Section Four:

Trade Secret Law

by Dale L. Carlson [*]

In 1999, the law of trade secrets continued to evolve through a variety of state and federal court decisions. In New York, a state court decision demonstrated a continued reluctance to protect customer names as trade secrets. In contrast, in Washington State's Supreme Court held customer lists to be protectable as trade secrets, whether written or memorized. Likewise, in Connecticut's Supreme Court, the Court held a customer list and supplier's list to be part-and-parcel of a trade secret relating to a company's overall method of doing business.

In November, Congress passed, and President Clinton signed into law, legislation granting "prior user" rights to early users of business methods, exempting them from liability for patent infringement under a later issued patent covering those business methods. The prior user rights defense was limited by Congress to "methods of doing or conducting business", ostensibly due to Congressional concerns over the broad scope patenting possibilities afforded in this arena by virtue of the Federal Circuit's 1998 *State Street Bank* decision.

The following is a summary, organized by (A) state and (B) circuit, of some of the trade secret decisions reported for 1999.

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<u>Part A – 1999 State Cases on Trade Secret Law**</u>

4.1. Arkansas

***Cardinal Freight Carriers Inc. v. J.B. Hunt Transport Servs. Inc.*, 987 S.W.2d 642 (Ark. 1999)**

The Arkansas Supreme Court affirmed the lower court's grant of injunctive relief for the employer, preventing its former employees' from conducting any business with four of its customers for a period of one year. The Court also gave credence to the "inevitable disclosure" rule for purposes of proving misappropriation of trade secrets.

Appellants in this case were former employees of J.B. Hunt Transport Services, Inc. and J.B. Hunt Logistics, Inc. ("Hunt"). Appellants were hired by Hunt to build a dedicated contract services division that provided customized transportation and distribution services to companies

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** *A majority of the states have adopted the Uniform Trade Secrets Act. When the text refers to a particular state's Trade Secrets Act, unless otherwise stated, the statute reads as follows:*

> *"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, process, drawing, cost data or customer list that:*
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> *(1) 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*
> *(2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.*

Additionally, "misappropriation" of trade secrets is defined as the:

> *(1) 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*
> *(2) disclosure or use of a trade secret of another without express or implied consent by a person who*
> *(A) used improper means to acquire knowledge of the trade secret; or*
> *(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was (i) derived from or through a person who had utilized improper means to acquire it; (ii) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or (iii) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or*
> *(C) before a material change of his 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.*

that outsource private trucking fleets. *Id.* at 643. Hunt required the appellants to sign confidentiality agreements as part of securing employment. *Id.* After working for Hunt for six years, appellants resigned and went to work for a competitor, Cardinal Freight Carriers and Cardinal Logistics Management, Inc. (collectively "Cardinal") in the same line of business. *Id.*

Hunt filed suit seeking injunctive relief, claiming that: 1) appellants had violated the Arkansas Trade Secrets Act, Ark. Code. Ann. § 4-75-601 *et seq.* (Repl. 1996); 2) that Hunt had been irreparably damaged; 3) that there was no adequate remedy at law; and 4) that the appellant's use of confidential information would hurt Hunt's goodwill with customers and in the marketplace generally. *Id.* The chancery court agreed and enjoined the appellants from conducting any business with four of Hunt's customers for one year. *Id.*

On appeal, the former employees argued that the lower court erroneously created a non-competition agreement between the parties when the confidentiality agreement did not contain such a clause and issued an injunction. *Id.* The Arkansas Supreme Court held, however, that a non-competition agreement was not a prerequisite for enjoinment of a former employee from using confidential information obtained during his employment and that the lower court's issuance of an injunction was appropriate. *Id.* Under the Arkansas statute, an "actual or threatened "misappropriation of a trade secret may be enjoined under § 4-75-604". *Id*. The court determined that an injunction is necessary to restrain the conduct that is contrary to the confidentiality agreement, and this injunction only terminates when the trade secret ceases to exist, or after a reasonable period of time elapses "to eliminate a commercial advantage" emanating from the misappropriation. *Id*. at 643-44.

The Court disagreed with the appellants' central argument that Hunt's confidentiality agreement did not cover any protectable trade secrets. *Id.*

The trade secrets identified by Hunt at trial, consisted of: 1) the profit made on certain customer contracts; 2) the profit margin in its pricing model; 3) the customers' historical buying habits; 4) Hunt's methods of doing business and its processes, operations, marketing programs, computer programs and future plans; and 5) Hunt's strategic planning for the future. *Id.* at 645. By signing the confidentiality agreements, the court contended that the appellants had admitted that Hunt's methods, processes and operations were confidential information that, if disclosed, could give competitors an advantage. *Id.* Furthermore, the president of Cardinal, the appellants' new employer, agreed that customer information should be kept confidential and company employees are not entitled disclose the profit made from a particular customer to competitors. *Id.* The Supreme Court concluded that Hunt's trade secrets derived economic value since a competitor "armed with such information. . .would have an edge in capturing some significant part of Hunt's customers." *Id.* at 645-46.

The Supreme Court concluded that Hunt's trade secrets were not the type of information that is generally known and Hunt did take reasonable steps to protect its secrecy in consideration of Hunt's CEO's testimony that the information was not readily ascertainable by those outside the company, and that the existing confidentiality agreement was one means to ensure this. The Court considered significant the fact that employees were prohibited from disclosing information for only a period of one-year, and determined that this was reasonable considering that many of Hunt's customer contracts ran from one to five years.

The Supreme Court disagreed with the appellants' claim that Hunt failed to show a threat of irreparable harm. *Id.* The Court adopted the inevitable disclosure rule recognized in numerous federal courts in concluding that, for purposes of proving misappropriation, it is sufficient to demonstrate that the former employee's new employment "will inevitably lead him to rely on the [former employer's] trade secrets." *Id.* In fact, there was evidence that the appellants were servicing Hunt's customers at their new job and that Cardinal had "no compunction about using or disclosing information covered under Hunt's confidentiality agreement to gain an unfair competitive advantage." *Id.* at 647. In light of these facts, the Court concluded that there was more than enough evidence demonstrating that Hunt would suffer the irreparable harm that is requisite to support the injunctive relief to preclude a "threatened or inevitable misappropriation of [its] trade secrets." *Id.*

***Saforo & Associates, Inc., v. Porocel Corp.*, 991 S.W.2d 117 (Ark. 1999)**

The Supreme Court of Arkansas affirmed in part the lower court decision finding that appellee's wash water system constituted a protectable trade secret and the appellant's misappropriation was willful.

The trade secret at issue in this case was the wash step of the processing of a raw material known as Bayer Scale, which is an alumina residue recycled and used in the refrigerate core industry. *Id.* at 119. The wash step involved a tank and a separate component referred to as the "Sweco screen." *Id.* Porocel entered into an arrangement with Saforo to use this wash water system on Bayer Scale supplied by Saforo. Appellant William Evans was the plant manager at Porocel at the time and it was he who supervised the construction and operation of the wash system. *Id*. Eventually, the relationship between Saforo and Porocel ended and Saforo later contracted with another company GEO Specialty Chemicals, to process the Bayer Scale. *Id.*

Appellee, Porocel, brought an action seeking to enjoin Saforo from processing the Bayer Scale at the GEO facility using the specific wash water system that had been used by Porocel, and sought damages for misappropriation of trade secrets. *Id.* Saforo argued in that the wash water system was not unique and had been used in the industry for some time. *Id.* The trial court concluded that the appellants had willfully misappropriated a trade secret and issued an injunction. *Id.* Furthermore, the court awarded damages and attorneys fees. *Id.* at 120. On appeal, the Arkansas Supreme Court affirmed the decision that there was a protectable trade secret. *Id*. However, the court reversed and remanded in order to recalculate the damages. *Id*.

The Arkansas Supreme Court applied the factors identified in *Vigoro Industries, Inc. v. Cleveland Chemical Co. of Arkansas, Inc.* 866 F. Supp. 1150 (E.D. Ark. 1994) and concluded the wash water system constituted a protectable trade secret. The *Vigoro* factors were adopted by the Court as "the controlling analysis for determining whether any particular information constitutes a trade secret" under the Arkansas Trade Secrets Act. *Id.* The *Vigoro* factors are: 1) extent of which the information is known outside the business; 2) extent to which information is known by employees and others involved in the business; 3) extent of measures taken to guard the secrecy of the information; 4) the value of the information to the company and its competitors; 5) the amount of effort or money invested in developing the information; and 6) the ease or difficulty in which the information could be properly acquired or duplicated by others. *Id.* at 120-22.

Under the first factor, the court found that the Bayer Scale industry was very limited. *Id.* at 120. Experts testified at trial that they had never seen another system like the Porocel wash water system. *Id.* Further evidence demonstrated that the system was a "unique solution" used to meet the needs of "one customer in the industry" and that, while each component of the system was in the public domain, the "unified process . . . afforded a competitive advantage." *Id.* at 121.

Further evidence of this competitive advantage was the fact that the company Saforo hired to replace Porocel, namely GEO, needed to, and proceeded to hire Porocel's plant manager, Evans, to oversee the installation of an identical wash water system at their facility, despite the engineering expertise already available at GEO. *Id.*

The second and third *Vigoro* factors were also met. The second factor was met by evidence that the information about the wash water system was not generally known by either Porocel's or Saforo's employees, or others outside the business. *Id.* To support the third factor, there was evidence of confidentiality agreements entered into between Saforo and AluChem, which eventually purchased Porocel. *Id.* Additionally, Evans, the plant manager, entered into a confidentiality agreement with the parent company to Porocel, Englehard. *Id.* The dissent argued that this was insufficient and caused the information to fail the *Vigoro* six factor test. *See id.* at 126. The majority noted, however, that even though there was no confidentiality agreement between Saforo and Porocel, Porocel took sufficient measures to protect the secrecy of their system. *Id.* at 121. For example, the information was only shared with Evans who was under a contractual duty to maintain its secrecy under this confidentiality agreement with the parent company. *Id.* The court concluded that Porocel had indeed taken "reasonable" measures to protect the information as required by the statute. *Id.*

The value of the wash water system to Porocel and its competitors, the fourth factor, was its efficiency and inexpensive installation. *Id.* Testimony at trial revealed that the cost of installing the wash water system was $17,000.000, whereas an alternative system cost $200,000.00. *Id.* The fifth factor was met via evidence that showed that much effort and money went into developing the system. *Id.* at 122. Ron Bell, the chemical engineer at Porocel, spent weeks considering the problems occurring in the washing step of the Bayer Scale processing. *Id.*

at 121-22. While the wash water system was created in a relatively short period of time, "it was obviously [Bells'] intellectual effort that gave Porocel a competitive advantage" since experts testified at trial that they had never seen such a system before. *Id.* at 122.

The sixth factor, the ease or difficulty with which the information could be acquired or duplicated, was met because, while the component parts of the system were in the public domain, the system as a whole was not. *Id.* The Court noted that "no one except Porocel came up with the design at issue" and GEO had to hire a former Porocel employee (with confidentiality obligations) to duplicate the system. *Id.* In sum, the wash water system was a protectable trade secret and the Court affirmed the trial court on this point. *Id.*

The Court also affirmed the lower court's finding that the appellant's misappropriation was "willful." *Id.* First, Porocel's former plant manager, Evans, became Saforo's consultant despite signing a confidentiality agreement, which obligated him to maintain the secrecy of Porocel's wash water system after his employment was terminated. *Id.* Saforo and GEO knew that Evans was duplicating the system, but they claimed that they did not believe the system was a trade secret. *Id.* at 123. The Court noted, however, that GEO required indemnification from Saforo for any liability it may incur for theft of trade secrets. *Id.* The Court concluded that "[t]he existence of the indemnity agreement is a clear indication that appellants at least contemplated the existence of a trade secret and the possible misappropriation thereof." *Id.* Each appellant was a "willing participant" in the misappropriation because each had something to gain. *Id.*

The Court only remanded on the issue of damages. The Arkansas statute allows for damages in the amount of the "actual loss caused by the misappropriation" and also for "the unjust enrichment . . .that is not taken into account in computing damages for actual loss." Ark. Code. Ann. § 4-75-606 (Repl. 1996). The lower court's determination of damages was a "hybrid calculation" not contemplated by the Arkansas's statute. *Id.* at 124. The Supreme Court held that damages should be calculated "by either the plaintiff's lost profits or the defendant's gain, but not a combination of the two." *Id.* This issue was remanded to the lower court to recalculate.

The dissent argued that the *Vigoro* factors were not met in this case. *Id.* at 125. Specifically, the dissent argued that any protection that trade secret may have had was lost when the creator of the system disclosed it to Porocel. *Id.* at 125. At the time he designed the system, Ron Bell was part owner of AluChem and owned whatever trade secrets were incorporated in his design. *Id.* When he sent the design to Evans at Porocel, they had no relationship. *Id.* at 124-25. The dissent noted that the U.S. Supreme Court has held that when a trade secret is disclosed to others "who are under no obligation to protect [its] confidentiality…. [the designer's] property right is extinguished." *Id.* at 126 (quoting *Ruckelshaus v. Monsanto*, 467 U.S. 986 (1984)). At the time of this disclosure, AluChem had not yet purchased Porocel and there was no evidence of any confidentiality agreement between Mr. Bell and Porocel. *Id*. Thus, "[o]nce the trade secret was destroyed by disclosure, it entered the public domain." *Id.*

***Bendinger v. Marshalltown Trowell Co.*, 994 S.W.2d 468 (Ark. 1999)**

In *Bendinger,* the Arkansas Supreme Court once again addressed the inevitable disclosure rule adopted in *Cardinal Freight Carriers v. J.B. Hunt Transport Services*.

Fred Bendinger was an industrial engineer who worked for Marshalltown, which produced and sold trowels and related merchandise. *Id.* at 469. During his employment, Bendinger signed an employment agreement, which prohibited him from disclosing any secrets or confidential information obtained in his position and from working for a competitor for a period of two years after the termination of his employment with Marshalltown. *Id.* at 470.

When Bendinger became dissatisfied with his position at Marshalltown, he obtained employment with a competitor, Kraft Tool Company. *Id.* At that time both Bendinger and Kraft sued for a declaratory judgment in the district court asking to the court to declare Bendinger's employment agreement with Marshalltown void. *Id.* In response, Marshalltown filed suit against Bendinger seeking to enforcement the two-year restrictive covenant in the employment agreement and also alleging misappropriation of trade secrets in violation of the Arkansas Trade Secrets Act. *Id.*

The district court denied Marshalltown's request for a permanent injunction under the Trade Secrets Act because there was insufficient evidence that Bendinger had misappropriated trade secrets. *Id.* at 471. However, the district court found the restrictive covenant enforceable and directed that Bendinger could not work for Kraft or any other competitor for the two-year period. *Id.* Both parties appealed from this ruling.

On appeal, the Court reversed the lower court's order to enforce the restrictive covenant finding that the failure of the covenant to contain a geographical restriction rendered it overbroad and unenforceable. *Id.* at 472. The Court then addressed Marshalltown's allegation of misappropriation of trade secrets.

The lower court found that while a trade secret existed, there was no evidence that either Bendinger or Kraft had misappropriated this information. *Id.* at 473. The trade secrets at issue were a customer list, a vendor list, a permashaped trowel blade and a fourth shift system. *Id* Marshalltown argued that while Bendinger had not caused actual harm to Marshalltown, Bendinger's knowledge and skills are inextricably tied up with Marshalltown's trade secrets and thus his new employment posed a substantial risk that these trade secrets would be disclosed. *Id*. at 473-474. Marshalltown argued that this inevitable disclosure qualifies as a "threat" of misappropriation, which is actionable under the Arkansas Trade Secrets Act. *Id.* at 474.

The Arkansas Supreme Court concluded that while the inevitable disclosure rule was actionable under the statute, it was not applicable in this case. *Id*. Under this rule, trade secret misappropriation may be proven by showing that a former employee's new employment will *inevitably* lead him to rely on the trade secrets he was privy to in his previous position. In the case at hand, however, Bendinger had only a general working knowledge of Marshalltown's production processes. *Id.* The lower court found that what little knowledge Bendinger had of any trade secrets was "minimal at best" and Bendinger lacked access to customer lists, secrets formulas and written material. *Id.* The lower court believed it was Bendinger's knowledge of the industry as a whole, rather than his engineering expertise that was of value to Kraft. *Id.*

Furthermore, Bendinger was not taking a similar position at Kraft. *Id.* at 475. The lower court recognized that the mere fact that a person takes a similar position with a competitor does not, by itself, make disclosure inevitable. *Id.* Here, however, Bendinger's position at Kraft was more managerial in nature and did not require Bendinger to use his engineering expertise. *Id.* Thus, Bendinger's new dissimilar position would not render disclosure of trade secrets inevitable. *Id*.

Finally, the Court noted an individual has a fundamental right to pursue his or her particular occupation. Id. Bendinger was only using his general knowledge gained through his education and this twenty-seven years of experience in the trowel industry. *Id.* The Court stated that one "cannot be compelled to erase from his mind all of the general skills, knowledge and expertise acquired through experience." *Id.* Bendinger was not a threat to Marshall town's trade secrets. *Id.*

4.2 Connecticut

***Jancar v. Jeneric/Pentron Corp.*, No. 990421535, 1999 WL 545358 (Conn. Super. Ct. July 19, 1999)**

The plaintiff, Jancar, held an exclusive license with the University of Connecticut ("University") to manufacture and sell all products, components and related methods or processes covered by a "Patented Technology" held by the University. *Id.* at * 1. Under the agreement, Jancar developed marketable dental products based on the Patented Technology as well as several trade secrets and processes, all of which he shared in confidence with the University. *Id*. Thereafter, Jancar entered into negotiations with the defendant in order to find a supplier and distributor for certain resins needed for his products. *Id*. During these negotiations, the defendant allegedly induced the University to breach its exclusive licensing agreement with Jancar and in return, the defendant gave the University a grant of $75,000. *Id.* Jancar contends that, after the defendants entered into their license with the University, they used Jancar's trade secrets to develop and sell products of their own. *Id.* Jancar sued, arguing, *inter alia*, that the defendants acquired trade secrets through improper means in violation of the Connecticut Uniform Trade Secrets Act, Conn. Gen. Stat. § 35-50 *et seq.* (1997). *Id.*

The defendant filed a motion to dismiss the plaintiff's complaint on the ground that the state court lack subject matter jurisdiction over the matter. *Id.* at * 2. The basis for the defendant's motion was that the plaintiff's claim was really a claim of patent infringement, not misappropriation of trade secrets, and that federal courts have exclusive jurisdiction over all cases arising under the patent laws. *Id.* The issue addressed then by the superior court was whether the information the defendant allegedly misappropriated qualified as a trade secret or if in fact this was a case of patent infringement. *Id.* at * 3.

While the there was an underlying patent pertaining the information at issue, the superior court held that the issue raised by the plaintiffs did indeed relate to trade secrets, and thus involved state law. *Id.* at * 5. The trade secrets at issue here were the various products that Jancar developed while working with the University, the advantages of utilizing certain methods employing specific resins for making the products, the advantages of manufacturing the product at certain physical dimensions, and marketing research showing the profitability of the products. *Id* The court reasoned that the "mere fact that the allegedly misappropriated trade secrets [were] being used by the defendant in furtherance of an underlying patent [was] incidental, and not reason enough to cause the state courts to lose subject matter jurisdiction." *Id.* Moreover, the plaintiffs produced evidence that the trade secret information was developed at great effort and expense, that it derived independent economic value from not being generally known and readily ascertainable, and that the products were not yet introduced to the market. *Id.* Further, the trade secret information was only made known to the defendants for purposes of their negotiation with Jancar. *Id.*

The court concluded that it was the alleged unauthorized use of confidential information the plaintiffs sought to enjoin, not the misuse of the patent held by the University. *Id.* at * 6. Accordingly, the defendants' motion to dismiss for lack of jurisdiction was denied by the court. *Id.* at 7.

Elm City Cheese Co. Inc. v. Federico, **251 Conn. 59, 1999 WL 971805 (Conn. Oct. 26, 1999)**

The Connecticut Supreme Court held that the individual components of running a business can collectively be a protectable trade secret. The "trade secret" at issue was Elm City Cheese's business operations, which included their method of making cheese, their customer list, their pricing structure, their supplier list and costs of its supplies. *Id.* at 73. The Court concluded that while each individual component may not necessarily be a trade secret, when they were viewed in conjunction with each other, they could be considered a protectable trade secret under the Connecticut Uniform Trade Secrets Act. *Id*. at 76.

Elm City Cheese manufactured grated cheese that it sold to three customers to use as "filler" to blend into their cheeses. *Id.* at 61. Their cheese-making process involved the use of "return milk" and a unique method they developed to dry the cheese. *Id*. at 63. Mr. Federico had worked for Elm City Cheese for a number of years as their accountant and "most trusted adviser and confidant." *Id.* at 61. In addition to access to Elm City's financial information, Federico had access to all aspects of the cheese-making process and Elm City's business methods. *Id*. at 62-63. Shortly after Federico resigned from his job he started his own cheese-making business, duplicating the methods of Elm City Cheese, using the same suppliers and contacting the Elm City's three customers. *Id*. at 65.

Elm City Cheese brought an action seeking a temporary and permanent injunction against Federico as well as seeking damages. *Id.* The trial court enjoined Federico from disclosing, using or selling any of the trade secrets, confidential information, procedures, technical data and methods of Elm City Cheese for a period of three years. *Id.* at 66-67. The court also awarded Elm City Cheese compensatory and punitive damages as well as attorneys' fees. *Id*. at 67. The defendant appealed arguing that the trial court improperly concluded that Elm City's cheese-making process was a trade secret, that the trial court improperly found the defendant's conduct willful and malicious, and that the injunction should be vacated on that the grounds that the it was overly broad and thus failed to adequately inform the defendant of the restrictions on his conduct. *Id.* at 67.

The Supreme Court affirmed the lower court's conclusion that the individual components of the Elm City's business operation, when viewed in conjunction with each other, were a protectable trade secret. *Id*. at 76. Central to this conclusion was the fact that Elm City's business was unique. *Id*. at 77. Elm City Cheese tailored its business to three customers and did not sell to the public. In light of this unique relationship between Elm City Cheese, its suppliers and customers, and that each individual component of the business plan could be considered a trade secret.. *Id*. at 78.

In addition to finding that a protectable trade secret existed, the Connecticut Supreme Court also agreed that Elm City Cheese had met the other requirements of the Uniform Trade Secrets Act: Elm City Cheese had taken "reasonable" measures to protect the trade secret and the trade secret derived independent value from not being generally known. *Id*. at 79, 86. The Court held that the trial court did not err in finding that Elm City's efforts to maintain secrecy of its trade secrets were reasonable under the circumstances. *Id*. at 79. What is considered "reasonable efforts" to maintain secrecy of a trade secret is a fact-specific inquiry. *Id*. at 80. Here, all financial information was shared only with family members and Federico, the books were kept in a locked cabinet and employees other than Federico did not have sufficient exposure to all integral parts of the business. *Id*. at 82. While Elm City Cheese did not have Federico sign a confidentiality agreement nor did they take other affirmative steps to ensure secrecy with respect to Federico, it was "reasonable" under the circumstances for Elm City Cheese to assume, based on their longstanding relationship, that they had no reason to fear misappropriation of the process by Federico. *Id*. at 85.

Additionally, Elm City Cheese derived value from keeping their business methods secret since they occupied a "special niche" in the cheese industry. *Id*. at 89-90. Federico duplicated

Elm City's methods, which gave him an economic advantage over larger cheese makers. *Id*. at 89. The Court noted that Federico's mirroring of Elm City's methods in his own business plan submitted to his bank was evidence of the plan's "substantial economic value." *Id*. Furthermore, prior to Federico's business, Elm City Cheese alone occupied the special niche in the industry. *Id*. When Federico opened his business, it was reasonable to conclude that his presence would siphon away customers from Elm City Cheese. *Id*. Thus, Elm City's trade secret derived independent economic value because it was not "generally known to those would could profit from knowledge of it." *Id*. at 89.

The Court upheld the award of damages and attorneys fees since the defendant's conduct was willful and malicious. *Id*. at 92. The defendant argued that he did not know that the process was a trade secret, thus he could not have acted willfully and maliciously. *Id*. The Court found this argument unavailing. *Id*. Federico should have known he was using information that was a trade secret and that he was duty bound, both by statute and under professional ethics, to keep this information confidential. *Id*. Furthermore, Federico located his business near Elm City's suppliers, essentially "choking off Elm City's supply of returned milk" and there was ample evidence regarding the animosity between Federico and Elm City Cheese. *Id*. at 92-93. Thus, the trial court did not abuse its discretion in awarding the plaintiff damages and attorneys fees. *Id*. at 93.

Finally, the Court also rejected the defendant's argument that the injunction was overly broad. The defendant argued the trial court's order did not "parse the various elements of Elm City's business to determine which" were protectable trade secrets and therefore failed to inform the defendant of what specific conduct was prohibited. *Id*. at 95. However, the Court reiterated that it was Elm City's method of doing business, not any individual component, that was a trade secret and the defendant is prohibited from doing anything that is encompassed within the trade secret. *Id*. Essentially, the defendant is prohibited from doing any business in this very limited market for cheese-making for a period of three years. *Id*. at 95-96. The defendant is not prohibited, however, from manufacturing other types of cheese or using other cheese-making processes. *Id*. at 96.

The dissent argued that the broad trade secret analysis followed by the Court will make it virtually impossible for a former employee to establish a competing business where his employer never treated the information as a trade secret, or required the employee to sign a covenant not to compete. *Id*. at 98. The better analysis, according to the dissent, would have been to find that Federico breached his fiduciary duty as Elm City's accountant and for violations of Connecticut's Unfair Trade Practices Act. *Id*. at 99. The trial court never addressed these issues because they concluded that the Uniform Trade Secrets Act trumped any other civil or tort remedy. *Id.* at 100.

The dissent disagreed that Elm City Cheese had made reasonable efforts to maintain the secrecy of its business plan. *Id*. at 98. The dissent noted that Elm City Cheese did not require confidentiality agreements, the employee manual made no mention of nondisclosure policies, and most employees of the company were familiar with all aspects of the business. *Id*. The dissent argued that similar failures in other cases had "resulted in courts declining to extend trade secret protection." *Id*.

4.3 Idaho

***Basic American, Inc. v. Shatila*, No. 24589, 1999 WL 1240811 (Idaho, Dec. 22, 1999) (unpublished)**

In an unpublished opinion, the Idaho Supreme Court affirmed a lower court decision finding a protectable trade secret in a process used to manufacture a potato product.

Basic American Inc. ("Basic") manufactured dehydrated potato products. *Id*. at *1. Appellant, Shatila, worked in Basic's R&D department. *Id*. As part of his employment, Shatila signed an employment agreement which stated, inter alia, that all inventions, secret methods and processes were property of Basic and that Shatila would not disclose any secret or confidential information to any person outside the Company while employed and thereafter. *Id*.

During Shatila's employment, Basic developed several potato products including the "Golden Grill Hash Brown" after several years of testing and experimentation. *Id*. During the development of the Golden Grill product, Basic had encountered manufacturing difficulties before it was finally able to put the product into production in 1984. *Id.* Shatila was involved in several stages of the product's development. *Id*.

In 1986 Shatila terminated his employment with Basic but entered into a consulting agreement with Basic. *Id*. at *2. During the term of his consulting agreement, Shatila asked for and received permission from Basic to do consulting work with various other businesses. *Id*. It was while working as a consultant for Idaho Fresh-Pak ("IFP") that Shatila began experimenting with a process similar to that used to produce Basic's Golden Grill product. *Id*.

When Basic became aware of Shatila's work, they informed IFP that they believed Shatila breached his confidentiality agreement by using proprietary information acquired during his employment with Basic. *Id.* This belief was based on the "striking similarity" between Basic's product and IFP's "Potato Real" product. *Id.* IFP disagreed that the products were similar and refused to release any information to Basic about their process. *Id*. at *3. IFP introduced their product to the market in 1993. *Id*. Basic field suit alleging IFP and Shatila misappropriated trade secrets belonging to Basic in violation of Idaho's Trade Secrets Act, Idaho Code §48-801 (1999). *Id*.

The district court held that there was a protectable trade secret. The court looked to the legislative history of the Uniform Trade Secrets Act as well as the factors listed in the Restatement of Torts to determine that Basic's trade secret was not "readily ascertainable." *Id*. at * 6. Furthermore, the court found that Shatila did not develop the process independently from his own knowledge, but rather used Basic's trade secret as a starting point, and that IFP and Shatila had pursued a "common plan" to misappropriate trade secrets. *Id.* at *3. The district court awarded Basic $3 million dollars in damages, which included total retention costs and unjust enrichment. *Id.* On appeal, IFP and Shatila argued, *inter alia*, that the trade secret identified by the district court was overly broad. *Id*. The Idaho Supreme Court disagreed with the appellant's on all claims and affirmed the lower court decision.

The Supreme Court upheld the lower court's use of the Restatement factors in concluding that the trade secret was not "generally known" or "readily ascertainable." *Id.* at * 6. While these factors are no longer required to find a trade secret, the Supreme Court held that they still provide "helpful guidance" in determining what constitutes a trade secret. *Id.* The lower court found, for example, that it took Basic almost six years to develop the Golden Grill product and that the product was unique to the industry. *Id*. at *7. This was further evidence that the trade secret was not readily ascertainable. *Id*.

The Court found that the trade secret identified by the district court was sufficiently specific. *Id.* at 9. Basic had defined their trade secret in extensive detail and initially alleged eighty trade secrets. *Id.* The list was consolidated into a single claim and the district court held that when all of the elements were considered collectively, they constituted a "compilation trade secret." *Id.* The Supreme Court upheld this ruling stating that "information consisting of multiple elements which are readily ascertainable may still be trade secrets when considered as a whole." *Id.* While elements of Basic's process may have been in the public domain, the specific combination used by Basic was not and thus could be a trade secret. *Id.* at *13. The trial court's formulation of the trade secret was sufficiently specific to distinguish it from the public domain. *Id*. at *13.

The Supreme Court also disagreed that the district court's decision impinged on Shatila's right to use his knowledge, education and experience. *Id.* at *10. The Court recognized that trade secret misappropriation law requires a balancing of interests of employers who want to protect their information and employees who want to use their skill in obtaining future employment. *Id.* The appellants argued that this balance should be tipped in their favor where trade secrets encompass vague and broad processes that use general knowledge. *Id*. at *11. The Court held, however, that the subject process identified as a trade secret was sufficiently narrow. *Id*. The district court found that the manner in which the potatoes were processed, combined with the use of certain additives to solve production problems was not generally known. *Id.* Shatila's interest in using his own skill and knowledge did not deserve additional leverage. Moreover, the district court's finding of a trade secret did not make it impossible for Shatila to find future employment or to utilize his training and expertise. *Id.*

Finally, the Supreme Court held that the district court's ruling that the trade secrets had been misappropriated was not contrary to the findings of fact. *Id*. at *13. The fact that Shatila used Basic's process as a starting point for IFP's potato product could properly constitute evidence of misappropriation. *Id*. at *14. Additionally, Shatila was "intimately involved" with the development of Basic's product and that under his guidance, IFP was able to develop an identical product after only a few months of testing. *Id*. The Court held that, in light of the confidentiality agreements between Shatila and Basic, Shatila's disclosure of Basic's trade secrets was "without express of implied consent" by a person who knew or should have known that he had a duty to maintain its secrecy. *Id*.

4.4. New York

***Chemfab Corp. v. Integrated Liner Tech., Inc.*, 693 N.Y.S.2d 752 (App. Div. 1999)**

The Supreme Court, Appellate Division, held that the identify of one of the former employer's significant customers did not constitute a trade secret.

The defendants were former employees of Loctite. *Id*. at 753. After they were laid off from their positions there, the defendants incorporated Integrated Liner Technologies, Inc. (ILT) for purposes of manufacturing a product called septa and began selling this product to La-Pha-Pack, a significant customer of Loctite's. *Id*. Loctite investigated the possible misuse of their confidential information by the defendants and became aware that certain confidential documents were seen at the ILT facility. *Id*. Loctite commenced this action alleging that the defendants had misappropriated trade secrets including the name of a significant La-Pha-Pack. *Id*. Plaintiffs later withdraw their claim that the defendants had misappropriated proprietary materials and used them in the manufacturing of a competing product, but maintained the claim that the defendants had improperly acquired customer names, which gave them a competitive advantage. *Id*. The Supreme Court denied the defendants motion for summary judgment.

The Appellate Division held that the record lacked evidence to support a finding that the identity of one customer was a trade secret, and thus the defendant's motion for summary judgment was improperly denied. *Id.* at 754. The court found that La-Pha-Pack could be easily identified as a potential customer through information that was distributed at trade shows and conferences. *Id.* Neither the timing for ILT's dealings with La-Pha-Pack, nor the defendant's admission that he knew the name of Loctite's largest customer, were sufficient to raise a genuine factual issue. *Id.*

4.5 South Dakota

***Daktronics, Inc. v. McAfee,* 599 N.W.2d 358 (S.D. 1999)**

The Supreme Court of South Dakota affirmed the lower court's grant of summary judgment and held that the developers of a pitch speed indicator failed to establish the existence of a trade secret.

Baker contacted Daktronics in 1988 with an idea he had for a pitch speed indicator which displayed the speed, and the type of pitch thrown, for the benefit of spectators at baseball games. *Id.* at 360. Daktronics developed a prototype device for Baker using materials that were readily available in the market. *Id.* Later, McAfee and Baker became partners, and began marketing the pitch speed indicator product to various ballparks. *Id.*

In 1996, Daktronics began to manufacture pitch speed indicators, and Baker and McAfee claimed that the indicator sold by Daktronics was essentially the same as their model. *Id*. Daktronics sued McAfee seeking a declaratory judgment, and McAfee counterclaimed arguing trade secret misappropriation. *Id.* The trial court granted summary judgment in favor of Daktronics. *Id*.

The Idaho Supreme Court treats trade secret determinations as a mixed question of law and fact. *Id*. at 361. The legal question is whether the information constitutes a trade secret under the first part of the definition in South Dakota's Trade Secrets Act , S.D. Codified Laws

§37-29-1 (Michie. 1999), i.e. whether it is a formula, pattern, compilation, program, device, method, technique or process. *Id*. The factual question is whether the remainder of the statutory definition is met, i.e. whether the trade secret derives independent economic value from not being generally known, and is the subject of reasonable efforts to maintain its secrecy. *Id.*

The Supreme Court held that, as a matter of law, Baker and McAfee's concept was not a trade secret. *Id*. The Court concluded "simply possessing a non-novel idea or concept without more is generally, as a matter of law, insufficient to establish a trade secret." *Id*. Furthermore, even if the concept did meet the first part of the definition, the Supreme Court held that it would still fail under the remaining subsections of the statute. *Id.* at 362. Baker and McAfee's idea involved the use of items readily available on the market. *Id.* The combination of these items was within the realm of general knowledge possessed by the industry and there was nothing novel about combining these materials to display the speed and types of pitches. *Id.* In fact, the trade secret claimed by Baker and McAfee was already in existence in the industry, albeit for different uses. *Id.* Thus, Baker and McAfee could not meet the statutory requirement that the trade secret derive independent economic value from not being generally known. *Id.*

***Paint Brush Corp. v. Neu*, 599 N.W.2d 384 (S. D. 1999)**

The Supreme Court of South Dakota reversed the lower court's grant of summary judgment, stating that genuine issues of material fact existed and that the process or method described by appellants fit the statutory definition of a trade secret.

Paint Brush Corporation (PBC) designs, manufactures and distributes paintbrushes. *Id.* at 387. PBC claims its "parts cleanings brush" manufacturing process and its customer and supplier lists are protectable trade secrets. *Id.* In 1993, James Neu approached PBC about the potential sale of PBC. *Id.* Prior to the intended sale, PBC hired Neu's son John to work as a bookkeeper so he could begin learning about the business. *Id.* At this time, James Neu had already decided he did not wish to purchase the business, but he did not convey this to PBC. *Id*. John was eventually fired due to poor performance and PBC learned that Neu no longer planned to buy the business. *Id.*

After John's termination, James Neu organized the Walter Brush company to compete with PBC. *Id.* at 388. During the six-month period that John had worked for PBC, James Neu had purchased equipment similar to that used by PBC in its manufacturing of parts cleaning brushes for his new business and also contacted some of PBC's suppliers. *Id.* PBC learned about James Neu's business when one PBC's customers forwarded a advertisement they received form Walter Brush. *Id.* In response to the advertisement, PBC sent a warning letter to its customers to "beware" of this imitator's parts cleaning brushes. *Id.*

PBC brought an action seeking damages against James Neu for using or disclosing confidential information and trade secrets belonging to PBC. *Id.* Walter Brush counterclaimed asserting defamation, disparagement and tortious interference with business relationships. *Id.* The trial court granted summary judgment for both parties stating only that no genuine issues of material fact existed, and both parties appealed. *Id.*

The Supreme Court held that the trial court erred in granting summary judgment on PBC's trade secret claim. *Id.* at 389. The Court's analysis under South Dakota's Uniform Trade Secrets Act is a mixed question of law and fact. *Id*. The legal part of the question is whether the information could constitute a trade secret under the first part of the definition, i.e. whether its information, including a formula, pattern, compilation, program, devise, method, technique or process. *Id*. The factual question is whether the second part of the definition is met, i.e. whether it derives independent economic value by not being readily ascertainable and it is the subject of reasonable efforts to maintain its secrecy. *Id.* On review, the Supreme Court only addressed the legal question.

The Supreme Court concluded that the process used by PBC fits under the definition of a trade secret. *Id.* at 390. James Neu argued that the parts cleaning brushes could be easily duplicated by viewing and dissecting the brush and thus, could not be a trade secret. *Id.* at 389. PBC disputed this, and argued that its manufacturing process was not readily apparent by taking apart the brushes. *Id.* at 389-90. PBC's contention was that James Neu could not have duplicated the parts cleaning brushes without some other knowledge of the manufacturing process and that until John Neu's employment with PBC, PBC's parts cleaning brushes had never been duplicated. *Id*. at 390. The Supreme Court agreed with PBC, finding that the ring gauge, the dome-shaped brush head, the use of the rubber band to maintain the desired shape and the removable hollow plastic tube, were all unique aspects within the parts cleaning brushes industry. *Id.*

The court concluded that, as a matter of law, what PBC claims to be a trade secret fit the statutory definition. *Id*. Evidence that Walter Brush had its own employees sign employment agreements indicated that James Neu conceded the presence of trade secrets in this business. *Id.* In the agreement, Neu listed fifteen areas in which certain trade secrets and confidential information existed in his company's brush making business. *Id*. Whether or not the second part of the statute is met was left to a jury to decide. *Id.*

4.6 Washington

***Ed Nowogroski Ins. v. Rucker*, 971 F.2d 936 (Wash. 1999)**

The Washington Supreme Court held that trade secret protection for customer lists does not depend on whether the client information is written or memorized.

Ed Nowogroski Insurance Inc. ("Nowogroski") brought an action against three former employees and their new employer for actively soliciting Nowogroski's clients by using confidential client information obtained during their employment. *Id*. at 937-38. The employees had worked for Nowogroski as insurance salesmen and servicers. *Id*. at 937. The trial court granted Nowogroski relief, holding that the all three former employees had misappropriated trade secrets by retaining and using client lists and awarded damages. *Id*. at 938. However, the trial court did not award damages for one former employee's solicitation of Nowogroski's top fifty clients because this information was taken from the employee's memory, not from a written client list and could not be considered a trade secret under the Washington's Trade Secrets Act, Wash. Rev. Code § 19.108 (1998). *Id*. at 940. The Washington Court of Appeals reversed and held that there was no legal distinction between written and memorized information under the Washington's Uniform Trade Secrets Act and the petitioners appealed. *Id*.

The Supreme Court noted that customer lists can be protectable trade secrets if they meet the criteria of the statute. *Id*. at 943. However, this protection will not attach where the client information is readily ascertainable. *Id*. at 944. Whether a client list is a protectable trade secret turns on: 1) whether it is a compilation of information; 2) whether it has value by not being known by others; and 3) whether the owner of the list has made reasonable attempts to keep the information secret. *Id*. There was no dispute in this case that the client list was a protectable trade secret. The only question was whether the *form* the client information was in was material under the statute. *Id*.

The Supreme Court declined to adopt the Restatement (Second) of Agency view that only *written* client lists are trade secrets because it was contrary to Washington law and goal of promoting standards of ethics and fair dealing by protecting trade secrets. *Id*. at 945. While this was an issue of first impression under the Washington Uniform Trade Secrets Act, prior Washington common law held that memorized information was protectable. *Id*. Since the statute was a codification of the common law principles, memorized information could therefore also be a trade secret under the statute. *Id*.

Furthermore, the language of the statute did not distinguish between written or memorized information. *Id*. at 946. The statute defines a "trade secret" as information with certain characteristics without regard to the form the information. *Id*. "Misappropriation" is defined as "use or disclosure" of trade secrets, rather than an actual theft or conversion of documents. *Id*. Additionally, two types of information described in the statute, "method" and "technique" do not imply the requirement of a written document. *Id*.

The Court noted that while there is some split in authority among other jurisdictions on the "memory rule," the majority of state courts have held that, under the Uniform Trade Secrets Act, it is the character of the information, not the manner of the misappropriation. *See e.g. Stampede Tool Warehouse, Inc. v. May,* 651 N.E.2d 209 (Ill. App. Ct. 1995); *Morlife, Inc. v. Perry,* 56 Cal.App.4th 1514 (Ct. App. 1997); *MAI Sys. Corp v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993). Additionally, several other states have come to same conclusion under common law. *See e.g. Jet Spray Cooler, Inc. v. Crampton,* 282 N.E.2d 921 (Mass. 1972); *Van Prods. Co. v. General Welding & Fabricating Co.,* 213 A.2d 769 (Pa. 1965).

According to the Supreme Court, the trial court's conclusion that only written information can be protectable essentially added to the definition of trade secret under the

Uniform Trade Secrets Act. *Id.* at 947. Under the trial court's reasons, "a secret formula of a manufacturing company, which was valuable and kept secret…[would] cease to be a trade secret if an employee committed it to memory." *Id.* at 948. Whether or not the trade secret is in the form of a CD, blueprint, film, recording, hard copy or something memorized by the employee, the proper inquiry is whether or not it meets the definition of a trade secret under the Uniform Trade Secrets Act, not what form it comes in. *Id*.

Part B – Federal Cases on Trade Secret Law

4.7 2nd Circuit

***Frink America , Inc. v. Champion Road Machinery Limited*, 48 F. Supp. 2d 198 (N.D.N.Y. 1999).**

The *Frink America* case involves trade secrets relating to the design and manufacture of snowplows. The plaintiff, a New York corporation and the defendant and its predecessors, (collectively the "defendant'), Canadian corporations, had, in the early 1990s, been controlled by the same company, Compro Limited. *Id.* at 200. During that time, certain of the plaintiff's manufacturing plans, product drawings, jigs, dies, machine tools, technical manuals, and other items, (collectively the "intellectual property") were provided by the plaintiff to the defendant for use in its Canadian manufacturing facility. *Id.* at 201. Subsequently, the plaintiff underwent one and the defendant underwent two bankruptcy proceedings during which the intellectual property belonging to plaintiff remained at the defendant's Canadian manufacturing facility. *Id.* at 201-2. For a period of time during the bankruptcy proceedings both the plaintiff and defendant were controlled by a David Lowry. *Id.* at 202. Lowry transferred the defendant's assets to an entity called Frink Environmental, Inc. ("FEI"). *Id.* FEI was forced into bankruptcy in Canada, and

Ernst & Young Ltd. was appointed receiver. *Id.* Ernst & Young sold FEI's assets to Champion Road Machinery, Inc. ("Champion"), the named defendant. *Id.* The plaintiff's intellectual property was now in Champion's possession. *Id.*

Champion sold snow plowing equipment similar or identical to the plaintiff's in the United States, in direct competition with the plaintiff. *Id.* The plaintiff claimed that, in so doing, the defendant misappropriated its trade secrets including its engineering and production drawings, jigs and fixtures. *Id.* at 207.

Preliminarily, the court addressed whether Canadian or New York trade secret law should apply to the misappropriation claim. *Id.* 204-5. Applying New York choice of law principles, the court determined that New York had the greatest interest in the controversy because the injury alleged by the plaintiffs was suffered in New York. *Id. 205.* Accordingly, the court applied New York's trade secret law. *Id.*

The court looked to § 757 of the First Restatement of Torts for its definition of a trade secret, defining a trade secret as "'any formula, pattern, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.'" *Id.* at 206. The court quoted the Second Circuit's decision in <u>Hudson Hotels, Corp. v. Choice Hotels, Int'l</u>, 995 F.2d 1173 (2d. Cir. 1993), identifying the following factors to be considered in determining whether a plaintiff possessed a trade secret:

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

The court held that the plaintiff's engineering and production drawings, dies jigs and fixtures, did not constitute trade secrets because "[the plaintiff's] snowplow design was capable of being 'reverse engineered' by its competitors once its product was marketed and offered to the public for sale." *Id.* at 207. The court added "indeed, any secrecy that existed in plaintiff's snowplow design could be easily acquired by a competitor and was lost when it was placed upon the market.'" *Id.* Thus the information contained in the claimed trade secrets were deemed by the court to be "public matters." *Id.*

In addition, the court held that the plaintiff did not treat the claimed trade secrets as secrets. *Id.* The court noted that prior to Champion's acquisition of FEI, the plaintiff readily shared technology with its then affiliate, FEI and its predecessors. *Id.* Furthermore, the court noted that although Lowry informed Champion that it was not legally permitted to use the plaintiff's intellectual property, Lowry did not similarly inform FEI's Receiver, Ernst & Young. *Id.* at 208. "[A]ccordingly, plaintiff had little if any assurance that its intellectual property would not be disclosed and used by a third party competitor in the event that FEI's intellectual property was sold to someone other than [Champion]."

***North Atlantic Instruments, Inc. v. Haber*, No. 98-9423 1999 WL 608776 (2d. Cir. August 9, 1999).**

The *North Atlantic* case involves an employee's use of his former employer's customer list at a new job. Defendant Fred Haber worked for the plaintiff selling sophisticated electronics to a small niche of engineers in the aerospace and high tech fields. *Id. at **1*. Haber and the plaintiff had entered into an employment agreement whereby Haber agreed, both during and after the term of the agreement "to keep secret and retain in the strictest confidence all confidential matters which relate to [North Atlantic] including, without limitation, customer lists, trade secrets, pricing policies and other confidential business affairs of [North Atlantic]." *Id.* at **2. The agreement further provided that upon termination of employment, Haber would turn over all documents and property of North Atlantic that contained any confidential information. *Id.*

Haber subsequently left North Atlantic to work for defendant Apex Signal Corp. ("Apex"). Apex manufactured an sold products targeting the same market as North Atlantic and as soon as Haber joined Apex, he began to call upon the client contacts that he had developed at North Atlantic. *Id.* at **3. In addition, Haber had printed a customer list from North Atlantic's database more than a month after leaving North Atlantic. *Id.* The customer list was found in Apex's files. *Id.*

North Atlantic moved for a temporary restraining order and preliminary injunction seeking to enjoin Haber and Apex from misappropriating or disclosing any of North Atlantic's confidential information. *Id.* at **3. The District Court granted the preliminary injunction, finding that Haber's individual client contacts at North Atlantic's customers were trade secrets. *Id.* at **4. The defendants appealed.

The District Court had found that the identities of the **companies** to whom North Atlantic sold was not a trade secret because they were available in trade publications and in North Atlantic's own promotional materials. *Id.* at 6. By contrast, the identities of the **individual contact people** with whom Haber dealt while at North Atlantic were protectable trade secrets. *Id.* at 6. North Atlantic had succeeded in demonstrating to the District Court that the identities of the individual contacts were not readily available because in a company of 100,000 people many of whom would be engineers, perhaps only a handful might have use for North Atlantic's products. *Id.* at **6. The District Court had found that North Atlantic had taken numerous and appropriate measures to ensure that the identities of the individual client contacts remained confidential. *Id.* These measures included the provisions of the employment agreement referencing customer lists and the use of computer passwords and restricted "need to know" computer access. *Id.* The District Court also noted the great difficulty that Apex would have had in duplicating Haber's list on its own. *Id.*

The Court of Appeals affirmed the District Court's holding that Haber's list of client contacts was a trade secret. *Id.* at **8. In so doing the court distinguished the case from cases where an employee's solicitation of a former employer's customers was "merely the product of casual memory." *Id.* The court further found that Haber had breached the common law duty of an agent "not to use confidential knowledge acquired in his employment in competition with his principal." *Id.* at **9. Furthermore, the court found that Haber's employment agreement required him to keep his client contacts confidential. *Id.* The court concluded that the employment agreement was unambiguous in this regard and accordingly did not consider certain parole evidence that the defendants claimed demonstrated that Haber was to be permitted to solicit clients upon leaving North Atlantic. *Id.* Finding that sufficient evidence existed to demonstrate that North Atlantic stood to suffer irreparable harm, the Court of Appeals affirmed the District Court's granting of the injunction. *Id.* at 10.

In dissent, Judge Van Graafeiland took issue with the District Court's order, finding it to be too vague to be understood and followed. *Id.* at 11-13.

***Bausch & Lomb, Inc. v. Alcon Laboratories, Inc.*, No. 94-CV-6534L, 1999 WL 728064 (W.D.N.Y September 16, 1999).**

Bausch & Lomb, Inc., ("B&L") filed a patent infringement action against Alcon Laboratories, Inc. ("Alcon") claiming infringement of a patent concerning the simultaneous cleansing and disinfection of contact lenses. *Id.* at **1. Alcon filed counterclaims including a claim alleging that the B&L's patent was the result of misappropriation of trade secrets and a claim seeking that a constructive trust be imposed over benefits accruing to B&L's from its patented cleaning/disinfecting invention. *Id.* B&L moved for summary judgment as to these counterclaims. *Id.*

Alcon's trade secret claims arose out of Alcon's employment of Dr. George Minno in 1985 who left Alcon to work for B&L in 1986. *Id.* at 13. Alcon claimed that Minno was exposed to confidential information while he worked at Alcon and conveyed that information to B&L. *Id.* B&L claimed that even if it did misappropriate trade secrets, those secrets were made public in 1990 and that therefore, the three-year statute of limitations had elapsed, barring Alcon's claims. Alcon argued that (1) the trade secrets were not publicized until 1991; (2) Alcon did not **discover** the misappropriation until 1994, when counsel for B&L disclosed that Dr. Minno had taken part in developing the cleansing/sterilization invention; and (3) B&L's continued use of the trade secrets constituted a continuing tort. *Id.* at 13

In examining B&L's statute of limitations defense, the court declined Alcon's invitation to adopt the "discovery rule" as no New York court had done so. *Id.* at14. The court noted that:

> [u]nder New York law, when a trade secret misappropriation claim accrues depends on what the party alleged to have committed the misappropriation did with the information. If a party . . . publicly discloses the trade secret, the claim accrues upon disclosure. If, however, the party keeps the secret confidential, yet makes use of it to his own commercial advantage, each successive use constitutes a new actionable tort.

Id. at 15.

The court found that issues of fact existed as to when and whether Alcon's trade secrets were disclosed, and denied B&L's motion for summary judgment. *Id.* at 19.

B&L also sought summary judgment on Alcon's counterclaim alleging a constructive trust over B&L's patent and resulting benefits. *Id.* at 19. The court identified that four elements must be present in order for a constructive trust to arise: "(1) a confidential or fiduciary relationship; (2) a promise, express or implied; (3) a transfer of the subject res [albeit intangible property in the case at hand] made in reliance on that promise; and (4) unjust enrichment" *Id.* at 20. The court noted that no one element is absolutely essential to a constructive trust claim, but found, nevertheless that Alcon presented some evidence to support each element. *Id.*

B&L claimed that Alcon could not establish the first and third of the above elements. The court disagreed. As to the first element, the court cited several cases recognizing that an employer/employee relationship can give rise to a fiduciary duty. *Id.* at 21. Furthermore, the court noted that a confidentiality agreement between an employee and his or her employer, is evidence of a "confidential" relationship. *Id.*

As to the third element, B&L claimed that Alcon did not transfer title to any property interest in confidential information to Dr. Minno. B&L noted that Dr. Minno's employment agreement stated that all confidential information would be treated as the sole property of Alcon and that patentable or valuable ideas conceived by Dr. Minno during his employment were to be assigned to Alcon. *Id.* at 22. B&L argued that, in order to establish a constructive trust, the defendant must obtain title, not merely possession of the res. *Id.* The court noted that cases requiring that title pass involve tangible property, and that because trade secrets are intangible, wrongful use of such property is sufficient to impose a constructive trust. Accordingly, the court denied B&L's motion for summary judgment on the constructive trust claim.

4.8 3rd Circuit

***Frog, Switch & Manufacturing Co. Inc. v. Travelers Insurance Co.*, Nos. 98-7552 and 98-7553, 1999 WL (3rd Cir. Sept. 30, 1999)**

In *Frog, Switch & Manufacturing Co. Inc. v. Travelers Insurance Co.*, 193 F.3d 742 (3rd Cir. 1999), the U.S. Court of Appeals for the Third Circuit held that liability insurance coverage for "misappropriation of advertising ideas" does not extend to liability for misappropriating trade secrets relating to manufacturing. Affirming a summary judgment for the insurer, the court found no duty to defend the underlying suit because the complaint in that suit did not allege "misappropriation of advertising ideas or styles of doing business," as specified under the policy. *Id.* at 747-8. Even under its broadest reading, this phrase should be construed to mean only misappropriation of trade secrets relating to marketing and sales, or taking ideas concerning the solicitation of business, according to the court. *Id.*

Plaintiff Frog, Switch & Manufacturing Co., ("Frog") a manufacturer of industrial products, was sued by competitor ESCO for trade secret misappropriation. *Id.* at 744-745. ESCO alleged that Frog had acquired its trade secrets, drawings, and blueprints for a dipper bucket when it hired John Olds, the chief engineer for Amsco Cast Products Inc., a company ESCO had recently acquired. ESCO filed a complaint, charging, among other things, unfair competition based on misappropriated information. Frog asked Travelers Insurance Co., ("Travelers") to defend the suit under its general liability contract, but Travelers refused. *Id.* Frog settled with ESCO for $2,625,000 and then sued Travelers for failure to defend the suit under its insurance policy. The district court granted summary judgment to Travelers, and Frog appealed.

Travelers' policy explicitly covered four categories of advertising injury: (1) slander, libel, or disparagement of products, goods or services; (2) privacy violations; (3) misappropriation of advertising ideas or style of doing business; and (4) infringement of copyright, title or slogan. *Id.* at 746. Frog contended that misappropriation of advertising ideas or style of doing business, broadly construed, encompassed the underlying common law tort of unfair competition alleged by the underlying plaintiff. *Id.* at 747. Travelers replied that an insurance policy which identifies specific language-based torts cannot be extended to unmentioned product-based violations. *Id.* The court agreed.

Rejecting Frog's argument, the court stated that "the complaint does not allege that Frog misappropriated methods of gaining customers; it alleges that Frog misappropriated information about the manufacture of dipper buckets and then advertised the resulting product." *Id.* at 748. Travelers argument, the court explained, was that to be covered by the policy, allegations of unfair competition, theft of trade secrets, or misappropriation have to involve an advertising idea, not merely a non-advertising idea that is made the subject of advertising. *Id.* "As one court put it, 'the broadest reading of misappropriation of advertising ideas is that the insured wrongfully takes an idea about the solicitation of business.'" *Id.*

***United States v. Hsu*, 40 F. Supp. 2d 623 (E.D. Pa. 1999)**

In this criminal case, the defendant was indicted for, among other things, conspiracy to steal trade secrets and attempted theft of trade secrets in violation of 18 U.S.C. §§ 1832(a)(4) and 1832(a)(5), respectively. The defendant moved to dismiss on the grounds that the statute under which he was indicted was unconstitutionally vague. The defendant had allegedly conspired with

Jessica Chou to obtain secret technology belonging to Bristol-Myers Squibb ("BMS") from an undercover FBI agent. *Id.* at 630.

The defendant's claims included a claim that the definition of "trade secret" in 18 U.S.C. § 1832(a) is void because the requirement that information, to be a trade secret, be "not generally known to, and not readily ascertainable through proper means by the public" is unconstitutionally vague. *Id.* at 628-29.

The court agreed with the defendant that the statute was vague, noting that, ironically, the process of ensuring that BMS's trade secrets were redacted from documents relevant to the case was rife with difficulty because of the lack of agreement among experts as to what information was public and what was not. *Id.* at 629. The court further observed that it had insufficient technical ability to determine whether the final redaction was proper, and had to hire an expert of its own to assist in evaluating the documents and their redaction. *Id.* The court's scientist recommended unredacting material that had previously been redacted. *Id.* In light of these difficulties, the court inquired of the Government "how the terms 'generally known' and 'not readily ascertainable' could be anything but vague . . . given the ever-shrinking redactions to the . . . documents against the vary same "trade secret" definition." *Id.* at 630. The court observed that "what is 'generally known' and 'reasonably ascertainable' [sic] . . . is constantly evolving in the modern age." *Id.* Ultimately, however, while the court was "much troubled" by the statutory definition of a trade secret, it found that the defendant believed that the information he was to receive was a trade secret, and denied the motion to dismiss. *Id.*

4.9 4th Circuit

***Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411 (4th Cir. 1999)**

The unsealed filing of a document in court does not automatically destroy the document's trade secret status, the U.S. Court of Appeals for the Fourth Circuit held in *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411 (4th Cir. 1999). The mere filing of the information, without its further publication, does not make it "generally known" or "readily ascertainable by proper means," the court explained, upholding an injunction in a trade secret misappropriation action. *Id.* at 419.

Hoechst Diafoil Co., ("Hoechst") a manufacturer of polyester film using a technique known as "in-line coating," required all its employees to execute confidentiality agreements in order to protect its in-line technology as a trade secret. *Id.* at 415. One such employee, John Rogers, left Hoechst in 1988 to advise other polyester film manufacturers, including the Korean company Cheil. In 1992, Hoechst successfully sued Rogers in South Carolina state court alleging breach of his confidentiality agreement for selling Hoechst's in-line technology to Cheil. In 1994, Hoechst sued Cheil in the South Carolina federal district court alleging that it had misappropriated Hoechst's trade secrets by acquiring them from Rogers.

The suit against Cheil was settled, but during the course of that litigation, Hoechst obtained a protective order requiring that all documents relating to Hoechst's in-line technology be placed under seal. *Id.* at 415. However, one document, the "Cheil" document containing a description of the in-line technology was inadvertently filed unsealed as an attachment to one of Cheil's motions. Based on information that had surfaced in the suits against Rogers and Cheil, Hoechst in 1996 sued Nan Ya Plastics Corp. ("Nan Ya") in federal district court for trade secret misappropriation.

The district court denied Nan Ya's summary judgment motion that public disclosure of the Cheil document had destroyed the in-line technology trade secret status. *Id.* at 415-16.

Instead, it entered an injunction directing Nan Ya to name those who had received the Cheil documents and to return to Hoechst all copies of the document. *Id.* at 416. Nan Ya appealed the injunction.

Noting that "[n]o South Carolina court has addressed the question of whether the unsealed filing of a document automatically destroys the trade-secret status of any information it contains," the court stated that no other cases have held that disclosure of trade secrets in public court files, when unaccompanied by evidence of further publication, automatically destroys the "secrecy" of trade secrets disclosed." *Id.* at 418.

While the court acknowledged that in *Religious Technology Center v. Netcom On-Line Servs. Inc.*, 923 F. Supp. 1231,37 (N.D. Cal. 1997), the court found that Church of Scientology documents filed in court had lost their trade secret status, it pointed that that this conclusion was based on two facts: (1) they had been in a public court file for 28 months; and (2) they had been published on the Internet before the Washington Post had allegedly misappropriated copies of them. *Id.* at 419.

In this case, unlike *Religious Technology*, there was no suggestion that the Cheil document was published, only that it was present in the court's public files. *Id.* Thus, the presence of the document in the district court's public files, in and of itself did not make the information contained in the document generally known for purposes of the Uniform Trade Secrets Act. *Id.* Neither did the filing of the document render the technology "readily ascertainable by proper means" as that phrase is used within the Trade Secrets Act. "The comment [to the Act]suggests [that] 'Information is readily ascertainable if it is available in trade journals, reference books, or published materials.'" *Id.* Such widely disseminated materials are qualitatively different from the files of a single district court. *Id.*

Moreover, the court added, other commentators suggest that a lone competitor's discovery of a trade secret does not automatically render that secret unprotectable. "Accordingly, the public filing of the Cheil documents does not necessarily destroy the secrecy of the In-Line Technology, even though Nan Ya properly discovered that document in preparation of this lawsuit." *Id.* The court, however, did not conclusively determine whether the In-Line Technology was in fact a trade secret; rather that issue was a fact-intensive question to be resolved upon trial. *Id.*

The court also rejected Nan Ya's argument that the injunction was improper because Hoechst's misappropriation claim was barred by the applicable statute of limitations. *Id.* The Uniform Trade Secrets Act requires plaintiffs to bring their misappropriation claims within three years after the misappropriation was discovered or by the exercise of reasonable diligence should have been discovered. *Id.* Misappropriation also includes the use of that trade secret by a third party who knows or should know that the person from whom he or she learned the trade secret had disclosed it in violation of a duty to keep the secret confidential. *Id.* at 429-420.

Based on the language in the Act, the court concluded that a plaintiff wishing to sue for misappropriation must do so within three years of receiving actual or constructive notice that the defendant, who acquired the trade secret through another's breach of confidentiality, had used the trade secret. *Id.* In this case, Hoechst alleged that Nan Ya misappropriated Hoechst's in-line technology by using it after acquiring it from Rogers, who Hoechst claimed, sold the information to Nan Ya in violation of his confidentiality agreement with Hoechst. *Id.* If Nan Ya's alleged misappropriation occurred less than three years before the September 1996, date on which Hoechst filed its complaint against Nan Ya, then the complaint was filed within the Act's limitations period.

Relying on the decision in *USM Corp v. Tremco Inc,* 710 F. Supp 1140 (N.D. Ohio 1988), the court stated that "like the Ohio law at issue in USM, the Act recognizes that a third party's use of a trade secret acquired through the discloser's breach of confidentiality is a separate actionable wrong…[therefore]… we reject Nan Ya's argument that the only injury for which Hoechst could sue occurred when Roger's himself misappropriated the In-Line Technology." *Id* at 420-21. Rather, Nan-Ya's own receipt and use of the in-line technology would constitute a separate, actionable injury, and trigger an independent, three year statute of limitations period when Hoechst knew or had reason to know of the transaction. *Id.*

***Motor City Bagles, L.L.C. v. American Bagle Company*, 50 F. Supp. 2d 460 (D. Md. 1999).**

In *Motor City Bagles,* the court considered whether a business plan for running a fast food restaurant franchise given to a franchisor by a prospective franchisee and disclosed by the franchisor to other prospective franchisees constituted misappropriation of a trade secret. Joseph Anthony and Randall Flinn, two well-educated, experienced businessmen, teamed up to study the feasibility of investing in Chesapeake Bagel Bakery franchises offered by the American Bagel Company. *Id.* at 466. Together, they drafted an extensive business plan using assumptions derived from materials provided to them by American Bagel. *Id.* One of the assumptions was that the initial investment costs experienced by franchisees ranged from $240,000 to $304,000. *Id.* Before Anthony and Flinn signed on as franchisees, American Bagel updated its disclosure to reflect significantly higher start-up costs. American Bagel asserted that it provided Anthony and Flinn with the revised disclosure, but Anthony and Flinn claim that what they were given contained the same figures as had previously been provided. *Id.* Anthony and Flinn experienced significantly higher than predicted start-up costs in opening two bagel stores, and blamed American Bagel's faulty estimates. *Id.* at 467.

Before becoming franchisees, Anthony and Flinn met with representatives of American Bagel seeking approval as franchisees. *Id.* at 476. One of the American Bagel representatives, Alan Manstof, briefly reviewed the plaintiffs' business plan and asked whether he could keep a copy of it. *Id.* The plaintiff's agreed to let him keep a copy on the condition that he not disclose it to anyone. *Id.* Manstof allegedly confirmed that he would not disclose the plan. *Id.* Over a year later, the plaintiffs discovered that many other prospective franchisees had been given copies of the plan. *Id.* The plaintiffs asserted that the defendants' distribution of the plan was a misappropriation of trade secrets, in violation of the Maryland Uniform Trade Secrets Act. ("MUTSA"). *Id.* at 478.

The court noted that "to be protected under Maryland law, information must be secret, and its value must derive from its secrecy. In addition, the owner of the information must use reasonable efforts to safeguard the confidentiality of the information." (Internal quotation marks omitted.) *Id.* at 478.

The court first analyzed whether the business plan was a "secret." *Id.* at 478. The court observed that the Court of Special Appeals of Maryland had held that a manufacturer's marketing plan was not a protected trade secret because it was based upon "'information readily available from the marketplace." *Id., citing Optic Graphis, Inc. v. Agee*, 87 Md. App. 770, 591 A2d 578 (1991). The court distinguished the *Optic Graphics* case noting that unlike the marketing plan in that case, the business plan written by Anthony and Flinn included "personal insights and analysis brought to bear through diligent research and by marshaling a large volume of information." *Id.* at 479. Accordingly, the court found that the business plan was a secret. *Id.*

Similarly, the court found that the business plan derived value from its secrecy. *Id.* The court recognized that "the plaintiffs cannot claim damages for the actual loss caused by misappropriation or the unjust enrichment caused by misappropriation . . . " because of the lack of evidence of the same. *Id.* Nevertheless the court noted that the MUTSA provided that damages may alternatively "may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret." *Id.* The court concluded "[b]ased upon these potential royalty payments, the business plan derives independent economic value from not being generally known to and not being readily ascertainable by proper means by the defendants and prospective Chesapeake franchisees." *Id.* at 480-81.

Ultimately, however, the court found that the plaintiffs failed to demonstrate that they had acted diligently to protect their business plan. The court considered that although the plaintiffs had disclosed their business plan to fifteen people, they could only produce five confidentiality agreements as to such disclosures and were unsure as to whether they had ever received others. *Id.* at 480. In addition, the court found that the statement on the cover of the business plan stating that it was "for the exclusive use of the persons to whom it [was] given and [was] not to be reproduced or redistributed" was insufficient to confer trade secret status. *Id.* The court noted that "the language is not highlighted or isolated so as to put one on immediate notice that the plan constitutes a trade secret that the authors of the plan are actively seeking to protect." *Id.* Accordingly, the court found that the plaintiff's had failed to adduce sufficient evidence as to this "essential element of their misappropriation claim" and granted summary judgment for the defendants. *Id.*

4.10 5th Circuit

***Lockheed Martin Corporation v. Raytheon Co.* 42 F. Supp. 2d 632 (N.D. Tex 1999).**

Lockheed and Raytheon entered into a joint venture to bid on and possibly produce certain varieties of "fire and forget" missiles. *Id.* at 633. Raytheon subsequently informed Lockheed that it would respond to a government Request for Information regarding fire and forget missiles on its own behalf rather than on behalf of the joint venture. *Id.* Lockheed sought a temporary restraining order and preliminary injunction against Raytheon claiming Raytheon's actions would breach an agreement between Lockheed and Raytheon that any work on such missile systems was to be performed exclusively by the joint venture. *Id.* Lockheed also claimed that Raytheon would misappropriate its trade secrets and those belonging to the joint venture. *Id.* at 636.

As to the claim that Raytheon would misappropriate the joint venture's trade secrets, the court recognized that the joint venture may have owned proprietary information, but found that a "Technology Transfer and Cross-License Agreement" ("TTCL Agreement") between the parties "contemplat[ed] that the joint venturers [could] use inventions jointly developed in the course of the joint venture for whatever purpose they so desire without accounting to the other join venturer." *Id.* at 636. The court noted "[t]here simply appears to be no agreement between these parties that either party must refrain from using technology jointly developed during the course of the joint venture for non-venture purposes." *Id.*

The court found that the TTCL Agreement did protect Lockheed's proprietary information. *Id.* Nevertheless, the court found that "Lockheed . . . failed to demonstrate that Raytheon has improperly disclosed or will necessarily improperly disclose any such information should it compete for [missile] business outside of the joint venture. Indeed the evidence demonstrates that Raytheon and its joint venture employees are taking every step possible to prevent the unauthorized disclosure or use of Lockheed's proprietary information." *Id.* Accordingly, the court denied Lockheed's application for injunction as to misappropriation of trade secrets.

***Maxim Medical, Inc. v. Michelson*, 51 F. Supp. 2d 773 (S.D. Tex. 1999).**

The plaintiff, Maxim applied for a temporary injunction to enforce a covenant not to compete, a confidentiality agreement, and an non-solicitation agreement entered into by Maxim and its former employee, Michelson. *Id.* at 777. Maxim, a Texas corporation, provided prepackaged, sterile instrument trays to doctors. *Id.* Michelson was as salesperson and supervisor, living in California and supervising a sales territory including California, Arizona, Nevada and parts of Texas. *Id.* During his employment at Maxim, Michelson signed two stock option agreements, and in return for the options, agreed not to compete with Maxim for one year and to keep Maxim's confidential information secret. *Id.* Michelson accepted a position in California with a direct competitor, PHS, and on the day before he resigned from Maxim, exercised some of his stock options. *Id.* Also on that day Michelson ordered a large batch of client information printed. *Id.* Michelson allegedly took the printed information, and lied to the employee who printed the information that a computer glitch had made the information useless. *Id.* at 778. When Maxim employees checked Michelson's laptop, they discovered that Michelson had deleted a great deal of confidential information belonging to Maxim. *Id.*

Applying California law, the court found that it may enjoin actual or threatened misappropriation of trade secrets. *Id.* at 784. The court discussed, at length, *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), and focussed upon the *Redmond* court's discussion of when disclosure of trade secrets is "inevitable." *Id.* at 784-86. The court determined that although the California Supreme Court had not followed *Redmond*, it would, in the circumstances presented. Therefore the court adopted *Redmond*'s precepts.

The court identified several factors to be weighed in determining whether disclosure of trade secrets in "inevitable" including;

> (1) Is the new employer a competitor? (2) What is the scope of the defendant's new job? (3) Has the employee been less than candid about his new position? (4) Has the plaintiff clearly identified the trade secrets that are at risk? (5) Has actual trade secret misappropriation already occurred? (6) Did the employee sign a non-disclosure and/or non-competition agreement? (7) Does the new employer have a policy against use of others' trade secrets? (8) Is it possible to "sanitize" the employee's new position?"

Id. at 786. The court found that the factors weighed heavily in favor of finding that Michelson would inevitably disclose trade secrets. *Id.* at 787. The court found that Michelson was in possession of a great deal of proprietary information and trade secrets including pricing schemes and marketing strategy. *Id.* Furthermore, Michelson had developed relationships with many of Maxim's clients. *Id.* Michelson's position at PHS was sufficiently parallel to the position he held at Maxim to assure the court that Michelson would be "in direct competition with Maxim, armed with Maxim's trade secrets." *Id.* The court further noted that (1) PHS had no agreement with Michelson that he would refrain from using Maxim's trade secrets; (2) Michelson had not been forthcoming with Maxim about his negotiations with PHS; (3) Michelson disclosed a confidential Maxim stock option agreement to PHS during the interview process; (4) Michelson destroyed Maxim's information on his laptop; and (5) Michelson ordered and apparently took possession of a large batch of printed client information. *Id.* at 787. The court concluded that "if Michelson has not already, he will inevitably disclose Maxim's trade secrets to PHS." *Id.* Accordingly, the court enjoined Michelson from working for one year from his termination date with Maxim "for any direct competitor of Maxim in any of the product lines he was associated with at Maxim during the last two years." *Id.* at 788.

4.11 6th Circuit

***Ford Motor Co. v. Lane*, No. 99-74205, 1999 WL 740861, (E.D. Mich. Sept. 7, 1999)**

The U.S. District Court for the Eastern District of Michigan in *Ford Motor Co. v. Lane*, No. 99-74205, 1999 WL 740861, (E.D. Mich. Sept. 7, 1999) held that an injunction barring a website operator from publishing the trade secrets and other confidential material of Ford Motor Co. would violate the prior restraint doctrine and the First Amendment. Although the defendant had probably violated Michigan's Uniform Trade Secrets Act, and might have used the Internet to extort concessions or privileges from Ford, the court held that existing precedent established that Ford's commercial interest in its trade secrets and the defendant's improper conduct in obtaining them were not grounds for issuing a prior restraint. *Id.* at *7.

Defendant Robert Lane ("Lane") published an Internet website with the domain name "blueovalnews.com," formerly known as "fordworldnews.com." *Id. at *1.* The website published information about the plaintiff Ford Motor Co. ("Ford") and its products on the internet and featured the Ford blue oval mark. Ford initially gave Lane access to its press release website, but later blocked that access when it became aware of Lane's use of the name Ford as part of its website domain name. *Id.* In response, Lane advised Ford that he possessed "sensitive" photographs showing confidential products. *Id.*

Eventually, Lane posted an article on his website which quoted confidential documents, allegedly received from an anonymous source, about quality issues with the Ford Mustang Cobra engine. *Id.* at *2. He later published other material, including an internal Ford memo on fuel economy and vehicle emissions and an engineering blueprint. *Id.* Ford threatened a lawsuit, and Lane responded by posting 40 documents, including material with highly sensitive competitive information. *Id.* Ford then sued, among other things, for copyright infringement, misappropriation of trade secrets, and trademark infringement.

Ford alleged that Lane violated Michigan's Uniform Trade Secrets Act as he: (1) used improper means to acquire knowledge of Ford's trade secrets; (2) knew or had reason to know that the secrets came from a person who used improper means to acquire it; (3) acquired the secrets with a duty to maintain its secrecy; or (4) derived it from a person with such a duty. *Id.* at * 4. The court agreed that Lane had likely violated the Uniform Trade Secrets Act, but held that an injunction in this case would violate the prior restraint doctrine and the First Amendment.

The primary purpose of the First Amendment is to prevent prior restraints on publication, the court opined, and prior restraints should be utilized only in rare and extraordinary circumstances. *Id.* at *5. The court noted that the Sixth Circuit had recently applied the prior restraint doctrine to overturn an injunction against the publication of trade secrets and other confidential materials in *Procter & Gamble Co. v. Bankers Trust Co.*, 78 F.3d 219 (6th Cir. 1996). *Id.* at *6. "While it may be true that Ford's trade secrets here are more competitive in nature and more carefully protected than those at issue in *Procter & Gamble…* in the absence of a confidentiality agreement or fiduciary duty between the parties," Ford's commercial interest in its trade secrets and Lane's alleged improper conduct in obtaining the trade secrets were simply not sufficient grounds for the court to issue a prior restraint. *Id.* at *6-7.

4.12 9th Circuit

***Prize Frize Inc. v. Matrix (U.S.) Inc.*, 167 F.3d 1261 (9th Cir. 1999)**

The fact that state law trade secret remedies sought may involve issues of patent ownership does not convert a state cause of action to a federal one reviewable under the exclusive appellate jurisdiction of the Federal Circuit the court in *Prize Frize Inc. v. Matrix (U.S.) Inc.*, 167 F.3d 1261 (9th Cir. 1999) held.

Prize Frize sued Matrix in a California court alleging trade secret misappropriation and other claims. *Id.* at 1263. Matrix removed the case to federal district court based on the argument that Prize Frize's trade secret claims were "artfully pleaded patent infringement claims, for which original and exclusive jurisdiction was vested in federal district courts pursuant to 28 U.S.C. §1338(a) (1994)." *Id.* at 1264. The case was then dismissed and Prize Frize appealed to the Ninth Circuit.

Matrix argued on appeal that appellate jurisdiction properly rested in the Federal Circuit, not the Ninth Circuit. *Id.* The court disagreed, noting that although the Federal Circuit has exclusive jurisdiction over the appeal of a decision based on patent law, a case does not arise under patent law unless the plaintiffs " 'set up some right, title or interest under the patent laws.'" *Id.* Moreover, "the fact that the state law remedies that Prize Frize seeks for alleged trade secret infringement may tangentially involve issues of patent ownership does not convert the state causes of action into federal law claims." *Id.* The court concluded that "this is not a case arising under federal patent law, and appellate jurisdiction properly rests in this court and not the Court of Appeals for the Federal Circuit." *Id.*

***California Int'l Chem. Co., Inc. v. Sister H. Corp.*, No. CV-95-02372-DLJ (EAI), 1999 WL 50891 (9th Cir. Jan. 19, 1999) (unpublished)**

In an unpublished decision, the Ninth Circuit Court of Appeals affirmed the lower court grant of summary judgment, finding that a pool treatment system did constitute a trade secret.

California International Chemical Company ("CICC") licenses pool treatment systems to licensors such as Sister H Corporation. *Id*. at 1. Sister H stopped making payments under its licensing agreement with CICC. *Id*. When CICC sued for breach of contract, Sister H raised as a defense that CICC has breached it's contractual guarantee that its system "contains and comprises trade secrets" and "proprietary information." *Id*. The district court ruled that there was no genuine issue of material fact regarding Sister H's counterclaim and rejected their defense. *Id*. Sister H appealed from this decision and the Ninth Circuit affirmed.

The Ninth Circuit disagreed with Sister H's claim that the system the was not unique and therefore could not be a trade secret. *Id*. Sister H argued that other companies in the pool industry used similar equipment. *Id*. However, the Court stated that, under the California Uniform Trade Secrets Act, Cal. Civ. Code § 3426.1, it is not necessary that the trade secret be "patentable or. . . something that could not be discovered by others by their own labor and ingenuity." *Id*. Rather, the central issue is whether CICC's system, "gains value from being kept confidential." *Id*. Thus, the owner of the trade secret need not be the only person in that market. *Id*. Furthermore, even if each component part of a system is a standard part, "the system as a whole may qualify as a trade secret." *Id*.

The Court agreed that a trade secret existed in the system as a whole. *Id*. While Sister H produced genuine issues of material fact regarding a few components, it failed to present evidence of the status of every component, or the system as whole. *Id*. at *2. CICC, on the other hand, submitted an extensive description of its system and how the system provided value to its licensees and customers as well as the steps taken by CICC to maintain the secrecy of the system. *Id*. The system permitted customers to maintain a higher chlorine level, CICC's training manuals contained valuable information, and CICC's customized computer software increased the efficiency of its pool business. *Id*. CICC's system also provided value to its licensees as evidenced by the its over 100 licensees, including16 licensees who had contracted with CICC after this litigation commenced. *Id*. The district court also noted the amount of time, money and effort CICC invested in developing its system. *Id*.

The Court also agreed that CICC had made reasonable efforts to protect the secret of its system. *Id*. The Court rejected Sister H's argument that "absolute secrecy" was necessary. *Id*. Here, CICC required it licensees to sign non-disclosure agreements and they limited access to its facilities and certain aspects of its technology. *Id*.

4.13 11th Circuit

***Tedder Boat Ramp Sys., Inc. v. Hillsborough County, Florida,* 54 F. Supp.2d 1300 (M.D. Fla. 1999)**

In granting the defendant's motion for judgment on the pleadings, the U.S. District Court for the Middle District of Florida in *Tedder Boat Ramp Sys., Inc. v. Hillsborough County, Florida,* 54 F. Supp.2d 1300 (M.D. Fla. 1999), held that the plaintiff's copyright registration of a boat ramp design negated a trade secret claim because the Copyright Act makes it possible for the any member of the public to view the copyrighted drawings.

In *Tedder Boat Ramp,* the plaintiff Tedder Boat Ramp Systems, Inc., ("Tedder") obtained a copyright registration for a boat ramp system. *Id.* at 1301. The plaintiff submitted a copy of its design to defendant Hillsborough County, Florida ("Hillsborough") for consideration of its use in building two boat ramps within the county. Hillsborough did not select Tedder's design and chose to design the ramp itself. However, Tedder obtained a copy of the blueprints for the design and found that the design used at the county park was similar or identical to its submission. Tedder sued Hillsborough for copyright infringement and trade secret misappropriation, and sought injunctive relief and damages. Hillsborough then moved for a judgment on the pleadings on Tedder's trade secret claim.

In order for a plaintiff to successfully assert a cause of action for trade secret misappropriation, the court stated, two elements must be established: (1) there must be an actual trade secret and (2) there must have been a breach of confidence. *Id.* at 1301. Tedder's trade secret claim ultimately failed because, although the requirement of a confidential relationship was established as the designs Tedder submitted to the county were marked "confidential" and there was potentially an "implied [confidentiality] agreement," Tedder did not demonstrate the existence of an actual trade secret. *Id*. at 1305.

Relying on the Uniform Trade Secrets Act definition of a trade secret as "information…that …(a) derives independent economic value…from not being generally known to…other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy," the court found that Tedder lost its trade secret rights when it obtained a copyright registration for its design as any member of the public could view and inspect the drawings. *Id*. at 1302-3. The court acknowledged that there was no clear U.S. Supreme Court holding that trade secret rights are negated by copyright registration, but noted that the Court *has* held that the issuance of a patent will negate trade secret rights. *Id.* at 1303.

Moreover, the court distinguished *Bateman v. Mnemonics Inc.*, 79 F.3d 1532 (11th Cir. 1996), a case in which the court found that a trade secret claim survived copyright registration, by noting that *Bateman* involved computer software, which is exempt from complete disclosure under the Copyright Act. *Id.* The court decided that registration in this case should be treated in an analogous fashion to the issuance of a patent, whereby the publication associated with the registration negated the existence of the trade secret. *Id.*