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Protection of Trade Secrets in South Carolina

Richard E. Day

University of South Carolina

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PROTECTION OF TRADE SECRETS IN SOUTH CAROLINA

RICHARD E. DAY*

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I. INTRODUCTION

Competition in this age of accelerating technological advancement, coupled with the ever-increasing costs of research and development needed to keep pace, has led to increased resort to industrial espionage, not only by smaller companies lacking in resources for research and development, but also by major corporations.¹ In addition to such outright espionage, a major concern continues to be the unauthorized disclosure or use of confidential information by present or former employees or agents, often induced by competitors. As a consequence of limitations in federal patent and copyright law protection, trade secret law has become increasingly important to protect against such

* John William Thurmond Chair Professor of Law, University of South Carolina School of Law. B.S. 1951, University of Pennsylvania; J.D. 1957, University of Michigan.

1. See Hofer, *Business Warfare Over Trade Secrets*, LITIGATION, Summer 1983, at 8.

activities.

The Federal Copyright Act² (Act) does not protect ideas as such, but only protects against the copying of the particular form of their expression.³ For example, copyright may protect against the copying of a computer software program and its accompanying manuals, but not the idea embodied in the program. Furthermore, when the idea and its expression are inseparable, copyright will not even protect the form of expression of the idea, because to do so would be to extend protection to the idea itself.⁴ Because of these shortcomings, many companies choose trade secret protection even when copyright is an available alternative.⁵

The 1976 revision of the Act did not expressly preempt state rights or remedies for activities that are “not equivalent to any of the exclusive rights within the general scope of copyright as specified by [the Act].”⁶ While the form of the expression of a trade secret may be covered by the Act, trade secret protection extends to misappropriation of the idea itself. Therefore, the Copyright Act does not preempt trade secret protection, because it goes beyond, and is not equivalent to, the rights within the scope of the Act.⁷

2. 17 U.S.C. §§ 101-914 (1988).

3. This dichotomy of idea and expression was established in *Baker v. Selden*, 101 U.S. 99, 101-02, 107 (1879), and is codified in § 102(b) of the Copyright Act: “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained illustrated, or embodied in such work.” 17 U.S.C. § 102(b) (1988).

4. This would not be permitted under copyright law because it “would confer a monopoly of the ‘idea’ upon the copyright owner” *Herbert Rosenthal Jewelry Corp. v. Kalpakian*, 446 F.2d 738, 742 (9th Cir. 1971).

5. See, e.g., Chapman, *California Uniform Trade Secrets Act: A Comparative Analysis of the Act and the Common Law*, 2 *COMPUTER & HIGH-TECH. L. J.* 389, 389-90 (1986).

6. 17 U.S.C. § 301(b)(3) (1988).

7. See, e.g., *Warrington Assocs. v. Real-Time Eng’g Sys.*, 522 F. Supp. 367 (N.D. Ill. 1981).

The practical distinction between the two interests is manifest. While disclosure of the expression does not vitiate rights secured by copyright law, that same disclosure may well strip the underlying idea of its confidentiality, and thus its status as a trade secret. To a certain degree the two respective rights in intellectual property interact. To the extent a work has been copyrighted and published, the chances of unprivileged disclosure may increase. But the mere fact that an expression is copyrighted does not, in and of itself, disclose the trade secret or eliminate its mantle of confidentiality.

Id. at 368.

Under the Copyright Revision Act of 1976, secrecy may be maintained by registering a copyright without depositing a copy. Section 408(c)(1) of the Act states:

The Register of Copyrights is authorized to specify by regulation the ad-

Federal patent law is intended to encourage new inventions and processes⁸ that are useful and “nonobvious”⁹ by granting a legal monopoly to make, use, or sell them for seventeen years in exchange for their public disclosure. Many ideas, for example most computer software programs, fail to meet the strict patent standards of newness, usefulness, and nonobviousness. Some inventions that facially meet the general description for patentable subject matter have been excluded from protection.¹⁰ Finally, the risk always exists that a court will decide that the Patent Office improperly issued a patent and, thus, the inventor will have disclosed the invention to competitors with no corresponding patent protection. Consequently, in view of the difficulty in qualifying for a patent, of the substantial number of patents that the courts have invalidated, and the limited coverage and duration of patents, there remains a need for the protection of commercially valuable ideas and business information.¹¹ This gap is filled primarily by state

ministrative classes into which works are to be placed for purposes of deposit and registration, and the nature of the copies or phonorecords to be deposited in the various classes specified. The regulations may require or permit, for particular classes, the *deposit of identifying material* instead of copies or phonorecords

Copyright Revision Act, 17 U.S.C. § 408(c)(1) (emphasis added). *See* Nat'l Conference of Bar Examiners v. Multistate Legal Studies, Inc., 495 F. Supp. 34 (N.D. Ill. 1980) (confirming validity of procedures under § 408(c)(1)), *aff'd*, 692 F.2d 478 (7th Cir. 1982), *cert. denied*, 464 U.S. 814 (1983).

8. Patentable subject matter includes “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof” 35 U.S.C. § 101 (1988).

9. 35 U.S.C. §§ 101-103 (1988). To be patentable, an invention must be “nonobvious” to a person of ordinary skill in the art to which the invention pertains. *Id.* § 103; *Graham v. John Deere Co.*, 383 U.S. 1, 10-17 (1966).

10. *See, e.g.*, *Parker v. Flook*, 437 U.S. 584, 588-89 (1978) and *Gottschalk v. Benson*, 409 U.S. 63, 67-72 (1972) (mathematical formulas and algorithms); *Funk Bros. Seed Co. v. Kalo Inoculant Co.*, 333 U.S. 127, 130 (1948); *O'Reilly v. Morse*, 56 U.S. (15 How.) 62, 112-21 (1853) (laws of nature and basic scientific principles); *Loew's Drive-In Theatres v. Park-In Theatres*, 174 F.2d 547, 551-52 (1st Cir.), *cert. denied*, 338 U.S. 822 (1949) and *Guthrie v. Curlett*, 10 F.2d 725, 726 (2d Cir. 1926) (business ideas).

11. Trademark law likewise offers little protection for business ideas. Trademark law arose out of common-law proscriptions of unfair competition and “passing-off,” and the Federal Trademark Act is designed to prevent unfair competition and consumer deception by the use of a trademark that is confusingly similar to one previously adopted and in use by another. However, unpatentable product configurations and “trade dress” may be protected from subsequent confusing usage when they perform the trademark function by serving to identify the source of the product or service. *See, e.g.*, *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 841 (9th Cir. 1987); *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 517 (10th Cir. 1987); *LeSportsac, Inc. v. K Mart*, 754 F.2d 71, 75-77, 79 (2d Cir. 1985); *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1217-23 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976). Prior to the Trademark Revision Act of 1976, protection was acquired by adoption and use. Although the Act now permits

common law or statutes that allow for the protection of trade secrets, whether patentable or not.¹²

In *Kewanee Oil Co. v. Bicron Corp.*¹³ the Supreme Court determined that the federal patent law did not preempt state trade secret protection. The Court noted that trade secret and patent law had coexisted for more than one hundred years, that both encourage invention, and that trade secret protection does not remove any matter from public domain because “[b]y definition a trade secret has not been placed in the public domain.”¹⁴

State courts created and developed the law that protects trade secrets as a branch of tort law. Notwithstanding its obvious importance to interstate business, the law has not developed evenly. What uniformity exists in the common-law evolution is attributable primarily to the 1939 *Restatement of Torts (Restatement)*.¹⁵ Although the more populous commercial states have reported a substantial number of trade secret decisions since 1939, this has not been the case in other states, including South Carolina. Even in those states that have had significant trade secret litigation, conflict and uncertainty about the scope of trade secret protection and remedies remain.

In spite of the growing need for uniform trade secret protection,

federal registration of a mark prior to use, statutory remedies still require actual use.

12. The *Restatement of Torts* distinguishes trade secrets from patent protection, noting:

A trade secret may be a device or process which is patentable; but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make. Novelty and invention are not requisite for a trade secret as they are for patentability. These requirements are essential to patentability because a patent protects against unlicensed use of the patented device or process even by one who discovers it properly through independent research. The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret. For this limited protection it is not appropriate to require also the kind of novelty and invention which is a requisite of patentability.

RESTATEMENT OF TORTS § 757 comment b (1939); see also *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974). The court in *Kewanee* provides:

Novelty, in the patent law sense, is not required for a trade secret. “Quite clearly discovery is something less than invention.” However, some novelty will be required if merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimal novelty.

Id. (citation omitted). See generally Chapman, *supra* note 5.

13. 416 U.S. 470 (1974).

14. *Id.* at 484.

15. See RESTATEMENT OF TORTS §§ 757-759 (1939).

the American Law Institute (ALI) omitted unfair competition, including trade secret protection, from its 1978 *Restatement (Second) of Torts*. The ALI believed that this area of the law had developed to the point that it required separate treatment.¹⁶ Recognizing the need for modernization and uniformity, states increasingly have turned to codification of the law of trade secret protection. This movement is primarily a consequence of the proposed Uniform Trade Secrets Act (UTSA) that the National Conference of Commissioners on Uniform State Laws adopted and promulgated.¹⁷ At this writing, thirty-eight states have enacted the UTSA.

The South Carolina Bar's Patent, Trademark and Copyright Law Committee has recommended passage of the UTSA;¹⁸ the South Carolina Bar has endorsed its enactment. The time has come for South Carolina to join the growing list of states that have already adopted, or are in the process of adopting, the UTSA. In addition to the desirable results of clarification, modernization, and uniformity, adoption will increase the state's rate of commercial expansion.

Determining whether something is a trade secret, determining the basis of trade secret protection, and determining the protection a trade secret should receive are interdependent issues, and each is complementary to the others. This review begins with the definition of a trade secret, then discusses the theories, or bases, for trade secret protection, and concludes with the remedies for trade secret "misappropriation." It includes an explanation of the key provisions in the UTSA: the definitions of "trade secret,"¹⁹ "misappropriation,"²⁰ and "improper means,"²¹ and the remedial provisions for injunctive relief,²² damages,²³ and attorney's fees.²⁴

16. An ALI committee is currently working on a draft of the *Restatement (Third) of Unfair Competition*, which includes trade secret law. The draft is not expected to be completed before 1993. The author of this Article is a member of the Consultive Group for this draft.

17. UNIF. TRADE SECRETS ACT, 14 U.L.A. 437-67 (1990). The author of this Article was a Commissioner and member of the Uniform Act's drafting committee.

18. This committee has since been redesignated the Committee on Intellectual Property Law. The author of this Article was chairman of this committee when it considered and endorsed passage of the UTSA.

19. UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 437-38 (1990).

20. *Id.* § 1(2).

21. *Id.* § 1(1), 14 U.L.A. 437.

22. *Id.* § 2(a), 14 U.L.A. 449.

23. *Id.* § 3, 14 U.L.A. 455-56.

24. *Id.* § 4, 14 U.L.A. 459.

II. DEFINITION OF TRADE SECRET

The first issue in any trade secret case “is not whether there was a confidential relationship or a breach of contract or some other kind of misappropriation, but whether, in fact, there was a trade secret to be misappropriated.”²⁵ Defining a trade secret has proven to be a difficult task. Indeed, the *Restatement of Torts* concluded that “[a]n exact definition of a trade secret is not possible.”²⁶ Despite this observation, the *Restatement* provides the most generally accepted basis for a workable trade secret definition. It states that a trade secret “may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives [one] an opportunity to obtain an advantage over competitors who do not know or use it.”²⁷ Although the category of “information” in the *Restatement* definition appears to be comprehensive, it is limited because: (1) coverage is limited to “a process or device for continuous use” in the business, (2) the information must not be known generally in the trade or business, and (3) the owner must exercise reasonable diligence to preserve its secrecy.²⁸

While the UTSA’s trade secret definition borrows heavily from the *Restatement*, it differs in some important particulars. The UTSA defines a trade secret as:

Information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.²⁹

A. The “Use” Requirement

One significant departure in the UTSA definition is the deletion of the *Restatement*’s requirement that a trade secret be continuously

25. *Lowndes Prods. v. Brower*, 259 S.C. 322, 327, 191 S.E.2d 761, 764 (1972).

26. *RESTATEMENT OF TORTS* § 757 comment b (1939); see also *Future Plastics v. Ware Shoals Plastics*, 340 F. Supp. 1376, 1383 (D.S.C. 1972) (“Legal decisions and text books indicate that a trade secret is very hard to define.”).

27. *RESTATEMENT OF TORTS* § 757 comment b (1939), quoted with approval in *Lowndes Prods.*, 259 S.C. at 327, 191 S.E.2d at 764. See also *Greenberg v. Croydon Plastics*, 378 F. Supp. 806, 812 (E.D. Pa. 1974) (“Comment b to section 757 of the *Restatement of Torts* is the most lucid attempt to date to define the elusive beast.”).

28. *RESTATEMENT OF TORTS* § 757 comment b (1939).

29. *UNIF. TRADE SECRETS ACT* § 1(4), 14 U.L.A. 437-38 (1990).

used in one's business.³⁰ According to the *Restatement*, a trade secret "differs from other secret information in a business . . . in that it is not simply information as to single or ephemeral events in the conduct of the business"³¹ Consequently, many areas are excluded from trade secret protection under the *Restatement* definition. These areas include research and development, business ideas, certain technical skills, and other types of confidential information that have not been continuously used because of lack of opportunity or means, or for other business reasons regarding proper timing.³²

By deleting the *Restatement's* requirement of "continuous use in the operation of the business,"³³ and by expanding the trade secret definition to include confidential information having "actual or potential" value,³⁴ the UTSA extends protection to information that otherwise qualifies as a trade secret from its conception whether or not it is ever used commercially. The UTSA recognizes that an idea may have value in itself, without further use. It may provide an advantage over those who have no knowledge of it, such as with negative research, which proves, for example, "that a certain process will not work."³⁵ Secret information may provide a competitive advantage for potentially profitable commercial development, as in successful research and development.³⁶ The UTSA's broader definition also appears to provide trade secret protection for new and unused ideas offered for license or sale in confidence to another who profits from their use.³⁷

30. See RESTATEMENT OF TORTS § 757 comment b (1939).

31. *Id.* (citation omitted).

32. See, e.g., *Gabriel Co. v. Talley Indus.*, 137 U.S.P.Q. (BNA) 630, 633 (D. Ariz. 1963) (generalized research had not resulted in the degree of knowledge required for protection as a trade secret). Under the *Restatement* view, trade secret protection is not available to protect against the misappropriation and use of a previously unused new idea. *Accord Moore v. Ford Motor Corp.*, 28 F.2d 529 (S.D.N.Y. 1928), *aff'd*, 43 F.2d 685 (2d Cir. 1930).

Common-law cases following such a restrictive view are based on several theories. One theory is that an idea has value only by its productive utilization, and, therefore, is not protectable without such use. Another theory is that until an idea is actually put to use it is unknown whether it affords a competitive advantage. In addition, the protection for pre-utilized ideas might confer a monopoly over research and development. See Chapman, *supra* note 5, at 393.

33. RESTATEMENT OF TORTS § 757 comment b (1939).

34. UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 437-38 (1990).

35. *Id.* § 1 comment, 14 U.L.A. 438-39.

36. See, e.g., *Telex Corp. v. International Business Machs.*, 510 F.2d 894 (10th Cir.) (per curiam) (liability imposed for developmental cost savings with respect to product not marketed), *cert. dismissed*, 423 U.S. 802 (1975), *cited in* UNIF. TRADE SECRETS ACT § 1 comment, 14 U.L.A. 439 (1990).

37. See, e.g., R. MILGRIM, *MILGRIM ON TRADE SECRETS* § 8.03 (1989). Such protection has already developed under the common law. *Id.*

The value of an unutilized idea may depend upon its commercial feasibility and ultimate use, but that should not affect the question of protection, any more than a patent's lack of commercial feasibility and exploitation should affect its protection. Moreover, unlike patent protection, trade secret protection of an unutilized idea has no effect on competition. A trade secret does not prevent another's use of an idea that is obtained by proper means such as independent research and development. The only prohibition under the UTSA is that a trade secret may not be misappropriated by "improper means."³⁸

B. *Relative versus Absolute Secrecy*

While "[n]ovelty, in the patent law sense, is not required for a trade secret . . . , some novelty will be required if merely because that which does not possess novelty is usually known; secrecy, in the context of trade secrets, thus implies at least minimal novelty."³⁹ Both the *Restatement* and the UTSA would deny trade secret protection to information which is generally known in the trade or business, or is readily ascertainable.⁴⁰ Absolute secrecy is not required to preserve a trade

38. UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 437-38 (1990).

39. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974) (citation omitted).

40. RESTATEMENT OF TORTS § 757 comment b (1939):

Secrecy. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information. An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Id.

UNIF. TRADE SECRETS ACT § 1 comment, 14 U.L.A. 438-39 (1990):

Because a trade secret need not be exclusive to confer a competitive advantage, different independent developers can acquire rights in the same trade secret. . . .

secret, however, and both the *Restatement* and the UTSA recognize that protection is not lost merely by disclosure in confidence to employees and others, including licensees.⁴¹ So long as a trade secret remains not generally known or is not readily ascertainable, protection is not lost merely because more than one, among many competitors, may learn the secret by proper means, such as by independent research and invention, or even reverse engineering.⁴²

The degree of secrecy required by the UTSA can be determined by examining whether the trade secret's economic value is derived from the inability of a competitor to ascertain it readily by proper means. So long as a competitive advantage exists over a single actual or potential competitor who does not possess the information, and cannot readily ascertain it by proper means, the trade secret should be protected from misappropriation by improper means.⁴³

The language 'not being generally known to and not being readily ascertainable by proper means by other persons' does not require that information be generally known to the public for trade secret rights to be lost. If the principal persons who can obtain economic benefit from information are aware of it, there is no trade secret

Information is readily ascertainable if it is available in trade journals, reference books, or published materials. Often, the nature of a product lends itself to being readily copied as soon as it is available on the market. On the other hand, if reverse engineering is lengthy and expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering.

Id.

41. UNIF. TRADE SECRETS ACT § 1 comment, 14 U.L.A. 438-39 (1990). The United States Supreme Court held:

The subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business. This necessary element of secrecy is not lost, however, if the holder of the trade secret reveals the trade secret to another "in confidence, and under an implied obligation not to use or disclose it." These others may include those of the holder's "employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended." Often the recipient of confidential knowledge of the subject of a trade secret is a licensee of its holder.

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475 (1974) (citations omitted).

42. The UTSA states:

Often, the nature of a product lends itself to being readily copied as soon as it is available on the market. On the other hand, if reverse engineering is lengthy and expensive, a person who discovers the trade secret through reverse engineering can have a trade secret in the information obtained from reverse engineering.

UNIF. TRADE SECRETS ACT § 1 comment, 14 U.L.A. 438-39 (1990).

43. The Ninth Circuit noted this interdependence between secrecy and misappropriation and referred to the *Restatement* in *Clark v. Bunker*:

"The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by

C. *Maintenance of Secrecy*

Closely related to the issues of ease of ascertainability and improper means is the requirement that a trade secret owner must take reasonable steps "under the circumstances" to maintain secrecy.⁴⁴ Lack of reasonable care may indicate either that the owner intends to abandon the secret, or that discovery readily may be made without using improper means.

The reasonable care standard requires a balancing of the trade secret's value against the cost and difficulty of preventing its misappropriation. The latter varies with the circumstances under which the secret was acquired, either (1) in confidence, or under a duty to maintain its secrecy, such as an employee, agent, or subcontractor, (2) by some improper means, (3) through someone who has acquired it by improper means, or (4) by accident or mistake.

Basic precautions would include disclosure only on a need-to-know basis. When such disclosures are required, to employees and licensees for example, the confidential nature of the disclosure and use should be made clear. Prudence suggests that a written agreement to respect and preserve the secrecy is desirable whenever possible.⁴⁵ This would

one as his secret." However, the interest protected by this branch of the law is not secrecy as such. "The protection is merely against breach of faith and reprehensible means of learning another's secret." Accordingly, "a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information."

453 F.2d 1006, 1009 (9th Cir. 1972) (citations omitted) (quoting RESTATEMENT OF TORTS § 757 comment b (1939)), *quoted with approval in Wilkes v. Pioneer Am. Ins. Co.*, 383 F. Supp. 1135, 1141 (D.S.C. 1974).

44. UNIF. TRADE SECRETS ACT § 1(4)(ii), 14 U.L.A. 437-38 (1990). The South Carolina Supreme Court addressed this issue and stated:

[I]f the person entitled to a trade secret wishes to have its exclusive use in his own business, he must not fail to take all proper and reasonable steps to keep it secret. He cannot lie back and do nothing to preserve its essential secret quality, particularly when the subject matter of the process becomes known to a number of individuals involved in its use or is observed in the course of manufacture within plain view of others. "[O]ne may not venture on liberties with his own secret, may not lightly or voluntarily hazard its leakage or escape, and at the same time hold others to be completely obligated to observe it."

Lowndes Prods. v. Brower, 259 S.C. 322, 331, 191 S.E.2d 761, 766 (1972) (citations omitted) (quoting *J.T. Healy & Son v. James A. Murphy & Son*, 357 Mass. 728, 260 N.E.2d 723 (1970)); *see also Future Plastics v. Ware Shoals Plastics*, 340 F. Supp. 1376 (D.S.C. 1972) (corporation with trade secret did nothing to protect it).

45. In addressing this situation, one court stated:

[O]ne who claims that he has a trade secret must exercise eternal vigilance. This calls for constant warnings to all persons to whom the trade secret has become known and obtaining from each an agreement, preferably in writing, acknowledging its secrecy and promising to respect it. To exclude the public

have the additional advantage of providing a breach of contract action in addition to, or instead of, a tort action for misappropriation. The UTSA does not displace "contractual remedies, whether or not based upon misappropriation of a trade secret."⁴⁶

Additional considerations apply in the case of industrial espionage, as opposed to voluntary disclosures. As noted by the Commissioners' comment to the UTSA, "[t]he courts do not require that extreme and unduly expensive procedures be taken to protect trade secrets against flagrant industrial espionage."⁴⁷ As demonstrated by *E.I. duPont de Nemours & Co. v. Christopher*,⁴⁸ industrial espionage need not constitute illegal or otherwise tortious conduct to amount to misappropriation of a trade secret. In *Christopher* the defendant made an otherwise lawful overflight of plaintiff's plant, while the plant was under construction and before the roof was in place to discover trade secrets disclosed by the plant layout. The court refused to require the extraordinary precautions necessary to prevent such spying:

Our tolerance of the espionage game must cease when the protections required to prevent another's spying cost so much that the spirit of inventiveness is dampened. Commercial privacy must be protected from espionage which could not have been reasonably anticipated or prevented. . . . Perhaps ordinary fences and roofs must be built to shut out incursive eyes, but we need not require the discoverer of a trade secret to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available.⁴⁹

The *Christopher* opinion recognizes the difficulty, if not the impossibility, of preventing industrial espionage. It sets an appropriate standard of diligence for the trade secret owner. The court stated:

The market place must not deviate far from our mores. We should not require a person or corporation to take unreasonable precautions to prevent another from doing that which he ought not do in the first place. Reasonable precautions against predatory eyes we may require, but an impenetrable fortress is an unreasonable requirement, and we are not disposed to burden industrial inventors with such a duty in order to protect the fruits of their efforts.⁵⁰

from the manufacturing area is not enough.

J.T. Healy & Son v. James A. Murphy & Son, 357 Mass. at 738, 260 N.E.2d at 731, quoted in *Future Plastics v. Ware Shoals Plastics*, 340 F. Supp. 1376, 1383 (D.S.C. 1972) (except for last sentence).

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

47. *Id.* § 1 comment, 14 U.L.A. 438-39.

48. 431 F.2d 1012 (5th Cir. 1970), cert. denied, 400 U.S. 1024 (1971).

49. *Id.* at 1016.

50. *Id.* at 1017.

III. THEORIES OF TRADE SECRET PROTECTION

A. *Property Theory*

It often has been argued that the basis for protecting trade secrets is that they are "property," or give rise to a "protectable property interest."⁵¹ This begs the question. What is a "protectable property interest"? The answer is an interest which the courts believe should be protected. In other words, trade secrets should be protected because the courts believe they should be protected. The question remains, why, and under what circumstances, should a court protect a trade secret?⁵² The answer to this question has hinged on how the trade secret has been or may be acquired.

B. *Breach of Confidence*

One well-established basis for trade secret protection is the breach of a confidential relationship. Justice Holmes analyzed this relationship in *E.I. duPont de Nemours Powder Co. v. Masland*.⁵³

The word property as applied to trade-marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs⁵⁴

51. See, e.g., R. MILGRIM, *supra* note 37, §§ 1.01 to 1.07.

It is submitted that the property view underlies protection of trade secret decisions, and is, in fact, the keystone upon which the protection body of case law rests. The existence of a protectable property interest is the basis for equity jurisdiction, and for remedies such as declaration of a constructive trust and injunctive relief.

Id. at 1-42.

52. Simply because a trade secret may take on many of the attributes of property, such as assignability and alienability, does not help to decide whether a trade secret exists. To state that a trade secret is protectable because it is property is to confuse the basis for, and the consequences of, trade secret protection. See generally R. MILGRIM, *supra* note 37, §§ 1.01 to 1.10; Root & Blynn, *Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823, 825 n.19 (1982); Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 381-85 (1971).

53. 244 U.S. 100 (1917).

54. *Id.* at 102.

It may be argued that *Masland* is not authority under state law because since *Erie Railroad Co. v. Tompkins*⁵⁵ federal authority is not binding upon matters of substantive common law.⁵⁶ However, the *Masland* view that the protectable property interest in a trade secret is a consequence of a confidential relationship has been advanced frequently since *Erie* by federal courts applying state law.⁵⁷ The UTSA includes trade secret protection when the secret was acquired, disclosed, or used in "breach or inducement of a breach of a duty to maintain secrecy."⁵⁸ This would include a breach or inducement of a breach of confidence by a present or former employee, agent, or subcontractor.

The problem with relying solely on breach of confidence or duty to maintain secrecy as a theory for trade secret protection is that it does not go far enough. It fails to provide a theoretical basis for protecting trade secrets from use or disclosure when they are acquired in other circumstances, such as (1) by industrial espionage; (2) by one merely having knowledge that the information was derived from or through someone who had either utilized improper means to acquire it, or had disclosed it in breach of a duty to maintain its secrecy; or (3) by accident or mistake.

C. Improper Means

Trade secrets can be protected more generally by disallowing their acquisition through the use of improper means. This has the advantage of including other forms of industrial espionage or theft in addition to acquisition through breach of confidence. The *Restatement* includes

55. 304 U.S. 64 (1938).

56. See R. MILGRIM, *supra* note 37, § 1.01[1].

57. See, e.g., *Servo Corp. of Am. v. General Electric*, 393 F.2d 551, 555 (4th Cir. 1968) ("The gravamen in a trade secrets case is a breach of confidence, rather than an infringement of a property right . . ."); *Klockner-Humboldt-Deutz v. Hewitt-Robins*, 486 F. Supp. 283, 286 (D.S.C. 1978) ("This is not an action for infringement, since no patents are involved, but is brought for the protection of trade secrets. These actions have as their foundation a breach of faith or a confidential relationship."); *Wilkes v. Pioneer Am. Ins. Co.*, 383 F. Supp. 1135, 1140 (D.S.C. 1974). ([W]hile a trade secret is clearly a property right, protected from unauthorized use or disclosure, it is the breach of confidence by unauthorized disclosure, rather than the infringement of a property right, which is the gravamen of trade secret cases." *Id.* (citation omitted)). See also *Future Plastics, v. Ware Shoals Plastics*, 340 F. Supp. 1376 (D.S.C. 1972). The court stated:

Confidential relationship is the keystone of a trade secret action. The relationship of employer-employee is not by itself sufficient to create a confidential relationship. There must be an express understanding as to the confidential nature of the information or the circumstances must be such that the employee is aware of the confidence placed in him by the employer.

Id. at 1384 (citation omitted).

58. UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 437 (1990).

both theories.⁵⁹ After commenting on the rejection of the opposing property theory of trade secret protection, the *Restatement* emphasizes “a general duty of good faith,” which protects against both breach of confidence and acquisition of a trade secret by improper means, in addition to breach of contract.⁶⁰ The *Restatement* view is generally followed.⁶¹ The UTSA broadly defines “improper means” to include “breach or inducement of a breach of a duty to maintain secrecy.”⁶²

The question remains: What conduct amounts to “improper means”? In *E.I. duPont de Nemours & Co. v. Christopher*⁶³ the court held that photographing an unfinished plant from an airplane constituted improper means for acquiring a trade secret. The Court recognized the amorphous nature of the phrase “improper means,” but quoted the *Restatement* as an aid: “A complete catalogue of improper means is not possible. In general they are means which fall below the generally accepted standards of commercial morality and reasonable

59. RESTATEMENT OF TORTS § 757 (1939).

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

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

Id.

60. *Id.* comment a, which states:

The suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected. The theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests upon breach of this duty; that is, breach of contract, abuse of confidence or impropriety in the method of ascertaining the secret.

61. *See, e.g., Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). The Court stated:

The protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse. The law also protects the holder of a trade secret against disclosure or use when the knowledge is gained, not by the owner's volition, but by some “improper means”

Id. at 475-76 (citing RESTATEMENT OF TORTS § 757 (1939)). *See also* R. MILGRIM, *supra* note 37, § 2.01 n.2 (citing cases).

62. UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 437 (1990).

63. 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971).

conduct.”⁶⁴ The *Kewanee* court cited *Christopher*’s holding with approval, stating that a trade secret owner is protected against disclosure or use of its trade secret “when the knowledge is gained, not by the owner’s volition, but by some ‘improper means,’ which may include theft, wiretapping, or even aerial reconnaissance.”⁶⁵ The UTSA also defines “improper means” to include “theft, bribery, misrepresentation . . . , or espionage through electronic or other means.”⁶⁶ The Commissioners’ comment to this section states that “[i]mproper means could include otherwise lawful conduct which is improper under the circumstances,”⁶⁷ such as the aerial reconnaissance in *Christopher*.

It may at first seem that *Christopher* opened the door to limitless, or at least undefinable limits, on how to apply an improper means standard. To qualify information as a trade secret, however, the owner must have taken steps “that are reasonable under the circumstances to maintain its secrecy.”⁶⁸ In any event, *Kewanee* expressly limited *Christopher* to the acquisition of trade secrets “not by the owner’s volition.”⁶⁹

If trade secret protection were limited to acquisitions by improper means, coverage would be incomplete, even under the broad UTSA definition of “improper means.” Gaps in coverage would include the acquisition of a trade secret (1) by one merely having knowledge that it was derived from or through someone who had either used improper means to acquire it, or had disclosed it in breach of a duty to maintain its secrecy, or (2) by accident or mistake.

For example, what if du Pont’s trade secrets were discovered accidentally by a competitor while on a commercial flight over du Pont’s unfinished plant? In *Christopher* the purpose of the flight was aerial reconnaissance to discover a competitor’s trade secrets.⁷⁰ Should trade secrets receive the same protection from accidental discovery that they receive from deliberate industrial espionage? Obviously, some theory other than improper means must be the basis for protection against such “innocent” discoveries.

D. Misappropriation

Neither the *Restatement* nor the UTSA limits trade secret protection to breaches, inducements to breach confidences, or other improper

64. *Id.* at 1016 (quoting RESTATEMENT OF TORTS § 757 comment f (1939)).

65. 416 U.S. at 475-76 (citation omitted).

66. UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 437 (1990).

67. *Id.* comment, 14 U.L.A. 438-39.

68. *Id.* § 1(4)(ii), 14 U.L.A. 437-38.

69. 416 U.S. at 475-76.

70. 431 F.2d at 1013.

means. The *Restatement* also protects against the disclosure or use of a trade secret when the secret was acquired (1) “from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person’s disclosure of it was otherwise a breach of his duty to the other,” or (2) “with notice of the facts that it was a secret and that its disclosure was made to him by mistake.”⁷¹

The UTSA bases liability on misappropriation of a trade secret. It defines misappropriation broadly to include all of the theories upon which trade secret protection may be based. First, misappropriation includes the acquisition of a trade secret by one who “knows or has reason to know” that it was acquired by “improper means.”⁷² Second, misappropriation includes the disclosure or use of a trade secret by one who acquired it by improper means.⁷³ Third, misappropriation includes the disclosure or use of a trade secret by one who, “at the time of disclosure or use, knew or had reason to know” that it was (a) “derived from or through” one who acquired it by improper means,⁷⁴ (b) “acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use,”⁷⁵ or (c) “derived from or through” one owing a duty to maintain its secrecy or limit its use.⁷⁶ Finally, the UTSA’s definition of misappropriation includes the disclosure or use of a trade secret by one who “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.”⁷⁷ A liberal reading of this provision would mean that the reasonably protected trade secret in *Christopher* would be protected against even accidental discovery during a commercial overflight.

*International News Service v. Associated Press*⁷⁸ (*INS v. AP*) illustrates an extreme application of the misappropriation theory. Even though the Associated Press (AP) had posted its news bulletins publicly without benefit of copyright protection, the Supreme Court held that it would constitute unfair competition for the competing news gathering service, International News Service (INS), to benefit commercially from AP’s work while the news was still fresh. According to the Court, INS was “endeavoring to reap where it has not sown,” and

71. RESTATEMENT OF TORTS § 757(c), (d) (1939).

72. UNIF. TRADE SECRETS ACT § 1(2)(i), 14 U.L.A. 437-38 (1990).

73. *Id.* § 1(2)(ii).

74. *Id.* § 1(2)(ii)(B)(I).

75. *Id.* § 1(2)(ii)(B)(II).

76. *Id.* § 1(2)(ii)(B)(III).

77. *Id.* § 1(2)(C).

78. 248 U.S. 215 (1918).

was "appropriating to itself the harvest of those who have sown."⁷⁹ The Court stated that the principle was analogous to "the equitable theory of consideration in the law of trusts—that he who has fairly paid the price should have the beneficial use of the property," and concluded that the misappropriation of AP's news bulletins was "unfair competition because [it was] contrary to good conscience."⁸⁰

The important distinction between *INS v. AP* and *Christopher* is the manner in which the information was learned. In *INS v. AP* Associated Press published the news to the public, but in *Christopher* the court determined du Pont took reasonable steps to protect its trade secrets, which were acquired by an overflight surreptitiously undertaken specifically to discover them. Neither the *Restatement* nor the UTSA would go as far as the court did in *INS v. AP*. The Associated Press's voluntary public disclosure would terminate trade secret protection, because by definition, a trade secret requires reasonable precautions to preserve its secrecy. As already noted, *Kewanee* expressly limited *Christopher* to the acquisition of trade secrets "not by the owner's volition."⁸¹

Public policy protecting trade secrets from industrial espionage is relatively noncontroversial. The more difficult policy issues arise in protecting an employer from misappropriation of trade secrets by a former employee, as opposed to preserving a former employee's right to pursue the occupation for which he is most suited. This calls for a clear distinction between the general knowledge and skills acquired during employment, which the employee should be free to use, and trade secrets or other confidential information so acquired, which the employer has a right to preserve against misappropriation. Courts have adopted a rule of reason approach in attempting to reconcile these two opposing considerations. As stated in *Futurecraft Corp. v. Clary Corp.*,⁸² the ex-employer should be protected from trade secret misappropriation by an ex-employee, "where the granting of such protection will not unduly hamstring the ex-employee in the practice of his occupation or profession."⁸³

The difficulty in applying either a rule of reason or balancing test is in determining what information an ex-employee can use with impunity. It may be argued that a confidential employment relationship should put the employee on notice that information disclosed is a trade

79. *Id.* at 239-40.

80. *Id.*

81. See *supra* text accompanying note 69.

82. 205 Cal. App. 2d 279, 23 Cal. Rptr. 198 (1962).

83. *Id.* at 288, 23 Cal. Rptr. at 211 (quoting von Kalinowski, *Key Employees and Trade Secrets*, 47 VA. L. Rev. 583, 599 (1961)).

secret.⁸⁴ Determining what information qualifies as a trade secret is not always easy, however, even when a confidential relationship has been established. Consequently, some commentators maintain that the common law places an undue burden on the employee.⁸⁵ A subsequent employer cannot know precisely what information a former employer may claim to be protectable as a trade secret. The dilemma is exacerbated when the ex-employee knows neither the nature nor the scope of the former employer's claimed trade secrets. This then becomes the problem of anyone who would hire a competitor's former employee to perform similar work. If competitors are unwilling to risk a trade secret lawsuit, the ultimate result may be to make a skilled employee with knowledge of trade secrets a virtual hostage of the original employer.

The UTSA recognizes the difficulty in maintaining secrecy while providing fair and adequate notice of the exact boundaries of the trade secret. These boundaries are important because they enable others to (1) avoid misappropriation (and possible contempt for violating an injunction), (2) form an intelligent opinion on whether the trade secret has been misappropriated, and (3) challenge its validity as a trade secret.⁸⁶ The UTSA's solution is the provision for flexible court protection, including "granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval."⁸⁷

IV. REMEDIES

A. *In General*

Damages, injunctions, restitution, or any combination of these remedies are available under both the *Restatement*⁸⁸ and the UTSA.⁸⁹

84. R. MILGRIM, *supra* note 37, §§ 3.02[1][d], 3.05[1][a].

85. *See, e.g.,* Chapman, *supra* note 5, at 396.

86. The Commissioners' comment notes:

If reasonable assurances of maintenance of secrecy could not be given, meritorious trade secret litigation would be chilled. In fashioning safeguards of confidentiality, a court must ensure that a respondent is provided sufficient information to present a defense and a trier of fact sufficient information to resolve the merits. In addition to the illustrative techniques specified in the statute, courts have protected secrecy in these cases by restricting disclosures to a party's counsel and his or her assistants and by appointing a disinterested expert as a special master to hear secret information and report conclusions to the court.

UNIF. TRADE SECRETS ACT § 5 comment, 14 U.L.A. 461 (1990).

87. *Id.* § 5.

88. The *Restatement* defines "remedies" as follows:

Damages normally equal the loss to the plaintiff, including lost profits.⁹⁰ Of course, a plaintiff's damages may actually exceed the defendant's gain from the misappropriation. On the other hand, if the misappropriator's gain exceeds the plaintiff's losses, the plaintiff may recover the defendant's profits through restitution, to prevent unjust enrichment.⁹¹ In determining a misappropriator's unjust gain, courts apply a "standard of comparison" test that compares costs using the trade secret with the costs the defendant would have incurred without the

Remedies. One who has a right under the rule stated in this Section is entitled to a remedy or remedies appropriate under the circumstances. He may recover damages for past harm, or be granted an injunction against future harm by disclosure or adverse use, or be granted an accounting of the wrongdoer's profits, or have the physical things embodying the secret, such as designs, patterns and so forth, surrendered by the wrongdoer for destruction. Moreover, he may have two or more of these remedies in the same action if the court is competent to administer them. Defenses generally available in tort actions and actions for injunctive relief are also available here, insofar as they are applicable.

RESTATEMENT OF TORTS § 757 comment e (1939).

89. The UTSA defines "injunctive relief" and "damages" as follows:

§ 2. Injunctive Relief

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

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

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

§ 3. Damages

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

UNIF. TRADE SECRETS ACT §§ 2, 3, 14 U.L.A. 449, 455-56 (1990).

90. *See Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387, 1392-93 (4th Cir. 1971), *cert. denied*, 409 U.S. 892 (1972).

91. *See, e.g., Int'l Indus. v. Warren Petroleum Corp.*, 248 F.2d 696, 699 (3d Cir. 1957), *cert. dismissed*, 355 U.S. 943 (1958).

trade secret.⁹² Under the UTSA damages can include both actual loss and restitution for unjust enrichment “to the extent that it is not taken into account in computing actual loss.”⁹³ The UTSA expressly denies double recovery.⁹⁴

Exemplary damages may be available under general tort theory. The UTSA specifically provides for them, although they cannot exceed twice the amount awarded for actual damages. The UTSA also provides for restitution in cases of “willful and malicious misappropriation.”⁹⁵ Thus, while the UTSA’s explicit provision of possible treble damages may be viewed as providing a bonus to a plaintiff, it may in fact result in a ceiling on the amount that might be recovered when unlimited exemplary damages would have been available under common law.

The UTSA modifies the usual American rule by adding a provision for the recovery of attorney’s fees to the plaintiff in the case of “willful and malicious” misappropriation. It balances the scale, however, by also providing for attorney’s fees to the prevailing party when a misappropriation claim or a motion to terminate an injunction is made or resisted in bad faith.⁹⁶

B. Injunctive Relief

A conflict has arisen over whether an injunction against the use or disclosure of a misappropriated trade secret should continue to be enforced after the trade secret has ceased to exist because it was subsequently published or became generally known or readily ascertainable. The basis of the conflict is found in the sometimes conflicting public policies of preventing misappropriation of trade secrets by improper means and, at the same time, preserving competition and employment opportunities by not unduly restricting access to ideas outside the limited protections of the patent and copyright laws.

On the one hand, a perpetual injunction might be justified to punish and deter misappropriation by improper means. In *Shellmar Products v. Allen-Qualley Co.*⁹⁷ the Seventh Circuit upheld a perpetual injunction on the theory that dissolution of the injunction would encourage misappropriation by providing a means to legitimize the use

92. See, e.g., *id.* at 701-02.

93. UNIF. TRADE SECRETS ACT § 3(a), 14 U.L.A. 455-56 (1990).

94. *Id.* § 3 comment, 14 U.L.A. 456-57.

95. *Id.* § 3(b), 14 U.L.A. 455-56.

96. *Id.* § 4, 14 U.L.A. 459.

97. 87 F.2d 104 (7th Cir. 1936) (relying on *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934)), *cert. denied*, 301 U.S. 695 (1937). See M. JAGER, TRADE SECRETS LAW HANDBOOK § 6.04[1] (1982).

of a misappropriated trade secret merely by publishing it, thereby allowing a misappropriator "to profit by its own wrong."⁹⁸

It is understandable why a court would be reluctant to provide a misappropriator with a legal laundering device of publication as a means of legalizing his continued use of a misappropriated trade secret. On the other hand, the equities change when the trade secret ceases to exist after to its misappropriation because of voluntary publication by the trade secret owner. Thus, the Second Circuit held in *Conmar Products Corp. v. Universal Slide Fastener Co.*⁹⁹ that a wrongful inducement to divulge trade secrets before a patent was issued should not "deprive the wrongdoer of his right to avail himself of the patentee's dedication"¹⁰⁰ once the trade secrets ceased to exist upon patent issue.¹⁰¹

A third situation arises when neither the trade secret owner nor its misappropriator has disclosed the secret to others, but it is nevertheless discoverable by either independent development or reverse engineering of the lawfully obtained product containing the secret. In *K-2 Ski Co. v. Head Ski Co.*¹⁰² the Ninth Circuit held that the maximum duration of an injunction under these circumstances is the period of time it would have taken the misappropriator to have discovered the secret through such lawful means.¹⁰³

Citing *Head Ski Co.*, the Commissioners viewed the UTSA as following "the trend of authority" in rejecting perpetual injunctions, and limiting the duration of injunctive relief to the misappropriator's "temporal advantage over good faith competitors."¹⁰⁴ Thus, the UTSA pro-

98. *Shellmar*, 87 F.2d at 110; see also *Underwater Storage, Inc. v. United States Rubber Co.*, 371 F.2d 950, 955 (D.C. Cir. 1966) ("We do not believe that a misappropriator or his privies can "baptize" their wrongful actions by general publication of the secret . . . Their gain is ill-gotten and the passage of time or publication to the rest of the world should not serve to cleanse their hands . . ."), *cert. denied*, 386 U.S. 911 (1967).

99. 172 F.2d 150 (2d Cir. 1949).

100. *Id.* at 156.

101. However, as held in *Schreyer v. Casco Prods. Corp.*, 190 F.2d 921, 924 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952), even though *Conmar* would bar a perpetual injunction against a prior misappropriator following a later disclosure by its owner, the court could not properly order "an accounting of profits resulting from the acceleration of the date when production was possible."

102. 506 F.2d 471 (9th Cir. 1974).

103. *Id.* at 474.

104. UNIF. TRADE SECRETS ACT § 2 comment, 14 U.L.A. 449-51 (1990); see also *id.* § 3 comment, 14 U.L.A. 456-57 (Damages).

Like injunctive relief, a monetary recovery for trade secret misappropriation is appropriate only for the period in which information is entitled to protection as a trade secret, plus the additional period, if any, in which a misappropriator retains an advantage over good faith competitors because of

vides a workable compromise in preventing a misappropriator from benefiting from his wrongful conduct, while maintaining competition in ideas.

One unanswered question is whether the UTSA's express limitation on the duration of an injunction is limited to the *Head Ski Co.* situation. Literally applied, section 2(a) apparently also would reject the *Shellmar* doctrine. If "good faith competitors" learn the trade secret from the misappropriator it might be argued that an injunction against the misappropriator should last only so long as is reasonably necessary "to eliminate commercial advantage . . . through misappropriation."¹⁰⁵ However, competitors who learn about the trade secret through the improper disclosure by the misappropriator may not be good faith competitors. They would be such only if they acquired the trade secret through proper means. Although the UTSA does not contain a definition of "proper means," the Commissioners' comment states that "obtaining the trade secret from published literature"¹⁰⁶ is one example. However, a competitor's use or disclosure of a trade secret obtained from literature published by a misappropriator may also be misappropriation if at the time of disclosure, or before a material change of position, the competitor knew, or had reason to know, that it was an unauthorized disclosure of a misappropriated trade secret.¹⁰⁷ In this situation section 2(a) would require the termination of an injunction against the misappropriator, and by negative implication would require that it continue, at least until the secret has become generally known or readily ascertainable by proper means. In addition, competitors who receive information wrongfully published by a misappropriator may be liable for misappropriation unless they can establish that the trade secret was learned, or was readily ascertainable, by proper means, rather than by the improper disclosure by a misappropriator.

C. Good Faith Defense

Both the *Restatement* and UTSA state that one who had notice that a trade secret was misappropriated or disclosed by mistake is liable for its subsequent disclosure or use.¹⁰⁸ A problem arises when a

misappropriation. Actual damage to a complainant and unjust benefit to a misappropriator are caused by misappropriation during this time alone.

Id.

105. *Id.* § 2 comment, 14 U.L.A. 449-51.

106. *Id.* § 1 comment, 14 U.L.A. 438-39.

107. *Id.* § 1(2)(ii)(B), (C), 14 U.L.A. 437-38.

108. RESTATEMENT OF TORTS § 757 (1939):

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

trade secret is disclosed to one who in good faith pays for it or learns about it through mistaken disclosure without knowing that it was secret, or that it was misappropriated or disclosed by mistake. In this instance, the rights of two innocent parties, the trade secret's owner and its innocent recipient, must be balanced.

The UTSA follows the *Restatement* position that one who learns about a trade secret and has no notice or reason to know that it is a trade secret, and does not know that it was either misappropriated or disclosed by accident or mistake, is not liable to the owner for its disclosure or use prior to receipt of this notice.¹⁰⁹ In addition, both the UTSA and the *Restatement* would permit the defense that one has materially changed one's position prior to receipt of notice.¹¹⁰ This equitable defense necessarily must turn on the nature and materiality of the change of position. Neither the *Restatement* nor the UTSA makes a distinction between use and disclosure following notice. It would be difficult to imagine a change of position that would justify unlimited disclosure after notice, however, even though future use, including disclosure necessary to its use, may be justified from actions taken to utilize the trade secret, such as building a plant or retooling an assembly line.

The *Restatement* goes even further and makes good faith payment for a trade secret, without notice, an absolute defense to past or future disclosure or use. This is premised on the argument that "[t]he burden of guarding the secrecy" is on the trade secret owner; therefore, the risk of loss should be on the owner "when the alternative is the causing of loss to another guilty of no misconduct."¹¹¹

The UTSA rejects the *Restatement's* extension of absolute immu-

liable to the other if:

...

(d) he learned the secret with notice of the facts that it was secret and that its disclosure was made to him by mistake.

* * * *

UNIF. TRADE SECRETS ACT § 1 (2), 14 U.L.A. 437-38 (1990):

(2) 'Misappropriation' means:

...

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

...

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

109. UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 437-38 (1990).

110. RESTATEMENT OF TORTS § 758 (1939); UNIF. TRADE SECRETS ACT § 1(2)(ii)(C), 14 U.L.A. 437-38 (1990).

111. RESTATEMENT OF TORTS § 758 comment e (1939).

nity to good faith purchasers for value without notice.¹¹² The UTSA would provide equitable relief, however, when (1) the type of accident or mistake leading to disclosure would amount to a failure to take the necessary reasonable precautions to preserve the trade secret,¹¹³ or (2) a court determined that it would be “unreasonable” to absolutely enjoin future use, or award damages.¹¹⁴ In the latter event, the UTSA adds the specific provision for future use conditioned “upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.”¹¹⁵ Depending on equitable considerations, the UTSA would permit a court’s determination that no injunction would be appropriate, including a royalty order injunction.¹¹⁶ Similar reasoning may justify the denial of the recovery of damages against a good faith acquirer of a trade secret.¹¹⁷

112. UNIF. TRADE SECRETS ACT § 2 comment, 14 U.L.A. 450 (1990):

With respect to innocent acquirers of misappropriated trade secrets, Section 2(b) is consistent with the principle of 4 Restatement Torts (First) § 758 (b) (1939), but rejects the Restatement’s literal conferral of absolute immunity upon all third parties who have paid value in good faith for a trade secret misappropriated by another. The position taken by the Uniform Act is supported by *Forest Laboratories, Inc. v. Pillsbury Co.*, 452 F.2d 621 (CA7, 1971) in which a defendant’s purchase of assets of a corporation to which a trade secret had been disclosed in confidence was not considered to confer immunity upon the defendant.

Id.

113. *Id.* § 1(2)(ii)(C), 14 U.L.A. 437-38 (1990). “The type of accident or mistake that can result in a misappropriation under Section 1(2)(ii)(C) involves conduct by a person seeking relief that does not constitute a failure of efforts that are reasonable under the circumstances to maintain its secrecy under Section 1(4)(ii).” *Id.*

114. *Id.* § 2 comment, 14 U.L.A. 449-51.

115. *Id.* § 2(b), 14 U.L.A. 449. *But see* RESTATEMENT OF TORTS § 758 comment e (1939), suggesting, but rejecting, the possible alternative of “making the duty of the recipient of the secret conditional upon his reimbursement.”

116. The UTSA discusses royalty order injunction as follows:

Like all injunctive relief for misappropriation, a royalty order injunction is appropriate only if a misappropriator has obtained a competitive advantage through misappropriation and only for the duration of that competitive advantage. In some situations, typically those involving good faith acquirers of trade secrets misappropriated by others, a court may conclude that the same considerations that render a prohibitory injunction against future use inappropriate also render a royalty order injunction inappropriate. *See Prince Manufacturing Inc. v. Automatic Partner, Inc.*, 198 U.S.P.Q. 618 (N.J. Super. Ct. 1976) (purchaser of misappropriator’s assets from receiver after trade secrets disclosed to public through sale of product not subject to liability for misappropriation).

Id. § 2 comment, 14 U.L.A. 449-51 (1990).

117. 117. The UTSA discusses damages as follows:

Monetary relief can be appropriate whether or not injunction relief is granted under Section 2. If a person charged with misappropriation has materially and prejudicially changed position in reliance upon knowledge of a trade

D. Statute of Limitations

In applying statutes of limitations, a conflict of authority has arisen over the question whether trade secret misappropriation is a continuing tort. If it is, "an injured party may recover for use during the statutory period preceding the filing of the suit"¹¹⁸ If it is not a continuing wrong, the limitation period upon all recovery, including continued use, begins upon the initial misappropriation.¹¹⁹ The UTSA opts for the noncontinuing wrong approach to the statute of limitations, but provides that the three-year limitation period does not begin to run until the misappropriation has been, or reasonably should have been, discovered.¹²⁰ According to the Commissioners, "[i]f objectively reasonable notice of misappropriation exists, three years is sufficient time to vindicate one's legal rights."¹²¹

E. Effect of UTSA on Other Law

It is important to note that the UTSA "is not a comprehensive statement of civil remedies."¹²² By its terms, the UTSA only "displaces conflicting tort, restitutionary, and other law . . . providing civil remedies for misappropriation of a trade secret."¹²³ It expressly does not affect contractual, other civil, or criminal remedies, whether or not based upon misappropriation of a trade secret.¹²⁴

An example of the importance of this limitation is found in *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*¹²⁵ The court in *Warner-Lambert* held that a contract by a licensee or assignee to pay in perpetuity for the use of a trade secret, disclosed in confi-

secret acquired in good faith and without reason to know of its misappropriation by another, however, the same considerations that can justify denial of all injunctive relief also can justify denial of all monetary relief. *See* Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d [150] (CA2, 1949) (no relief against new employer of employee subject to contractual obligation not to disclose former employer's trade secrets where new employer innocently had committed \$40,000 to develop the trade secrets prior to notice of misappropriation).

Id. § 3 comment, 14 U.L.A. 456-57.

118. *Underwater Storage, Inc. v. United States Rubber Co.*, 371 F.2d 950, 953 (D.C. Cir. 1966), *cert. denied*, 386 U.S. 911 (1967).

119. *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 292-93 (9th Cir. 1969).

120. UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 462 (1990).

121. *Id.* comment.

122. *Id.* § 7 comment, 14 U.L.A. 463.

123. *Id.* § 7(a).

124. *Id.* §§ 7(a), 7(b)(1)-(3).

125. 178 F. Supp. 655 (S.D.N.Y. 1959), *aff'd mem.*, 280 F.2d 197 (2d Cir. 1960).

dence, may be specifically enforced even after the trade secret ceased to exist because it was subsequently published or became readily ascertainable by others.¹²⁶ This was justified under contract law on the ground that the disclosure of the trade secret provides the necessary consideration for the promise to pay, regardless of the future status of the trade secret. Thus, the UTSA provisions and their interpretations regarding the continued duration of an injunction once a trade secret is public information would be inapplicable to duties undertaken under a valid contract.

The public policies and legislative definitions contained in the UTSA might well play an important part in interpreting and enforcing other law applicable to trade secrets, however, even if they do not displace it. Thus, a contract not to use or disclose "trade secrets" may require the court to determine what trade secrets, if any, are covered by the contract. This, in turn, depends on the definition and identity of the claimed trade secrets. It would be reasonable to assume that, absent other authority, the court would look to the statutory definitions in the UTSA for guidance. Similarly, the UTSA duration provisions might guide the court to determine whether the parties might be presumed to have intended the agreement to cover disclosure or use of trade secrets that subsequently ceased to exist because of public disclosure. Finally, the public policy regarding trade secret protection contained in the UTSA may affect a court's interpretation and enforcement of postemployment noncompetition agreements and agreements restraining the use or disclosure of confidential information learned in the course of employment.

V. CONCLUSION

Commercial development in South Carolina requires uniformity in the protection of trade secrets. State and federal courts generally adopt the *Restatement* definition of a trade secret and the theoretical basis of an action of misappropriation arising out of a breach of good faith conduct.¹²⁷ The case-by-case development of trade secret law, however, has not developed uniformly in all areas. For example, courts differ in their protection of information that could be discovered properly, but is in fact obtained by improper conduct.¹²⁸ The *Restatement* leaves un-

126. *Id.* at 665. State contract laws to this effect have not been preempted by the federal patent laws. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979).

127. See R. MILGRIM, *supra* note 37, § 2.01.

128. Compare *Henry Hope X-Ray Prods. v. Marron Carrel, Inc.*, 674 F.2d 1336 (9th Cir. 1982) (issue was whether defendants "could have" obtained the information by proper means) with *Elnicky Enter., Inc. v. Spotlight Presents, Inc.*, 213 U.S.P.Q. 855 (S.D.N.Y. 1981) (issue was how information was obtained).

answered many issues, including the continued duration of an injunction against use by a misappropriator of a trade secret, when that secret has lost its protection by becoming public knowledge or has become discoverable by proper means. Some inconsistencies, such as the applicable statute of limitations, developed because the *Restatement* does not address the problem.

Uniformity of trade secret protection is, in itself, a desirable goal for commercial advancement both within the state and the nation. The conflicts and inconsistencies in the case-by-case development under the *Restatement* should be resolved, and trade secret law should be made more definitive and current. The UTSA represents a well-considered codification of trade secret law, "preserving its essential differences from patent law."¹²⁹ In addition to such benefits as the adoption of a single statute of limitations and uniform definitions of a trade secret and misappropriation, the UTSA artfully codifies the better-reasoned cases of trade secret protection.

The time has arrived for South Carolina to join the other states that have already adopted the UTSA. It may be a long time, if ever, before the American Law Institute adopts a new *Restatement* covering the modern law of trade secret protection. It may be expected that any new *Restatement* would track the widely adopted UTSA closely. In the interim, nothing would be lost by adopting the UTSA. If necessary, or desirable, the National Conference of Commissioners on Uniform State Laws may be expected to adopt amendments to the UTSA in light of any new developments, including a new *Restatement*. Certainly, the General Assembly would be free to make any amendments that future developments might suggest or require. Whether or not these amendments might be necessary in the future, adoption of the modern law of trade secret protection promulgated in the UTSA would benefit both commercial stability, and research and development, today.

129. UNIF. TRADE SECRETS ACT prefatory note, 14 U.L.A. 434-36 (1990).

