
Volume 86
Issue 1 *Dickinson Law Review - Volume 86,*
1981-1982

10-1-1981

The Trade Secret Quagmire in Pennsylvania: A Mandate for Statutory Clarification

Lee M. Rosenbluth

Follow this and additional works at: <https://ideas.dickinsonlaw.psu.edu/dlra>

Recommended Citation

Lee M. Rosenbluth, *The Trade Secret Quagmire in Pennsylvania: A Mandate for Statutory Clarification*, 86 DICK. L. REV. 137 (1981).

Available at: <https://ideas.dickinsonlaw.psu.edu/dlra/vol86/iss1/7>

This Comment is brought to you for free and open access by the Law Reviews at Dickinson Law IDEAS. It has been accepted for inclusion in Dickinson Law Review by an authorized editor of Dickinson Law IDEAS. For more information, please contact lja10@psu.edu.

The Trade Secret Quagmire in Pennsylvania: A Mandate for Statutory Clarification

I. Introduction

A trade secret is confidential subject matter that stimulates actual or potential economic advantages for the possessor.¹ The use of trade secrets has promoted efficient operating procedures, boosted production, and provided commercial advantages over competitors. Concomitant with industrial growth and technological advances, misappropriation² of trade secrets has proliferated. Although sophisticated techniques have been used to obtain trade secrets, subtle approaches are more common and may induce knowledgeable employees to switch employment allegiances with offers of promotions, higher salaries, and greater fringe benefits.

Lacking civil statutory guidance,³ Pennsylvania courts assumed an active role in protecting trade secrets. Since the 1960's, however, strict standards to qualify for protection have developed.⁴ Moreover, the Supreme Court of Pennsylvania has clearly favored the "free spirit of competition"⁵ and the right of employee mobility over restrictive covenants or protection by operation of law.⁶

By coupling strict standards for relief and strong public policy

1. See Part III, Section A *infra*.

2. Broadly defined, misappropriation is the conversion to one's own use and profit of an intangible trade value created by the labor, skill or investment of another. The doctrine of misappropriation, as that phrase is used herein refers to the equitable principle that a commercial enterprise has an enforceable proprietary interest in trade values it has created. See *International News Service v. Associated Press*, 248 U.S. 215 (1918). See also Comment, *The Misappropriation Doctrine After the Copyright Revision Act of 1976*, 81 DICK. L. REV. 469 (1977).

3. Although a statute affording substantive property rights in trade secrets has not been enacted, Pennsylvania has promulgated statutes concerning State administrative agencies or executive bodies that regulate the dissemination of trade secrets once obtained by the administrative agency. See 3 PA. CONS. STAT. ANN. § 58.12(f) (Purdon Supp. 1980) (Commercial Feed Law); 35 PA. CONS. STAT. ANN. § 4013.2 (Purdon Supp. 1980) (Air Pollution Control Act); 63 PA. CONS. STAT. ANN. § 390-8 (Purdon Supp. 1980) (Pharmacy Act); 71 PA. CONS. STAT. ANN. § 307-3 (Purdon Supp. 1980) (authority for the Bureau of Consumer Protection to maintain trade secrecy). In addition, Pennsylvania has enacted a criminal law statute for trade secret protection. See 18 PA. CONS. STAT. ANN. § 3930 (Purdon 1973).

4. See Part III, section C *infra*.

5. *Spring Steels, Inc. v. Molloy*, 400 Pa. 354, 362, 162 A.2d 370, 374 (1960).

6. See Part III *infra*.

against restraint of liberty or trade, Pennsylvania courts have rendered trade secret protection nearly illusory. Consequently, the legislature of Pennsylvania should seriously consider the adoption of the Uniform Trade Secrets Act.⁷ This comment addresses the impact of recent decisions and the need for promulgating civil statutory trade secret protection in Pennsylvania.

II. Judicial Recognition of Trade Secret Protection

A. Federal Preemption

Since the nineteenth century, English courts have recognized a legally protectable interest in trade secrets.⁸ Applying equitable principles, federal courts followed English practice and a full body of case law developed. Relying on tort⁹ and contract¹⁰ concepts that curb intentional misappropriation of proprietary information, state courts carved out trade secret protection independent of federal coverage.¹¹ In addition, a majority of states enacted civil¹² or criminal¹³ statutes to deter the pilfering of trade secrets. These statutes and common law provided protection for unpatented and uncopyrighted subject matter. State trade secret law did not come into conflict with federal patent and copyright statutes until 1964, when a conflict arose over the protection of unpatented products in the public domain.¹⁴

In the companion cases of *Sears, Roebuck & Co. v. Stiffel Co.*,¹⁵

7. UNIFORM TRADE SECRETS ACT (approved Feb. 1980). Presently only Minnesota has adopted the Act. See MINN. STAT. ANN. § 325C.01 (West Supp. 1981).

8. See, e.g., *Morison v. Moat*, 68 Eng. Rep. 492 (1851). See also *Orenbuch, Trade Secrets and the Patent Laws*, 52 J. PAT. OFF. SOC'Y 638, 639-44 (1970).

9. See notes 92-95 and accompanying text *infra*.

10. See Part III section B *infra*.

11. The first reported case in America to draw from English common law was *Peabody v. Norfolk*, 98 Mass. 452 (1868). See also *Pressed Steel Car Co. v. Standard Steel Car Co.*, 210 Pa. 464, 60 A. 4 (1904); *Fralich v. Despar*, 165 Pa. 24, 30 A. 521 (1894).

12. The following statutes afford trade secrets the status of a substantive property right: CAL. CIV. CODE § 980 (West 1954); COLO. REV. STAT. § 18-4-408 (1974); FLA. STAT. ANN. § 812.081 (West supp. 1975); ILL. REV. STAT. ch. 38, § 15.1 (1969); IND. CODE ANN. § 10-3048 (Burns Supp. 1974); ME. REV. STAT. ANN. tit. 7, § 722 (West Supp. 1973); MASS. ANN. LAWS ch. 93, § 42 (Michie Supp. 1970); MICH. COMP. LAWS § 752.71 (West Supp. 1976); MINN. STAT. ANN. § 609.52 (West Supp. 1971); MONT. REV. CODES ANN. § 41-211 (1961); NEB. REV. STAT. § 548.01 (Supp. 1969); N.H. REV. STAT. ANN. § 2(I) (1973); N.J. STAT. ANN. § 2A:119-5.1 (West 1969); N.M. STAT. ANN. § 40-A-16-23 (Supp. 1969); N.C. GEN. STAT. § 14-75.1 (1969); OHIO REV. CODE ANN. § 1333.51 (Page Supp. 1974); OKLA. STAT. tit. 21, § 1732 (West Supp. 1971); TENN. CODE ANN. § 39-4238 (1975); WIS. STAT. ANN. § 943.205 (West Supp. 1970). See also ABA SECTION OF PAT., T.M., AND COPYRIGHT LAW, No. 402 (1977).

13. See GA. CODE § 26-1809 (1975); IDAHO CODE § 18-2001 (1975); N.Y. PENAL LAW § 155.00(c) (McKinney 1967); 18 PA. CONS. STAT. ANN. § 3930 (Purdon 1973); TEX. PENAL CODE ANN. tit. 7, § 31.05 (Vernon 1974).

14. See generally *Wydict, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee*, 55 J. PAT. OFF. SOC'Y 734 (1973); Comment, *Accommodation of Federal Patents and the State Interest in Trade Secrets*, 16 WM. & MARY L. REV. 171 (1974).

15. 376 U.S. 225 (1964).

and *Compco Corp. v. Day-Brite Lighting Inc.*,¹⁶ the United States Supreme Court held that unpatented products in the public domain were free to be copied. The Court ruled that state trade secret laws, which proscribed the duplication of unpatented products, clashed with the purpose of the federal patent laws, which encouraged disclosure of inventions in exchange for a seventeen year monopoly.¹⁷ Nevertheless, the *Sears* and *Compco* decisions left open the issue of the extent to which state law could protect unpatented products without encroaching upon the federal patent scheme. In response, lower courts distinguished between ideas placed in the public domain and those still held in secret. Since secrecy was required to qualify for trade secret protection, but by definition not for patent protection, state trade secret laws did not conflict with federal patent laws.

The conflict between federal and state law surfaced again eight years later in a copyright dispute. In *Goldstein v. California*,¹⁸ the Court addressed the issue of copyright preemption and upheld a California penal statute that prohibited the copying of phonograph records and tapes for profit. The Court opined that the copyright clause of the Constitution was nonexclusive in its grant of power to Congress to protect private interests. The states could, therefore, protect certain individualized interests even though Congress could preempt the area if it chose to do so.¹⁹ The Court recognized highly

16. 376 U.S. 234 (1964).

17. In both decisions the issue was whether state unfair competition statutes that prohibited copying an unpatented industrial design also conflicted with federal patent laws. The copied items, a pole lamp in *Sears* and a lighting reflector in *Compco*, had originally received design patents that were subsequently declared invalid. Since both items were copied after they have been marketed, neither product could have received trade secret protection because both were in the public domain. See generally Comment, *Trade Secrets—Federal Patent Code Does Not Preempt State Trade Secret Statutes*, 28 RUT. L. REV. 191 (1974).

Five years after *Sears*, the Court reexamined the preemptive scope of patent protection in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). The *Lear* court held that a licensee was not estopped from alleging an invalid patent to avoid paying royalties in a licensing agreement. The Court, however, failed to explain the scope of federal preemption of state law enforcement of private licensing agreements regulating access to unpatented products. Justice Black's sweeping dissent clearly opposed state regulation. "The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals with or without the approval of the State." *Id.* at 677 (Black, J., dissenting).

In addition, courts have adhered to the principle that patents are for inventions, not for mere improvements. "Only inventions and discoveries which furthered human knowledge, and were new and useful, justified the special inducement of a limited private monopoly." *Graham v. John Deere Co.*, 383 U.S. 1, 9 (1966). The basic requirements of a patentable invention are couched in negative language:

A patent may not be obtained . . . if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

35 U.S.C. § 103 (1970).

18. 412 U.S. 546 (1973).

19. The individualized interests in *Goldstein*, were considered published "writings" that

diverse commercial concerns and the states' interest in protecting intellectual property.²⁰ The result was that state law survived even in areas where Congress was empowered to regulate.²¹

The Supreme Court settled the federal preemption question²² in *Kewanee Oil Company v. Bicron Corp.*,²³ when it announced that state protection of trade secrets is preempted only if it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress."²⁴ The *Kewanee* court acknowledged the need for state protection of proprietary information not in the public domain. This protection, however, was not unlimited. Under the *Kewanee* preemptive test, state trade secret laws would be void if they clashed "with the objectives of the federal patent laws"²⁵ or substantially dissuaded holders of patentable inventions from seeking patents.²⁶ The Court stated that only direct encroachment on federal laws was sufficient to trigger a federal preemption attack, thus firmly establishing the validity of state trade secret protection.

did not fall within the scope of the federal copyright law. Accordingly, no legislative intent that a type of work is freely copyable may be inferred from its exclusion from statutory coverage; rather such works may be deemed to be of purely local importance and proper subjects of state protection. See also Comment, *The Misappropriation Doctrine After the Copyright Revision Act of 1976*, 81 DICK. L. REV. 469 (1977).

20. Patents, copyrights, trademarks, and trade secrets compose the field of law known as intellectual property. Each of the first three have statutorily fixed terms. See 35 U.S.C. § 154 (1970) (seventeen years for patents); 17 U.S.C.A. § 302 (West 1977) (copyrights, life of the author plus fifty years or seventy-five years for certain types of work); 15 U.S.C. § 1058, 1059 (1976) (federal trademark registration valid for twenty years and renewable for twenty year terms thereafter).

Trade secrets, however, have the potential for unlimited protection. A trade secret may last for seven minutes or seventy years. See RESTATEMENT OF TORTS § 757, Comment b (1939). See generally Comment, *Trade Secrets: How Long Should an Injunction Last?*, 26 U.C.L.A. L. REV. 203 (1978).

21. See, e.g., *Florida Avocado Growers v. Paul*, 373 U.S. 132 (1963); *Hines v. Davidowitz*, 312 U.S. 52 (1941). *Contra*, *Bibb v. Navajo Freight Lines*, 359 U.S. 520 (1959); *Morgan v. Virginia*, 328 U.S. 373 (1946); *Southern Pacific Co. v. Arizona*, 325 U.S. 761 (1945); *Pennsylvania v. West Virginia*, 262 U.S. 553 (1923).

22. Although *Kewanee* appeared to settle the preemption question, there have been decisions challenging its rationale. See, e.g., *Quick Point Pencil Co. v. Aronson*, 567 F.2d 757 (1977); *Avco Corp. v. Precision Air Parts*, [1980] 496 U.S.P.Q. (BNA) 1. See also Altman, *A Quick Point Regarding Perpetual Trade Secret Royalty Liability*, 13 J. MAR. L. REV. 127 (1979).

23. 416 U.S. 470 (1974). In *Kewanee*, plaintiff company took sixteen years to perfect an industrial crystal. Only nine months after leaving plaintiff's employment, defendants produced a comparable crystal prompting plaintiff to seek injunctive relief and damages for trade secret misappropriation. The district court, applying Ohio trade secret law, granted a permanent injunction. The Sixth Circuit Court of Appeals reversed, finding that Ohio's trade secret law conflicted with the underlying policy of the federal patent laws. The Supreme Court reversed on certiorari.

24. *Id.* at 479.

25. *Id.* at 480.

26. The Court did establish a state limit on trade secret protection: "If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, but rather would rely on the state protection, we would be compelled to hold that such a system could not constitutionally continue to exist." *Id.* at 489. See also Stern, *A Reexamination of Pre-emption of State Trade Secret Law After Kewanee*, 42 GEO. WASH. L. REV. 927 (1974).

B. *The Balance Between Federal and State Protection*

The comity doctrine is the underlying reason for not restraining state laws that protect special interests.²⁷ This notion is based on the federal government's respect for state interests and on the recognition that state governments function better when left alone. Comity mandates sensitivity to both legitimate state and federal interests. The supremacy clause²⁸ of the United States Constitution acts as a check on this relationship since a state law will fail if it interferes unduly with the accomplishment of congressional objectives.²⁹

In the trade secret context, states have a legitimate interest in maintaining standards of good faith and fair dealing to support commercial and industrial expansion.³⁰ Passive discouragement of misappropriation has proved inadequate; statutory guidelines are essential.³¹

Trade secret laws, like federal patent and copyright laws, reflect a public concern for providing adequate protection of proprietary information. Uniform trade secret laws encourage invention in unpatentable areas and prompt the independent innovator to proceed with exploitation of the invention.³² Thus, competition "is fostered and the public is not deprived of the use of valuable, if not quite patentable invention."³³ States have a legitimate interest in the protection of trade secrets and a responsibility to promote such protection.

III. Trade Secret Protection in Pennsylvania

A. *Establishment of a Trade Secret*

1. *Definitional Problems.*—The major obstacle to the plaintiff who seeks equitable relief³⁴ against misappropriation is establishing

27. See *Younger v. Harris*, 401 U.S. 37 (1971).

28. U.S. CONST. art. VI, para. 2.

29. Compare *Burbank v. Lockheed Air Terminal*, 411 U.S. 624 (1973) and *Campbell v. Hussey*, 368 U.S. 297 (1961) and *Rice v. Santa Fe Elevator Corp.*, 331 U.S. 218 (1947) with *Florida Lime and Avocado Growers, Inc. v. Paul*, 373 U.S. 132 (1963) and *Maurer v. Hamilton*, 309 U.S. 598 (1940) and *Kelly v. Washington*, 302 U.S. 1 (1937). See also Hart, *The Relations between State and Federal Law*, 54 COLUM. L. REV. 489 (1954); Note, *Pre-emption as a Preferential Ground: A Canon of Construction*, 12 STAN. L. REV. 208 (1959).

30. See R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES* (3d ed. 1968); H. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADEMARKS*, (2d ed. 1976); Hays, *Unfair Competition—Another Decade*, 51 CALIF. L. REV. 51 (1963).

31. See notes 97-105 and accompanying text *infra*.

32. *Kewanee Oil Company v. Bicron Corp.*, 416 U.S. at 485.

33. *Id.*

34. When trade secrets are misappropriated, the amount of damages is often highly speculative because of the difficulty of estimating the possessor's loss or the misappropriator's gain. Upon a showing of irreparable harm, the remedy may be an injunction prohibiting the use or disclosure of the proprietary information. If, at the time the remedy is awarded, the information is still secret, the injunction may be of indefinite length to protect secrecy. See, e.g., *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965); *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949); *Shellmar Prods. Co.*

prima facie evidence that a trade secret exists. Trade secrets have been described as "extraordinarily difficult to define."³⁵ Nevertheless, courts have found that trade secrets include, *inter alia*, chemical formulas,³⁶ industrial processes,³⁷ pricing information,³⁸ customer lists,³⁹ and sources for supplies.⁴⁰ Business ideas,⁴¹ layouts,⁴² and know-how⁴³ have been rejected as trade secrets. Factual distinctions in each case have prevented the development of a litmus test in determining the elements of a trade secret.

Pennsylvania has adopted section 757 of the Restatement of Torts,⁴⁴ which extends trade secret protection to "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."⁴⁵ Accordingly, any substantially secret⁴⁶ subject matter that is used continuously in business⁴⁷ to give its possessor a competitive advantage may be considered a trade secret.⁴⁸

v. Allen-Qualley Co., 87 F.2d 104 (7th Cir. 1936), *cert. denied*, 301 U.S. 695 (1937); Berryhill, *Trade Secret Litigation: Injunctions and Other Equitable Remedies*, 48 U. COLO. L. REV. 189 (1977); Johnson, *Remedies in Trade Secret Litigation*, 72 Nw. U.L. REV. 1004 (1978); Comment, *Trade Secrets: How Long Should An Injunction Last?*, 26 U.C.L.A. L. REV. 203 (1978).

35. Greenberg v. Croydon Plastics Co., Inc., 378 F. Supp. 806, 812 (E.D. Pa. 1974).

36. Platinum Prods. Corp. v. Berthold, 280 N.Y. 752, 211 N.E.2d 520 (1939).

37. Sun Dial Corp. v. Rideout, 29 N.J. Super. 361, 102 A.2d 90 (1954), *aff'd*, 16 N.J. 252, 108 A.2d 442 (1954).

38. Simmons Hardward Co. v. Waibel, 1 S.D. 488, 47 N.W. 814 (1891).

39. See Part IV, section B *infra*. Compare Town and Country House and Homes Serv., Inc. v. Evans, 150 Conn. 314, 189 A.2d 390 (1963) with Spring Steels Inc. v. Molloy, 400 Pa. 354, 162 A.2d 370 (1960).

40. Water Servs. Inc. v. Tesco Chems. Inc., 410 F.2d 163 (5th Cir. 1969).

41. Richter v. Westab Inc., 529 F.2d 896 (6th Cir. 1976). Plaintiff developed a concept to market notebooks and binders with covers containing fashion designs and fabrics advertised in fashion magazines. The court held that a marketing concept or new product idea did not qualify as a trade secret and thus did not warrant protection.

42. Arco Industries Corp. v. Chemcast, 633 F.2d 435 (6th Cir. 1980).

43. Sims v. Mack Truck Corp., 488 F. Supp. 592 (E.D. Pa. 1980); Van Products Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769 (1965). *Contra*, Space Aero Prods. Co. v. R.E. Darling Co., 238 Md. 93, 208 A.2d 74 (1965); Manos v. Melton, 358 Mich. 500, 100 N.W.2d 235 (1960). See also notes 104 and accompanying text *infra*.

44. RESTATEMENT OF TORTS § 757, Comment b (1939). Pennsylvania adopted the Restatement definition of trade secrets in Van Prods. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769 (1965).

45. RESTATEMENT OF TORTS § 757, Comment b at 5 (1939). A different definition of a trade secret is "a term of art referring to some forms of know-how which have a high degree of secrecy and novelty, and to some commercial secrets such as customer lists." Note, *Licenses*, 84 HARV. L. REV. 477 n.1 (1970). See also Painten & Co. v. Bourns, Inc., 442 F.2d 216, 222 (2d Cir. 1971). Note, *Master and Servant—Equity—Protection of Information in the Nature of Trade Secrets*, 14 MINN. L. REV. 546 (1930).

46. See notes 55-68 and accompanying text *infra*. The view adopted by the Restatement is that only a "substantial element of secrecy must exist." RESTATEMENT OF TORTS § 757, Comment b at 6 (1939).

47. The Restatement makes it clear that confidential information not continuously used in one's business cannot be a trade secret. Compare RESTATEMENT OF TORTS § 757 (1939) with RESTATEMENT OF TORTS § 759 (1939). See also notes 175, 176 and accompanying text *infra*.

48. Other factors to be considered in determining whether a trade secret exists include, *inter alia*: (1) the extent to which the information is known outside of the business; (2) the

In practice, Pennsylvania courts demand more than mere compliance with the Restatement and have developed a stricter standard for relief. Pennsylvania's standard requires that the secret be *specific*⁴⁹ before it qualifies for judicial protection.⁵⁰ Pennsylvania courts have therefore rejected certain customer lists,⁵¹ designs,⁵² business information⁵³ and customer appeal data⁵⁴ as trade secrets. Consequently, the full scope of protection that would normally be accorded under the Restatement of Torts definition is not provided by applicable Pennsylvania law.

2. *Conduct.*—Secrecy is the *sine qua non* for obtaining trade secret protection. Although courts disagree on the degree of secrecy necessary to engender judicial protection,⁵⁵ it is clear that absolute secrecy is not required. The precondition to trade secret protection in Pennsylvania is that an owner take "reasonable measures"⁵⁶ to gain protection. Other courts also require "sufficient measures"⁵⁷ or an "active course of conduct"⁵⁸ to establish secrecy. The totality of the circumstances is frequently considered in determining the degree of secrecy maintained by the trade secret owner. It has been suggested that if the employee has or should have reason to regard certain information as confidential and valuable, the employer need not

extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the possessor to guard the secrecy of the information; (4) the value of the information to the possessor and his rivals; (5) the amount of effort or money expended in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. See RESTATEMENT OF TORTS § 757, Comment b (1939). See generally Klein, *The Technical Trade Secret Quadrangle*, 55 NW. U.L. REV. 437 (1960).

Novelty in the patent sense is not a prerequisite under the Restatement definition. Some courts, however, have required minimal novelty. See, e.g., *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); *Arco Indus. Corp. v. Chemcast*, 633 F.2d 435 (6th Cir. 1980).

49. Pennsylvania courts distinguish between specific secrets and general business secrets. The character of the proprietary information, if it is peculiar and important to the business, is not material. The information, however, must be the particular secrets of the plaintiff, and not the general secrets of the trade.

50. *Morgan's Home Equip. Corp. v. Martucci*, 390 Pa. 618, 623, 136 A.2d 838, 842 (1957).

51. *Spring Steels Inc. v. Molloy*, 400 Pa. 354, 162 A.2d 370 (1960).

52. *Sims v. Mack Truck Corp.*, 488 F. Supp. 592 (E.D. Pa. 1980).

53. *Trilog Assocs., Inc. v. Famularo*, 455 Pa. 243, 314 A.2d 287 (1974).

54. *Sears, Roebuck & Co. v. L-M Manufacturing Co.*, 256 F.2d 517 (3d Cir. 1958).

55. Compare, *International Election Systems Corp. v. Shoup*, 452 F. Supp. 684 (E.D. Pa. 1978) (no trade secret protection since employees had free access to information) with *Affiliated Hospital Products, Inc. v. Baldwin*, 15 Ill. 528, 373 N.E.2d 1000 (1978) (trade secret protection awarded since employer took great care to maintain secrecy). See also R. MILGRAM, *TRADE SECRETS* § 4.02 (12th ed. 1978) [hereinafter cited as R. MILGRAM]; M. Pope & P. Pope, *Protection of Proprietary Interests in Computer Software*, 30 ALA. L. REV. 527 (1979).

56. *Greenberg v. Croyden Plastics Co., Inc.*, 378 F. Supp. 806, 813 (E.D. Pa. 1974). *Contra*, *Pressed Steel Car v. Standard Steel Car Co.*, 210 Pa. 464, 60 A. 4 (1904). The court maintained that a certain amount of publicity is unavoidable and "an unlocked door is not an invitation to . . . the servant of the household to help himself." 210 Pa. at 472, 60 A. at 8.

57. *Arco Indus. Corp. v. Chemcast*, 633 F.2d 435, 443 (6th Cir. 1980).

58. *Eastern Marble Prods. Corp. v. Roman Marble*, 376 Mass. 290, 294, 364 N.E.2d 799, 802 (1977).

put the employee on notice that the matter should be regarded as secret.⁵⁹ Pennsylvania courts, however, generally require express notice to employees.⁶⁰

As a practical matter, trade secrets may enter the public domain by independent discovery,⁶¹ reverse engineering,⁶² intentional or unintentional publication,⁶³ or industrial espionage.⁶⁴ Under the *Sears*⁶⁵ and *Compro*⁶⁶ decisions, once a trade secret is in the public domain, any competitor may duplicate and use it without fear of judicial sanction.⁶⁷ Thus, even though an owner possesses a valuable trade secret, lack of proper security or extrinsic revelation can completely destroy the trade secret's benefits and potentially cause catastrophic economic losses.⁶⁸

3. *Property Rights.*—There is no judicial consensus on whether trade secrets should be considered property rights of the owner.⁶⁹ Despite the discord, relief often depends on whether the court considers trade secrets as property.⁷⁰ Some jurisdictions, including

59. See R. MILGRAM, *supra* note 55, § 5.02[2] at 5-15.

60. *Jacobson & Co. v. International Environment Corp.*, 427 Pa. 439, 235 A.2d 612 (1967).

61. Duplication of a trade secret through independent invention will not result in judicial sanctions. Thus, an independent invention, once placed in the public domain, destroys the preexisting trade secret.

62. Reverse engineering is a process whereby one starts with a known product and dissects its composition to obtain the process which led to the product's development or manufacture. See *Midland Ross Corp. v. Sunbeam Equip. Corp.*, 316 F. Supp. 171 (W.D. Pa. 1970); *New England Overall Co. v. Woltmann*, 343 Mass. 69, 176 N.E.2d 193 (1961).

63. Frequently, trade secrets are destroyed due to disclosures in trade publications, company reports, communications by employees to outsiders, and negotiations with potential customers. Lecture by Prof. William J. Keating, Dickinson School of Law, Carlisle, PA (Nov. 12, 1980).

64. *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024, *rehearing denied*, 401 U.S. 967 (1971); *College Watercolor Group, Inc. v. Wm. H. Newbauer, Inc.*, 468 Pa. 103, 360 A.2d 200 (1976). See also Comment, *Industrial Espionage: Piracy of Secret Scientific and Technical Information*, 14 U.C.L.A. L. Rev. 911, 927-34 (1967); Comment, *Thief of Trade Secrets: The Need for a Statutory Solution*, 120 U. Pa. L. Rev. 378 (1971).

65. See notes 15-17 and accompanying text *supra*.

66. See notes 16, 17 and accompanying text *supra*.

67. *Trilog Assocs., Inc. v. Famularo*, 455 Pa. 243, 314 A.2d 287 (1974); *Denawetz v. Milch*, 407 Pa. 115, 178 A.2d 701 (1962).

68. *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 226 (2d Cir. 1971). The value of stolen trade secrets has been estimated as \$2 billion per year. *N.Y. Times*, Mar. 16, 1965, § 1, at 53, col. 6.

69. Compare R. MILGRAM, *supra* note 55, § 1.01 (yes) and R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 52 (uncommitted) with R. ELLIS, *TRADE SECRETS* 118 (1953) (not an essential inquiry) and Stedman, *Trade Secrets*, 23 OHIO L.J. 4 (1962) (no).

70. Property is an elastic term. "Decisions contain a myriad of statements to the effect that an invention, discovery, trade secret or other product of original creation or development is 'property'; or that the originator, inventor, discoverer or possessor has a property, 'quasi-property'; a 'right of property' or a 'kind of property' thereon." Swartz, *Protection of Intangible Interests*, 49 MASS. L.Q. 107, 109 (1964).

In *Schuster v. Pennsylvania Turnpike Comm'n*, 395 Pa. 441, 149 A.2d 447 (1959), the supreme court attempted to define property as "practically all rights, the term being indicative

Pennsylvania, adopt the property rights analysis and require plaintiffs to prove a preexisting trade secret and a breach of a duty to maintain secrecy.⁷¹ Other courts reject the property rights approach and look to how the information was obtained during the business relationship.⁷² Under the latter approach, plaintiff's burden of proof is easier to meet because a preexisting trade secret does not have to be shown.

The United States Supreme Court has consistently rejected the property rights analysis.⁷³ The leading federal case on trade secrets as property is *E.I. duPont de Nemours Powder Co. v. Masland*,⁷⁴ in which Justice Holmes announced his "starting point" test: "The property may be denied, but the confidence cannot be. Therefore, the starting point for the present matter is not property . . . but that the defendant stood in confidential relations with the plaintiffs."⁷⁵ The *Masland* test has been followed by only a minority of jurisdictions.⁷⁶

Pennsylvania takes a different approach than that of the United States Supreme Court. In *Morgan's Home Equipment Corp. v. Martucci*,⁷⁷ the Pennsylvania Supreme Court recognized that trade secrets constitute property of the owner. In a subsequent decision, *Van Products Co. v. General Welding and Fabricating Co.*,⁷⁸ the court clearly refuted Holmes' "starting point" test by positing that "[t]he starting point in every case . . . is not whether there was a confidential relationship, but whether, in fact, there was a trade secret to be misappropriated."⁷⁹ Hence, in Pennsylvania, plaintiffs must over-

and descriptive of every possible interest which a person can have, in any and everything that is subject of ownership by man. . . ." 395 Pa. at 448, 149 A.2d at 453.

71. See notes 77-79 and accompanying text *infra*.

72. The Seventh Circuit favors this approach for trade secret protection since the focus is on the confidential relationship rather than the proprietary information. In *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953), the court used a "but for" test to establish whether the trade secrets were misappropriated. The court stated that "but for those . . . transactions defendant would not have learned from plaintiffs, of the [trade secrets]." *Id.* at 377. *Contra*, *Van Prods. Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965).

73. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). See notes 23-26 and accompanying text *supra*.

74. 244 U.S. 100 (1917). The Court explained:

The word 'property' as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted.

Id. at 102.

75. *Id.*

76. *Plastic and Metal Fabricators, Inc. v. Roy*, 163 Conn. 257, 303 A.2d 725 (1972); *Lockridge v. Tweco Prods., Inc.*, 209 Kan. 289, 497 P.2d 131 (1972); *Vigatron, Inc. v. Ferguson*, 123 N.H. 203, 419 A.2d 1115 (1980).

77. 390 Pa. 618, 136 A.2d 838 (1957).

78. 419 Pa. 248, 213 A.2d 769 (1965).

79. 419 Pa. at 268, 213 A.2d at 780 (emphasis added). See notes 102-105 and accompanying text *infra*.

come the definitional problems of trade secrets before proceeding to establish a legal basis for relief. This added burden often spells defeat even when plaintiff can prove defendant breached a confidential relationship.

B. Protection by Operation of Law: The Legal Bases for Relief

1. *Express Contract.*—In the course of a normal business relationship, a possessor of trade secrets may find it necessary to disclose proprietary information to another business entity, to an employee, or during negotiations. To maintain a competitive business edge, however, the owner seeks to avoid unnecessary or improper disclosure of trade secrets.⁸⁰ Indeed, many employers obtain insurance against such disclosure by imposing restrictive covenants on employees likely or certain to be exposed to secret proprietary information.⁸¹

Generally, restrictive covenants generate judicial hostility.⁸² Although independent contracts in restraint of trade are void as against public policy,⁸³ Pennsylvania courts have accepted and even encouraged⁸⁴ execution of restrictive covenants, if the agreement is ancillary⁸⁵ to an employment or business contract. Nevertheless, restrictive covenants tied to employment contracts require “a more stringent test of reasonableness”⁸⁶ than restrictive covenants in a

80. See notes 56-60 *supra*.

81. In a similar context, trade secret licensing is the foundation of an important industry. Such licenses may employ various provisions concerning the duration of royalty liability. Furthermore, licenses may provide that royalties will be payable only for a prescribed term, for however long the licensed subject matter in fact remains secret; or they may require royalty liability to continue as long as the licensee uses the licensed subject matter, even if secrecy should terminate first. Altman, *A Quick Point Regarding Trade Secret Royalty Liability*, 13 J. MAR. L. REV. 127, 128 (1979). See also Warner-Lambert Pharmaceutical Co., Inc. v. John J. Reynolds, Inc., 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd per curiam*, 280 F.2d 197 (2d Cir. 1960).

82. Sonotone Corp. v. Baldwin, 227 N.C. 387, 42 S.E.2d 352 (1947); Brecher v. Brown, 235 Iowa 627, 17 N.W.2d 609 (1958). See also R. MILGRAM, *supra* note 55, § 3.02 [2] at 3-39; Comment, *Employee Nondisclosure Conventions and Antitrust Law*, 71 COLUM. L. REV. 417 (1971).

83. Jacobson & Co. v. International Environment Corp., 427 Pa. 439, 235 A.2d 612 (1967). *Contra*, Trilog Assocs., Inc. v. Famularo, 455 Pa. 243, 314 A.2d 287 (1974).

84. Spring Steels Inc. v. Molloy, 400 Pa. 354, 362, 162 A.2d 370, 374 (1960); Pennsylvania Funds Corp. v. Vogel, 399 Pa. 1, 159 A.2d 472 (1960).

85. Judge Taft of the Sixth Circuit (later Chief Justice of the United States) explained the ancillary rule:

It has long been the rule at common law, that contracts in restraint of trade made independently of a sale of a business or contract of employment are void as against public policy regardless of the valuableness of the consideration exchanged therein. [The] very statement of the rule implies that the contract must be one in which there is a main purpose, to which the covenant in restraint is merely ancillary. The covenant is inserted only to protect one of the parties from the injury which . . . he may suffer from the unrestrained competition of the other.

United States v. Addyston Pipe & Steel Co., 85 F. 271, 281-82 (6th Cir. 1898), *aff'd*, 175 U.S. 211 (1899).

86. Morgan's Home Equip. Corp. v. Martucci, 390 Pa. 618, 632, 136 A.2d 838, 846 (1957).

business agreement⁸⁷ because courts pay greater deference to employees' rights than to competitors bargaining in arm's length transactions. Moreover, a nondisclosure agreement has been found reasonable if it satisfies a three-prong test.⁸⁸ To succeed, the express covenant must be (1) reasonable in time; (2) reasonable in geographical extent; and (3) reasonably necessary to protect the employer, without imposing an undue hardship on the employee.⁸⁹

Quite often, however, employers with trade secrets fail to have employees sign restrictive covenants. Perhaps the inherent abrasiveness of a non-disclosure agreement or an employee's apprehension in signing a legal covenant contribute to the unwillingness to use restrictive agreements. In addition, many businesses are unaware of the importance or availability of nondisclosure agreements. Thus, employers seek alternative forms of protection when an employee breaches a duty of secrecy.

2. *Implied Contract.*—To protect the property of an employer, the law may imply in the contract a prohibition against general betrayal of trust and confidence and against specific revelation of confidential information to third parties.⁹⁰ Absent an express covenant, Pennsylvania courts are reluctant to base relief on an implied contract.⁹¹ Generally, courts are not anxious to restrict employees or business partners when the parties could have agreed upon express restrictions on their own. Consequently, the implied contract theory of relief has afforded minimal protection against disclosures of trade secrets.

3. *Confidential Relationship.*—In a majority of jurisdictions,⁹² courts provide protection against disclosure of trade secrets by focus-

87. See S. WILLISTON, LAW OF CONTRACTS § 1645 (3d ed. 1972).

88. Jacobson & Co. v. International Environment Corp., 427 Pa. 439, 235 A.2d 612 (1967).

89. *Id.* at 452, 235 A.2d at 620.

90. The doctrine of implied contract, as used to describe the protection afforded by operation of law, is distinguishable from contractual provisions that are implied in fact. As one court noted,

The one class consists of those contracts which are evidenced by the acts of the parties and not by their verbal or written words—true contracts which rest upon an implied premise in fact. The second class consists of contracts implied by law where none in fact exist—quasi or constructive contracts created by law and not by the intentions of the parties.

Miller v. Schloss, 218 N.Y. 400, 401-02, 113 N.E. 337, 338-39 (1916). See R. MILGRAM, *supra* note 55, § 4.02 at 4-5. See also H. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS, (2d ed. 1917); Hannigan, *The Implied Obligation of an Employee*, 77 U. PA. L. REV. 970 (1929).

91. Quaker State Oil Ref. Co. v. Talbot, 315 Pa. 517, 174 A.2d 99 (1934); Pressed Steel Car Co. v. Standard Steel Car Co., 210 Pa. 464, 60 A. 4 (1904). A minority of jurisdictions recognize an implied contract against disclosure if the employee knows of the trade secret by virtue of his employment. Elaterite Paint & Mfg. Co. v. S.E. Frost Co., 105 Minn. 239, 117 N.W. 388 (1908); McComb v. McClelland, 223 Or. 475, 354 P.2d 311 (1960).

92. See R. MILGRAM, *supra* note 55, § 4.03 at 4-12.

ing on the existence of a confidential relationship between the parties. Under the Restatement of Torts⁹³ and the Restatement (Second) of Agency,⁹⁴ relief may be predicated on the unprivileged use or disclosure of another's trade secret if such disclosure constitutes a breach of confidence reposed in defendant by plaintiff. Significantly, Pennsylvania courts fail to reach the issue of breach of confidential relations if no trade secret has been established. Following this rationale, the Supreme Court of Pennsylvania clearly refused to consider *how* the adverse party learned of the information because no trade secret was established by plaintiff.⁹⁵

Even when the availability of a legal basis for relief is found, Pennsylvania courts often will not grant relief in trade secret cases to avoid restraining an employee's liberty or commercial trade.⁹⁶ By refusing legitimate legal relief, courts have substantially lessened protection against misappropriation of trade secrets.

C. *The Present Trend in Pennsylvania for Trade Secret Protection*

1. *The Wexler and Van Products Approach.*—Perhaps the most revealing and influential Pennsylvania holdings in the field of trade secrets were decided in the 1960's. Earlier decisions⁹⁷ generally favored the employer and offered strong protection against employee dissemination of trade secrets. By 1960, the supreme court began balancing the right of an owner to maintain trade secrets with the right of an employee to pursue a chosen profession. The result was greater freedom for employees and less protection for employers.

In *Wexler v. Greenberg*,⁹⁸ plaintiff, a manufacturer of chemical products, hired the defendant Greenberg as chief of its research fa-

93. The Restatement states that unprivileged use or disclosure of another's trade secret creates liability if such "disclosure or use constitutes a breach of confidence reposed in [defendant] by [plaintiff] in disclosing the secret to [defendant]." RESTATEMENT OF TORTS § 757b (1939).

94. Basically, the elements of a cause of action for a breach of confidence are: (1) possession by plaintiffs of knowledge or information which is not generally known; (2) communication by the plaintiff to defendant under an express or implied agreement limiting its use or disclosure by the defendant; and (3) use or disclosure by the defendant of the knowledge or information so obtained in violation of the confidence, to the injury of the plaintiff. See RESTATEMENT (SECOND) OF AGENCY § 395 (1958). *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 143, 159 (E.D. Tex. 1956).

95. *Compare Van Products Co. & Gen. Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965) with *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953).

96. See notes 97-105 and accompanying text *infra*. *Contra*, *Adler, Barish, Daniels, Levin v. Epstein*, 482 Pa. 416, 393 A.2d 1175 (1978); RESTATEMENT (SECOND) OF AGENCY § 396b (1958). The Restatement explains that "unless otherwise agreed, after termination of the agency, the agent . . . has a duty to the principal not to take advantage of a still subsisting confidential relation created during the prior agency relation." *Id.*

97. See, e.g., *Morgan's Home Equip. Corp. v. Martucci*, 390 Pa. 618, 136 A.2d 838 (1957); *Macbeth-Evans Glass Co. v. Schnelbach*, 239 Pa. 76, 86 A. 688 (1913); *Fralich v. Despar*, 165 Pa. 24, 30 A. 521 (1894). *Contra*, *Pittsburgh Cut Wire Co. v. Sufrin*, 350 Pa. 31, 38 A.2d 33 (1944); *Belmont Laboratories v. Heist*, 300 Pa. 542, 151 A. 15 (1930).

98. 399 Pa. 569, 160 A.2d 430 (1960).

cilities. As chief chemist, Greenberg analyzed and duplicated competitors' products and then used the resulting information to develop various new formulas. After nine years, Greenberg left plaintiff corporation and began work with a competitor. Subsequently, the competitor, with Greenberg's assistance, embarked on a full-scale program to manufacture products similar to that of plaintiff. The Chancellor held that defendant had misappropriated trade secrets and awarded relief to plaintiff.⁹⁹ In reversing the lower court, the Pennsylvania Supreme Court refused to recognize a covenant, express or implied, to bind defendant to a duty of secrecy.¹⁰⁰

The *Wexler* decision is surprising¹⁰¹ because trade secrets were an integral part of defendant's work. After nine years, it is reasonable to assume defendant understood that his employer would not want his own formulas disclosed. Yet, the Supreme Court reversed the lower court's holding. The *Wexler* court apparently denied relief solely on the policy consideration that the right of employee mobility was superior to the right of an owner to maintain proprietary secrets.

Five years after *Wexler*, the definition of a trade secret was re-examined by the Pennsylvania Supreme Court in *Van Products Co. v. General Welding and Fabricating Co.*¹⁰² In that case plaintiff failed to meet the definitional hurdle at the supreme court level. The lower court determined that "[t]he trade secret here involved is all embracing rather than confined to any particular phase of its functioning. It is . . . rather the whole picture . . . and marketable product and the know-how all along the line."¹⁰³ The supreme court rejected this totality of the circumstances argument. Furthermore, the *Van Products* court withheld trade secret protection from the concept of

99. The lower court decreed that Greenberg and defendant company, jointly and severally, be enjoined permanently from disclosing the formulas or processes or any substantially similar formulas and from making or selling resulting products. 399 Pa. at 571, 160 A.2d at 431. For a discussion of equitable remedies see notes 169, 170 and accompanying text *infra*.

100. Approximately three months passed between the initial negotiations between Greenberg and the defendant company and Greenberg's actual departure. This lame duck period is critical for an employer since during that time the employee's allegiance and loyalty may transfer to the new employer. The *Wexler* Court failed to recognize the potential harm to the plaintiff during this period of employment.

In an analogous situation, Justice Musmanno stated,

Perhaps the moral position of the defendants would have been improved if they had left the ship of their current employment as soon as they began to lay the keel for the ship which was to offer not only competition but possible shipwreck to the vessel of their original allegiance.

Spring Steels Inc. v. Molloy, 400 Pa. 354, 357, 162 A.2d 370, 372 (1960).

101. A close reading of the decision reveals that the court acknowledged trade secrets existed. 399 Pa. at 574, 160 A.2d at 432 n.2. Furthermore, the court recognized that post-employment protection is needed to insure that valuable developments or improvements are exclusively those of the employer. "Without some means of protection the businessman could not afford to subsidize research or improve current methods." *Id.* at 436, 160 A.2d at 435. See also *Wireless Specialty Apparatus Co. v. Mica Condenser Co. Ltd.*, 239 Mass. 158, 131 N.E. 307 (1921); *Extrin Foods Inc. v. Leighton*, 202 Misc. 592, 115 N.Y.S.2d 429 (1952).

102. 419 Pa. 248, 213 A.2d 769 (1965).

103. *Id.* at 257, 213 A.2d at 774.

know-how because it was "a very fuzzily defined area"¹⁰⁴ and too broad to gain protection.

By rejecting the whole picture and know-how theories, the *Van Products* court narrowed the definition of a trade secret.¹⁰⁵ Moreover, if no trade secret was established, a court need not reach the issue of legal protection. In effect, the supreme court left the door wide open for trusted employees to switch allegiances and reveal trade secrets without fear of judicial interference.

2. *Plaintiff's Path to Protection.*—To prevail, plaintiff must show (1) a legally protectable trade secret; (2) a legal basis upon which to predicate relief; and (3) nonrestraint of free competition and employee mobility. The first¹⁰⁶ and second¹⁰⁷ elements usually present questions of fact for plaintiff. Since plaintiff must prove by a preponderance of the evidence the misappropriation of trade secrets and subsequent disclosure to third parties, plaintiff's burden is extraordinarily difficult. In reality, plaintiff is confronted with evidentiary problems because misappropriation "can rarely be proved by convincing direct evidence."¹⁰⁸ Chief Judge Lord of the United States District Court explained:

In most cases plaintiffs must construct a web of perhaps ambiguous circumstantial evidence from which the trier of fact may draw inferences which convince him that it is more probable than not that what plaintiffs allege happened did in fact take place. Against this often delicate construct of circumstantial evidence there frequently must be balanced defendants and defendants' witnesses who directly deny everything.¹⁰⁹

Generally, other courts predicate relief on the first two levels of analysis. In Pennsylvania, however, the third tier presents public policy issues which are often within the discretion of the court. The third element's foundation is based on the overriding judicial policy against restraint of trade and employee mobility. A person's aptitude, skill, dexterity and manual ability are not the property of an employer unless curtailed through a reasonable restrictive covenant.¹¹⁰ Acknowledging this concept, courts have balanced the right

104. *Id.* at 263, 213 A.2d at 777. Generally, know-how is defined as a body of unpatented technology useful in making a product to be sold commercially. It includes a complete body of manufacturing information needed by an industrial organization to satisfactorily design, develop, fabricate and produce goods. Worthing, *Know-How Misuse: A Potential Weapon for Licensees*, 53 J. PAT. OFF. SOC'Y 177 (1971).

105. *See* note 43 *supra*.

106. *See* notes 34-54 and accompanying text *supra*.

107. *See* notes 90-96 and accompanying text *supra*.

108. *Greenberg v. Croydon Plastics Co., Inc.*, 378 F. Supp. 806, 814 (E.D. Pa. 1974).

109. *Id.*

110. The Pennsylvania courts have consistently maintained that "[a] man's aptitude . . . his manual and mental ability and such other subjective knowledge as he obtains while in the course of his employment, are not the property of his employer and the right to use and expand these powers remains his property. . . ." *Spring Steels Inc. v. Molloy*, 400 Pa. 354, 356,

of a businessman to be protected against unfair competition stemming from usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupation for which he is best suited.¹¹¹ Serious proof problems exist because broad social and economic policies are inextricably interwoven with defendant's right to transfer jobs. Applying the third element, a court sitting in equity can readily refuse protection since plaintiff cannot deny that an employee has a *right*, absent an express agreement, to engage in different employment. Plaintiff's heavy burden of proof and the strong public policy against restraint of employee mobility dictate present judicial reluctance in the area of trade secret protection.

IV. Misappropriation of Trade Secrets in Pennsylvania: Different Treatment for Nontechnical v. Technical Data

A. *Categorizing Trade Secrets*

Generally, trade secret misappropriation¹¹² is concerned with the employer-employee relationship.¹¹³ For example, *X* is hired by *Y* company, and in the course of employment becomes familiar with a trade secret. *X* leaves *Y* and works for *Z* company and reveals the trade secret to *Z*. During *X*'s initial employment with *Y* company, trade secrets may be developed either prior to *X*'s arrival or during *X*'s employment. Often it is the combination of the employer's money, facilities and opportunity coupled with the employee's skill, know-how and diligence that produces a secret formula, process or compilation of business information. At times, it is only the employee's labor that produces the trade secret.¹¹⁴

Within the employment relationship, the interests involved are simple to define, yet difficult to protect, particularly in the face of technological advances. The purpose of this section is to provide an analysis and clarification of trade secret protection presently available within the employment relationship, since, absent a restrictive covenant, Pennsylvania courts afford varying degrees of protection, depending on the phase in which the trade secret develops.

162 A.2d 370, 373 (1960). See *Pittsburgh Cut Wire Co. v. Sufrin*, 350 Pa. 31, 38 A.2d 33 (1944).

111. *Wexler v. Greenberg*, 399 Pa. 569, 160 A.2d 430 (1960).

112. See note 2 *supra*.

113. Similarly, trade secret misappropriation may arise from a number of business relationships. *Sears, Roebuck & Co. v. L-M Manufacturing Co.*, 256 F.2d 517 (3d Cir. 1958) (manufacturer v. sales agent); *General Business Servs. Inc. v. Rouse*, 495 F. Supp. 526 (E.D. Pa. 1980) (franchisor v. potential franchisee); *Permagrain Prods. v. U.S. Mat & Rubber Co.*, 489 F. Supp. 108 (E.D. Pa. 1980) (seller v. buyer); *Sims v. Mack Truck Corp.*, 488 F. Supp. 592 (E.D. Pa. 1980) (competitors); *Affiliated Hosp. Prods., Inc. v. Baldwin*, 15 Ill. App. 3d 528, 373 N.E.2d 1000 (1978) (fiduciary relationship).

114. An employee may develop a trade secret outside the employment relationship. Nevertheless, an employer may claim a right in the product. See, e.g., *Kaplan v. Johnson*, 409 F. Supp. 190 (N.D. Ill. 1976).

1. *Pre-existing Trade Secrets.*—The strongest protection available to possessors of trade secrets is when a previously developed trade secret is disclosed to an employee, so that the employee may perform the duties expected of him.¹¹⁵ Once an employer turns over to the employee the preexisting trade secret, a pledge of secrecy is impliedly extracted from the employee.¹¹⁶ Under tort theory,¹¹⁷ legal relief is predicated on the trust and confidence stemming from the employment relationship. In addition, the competitor, who utilizes the trade secret subsequent to receiving notice of the nature of the proprietary information, may be subject to liability even if the trade secret was acquired innocently and without knowledge of the violated trust.¹¹⁸

2. *Crucible-Product Effect.*—When both the employer and employee contribute to the development or formulation of a trade secret, the trade secret results from what is called the crucible-product¹¹⁹ effect. The commingling of both employer and employee efforts makes it difficult to determine who developed the trade secret. Defining the rights of parties with respect to the product is extremely complicated and courts disagree on the treatment of crucible-product trade secrets.¹²⁰

115. See *Franke v. Witschels*, 209 F.2d 493 (2d Cir. 1953); *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953); *Sun Dial Corp. v. Rideout*, 29 N.J. Super. 361, 102 A.2d 90 (1954); *Pressed Steel Car Co. v. Standard Steel Car Co.*, 210 Pa. 464, 60 A. 4 (1904).

116. In *Extrin Foods, Inc. v. Leighton*, 202 Misc. 592, 115 N.Y.S.2d 429 (1952), the court explained that, "[e]ven though the contract of hiring contained no express covenant, the individual defendants by an implied agreement bound themselves not to disclose, reveal or appropriate secret processes or formula." *Id.* at 597, 115 N.Y.S.2d at 434. See generally *Blake, Employee Agreements Not to Compete*, 73 HARV. L. REV. 625 (1960); *Carpenter, Validity of Contracts Not to Compete*, 76 U. PA. L. REV. 244 (1928).

117. See RESTATEMENT OF TORTS § 757 (1939).

118. RESTATEMENT OF TORTS § 758(b) (1939) explains liability of good faith recipients of trade secrets:

One who learns another's trade secret from a third person without notice that it is secret and that the third person's disclosure is a breach of his duty to the other, or who learns the secret through a mistake without notice of the secrecy and the mistake, . . . is liable to the other for a disclosure or use of the secret after receipt of such notice, unless prior thereto he has in good faith paid value for the secret or has so changed his position that to subject him to liability would be inequitable.

Id. See also *Computer Print Syss. Inc. v. Lewis*, — Pa. Super. Ct. —, 422 A.2d 148 (1980).

119. The crucible-product effect is distinguishable from the shop right doctrine. The shop right concept is an equitable doctrine that gives the employer a royalty-free, non-exclusive license to utilize intellectual property created by an employee where the employee has used his employer's time, money, tools and materials to produce a useful result. Under the shop right concept, the invention is developed outside the scope of employment but during working hours. The crucible-product effect is broader and an employee may be hired specifically to develop a trade secret. See *Wireless Specialty Apparatus Co. v. Mica Condenser Co. Ltd.*, 239 Mass. 158, 131 N.E. 307 (1921). The court maintained that the nature of the employment "impresses on the employees such a relationship of trust and confidence as estops him from claiming as his own property that which he has brought into being solely for the benefit, and at the express procurement of his employer." *Id.* at 160, 131 N.E. at 309.

120. Compare *Wellington Print Works v. Magid*, 242 F. Supp. 614 (E.D. Pa. 1965) with *Blum v. Comm'r of Internal Revenue*, 183 F.2d 281 (3d Cir. 1950). See also *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *Hirshhorn v. Mine Safety Appliances Co.*, 106

The Pennsylvania Supreme Court soundly rejected the concept of a crucible-product trade secret when it maintained that it was "conceptually impossible . . . to elicit an implied pledge of secrecy from the sole act of an employee turning over to his employer a trade secret which he, the employee, has developed."¹²¹ Following this approach, the employee has a right to transfer jobs and disclose the trade secrets to a competitor. Not only is the employer deprived of a potentially valuable trade secret, but the use of restrictive covenants is fostered.

In contradistinction to the Pennsylvania approach, other courts have recognized a need for protection of crucible-product trade secrets.¹²² The Sixth Circuit, in *B.F. Gladding & Co. v. Scientific Anglers*,¹²³ has broadly asserted: "Even without any specific mention . . . joint trade secrets would be protected against unlawful disclosure by one of the parties."¹²⁴ Other courts have provided injunctive relief when a key employee transfers jobs and threatens to disclose trade secrets to a rival company.¹²⁵

Affording protection at the crucible-product stage makes sense since great sums of money and resources may be used to produce a trade secret that can be destroyed by the simple act of disclosure to a competitor. In addition, competitors may enjoy a windfall by avoiding the development costs of the trade secret. Denying protection gives competitors an incentive to passively await the opportunity to hire away trade secrets. Moreover, employees, knowing the value of the trade secret, may use subtle blackmail to obtain greater compensation from employers.

An important remedy is injunctive relief to restore the status quo that existed prior to the violation.¹²⁶ The injunction deprives defendant of any benefit from his misappropriation, but does not

F. Supp. 594 (W.D. Pa. 1952); *Toner v. Sobelman*, 86 F. Supp. 369 (E.D. Pa. 1949); *Allen Mfg. Co. v. Loika*, 145 Conn. 509, 144 A.2d 306 (1958); *Tolman Laundry v. Walker*, 171 Md. 7, 187 A. 837 (1936); *Stevens & Co. v. Stiles*, 29 R.I. 399, 71 A. 802 (1909). See generally *Marmarek, The Inventor's Common-Law Rights Today*, 13 N.Y.L.F. 274 (1967).

121. *Wexler v. Greenberg*, 399 Pa. 569, 578, 160 A.2d 430, 434 (1960).

122. *Solomons v. United States*, 137 U.S. 342 (1890); *Raybestos-Manhattan, Inc. v. Rowland*, 460 F.2d 697 (4th Cir. 1972); *Head Ski Co. v. Kam Ski Co.*, 158 F. Supp. 919 (D. Md. 1958); *Marcalus Mfg. Co. v. Sullivan*, 142 N.J. 434, 60 A.2d 330 (1948).

123. 245 F.2d 722 (6th Cir. 1957). See also *Cataphote Corp. v. Hudson*, 422 F.2d 1290 (5th Cir. 1970).

124. *B.F. Gladding & Co. v. Scientific Anglers*, 245 F.2d 722, 729 (5th Cir. 1970).

125. In *B.F. Goodrich Co. v. Wohlgenuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963), the court focused on the nature of the employment in issuing injunctive relief. The facts revealed that plaintiff manufacturer had spent years to develop a full-pressure space suit. Upon a potential threat of disclosure to defendant's new employer, the court awarded equitable relief based on defendant's wrongful conduct in violating the original employment confidence. Equitable intervention is sanctioned "when it appears . . . that there exists a present real threat of disclosure, even without actual disclosure." *Id.* at 498, 192 N.E.2d at 105. See also *E.I. duPont de Nemours & Co. v. American Potash & Chem. Corp.*, 41 Del. 533, 200 A.2d 428 (1964).

126. See note 170 and accompanying text *infra*.

deny the right to pursue a livelihood. This approach compares favorably with the federal and state policy of promoting good working relations and fair dealing, since the parties are returned to an equal footing. The flexibility of equitable remedies allows a court to be imaginative and to focus on the hardships and interests of each party, yet avoid conflict with the overriding policy favoring free competition and employee mobility.¹²⁷

B. Nontechnical Data: Pennsylvania's Two-Prong Test

Perhaps the greatest source of judicial controversy surrounds the treatment of customer lists and customer information as trade secrets.¹²⁸ Technically, every customer name is in the public domain and therefore not a trade secret in a pure sense. The courts recognize, however, that the customer list is an extremely valuable "compilation of information"¹²⁹ and, if kept secret, may qualify for legal protection.

Since nontechnical¹³⁰ data is easily copied or memorized,¹³¹ businesses are faced with security problems when employees terminate employment. The issue is whether an employee, who has knowledge of his former employer's customers, can provide confidential listings to his current employer. Courts disagree on the appropriate answer.¹³²

In Pennsylvania, the majority view treats customer lists as trade secrets.¹³³ It was not until 1957, in *Morgan's Home Equipment Corp.*

127. See generally, Berryhill, *Trade Secret Litigation: Injunctions and Other Equitable Remedies*, 48 U. COLO. L. REV. 189 (1977); Johnson, *Remedies in Trade Secret Litigation*, 72 Nw. U.L. REV. 1004 (1978).

128. The judicial disagreements arise from the factual distinctions in each case. See *Burroughs Corp. v. Cimaskasy*, 346 F. Supp. 1398 (E.D. Pa. 1972); *United Ins. Co. of America v. Dienno*, 248 F. Supp. 553 (E.D. Pa. 1965); *Murphy v. Murphy*, 28 Ill. App. 3d 475, 328 N.E.2d 642 (1975); *Colonial Laundries v. Henry*, 48 R.I. 332, 138 A. 47 (1927). See also R. MILGRAM, *supra* note 55, § 2.09[7] at 2-120. See generally Comment, *A Balanced Approach to Employer-Employee Trade Secrets Disputes in California*, 31 HASTINGS L.J. 671, 675-87 (1980).

129. RESTATEMENT OF TORTS § 757, Comment b (1939).

130. For the purpose of this comment, nontechnical data includes, *inter alia*, customer information, customer lists, business data, and customer route information.

131. No distinction is made between memorized and written trade secrets that are misappropriated. See *American Republic Ins. Co. v. Union Fidelity Life Ins. Co.*, 295 F. Supp. 533 (D. Or. 1968); *A.H. Emery Co. v. Marcan Products Corp.*, 268 F. Supp. 289 (S.D.N.Y. 1967); *Sperry Rand Corp. v. Rothlein*, 241 F. Supp. 549 (D. Conn. 1964). See also R. CALLMANN, *UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES*, § 442 (3d ed. 1968).

132. Compare *Sims v. Mack Truck*, 488 F. Supp. 592 (E.D. Pa. 1980) and *Textile Rubber & Chem. Co. v. Shook*, 243 Ga. 587, 255 S.E.2d 705 (1979), with *United Ins. Co. of America v. Dienno*, 248 F. Supp. 553 (E.D. Pa. 1965). See also *Wiegand Co. v. Trent*, 122 F.2d 920 (3d Cir. 1941), *cert. denied*, 316 U.S. 667 (1942) (when no trade secrecy is involved, use of customer list is permissible); *Vincent Horwitz Co. v. Cooper*, 352 Pa. 7, 41 A.2d 820 (1945) (no injunction to restrain use of customer lists that were available through published lists of suppliers and other catalogue and sales publications); *Elliott v. Skillcrafters, Inc.*, 271 Pa. 185, 114 A. 488 (1921) (surreptitiously obtained lists of plaintiff's customers ordered to be returned).

133. *Morgan's Home Equip. Corp. v. Martucci*, 390 Pa. 618, 136 A.2d 838 (1957).

v. Martucci,¹³⁴ that the Pennsylvania Supreme Court stated the rule explicitly:

In many businesses, permanent and exclusive relationships are established between customers and salesmen. The customer lists and customer information which have been compiled by such firms represent a material investment of employer's time and money. This information is *highly confidential and constitutes a valuable asset*. Such data has been held to be . . . a trade secret for which an employer is entitled to protection, independent of a non-disclosure contract. . . .¹³⁵

The court's expansive definition would afford trade secret protection to most business secrets.

Since *Morgan*, however, the Supreme Court of Pennsylvania has consistently narrowed the scope of protection for nontechnical data by developing stricter prima facie standards.¹³⁶ Currently, to qualify nontechnical information for trade secret protection the judicial inquiry focuses on: (1) whether the information is obtainable in significant part; and (2) whether the information is "freely and easily"¹³⁷ obtainable.¹³⁸ Generally, data that is available without great difficulty fails to gain protection.¹³⁹ Under the first prong, courts regard the list or compilation of information in *total*. For example, if a defendant shows that a significant part of a list was easily obtainable, he reaps the benefit of the entire list.¹⁴⁰ Thus, plaintiff may be deprived of the most valuable and secretive portion of the list. Furthermore, this standard is arbitrary, within the court's discretion, and may lead to costly source checking to establish whether a portion of the list was easily obtainable.¹⁴¹

The second level of analysis focuses on the degree of difficulty in obtaining information that was compiled by an independent source. Problems of proof are implicated, since time studies would presumably be necessary to show ease of compilation.¹⁴² Under the two-prong test, Pennsylvania courts have refused protection for dis-

134. *Id.*

135. *Id.* at 623, 136 A.2d at 842 (emphasis added).

136. *Accord*, Capital Bakers Inc. v. Townsend, 426 Pa. 188, 231 A.2d 292 (1967); Carl Colteryohn Dairy Inc. v. Schneider Dairy, 415 Pa. 276, 203 A.2d 469 (1964).

137. *Denawetz v. Milch*, 407 Pa. 115, 121, 178 A.2d 701, 704 (1962). The *Denawetz* court held that lists compiled from telephone books and from the numerous credit and trade publications freely available to all interested parties were not protectable trade secrets. "Equity will not protect mere names and addresses easily ascertainable by observation or by reference to directions." *Id.* at 121, 178 A.2d at 705.

138. *See* General Business Servs., Inc. v. Rouse, 495 F. Supp. 526, 530 (E.D. Pa. 1980).

139. *Tempo Instrument, Inc. v. Logitek, Inc.*, 229 F. Supp. 1 (E.D.N.Y. 1964); *Bickley v. Frutchey Bean Co.*, 173 F. Supp. 516 (E.D. Mich. 1959); *Trilog Assocs., Inc. v. Famularo*, 455 Pa. 243, 314 A.2d 287 (1974).

140. *Trilog Assocs., Inc. v. Famularo*, 455 Pa. 243, 314 A.2d 287 (1974).

141. *General Business Servs., Inc. v. Rouse*, 495 F. Supp. 526, 530-31 (E.D. Pa. 1980).

142. *Id.*

tillations of commercial lists,¹⁴³ delivery route lists,¹⁴⁴ data on the potential popularity of a design,¹⁴⁵ and a list of respondents to an advertising campaign.¹⁴⁶

In addition, courts may deny protection on the basis that the information "could have been"¹⁴⁷ independently ascertained by the misappropriator. The success of this defense severely limits trade secret protection. Since a trade secret may be developed from information entirely in the public domain, a court's willingness to speculate expands the scope of nonprotectable information. Even though plaintiff may have expended a significant amount of time and expense to compile information, defendant's superior compilation ability, may prove fatal to plaintiff's case.¹⁴⁸ Hence, trade secret protection that was otherwise available under *Morgan's Home Equipment Corp. v. Martucci*,¹⁴⁹ has been eroded by the court's application of the two-prong test.

C. *Technical Trade Secrets—General v. Specific Test*

Formulas,¹⁵⁰ processes,¹⁵¹ and devices¹⁵² may qualify as technical trade secrets. At the rudimentary level of research, courts are inclined to rule out the existence of a trade secret. "Protection for ideas not yet concrete and mere ideas for research would inhibit development by others of the as yet imperfect technology which is benefiting no one, in particular the public."¹⁵³ Most courts do provide greater protection when research has developed a viable process or device,¹⁵⁴ but Pennsylvania does not necessarily follow that approach.

143. *Van Prods. Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965).

144. *In Carl Colteryahn Dairy v. Schneider Dairy*, 415 Pa. 276, 203 A.2d 469 (1964), the court held that route listings memorized by a former employee were not trade secrets. The court explained that "[i]f the identity of a majority of a competitor's route customers was desired, it could be ascertained without great difficulty in most instances; a delivery truck need only be followed during a period of one or two runs. . . . The time and expense of this tactic would be almost nominal." *Id.* at 280, 203 A.2d at 473.

145. *Sims v. Mack Truck Corp.*, 488 F. Supp. 592 (E.D. Pa. 1980).

146. *Id.*

147. *Trilog Assocs., Inc. v. Famularo*, 455 Pa. 243, 252, 314 A.2d 287, 292 (1974).

148. *See Computer Print Sys., Inc. v. Lewis*, — Pa. Super. Ct. —, 422 A.2d 148 (1980).

149. 390 Pa. 618, 136 A.2d 838 (1957). *See* notes 134-136 *supra*.

150. *West v. Alberto Culver Co.*, 486 F.2d 469 (10th Cir. 1973) (hair conditioner); *Wood v. Sloman*, 150 Mich. 177, 114 N.W. 317 (1907) (improved breakfast cereal); *Watkins v. Landon*, 52 Minn. 389, 54 N.W. 193 (1893) (liniment).

151. *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254 (E.D. La. 1967) (aromatics); *Abbot Labs v. Norse Chem. Corp.*, 33 Wis. 2d 445, 247 N.W.2d 529 (1967) (artificial sweeteners).

152. *Art Wire & Stamping Co. v. Johnson*, 141 N.J. Eq. 101, 56 A.2d 11 (1947) (slide fasteners); *Westervelt v. National Paper & Supply Co.*, 154 Ind. 673, 57 N.E. 552 (1900) (machine for making bags).

153. Kane, *Limitations on the Law of Trade Secrets*, 53 J. PAT. OFF. SOC'Y 162, 171 (1971).

154. *Accord*, *Forest Labs, Inc. v. Formulations, Inc.*, 299 F. Supp. 202 (E.D. Wis. 1969); *Drew Chem. v. Star Chem. Co.*, 258 F. Supp. 827 (W.D. Mo. 1966).

In contrast to the nontechnical trade secret test, the technical test potentially provides greater protection. In an early case, *Macbeth-Evans Glass Co. v. Schnellbach*¹⁵⁵ the Pennsylvania Supreme Court established the standard for technical trade secret protection. The *Macbeth* court maintained that “particular secrets of the complaining employer not the general secrets of the trade” were protectable even absent a restrictive-covenant.¹⁵⁶ The supreme court opined that the knowledge of the trade secret came to the employee by reason of the position he occupied and the confidence placed in him by his employer. By distinguishing between general and specific secrets, the court recognized that secrets generally known within a particular industry are not protectable.

The *Macbeth* test has remained the standard in Pennsylvania since 1913. Nevertheless, specificity does not assure judicial protection. While a technical trade secret may be lost by independent invention by a competitor or reverse engineering, it is also lost if the nature of the secret is ascertainable upon inspection,¹⁵⁷ including inspection during plant tours or exhibition displays.¹⁵⁸

One factor that may indicate trade secret misappropriation is the amount of time it takes for a competitor to reproduce a product or process with the trade secret information. For instance, if it takes plaintiff company’s research department ten years to develop a secret formula and plaintiff’s employee transfers to a competitor who subsequently produces a similar formula in seven months, there is a reasonable presumption that the rival company used the misappropriated trade secret. Pennsylvania courts, however, disregard the “lapsed time”¹⁵⁹ issue as insignificant.¹⁶⁰ Certain federal and state courts, on the other hand, consider this conduct an indice of misappropriation.¹⁶¹

Generally, technical trade secrets form an integral part of business operations and their value is often commensurate with the size and growth rate of the business. Unintentional disclosure of technical trade secrets may result in financial loss or ruin. Under Penn-

155. 239 Pa. 76, 86 A. 688 (1913).

156. *Id.* at 85, 86 A. at 693 (emphasis added).

157. See notes 59-68 and accompanying text *supra*.

158. *Telex Corp. v. International Business Machines Corp.*, 510 F.2d 894 (10th Cir.), *cert. denied*, 423 U.S. 802 (1975); *Nucor Corp. v. Tennessee Forging Steel Serv., Inc.*, 476 F.2d 386 (8th Cir. 1973).

159. Lapsed time is the period between when the trade secret was misappropriated and when defendant produced results with the information. Defendant may show that the formula or process was developed independently thus nullifying the presumption and the allegation of misappropriation.

160. *Van Products Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965). The lapsed time was two months and the supreme court attributed this rapid reproduction of a competitor’s product to the employee’s industriousness.

161. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974); *Computer Print Syss., Inc. v. Lewis*, — Pa. Super. Ct. —, 422 A.2d 148 (1980).

sylvania's three-tiered standard,¹⁶² plaintiff may prove a technical trade secret by satisfying the *Macbeth* test,¹⁶³ yet fail to gain judicial protection because public policy disfavors restraint on trade and free competition. Despite the reluctance of Pennsylvania courts to inhibit employee mobility, the Commonwealth needs adequate legal safeguards to encourage optimum use of trade secrets and to promote industrial growth.

V. Recommendations

A. *Computer Print Systems Approach*

Despite the guidelines promulgated by the Pennsylvania Supreme Court, the Superior Court of Pennsylvania offered a modified approach to trade secret protection in *Computer Print Systems Inc. v. Lewis*.¹⁶⁴ In *Computer Print Systems*, computer programs were misappropriated by a former employee of plaintiff and used by defendant company. The Pennsylvania Superior Court concluded that the programs represented trade secrets even though other competitors had developed programs to achieve similar results.¹⁶⁵ Although the concept of the programs is not protectable, "the specific programs developed by appellee to accomplish this purpose should be afforded such protection."¹⁶⁶

In contrast to the Pennsylvania Supreme Court, the *Computer Print Systems* court refused to speculate that others might develop similar programs. "Rather, the fact that competitors *could* duplicate the product through investment of their own funds and application of general programming principles does not preclude trade secret protection for one who has invested such effort."¹⁶⁷ Relief was predicated on the breach of a confidential relationship between the employer and employee. In addition, the court held the third party, defendant company, liable for the use of the programs after it received notice that the programs were trade secrets.¹⁶⁸

The superior court's holding is sound, but the compensatory damages award is inadequate. *Computer Print Systems* spent time and money to develop specialized programs for its customers. The

162. See notes 106-111 and accompanying text *supra*.

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

164. — Pa. Super. Ct. —, 422 A.2d 148 (1980).

165. An interesting lower court history exists in this case. The lower court failed to find that trade secrets existed but the Chancellor concluded that the computer programs were general chattels and that defendants should be required to pay for their use under the theory of unjust enrichment. See RESTATEMENT OF RESTITUTION § 1 (1937). The superior court rejected this theory and held that the programs were trade secrets and relief was predicated on a breach of confidence. See RESTATEMENT OF TORTS § 758b (1939).

166. — Pa. Super. Ct. —, —, 422 A.2d 148, 153 n.3 (1980).

167. *Id.* (emphasis added).

168. See RESTATEMENT OF TORTS § 758b (1939). See also note 118 *supra*.

value of the trade secrets lay in the development costs, the uniqueness of the customer programs, and the potential sale of the data to other firms. The money damages, however, did not include future earnings attributable to the use of the trade secrets.¹⁶⁹ Moreover, the second employer was not prohibited from continuing to use the trade secrets. Therefore, defendant company may have benefitted from the misappropriation since arguably greater costs in labor and resources would have been expended to develop the programs independently.

Because the defendant company is not barred from using the misappropriated trade secrets, awarding damages to the injured party is not as strong a deterrent as injunctive relief. Furthermore, injunctive relief protects the trade secret and maintains it as a valuable asset for plaintiff's future use. A court may limit the duration of an injunction to a period of time it would have taken defendant to discover the trade secrets lawfully through either independent development or reverse engineering of plaintiff's product.¹⁷⁰ Accordingly, an injunction should terminate when the plaintiff's trade secret becomes generally known to good faith competitors.

Nevertheless, the *Computer Print Systems* approach is a signal

169. An alternative method for calculating compensatory damages is to award relief for the period in which information is entitled to protection as a trade secret, plus the additional period, if any, in which a misappropriator retains an advantage over good faith competitors because of misappropriation. No money damages would be awarded once the trade secret is in the public domain. *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949). Another method limits recovery to the period that it would have taken to discover the trade secret without misappropriation. *Carbonline Co. v. Jaraboe*, 454 S.W.2d 540 (Mo. 1970). See also UNIFORM TRADE SECRETS ACT § 3 (1980 version) [hereinafter cited as U.T.S.A.].

170. The scope and availability of injunctive relief to restrain future use and disclosure of misappropriated trade secrets varies with each jurisdiction. Three principles emerge from decisions awarding injunctive relief: (1) despite a showing of monetary damage, a person likely to be damaged by a misappropriation may be granted injunctive relief; (2) injunctions in trade secret cases must reasonably identify the trade secrets to which they relate; (3) injunctions must terminate within a reasonable time. ABA SECTION OF PAT. T.M. AND COPYRIGHT LAW, No. 402 (1977). Furthermore, since injunctive relief is granted in accordance with equitable principles, laches and unclean hands are a bar to recovery. *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F. Supp. 1102 (E.D. Mich. 1975); *Kubik, Inc. v. Hall*, 56 Mich. App. 335, 224 N.W.2d 80 (1974).

The duration of the injunction has varied among jurisdictions. See *K-2 Ski Co. v. Head Ski Co.*, 506 F.2d 471 (9th Cir. 1974) (injunction granted for the period of time it would have taken defendant either by reverse engineering or by independent development to develop its ski legitimately without use of the plaintiff's trade secret); *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F. Supp. 1102 (E.D. Mich. 1975) (imposing reasonable royalty for the period of time necessary for a competitor to duplicate the program by independent research).

For examples of different types of injunctions available, see *College Watercolor Group, Inc. v. Wm. H. Newbauer, Inc.*, 468 Pa. 103, 360 A.2d 200 (1976) (permanent injunction); *Northern Petrochemical Co. v. Tomlinson*, 484 F.2d 1057 (7th Cir. 1973) (preliminary injunction); *Kubik, Inc. v. Hull*, 56 Mich. App. 335, 224 N.W.2d 80 (1974) (damages only); *K-2 Ski v. Head Ski Co.*, 506 F.2d 471 (9th Cir. 1974) (lead time injunction to eliminate competitive advantage). For an exhaustive analysis of injunctive relief for trade secret misappropriation, see Barclay, *Trade Secrets: How Long Should an Injunction Last?*, 26 U.C.L.A. L. REV. 203 (1978).

that the superior court recognizes the harm in permitting employees to legally disclose trade secrets under the saving judicial doctrines of employee mobility and free competition. Other Pennsylvania courts would do well to look to *Computer Print Systems* for guidance.

B. *The Uniform Trade Secrets Act*

The Uniform Trade Secrets Act¹⁷¹ codifies the basic principles of common law trade secret protection but preserves the essential distinctions from patent law.¹⁷² Under the Act, a trade secret is information that derives independent economic value because it is not generally known to other persons who can obtain economic value from its disclosure or use.¹⁷³ Presently, Minnesota¹⁷⁴ is the only state that has adopted the Act.

Standing alone, the Uniform Trade Secrets Act appears to provide a broader scope of trade secret protection than the Restatement of Torts.¹⁷⁵ Clearly, the Act overshadows the protection presently available in Pennsylvania. For example, the definition of a trade secret is broader because it includes know-how as a protectable secret. In addition, the Act departs from the Restatement of Torts definition, which required that a trade secret be "continuously used in one's business."¹⁷⁶ Under the Act, protection is extended to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. Finally, the Act provides for injunctive relief for actual or potential misappropriation.¹⁷⁷ The availability of this remedy will prevent permanent loss of the trade secret by premature disclosure into the public domain.

Adoption of the Uniform Trade Secrets Act in Pennsylvania and other states will insure that businesses have notice of the duties involved in maintaining trade secrets and the remedies available in the event of misappropriation. Clarification and uniformity in this area of the law is needed and long overdue.¹⁷⁸

171. U.T.S.A., *supra* note 169.

172. *See* note 17 and accompanying text *supra*.

173. U.T.S.A., *supra* note 169, § 1 at 5.

174. *See* MINN. STAT. ANN. § 325c.01 (West Supp. 1981). The U.T.S.A. is pending in the legislatures of Arkansas, Connecticut, Idaho, Indiana, and Washington.

175. *See* RESTATEMENT OF TORTS § 757 (1939). *See also* notes 44-54 and accompanying text *supra*.

176. RESTATEMENT OF TORTS § 757, Comment b (1939).

177. The Act limits injunctive relief to elimination of the commercial advantage obtained through misappropriation. Injunctive relief, however, is restricted against good faith acquisition of a misappropriated trade secret. The Act states:

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.

U.T.S.A. *supra* note 169, § 2 at 7.

178. Pennsylvania should be a front runner in adopting the U.T.S.A., as it was with the Uniform Commercial Code. Pennsylvania was the first state to adopt the U.C.C. (1952 ver-

VI. Conclusion

The law recognizes that trade secrets are entitled to reasonable protection regardless of the applicable legal standard. Pennsylvania courts have established narrow standards that are confusing to the business community and legal practitioners. Clearer guidelines will promote greater utilization of trade secrets. Adequate protection increases operating efficiency, and promotes growth by permitting dissemination of proprietary information to a broader range of employees and business associates. Thus, the business community is aided rather than misdirected by unsettled judicial standards.

Although the *Computer Print System* approach is a positive step toward greater trade secret protection in Pennsylvania, adoption of the Uniform Trade Secrets Act, or a facsimile, has the advantage of certain guidelines that offer increased yet reasonable trade secret protection. Until a uniform statute is adopted, the trade secret possessor must be aware of the confusing and inconsistent court holdings in Pennsylvania and must attempt to follow the convoluted judicial standards to avoid severe economic loss of valuable assets.

LEE M. ROSENBLUTH

sion). See Schnader, *A Short History of the Preparation and Enactment of the Uniform Commercial Code*, 72 U. MIAMI L. REV. 1 (1967).

