., 700 P.2d 677, 694 (Or. Ct. App. 1985); Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 212 (Tex. App. 1973).

138. See, e.g., *In re Uniservices, Inc.*, 517 F.2d 492, 496-97 (7th Cir. 1975); *Telerate Sys.*, 689 F. Supp. at 221; *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F. Supp. 1102, 1110, 1116 (E.D. Mich. 1975); *Affiliated Hosp. Prods.*, 373 N.E.2d at 1005-06; *Materials Dev. Corp. v. Atlantic Advanced Metals, Inc.*, 172 U.S.P.Q. (BNA) 595, 605-07 (Mass. 1971); *Ultra-Life Labs., Inc. v. Eames*, 221 S.W.2d 224, 232 (Mo. Ct. App. 1949); *Fairchild Engine & Airplane Corp. v. Cox*, 50 N.Y.S.2d 643, 665 (Sup. Ct. 1944).

139. See *supra* Part II.B.

140. See Feldman, *supra* note 6, at 170-71; Quittmeyer, *supra* note 10, at 642-44. As explained by one author:

The fact remains, however, that under the *Restatement* there is no action in tort for the unauthorized disclosure or use of non-trade secret, confidential information obtained in confidence. This distinction has proven troublesome for the courts and has resulted in some decisions which, when examined in light of the public policy interests sought to be served, are at least confusing

fundamentally inconsistent with the central goals of confidentiality law, as it results in both under-deterrence and over-deterrence.¹⁴¹

Second, by focusing exclusively on the alleged misappropriators' conduct, courts utilizing the "equitable estoppel" and/or "acquisition through improper means" theories to safeguard "non-trade secret" information unnecessarily eviscerate the property restriction on "trade secret" protection.¹⁴² This restriction is necessary to maintain a

if not downright conflicting.

Davidson & DeMay, *supra* note 5, at 598.

141. See *supra* notes 8-9 and accompanying text. One commentator describes the over- and under-deterrence problems associated with ambiguity as follows:

Over-deterrence occurs in a situation when the parties lack an understanding of what constitutes a trade secret. For example, the possibility of litigation may discourage an employee from using his or her skills and experience to pursue a position at another firm. This creates over-deterrence because it inhibits an employee's ability to change jobs, which creates an economic inefficiency. The fear of a potential trade secret suit may also over-deter potential employers from hiring a competitor's former employees, even in industries with high employee mobility.

Ambiguity in the law also creates under-deterrence. The absence of a distinct legal rule gives both employees and their prospective employers an incentive to capitalize on information that is not rightfully theirs. The employer may not be able to assess whether the information is protectable as a trade secret. Moreover, the parties will be uncertain as to who will ultimately prevail in litigation. The uncertainty of prevailing combined with the high costs of litigation reduces the risk of loss to the employee who then has a greater incentive to misappropriate. A more certain rule would help to adjust the risks of litigation so that neither party will take advantage of an unclear rule.

Feldman, *supra* note 6, at 172.

142. See generally *Cataphote Corp. v. Hudson*, 444 F.2d 1313 (5th Cir. 1971). The "protectable property" requirement of confidentiality law serves, among other things, to assure that only truly valuable and/or competitively advantageous knowledge, knowledge that a business rival might reasonably seek to "acquire," is afforded legal protection. Also, this requirement assures that only information owners who actively and reasonably attempt to safeguard their proprietary data are able to obtain legal and/or equitable relief. In the absence of *any* property requirement, for example, "it is obvious that by disclosing an idea under delusions of confidence, the person making the disclosure thereafter could prevent the confidante from subsequently making use of it, even though the idea was well known prior to the date of the disclosure and open to the use of all others in the world." *Id.* at 1316 (quoting *Smiley v. New Jersey Zinc Co.*, 24 F. Supp. 294, 300 (D.N.J. 1938), *aff'd* 106 F.2d 314 (3d Cir. 1939)).

One author explains the importance of the "protectable property" requirement as follows:

In actuality, the theory of protection [of trade secrets] is probably most accurately described as a somewhat ill-defined marriage of the breach of good faith and the use of improper means analyses. Both should begin with a determination of whether a trade secret existed; principally a property right analysis. It may be that an express or implied obligation of confidentiality . . . will allow a court to infer value, secrecy, or both more easily. But, if the material is truly part of the public domain, if it is information shared by all and secured to none, there is no property interest deserving of protection.

balance between the competing policy interests of confidentiality law.¹⁴³

In sum, defining and protecting only one category of commercial information, "trade secrets," is both theoretically unsatisfactory and practically undesirable because: (1) a unitary definition of protectable, proprietary knowledge fails to account for the significant differences between Category 2 and Category 3 information; and (2) current "trade secret" definitions are inherently ambiguous or inconsistently applied.

IV. DEFINING "CONFIDENTIAL INFORMATION" AND ESTABLISHING A THREE-TIERED PROTECTIVE SCHEME

Given the insufficiency of a protective scheme that recognizes only one class of proprietary information, legislatures and courts should modify the current law of trade secrets by creating a more realistic, predictable legal framework for the protection of competitively valuable knowledge. Fashioning such a comprehensive framework does not require the whole-scale dismantling of the common- and statutory-law of trade secrets. Nor does it mandate an exhaustive redefinition of the central terms and basic language of traditional trade secret jurisprudence. Rather, judges and legislators can eliminate many of the ambiguities, minimize the rigidity, and avoid much of the inconsistency of the current system by taking three interrelated steps.

A. Redefining the "Not Generally Known" Requirement

First, the "not generally known" requirement for trade secret status and protection should be defined to include only information that is known to a minority (i.e. less than half) of persons who could obtain economic or competitive value from its use. This simple clarification/modification of the "not generally known" element of trade secret law will insure that only Category 3 information will qualify as "trade secrets."¹⁴⁴

Once a property interest is established, however, conduct becomes important, because while discovering a trade secret by improper means is actionable [under the UTSA], discovering a trade secret through proper means is not.

Peterson, *supra* note 41, at 414; *see also* Davidson & DeMay, *supra* note 5, at 605-08.

While it may seem odd that an information owners can have "evaporating" or "diminishing" property rights in their data, technology, and "know how"—that is, property rights that diminish as more and more persons/actors in an industry learn or discover the proprietary knowledge—such "disappearing" rights are quite common in the law. *See* 1 MILGRIM, *supra* note 20, § 2.01, at 2-10; Beckerman-Rodau, *supra* note 32, at 631.

143. *See* Peterson, *supra* note 41, at 414.

144. There can be no doubt that so defining the "not generally known" requirement

B. Eliminating the "Not Readily Ascertainable by Proper Means" Requirement

Second, any requirement that information not be "readily ascertainable by proper means" to qualify for legal protection should be eliminated.¹⁴⁵ There is no rational or reasonable argument as to why an individual or corporate actor should be permitted to employ improper "short cuts" to acquire commercial knowledge—to avoid "paying the price in labor, money, or machines expended by the discoverer"¹⁴⁶—simply because that actor theoretically *could* have obtained the knowledge through proper means.¹⁴⁷ Indeed, as recognized by a host of courts and commentators, the basic principles underlying confidentiality law dictate that a person or business who *can* acquire information through independent effort and/or legitimate methods *should* so acquire that information.¹⁴⁸ Logically, the easier (or cheaper) it is properly to develop commercial data, technology or know-how, the less immoral or unethical acquisition tactics should be

will foster much litigation as to, among other things, which and what type of actors in a particular field are to be "counted" in the majority/minority inquiry, as well as the nature and amount of proof necessary to demonstrate that particular information is or is not known to a majority of persons in an industry. Yet, such litigation will not differ substantially in tone or complexity from that which currently exists with respect to the "not generally known" requirement.

Significantly, the proposed redefinition of the "not generally known" requirement is not intended to require a precise, mathematical calculation as to the exact number of individuals or companies in a field that actually know of specific data. Rather, the known only to a minority of persons who could obtain economic or competitive value from its use formulation is designed merely to provide courts and litigants with a guidepost as to the point at which information ceases to qualify for trade secret status. As in the present system, judges and juries will need to rely on the testimony of witnesses (both fact and expert) as to the extent of industry knowledge in making the "generally known" determination. See Peterson, *supra* note 41, at 415-17.

145. The UTSA explicitly includes a "not readily ascertainable by proper means" requirement. The First Restatement directs consideration of "the ease or difficulty with which the information could be properly acquired or duplicated by others" in determining trade secret status. The Third Restatement provides that the information must be "sufficiently valuable and secret to afford an actual or potential economic advantage over others." See "trade secret" definitions contained *supra* note 122.

Interestingly, the California legislature eliminated the "not readily ascertainable by proper means" requirement when adopting a version of the UTSA in 1984. See CAL. CIV. CODE § 3426.1(d) (West 1997).

146. *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531, 539 (6th Cir. 1934), *modified*, 74 F.2d 934 (6th Cir. 1935).

147. See Neufeld, *supra* note 44, at 922-23.

148. See cases cited *supra* note 137; see also Neufeld, *supra* note 44, at 922-23 (asserting that the deletion of the words "and not readily ascertainable by proper means" from the UTSA is an improvement because it strengthens the definition of trade secret and advances the essential purpose of trade secret protection).

tolerated.¹⁴⁹

C. Delineating a Class of "Confidential Information"

Third, and most importantly, courts and/or legislatures should delineate a separate and independent class of protectable knowledge to fill the theoretical gap between "trade secrets" and "general skill and knowledge." This class would include commercially valuable, Category 2 information that would not, and should not, be entitled to trade secret protection under the more restrictive, proposed definition of "not generally known."¹⁵⁰ Specifically, this second class of proprietary data, "confidential information," should be defined as:

- (1) Information that is novel as to an individual or company that: (a) seeks to acquire and/or use, or has acquired and/or used, the information; and (b) that could obtain, or has obtained, economic or competitive value from the information's acquisition and/or use;¹⁵¹

149. See *supra* notes 22-29 and accompanying text (discussing confidentiality law's concern for preserving commercial morality).

150. See *supra* notes 60-63, 66 and accompanying text (explaining the value of Category 2 information and the importance of affording it protection).

151. As used in this proposed definition, the term "novel" denotes not creative genius or inventiveness, but rather uniqueness and/or value vis-à-vis the person/actor attempting to acquire (or having already acquired) the disputed information. Novelty is an external concept, not a concept inherent to the information itself. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.05, at 5-48.

Where the persons ultimately seeking to acquire or to use particular information are former employees or agents of the purported information owner, information should be deemed "novel" where: (1) the owner devoted a considerable amount of time, effort and expense to develop the information; or (2) the information is unknown to one or more of the owner's competitors who could derive value from possessing that information. In short, when an information owner has expended significant resources to obtain specific information that others do not have, the law should presume that the information is sufficiently valuable to warrant legal protection from misuse by persons under contractual or common-law duties of loyalty. See *supra* notes 93-95 and accompanying text.

Where the persons ultimately seeking to acquire or to use particular information are competing companies or other unaffiliated third-parties, information should be deemed novel where it was not previously possessed by those companies or third-parties. Some commentators undoubtedly will maintain that using such a subjective test of novelty will extend the protections of confidentiality law too far by permitting the protection of publicly available information that may easily be obtained through proper means. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.05[3], at 5-50. According to these critics, an objective standard of novelty, meaning a standard analogous to the not readily ascertainable by proper means standard of trade secret law, is necessary to assure that particular information possesses sufficient value (in absolute terms) to warrant legal protection. See INTELLECTUAL PROPERTY, *supra* note 5, § 5.05, at 5-48. See also Beckerman-Rodau, *supra* note 32, at 617-25 (advocating denial of property status to ideas that are not both novel and reduced to a tangible, workable form).

These commentators' claims notwithstanding, however, the proposed "novelty as to the acquirer and/or user" standard is desirable for three reasons. First, contrary to critics' contentions, the subjective test for confidential information adequately assures that specific knowledge is of value to the individual or company who seeks to acquire it. If information were truly useful and easy to obtain through proper means, it is logical to assume that persons who could make use of that information would so acquire it. If such persons have not acquired that information, one of two circumstances logically must exist: (1) the persons have not identified the potential value of the easily acquired information; or (2) the persons have not identified the means, however easy or proper, for obtaining the valuable information. In either circumstance, the persons' acquisition of the information and/or knowledge of its utility from an owner who properly developed and applied that information is unquestionably of some value to the acquirer. *See Cherne Indus., Inc. v. Grounds & Assoc., Inc.*, 278 N.W.2d 81, 90-91 (Minn. 1979) ("There would be little purpose in taking such a quantity of documents if defendants did not believe the information was valuable."); *Davidson & DeMay*, *supra* note 5, at 597. As one court explained with respect to an implied-in-fact contract claim:

On the one hand, how can sellers prove that the buyer obtained the idea from them, and nowhere else, and that the buyer's use of it thus constitutes misappropriation of property? . . . A showing of novelty, *at least novelty as to the buyer*, addresses these two concerns. Novelty can then serve to establish both the attributes of ownership necessary for a property-based claim and the value of consideration—the disclosure—necessary for the contract-based claims.

Apfel v. Prudential-Bache Sec., Inc., 616 N.E.2d 1095, 1098 (N.Y. 1993) (emphasis added); *see also* Lionel S. Sobel, *The Law of Ideas, Revisited*, 1 UCLA ENT. L. REV. 9, 56-63 (1994) (suggesting that novelty be used as evidence of value).

Second, the subjective test of novelty promotes commercial morality. Under the current, two-tiered system, in which information is either "trade secret" or "general skill and knowledge," information that is "readily ascertainable by proper means" receives no legal protection. Individuals and/or companies interested in utilizing such information may resort to otherwise improper "short cuts" (e.g. breaching contractual confidentiality obligations, inducing employees to reveal their employers' knowledge, etc.) to acquire it. Yet, as previously noted, the basic principles underlying confidentiality law dictate that a corporate actor who *can* acquire information through independent effort *should*. By removing the objective component and focusing exclusively on whether information is novel to the person seeking it, the proposed definition of confidential information encourages the use of proper means with respect to *all* commercially valuable information. *See supra* notes 24-29, 135-36 and accompanying text.

Third, any concerns as to the potentially negative, competitive effect of the broad legal protection afforded by use of a "novelty as to the acquirer and/or user" standard likely will be addressed in the calculation of damages. Under the proposed three-tiered system, a corporate actor who improperly acquires or uses confidential information may be subject to liability. *See supra* notes 144-48 and accompanying text. However, if the information acquired or used is truly easily or cheaply obtained through proper means, the potential damage award against the actor is likely to be extremely small. Thus, to relieve corporate actors of liability entirely under such circumstances would not only send the wrong message, but would unfairly preclude courts from recognizing the value of information which owners identified. *See supra* notes 59-66 and accompanying text; *see also* Kitch, *supra* note 48, at 671 (discussing limitations on length of injunctions as "ameliorat[ing] some of the harshness that follows from a finding of a trade secrecy violation").

- (2) Information that is not necessary for entry or participation in the relevant field, industry or practice;¹⁵² and
- (3) Information that is treated as confidential by its owner.¹⁵³

As with trade secrets, merely identifying particular knowledge as “confidential information” would not permit an information owner to exclude others from any use of that information.¹⁵⁴ Rather, owners of

152. In assessing whether information is “necessary” for entry or participation in a particular field or industry, the following factors might be considered:

- (1) The specificity with which the information is defined (i.e. whether the information is capable of being, and/or has been, defined with particularity, or whether its identification vague, abstract, or limitless);
- (2) The information’s degree of specialization (i.e. whether it is data, technology, or know-how having many applications or whether its utility is limited to a specific product, process, or market niche);
- (3) The relative contributions of the information owner, the alleged misappropriator, and third parties in developing the information;
- (4) The ease (or difficulty) with which reasonable limits or restrictions could be imposed on the use and/or disclosure of the information;
- (5) The availability of alternative (or substitute) data, technologies, and/or know-how; and
- (6) Others’ empirical and/or logical ability to operate (and/or success in operating) without the information.

See Victoria A. Cundiff, *The New ALI Restatement and Trade Secrets*, in INTELLECTUAL PROPERTY LAW INSTITUTE 1995, 683, 691-93 (416 PLI Patents, Copyrights, Trademarks and Literary Property Course Handbook Series No. 416, 1995); Davidson & DeMay, *supra* note 5, at 613-14; Letty S. Friesen, *Distinguishing Between an Employee’s General Knowledge and Trade Secrets*, 23 COLO. LAW. 2123 (1994); Kitch, *supra* note 48, at 671.

153. Whereas the first prong of this definition is concerned with “novelty” and “value,” the third prong is concerned with “secrecy”—that is, the degree to which an information owner treats (and has treated) its data, technology and know-how as confidential and proprietary. Thus, the proposed definition requires both an external and an internal inquiry: Is the information novel and valuable to the person/actor who seeks to obtain (or who has obtained) that information? Has the proprietor used sufficient effort to prevent its disclosure?

One commentary explained the need for a “secrecy” requirement as follows:

The resolution of this threshold trade secret test should depend first upon whether the information has been maintained as a secret by the plaintiff. If the information has been available to others who could obtain economic benefit from its disclosure or use, there is no justification for protection even against one to whom the information may have been disclosed in confidence. However, the policies underlying trade secret law do not require absolute secrecy. All that is necessary is relative secrecy. The information in question must be subject to efforts that are reasonable under the circumstances to maintain secrecy against other persons who might use or disclose it.

Davidson & DeMay, *supra* note 5, at 606; see also 1 MILGRIM, *supra* note 20, §§ 1.04, 1.05.

154. The UTSA prohibits only the “misappropriation” of trade secrets. See UNIF. TRADE SECRETS ACT §§ 2, 3, 14 U.L.A. 449, 455 (1990). “Misappropriation” is defined as:

confidential information would only be able to preclude others from using that information in violation of specific statutory, contractual or common-law duties.¹⁵⁵

D. The Positive Effects of Establishing a Three-Tiered Protective Scheme

Reinterpreting the “not generally known” criterion for trade secret status, eliminating the “not readily ascertainable by proper 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 limits its use; or
 - (III) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limits its use; or
 - (C) Before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438 (1990).

The First Restatement similarly provides:

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

- (a) he discovered the secret by improper means, or
- (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
- (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
- (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

RESTATEMENT OF THE LAW OF TORTS § 757 (1939).

155. As eloquently described by the court in *Tabor v. Hoffman*:

If a valuable medicine, not protected by patent, is put upon the market, any one may, if he can by chemical analysis and a series of experiments, or by any other use of the medicine itself, aided by his resources only, discover the ingredients and their proportions. If he thus finds out the secret of the proprietor, he may use it to any extent that he desires without danger of interference by the courts. But, because this discovery may be possible by fair means, it would not justify a discovery by unfair means, such as the bribery of a clerk who, in the course of his employment, had aided in compounding the medicine, and had thus become familiar with the formula.

Tabor v. Hoffman, 23 N.E. 12, 13 (N.Y. 1889).

requirement, and defining a distinct category of “confidential information” would have a number of positive effects for existing trade law. First, these alterations unquestionably would enable courts to protect both Category 2 and Category 3 information from various forms of theft, while permitting judges to recognize the qualitative differences between the two categories of knowledge. Courts no longer would be forced to choose between leaving Category 2 information wholly unprotected and extending (or circumventing) “trade secret” law to cover all commercially valuable information, regardless of its secrecy level.¹⁵⁶

Second, these modifications would create a more structured and well-defined regime for the protection of proprietary knowledge. With this new definition, courts and corporations would be better able to determine whether specific technical and business information is likely to qualify for legal protection from piracy.¹⁵⁷ In addition, corporations would be able to analyze the economics of product and process development, the need (or lack thereof) for extensive investment in security, and the risks associated with information-sharing and/or acquisition.

Third, the creation of a three-tiered system for the classification and protection of commercial information¹⁵⁸ would balance employers’ legitimate interests in safeguarding their data with employees’ concerns regarding their ability to move within the industry. Employees could continue to use information that is universally known, freely disseminated by their former employers, or necessary for participation in the field. Employees would be prohibited from using or disclosing only confidential information which affords their employers competitive advantages vis-a-vis competitors who do not already possess such information.¹⁵⁹

156. See *supra* notes 135-39 and accompanying text.

157. See *supra* notes 149-54 and accompanying text.

158. A three-tiered system is one in which information is classified either as “trade secret,” as “confidential information,” or as “general skill and knowledge.”

159. For cases in which courts either expressly or implicitly utilized similar or analogous definitions of confidential information, see *Eaton Corp. v. Giere*, 971 F.2d 136, 141 (8th Cir. 1992); *Prudential Ins. Co. v. Sipula*, 776 F.2d 157, 163-64 (7th Cir. 1985); *Nucor Corp. v. Tennessee Forging Steel Serv., Inc.*, 476 F.2d 386, 392 (8th Cir. 1973); *Tlapek v. Chevron Oil Co.*, 407 F.2d 1129, 1135 (8th Cir. 1969); *TDS Healthcare Sys. Corp. v. Humana Hosp. Ill., Inc.*, 880 F. Supp. 1572, 1584-85 (N.D. Ga. 1995); *American Hardware Mut’l Ins. Co. v. Moran*, 545 F. Supp. 192, 197-98 (N.D. Ill. 1982), *aff’d*, 705 F.2d 219 (7th Cir. 1983); *Organic Chems., Inc. v. Carroll Prods., Inc.*, 211 U.S.P.Q. (BNA) 628, 631-32 (W.D. Mich. 1981); *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 262 (E.D. La. 1967); *Millard Maintenance Serv. Co. v. Bernero*, 566 N.E.2d 379, 385 (Ill. App. Ct. 1990); *Tower Oil & Tech. Co., v. Buckley*,

In short, establishing a three-tiered protective scheme will: (1) significantly reduce the ambiguity of current trade secret law with respect to the protection for Category 2 information; (2) enable judges to give effect to the essential differences between Category 2 and Category 3 information; and (3) permit courts to maintain the necessary equilibrium between the often conflicting goals of preserving commercial morality, promoting invention, and sustaining free, open and competitive economic markets.

V. PROTECTING CONFIDENTIAL INFORMATION IN UTSA JURISDICTIONS

Even absent the legislative and/or judicial creation of a formal category of "confidential information," litigants may continue to seek protection for "confidential information" by using the various theories identified and discussed in Part II—breach of contract, breach of fiduciary duty, interference with contractual relations, fraud, conversion, unjust enrichment and conspiracy.¹⁶⁰ While each of these theories unquestionably remains available to information owners in jurisdictions relying exclusively on the First Restatement, the Third Restatement and/or the common-law, there remains considerable uncertainty as to which of, and to what extent, these legal theories retain vitality in those jurisdictions that model their trade secret statutes on the UTSA.¹⁶¹

A. *The UTSA's Preemption Provision and its Effect on Common-Law Claims for Breach of Contract, Breach of Fiduciary Duty and Fraud*

Of the forty-two jurisdictions (including the District of Columbia) that have adopted some form of the UTSA, fifteen have adopted the UTSA's preemption provision verbatim,¹⁶² twenty-four have adopted

425 N.E.2d 1060, 1066-67 (Ill. App. Ct. 1981); *Davis v. Eagle Prods., Inc.*, 501 N.E.2d 1099, 1103 (Ind. Ct. App. 1986); *Cherne Indus., Inc. v. Grounds & Assocs., Inc.*, 278 N.W.2d 81, 89 (Minn. 1979).

For discussions of "confidential information" defined in the context of discovery disputes under the Federal Rules of Civil Procedure, see James R. Jarrow, *Industrial Espionage? Discovery Within the Rules of Civil Procedure and The Battle for Protective Orders Governing Trade Secrets and Confidential Information*, 32 WASHBURN L.J. 318, 320-21 (1993) and David Timmins, Comment, *Protective Orders in Products Liability Litigation: Striking the Proper Balance*, 48 WASH. & LEE L. REV. 1503, 1513 n.64 (1991).

160. See *supra* Part II.B.

161. See 1 MILGRIM, *supra* note 20, § 1.01[3][a].

162. Section 7 of the UTSA, the UTSA's "Effect on Other Law" provision states:

some variation of this provision, and three have omitted an "Effect on Other Law" provision entirely.¹⁶³ Section 7 of the UTSA, by its very terms, makes clear that the UTSA is not "a catchall for industrial torts."¹⁶⁴

Thus, the UTSA specifically exempts from its preemptive penumbra those claims that involve "more" than the mere misappropriation or misuse of "trade secrets." In other words, the UTSA does not preempt claims that implicate contractual, common-law and/or statutory duties that do not depend entirely upon the existence of technical "trade secrets."¹⁶⁵ These exempted claims include breach of

(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 affect:

- (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.

UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 463 (1990).

163. *See id.*

164. *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897 (Minn. 1983). Indeed, the 1990 comment to section 7 specifically explains:

This Act does not deal with criminal remedies for trade secret misappropriation and is not a comprehensive statement of civil remedies. It applies to a duty to protect competitively significant secret information that is imposed by law. It does not apply to a duty voluntarily assumed through an express or an implied-in-fact contract. The enforceability of covenants not to disclose trade secrets and covenants not to compete that are intended to protect trade secrets, for example, is governed by other law. The Act also does not apply to a duty imposed by law that is not dependent upon the existence of competitively significant secret information, like an agent's duty of loyalty to his or her principal.

UNIF. TRADE SECRETS ACT § 7 cmt., 14 U.L.A. 463 (1990).

165. As explained by one court:

The court first notes that [the "Effect on Other Law" section] is clear in that *some* prior law is meant to be displaced, otherwise the subsection would be superfluous. However, the court does not think the displacement is to be as widespread as defendants wish, nor as limited as plaintiff contends. The plaintiff's interpretation would allow simultaneous common law and statutory actions in the same trade secret case. This court disagrees. . . . the common law of trade secrets is now changed to correlate exactly to the [Minnesota Uniform Trade Secrets Act (MUTSA)]. Any variation of common law from the statute is a conflict and is displaced by the MUTSA. Therefore, a separate cause of action for misappropriation of trade secrets is now displaced and such actions must be brought under the MUTSA.

However, the displacement of the common law is not as broad as defendants suggest. Only that law which conflicts with the MUTSA is

express or implied-in-fact contract,¹⁶⁶ tortious interference with contractual relations,¹⁶⁷ breach of implied-in-law contract,¹⁶⁸ breach of loyalty/trust,¹⁶⁹ fraud/misrepresentation,¹⁷⁰ and conversion of tangible

displaced. Conflicting law is that law dealing exclusively with trade secrets. To the extent a cause of action exists in the commercial area *not* dependent on trade secrets, that cause continues to exist. For example, in [*Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301 (Minn. Ct. App. 1987)], causes of action were allowed to be brought simultaneously for breach of a duty of loyalty and unfair competition, as well as for trade secrets. In that case the first two causes of action had as their underlying wrong the soliciting of customers and employees by the defendant while still employed by the plaintiff. The MUTSA claim was based on the misappropriation of the plaintiff's policy and procedures manual. The common law and statutory counts, therefore, addressed distinct "wrongs." The MUTSA used in this manner is not "a catch-all for industrial torts," but is the distinctive way in which to prosecute actions involving trade secrets.

Micro Display Sys., Inc. v. Axtel, Inc., 699 F. Supp. 202, 204-05 (D. Minn. 1988); *see also Defcon, Inc. v. Webb*, 687 So.2d 639, 642-43 (La. Ct. App. 1997).

166. *See, e.g.*, *TDS Healthcare Sys. Corp. v. Humana Hosp. Ill., Inc.*, 880 F. Supp. 1572, 1584-86 (N.D. Ga. 1995); *Editions Play Bac, S.A. v. Western Publ'g Co.*, 31 U.S.P.Q.2d (BNA) 1338, 1343 (S.D.N.Y. 1993); *MAI Sys. Corp. v. Peak Computer, Inc.*, No. Civ..A. CV 92-1654, 1992 WL 159803, at *15 (C.D. Cal. Apr. 14, 1992), *aff'd in part, rev'd in part*, 991 F.2d 511 (9th Cir. 1993); *Prudential Ins. Co. v. Crouch*, 606 F. Supp. 464, 468-69 (S.D. Ind. 1985), *aff'd*, 796 F.2d 477 (7th Cir. 1986); *Legal Serv. Plans, Inc. v. Heneghan, Pikor, Kennedy & Allen*, No. CV-90 29448, 1990 WL 283681, at *1-2 (Conn. Super. Ct. Sept. 24, 1990); *Michels v. Dyna-Kote Indus., Inc.*, 497 N.E.2d 586, 589 (Ind. Ct. App. 1986); *Saliterman v. Finney*, 361 N.W.2d 175, 178 (Minn. Ct. App. 1985); *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 674 (Wash. 1987).

167. *See, e.g.*, *Smithfield Ham & Prods. Co., v. Portion Pac, Inc.*, 905 F. Supp. 346, 347-49 (E.D. Va. 1995); *ITT Schadow, Inc. v. Stein*, 7 U.S.P.Q.2d 1348, 1351 (D. Minn. 1988); *Legal Serv. Plans*, 1990 WL 283681, at *1-2.

168. *See, e.g.*, *Crouch*, 606 F. Supp. at 470-71; *Legal Serv. Plans*, 1990 WL 283681, at *1-2.

169. *See, e.g.*, *Omnitech Int'l, Inc. v. Clorox Co.*, 11 F.3d 1316, 1330-31 (5th Cir. 1994); *Eaton Corp. v. Giere*, 971 F.2d 136, 141 (8th Cir. 1992); *Coulter Corp. v. Leinert*, 869 F. Supp. 732, 734-35 (E.D. Mo. 1994); *Vigoro Indus., Inc. v. Cleveland Chem. Co.*, 866 F. Supp. 1150, 1164-65 (E.D. Ark. 1994), *aff'd in part, rev'd in part sub nom. Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785 (8th Cir.), *and reh'g denied sub nom. Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785 (8th Cir. 1996); *Earthdweller, Ltd. v. Rothnagel*, No. 93 C 3790, 1993 WL 487546, at *7 (N.D. Ill. Nov. 22, 1993); *Avtec Sys., Inc. v. Peiffer*, 805 F. Supp. 1312, 1321 (E.D. Va. 1992), *aff'd in part, vacated in part*, 21 F.3d 568 (4th Cir. 1994); *Herbster v. Global Intermediary, Inc.*, No. Civ. A. 89-2198-V, 1991 WL 205659, at *1 (D. Kan. Sept. 11, 1991); *Micro Display Sys., Inc. v. Axtel, Inc.*, 699 F. Supp. 202, 205 (D. Minn. 1988); *ITT Schadow*, 7 U.S.P.Q.2d at 1351; *Crouch*, 606 F. Supp. at 472; *Defcon, Inc.*, 687 So.2d at 643; *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301, 305-06 (Minn. Ct. App. 1987); *Saliterman*, 361 N.W.2d at 178-79; *Boeing Co.*, 738 P.2d at 674.

The fact that claims for breach of loyalty/trust implicate many of the same factual and legal issues involved in actions for trade secret misappropriation does not compel a finding of preemption. *See Editions Play Bac*, 31 U.S.P.Q.2d at 1343.

170. *See, e.g.*, *Earthdweller*, 1993 WL 487546, at *7; *Herbster*, 1991 WL 205659, at

property.¹⁷¹

B. Conflicting Views Concerning the Displacement of Breach of Confidence, Unfair Competition, Unjust Enrichment, and Conversion of Invention Claims

Unlike claims that derive from contractual or common-law duties independent of the presence of “trade secrets,”¹⁷² actions for breach of confidence, unfair competition, unjust enrichment, and conversion of invention typically arise from the wrongful acquisition or use of valuable proprietary data; and, consequently, these claims duplicate the substance of claims brought under the various states’ trade secret statutes.¹⁷³ Given these claims’ usual identity with actions for relief under the UTSA, courts are confused as to whether these claims truly “conflict” with the UTSA such that they are “displaced” pursuant to section 7.¹⁷⁴ In fact, three very different and inconsistent views of the UTSA’s preemptive scope have emerged.

*1; *Micro Display Sys.*, 699 F. Supp. at 205.

171. See, e.g., *Micro Display Sys.*, 699 F. Supp. at 203-05; *ITT Shadow*, 7 U.S.P.Q.2d at 1351.

In essence, the reason that these claims generally are not deemed to be “displaced” by the UTSA is that they, by definition, do not require the existence of “trade secrets.” For example, the scope of an agent’s (or employee’s) duty of loyalty to his or her principal (or employer) is not limited to protecting the principal (or employer) against disclosure of trade secrets. Similarly, the duty of all persons to refrain from defrauding another is not restricted to avoiding making material misstatements or omissions in order to obtain trade secret knowledge. See 1 MILGRIM, *supra* note 20, § 1.01[3][a], at 1-68.13.

172. This category of claims includes breach of contract, tortious interference with contract, breach of loyalty, fraud, and conversion of tangible property claims. See Leistensnider, *supra* note 135, at 278-79.

173. One commentator explained:

Whether or not a variety of state claims coupled with UTSA claims are or are not “preempted” by the UTSA should turn upon whether or not the other claims “conflict.” If the other claims are no more than a restatement of the same operative facts which would plainly and exclusively spell out only trade secret misappropriation, then dressing those claims up in different clothing is not likely to be found consistent with the preempting dictates of UTSA.

1 MILGRIM, *supra* note 20, § 1.01[3][a], at 1-68.13 (emphasis omitted); see Victoria A. Cundiff, *Trade Secret Law/Contracts/Misappropriation: Are They Preempted?*, in SECOND ANNUAL INSTITUTE FOR INTELLECTUAL PROPERTY LAW 61, 83-84 (453 PLI/Patents, Copyrights, Trademarks and Literary Property Course Handbook Series, 1996).

174. See Neufeld, *supra* note 44, at 900.

1. The First View: Preemption of All Non-UTSA Mechanisms for the Protection of Intangible Property

The first, and most restrictive, of these views regards the UTSA's "Effect on Other Law" provision¹⁷⁵ as defining the "outer limit" of available protection for valuable, commercial information. Courts adopting this view consistently hold that: (1) the only mechanism available for the protection of intangible property is an action under a state's trade secret act; and, (2) that common-law theories pertaining exclusively to the protection of trade secrets or confidential information are necessarily preempted.¹⁷⁶

175. UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 463 (1990).

176. See *Omnitech Int'l, Inc. v. Clorox Co.*, 11 F.3d 1316, 1330-31 (5th Cir. 1994); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992); *Web Communications Group, Inc. v. Gateway 2000, Inc.*, 889 F. Supp. 316, 320-21 (N.D. Ill. 1995); *Cohn v. Taco Bell Corp.*, No. 92 C 5852, 1994 WL 13769, at *10 (N.D. Ill. Jan. 14, 1994); *Hutchison v. KFC Corp.*, 809 F. Supp. 68, 71-72 (D. Nev. 1992); *Chicago Show Printing Co. v. Sherwood*, No. 92 C 309, 1992 WL 175577, at *3 (N.D. Ill. Jul. 14, 1992); *Ace Novelty Co. v. Vijuk Equip., Inc.*, No. 90 C 3116, 1990 WL 129510, at *3 (N.D. Ill. Aug. 31, 1990).

Some courts appear to have taken this view to its logical end, finding that the UTSA precludes even breach of loyalty, tortious interference with contract, fraud, and breach of implied-in-law contract claims. See, e.g., *Pepsico, Inc. v. Redmond*, 54 F.3d 1262, 1264 (7th Cir. 1995); *Composite Marine*, 962 F.2d at 1265; *J.H. Chapman Group, Ltd. v. Chapman*, No. 95 C 7716, 1996 WL 89075, at * 2-3 (N.D. Ill. Feb. 28, 1996); *Venango River Corp. v. NIPSCO Indus., Inc.*, No. 92 C 2412, 1995 WL 410842, at *1 (N.D. Ill. July 11, 1995); *C&F Packing Co. v. IBP, Inc.*, No. 93 C 1601, 1994 WL 30540, at *6-7 (N.D. Ill. Feb. 1, 1994); *Allied Supply Co. v. Brown*, 585 So.2d 33, 37 (Ala. 1991). Yet, such an extreme approach is not only unwise, but renders meaningless the specific statutory language preserving "other civil remedies that are not based upon misappropriation of a trade secret." As one Illinois court faced with counts for fraud and breach of loyalty explained:

By its very terms, the Illinois Trade Secrets Act precludes only conflicting causes of action for misappropriation of trade secrets, and not those claims which allege more than mere misuse or misappropriation of trade secrets.

In the instant case, [plaintiff's] "fraud" count is based on the false representations that enabled [defendants] to develop their own competing business, rather than act as [plaintiff's] licensee. [Plaintiff's] "breach of fiduciary duty" count claims unjust enrichment, based on the allegation that [defendant] breached his duty to use the confidential information entrusted to him in his official capacity as [plaintiff's] business consultant in furtherance of [plaintiff's] best interests.

These counts seek recovery for wrongs beyond the mere misappropriation. As such, these common law claims are related to, but not in conflict with [plaintiff's] trade secrets claim.

Earthdweller, Ltd. v. Rothnagel, No. 93 C 3790, 1993 WL 487546, at *7 (N.D. Ill. Nov. 22, 1993).

2. The Second View: Limiting UTSA Preemption to Technical Trade Secrets

The second view pertaining to UTSA preemption maintains that the UTSA merely defines the outer limit of protection for technical "trade secrets" (as opposed to other commercially valuable information). Courts adopting this view maintain that, where specific information qualifies as a "trade secret," the only action available to the information owner is under the trade secret statute. Where particular information does not rise to the level of a trade secret, however, these courts suggest that the information owner may assert claims under any of the various protective theories outlined in Part II.¹⁷⁷

3. The Third View: Allowing Protection of Intangible Property Under any Legal Theory

Finally, the third view of the UTSA's preemption provision interprets the phrase "conflicting tort, restitutionary, and other law"¹⁷⁸ as referring only to common-law doctrines that effectively deny or restrict the relief available under a state's trade secret statute. Courts adhering to this view hold that information owners may seek to protect their intangible property, such as trade secrets and/or confidential information, using any legal theory.¹⁷⁹ This includes theories affording more or broader protection than the trade secret act so long as the specific theories asserted do not undercut or limit the protections expressly provided by the UTSA.¹⁸⁰

C. *The First View As Most Appropriate*

In the absence of any specific legislative guidance, the first view of the UTSA's preemptive scope is the most reasonable.¹⁸¹ States

177. See, e.g., *Devon Indus., Inc. v. American Medical Int'l, Inc.*, 61 F.3d 910 (9th Cir. 1995), available in Nos. 94-55074, 94-55211, 1995 WL 433951, at *1, *4 (Nov. 7, 1995); *Vigoro Indus., Inc. v. Cleveland Chem. Co., Inc.*, 866 F. Supp. 1150, 1160-61 (E.D. Ark. 1994), *aff'd in part, rev'd in part sub nom. Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785 (8th Cir.), and *reh'g denied sub nom. Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785 (8th Cir. 1996).

178. See *supra* note 162.

179. See, e.g., *MAI Sys. Corp. v. Peak Computer, Inc.*, No. Civ. A. CV 92-1654-R, 1992 WL 159803, at *18 (C.D. Cal. Apr. 14, 1992), *aff'd in part, rev'd in part*, 991 F.2d 511 (9th Cir. 1993); *Legal Serv. Plans, Inc. v. Heneghan, Pikor, Kennedy & Allen*, No. CV-90 299448, 1990 WL 283681, at *1-2 (Conn. Super. Ct. Sept. 24, 1990).

180. See *supra* note 165 and accompanying text.

181. That is, the view that the UTSA displaces actions for conversion of invention, breach of confidence, unfair competition, and unjust enrichment, but leaves unaffected actions for breach of contract (express, implied-in-fact, and implied-in-law), tortious interference with contractual relations, breach of loyalty, fraud, and conversion of

adopting statutory provisions analogous to the UTSA's section 7 intend that at least some prior law relating to the protection of commercial information be displaced.¹⁸² Permitting litigants in UTSA states to assert common-law claims for the misappropriation or misuse of confidential data would reduce the UTSA to just another basis for recovery and leave prior law effectively untouched.¹⁸³ Further, by expressly exempting "contractual remedies, whether or not based upon misappropriation of a trade secret" and "other civil remedies that are not based upon misappropriation of a trade secret" from its preemptive penumbra, the UTSA makes clear that only those claims addressing or arising out of wrongs distinct from pure information piracy¹⁸⁴ survive passage of the trade secret statute. Indeed, contrary interpretations of the UTSA's "Effect on Other Law" provision, such as those embodied in the second and third views of UTSA preemption, effectively negate the UTSA's goal of promoting uniformity in "trade secrets" law.¹⁸⁵ Additionally, these contrary interpretations render the statutory preemption provision effectively meaningless.¹⁸⁶

tangible property. See *supra* notes 175-76 and accompanying text.

182. See I MILGRIM, *supra* note 20, § 1.01[3][a], at 1-68.12.

183. One scholar noted the danger of applying the UTSA's preemption provision *too* broadly:

The preemption provisions can be somewhat worrisome if they are applied mechanistically or overly conceptually. Our common law is richly flexible in redressing wrongs for improper conduct which in full or in part involves the use of information derived from the plaintiff.

A readily cognizable tort, such as diversion of corporate opportunities, is essentially a mechanism of law intended to redress disloyal conduct and is likely to be applicable whether or not the underlying information is a trade secret. It would be a pity if courts apply the preemption statute provisions in such a way as to overlook the fact that our legal system encourages pleading in the alternative. One might believe that certain information is a trade secret and so plead it. However, even if it is not a trade secret, traditional tort theories prohibit its use in a disloyal or unfair fashion in limited and well defined circumstances, such as where the information is used to usurp a corporate opportunity.

I MILGRIM, *supra* note 20, § 1.01[3][a], at 1-68.14.

184. See UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 463 (1990). That is, claims for which misappropriation or misuse of confidential knowledge is merely *proof* of a defendant's "wrong" (e.g. disloyalty to an employer or principal, breach of a contractual obligation, fraudulent conduct, etc.) rather than the "wrong" itself.

185. See *Micro Display Sys. v. Axtel, Inc.*, 699 F. Supp. 202, 204-05 (D. Minn. 1988).

186. As explained by one court adopting the first view of UTSA preemption:

Defendants claim plaintiff's common law tort claims [conversion, commercial bribery, unfair competition, and unjust enrichment] are conflicting, and plaintiff claims they are not, suggesting a literal meaning of "conflicting." Under plaintiff's interpretation, all the common law theories of recovery remain available which makes the UTSA one of many available theories of

Regardless of which of the three views of the UTSA preemption a particular jurisdiction accepts, ample room remains for the protection of confidential knowledge that does not rise to the level of trade secrets, even absent the formal creation of a separate category of "confidential information." Under the best-reasoned, first view, such protection is available through breach of contract, breach of loyalty, fraud and tortious interference with contract actions.¹⁸⁷ Under the second and third views, such protection is available through claims under any and all of the legal theories described in Part II of this Article.¹⁸⁸

VI. CONCLUSION

A careful analysis of the nature and types of valuable commercial information and the various competing policy interests of confidentiality law¹⁸⁹ reveals the need for the creation of a three-tiered system for the protection of competitively advantageous knowledge. This system should classify valuable business information as either "trade secrets," "confidential information," or "general skill and knowledge." Such a three-tiered system will, at best, eliminate and, at worst, minimize the ambiguity of current trade secret law with respect to the availability of protection for widely, though not universally, known data and know-how—Category 2 information.¹⁹⁰ This system will also permit judges to recognize and to give effect to the essential differences between Category 2 and Category 3 information by invoking different legal theories and granting different types and/or

recovery. That result would not be in line with the purpose of the Act. The purpose of the Act was to "systemize and unify the policies underlying the common law theories of recovery used to impose legal duties in order to protect competitively significant information."

ITT Schadow Inc. v. Stein, 7 U.S.P.Q.2d 1348, 1352 (D. Minn. 1988) (quoting Steve Borgman, *The Adoption of the Uniform Trade Secrets Act: How Uniform is Uniform?* 27 IDEA 73, 108 (1986)).

It should be noted that while an information owner may assert actions for breach of contract, breach of loyalty, and fraud, in addition to or along with, a claim for misappropriation of trade secrets, an information owner may not obtain double recovery for the same injury: "a 'successful plaintiff is entitled to one, but only one full recovery, no matter how many theories support entitlement.'" 205 Corp. v. Brandow, 517 N.W.2d 548, 551 (Iowa 1994) (quoting Clark-Peterson Co. v. Independent Ins. Assocs., 514 N.W.2d 912, 915 (Iowa 1994)).

187. See *supra* notes 165-71 and accompanying text.

188. See *supra* notes 177-80 and accompanying text.

189. See *supra* Part II.A. As discussed earlier, policy interests include preservation of commercial morality, promotion of invention, and maintenance of free, open, and competitive economic markets.

190. See *supra* notes 150-59 and accompanying text.

amounts of relief in actions involving “trade secrets” as compared to those involving “confidential information.”¹⁹¹ Finally, a three-tiered system will enable courts to strike the proper balance between confidentiality law’s concerns for discouraging information piracy and assuring employee mobility.

Even without the formal definition of a second class of protectable, proprietary information to fill the theoretical and practical gap between “trade secrets” and “general skill and knowledge,” however, there currently exists numerous theories that provide legal protection to confidential information that does not rise to the level of trade secrets. Indeed, judges and litigants frequently have invoked these theories to safeguard competitively beneficial, non-trade secret information from piracy.¹⁹² Many, if not most of these legal theories for the protection of “confidential information” remain viable, even in jurisdictions that have adopted the UTSA and its broad preemption provision.

In sum, whether through formal legal change, through thoughtful pleading, or through considered judicial decision-making, legislators, litigants and courts faced with the complex task of determining the degree of protection that appropriately should be afforded valuable, commercial information (1) must recognize and account for the existence of different types and levels of competitively significant knowledge, and (2) must consider and attempt to effectuate the central policy goals of confidentiality law. Only through such a thoughtful, layered approach to the problem of information protection can a truly flexible, yet predictable; consistent, yet responsive; and malleable, yet well-defined legal regime be created and maintained.

191. *See supra* notes 156-59 and accompanying text.

192. These include: breach of contract (express, implied-in-fact, and implied-in-law); tortious interference with contractual relations; breach of confidence; breach of loyalty/trust; unfair competition; fraud/misrepresentation; unjust enrichment/constructive trust; and/or civil conspiracy. *See supra* Part II.B.