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THE SECRET'S OUT: CALIFORNIA'S ADOPTION OF THE UNIFORM TRADE SECRETS ACT— EFFECTS ON THE EMPLOYER- EMPLOYEE RELATIONSHIP

I. INTRODUCTION

The concept of a "trade secret" is a common law development designed to prevent the unjust misappropriation of a business person's commercially valuable interest.¹ Virtually *any* commercial information is a potential trade secret, and given the broad range of data covered by trade secrets, the criteria for determining which interests deserve protection are critical. Yet, despite the increasing importance of trade secrets,²

1. For a comprehensive study on trade secrets law, see generally R. MILGRIM, *MILGRIM ON TRADE SECRETS* (1984).

For a practical guide on California trade secret law, see generally ATTORNEY'S GUIDE TO TRADE SECRETS (C. Brosnahan ed. 1971) (Cal. Continuing Educ. of the Bar); BROWN & ZELIN, *Trade Secrets*, in ATTORNEY'S GUIDE TO THE LAW OF COMPETITIVE BUSINESS PRACTICES (A. Browne ed. 1981) (Cal. Continuing Educ. of the Bar).

2. Protecting valuable, commercial interests as trade secrets instead of as patents, for example, has several advantages. Unlike patents and copyrights, trade secrets are protected indefinitely and do not have to be fully disclosed to the public in exchange for protection. RESTATEMENT OF TORTS § 757 comment a at 4, 5 & comment b at 6, 7 (1939). Additionally, trade secret protection is preferred because trade secrets are less likely to be exposed than are patents and copyrights:

A valid patent provides a legal monopoly for seventeen years in exchange for public disclosure of an invention. If, however, the courts ultimately decide that the Patent Office improperly issued a patent, an invention will have been disclosed to competitors with no corresponding benefit. In view of the substantial number of patents that are invalidated by the courts, many businesses now elect to protect commercially valuable information through reliance upon the state law of trade secret protection.

UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 537 (1980). The Commissioners' summary was repeated by Assemblyman Elihu Harris, author of Assembly Bill 501, introducing the Uniform Trade Secrets Act in California, in his letter to Governor George Deukmejian urging the Governor's signature on A.B. 501. Letter from Elihu Harris to Governor George Deukmejian (Sept. 12, 1984) (copy on file at *Loyola of Los Angeles Law Review*).

Today's need for greater trade secret regulation is necessary due to the increasing temptation to misappropriate trade secrets rather than do costly research and development. In our advanced society, knowledge of a program, method, technique or device in highly technical industries like electronics, chemicals and pharmaceuticals is a valuable asset subject to industrial spying. Companies are often more willing to use improper means or engage in espionage to gain access to secret information than to spend the time or money to research and develop the information themselves. Thus, when a company does spend substantial money for research and development, some degree of protection to guard against the misuse and abuse of new developments is necessary. Since markets for trade secret misappropriation are increasing, more effective control of trade secrets (e.g. through the Uniform Trade Secrets Act (codified at

courts in the past have been hesitant to limit trade secrets by definition or clearly define the scope of protection available.³ As a result, a plethora of loosely connected principles with no precise rules developed.⁴

Early California courts had little guidance to aid them in determining which commercial interests constituted trade secrets and warranted protection. Generally, those courts viewed trade secrets as the em-

CAL. CIV. CODE §§ 3426-3426.10 (West Supp. 1985)) is necessary. Hofer, *Business Warfare over Trade Secrets*, 9 LITIGATION 8 (1983). See generally J. SUTTON, *Developments and Trends in Trade Secrets Law*, in ATTORNEY'S GUIDE TO TRADE SECRETS 2, 3 (C. Brosnahan ed. 1971) (Cal. Continuing Educ. of the Bar) for a discussion on the increasing importance of trade secrets.

3. Various commentators and authorities have concluded that the law of trade secrets is widely misunderstood and requires clarification. See UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 537 (1980) ("[E]ven in states in which there has been significant [trade secret] litigation, there is undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret."); BROWN & ZELIN, *supra* note 1, at 109 ("Despite the evolution of statutory and case law in the area, trade secrets remain, perhaps due to their evanescent nature, the most misunderstood of all the intangible and protectible commercial interests."); Comment, *A Balanced Approach to Employer-Employee Trade Secrets Disputes in California*, 31 HASTINGS L.J. 671, 671 (1980) ("The concept of a trade secret is an elusive one at best.")

4. Specifically, in California, trade secret law blended contract and property principles and was later modified by the 1939 Restatement of Torts, (Restatement) regulated by a variety of statutes, and interpreted by the judiciary. For example, trade secret actions could be initiated under provisions of the Restatement § 757 which imposes liability for the disclosure or use of another's trade secret. See RESTATEMENT OF TORTS § 757 (1939). Contract theories for breach of confidence might also be alleged. See RESTATEMENT OF TORTS § 757 comment j at 13 (1939) (establishing common law liability for breach of a confidential relationship based on agency principles); 4 CAL. ANNOTS. TO THE RESTATEMENT OF THE LAW OF TORTS § 757 comment a at 7-8 (1959) (annotating California trade secret cases which turn on breach of trust and confidence). Trade secret cause of actions are sometimes couched on property theories. See CAL. LABOR CODE § 2860 (West 1971) which provides that "[e]verything which an employee acquires by virtue of his employment . . . belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment." See also 4 CAL. ANNOTS. TO THE RESTATEMENT OF THE LAW OF TORTS § 757 comment a at 7-9 (1959) (annotating California cases which apply the above Labor Code provision and quasi-property theory). Unfair competition or unfair practices theories are viable under California Business and Professions Code § 16600 (governing the law of unfair competition). See, e.g., *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268, 219 Cal. Rptr. 836 (1985); *Gordon Termite Control v. Terrones*, 84 Cal. App. 3d 176, 148 Cal. Rptr. 310 (1978); *Tennant Co. v. Advance Mach. Co.*, 355 N.W.2d 720 (Minn. 1984) (applying California law). And, finally, criminal liability may attach when trade secrets are misappropriated under California Penal Code § 499c (providing criminal liability for the theft of scientific or technical trade secrets). See, e.g., *People v. Gopal*, 171 Cal. App. 3d 524, 217 Cal. Rptr. 487 (1985) (theft of trade secrets from Silicon Valley firms manufacturing semiconductors and computer chip devices); *People v. Serrata*, 62 Cal. App. 3d 9, 133 Cal. Rptr. 144 (1976) (theft of a trade secret from a computer corporation).

In response to this fragment of codes, caselaw and theories, one commentator summarized the confusing state of trade secrets as "a collection of judges' opinions on what is fair in the commercial world. In this melange of case law almost any abstract proposition can find support." Pooley, *Better Protection for Trade Secrets*, CAL. LAW., Aug. 1985, at 51, 51.

ployer's property, but protected only those interests which clearly belonged to the employer, were entrusted to the employee in confidence, and were later misappropriated by the employee.⁵ Better guidelines for trade secret protection came in 1939 with the adoption of section 757 of the Restatement of Torts (Restatement), but the Restatement was still inadequate.⁶ Like most states, California has relied heavily on the principles set out in section 757. However, although section 757 was the most widely accepted rule governing liability for trade secret misappropriation,⁷ it failed to provide uniform or satisfactory guidelines to resolve trade secret conflicts in the employer-employee context. Three limitations of section 757 of the Restatement are generally recognized today.

First, the practicality of the Restatement is questionable. The principles and illustrations in section 757 of the Restatement are derived from cases decided before 1939. Because of its antiquated nature, the Restatement may not be the best authority to govern trade secret litigation. The Restatement's authors could not possibly have envisioned the technical changes and industrial developments affecting trade secret law today,⁸ yet section 757 of the 1939 Restatement has not been updated.⁹

5. For cases discussing trade secrets before the 1939 Restatement became effective, see *Dairy Dale Co. v. Azevedo*, 211 Cal. 344, 295 P. 10 (1931) (per curiam); *Pasadena Ice Co. v. Reeder*, 206 Cal. 697, 275 P. 944 (1929); *Empire Steam Laundry v. Lozier*, 165 Cal. 95, 130 P. 1180 (1913).

6. For instance, although the Restatement provided general examples of trade secrets, the comments to § 757 stated that "[a]n exact definition of a trade secret is not possible" and further declared that "[a] complete catalogue of improper means [for trade secret misappropriation] is not possible." RESTATEMENT OF TORTS § 757 comment b at 6 & comment f at 11 (1939).

7. See R. MILGRIM, 1 MILGRIM ON TRADE SECRETS § 2.01, at 2-3 (1984); Robison, *The Confidence Game: An Approach to the Law about Trade Secrets*, 25 ARIZ. L. REV. 347, 347 n.3 (1983); Gilbune & Johnston, *Computer Software Protection Available in Trade Secret Law*, Legal Times, Nov. 22, 1982, at 16, col. 3.

In California, courts generally applied the principles of § 757 to determine if a protectable trade secret existed. *Review of Selected 1984 California Legislation*, 16 PAC. L.J. 461, 732 n.11 (1985). See also *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 288-89, 23 Cal. Rptr. 198, 211 (1962) ("[I]t is evident that California has adopted the broad approach set forth in Restatement, Torts, volume 4, section 757. . .").

8. For a similar view suggesting the inadequacy of the Restatement to govern modern day trade secrets, see Comment, *Balancing Employers' Trade Secret Interests in High-Technology Products Against Employees' Rights and Public Interests in Minnesota*, 69 MINN. L. REV. 984 (1985) [hereinafter *Balancing Interests*] which provides:

The decades following the *Restatement's* adoption have seen not only a transformation in products needing protection but also a transformation in employment relationships. Courts relying on the *Restatement* may not fully realize that "modern economic growth and development has pushed the business venture beyond the size of the [one-person] firm, forcing the [business person] to a much greater degree to entrust confidential business information relating to technological development to appropriate employees." Successful development of a high technology product, in particular, often depends on the expertise of several employees, thus increasing the

Second, the Restatement is incomplete. While it provides general guidelines for trade secret misappropriation, section 757 is acutely void of important definitions relating to trade secrets.¹⁰ Thus, while some areas of trade secrets are regulated, section 757 fails to treat other areas and is not uniformly applied. Finally, section 757, alone, is meaningless and must be read in conjunction with its comments in order to be understood completely.¹¹ Unfortunately, courts exercise great discretion in interpreting and dissecting the Restatement and freely adopt or reject section 757 and its comments in whole or in part.¹² Because there is no guarantee that

possibility of trade secret appropriation. This possibility is heightened by the increasing mobility of the modern labor force. To ensure continuity when one employee leaves the firm, the employer must confide trade secret information to additional employees. Today's employers, therefore, require greater trade secret protection than did their 1939 counterparts.

Id. at 991.

For example, the increasing importance of computer technology is illustrated in *Jostens, Inc. v. National Computer Sys.*, 318 N.W.2d 691 (Minn. 1982): "[I]t is estimated that some 15,000 computer programs are written each day in this country and that the total value of this software is in the tens of billions of dollars." *Id.* at 694 n.1 (citing Schmidt, *Legal Proprietary Interests in Computer Programs: The American Experience*, 21 JURIMETRICS J. 345 (1981)). See also Comment, *All the King's Horses—Irreparable Harm in Trade Secret Litigation*, 52 FORDHAM L. REV. 804 (1984) (discussing the explosive technological growth in the computer, biotechnology and communications industries).

9. In fact, because of § 757's antiquity and the inevitable changes in trade secrets and technology, the drafters of the Restatement (Second) of Torts deliberately omitted § 757 in 1979. They concluded that:

The rules relating to liability for harm caused by unfair trade practices [such as § 757] developed doctrinally from established principles in the law of Torts, and for this reason the decision was made that it was appropriate to include these legal areas in the Restatement of Torts, despite the fact that the fields of Unfair Competition and Trade Regulation were rapidly developing into independent bodies of law with diminishing reliance upon the traditional principles of Tort law. In the more than 40 years since that decision was initially made, the influence of Tort law has continued to decrease, so that it is now largely of historical interest and the law of Unfair Competition and Trade Regulation is no more dependent upon Tort law than it is on many other general fields of the law and upon broad statutory developments, particularly at the federal level. The Council formally reached the decision that these chapters no longer belong in the Restatement of Torts, and they are omitted from this Second Restatement. If it should be later decided that the law on these subjects ought to be restated, it will be done by separate restatements on the subjects involved.

4 RESTATEMENT (SECOND) OF TORTS 1-2 (1979).

10. Guidelines regulating pleadings, discovery procedures, damages, attorney's fees and the statute of limitations, for example, are visibly absent from § 757 of the Restatement. Confounded litigants must turn to additional statutory and case law for answers to the obvious gaps and interface the fragmented sources together.

11. For example, while the rules explaining what constitutes a misappropriation of a trade secret are clearly set forth in the text of § 757, the principles governing the requisite elements of a trade secret are found amid the comments. As a result, the comments, which normally function as a supplement to the rules, must be read in conjunction with the text and should be (however, in reality, are rarely) treated just as importantly as the rules themselves. *Balancing Interests*, *supra* note 8, at 989.

12. For example, Georgia does not fully embrace the principles of § 757 of the Restate-

the Restatement will be evenly applied, trade secret litigants have no reliable way to measure when liability will be imposed.

In response to the Restatement's shortcomings, California's timely adoption of the Uniform Trade Secrets Act (Uniform Act) brings greater certainty to California trade secret law.¹³ The California Act corrects the deficiencies of the Restatement by providing precise and clear guidelines for determining when trade secret liability exists in the employer-employee context. The statute is also comprehensive. It begins by defining trade secrets¹⁴ and other terms relating to trade secrets.¹⁵ Further,

ment. Georgia courts distinguish "trade secrets" from "confidential information," although the former encompasses the latter in the Restatement. Additionally, Georgia courts require "trade secrets" to display attributes of novelty, a factor not required in the Restatement. Quittmeyer, *Trade Secrets and Confidential Information under Georgia Law*, 19 GA. L. REV. 623, 624-25 (1985). See also RESTATEMENT OF TORTS § 757 comment b at 6-7 (1939) ("Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process But such is not the case with a trade secret.").

13. The Uniform Act became effective in California on January 1, 1985. California is the ninth state to adopt the Uniform Act, and its version is found in new California Civil Code §§ 3426-3426.10. CAL. CIV. CODE §§ 3426-3426.10 (West Supp. 1985). Additionally, the California Legislature enacted California Code of Civil Procedure § 2036.2 as part of the California Act to instruct plaintiffs how to plead a cause of action for trade secret misappropriation under the new statute. CAL. CIV. PROC. CODE § 2036.2 (West Supp. 1985).

Eight other states have adopted the Uniform Act. See CONN. GEN. STAT. ANN. §§ 35-50 to 35-58 (West Supp. 1985) (approved June 23, 1983); DEL. CODE ANN. tit. 6, §§ 2001-2009 (Supp. 1984) (effective Apr. 15, 1982); IND. CODE ANN. §§ 24-2-3-1 to 24-2-3-8 (Burns Supp. 1985) (approved Feb. 25, 1982); KAN. STAT. ANN. §§ 60-3320 to 60-3330 (1983); LA. REV. STAT. ANN. §§ 51:1431-51:1439 (West Supp. 1986) (approved July 19, 1981); MINN. STAT. ANN. §§ 325C.01-325C.08 (West 1981) (effective Jan. 1, 1985); N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (Supp. 1985) (effective July 1, 1983); WASH. REV. CODE ANN. §§ 19.108.010-19.108.940 (Supp. 1986) (effective Jan. 1, 1982).

Arkansas and Idaho have also adopted the Uniform Trade Secrets Act. ARK. STAT. ANN. §§ 70-1001 to 70-1007 (Supp. 1979); IDAHO CODE §§ 48-801 to 48-807 (Supp. 1986). However, because these statutes are not identified as the Uniform Act, they were not included in the Uniform Law Annotated volume. See R. MILGRIM, MILGRIM ON TRADE SECRETS app. AA at AA-2 (1985); UNIF. TRADE SECRETS ACT, 14 U.L.A. 278 (West Supp. 1985).

In addition, North Carolina enacted the North Carolina Trade Secrets Protection Act which was modeled after the Uniform Trade Secret Act. See N.C. GEN. STAT. §§ 66-152 to 66-157 (Supp. 1983) (effective Oct. 1, 1981); Root & Blynn, *Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823 (1982). However, because there are significant differences between the North Carolina Act and the Uniform Act, North Carolina was not included in the Uniform Laws Annotated volume. See UNIF. TRADE SECRETS ACT, 14 U.L.A. 278 (West Supp. 1985).

14. The statute defines trade secrets as "information, including a formula, pattern, compilation, program, device, method, technique, or process" that derives actual or potential value from not being generally known and is the subject of reasonable efforts to maintain its secrecy. CAL. CIV. CODE § 3426.1(d) (West Supp. 1985).

15. The California Act defines terms, within the meaning of the statute, involved in trade secret law such as "improper means," "misappropriation" and "person." *Id.* § 3426.1.

the statute identifies remedies available¹⁶ and includes procedural rules governing pleading¹⁷ and discovery.¹⁸ Generally, any business information that meets the California Act's definition of a trade secret and is misappropriated within the meaning of the statute is entitled to court protection.

Trade secret litigation affects the employer-employee relationship where an employer possesses some information (e.g., a customer list, a manufacturing process or a special formula) which he discloses in confidence to his employee during the course of business.¹⁹ Litigation often develops when the worker leaves his employment and uses his former employer's trade secret for his own advantage or for his new employer, usually a competing firm. When this occurs, the former employer no longer controls his trade secret, and his competitive advantage derived from the secret is lost.²⁰ The employer usually seeks relief from the court which must consider the circumstances and decide whether or not to enjoin the employee from using the information. Because an overwhelming number of trade secret cases involve employer-employee scenarios, this Comment is tailored to trade secret issues in this area.

This Comment discusses how California's adoption of the Uniform Trade Secrets Act will codify existing law in some areas of the employer-employee relationship while expanding trade secret protection into new areas. First, the history of trade secret litigation in California, as developed under the Restatement, will be examined. The statutory and case law governing trade secret litigation before the enactment of the 1985 statute will be surveyed, and the general policies behind the statutory and case law will also be discussed. It will examine the California courts' treatment of a specific trade secret, customer lists. Second, the California Act will be analyzed and contrasted with the Restatement. This section will provide a comprehensive look at the provisions of the California Act,

16. *Id.* §§ 3426.2, 3426.3.

17. CAL. CIV. PROC. CODE § 2036.2 (West Supp. 1985).

18. CAL. CIV. CODE § 3426.5.

19. *See, e.g.,* Ungar Elec. Tools, Inc. v. Sid Ungar Co., 192 Cal. App. 2d 398, 403, 13 Cal. Rptr. 268, 272 (1961) ("It is so well established as to need no extensive citations of authorities that a former employee may not use trade secrets learned through his employer to that employer's disadvantage."); Riess v. Sanford, 47 Cal. App. 2d 244, 246, 117 P.2d 694, 695 (1941) ("[T]he accepted doctrine is that no agent or employee having been intrusted in the course of his employment with secret and valuable information known only to his employer may thereafter utilize this secret knowledge against the interests or to the prejudice of his employer.").

20. *See, e.g.,* Gordon v. Landau, 49 Cal. 2d 690, 321 P.2d 456 (1958) (customer list, a trade secret, held to be an asset to the business and fundamental to the business' success and survival); Riess v. Sanford, 47 Cal. App. 2d 244, 117 P.2d 694 (manufacturing process of cactus phonographic needles found only in Arizona, a trade secret, was necessarily a secret to protect plaintiff's competitive advantage.).

distinguish the features of the California Act from the Uniform Act, and illustrate the approach a court should take when faced with a trade secret cause of action brought under the statute. This Comment concludes that the greatest benefit of the California Act is the refreshingly simple and direct tests which must be applied to determine whether or not trade secret liability exists, but warns that any interpretation of the statute must be read in line with the policies underlying the Uniform Act in order to achieve a fair and equitable result for both the employer and employee.

II. HISTORY OF TRADE SECRET LAW IN CALIFORNIA

A. *Trade Secret Development Under the Restatement*

Before California's adoption of the Uniform Trade Secrets Act, courts overwhelmingly applied the Restatement of Torts section 757 to find civil liability for trade secret misappropriations.²¹ The text of section 757, in full, 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.²²

Comment b to section 757 also 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."²³ That comment further states that "[t]he subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret."²⁴ Hence, under the Restatement, a defendant was generally liable if two conditions were met: (a) the commercial interest was a protectable trade secret, and (b) the

21. *See supra* note 7.

22. RESTATEMENT OF TORTS § 757 (1939).

23. *Id.* § 757 comment b at 5 (1939).

24. *Id.* comment b at 5-6.

defendant knew the interest was a trade secret and the misappropriation involved the disclosure or use of that secret.

1. Definitions: Defining a protectable trade secret and determining misappropriation

a. defining a protectable trade secret

Although the Restatement admits that “[a]n exact definition of a trade secret is not possible,”²⁵ comment b of section 757 lists various examples of commercial interest that typically constitute trade secrets.²⁶ Even if a particular commercial interest was listed in the Restatement, that interest was not necessarily a *protectable* trade secret within the scope of the Restatement. In considering whether the commercial interest was a *protectable* trade secret, several requirements had to be met. First, the trade secret had to be in “continuous use” in the business.²⁷ Under this requirement, an employer had to be actively using the information at the time of the misappropriation or a court would not enjoin an employee from subsequently using that secret.²⁸ Second, the em-

25. *Id.* comment b at 6.

26. Comment b of § 757 suggests that a formula for a chemical compound; a process for manufacturing, treating or preserving materials; a pattern for a machine or device; or a customer list are typical trade secrets. The comment further suggests that a trade secret can be something involved in the production of goods (e.g., a machine or formula for producing goods) or in the sale of goods (e.g., a code for determining discounts, rebates, or other concessions in a price list; a catalogue; a specialized customer list; or a method of bookkeeping or office management). *Id.* comment b at 5.

Additionally, although comment b states that no exact definition of a trade secret is possible, *see supra* text accompanying note 25, the Restatement provides factors a court may look at to determine the existence of 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; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

RESTATEMENT OF TORTS § 757 comment b at 6 (1939).

27. Comment b of § 757 further explains, using examples, what is meant by “continuous use”:

[A trade secret under § 757] differs from other secret information in a business . . . in that it is *not simply information as to single or ephemeral events* in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract, or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for *continuous use in the operation of the business*.

Id. at 5 (emphasis added).

28. California courts have strictly upheld the continuous use requirement in deciding whether a protectable trade secret exists. For example, in *Cal Francisco Inv. Corp. v. Vronis*, 14 Cal. App. 3d 318, 92 Cal. Rptr. 201 (1971), an employee used his employer’s real estate

ployer had to gain a competitive advantage from his ownership of the trade secret.²⁹ Although the owner was forbidden from possessing a monopoly over his trade secret,³⁰ the Restatement required that he reap some benefit from the secret that other competitors in the same industry lacked.³¹

A trade secret must also be kept a secret.³² Secrecy is the key ele-

listing to conduct a sale after leaving the employer. The court held that the real estate listing was not a trade secret because the listing, although a secret commercial interest, was a separate and "distinct transaction." *Id.* at 323, 92 Cal. Rptr. at 205. In addition to holding that the continuous use requirement was not met, the court weighed heavily the public policy favoring an individual's right to pursue his professional calling and dismissed the plaintiff's case for failure to state an adequate cause of action. *Id.*

29. See RESTATEMENT OF TORTS § 757 comment b at 5 (1939); BROWN & ZELIN, *supra* note 1, at 111.

30. See *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 283, 23 Cal. Rptr. 198, 207 (1962) ("[O]wnership of a trade secret does not give the owner a monopoly on its use, but merely a proprietary right which equity protects against usurpation by unfair means.").

One of the distinctions between patent protection and trade secret protection is that a person obtains a legal monopoly over his commercial interest with a patent but not with trade secret protection. The differing purposes of patent and trade secret protection explains this distinction. According to comment b of § 757 of the Restatement, a patent *rewards* the owner for his interest by giving him a monopoly over his property. In contrast, the goal of trade secret protection is not to reward the possessor for his secret but to *punish* the party who unjustly misappropriates the secret.

Also, because several people can potentially own the same trade secret, it is impossible for a single owner to claim a monopoly of a trade secret. For example, an owner of a trade secret (party "A") can give another party (party "B") permission to use A's trade secret in B's business. Since B was given permission to use A's secret, he has not misappropriated A's trade secret and would not be subject to trade secret liability. Both A and B would be valid owners of the same trade secret, and both would be entitled to judicial protection of the information. Another example of potential multi-ownership of a trade secret would be if B purchased A's product on the open market and by reverse engineering (the process whereby one takes apart and examines a publicly available process to understand its secrets), learns of A's secret and uses the secret in his (B's) business. Since reverse engineering is not an "improper means" of misappropriating a trade secret under § 757(a), B would become a legitimate owner of the trade secret. See RESTATEMENT OF TORTS § 757 comment a at 4 (1939) (stating that there is no liability for *proper* discovery of a trade secret and indicating that inspection of a commercially available product to determine its secret would not be improper); CAL. CIV. CODE § 3426.1(a) (West Supp. 1985) (California Act specifically exempts reverse engineering from "improper means."). Thus, A and B would both possess the same trade secret, neither would have a monopoly, and both would be legitimate owners of the secret and entitled to court protection under § 757.

31. The Restatement requires the possessor of a trade secret to "obtain an advantage [from the trade secret] over competitors who do not know or use it." RESTATEMENT OF TORTS § 757 comment b at 5 (1939).

32. An essential element of a trade secret is its secrecy. See *Ungar Elec. Tools, Inc. v. Sid Ungar Co.*, 192 Cal. App. 2d 399, 403, 13 Cal. Rptr. 268, 271 (1961) ("The character of the secrets, if peculiar and important to the business, is not material; but it must, as the term implies, be kept secret by the one who creates it."); *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 166, 329 P.2d 147, 152 (1958) ("The character of the secret if important to the business is not material but it must, as the term implies, be kept secret by the

ment of a trade secret, and whether or not the employer successfully exercised his duty to preserve its secrecy has been litigated repeatedly.³³ If an alleged trade secret was easily ascertainable or known in the industry, then the trade secret was not really a "secret," and courts would not protect that commercial interest.³⁴ Furthermore, the possessor of the trade secret had the burden to demonstrate he took adequate steps to preserve the secrecy of his commercial interest before he could obtain judicial relief.³⁵ If he failed to meet this burden, trade secret protection was not granted.

b. determining misappropriation

The second condition for imposing liability under the Restatement was met if the employee misappropriated the trade secret one of four ways. The employee could be liable if he used or disclosed the trade secret after discovering the secret by improper means.³⁶ He could be liable if he used or disclosed the trade secret after the secret was revealed to him in confidence.³⁷ Also, a person could misappropriate a trade secret if he learned of the trade secret, with notice that it was a secret, from

one who claims it."); *California Intelligence Bureau v. Cunningham*, 83 Cal. App. 2d 197, 203, 188 P.2d 303, 306 (1948) ("The fundamental difference in the decisions, as we read them, is whether in a given case the knowledge gained by an employee is secret and confidential.").

33. *See, e.g., Ungar Elec. Tools*, 192 Cal. App. 2d at 400-01, 13 Cal. Rptr. at 270 (trade secret established because plaintiff had "taken reasonable precautions to preserve information concerning the ingredients used in its products . . . and had taken such reasonable precautions to preserve its technique and process of manufacturing and assembling as secret and confidential").

34. RESTATEMENT OF TORTS § 757 comment b at 5-6 (1939). "Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret." *Id.* *See also Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 246 P.2d 11 (1952) (plaintiff's customers were not preferred customers, and their identities were easily ascertainable by the public).

35. *See supra* note 33. In addition, one of the factors in determining whether or not a protectable trade secret exists includes "the extent of measures taken by him [the trade secret holder] to guard the secrecy of the information." RESTATEMENT OF TORTS § 757 comment b at 6 (1939).

36. RESTATEMENT OF TORTS § 757(a) (1939).

Although the comment to the Restatement concludes that "[a] complete catalogue of improper means is not possible," *Id.* § 757 comment f at 11 (1939), the comment provides excellent examples of what would constitute "improper means" under § 757(a). For example, a person who "uses physical force to take a secret formula from another's pocket, or breaks into another's office to steal the formula . . . [or makes] fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage" to gain a trade secret, has used "improper means" within the meaning of § 757(a) and is subject to liability. *Id.* at 10-11; *see also* 4 CAL. ANNOTS. TO THE RESTATEMENT OF THE LAW OF TORTS § 757 comment f at 16 (1959) (annotating California cases which deal with "improper means").

37. RESTATEMENT OF TORTS § 757(b) (1939); *see infra* notes 41-45.

a third party who either used improper means to gain the secret or breached a confidence reposed in him.³⁸ And, finally, a person could be liable if he used or disclosed a trade secret which was mistakenly revealed to him, and he had notice of its secrecy.³⁹

In the employer-employee context, the second type of misappropriation, misappropriation caused by a breach of confidence, is the most common.⁴⁰ Once hired, all employees have an implied duty to maintain the confidentiality of any trade secret entrusted to them by their employers.⁴¹ A misappropriation under section 757 occurred when an employee used or disclosed the secret, thus breaching his duty of confidentiality.⁴² However, the Restatement only faulted the employee if the employee had explicit or implicit notice of the confidential characteristic of the information.⁴³

To protect their trade secrets, employers have included restrictive covenants in employer-employee agreements to illustrate the confidential

38. RESTATEMENT OF TORTS § 757(c) (1939).

To be liable under § 757(c) there are two notice requirements imposed on the defendant. The defendant must have notice of the secrecy of the information and notice of the third party's wrongful conduct. *Id.* § 757 comment m at 16. Additionally, the defendant will be liable only if he had notice of the secrecy and of the third party's wrongful conduct *when*, not *after*, he first learned of the secret. *Id.* § 757 comment k at 14.

Regarding notice, the standard that the defendant will be held to is whether a "reasonable man would be put on inquiry and an inquiry pursued with reasonable intelligence and diligence would disclose the facts." *Id.* § 757 comment 1 at 15.

39. *Id.* § 757(d). Thus, the innocent, good faith acquirer of a trade secret, who mistakenly discovers a trade secret without notice of its secrecy, will not be held liable under the Restatement. However, if the mistaken acquirer later discovers that he possesses a trade secret, he has a good faith duty not to take advantage of the mistake and must not disclose or use the trade secret. *Id.* § 757 comment o at 17.

40. See 4 CAL. ANNOTS. TO THE RESTATEMENT OF THE LAW OF TORTS § 757 comment a at 8-9 & comment j at 17 (1959) for an extensive list of California cases which turn on the breach of trust and confidence theory.

While the first type of misappropriation, misappropriation by improper means, can take place in the employer-employee context, its emphasis is on the illegal means used to misappropriate the trade secret. It does not necessarily deal with our typical scenario in the employer-employee context where the employee leaves his place of employment and uses his former employer's trade secret in breach of a duty of confidence imposed on him through his employment. See *supra* note 20 and accompanying text. Of course, a defendant can be liable for *both* types of misappropriations if the employee used improper means in breaching his duty of confidentiality.

The third and fourth types of misappropriation, § 757(c) and § 757(d), do not usually take place in the employer-employee context. These impose liability *on a third party* who mistakenly acquires the trade secret or who obtains a trade secret *from an employee* who misappropriates the information. RESTATEMENT OF TORTS § 757(c), (d) (1939).

41. See *infra* note 50 and accompanying text.

42. RESTATEMENT OF TORTS § 757 comment j at 13-14 (1939).

43. *Id.* at 14.

nature of the information they wish to protect. These agreements are often presented to the employee soon after he starts work and may contain covenants not to compete as well as covenants not to disclose any information the employee gains during the course of his employment. Regarding the latter, California courts have generally held that covenants not to disclose valid trade secrets are neither unlawful restraints on trade nor a violation of California Business and Professions Code section 16600⁴⁴ to the extent they are reasonable⁴⁵ and protect only legitimate trade secrets.⁴⁶

A covenant not to disclose trade secrets in any employer-employee agreement is a common method of showing that the employee had explicit notice of the existence and confidential nature of a trade secret.⁴⁷ However, even if no agreement is made, California courts have held that an employee is still obligated not to reveal trade secrets.⁴⁸ As noted by

44. California Business and Professions Code § 16600, generally governing covenants not to compete, provides that: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." CAL. BUS. & PROF. CODE § 16600 (West 1964).

California courts distinguish covenants not to disclose information (such as trade secrets) from covenants not to compete. While the latter are regulated by § 16600 because they are viewed as a restriction on competition itself, California courts have not included the former in this interpretation. See *Gordon v. Landau*, 49 Cal. 2d 690, 694, 321 P.2d 456, 459 (1958) (parties' contract that the defendant would not solicit former customers did not violate § 16600); *State Farm Mut. Auto. Ins. v. Dempster*, 174 Cal. App. 2d 418, 425, 344 P.2d 821, 825 (1959) (§ 16600 does not apply to trade secrets); *Ingrassia v. Bailey*, 172 Cal. App. 2d 117, 124, 341 P.2d 370, 375 (1959) (contract not to *solicit* is distinguishable from a contract not to compete, the latter of which is prohibited by § 16600); *By-Buk*, 163 Cal. App. 2d at 164, 329 P.2d at 151 (agreement not to disclose trade secret "is not an unlawful restraint of trade unless it is more extensive than is reasonably required to protect the master's interests").

45. A typical issue concerning the reasonableness of covenants not to disclose is the scope of the contract. If the agreement is so encompassing or broad, it may be viewed as a restraint on competition and arguably a violation of Business and Professions Code § 16600. Also, since the parties cannot contract something that is not a trade secret, see *infra* note 46, the courts will not uphold an empty agreement. In contrast, if the scope of the contract is *too limited*, the employer may not fare any better since a narrow agreement may preclude protection for legitimate trade secrets that fall outside the express terms of the agreement.

Courts are at liberty to impose equitable principles to correct contractual defects. If the contract is too broad, the court may reasonably narrow the agreement and extend protection only to the legitimate trade secrets in question. If the contract is too narrow, courts can still find an implied confidential relationship outside the contract and hold the employee liable. In either case, litigating parties are subject to the court's discretion in interpreting the contract and applying these equitable doctrines. BROWN & ZELIN, *supra* note 1, at 139.

46. In examining these restrictive covenants, courts clearly require that a legitimate trade secret exist—"parties remain unable to stipulate by contract that something is a trade secret when in fact it is not." Pooley, *supra* note 4, at 53; see *State Farm*, 174 Cal. App. 2d at 426, 344 P.2d at 825 (contract does not create a trade secret where none exists).

47. See BROWN & ZELIN, *supra* note 1, at 136-37.

48. See *By-Buk*, 163 Cal. App. 2d at 164, 329 P.2d at 151 (where court held that "'an

the court in *By-Buk Co. v. Printed Cellophane Tape Co.*, “an express negative covenant not to make use of trade secrets or processes is not indispensable to the granting of the relief.”⁴⁹ The *By-Buk* court further concluded that “[e]very employee is under the *implied obligation* not to divulge or use confidential information which he acquires by reason of his employment.”⁵⁰ Similarly, the court in *Components For Research, Inc. v. Isolation Products, Inc.*⁵¹ held that even in the absence of an express agreement, the director had a *fiduciary duty* not to reveal trade secrets to his former company’s detriment. Thus, in *Components*, the court held that the defendant’s unlawful disclosure of manufacturing

express negative covenant not to make use of trade secrets or processes is not indispensable to the granting of the relief’ ”); *Empire Steam Laundry v. Lozier*, 165 Cal. 95, 130 P. 1180 (1913). In *Empire*, the court stated: “Equity always protects against the unwarranted disclosure and unconscionable use of trade secrets and confidential business communications.” *Id.* at 99, 130 P. at 1182. The *Empire* court found that a contract only shows the parties’ intent to create a trade secret, but is not the sole conclusive proof of a trade secret’s existence. Compare *Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 246 P.2d 11, where the court inferred that without a contract, an injunction barring trade secret disclosure would not be granted if the employee competes in a fair and legal manner. The facts suggest that the superiority of the product, *not* the personal relationship is key, and thus the defendant was not barred from acquiring former customers in his new business. *Id.*

This principle, that a contract is not necessary to hold an employee liable where there is a breach of trust, is also supported in the Restatement.

A breach of confidence under the rule stated in this Clause may also be a breach of contract which subjects the actor to liability under the rules stated 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 to him.

RESTATEMENT OF TORTS § 757 comment j at 13 (1939) (discussing liability for misappropriation under § 757(b)).

49. 163 Cal. App. 2d 157, 164, 329 P.2d 147, 151 (1958).

50. *Id.* (emphasis added); see also *Empire*, 165 Cal. at 99, 130 P. at 1182 (customer list of laundry route, even though partially prepared by defendant, belongs to plaintiff: “[D]efendant’s agency was one of trust and confidence. His duties were to serve well the customers of plaintiff, to increase the business of the plaintiff, to solicit new business and keep a complete and confidential list of all the customers.”); *Futurecraft Corp.*, 205 Cal. App. 2d at 283, 23 Cal. Rptr. at 207-08 (employer must show a legally protected trade secret and legal basis for relief, i.e., a covenant *or* a confidential relationship); *id.* at 285, 23 Cal. Rptr. at 208-09 (confidence limitation—employer must turn over to employee a pre-existing trade secret or else there may not be misappropriation of a trade secret); *id.* at 286, 23 Cal. Rptr. at 209 (if no pre-existing trade secret exists, employer must show that the employment relationship gave rise to duty of nondisclosure); *By-Buk*, 163 Cal. App. 2d at 164, 329 P.2d at 151 (“Such information is the property of the employer and the employee holds that property in trust for the employer and cannot use it in violation of his trust.”); *Reiss v. Sanford*, 47 Cal. App. 2d 244, 247, 117 P.2d 694, 696 (1941) (“The first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him.”) (quoting *Dupont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917)).

51. *Components for Research, Inc. v. Isolation Prods., Inc.*, 241 Cal. App. 2d 727, 729, 50 Cal. Rptr. 829, 831 (1966).

techniques for high electrical energy transmissions warranted money damages and an injunction. In essence, although a contract is not required to show proof of notice, the employer and employee frequently form such an agreement since the existence of a contract strongly suggests that the employer has invested effort to preserve the confidentiality of his trade secret and that the employee's duty of confidentiality is clearly known to the employee.

2. Remedies

Assuming that a misappropriation has occurred and a contract governing the disclosure of a trade secret was formed, a plaintiff could bring a cause of action for the breach of contract and receive any contractual remedies available.⁵²

If no contract was made, or, in addition to the relief for the breach of contract if a contract was formed, a plaintiff could seek remedies under section 757 of the Restatement for the misappropriation of the trade secret. The Restatement provided that the plaintiff could obtain "appropriate remedies under the circumstances" and suggested four types of remedies that were available: (1) damages for past harm, (2) injunction against future use, (3) accounting for the wrongdoer's profits, and (4) surrendering the secret to the owner for destruction.⁵³ Additionally, the Restatement was clear that the plaintiff was not limited to only one remedy.⁵⁴

The primary remedy sought by the employer in trade secret cases is injunctive relief. In determining whether or not an injunction should be issued, California courts first required that the employer truly have a protectable trade secret⁵⁵ and then considered the impact the injunction

52. See BROWN & ZELIN, *supra* note 1, at 143; see also *supra* note 45 (court may tailor the remedy to the contract).

53. RESTATEMENT OF TORTS § 757 comment e at 10 (1939).

54. *Id.* See, e.g., *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 107, 148 P.2d 9, 11 (1944) (plaintiff sought injunction and damages for alleged misappropriation of trade secret); *Futurecraft Corp.*, 205 Cal. App. 2d at 281, 23 Cal. Rptr. at 199 (plaintiff brought action for unfair competition and sought injunction, damages, and an accounting against a former employee); *Matthews Paint Co. v. Seaside Paint Co.*, 148 Cal. App. 2d 168, 168, 306 P.2d 113, 114 (1957) (plaintiff sought injunction and accounting of profits).

55. Courts will generally not grant injunctive relief unless the employee misappropriates a protectable trade secret belonging to the employer. See, e.g., *Fidelity v. Federal*, 217 Cal. 307, 314, 18 P.2d 950, 953 (1933) ("only where the employee is in the possession of secret information not readily accessible to others and acquired by reason of his employment [i.e., a protectable trade secret as defined under the Restatement will the courts] afford injunctive relief"); *Paraco v. Owens*, 166 Cal. App. 2d 777, 333 P.2d 360 (1959) (court refused to enjoin former employee from using employer's customer list since the employer failed to allege facts showing

would have on the employee.⁵⁶ In issuing an injunction, courts exercised great discretion in deciding what type of injunction to issue, determining the length of the injunction, and specifying its scope. The length of the injunction varied and, depending on the circumstances of the case, courts could issue a preliminary, temporary, or permanent injunction.⁵⁷ Although a minority of courts in other jurisdictions have been willing to issue permanent injunctions⁵⁸ barring the defendant from ever using the information even if the trade secret eventually becomes exposed, California courts have more reasonably limited the injunction to a reasonable time, measured by the time that a third party would need to legitimately discover or develop that secret.⁵⁹ Additionally, if an injunction was too broad in scope, California courts frequently modified injunctions, limiting them only to the trade secret in question.⁶⁰

Plaintiffs would often seek damages as well as injunctive relief for a trade secret misappropriation. Unfortunately, because the Restatement provided no guidelines regulating damages,⁶¹ courts disagreed on the circumstances in which damages were appropriate, and the amount that could be awarded to successful plaintiffs. For example, although courts had the authority to award damages, there were questions raised over the circumstances when damages could be awarded if coupled with a request for an injunction.⁶² Also, the types of damages available were uncertain.

that the list was a secret not generally ascertainable); *Matthews Paint Co. v. Seaside Paint Co.*, 148 Cal. App. 168, 306 P.2d 113 (same).

56. See *Matthews Paint*, 148 Cal. App. at 175, 306 P.2d at 117 ("The doctrine under which injunctive relief is granted should not be given application that would overemphasize the employer's right to the detriment of the employee by treating as confidential and secret all knowledge and information gained by the employee that might be of assistance to him . . .").

57. See, e.g., *Ingrassia v. Bailey*, 172 Cal. 2d 117, 341 P.2d 370 (preliminary injunction sustained enjoining defendant from using plaintiff's trade secret, a catering route list); *Advance Business Tels., Inc. v. Professional Data Processing, Inc.* 359 N.W.2d 365 (N.D. 1984) (temporary restraining order became permanent restraining order because defendant failed to show cause).

58. See *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204 (Tex. Civ. App. 1973).

59. See BROWN & ZELIN, *supra* note 1, at 144; Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 302 (1980).

60. See, e.g., *Components*, 241 Cal. App. 2d at 730-31, 50 Cal. Rptr. at 832 (court injunction modified to apply only to the *method or production* of the particular trade secret); *California Intelligence Bureau*, 83 Cal. App. 2d at 204-05, 188 P.2d at 307-08 (1948) (court injunction was modified so as to prohibit defendant from distributing a questionnaire, plaintiff's trade secret, to plaintiff's customers only; defendant allowed to distribute similar questionnaire to new customers).

61. Comment e to § 757 merely provided that damages for past harm was one of four remedies available to the plaintiff. RESTATEMENT OF TORTS § 757 comment e at 10 (1939).

62. Comment e to § 757 indicates that a plaintiff could seek both an injunction and damages under appropriate circumstances. See *supra* notes 53-54 and accompanying text. But see *Review of Selected 1984 California Legislation*, 16 PAC. L.J. 461, 731 (1985). The journal,

Compensatory damages were usually awarded, but in some circumstances, punitive damages⁶³ and compensation for lost profits⁶⁴ were allowed. In very limited circumstances, attorney's fees were granted to the successful party.⁶⁵ In making determinations on damages, courts based their decision on an ad hoc basis, weighing the facts of each case.⁶⁶ Unfortunately, since there were no clear rules available to guide employees and employers in trade secret disputes, both litigants were left uncertain as to the exact remedy "appropriate"⁶⁷ to their particular circumstances.

B. Policy Considerations

At the heart of trade secret disputes in the employer-employee context are two competing policies that pit the employer and employee against each other. These two policies—the privilege to compete and the limitations that must be placed on this privilege—are recognized in sec-

reviewing the California Act, cited *Gordon*, 49 Cal. 2d at 695, 321 P.2d at 459, for the proposition that "damages [were] awarded *only when* expiration of [an] agreement *precluded* injunction." 16 PAC. L.J. at 733 n.23 (1985) (emphasis added). However, a careful reading of *Gordon* reveals that damages were awarded because an injunction was inappropriate (time available for an injunction had elapsed). Had the plaintiff been able to obtain an injunction, the court's holding would not preclude the plaintiff from also obtaining damages as the journal suggests. *Gordon*, 49 Cal. 2d at 695, 321 P.2d at 459.

63. See, e.g., *Components*, 241 Cal. App. 2d at 730, 50 Cal. Rptr. at 832 (compensatory and punitive damages awarded against defendant who misappropriated plaintiff's trade secrets, a customer list and a manufacturing technique for transmitting electrical energy).

64. See, e.g., *Clark v. Bunker*, 453 F.2d 1006, 1011 (9th Cir. 1972) (applying California law) (plaintiff entitled to profits as part of damages for trade secret misappropriation); *Continental Car-Na-Var Corp.*, 24 Cal. 2d at 113, 148 P.2d at 14 (although it is not necessary to know the exact amount of profits which could have been derived, the court must be certain that profits would have been derived from the trade secret and that any loss of profits were clearly the result of the misappropriation; lost profits must not be uncertain or speculative); *Klamath-Orleans Lumber, Inc. v. Miller*, 87 Cal. App. 3d 458, 151 Cal. Rptr. 118 (1978) (plaintiff would have been entitled to lost profits from his trade secret had plaintiff requested an accounting for lost sales). See also *supra* notes 53-54 and accompanying text (accounting for the wrongdoer's profits is one of four remedies allowed under § 757 of the Restatement, and plaintiff is entitled to more than one remedy).

65. See BROWN & ZELIN, *supra* note 1, at 146 (comparing *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 267 F. Supp. 726 (S.D. Cal. 1966), *modified*, 407 F.2d 288 (9th Cir. 1969) (allowing attorney's fees when patent infringement also at issue) and *Glendale Fed. Sav. & Loan Ass'n v. Marina View Heights Dev. Co.*, 66 Cal. App. 3d 101, 135 Cal. Rptr. 802 (1977) (granting attorney's fees against third party by a party obligated to take legal action against defendant through the fault of that party) with *Pachmayr Gun Works, Inc. v. Olin Mathieson Chem. Corp.*, 502 F.2d 802 (9th Cir. 1974) (denying attorney's fees under California law)). Another commentator has stated that "[u]nder prior [California] law, attorneys fees were not recoverable unless a contract between the parties expressly provided that remedy." Pooley, *supra* note 4, at 53.

66. See BROWN & ZELIN, *supra* note 1, at 145 ("The potential measure of damages for misappropriation depends on the facts of each case . . .").

67. See *supra* note 54 and accompanying text.

tion 757 of the Restatement of Torts as the controlling forces which shape trade secret regulations.

There are important arguments and concerns advanced by both the employee and employer in support of their respective positions.⁶⁸ On one hand, the Restatement readily acknowledges that the employer and employee have a privilege to compete with each other, "includ[ing] a privilege to adopt [each other's] business methods, ideas or processes of manufacture."⁶⁹ This privilege to compete is based on the principle that society favors free competition and benefits when an employee can freely transfer ideas and communications from one place of employment to another in order to compete, foster new developments, and improve existing ideas.⁷⁰ However, the privilege is not absolute, and the Restatement heavily emphasizes the limitations necessarily placed on the privilege to compete. Some limitations, like patent and copyright laws, aim to promote the "progress of science and the useful arts" by rewarding protection to the creator for his new idea.⁷¹ Others, like trade secret law, are designed to prevent the improper use of an owner's idea or information and give the owner protection for what is lawfully his.⁷²

Hence, the clash becomes evident in the employer-employee scenario when the employer imparts to the employee some type of business information and the employee later leaves his employment, exercising his lawful right to change jobs. The degree of control the employer retains over his business information and the impact this control will have on the employee when he leaves is the primary subject of trade secret disputes in the employer-employee context. An understanding of the competing interests, in light of the policy considerations involved, is thus necessary to grasp the foundation and substance of trade secret law.

1. The employee's perspective

Laws protecting the employee's privilege to compete benefit and protect both society and the individual employee. Society benefits be-

68. In *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 23 Cal. Rptr. 198 (1962), the court stated that trade secret disputes involve "'a businessman[']s right] to be protected against unfair competition stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he is best suited. There are cogent socio-economic arguments in favor of either position.'" *Id.* at 286, 23 Cal. Rptr. at 209 (quoting *Wexler v. Greenberg*, 399 Pa. 569, 578, 160 A.2d 430, 434 (1960)).

69. RESTATEMENT OF TORTS § 757 comment a at 2 (1939). This privilege to compete is identified in the first sentence of the comments to § 757. *Id.*

70. Quittmeyer, *supra* note 12, at 626-27.

71. RESTATEMENT OF TORTS § 757 comment a at 2 (1939).

72. *Id.* comment a at 3 & comment b at 7.

cause the quality and quantity of goods generally improve when competition increases and restrictive barriers to ideas and information are removed.⁷³ As a result, society encourages competition and recognizes a privilege, as identified in the Restatement, for commercial businesses to adopt each other's methods,⁷⁴ including those which may or may not be secret. Additionally, excessive regulations and harsh, stringent controls protecting trade secrets are disfavored because of monopolies that may develop if businesses are allowed to hoard secrets and deny others access to information.⁷⁵

California courts also recognize the need to protect individual employees from excessive regulations and restraints that may bind the individual's capacity to earn a living.⁷⁶ The language employed by courts is stronger than that in the Restatement because courts recognize that the employee has a *right* as opposed to a *privilege* to compete, as long as the competition is "fairly and legally conducted."⁷⁷ What constitutes "fair and legal" conduct is debatable. Courts realize that stringent trade secret protection may prevent an individual who leaves one place of employment from ever obtaining meaningful employment elsewhere, and are thus cautious before enforcing such regulations.⁷⁸ There are many times

73. For a full discussion of the benefits society obtains from the employer's privilege to compete, see Quittmeyer, *supra* note 12, at 626-27.

74. RESTATEMENT OF TORTS § 757 comment a at 2 (1939).

75. *New Method Laundry Co. v. MacCann*, 174 Cal. 26, 30, 161 P. 990, 991 (1916) ("considerations of public policy and justice demand that . . . protection [of employer's property, i.e., trade secrets,] should not be carried to the extent of restricting the earning capacity of individuals on the one side, while tending to create or foster monopolies of industry on the other").

76. *See Paraco, Inc. v. Owens*, 166 Cal. App. 2d 777, 781, 333 P.2d 360, 363 (1959) (individual has *property right* to pursue any calling, business or profession); *Alex Foods, Inc. v. Metcalfe*, 137 Cal. App. 2d 415, 424, 290 P.2d 646, 652 (1955) (same); *see also Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 110, 148 P.2d 9, 12 (1944) (individual has an *inherent right* to follow any common occupation in life that he chooses); *New Method Laundry*, 174 Cal. at 31, 161 P. at 991 (the right to follow a common occupation is a property right that must be "zealously" guarded).

77. *See Continental Car-Na-Var Corp.*, 24 Cal. 2d at 110, 148 P.2d at 13 (1944); *Alex Foods*, 137 Cal. App. 2d at 424, 290 P.2d at 652 (1955); *see also Lloyd Pest Control v. Lopez*, 173 Cal. App. 2d 606, 610, 343 P.2d 757, 759 (1959) (where competition is fair, it should be encouraged).

78. *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 23 Cal. Rptr. 198. In *Futurecraft Corp.*, the court referred to an analogous case, *Wexler v. Greenberg*, 399 Pa. 569, 160 A.2d 430 (1960), involving a research chemist who developed chemical formulas for the plaintiff employer. The *Wexler* court concluded that the formulas were not trade secrets disclosed to the chemist, but formulas that the chemist developed by himself, through his expertise while in the pursuit of his duties under the plaintiff. The court in *Wexler* noted:

This problem becomes particularly significant when one recognizes that [the chemist's] situation is not uncommon. In this era of electronic, chemical, missile and atomic development, many skilled technicians and expert employees are currently in the process of developing potential trade secrets. . . . We must therefore be particu-

when trade secret protection may be unreasonable and equitable remedies should be denied. For example, there are incidents where an employee works at a place of employment for a long period of time, and through his employment, gains particular expertise and skills in a specialized field. Because his expertise is so limited, to bind this employee from exercising his skills or knowledge after employment would restrict his ability to gain similar employment elsewhere and use his special talents most productively.⁷⁹ Such a predicament is unfair to the employee. Every employee is necessarily "possessed of information" gained in one employment which will help him succeed in his next employment.⁸⁰ As one court stated, "[t]he court cannot compel a man who changes employers to wipe clean the slate of his memory."⁸¹

This situation is especially acute where an employee already possesses marketable skills and talents, becomes employed, and exercises his skills for the benefit of the employer.⁸² In such a case, the employer has not usually disclosed to the employee any *pre-existing* trade secrets.⁸³ Thus, the question arises whether the "misappropriated" trade secret was truly the employer's property. Courts should be extremely hesitant before restricting this type of employee because of the serious consequences involved. In these situations,

"any form of post-employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee's bargaining position [when seeking future employment] is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the indus-

larly mindful of any effect our decision in this case might have in disrupting this pattern of employee mobility, both in view of possible restraints upon an individual in the pursuit of his livelihood and the harm to the public in general in forestalling to any extent widespread technological advances.

Futurecraft Corp., 205 Cal. App. 2d at 284-85, 23 Cal. Rptr. at 208 (1962) (quoting *Wexler v. Greenburg*, 399 Pa. 569, 576, 160 A.2d 430, 433 (1960)) (emphasis omitted).

79. See *infra* text accompanying note 85.

80. *Matthews Paint Co. v. Seaside Paint Co.*, 148 Cal. App. 2d 168, 175, 306 P.2d 113, 117 (1957).

81. *Futurecraft Corp.*, 205 Cal. App. 2d at 288, 23 Cal. Rptr. at 210.

82. *Id.* at 282, 23 Cal. Rptr. at 207. *Futurecraft Corp.* involved an employee who had been previously employed in a similar technical field. The court, quoting the trial court, stated that "[the employee] carried with him a good deal of knowledge concerning the art, science and mechanics of valve design and manufacture, and a good deal of skill in the application of that knowledge . . . [m]uch, probably most, of that knowledge had been acquired at [the employee's previous place of employment]." *Id.*

83. *Id.* at 285, 23 Cal. Rptr. at 208.

try in which he is most productive."⁸⁴

. . . .
 . . . [Under such circumstances, the employee] would be deprived of the use of knowledge and skill which he gained which did not originate with [the] plaintiff.⁸⁵

As a result, "[p]rotection should be afforded when, and only when, the information in question has value . . . and where the granting of such protection will not unduly hamstring the ex-employee in the practice of his occupation or profession."⁸⁶

2. The employer's perspective

Courts recognize that an employee's ability to compete must be limited for two reasons—to reward the creator for the ingenuity of his idea and to punish the party who misappropriates someone else's idea for his own benefit.⁸⁷ While trade secret regulation does not specifically aim to reward the inventor for the development of an idea,⁸⁸ there is no question that strong protection encourages innovation.⁸⁹ Often, to develop a trade secret, the employer will exercise ingenuity and spend a great deal of time and money researching and developing an idea. In so doing, the employer takes a risk. Before his idea is transformed into some practical application, there is no guarantee that the research will pay off or that the idea will be successful. Once the idea is developed and in continuous use in the business, the employer can control his idea and limit third party access to the information through trade secret protection. Thus, trade secret protection is a reward for developing the idea, a means for obtaining greater control over the information and greater profits from the product, and a mechanism to cover the cost of research and develop-

84. *Id.* at 286, 23 Cal. Rptr. at 209 (quoting *Wexler v. Greenberg*, 399 Pa. 569, 579, 160 A.2d 430, 435 (1960)).

85. *Id.* at 288, 23 Cal. Rptr. at 210.

86. *Id.*, 23 Cal. Rptr. at 211 (quoting Kalinowski, *Key Employees and Trade Secrets*, 47 VA. L. REV. 583, 599 (1961) (emphasis in original)).

87. The court in *Futurecraft Corp.*, for example, recognized that a much greater degree of confidential business information must necessarily be entrusted to the employee because modern economic growth and development have forced business ventures to expand beyond the "one-man firm." As a result, employers can no longer keep all their business secrets to themselves and are forced to trust them to employees. *Id.* at 286, 23 Cal. Rptr. at 209.

88. The comments to § 757 of the Restatement clearly indicate that the primary goal of trade secret protection is to *punish* the misappropriator for wrongful conduct. RESTATEMENT OF TORTS § 757 comment a at 3 & comment b at 7 (1939).

89. For arguments supporting the view that trade secret protection is an incentive for innovation (versus punishment for wrongful conduct) and a market leverage incentive, see Quittmeyer, *supra* note 12, at 626-27; Robison, *supra* note 7, at 347-49.

ment. It faithfully rewards the owner for his creative efforts and motivates him to further innovate and develop new ideas.

Strong trade secret regulations, backed by judicial enforcement, deter the wrongful misappropriation of an employer's commercially valuable information. If an employee knows he will be punished for using or disclosing his employer's secrets, he will be discouraged from acting unethically as a result of coming in contact with a secret during the course of his employment.

There is a general trend toward enforcing high standards of fairness and commercial morality in trade secret law.⁹⁰ Section 757 was specifically designed to impose liability on the person who misappropriates a trade secret within the meaning of the Restatement, and California courts aggressively enforced the Restatement principles.⁹¹ When the employer has a legitimate trade secret, the secret is his property, and "[e]quity will, to the fullest extent, protect the property rights of employers in their trade secrets."⁹² In essence, through trade secret protection, an employer will not only have incentive to innovate but will also obtain protection for what lawfully belongs to him.

C. *Analysis under the Restatement*

In arguing a trade secret case in California, an employer had the burden of proving two elements: (1) a legally protected trade secret, and (2) a legal basis upon which to predicate relief.⁹³ In simpler terms, under the Restatement, a court's analysis of a trade secret dispute was two-fold. Courts first had to determine if a protectable trade secret existed and second, that a misappropriation of that secret, usually a breach of confidence, occurred.⁹⁴

The two requirements were indispensable. Each of the requirements in the two-part analysis addressed at least one of the two competing rights and interests previously discussed—the employee's right to enhance the skills of his trade through competition and the employer's

90. See *Peerless Oakland Laundry v. Hickman*, 205 Cal. App. 2d 556, 559, 23 Cal. Rptr. 105, 107 (1962) ("the courts will issue injunctions . . . to enforce increasingly high standards of fairness or commercial morality in trade"); see also UNIF. TRADE SECRETS ACT, 14 U.L.A. 542 (1980) ("One of the broadly stated policies behind trade secret law is 'the maintenance of standards of commercial ethics.'") (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974)). See generally J. SUTTON, *supra* note 2, at 8-9.

91. See *supra* note 7.

92. *Alex Foods*, 137 Cal. App. 2d at 424, 290 P.2d at 652.

93. See *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 283, 23 Cal. Rptr. 198, 207-08 (1962) (citing *Spring Steels, Inc. v. Molloy*, 400 Pa. 354, 363, 162 A.2d 370, 374-75 (1960) (quoting *Wexler v. Greenberg*, 399 Pa. 569, 577, 160 A.2d 430, 434 (1960))).

94. See *supra* note 40.

right to have his commercially valuable interests protected—and guaranteed that these competing interests would be balanced when deciding a trade secret dispute. If the court failed to thoroughly examine each requirement or neglected to consider one or both of them in its analysis, then the full meaning and intent of section 757, as expressed in the policies backing the Restatement, was shortchanged. If such a situation occurred and a competing interest was not properly addressed, the court's analysis was incomplete and either the employer or the employee would inadvertently be disadvantaged.

Specifically, in determining whether a protectable trade secret existed, courts had to determine that all the requisite elements of a trade secret, as identified in the Restatement and supporting case law, were sufficiently pleaded. In the employer-employee context, this placed upon the employer the burden of showing that the information in question was in continuous use in the business⁹⁵ and afforded him a competitive advantage over competitors who did not know of it or use it.⁹⁶ The employer also had to show that the secret was not easily ascertainable in the industry⁹⁷ and demonstrate that he took adequate steps to preserve its secrecy.⁹⁸

This proof was important for two reasons. First, it tested the plaintiff's claim to relief for a *protectable* trade secret. This was critical to the public policy recognizing the employee's right to compete, because if one of the elements of a trade secret was missing, then the trade secret was not a *protectable* trade secret, and it would be unfair to restrict the employee's ability to compete and earn a living elsewhere. If an employer failed to show that his alleged secret was not secret and confidential, for example, then the employer could not consider the secret his property.⁹⁹ According to case law, because the employee has a right to use anything that was not the employer's property,¹⁰⁰ the employee would not be held

95. See *supra* notes 27-28 and accompanying text.

96. See *supra* notes 23 & 29 and accompanying text.

97. See *infra* note 126.

98. See *supra* note 35 and accompanying text.

99. *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 114, 148 P.2d 9, 14 (1944).

100. See *California Intelligence Bureau v. Cunningham*, 83 Cal. App. 2d 197, 203, 188 P.2d 303, 306 (1948) ("An employee has a right, after cessation of employment, to use anything that is not the property of his employer.").

However, it is vitally important to remember that *if a protectable trade secret does exist*, the secret is considered the *employer's* exclusive property. See CAL. LAB. CODE § 2860 (West 1971), which provides that everything an employee acquires by virtue of his employment, except compensation, belongs to the employer. For a specific application of § 2860, see *Santa Monica Ice & Cold Storage Co. v. Rossier*, 42 Cal. App. 2d 467, 470-71, 109 P.2d 382, 383-84 (1941) (trade secrets are protected under § 2860 since they are the employer's property and cannot be used against the employer). See generally *Klamath-Orleans Lumber, Inc. v. Miller*,

liable for using the information in subsequent employment.

The first prong of the analysis also required the court to consider whether or not the employer performed his correlative duty to affirmatively protect his trade secret.¹⁰¹ Secrecy is one of the most important elements of a protectable trade secret. Thus, in order to determine if a trade secret is a "secret" warranting protection under the Restatement, one factor that the court will consider is the "extent of measures taken by [the employer] to guard the secrecy of the information."¹⁰² Unless "reasonable precautions" to preserve the secrecy of the information are taken,¹⁰³ the employer has failed his affirmative duty and liability will not be imposed. Consequently, if secrecy is not preserved, the trade secret is not a *protectable* interest, and public policy favoring the employee's right to use the information and compete would override the employer's right to have his secret protected.

Even if a protectable trade secret existed, the employee may still have a right to use the information if he did not misappropriate the secret since trade secret liability is enforceable only when a protectable trade secret, combined with a misappropriation, exists.¹⁰⁴ In the employer-employee context, a misappropriation usually occurred when the employee breached the implied duty to maintain the confidentiality of any trade secret entrusted to him.¹⁰⁵ Hence, the second part of the analysis, involving the existence of a misappropriation, is as important as the first for several reasons.

Like the first requirement, this analysis also placed limits on the employer's ability to obtain trade secret protection. Relief was not available

87 Cal. App. 3d 458, 465, 151 Cal. Rptr. 118, 121 (1978) ("where, in order to do business the employer is forced to impart such select information . . . the information hardly becomes part of the employees' knowledge which they may freely use at some later time. Rather, it remains the exclusive property of the employer which must be appropriately protected"); *Greenly v. Cooper*, 77 Cal. App. 3d 382, 392, 143 Cal. Rptr. 514, 521 (1978) (plaintiff's customer list, built up over time and after much work, is plaintiff's property); *Futurecraft Corp.*, 205 Cal. App. 2d at 283, 23 Cal. Rptr. at 207 (employer has a property right over his trade secrets, but does not have a monopoly over them); *Ungar Elec. Tools, Inc. v. Sid Ungar Co.*, 192 Cal. App. 2d 398, 403, 13 Cal. Rptr. 268, 271 (1961) (confidential information acquired by the employer is the employer's property which courts will protect); *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 164, 329 P.2d 147, 151 (1958) (trade secret is employer's property).

101. For a discussion of the employer's and employee's correlative rights and duties, see generally *Balancing Interests*, *supra* note 8, at 987-92.

102. RESTATEMENT OF TORTS § 757 comment b at 6 (1939).

103. *Ungar Elec. Tools*, 192 Cal. App. 2d at 401, 13 Cal. Rptr. at 270.

104. *Futurecraft Corp.*, 205 Cal. App. 2d at 288, 23 Cal. Rptr. at 210 (The employer "may well have a trade secret yet [the employee may] be privileged to use it by virtue of there being no covenant or breach of confidence.").

105. See *supra* note 40.

unless the employer sufficiently proved that a misappropriation occurred.¹⁰⁶ Unless the employer showed that the employee wrongfully used or disclosed the secret, the employee may have a right to use the information, even at a competing firm. Specifically, for a breach of confidence, the employer had the burden to show that a confidence was actually imposed on the employee and that the employee had reasonable notice that the secrets were given in trust.¹⁰⁷ In keeping with the public policy motivating section 757 liability, this analysis was important for the employee. Because a court had to conclude that a breach of confidence (i.e., misappropriation) actually took place, an employee who had no notice of the trust,¹⁰⁸ who acquired a trade secret in good faith,¹⁰⁹ or who legally discovered the employer's trade secret¹¹⁰ would not be liable because no misappropriation occurred. Since section 757 of the Restatement aims to punish a person for *wrongful* conduct,¹¹¹ an employee cannot be held liable if no wrongful conduct exists.

However, besides protecting the employee, the second prong was important because it also protected the employer in two ways. First, it emphasized the seriousness of the employee's duty of confidentiality.¹¹² While public policy supports the employee's right to compete, courts also recognize that a breach in the employee's correlative duty of confidentiality can severely limit this right. Additionally, the fact that the entire text of section 757 of the Restatement deals exclusively with defining misappropriation,¹¹³ shows that the employee's duty of confidentiality should not be taken lightly.

The second part of the analysis was important to the employee because it gave the employer a legal and enforceable claim to have his trade secret protected in a court of law if a misappropriation occurred. As mentioned earlier, the text of section 757 of the Restatement clearly identifies different types of misappropriations for which a person can be liable. An employer, applying section 757, could seek remedies against the employee who misappropriated his secret within the scope of section

106. See, e.g., *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 23 Cal. Rptr. 198 (plaintiff was denied relief because he failed to prove that the alleged "secrets" were misappropriated by the defendant).

107. See *supra* notes 42-43 and accompanying text.

108. See *supra* note 42 and accompanying text.

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

110. RESTATEMENT OF TORTS § 757 comment a at 4 (1939) (stating that there is no liability for *proper* discovery of a trade secret).

111. See *supra* note 88.

112. See *supra* note 101.

113. See *supra* note 22 and accompanying text.

757.¹¹⁴ By having a legal cause of action available, the trade secret owner can protect what belongs to him and also punish any wrongdoer who misappropriated his property.

Theoretically, a court's analysis of a trade secret dispute could be very simple. The court would first see if a protectable trade secret existed. It would determine whether all the elements of a trade secret were sufficiently pleaded. It would also make sure that the employer performed his duty and took adequate steps to preserve the secrecy of the information in question. If the court found that the secret was *not* a protectable trade secret, then the court's analysis would end. However, if the court concluded that a protectable trade secret existed, then the court would proceed to the second part of the analysis and determine if a misappropriation occurred.¹¹⁵ The court would consider if the employee used or disclosed the secret information, pursuant to one of the four types of misappropriations identified in section 757 of the Restatement. If the employee did not misappropriate the secret, then the plaintiff-employer lost and would be denied his requested relief. If there was a misappropriation, however, then the employer won and the analysis was complete—a protectable trade secret which was misappropriated existed, and relief could be granted.

In practice, a court's analysis rarely proceeded this smoothly. While some courts followed the model analysis described above,¹¹⁶ others took a "cafeteria" approach to trade secret analysis and misapplied section 757, picking and choosing different parts of the Restatement's requirements, or emphasizing one party's interest over another.¹¹⁷ Other courts

114. *Id.*

115. *Electro-craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897 (Minn. 1983) ("Without a proven trade secret there can be no action for misappropriation, even if defendants' actions were wrongful.").

116. *See, e.g., American Alloy Steel Corp. v. Ross*, 149 Cal. App. 2d 215, 308 P.2d 494 (1957). In *American Alloy*, the court examined plaintiff's fourth amended complaint and concluded that the plaintiff had failed to allege that the information in question, a customer list, was not readily accessible to others. The court also found that plaintiff's allegation that the list was secret and confidential was a "mere conclusion." *Id.* at 220, 308 P.2d at 497. Because the complaint did not state sufficient facts to show there was a trade secret, the plaintiff failed the first requirement, and thus, there was no protectable trade secret. Hence, the court's analysis was complete, and the court did not have to consider the second requirement, the showing of a misappropriation.

117. *See, e.g., Peerless Oakland Laundry Co. v. Hickman*, 205 Cal. App. 2d 556, 23 Cal. Rptr. 105 (1962). In *Peerless*, the court concluded that the employee breached his employer's confidence when he solicited the employer's customers for his own business. The court concluded that a breach of confidence existed because the information was confidential and not readily available to competitors, but failed to explicitly analyze whether the employer took adequate steps to preserve the information's secrecy or whether he gained a competitive advantage from the list. Although the court would probably have reached the same conclusion had

almost divorced themselves from the entire analysis and created new criteria for determining trade secret liability.¹¹⁸

A court should not be faulted, however, for taking an unconventional approach or for circumventing the full intent of the Restatement. The Restatement encouraged the problem since its principles, which when applied in their entirety would structure the proper framework for trade secret analysis, were randomly scattered throughout the text and the comments in a disorganized fashion.¹¹⁹ It failed to clearly specify what criteria determined a protectable trade secret.¹²⁰ Since section 757 and its comments were never codified in statute by any state, courts were free to deviate from the analysis on an ad hoc basis and select which parts, if any, they chose to apply.¹²¹ Because the Restatement was not uniformly applied, there was no guarantee that the employer's and employee's competing interests would be equally considered and no certainty that a fair resolution would result.

D. Customer Lists as Trade Secrets

A specific example of a court's problems in defining a trade secret and determining a misappropriation, while balancing the two competing interests, arises with customer lists.¹²² The list can be the most important factor to the economic survival and success of a business.¹²³ Frequently, both the employer and employee have spent extensive time and money to build up a customer list.¹²⁴ Unfortunately, as the following

it analyzed the two missing factors, the court should not have assumed this to be necessarily true.

118. See *supra* note 12 and accompanying text.

119. See *supra* note 11 and accompanying text.

120. For example, the employer's duty to take reasonable steps to preserve the secrecy of his trade secret is only one of several factors a court may look to in analyzing a trade secret case. RESTATEMENT OF TORTS § 757 comment b at 6 (1939). Because it is only a "factor" which the court may look to, courts differ on whether this duty should be analyzed before finding a protectable trade secret.

121. See *supra* note 12 and accompanying text.

122. Customer lists are trade secrets. See *State Farm Mut. Auto. Ins. Co. v. Dempster*, 174 Cal. App. 2d 418, 344 P.2d 821 (1959); RESTATEMENT OF TORTS § 757 comment b at 5 (1939).

123. See *Gordon v. Landau*, 49 Cal. 2d 690, 694, 321 P.2d 456, 459 (1958).

124. For example, the court in *Empire Steam Laundry v. Lozier*, 165 Cal. 95, 130 P. 1180 (1913) stated:

The names of the customers of a business concern whose trade and patronage have been secured by years of business effort and advertising, and the expenditure of time and money, constituting a part of the good will of a business which enterprise and foresight have built up, should be deemed just as sacred and entitled to the same protection as a secret of compounding some article of manufacture and commerce.

Id. at 102, 130 P. at 1183 (quoting *Witkop and Holmes Co. v. Boyce*, 61 Misc. 126, 131, 112

cases demonstrate, courts have not followed a consistent analysis in determining the ownership of customer lists.

Early common law courts granted the employer protection of his customer list if the list contained peculiar likes and habits of individual customers or information which, if known, would greatly aid an employee in competition against the former employer.¹²⁵ Courts reasoned that these specialized and preferred lists contained information not readily ascertainable to the public¹²⁶ and were thus the employer's absolute property or good will.¹²⁷

In handling trade secret cases dealing with customer lists, many courts refused to apply the specific criteria for trade secret liability required by section 757 of the Restatement. An early case, *Aetna Building Maintenance Co. v. West*,¹²⁸ for example, set out a five-part test to determine if the employer had a protectable trade secret. The *Aetna* court held that the employer *must* show that:

- (1) The information was confidential and not readily accessible to competitors;
- (2) The former employee solicited the customers of his former employer with intent to injure him;
- (3) The former employee sought out certain preferred customers whose trade is particularly profitable and whose identities are not generally known to the trade;
- (4) The business is such that a customer will ordinarily patronize only one concern; [and]
- (5) The established business relationship between the customer and the

N.Y.S. 874, 878 (1908)). See also *Greenly v. Cooper*, 77 Cal. App. 3d 382, 392, 143 Cal. Rptr. 514, 521 (1978) (customer list built up over time and effort constituted a trade secret).

125. See *Klamath-Orleans Lumber, Inc. v. Miller*, 87 Cal. App. 3d 458, 465, 151 Cal. Rptr. 118, 121 (1978) (because customers were not easily ascertainable, court concluded that plaintiff had a preferred and select customer list that added economic value to the business); *Santa Monica Ice and Storage Co. v. Rossier*, 42 Cal. App. 2d 467, 469, 109 P.2d 382, 383 (1941) (customer list was specialized and thus a trade secret; it was obtained through the personal contacts fostered by the employer and contained information on the customer's habits, customs and preferences).

126. See *Klamath-Orleans*, 87 Cal. App. 3d at 464-65, 151 Cal. Rptr. at 521 (court reasoned that plaintiff's list was not easily ascertainable in the industry because the customers' identities were not of common knowledge and were obtained only through substantial personal effort); *Greenly*, 77 Cal. App. 3d at 392, 143 Cal. Rptr. at 521 (1978) (court held that the customer's list from plaintiff's loan and brokerage firm, a trade secret, was not readily accessible to the public because it included "valuable information" such as the areas which a customer would or would not invest, the maximum amount of investment, and loan expiration dates).

127. Customer lists are the employer's absolute property and part of the employer's business good will. See *Gordon*, 49 Cal. 2d at 694, 321 P.2d at 459 (customer list is an asset to employer); *Empire*, 165 Cal. at 99, 130 P. at 1182 (customer list is employer's good will from the business); *Ingrassia v. Bailey*, 172 Cal. App. 2d 117, 123, 341 P.2d 370, 375 (1959) (customer list is asset to defendant's business).

128. 39 Cal. 2d 198, 246 P.2d 11 (1952).

former employer would normally continue unless interfered with.¹²⁹

Because of *Aetna's* strict five-part test, the plaintiff-employer in *Aetna* was unable to meet his burden of proving a protectable trade secret and was subsequently denied relief.¹³⁰

The reaction to *Aetna* varied. Some courts faithfully applied *Aetna's* strict five-part test,¹³¹ while others rejected it¹³² and applied only parts of

129. *Id.* at 204-05, 246 P.2d at 15.

130. *Id.* at 206-07, 246 P.2d at 16-17.

131. See generally *Greenly*, 77 Cal. App. 3d at 391, 143 Cal. Rptr. at 520; *Peerless Oakland Laundry Co. v. Hickman*, 205 Cal. App. 2d 556, 560, 23 Cal. Rptr. 105, 108 (1962); *Lloyd Pest Control v. Lopez*, 173 Cal. App. 2d 606, 610-11, 343 P.2d 757, 759-60 (1959); *Paraco, Inc. v. Owens*, 166 Cal. App. 2d 777, 782, 333 P.2d 360, 363 (1959).

Other courts recognize a test similar to *Aetna's*. The court in *California Intelligence Bureau v. Cunningham*, 83 Cal. App. 2d 197, 188 P.2d 303 (1948), for example, recognized that an employee should be enjoined from using information gained at his former employer's business if:

- (1) [T]he former employee is in possession of trade or business secrets or confidential information, or the like, not readily accessible to others;
- (2) the former employee solicits the customers of his former employer in a competing business with intent to injure his former employer's business;
- (3) the former employee solicits the customers of his former employer, who comprise a list of preferred customers whose trade is profitable to a supplier of a service, knowledge of whom is a trade secret and confidential;
- (4) one concern is usually patronized by a customer and the lists and names and addresses of the customers are considered secret and have the character of property;
- (5) there is an established business relationship between the customer and the former employer which, unless interfered with, normally continues.

Id. at 202, 188 P.2d at 306.

California Intelligence Bureau recognized a separate four-part test, stating that an injunction should only be issued where:

- (1) [T]he customers solicited (a) do not constitute a trade secret, or confidential information, or a confidential list in which a proprietary interest might be claimed, or (b) are commonly known to the trade and are called upon by salesmen for various companies, or are wholesale buyers whose names appear in directories and are so few in number that anyone might readily discover them, and the list of them is not secret or confidential;
- (2) the former employer is in open competition with others engaged in similar business, selling in an open, competitive market;
- (3) the former employee was a salesman of his former employer in a commercial field where there was no assurance of an order unless he could satisfy his customer that his product was better, cheaper, or more salable than that of his competitor, where the customer usually desired to examine, inspect and compare the product and prices offered to him and each sale was a distinct transaction, not necessarily implying that another will follow;
- (4) no secret or trust reposed in the former employee in the course of his employment is violated and no trade or business secret or confidential information is used by the former employee.

Id. at 202-03, 188 P.2d at 306.

132. See, e.g., *Hollingsworth Solderless Terminal Co. v. Turley*, 622 F.2d 1324, 1331 (9th Cir. 1980) (applying California law) (court took a harsh view of *Aetna's* five-part test: "Although in most instances where information will be protectible [sic] as a trade secret all five of the circumstances described by the court in *Aetna* will be present, we think California law is best viewed as not requiring a plaintiff to prove all five to prevail.").

the test¹³³ or resorted back to Restatement principles. In contrast with the court's view in *Aetna*, the court in *Klamath-Orleans Lumber, Inc. v. Miller*,¹³⁴ a more recent case, rejected *Aetna's* rigid test and placed greater emphasis on the Restatement's requirement of a breach of confidentiality to determine liability. Like the defendant in *Aetna*, the defendant in *Klamath-Orleans* left his employer and used his former employer's customer list for his own benefit. However, the *Klamath-Orleans* court, while not overruling *Aetna*, refused to hold the employer and employee to *Aetna's* rigid standards. According to the *Klamath-Orleans* court, it was sufficient that there was "substantial evidence to support the trial court's determination that *plaintiff's knowledge was confidential* and deserving of protection, and that defendants' ability to solicit both more selectively and more effectively was due to their extensive use of plaintiff's customer list—a patent act of unfair competition."¹³⁵ Thus, the second requirement of the Restatement, a showing of a breach of trust, and not the determination of a legitimate trade secret, was essential in *Klamath-Orleans*.

*Hollingsworth Solderless Terminal Co. v. Turley*¹³⁶ also found *Aetna's* test obsolete but on different grounds than *Klamath-Orleans*. According to the *Hollingsworth* court, the "most important consideration is whether the information [i.e., the customer list] is *readily accessible* to a reasonably diligent competitor or salesman."¹³⁷ In *Reid v. Mass Co.*,¹³⁸ the court held that even a public directory was a valuable asset since it included information, the expiration date of contracts, which was not *readily accessible* to competitors. Thus, the public directory, unlike the customer list in *Aetna*, was a trade secret that the court would protect from unauthorized use.

The goal of trade secret law is to prohibit the employee's actual use or disclosure of the confidential information.¹³⁹ Hence, in addition to proving ownership of the trade secret, the employer must successfully

133. See *Alex Foods, Inc. v. Metcalfe*, 137 Cal. App. 2d 415, 424-27, 290 P.2d 646, 652-54 (1955). The *Alex Foods* court specifically considered whether *Aetna's* requirements should be read "in the conjunctive and not in the alternative." *Id.* at 426, 290 P.2d at 653. While the court did not specifically say that the *Aetna* test should not be conjunctively applied, this is implied from the facts and the holding. The court then attempted to apply the facts of the case to *Aetna's* test. Even though the plaintiff employer met only four of *Aetna's* requirements and could not pass the fifth, the court was still willing to grant the employer relief.

134. 87 Cal. App. 3d 458, 151 Cal. Rptr. 118 (1978).

135. *Id.* at 466, 151 Cal. Rptr. at 121 (emphasis added).

136. 622 F.2d 1324 (9th Cir. 1980) (applying California law).

137. *Id.* at 1332 (emphasis added). See also *supra* note 127.

138. 155 Cal. App. 2d 293, 318 P.2d 54 (1957).

139. See *supra* note 88.

prove that the employee misappropriated the secret to the employer's disadvantage.¹⁴⁰ The employer can usually prove that the employee's use of a customer list should be enjoined if he can show that the employee solicited former customers. Equity bars solicitation, and the *Aetna* decision can be rationalized on the grounds that the employee did not solicit the former customers and thus should not be enjoined from using his former employer's customer list. In *Aetna*, the court reasoned that the defendant's act of informing former customers of change of employment did not constitute solicitation.¹⁴¹ Unfortunately, solicitation is not easy to identify. It still remains unclear where legitimate advertising and business practices end and where improper solicitation begins.¹⁴² Because no clear line distinguishes improper personal petition (as in *Klamath-Orleans*) from merely informing customers of new employment (as in *Aetna*), the cases involving customer lists illustrate the importance of balancing the employer's right to a protectable trade secret against the worker's right to engage in competitive business. In order to properly balance these two competing interests, courts must weigh the policies which are interwoven in the Restatement by carefully examining the unique facts of the case, the harm done, the ease of acquiring the information, the value of the list and the extent of the breach of confidence. In general, it appears that the clearer it is that the trade secret was acquired by the employee at the employer's place of business and not in the trade generally, the more likely that courts will find a misappropriated trade secret warranting judicial protection.

III. CALIFORNIA'S ADOPTION OF THE UNIFORM TRADE SECRETS ACT

A. *The Plain Language of the California Act*

In an attempt to clarify and establish common rules for trade secret

140. See *supra* note 104.

141. 39 Cal. 2d 198, 204, 246 P.2d 11, 15 (1952).

142. Courts recognize the difficulty of this line drawing process. See *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 112-13, 148 P.2d 9, 14 (1944) (acknowledging "the difficulty of drawing the line between methods or acts which may be denounced as conspiracies to acquire the business or any part of the business of competitors, and those which may be considered legitimate acts or methods of competition" and "the difficulty in many cases for the law to determine whether an employee should be permitted to solicit the patrons of his former employer"); *New Method Laundry Co. v. MacCann*, 174 Cal. 26, 35, 161 P. 990, 993 (1916) (holding that "[t]he line which terminates the limits where the rights of the plaintiffs end and those of the defendants begin is a difficult one to draw") (quoting *E.I. Du Pont de Nemours Powder Co. v. Masland*, 216 F. 271, 272 (D.C. Cir. 1914)).

disputes,¹⁴³ the National Conference of Commissioners on Uniform State Laws adopted the Uniform Trade Secrets Act in 1979 and recommended its enactment in all states.¹⁴⁴ California became the ninth state to adopt the Uniform Act,¹⁴⁵ and its version of the Uniform Act, which went into effect on January 1, 1985, is found in new California Civil Code sections 3426-3426.10 and California Code of Civil Procedure section 2036.2.¹⁴⁶

The California Act is this state's first statute which provides an independent, civil cause of action specifically for trade secret misappropriation.¹⁴⁷ Like the Restatement, the statute is comprehensive. It provides updated, uniform definitions of terms relating to trade secrets,¹⁴⁸ including a definition for trade secrets and misappropriation,¹⁴⁹ and authorizes injunctions,¹⁵⁰ damages,¹⁵¹ and other relief.¹⁵² In addition, the statute mandates trade secret protection during discovery¹⁵³ and establishes a

143. The Commissioners' Prefatory Note expressed the need for common rules due to the uneven development in state trade secrets law and the uncertainty of trade secret parameters.

Notwithstanding the commercial importance of state trade secret law to interstate business, this law has not developed satisfactorily. In the first place, its development is uneven. Although there typically are a substantial number of reported decisions in states that are commercial centers, this is not the case in less populous and more agricultural jurisdictions. Secondly, even in states in which there has been significant litigation, there is undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret.

UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 537 (1980).

144. *Id.*

145. *See supra* note 13.

146. While the basic body of the Uniform Act is contained in §§ 3426-3426.10 of the California Civil Code, the California legislature also enacted § 2036.2 of the Code of Civil Procedure as part of the California Act to instruct plaintiffs how to plead a cause of action for trade secret misappropriation under the new statute.

147. However, California has a criminal statute to govern trade secret misappropriation. CAL. PENAL CODE § 499c (West 1970 & Supp. 1986). For a summary of the different ways to bring a cause of action for trade secret misappropriation in California, *see supra* note 4.

148. CAL. CIV. CODE § 3426.1(d) (West Supp. 1985). *See also* UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 542 (1980). *See infra* note 158 for text of these sections.

149. CAL. CIV. CODE § 3426.1(b); *see also* UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 541-42 (1980). *See infra* note 174 for text of these sections.

150. CAL. CIV. CODE § 3426.2 (West Supp. 1985); *see also* UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 544 (1980). *See infra* notes 188, 193 & 197 for text of these sections.

151. CAL. CIV. CODE § 3426.3 (West Supp. 1985); *see also* UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 546 (1980). *See infra* notes 194 & 201 for text of these sections.

152. Besides injunction and compensatory damages, the California Act authorizes royalties, CAL. CIV. CODE §§ 3426.2(b) & 3426.3(b), exemplary damages, CAL. CIV. CODE § 3426.3(c), and attorney's fees, CAL. CIV. CODE § 3426.4 (West Supp. 1985); *see also* UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 544 (1980) (royalties); UNIF. TRADE SECRETS ACT § 3b, 14 U.L.A. 546 (1980) (exemplary damages); UNIF. TRADE SECRETS ACT § 4, 14 U.L.A. 548 (attorney's fees) (1980).

153. CAL. CIV. CODE § 3426.5 (West Supp. 1985); *see also* UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 548 (1980). *See infra* note 211 for text of these sections.

single statute of limitations for trade secret violations.¹⁵⁴

The California Act codifies the common law principles already established while providing greater trade secret protection for the employer. Nonetheless, the employee is not slighted because the Act indirectly safeguards the employee's right to compete by placing limits on the employer's ability to control secret information after the employment relationship is terminated. Thus, like California's common law under the Restatement, the statute recognizes both the employer's right to have his trade secret protected and the employee's right to pursue his professional calling. And like section 757 of the Restatement, a similar two-prong test exists to balance these competing interests.¹⁵⁵ Under the California Act, trade secret liability is present only if (1) a protectable trade secret exists, and (2) there is proof that the secret has been misappropriated.

However, there are several fundamental differences between the Restatement and the California Act. And, although the California Act generally carries forward the common law test for determining trade secret liability, the language of the California Act, to the extent that it modifies or clarifies the common law, must apply. This section dissects the California Act, focuses on how the California Act and Uniform Act (collectively referred to as "the Act") differ from section 757 of the Restatement and highlights the areas of the California Act which significantly differ from the Uniform Act.

1. Definitions: Defining a protectable trade secret and determining misappropriation

- a. *defining a protectable trade secret*

There is a clear consensus that the Act's definition of a protectable trade secret is broader than the Restatement's¹⁵⁶ and thus provides much greater protection to the employer for his commercial information.¹⁵⁷ Under the Act, three requirements for a trade secret must plainly exist before a court will grant protection: (1) the secret in question must be

154. CAL. CIV. CODE § 3426.6 (West Supp. 1985); *see also* UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 549 (1980).

155. It is important to keep in mind that the purpose of the Uniform Act was to *codify* existing trade secret law, not to overrule it. UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 538 (1980).

156. *See* Keene, Senate Daily Journal, Cal. Leg. 1983-84 Reg. Sess., at 13884; Klitzke, *supra* note 59, at 284-93 (1980); Pooley, *supra* note 4, at 51.

157. *See* Anderson & Martens, *Can You Keep a Secret? California's New Trade Secret Statute Affects Both Businesses and Their Employees*, BUS. TO BUS., July 1985, at 41.

information that (2) derives actual or potential, independent economic value from its secrecy and (3) has been the subject of reasonable efforts to maintain the secrecy of that information.¹⁵⁸

The first requirement, that the secret in question be information, is relatively easy to meet. The Act specifically defines trade secrets as “*information, including a formula, pattern, compilation, program, device, method, technique, or process.*”¹⁵⁹ This is similar to the Restatement which, although neglecting to specifically define trade secrets as “*information,*”¹⁶⁰ provided a similar laundry list of examples that commonly constituted trade secrets.¹⁶¹ However, it is broader in the sense that the Act construes *any information*, not merely those in the laundry list, as potential trade secrets.¹⁶² By generically defining trade secrets as “*infor-*

158. Compare the California Act which states:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

CAL. CIV. CODE § 3426.1(d) with § 1(4) of the Uniform Act:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

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

UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 542 (1980).

159. CAL. CIV. CODE § 3426.1(d) (emphasis added); UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 542 (1980) (emphasis added). See *supra* note 158 for text.

160. See *supra* note 25 and accompanying text.

161. See *supra* note 26 for the Restatement’s list of potential trade secrets. The following examples are typical trade secrets listed: formula, pattern (for a machine), device, compilation, manufacturing process, method, or customer list. RESTATEMENT OF TORTS § 757 comment b at 5 (1939). The Uniform Act includes these examples: formula, pattern, compilation, program, device, method, technique, or process. UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 542 (1980). In comparing the two, it is apparent that the Uniform Act includes all the examples listed in the Restatement except “customer list.” However, courts have interpreted the Uniform Act’s broad definition of “information” to include customer lists. See *NCH Corp. v. Broyles*, 551 F. Supp. 636 (E.D. La. 1982). Additionally, the Uniform Act specifically includes techniques and programs as potential trade secrets in its list, but the Restatement does not. One commentator observed the similarity between the Restatement and the Uniform Act and concluded:

Although the first *Restatement of Torts* did not, as noted above, provide a black letter definition of a trade secret, it did provide a concept which served as a forerunner of the Act’s definition Thus, while the *Restatement* did not, even in its comments, define a trade secret, it did tactily recognize, by its choice of examples, that a trade secret is information.

Klitzke, *supra* note 59, at 285.

162. Klitzke, *supra* note 59, at 288. “[T]he Act has defined the term ‘trade secret’ by phras-

mation," the plain language of the Act is purposely not all-inclusive and avoids the Restatement's problems in having to determine whether a particular commercial interest, if it were not listed in the laundry list, could even be considered a trade secret.¹⁶³

The second requirement, that the information derive actual or potential economic value¹⁶⁴ from its secrecy, is the Act's substitution for the Restatement's "competitive advantage" requirement.¹⁶⁵ However, the Act is a serious departure from section 757 because of the broad range of knowledge and information that fits within its scope. While the Restatement only safeguarded business information that was in "continuous use,"¹⁶⁶ the Act abandons this requirement and openly protects those secrets with *potential*, as well as *actual*, economic value.¹⁶⁷ The Act's authors reasoned that the change was necessary to include negative know how, that information which research proves would not work, since knowledge of negative information is just as valuable to a competitor as an idea that works.¹⁶⁸ Hence, ideas which the employer has not yet fully developed or put to use, or single and transitory events of a nonrecurring nature which are not in "continuous use" would qualify as trade secrets under the Act.

Additionally, the California Act and the Uniform Act significantly differ on this second requirement.¹⁶⁹ The California Act disposes of the

ing it in terms of the generic concept of 'information' and thereafter providing contours to the scope of relief by adding additional requirements." *Id.*

163. *Id.*

164. An earlier draft of the Uniform Trade Secrets Act used the words "commercial value" instead of "economic value." Although there is no explanation for the change in the comments, commercial value is a stricter standard than economic value. While economic value would include actual and negative information (i.e., information that does not work), commercial value would not include negative information since negative information does not have any present commercial value. *Id.* at 288-89.

165. While the Uniform Act does not include the competitive advantage requirement in its three-part test, the comments in the Uniform Act refer to the competitive advantage at least twice, indicating that the concept is not obsolete. UNIF. TRADE SECRETS ACT §§ 1 & 2 commissioners' comments, 14 U.L.A. 543, 546 (1980).

166. *See supra* notes 27-28 and accompanying text.

167. CAL. CIV. CODE § 3426.1(d)(1); *see also* UNIF. TRADE SECRETS ACT § 1(4)(i), 14 U.L.A. 542 (1980).

168. UNIF. TRADE SECRETS ACT § 1 commissioners' comment, 14 U.L.A. 543 (1980).

169. *See supra* note 158. California has amended the Uniform Act twice. The first, that the secret derive value from not being "generally known to the public or other persons who can obtain economic value from its disclosure" differs from the Uniform Act in that the Uniform Act only requires that the secret be not generally known to "other persons who can obtain economic value from its disclosure." "Other persons" is an easier standard than the "public" standard, but there is no significant difference between the Acts since the California Act includes both standards. According to the comments to the Uniform Act, "other persons"

does not require that information be generally known to the public for trade secret

Uniform Act's mandate that the information in question derive its independent economic value from "not being readily ascertainable." Many trade secrets have stumbled on the "readily ascertainable" requirement,¹⁷⁰ and because the authors of the California Act felt there were no clear guidelines available to determine when a secret was "readily ascertainable," this phrase was amended out of the legislation by the Senate before final passage of the bill.¹⁷¹

Secrecy is still a key element of a protectable trade secret, and under the third requirement of the Act, the employer still has a duty to take affirmative steps to protect his trade secret.¹⁷² Like the Restatement, absolute secrecy is not necessary under the Act. The standard for secrecy is reasonableness; prohibitively expensive safeguards against "flagrant industrial espionage" are not necessary.¹⁷³ Thus, the Act does not appear to depart from common law principles concerning secrecy. The Uniform Act and California Act do not differ on this issue.

b. determining misappropriation

Like the Restatement, even if a protectable trade secret exists, there is no liability under the Act unless the trade secret has been misappropriated. Although not specified in the same terms as the Restatement,¹⁷⁴

rights to be lost. If the principal person who can obtain economic benefit from information is aware of it, there is no trade secret. A method of casting metal, for example, may be unknown to the *general public* but readily known within the foundry industry.

UNIF. TRADE SECRETS ACT § 1 commissioners' comment, 14 U.L.A. 543 (1980) (emphasis added). Thus, according to the Uniform Act, if information were not generally known to the public (a tougher standard) but known to "other persons," i.e., in the industry (an easier standard), the trade secret protection can be lost. In California, the result of this hypothetical would be the same. Although California includes the "public" standard, because trade secrets can be lost if known to "the public" (tougher standard) or "other persons" (easier standard), it does not matter that it was known to the public (i.e., that it met the tougher standard). Additionally, if the information failed the easier standard, then it would also fail the tougher standard. The second amendment to the Uniform Act, the deletion of the "readily ascertainable" requirement, is significant and is discussed at length in the text accompanying *infra* notes 170-71.

170. See *supra* note 126.

171. See *infra* note 229 and accompanying text.

172. See *supra* notes 32-35 and accompanying text.

173. UNIF. TRADE SECRETS ACT § 1 commissioners' comment, 14 U.L.A. 543 (1980).

174. Section 1(2) of the Uniform Act states, in full, that misappropriation occurs if:

- (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

the gist of liability under the Act remains the same. According to the Act, a misappropriation of a trade secret involves the acquisition of information through improper means. The Act does not expressly define "improper means," but it states that improper means would include theft, bribery, misrepresentation, a breach of a duty to maintain secrecy, or espionage.¹⁷⁵ In addition, the California Act specifically exempts reverse engineering from its definition.¹⁷⁶

The Act also specifies different situations where misappropriation arises.¹⁷⁷ Misappropriation occurs when a person¹⁷⁸ knows or should know that the secret was acquired by improper means¹⁷⁹ or a person who used improper means to acquire the trade secret discloses the trade secret without express or implied consent,¹⁸⁰ knew or had reason to know that

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- (I) derived from or through a person who had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (C) before a material change of his 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(2), 14 U.L.A. 541-42 (1980). *See also* CAL. CIV. CODE § 3426.1(b) (California's provision on misappropriation is parallel to the Uniform Act's, except in contrast to § 1(b)(2)(C) of the Uniform Act, the California Act states: "[b]efore a material change of his or her position"). For a comparison with the Restatement's definition of misappropriation, see *supra* note 22 and accompanying text.

175. The Uniform Act states: "'Improper means' includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 541 (1980). In addition, the comments provide that proper means include:

1. Discovery by independent invention;
2. Discovery by "reverse engineering" . . . ;
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.

Id. commissioners' comment at 542.

176. The California Act, in comparison with the Uniform Act states: "'Improper means' includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. *Reverse engineering or independent derivation alone shall not be considered improper means.*" CAL. CIV. CODE § 3426.1(a) (emphasis added).

177. *See supra* note 174.

178. "Person" under the Uniform Act means "a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity." UNIF. TRADE SECRETS ACT § 1(3), 14 U.L.A. 542 (1980). *See also* CAL. CIV. CODE § 3426.1(c) for California's verbatim definition.

179. UNIF. TRADE SECRETS ACT § 1(2)(i), 14 U.L.A. 541 (1980); CAL. CIV. CODE § 3426.1(b)(1).

180. UNIF. TRADE SECRETS ACT § 1(2)(ii)(A), 14 U.L.A. 541 (1980); CAL. CIV. CODE § 3426.1(b)(2)(A).

his knowledge was a trade secret (based on circumstances which gave rise to a duty of secrecy),¹⁸¹ or knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by mistake before a material change in his position.¹⁸²

In the employer-employee context, the Act still imposes liability upon an employee who breaches his duty of confidentiality.¹⁸³ However, the Act differs slightly from the Restatement on this point. Section 757 imposed liability for a breach of confidence that the employer "reposed in" the employee.¹⁸⁴ Under the Restatement, the employer had to affirmatively give the employee some kind of notice to "repose" in the employee the confidential nature of the information entrusted. The Act, in comparison, does not require such affirmative action. Under the Act, the employer does not have to take responsibility to "repose" a duty of confidence in the employee; instead, the employee's duty arises "under circumstances giving rise to a duty to maintain [the trade secret's] secrecy or limit its use."¹⁸⁵ The comments to the Uniform Act provide no guidance on how to interpret this phrase, and one commentator has suggested that the language will not make any significant changes.¹⁸⁶ Nevertheless, if a situation arose where the employer failed to "repose" in the employee, but circumstances indicated that the employee had a duty to maintain secrecy, the employee would arguably be liable under the Act but not under the Restatement.

2. Remedies

Unlike the Restatement where the types of relief available were uncertain,¹⁸⁷ the Act identifies the different remedies available, when they are appropriate, and the extent to which they can be applied. Additionally, unlike the Restatement, the Act authorizes attorney's fees in specific situations.

The first major remedy, injunctive relief, is significantly broader

181. UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(II), (III), 14 U.L.A. 542 (1980); CAL. CIV. CODE § 3426.1(b)(2)(B)(ii), (iii).

182. UNIF. TRADE SECRETS ACT § 1(2)(ii)(C), 14 U.L.A. 542 (1980); CAL. CIV. CODE § 3426.1(b)(2)(C).

183. *See supra* note 37.

184. *See supra* note 38 and accompanying text.

185. UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(II), 14 U.L.A. 541 (1980); CAL. CIV. CODE § 3426.1(b)(2)(B)(ii).

186. "However, the ultimate result may be the same [under the Uniform Act] as it was under the *Restatement* since the cases seem to indicate that it is the existence of the confidential relationship which is important, rather than its manner of creation." Klitzke, *supra* note 59, at 300.

187. *See supra* notes 53 and accompanying text & 61 and accompanying text.

than the Restatement because it applies to both actual and *threatened* misappropriation. The Act rejects the basic premise of the Restatement that liability is imposed only when the misappropriator *uses* or *discloses* a trade secret.¹⁸⁸ Instead, the Act authorizes injunctive relief for a *perceived threat* of harm, even though no actual harm has yet occurred. Thus, under the Act, an employer can legally enjoin an employee who walks off with a trade secret but has not yet used it.

Additionally, the Act clarifies the scope of injunctive relief available. While a minority of courts have issued permanent injunctions,¹⁸⁹ the Act mandates that an injunction should only "last for as long as is necessary, but no longer than is necessary, to eliminate the commercial advantage or 'lead time' with respect to good faith competitors that a person has obtained through misappropriation."¹⁹⁰ If necessary, the injunction may be continued for an additional period of time.¹⁹¹ Hence, while the wrongful employee will be enjoined from using the trade secret, the duration of the injunction will be limited to the time necessary to eliminate any lead time he may have gained over competitors from possession of the secret; he will not be permanently enjoined.¹⁹²

Also, under the Act, an injunction may condition further use upon the payment of a reasonable royalty in cases where it would be "unreasonable" to enjoin the use of the trade secret.¹⁹³ In addition, the California Act authorizes royalties where damages caused by the misappropriation cannot be proven.¹⁹⁴ The payment of royalties is a new

188. Section 2(a) of the Uniform Act provides in full:

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

UNIF. TRADE SECRETS ACT § 2(a), 14 U.L.A. 544 (1980) (emphasis added); *see also* CAL. CIV. CODE § 3426.2(a) (California deleted the word "reasonable" from its text).

189. *See supra* note 58 and accompanying text.

190. UNIF. TRADE SECRETS ACT § 2 commissioners' comment, 14 U.L.A. 544 (1980).

191. *See supra* note 188.

192. "It would be anti-competitive to continue to restrain [the misappropriator] after any lead time that [the misappropriator] had derived from misappropriation had been removed." UNIF. TRADE SECRETS ACT § 2 commissioners' comment, 14 U.L.A. 545 (1980).

193. Section 2(b) of the Uniform Act states in full: "If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited." UNIF. TRADE SECRETS ACT § 2(b), 14 U.L.A. 544 (1980); *see also* CAL. CIV. CODE § 3426.2(b) (the California Act follows the Uniform Act verbatim on this provision).

194. Section 3426.3(b) of the California Act provides in full: "If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited." CAL. CIV. CODE § 3426.3(b). Note that the Uniform Act has no comparable provision.

remedy under the Act and is an especially equitable solution to situations where a misappropriation has occurred, but public policy dictates that it may be *unfair* to enjoin the employee.¹⁹⁵ The amount of royalties, however, cannot be excessive. Like injunctions and damages, they can only be issued for the period of time that an injunction or damages would have been appropriate.¹⁹⁶

The third remedy, "affirmative acts," is found in section 2(c) of the Uniform Act.¹⁹⁷ Under this remedy, the court can order the defendant to perform acts that will protect the plaintiff's trade secret. This is a common law remedy that was available under the Restatement.¹⁹⁸ Although section 2(c) authorizes *any* "affirmative act,"¹⁹⁹ like the common law, it is most likely to be used by an aggrieved plaintiff to recapture the "fruits of [the] misappropriation."²⁰⁰

The rules governing damages,²⁰¹ the fourth major remedy, are much clearer than section 757 of the Restatement.²⁰² Under the Uniform Act, a plaintiff can seek damages for actual loss, profits, and any unjust enrichment to the extent that no double recovery takes place.²⁰³ Additionally, where there is "willful and malicious" prosecution, the court has the

195. The comments to the Uniform Act provide that royalties may be more appropriate at times when there is

an overriding public interest which requires the denial of a prohibitory injunction against future damaging use and a person's reasonable reliance upon acquisition of a misappropriated trade secret in good faith and without reason to know of its prior misappropriation that would be prejudiced by a prohibitory injunction against future damaging use.

UNIF. TRADE SECRETS ACT § 2 commissioners' comment, 14 U.L.A. 545 (1980).

196. *Id.* at 546.

197. Section 2(c) of the Uniform Act provides in full: "In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order." UNIF. TRADE SECRETS ACT § 2(c), 14 U.L.A. 544 (1980); *see also* CAL. CIV. CODE § 3426.2(c) (California's provision is the same).

198. *See supra* note 53 and accompanying text.

199. UNIF. TRADE SECRETS ACT § 2(c), 14 U.L.A. 544 (1980); *see also* CAL. CIV. CODE § 3426.2(c) (California's provision is the same).

200. UNIF. TRADE SECRETS ACT § 2 commissioners' comment, 14 U.L.A. 546 (1980).

201. Section 3 of the Uniform Act provides in full:

(a) In addition to or in lieu of injunctive relief, a complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

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

UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 546 (1980); *see also* CAL. CIV. CODE § 3426.3 (same as Uniform Act except that California Act omits phrase "[i]n addition to or in lieu of injunctive relief" and adds § 3426.3(b)). *See supra* note 194 for text of § 3426.3(b).

202. *See supra* notes 61-62 and accompanying text.

203. UNIF. TRADE SECRETS ACT § 3 commissioners' comment, 14 U.L.A. 547 (1980).

discretion to award exemplary damages up to twice the amount of the award.²⁰⁴ There are, however, several limitations. Like injunctions, damages are limited to the period of time when the information would be entitled to protection and any additional period the misappropriator retains a competitive advantage over other good faith competitors.²⁰⁵ Second, if the plaintiff requests damages and an injunction, compensatory damages will not be awarded during the time the injunction is in effect.²⁰⁶

Finally, the Act provides clear guidelines that were never specifically available in section 757 of the Restatement for granting attorney's fees.²⁰⁷ Since the purpose of attorney's fees is to deter spurious claims,²⁰⁸ courts may order reasonable fees where willful and malicious appropriation exists, a claim of misappropriation is made in bad faith, or a motion to terminate an injunction is made or resisted in bad faith.²⁰⁹ Since attorney's fees must be "reasonable," the comments suggest that an award for fees should take into account any exemplary damages already awarded.²¹⁰

3. Additional provisions

The Act provides guidelines in areas where section 757 of the Restatement was silent. For example, the Act permits a court to protect trade secrets during discovery through the use of "reasonable means."²¹¹ Under the Act, "reasonable means" includes, but is not limited to, grant-

204. UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 546 (1980).

205. UNIF. TRADE SECRETS ACT § 3 commissioners' comment, U.L.A. 547 (1980).

206. *Id.*

207. *See supra* note 65 and accompanying text.

208. In order to protect parties from frivolous suits and malicious litigation, reasonable attorney's fees are necessary. As one commentator observed, because trade secret litigation is extremely expensive and disruptive, it is capable of being used as an anti-competitive, extortionary tool. Pooley, *supra* note 4, at 53.

209. Section 4 of the Uniform Act provides in full: "If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party." UNIF. TRADE SECRETS ACT § 4, 14 U.L.A. 548 (1980); *see also* CAL. CIV. CODE § 3426.4 (text is the same).

Also, since the California Act does not appear to conflict with § 128.5 of the California Code of Civil Procedure, which permits an award of sanctions when a motion is made or resisted in bad faith, attorney's fees may also be awarded at the preliminary injunctory hearing. Pooley, *supra* note 4, at 53.

210. UNIF. TRADE SECRETS ACT § 4 commissioners' comment, 14 U.L.A. 548 (1980).

211. Section 5 of the Uniform Act provides in full:

In an action under this Act, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

ing protective orders, holding in-camera hearings, sealing the records of the secret and prohibiting the disclosure of the trade secret without prior court approval.²¹² The party alleging the misappropriation, however, is required to identify the trade secret with "reasonable particularity" before initiating discovery under the California Act.²¹³

Although the Act does not supersede prior statutory or case law regulating trade secrets,²¹⁴ the Act imposes a uniform three year statute of limitations from the time the misappropriation is discovered or should have been discovered with reasonable diligence.²¹⁵ Before, under common law, the statute of limitations varied, depending upon which legal basis the action was brought.

Specifically, the California Act applies to all misappropriations occurring after January 1, 1985. If a misappropriation began before this date and continued into 1985, the California Act applies only to that part of the misappropriation occurring after January 1, 1985.²¹⁶

B. Policy Considerations

The California Act is a potentially dangerous weapon against employees and the rights and privileges they have earned relating to trade secret law. Applied incorrectly, it can be used to unreasonably restrict

UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 548 (1980); *see also* CAL. CIV. CODE § 3426.5 (same language except that California Act uses word "title" instead of "Act").

212. *See supra* note 211.

213. Section 2036.2 of the California Code of Civil Procedure provides: "In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act . . . the party alleging the misappropriation shall identify the trade secret with reasonable particularity." CAL. CIV. PROC. CODE § 2036.2 (West Supp. 1985). There is no comparable provision in the Uniform Act.

214. Section 3426.7(a) of the California Act provides in full: "Except as otherwise expressly provided, this title does not supersede any statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets." CAL. CIV. CODE § 3426.7(a) (West Supp. 1985). The Uniform Act does not have a comparable provision.

215. Section 6 of the Uniform Act provides in full: "An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim." UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 549 (1980). *See also* CAL. CIV. CODE § 3426.6 (California's provision is the same).

216. Section 3426.10 of the California Act provides in full:

This title does not apply to misappropriation occurring prior to January 1, 1985. If a continuing misappropriation otherwise covered by this title began before January 1, 1985, this title does not apply to the part of the misappropriation occurring before that date. This title does apply to the part of the misappropriation occurring on or after that date unless the appropriation was not a misappropriation under the law in effect before the operation of this title.

CAL. CIV. CODE § 3426.10 (West Supp. 1985). The Uniform Act does not have a comparable provision.

the employee's mobility and upset the delicate balance existing between the employer and employee. The Uniform Act was not intended for this purpose. The primary purpose of the Uniform Act was to codify existing common law principles and provide a uniform statute to govern trade secret disputes. Of course, in devising an act that created a cause of action for trade secret misappropriation, the authors of the Uniform Act also gave the employer a legal sword against the employee. However, the Uniform Act is not one-sided. Although the employer's position in trade secret disputes was strengthened, the Uniform Act included important concessions to the employee that strengthened his position as well.

The California Act takes the Uniform Act one step further. On one hand, it mirrors the Uniform Act enough so that the balance between the employer and employee's competing interests is still intact. Yet, buried in the statute's history are several significant changes that were strategically placed in the California Act and several amendments to the statute's original bill that were eventually deleted which indicated a bias toward the employer. Left unchecked, these biases could become strong enough to destroy the balance based on the original policies behind the Restatement—the privilege to compete and the limitations on this privilege.

The idea of a uniform state trade secrets act developed in 1968 when the American Bar Association considered the possibility of enacting a "uniform state law to protect against the wrongful disclosure or wrongful appropriation of trade secrets . . . maintained in confidence."²¹⁷ At that time, each state developed its own common law to govern trade secrets, and the idea of a uniform law, applicable to all states, was approached with caution. The primary concern of the American Bar Association at that time, in deciding whether or not to draft a uniform act, was the unresolved policy conflict between the federal patent and copyright laws, which encouraged public disclosure of ideas, and the developing state trade secret laws, which encouraged secrecy of commercial ideas, and any issues on federal preemption of state trade secret laws that might be raised.²¹⁸

Later, during the formulation of the Uniform Trade Secrets Act, the drafters' concern switched from federal preemption to the need for a uniform law to control the increasing trade secret litigation mushrooming in the different jurisdictions. From a national perspective, trade secret law was not developing satisfactorily.²¹⁹ While trade secret litigation rapidly

217. UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 538-39 (1980).

218. *Id.* at 537-40.

219. *Id.* at 537-38.

grew in some states, it hardly grew in others. As a result, the development across the nation was uneven—case law was inconsistent and remedies varied. Additionally, during this time, section 757 of the Restatement, the most commonly applied principle of trade secrets, was deleted from the Second Restatement of Torts, indicating a greater need for a new uniform standard.²²⁰ All this, combined with the dissatisfaction over patent and copyright laws and the problems with section 757 of the Restatement, made the Uniform Act ideal.

Unlike the Restatement which was specifically sensitive to the employer's and employee's competing interests during drafting, the initial and apparent goal of the Uniform Act was to create a workable trade secret law that could be readily adopted by all states and minimize the inconsistencies in state common law.²²¹ However, in drafting a new trade secret law, especially one with the impact the Uniform Act would potentially have, the Act inevitably touched on the competing interests that revolved around the employer-employee context.

1. The employer's perspective

On its face, the Uniform Act appears to broaden trade secret protection for the employer. This is evident in several provisions in the Act. First, the definition of a protectable trade secret is broader than in the Restatement.²²² Under the Uniform Act, protection is opened to all types of information including that which is not in continuous use in a business. Negative information or information not used in years, for example, could now be protected under the Uniform Act but could not under the Restatement. This benefits the employer in several ways. Obviously, the employer's burden of proving a protectable trade secret is less since commercial interests can easily qualify as "information" under

220. See *supra* note 9 and accompanying text.

221. The Commissioners' Prefatory Note to the Uniform Act provides:

The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law. The Uniform Act also codifies the results of the better reasoned cases concerning the remedies for trade secret misappropriation.

UNIF. TRADE SECRETS ACT commissioners' prefatory note, 14 U.L.A. 538 (1980).

The Commissioners' summary was repeated by Assemblyman Elihu Harris, author of Assembly Bill 501, introducing the Uniform Act in California, in his letter to Governor George Deukmejian urging the Governor's signature on A.B. 501. Letter from Elihu Harris to Governor George Deukmejian (Sept. 12, 1984) (copy on file at *Loyola of Los Angeles Law Review*).

222. For a general discussion on the California Act's definition of a trade secret, see *supra* notes 158-73 and accompanying text.

the Uniform Act. In addition, since more information falls within the scope of the Uniform Act, the employer benefits because there are greater restrictions on the types of information an employee can use after employment. Second, stronger remedies are available to the plaintiff employer.²²³ The Uniform Act not only authorizes an injunction for actual and *threatened* misappropriation, but also provides royalties, damages (including profits, unjust enrichment, and exemplary damages up to two times the award) and attorney's fees under proper circumstances. Thus, the employer's right to protect his trade secret is greater because of the wide variety of ways he can recover his property. Last, the employee's duty of confidentiality remains intact.²²⁴ Like the Restatement, the employer can hold the employee legally liable for a trade secret which is acquired, used or disclosed through improper means, including a breach of confidence.

On one hand, the legislative history of the California Act appears harmless. Assembly Bill 501, introducing the Uniform Trade Secrets Act in California, passed the Assembly and Senate unanimously without much controversy.²²⁵ Additionally, much of the argument in support of

223. For a general discussion on the remedies available under the California Act, see *supra* notes 187-210 and accompanying text.

224. For a general discussion on misappropriation under the California Act, see *supra* notes 174-86 and accompanying text.

225. Assembly Bill 501 passed in the Assembly 76 to 0 on May 5, 1983, and the bill passed in the Senate 77 to 0 on August 29, 1984. Cal. A.B. 501, 1983-84 Reg. Sess., Assembly Final History, at 377.

The legislative history of A.B. 501 indicates that the bill went through five versions before it was approved and adopted by the Governor on September 30, 1984. No drastic changes to the Uniform Act were made in the California Act, but a few subtle and important differences should be noted, and the California legislature took the opportunity to refine the Uniform Act in important areas before the bill's adoption.

The first version of A.B. 501 was an exact copy of the Uniform Act, and it was introduced by Assemblyman Elihu Harris on February 7, 1983, and referred to the Assembly Committee on Judiciary on February 15, 1983. See *infra* note 227 for background on Mr. Harris. Upon passage, the bill was to apply to misappropriations occurring after January 1, 1984 (the Senate later amended this date, on July 6, 1984, to January 1, 1985).

The Assembly amended the bill on April 21, 1983, and May 3, 1983, and the Senate later amended the bill on July 6, 1984, and August 15, 1984.

The Assembly Amendments on April 21, 1983, were as follows:

(a) changed the amount of time an injunction may be continued from a "reasonable period of time" to a "period of time." See *supra* note 188 for the text of § 2(a) of the Uniform Act and § 3426.2(a) of the California Act.

(b) added to the California version of the Uniform Act § 3426.3(b) that a court order "reasonable" royalties if damages or unjust enrichment caused by the misappropriation were not provable. See *supra* note 194 for the text of § 3426.3(b) of the California Act. Note, however, even though the Uniform Act does not contain a parallel provision, the idea of royalties as a remedy is not new to the Uniform Act. Uniform Act § 2(b) and its parallel counterpart, California Act § 3426.2(b), recognized that royalties could be ordered if it would be

the bill appears neutral. Most of those arguments merely repeat the same concern expressed in the Commissioners' prefatory note of a need for a

unreasonable to issue an injunction. See *supra* note 193 for the text of § 2(b) of the Uniform Act and § 3426.3(b) of the California Act.

(c) added to the Uniform Act § 3426.7(b) (in this version it was technically added as § 3426.8) that the California Act does not affect any contractual rights or remedies currently available. CAL. CIV. CODE § 3426.7(b) (West Supp. 1985). See § 7b of the Uniform Act for the parallel counterpart. UNIF. TRADE SECRETS ACT § 7b, 14 U.L.A. 550 (1980). Note that § 3426.8 was permanently amended out of the California Act in the Senate's version on August 15, 1984.

(d) added to the Uniform Act § 3426.10 that the California Act would apply to a continuing misappropriation that occurred before January 1, 1984 (later, in the Senate, this date was changed to January 1, 1985), but *only* to the part of the misappropriation occurring on or after January 1, 1984. CAL. CIV. CODE § 3426.10 (West Supp. 1985).

(e) added § 2036.2 of the California Code of Civil Procedure which provides that the party alleging the misappropriation shall "identify the trade secret with particularity" before discovery begins. See *supra* note 213 for the text of § 2036.2 of the Code of Civil Procedure. Note that the July 6, 1984, Senate version of the California Act included an amendment requiring that the trade secret be identified with "reasonable" particularity.

(f) added § 6266 of the Government Code exempting state, local agencies, and their employees from damages if disclosure of a public record constituted a misappropriation of a trade secret unless the disclosure was made in bad faith. This section, however, was permanently amended out of the California Act in the Assembly's amended version on May 3, 1983.

The Assembly Amendments on May 3, 1983, were as follows:

(a) amended out § 6266 of the Government Code but added § 3426.7(c) to the Civil Code providing that the California Act would not affect the disclosure of a public record by a state or local agency under the California Public Records Act. CAL. CIV. CODE § 3426.7(c).

After A.B. 501 was read a third time and passed in the Assembly, the bill was sent to the Senate on May 5, 1983, and referred to the Senate Committee on Judiciary on May 12, 1983.

In the Senate, the bill was amended on July 6, 1984, and August 15, 1984.

The Senate Amendments on July 6, 1984, were as follows:

(a) amended § 3426.4 of the California Act to authorize an award of reasonable attorney's fees to the prevailing party if willful *or* malicious misappropriation was found. The Senate's amended version on August 15, 1984, permanently changed willful *or* malicious back to willful *and* malicious, as in the Uniform Act. See *supra* note 209 for the text of § 3426.4.

(b) amended § 3426.3(c) to increase limits on exemplary damages from two times *to three times* the amount of any award for willful *or* malicious misappropriation. The Senate's amended version on August 15, 1984, however, permanently changed the limit back to "twice the amount of award" and changed "willful or malicious" back to "willful and malicious" as found in the Uniform Act. See *supra* note 201 for the text of § 3426.3(c).

(c) deemed the Act effective on January 1, 1985 (In this particular version, this provision was originally § 3426.11. It became § 3426.10 in the August 15, 1984, version when § 3426.8 was entirely deleted and some sections of the California Act had to be renumbered). See *supra* note 216 for the text of § 3426.10.

(d) changed California Code of Civil Procedure § 2036.2 to include a requirement that the party alleging the misappropriation identify the trade secret with "reasonable particularity" instead of "particularity." See *supra* note 213 for the text of § 2036.2 of the Code of Civil Procedure.

The Senate Amendments on August 15, 1984, were as follows:

(a) amended § 3426.1(d)(1) of the California Act to delete from the definition of "trade secret" the requirement that the information derive independent economic value from being "readily ascertainable" from the Uniform Act. See *supra* note 158 for the text of

uniform law.²²⁶

However, besides uniformity, the California Legislature clearly intended the California Act to provide greater trade secret protection for the plaintiff employer. Assemblyman Elihu Harris,²²⁷ who introduced the California Act, urged the Act's adoption due to the growing reliance on trade secrets, the increasing importance of trade secret law due to interstate commerce, and the uncertainty of trade secret parameters and remedies for trade secret misappropriation.²²⁸

Several amendments and proposed amendments to Assembly Bill

§ 3426.1(d)(1) of the California Act. Note the Senate kept the requirement that the trade secret not be generally known to the *public*. *Id.*

(b) amended back the requirement of willful *and* malicious misappropriation for exemplary damages and reasonable attorney's fees in §§ 3426.3(c) & 3426.4 of the California Act. See *supra* note 201 for the text of § 3426.3(c) & note 209 for the text of § 3426.4.

(c) amended out then § 3426.8 which provided that the California Act does not affect any contractual rights or remedies.

(d) exempted "reverse engineering" from the definition of improper means in § 3426.1(a) of the California Act. See *supra* note 176 for the text of § 3426.1(a) of the California Act.

After passage in the Senate on August 27, 1984, the bill was sent back to the Assembly where the Senate amendments were concurred in on August 29, 1984, by a unanimous vote of 77 to 0. On September 6, 1984, the bill was enrolled and sent to the Governor. It was approved by Governor George Deukmejian and chaptered by the Secretary of State on September 30, 1984.

Copies of the five versions are available at the Los Angeles County Law Library, Los Angeles, California.

For a summary of the legislative history of A.B. 501, see Cal. A.B. 501, 1983-84 Reg. Sess., Assembly Final History, at 377.

For a succinct outline of the July 6, 1984, and August 15, 1984, Senate amendments, see Concurrence in Senate Amendments, Cal. A.B. 501, 1983-84 Reg. Sess. (unpublished document by the Assembly Office of Research) (copy on file at *Loyola of Los Angeles Law Review*).

226. According to the legislative history of A.B. 501, California's purpose in adopting the Uniform Act was to "assist in bringing clarity and uniformity in this important area of law" and codify the existing laws governing trade secret misappropriation through the "enactment of model legislation." See, respectively, Letter from Elihu Harris to Gov. George Deukmejian (Sept. 12, 1984) (copy on file at *Loyola of Los Angeles Law Review*); SENATE COMM. ON JUDICIARY, Cal. A.B. 501, 1983-84 Reg. Sess. 2, SELECTED BILL ANALYSES (1984) (Committee's analysis of the Uniform Trade Secrets Act).

227. Assemblyman Elihu Harris (D) 13th District, elected 1978. Chairman, Comm. on Judiciary; Select Comm. on Fair Employment Practices. Member, Assembly Comm'n on Criminal Justice; Economic Development & Planning; Labor & Employment; Transportation; and Subcomm. on Juvenile Justice; Select Comm. on Small Business; Joint Comm'n on Revision of the Penal Code and Special Legislative Investigating Comm. on the State Bar; Comm'n on Uniform State Laws; California Judicial Council. CAL. LEGISLATURE AT SACRAMENTO—BIOGRAPHIES AND PHOTOGRAPHS OF SENATE AND ASSEMBLY MEMBERS AND OFFICERS 1981-82 Reg. Sess. (1982) (copy on file at *Loyola of Los Angeles Law Review*).

228. See *supra* note 1. Assemblyman Harris' arguments, expressing the growing importance of trade secret protection over patent protection are almost verbatim quotes from the Commissioners' Prefatory Note.

501 reflect this second agenda. For example, one of the three requirements of a protectable trade secret under the Uniform Act is that the trade secret derive its economic value from not being "readily ascertainable" by proper means.²²⁹ The most serious damage suffered by employees under the California Act is the deletion of the phrase "readily ascertainable." This requirement, found in section 1(4)(i) of the Uniform Act, compelled the court to consider the ease with which the information in question could be ascertained from sources other than the trade secret. If the employer made the information available through reference books, published material, or on the open market, for example, then the information was arguably "readily ascertainable" and not a protectable trade secret. More often, it was unclear at what point information was "readily ascertainable." Where there was uncertainty, this may have meant that the secrecy of the information was in question and the information might not be worthy of protection.

Like most legislation, Assembly Bill 501 was the subject of the usual process of political compromise.²³⁰ Specifically, because of the uncer-

229. UNIF. TRADE SECRETS ACT § 1(4)(i), 14 U.L.A. 542 (1980).

230. Besides the Patent, Trademark, and Copyright Section of the State Bar's opposition to A.B. 501 (discussed in accompanying text), there were two other groups of opponents.

First, the California Rural Legal Assistance (CRLA) expressed concern that A.B. 501 might be "construed to limit public access to pesticide testing data under the Public Records Act. That Act exempts, from required disclosure, records which may not be disclosed pursuant to provisions of state law." According to CRLA, "there is a body of data submitted to the Department of Food and Agriculture relative to the health and environmental hazards and efficacy of pesticides that it licenses and regulates. It is crucial that the public have access to the data so that the public can participate in the Department's regulatory decisions." Comm. on Judiciary, Bill Digest on Cal. A.B. 501, 1983-84 Reg. Sess. 3-4 (April 25, 1983) (quoting the CRLA) (unpublished document) (copy on file at *Loyola of Los Angeles Law Review*). The CRLA's concerns are appeased in the California Act which includes § 3426.7(c) which states, in full:

This title does not affect the disclosure of a record by a state or local agency under the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1 of the Government Code). Any determination as to whether the disclosure of a record under the California Public Records Act constitutes a misappropriation of a trade secret and the rights and remedies with respect thereto shall be made pursuant to the law in effect before the operative date of this title.

CAL. CIV. CODE § 3426.7(c).

Second, various industries complained that:

[T]he latter provision [exempting agencies from releasing records which may not be disclosed pursuant to the provisions of state law] would freeze the evolution of trade secret law. While all cases of misappropriation not involving the disclosure of public records would be governed by the law contained in the Uniform Trade Secrets Act, in those instances involving the release of official records, the law superseded by the Act would apply.

SENATE COMM. ON JUDICIARY, Cal. A.B. 501, 1983-84 Reg. Sess. 7-8, SELECTED BILL ANALYSES (1984) (Committee's analysis on the Uniform Trade Secrets Act).

This opposition was easily appeased through the enactment of § 3426.7(a) of the California

tainty of the "readily ascertainable" requirement, the Patent, Trademark and Copyright Section of the State Bar heavily objected to its inclusion in the California Act. Due to their efforts, the phrase was removed from the legislation by the California Senate.²³¹ And, as a result, the trade secret owner profits because he has one less burden to meet in proving a protectable trade secret.

Other amendments adopted in the California Act also favor the employer over the employee. When a court issues a second injunction, for example, the California Act does not require that the additional period of time be "reasonable" like the Uniform Act.²³²

Additionally, there were several Senate amendments which, had they been adopted, would have strengthened trade secret protection for the employer. Most noteworthy are the amendments that would have made the awarding of attorney's fees easier by allowing fees for "willful or malicious" conduct (versus "willful and malicious" conduct),²³³ and the amendments that would have increased exemplary damages from two

Act which states in full: "Except as otherwise expressly provided, this title does not supersede any statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets." CAL. CIV. CODE § 3426.7(a).

231. The Patent, Trademark and Copyright Section (PTC) of the State Bar's arguments are not sound. It is noteworthy that the PTC never complained that the "readily ascertainable" standard was a bad requirement. Their primary complaint was that it was difficult to determine when something was readily ascertainable and that this uncertainty would generate much litigation: "[I]nclusion of the phrase 'readily ascertainable' only muddies the meaning of the term trade secret. . . . This opponent believes that making the existence of a trade secret dependent upon the information not being 'readily ascertainable' invites the various parties to speculate on the time needed to discover a secret." SENATE COMM. ON JUDICIARY, Cal. A.B. 501, 1983-84 Reg. Sess. 5-6, SELECTED BILL ANALYSES (1984) (Committee's analysis on the Uniform Trade Secrets Act). It appears that the PTC wanted to decrease excessive argument and have clear tests that convincingly proved or did not prove a trade secret. However, the "readily ascertainable" standard is a clear standard. Unlike the Restatement, where the criteria to determine a protectable trade secret was uncertain, the Uniform Act expressly selected this criteria. Standards are only unclear when one does not know which criteria will determine whether or not something is a trade secret. The fact that a chosen criteria, e.g., the "readily ascertainable" requirement, generates argument perhaps indicates its effectiveness. If there are many arguments, then the trade secret may or may not really be a secret.

Although this is the PTC's primary argument, it should be noted that the PTC also had two other arguments against the "readily ascertainable" phrase. First, "since the Penal Code Section 499c definition contains no such requirement, adoption of this formulate would divorce the civil law definition of a trade secret from the criminal law one, thereby generating unneeded confusion." *Id.* at 6. Second, they feared that "passage of the bill would endanger the confidentiality of the trade secrets of firms doing business in California. If companies doing business in other jurisdiction[s] obtained this information, commerce and jobs could conceivably flow out of state." *Id.*

232. Compare UNIF. TRADE SECRETS ACT § 2(a), 14 U.L.A. 544 (1980) with CAL. CIV. CODE 3426.2(a) (West Supp. 1985). See *supra* note 188 for the text of §§ 2(a) & 3426.2(a).

233. See *supra* note 225 (proposed Senate amendment on July 6, 1984).

times the amount of an award to *three* times the amount of an award.²³⁴

2. The employee's perspective

Although the California Act affords greater protection over trade secrets to the employer, the public policy supporting the employee's right to compete has not been totally eradicated. It is important to recognize that the Act was designed to codify common law, not erase it.²³⁵ Thus, the rights and duties established in common law, including the employee's right to compete, are still important policy considerations when analyzing the California Act.

To some degree, in fact, the employee's rights have actually been strengthened through specific provisions in the California Act. One of the most important protections to the employee's ability to use information obtained during the course of employment, for example, is the duty of secrecy imposed on the employer. The Act formalizes the employer's common-law duty to take reasonable efforts to ensure the secrecy of his information in its definition of a protectable trade secret.²³⁶ Unlike the Restatement where the issue of secrecy was discussed in the comments, not in the text of section 757, the authors of the Uniform Act apparently valued this duty enough to expressly include it in the text of the Act. Thus, no matter how much the information may look like a trade secret or how valuable the information may be to the employer, unless the employer fulfilled his duty, the trade secret would not be protected.

Second, the Act authorizes the judge to use discretion when granting relief.²³⁷ Thus, a judge has the ability to control the outcome of the litigation in light of public policy concerns and fairness to the parties involved. The Act's specific provisions limiting the scope of injunctions and providing for injunctions conditioning future use upon the payment of reasonable royalties,²³⁸ for example, indicates that the Act's drafters were aware of situations where it might be unfair to preclude an em-

234. *Id.*

235. *See supra* notes 221 & 226 and accompanying text.

236. *See supra* note 158.

237. *See supra* note 190 (for example, an injunction may be granted for a longer period of time if necessary) & note 195 (royalties are discretionary); UNIF. TRADE SECRETS ACT § 3 commissioners' comment, 14 U.L.A. 547 (1980) (exemplary damages are left to the judge's discretion); *Id.* § 4 commissioners' comment, 14 U.L.A. 548 (1980) (attorney's fees are discretionary).

238. *See supra* note 188 for the text of § 3426.2(a) of California Act (limiting the scope of the injunction) & note 193 for the text of § 3426.2(b) of the California Act (authorizing royalties).

ployee from using the information in question, even if the information was a protectable trade secret.

Last, California's adoption of Code of Civil Procedure section 2036.2,²³⁹ requiring that the party alleging the misappropriation (i.e., the employer) identify the secret with reasonable particularity before commencing discovery, illustrates that even the California Legislature desired limitations on the employer's right to protect his secret. The words "reasonable particularity" suggests that the employee is to be protected from the employer who makes bogus or vague claims. As a result, the employer must plead a valid cause of action for trade secret misappropriation before forcing an employee to defend a lawsuit.

C. Analysis under the California Act

As with any new statute, California courts will soon have an opportunity to apply the California Act and interpret its various provisions. This is a critical function. In construing the statute, courts will be allocating rights and responsibilities over commercially valuable information. If an incorrect analysis is applied against the employer, a court's decision could strip that employer of prized commercial secrets, possibly resulting in lost business. On the other extreme, an incorrect analysis applied against the employee can harm the employee by unreasonably restricting him from productively using the skills or knowledge of his trade in a meaningful way. Additionally, society can be hurt. Unreasonable regulations protecting trade secrets hinder the free transfer of information and ideas that make businesses more competitive and productive. In contrast, if a court fails to apply the Act when it should, protection under the statute is meaningless. Without protection, the incentive to develop better methods and products is reduced, since the employer loses the fruits of his labor.

Since various provisions of the California Act address the competing interests of both employers and employees, an overly narrow or overly broad construction of the California Act will upset the balance of these interests. However, because of the various guidelines available to the California courts to reach correct decisions, a proper analysis of the California Act should not be so difficult.

Foremost, in analyzing a trade secret dispute, the court should strictly follow the plain language of the statute. One of the greatest benefits of the California Act is the simple and direct analysis the statute provides to determine trade secret liability. Unlike section 757 of the

239. See *supra* note 213.

Restatement where one determined liability based on the text of section 757, its comments, and the various statutes and case law, the specific criteria for determining a protectable trade secret and misappropriation is explicitly clear in the California Act and should be particularly heeded by the court.

Second, in construing the statute, courts can also rely on out-of-state decisions which have already interpreted various parts of the Uniform Act to the extent that these decisions are applicable and do not contradict the California Legislature's intent behind the California Act. There is a rich source of decisions available, and these findings can be very helpful in analyzing the statute. Since the California Act is a uniform act, such analysis is appropriate and highly recommended. Section 3426.8 of the California Act, in fact, requires that the Act be "*applied and construed* to effectuate its general purpose to make *uniform the law* with respect to the subject of this title among states enacting it."²⁴⁰ Hence, to ensure the original goal of the Uniform Act, even development of trade secrets law, an examination of other state's decisions encourages consistent application of the Uniform Act.

Last, California courts should read the Act in light of public policy, as expressed in the common law and the legislative history of the statute. While the Act may contain strict requirements for analyzing a trade secret dispute, it also gives the court great discretion in other areas to apply equitable principles in light of public policy. For example, a court can exercise its discretion when authorizing the different remedies available and the extent to which they should apply. This ability to authorize remedies is a powerful tool for the court, and through its application, the court can and should adjust the rights and liabilities of the litigating parties to reach a fair decision for both parties involved.

Each of these three guidelines—the plain language of the statute, out-of-state court decisions, and public policy are important in a court's analysis. However, since the plain language of the California Act and the public policies involved have already been discussed, heavier emphasis will be placed on out-of-state court decisions concerning the Uniform Act.

Like the Restatement, in an action for trade secret misappropriation, the plaintiff has the burden of both establishing the existence of a legally protectable trade secret and proving that the trade secret was wrongfully appropriated under the California Act. Without a protect-

240. CAL. CIV. CODE § 3426.8 (West Supp. 1985) (emphasis added); see also UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 550 (1980) (parallel provision).

able trade secret, a misappropriation cannot take place, even if the defendant's actions were wrongful.²⁴¹ Thus, in every trade secret case under the California Act, the threshold inquiry is whether the information in question is a protectable secret, and courts should begin their analysis with this issue.

The California Act sets forth three requirements for a protectable trade secret. Under the Act, the trade secret must be (1) information that (2) gains potential or actual, independent economic value from not being generally known and (3) has been the subject of reasonable efforts to maintain the secrecy of that information.²⁴²

1. "Information"

As previously discussed, the plain language of the Act indicates that "trade secret" is broadly defined under the statute.²⁴³ This position is in agreement with out-of-state decisions.²⁴⁴ Information, as such, has not been limited to the named items in the Act's definition.

California courts should broadly consider commercial items as "information." Typical commercial interests not expressly included in the Act's definition, like customer lists, have already been construed as "information" within the meaning of the statute,²⁴⁵ and California courts should not expend great time or energy deciding these points. The court should consider the terms "information, including . . ." as terms of enlargement and look beyond the initial examples listed in the Act.

2. "Potential or actual, independent economic value from not being generally known"

Not all "information" will be protected under the California Act. Thus, California courts must also consider whether or not the information gains actual or potential, independent economic value from not being generally known. There are several ways in which other courts have determined if "economic value" exists. First, courts have examined the information's use (or nonuse) in the business.²⁴⁶ If the information is

241. *Electro-Craft Corp. v. Controlled Motions, Inc.*, 332 N.W.2d 890, 897 (Minn. 1983).

242. *See supra* note 158.

243. *See supra* note 156 and accompanying text.

244. *American Totalisator Co. v. Autotote Ltd.*, No. 7268 (Del. Ch. Aug. 18, 1983) (LEXIS, Del library, Cases file) (holding that "information" under the Uniform Act should be broadly construed).

245. *NCH Corp. v. Broyles*, 551 F. Supp. 636 (E.D. La. 1982) (holding that plaintiff's customer list constituted a trade secret within the definition of the Uniform Act).

246. *See supra* note 158 (text of § 3426.1(d) of California Act specifically states that information with actual or potential value may be protected).

currently being used in the business, it most likely has economic value. Or, if the information has *potential* use in the business, it has economic value. Second, if the information is worthless, it has no economic value, even if maintained in the business. An outdated customer list, for example, has no value even though it is used by a firm.²⁴⁷ Third, a court can consider the monetary value of the information in question. A particular computer system worth \$2,000,000, for example, was determined to be very valuable to the owner.²⁴⁸

Additionally, a court should look beyond the "economic value" of the information and consider the circumstances of the case to determine whether the information *derives* its value from being generally unknown. Again, there are several factors which a court might consider to decide whether this test is met. First, although the information may be valuable in one firm, if it is not suitable for a competing firm, it has no economic value.²⁴⁹ For example, if the competing firm does not have the machinery, finances, or capability to put the trade secret to use, the trade secret, for all practical purposes, is worthless to it. Second, the availability of the information has been used to determine value. For instance, if the information is a "one-of-a-kind" secret, then that information has value to its owner from not being generally known.²⁵⁰ Last, courts still consider whether the owner of the secret has a competitive advantage over other competitors from owning the trade secret. While the "competitive advantage" test was a common law requisite and is no longer required under the Act, many courts still apply that test.²⁵¹

3. Secrecy

As discussed earlier, the standard for secrecy is "reasonableness," and courts agree that unduly expensive methods to protect confidentiality are not required.²⁵² While absolute secrecy is not mandatory, a showing of mere intention to keep the information secret is not sufficient;

247. *Stephen, Inc. v. Ceccola*, No. 7578 (Del. Ch. July 9, 1984) (LEXIS, Del library, Cases file) (customer list did not have independent value because it was worthless and outdated).

248. *Aries Info. Sys., Inc. v. Pacific Mngmt. Sys.*, 366 N.W.2d 366 (Minn. 1985) (only plaintiff had the particular computer software which was worth \$2 million).

249. *American Hoechst Corp. v. Nuodex, Inc.*, No. 7950 (Del. Ch. Apr. 23, 1985) (LEXIS, Del library, Cases file) (defendant, a photograph film company, could not use plaintiff's "trade secrets" since the companies produced two different types of film).

250. *See supra* note 248.

251. *American Totalisator Co. v. Autotote Ltd.*, No. 7268 (Del. Ch. Aug. 18, 1983) (LEXIS, Del library, Cases file) (plaintiff's strategic plan was a trade secret and had value because it contained information not generally known in the industry and gave plaintiff an advantage over competitors).

252. *Technicon Data Sys. v. Curtis 1000, Inc.*, No. 7644 (Del. Ch. Aug. 21, 1984) (LEXIS,

affirmative acts are required.²⁵³

Unlike section 757 of the Restatement, however, the employer's duty to take affirmative steps insuring the secrecy of the information is formally embodied in the California Act. As a result, courts should pay close attention to the facts of a case to see that the employer fulfills this duty.

4. Misappropriation

In analyzing the misappropriation of a trade secret, most out-of-state courts have considered whether or not the trade secret was misappropriated. Some courts, when considering this issue, looked specifically for a breach of confidence to prove misappropriation.²⁵⁴ While most misappropriations in the employer-employee context involve a breach of confidence, a misappropriation can also occur where there is no breach of confidence but the employee has used improper means to acquire the trade secret.²⁵⁵ Under the California Act, misappropriation is defined in terms of "improper means" which includes not only wrongful means but also a "breach of a duty to maintain secrecy."²⁵⁶ Thus, when California courts consider whether or not a misappropriation has occurred, they should apply the specific language of the statute and look for some form of "improper means," whether or not the means involved a breach of confidence.

Under the Restatement, a court could pick and choose which criteria to use to determine trade secret liability. In contrast, all three requirements discussed are statutorily required by the California Act. Since all these requirements must be read conjunctively, a court should consider *each* element in its analysis. For example, any time one of the elements of a protectable trade secret or misappropriation is missing, the trade secret should not be given protection, and the court's analysis should immediately end.²⁵⁷

While some out-of-state courts avoid lengthy discussions regarding

Del library, Cases file) (although additional steps could have been taken, as long as plaintiff's steps were reasonable, plaintiff fulfilled his duty).

253. *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 901 (Minn. 1983).

254. *See, e.g., id.* at 897 (quoting *Jostens, Inc. v. National Computer Sys., Inc.*, 318 N.W. 2d 691, 701 (Minn. 1982)) ("We recognize that the confidential relationship is also a prerequisite to an action for misappropriation.").

255. *See supra* note 174.

256. *See supra* note 176.

257. *College Life Ins. v. Austin*, 466 N.E.2d 738 (Ind. 1984) (since trade secret failed "readily ascertainable" requirement of the Uniform Act, no protectable trade secret was found and court discontinued its analysis).

each element required for a protectable trade secret,²⁵⁸ most courts analyzing the Uniform Act have correctly faulted the plaintiff employer for conclusory pleading,²⁵⁹ incorrect allegations,²⁶⁰ or the failure to allege one of the three requirements.²⁶¹ Additionally, most courts should be applauded for applying the model perfectly.²⁶² However, it is disheartening that some courts, especially in light of the plain and simple test mandated by the Act, have found a protectable trade secret based only on one or two of the three factors.²⁶³ In those cases, the court failed to even mention the missing factor before reaching its conclusion.

California courts should avoid deficient analysis when applying the California Act. Incomplete analysis, especially when standards are so clear, is careless and violates the plain language and legislative intent of the statute. More important, faulty analysis may lead to unjust results. For example, it can be especially harmful to the employee if the third element, the requirement that reasonable efforts are taken to preserve the secrecy of the information, is neglected in the court's analysis. Even if the information gained independent economic value from not being generally known (i.e., the first two requirements), it may still not be the employer's property unless the employer took reasonable steps to preserve the secrecy of that information. Thus, the third element is one of the few, but certainly one of the most important, safeguards of the employee's right to compete, and a factor in determining who the trade se-

258. *See, e.g., Dickinson Medical Group v. Foote*, No. 834-K (Del. Ch. May 8, 1984) (LEXIS, Del library, Cases file) (court quickly analyzed trade secret definition under Uniform Act); *Tubular Threading v. Scandaliato*, 443 So.2d 712 (La. 1983) (court briefly analyzed trade secret under the Uniform Act definition and concluded that it derived economic value and was not generally known).

259. *See, e.g., Stephen v. Ceccola*, No. 7578 (Del. Ch. July 9, 1984) (LEXIS, Del library, Cases file) (plaintiff did not sufficiently plead cause of action for trade secret misappropriation); *American Hoechst v. Nuodex, Inc.*, No. 7950 (Del. Ch. Apr. 23, 1985) (LEXIS, Del library, Cases file) (plaintiff's claims of trade secrets were conclusory).

260. *See, e.g., Technicon Data Sys. v. Curtis 1000, Inc.*, No. 7644 (Del. Ch. Aug. 21, 1984) (LEXIS, Del library, Cases file) (plaintiff incorrectly concluded that the trade secrets were not readily ascertainable and that he maintained his duty of secrecy); *Steenhoven v. College Life Ins. of America*, 458 N.E.2d 661 (Ind. 1984) (plaintiff incorrectly concluded that the customer list was not readily ascertainable).

261. *See, e.g., United Wild Rice, Inc. v. Nelson*, 313 N.W.2d 628 (Minn. 1982) (plaintiff only alleged facts dealing with the reasonableness of his efforts to maintain secrecy of information).

262. *See, e.g., Kozuch v. CRA-MAR Video Center, Inc.*, 478 N.E.2d 110 (Ind. 1985) (court applied direct analysis from the Uniform Act); *Aries Info. Sys. v. Pacific Mngmt. Sys.*, 366 N.W.2d 366 (Minn. 1985) (same); *American Totalisator v. Autotote Ltd.*, No. 7268 (Del. Ch. Aug. 18, 1983) (LEXIS, Del library, Cases file) (same).

263. *See, e.g., Dickinson Medical Group v. Foote*, No. 834-K (Del. ch. May 8, 1984) (LEXIS, Del library, Cases file) (court concluded that trade secret existed without examining if plaintiff met the third requirement, the duty of secrecy).

cret really belongs to. If the information in question is not really the employer's property, then the employee should not be barred from taking that information and using it in subsequent employment. Unfortunately, if the court's analysis stopped after the first two requirements and neglected to consider the third, a different result could be reached. Based solely on the first two requirements, the court could conclude that a protectable trade secret existed and incorrectly bar the employee from using the information.

D. Practical Hypothetical

The following is a typical fact pattern involving two potential claims brought under the California Act.²⁶⁴

Preferred Video Systems is a small electronics company that offers the public membership in a video club. Members of Preferred's video club are allowed to purchase video equipment and video tapes at a discounted rate. The company employs approximately five highly motivated sales representatives who work for Preferred on a commission basis. Since the company's incorporation in 1970, the sales representatives have sold memberships only to people in Los Angeles County. Due to increased membership and a bright economic outlook, Preferred decided to market its product in the San Diego area. As a result, the company hired a new sales representative, Dirk Drake, who began working for Preferred on July 1, 1975, in order to develop a clientele for Preferred in the San Diego area. Previously, Drake had lived in the San Diego area, and was involved for ten years in video membership sales similar to those engaged in by Preferred.

Upon employment, Drake signed a confidential information agreement with Preferred, stating that he would sell Preferred's memberships in the San Diego area and that he would not, at any time, use or divulge to others any trade secrets or confidential information furnished during the course of employment.

During this time of expansion, Preferred also purchased a small, but expandable, computer with floppy disks from Adding Computer Mart to keep track of all of its customers. Preferred began compiling, maintaining and periodically updating its customer list on the computer disk. The disk contained the names and addresses of each Preferred customer

264. This fact pattern is based on the following two cases: *Kozuch v. CRA-MAR Video Center, Inc.*, 478 N.E.2d 110 (Ind. 1985) and *NCH Corp. v. Broyles*, 551 F. Supp. 636 (E.D. La. 1982).

as well as the history, the size and the quantity of products purchased by each customer. Proprietary notices appeared on each disk.

Since the computer system was new to Preferred and since it expected to have new customers from the San Diego area, the Adding sales representative agreed to update Preferred's system to meet the company's growing needs.

Although the floppy disks were kept locked in a cabinet, all salesmen at Preferred were allowed computer printouts of the information to help them in the sale of Preferred's products. However, each sales person had to obtain permission from the head sales representative before obtaining a printout. In addition, all computer printouts had the same proprietary notice that was found on the computer disks.

By March 1985, approximately ten years after starting work with Preferred, Drake had managed to develop a fairly large clientele for Preferred in the San Diego area. About this time, Preferred wanted to combine its list of Los Angeles customers with its list of San Diego customers for a bulk mailing. Since the computer could not perform this function, Preferred contacted Adding which agreed to update Preferred's system and develop a program that would interface the Los Angeles and San Diego customer lists. Adding developed such a program by April 1985, and returned the disks to Preferred.

It is uncontested that by 1984, Drake became extremely dissatisfied with his employment with Preferred. In May 1985, after Adding developed the floppy disk interfacing the Los Angeles and San Diego customer lists, Drake requested and received an updated version of this list. In June 1985, the tension between Drake and Preferred climaxed to the point that Drake terminated his employment with Preferred and immediately joined Digitec Information Systems, a new electronics company that had just begun competing with Preferred in the Southern California area. In July 1985, Drake returned all of Preferred's computer printouts to Preferred.

It is also uncontested that Digitec bought a computer system and floppy disks similar to Preferred's from Adding in April 1985, to keep track of all of its customers, and that Digitec came into possession of Preferred's disks containing the names of the Los Angeles and San Diego customers. In July 1985, Digitec sent out a promotional mass mailing to people listed in a phone directory as well as Preferred's customers in the Los Angeles and San Diego area.

Preferred sought an injunction to enjoin Digitec from making additional mailings from their customer list and to enjoin Drake from misappropriating confidential information.

1. Analysis

In determining whether or not to grant Preferred's requested relief, the Act first requires the court to make a determination that Preferred's customer list is a trade secret, as defined in the California Act. Preferred's customer list appears to meet the Act's definition. A customer list is information, and is economically valuable to Preferred since it could not have been created by any means other than the efforts of Preferred's highly motivated sales representatives. In addition, the list was valuable because it contained information (e.g., the history, size and quantity of products purchased by each customer) gathered over a fifteen year period which would be valuable, if known, to Preferred's competitors. Such information would enable a new competitor like Digitec to solicit new customers and tailor the solicitation to these customers' individual needs.

There is also evidence that a protectable trade secret exists because Preferred took reasonable efforts to maintain the secrecy of the customer list by locking up the disks containing the lists and placing visible proprietary notices on the disks and computer printouts. In addition, the company has attempted to keep the information secret by limiting its access to those salesmen who receive prior approval. These efforts are sufficient under the California Act. Preferred is a small electronics company and, under the California Act, should not have to provide more protection than that which is "reasonable under the circumstances."

After concluding that a trade secret exists, the court must next determine if Digitec and Drake misappropriated Preferred's customer list as defined in the California Act. Digitec would be liable for misappropriating the list under section 3426.1(b)(2)(B)(iii) of the California Act since it should have known that its acquisition of the list was occasioned by a third party's (Adding Computer Mart) duty to keep Preferred's list a secret. Digitec could also be liable under section 3426.1(b)(2)(C) of the California Act for misappropriating the trade secret. Although Digitec innocently acquired the list, it should have known that the list belonged to someone else and thus had a good faith duty not to use the list under section 3426.1(b)(2)(C).

The court could also conclude that Drake misappropriated a trade secret under section 3426.1(b)(2)(B)(ii) because Drake breached Preferred's confidence to maintain the secrecy of the list. Because of the confidentiality agreement and all of Preferred's efforts to maintain the secrecy of the list (e.g., the proprietary notices), Drake should have known that he had a duty to maintain the secrecy of the list. The customer list used by Drake was Preferred's property and was regarded by

Preferred as highly sensitive and valuable. In addition, Drake misappropriated the trade secret because he relied on the customer list to solicit Preferred's customers for Digitec. The facts indicate that the list contained detailed information which was available only in the list. Drake apparently felt that the list would aid him in his new employment since he requested an updated copy before leaving Preferred and did not return the list until one month after starting with Digitec.

Section 3426.2 of the California Act entitles a court to enjoin a misappropriation. However, the court must consider the basic public policies behind trade secrets law in determining whether or not an injunction should be issued. It is apparent by the passage of the California Act that the California Legislature intended to serve the public interest by giving protection to valuable information that are trade secrets as defined under the Act. As a result, the public interest would be served if the court granted an injunction against Digitec from further using Preferred's customer list. Under the California Act, Preferred would also be entitled to any damages it suffered because of Digitec's misappropriation.

However, Preferred would not be allowed to get an injunction against Drake. Since much of the harm suffered from the misappropriation has already occurred, the threat of harm that an injunction may do to Drake outweighs the threatened injury to Preferred. Drake has returned the list and will no longer have access to it. Since he is no longer employed by Preferred, he will not be able to get any more of Preferred's updated lists. To enjoin Drake at this time from soliciting sales from customers he cultivated while working for Preferred would effectively bar him from earning his accustomed living in the area in which he has worked and lived for years.

Preferred would not be without recourse against Drake. It could still seek damages suffered from the misappropriation from Drake under the California Act and any contract remedies available if Drake breached the confidential information agreement.

IV. CONCLUSION

Courts walk a fine line in balancing interests when dealing with trade secret disputes in the employer-employee context. They must recognize and respect the employer and employee's legitimate interests and reconcile the tension in light of the public policies behind the California Act. Taken together, these competing interests, read in line with the strict, but clear language of the California Act, set forth the correct

framework to properly analyze trade secret disputes and dictate an appropriate resolution.

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