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## The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem for the Law

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**THE EXPANSION OF  
TRADE SECRECY PROTECTION  
AND THE MOBILITY OF  
MANAGEMENT EMPLOYEES:  
A NEW PROBLEM FOR THE LAW**

*Edmund W. Kitch\**

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I. INTRODUCTION

Sections 39 to 45 of the *Restatement (Third) of Unfair Competition* (Restatement) address the subject of trade secrecy.<sup>1</sup> These sections are an expansion of sections 757 to 759 of the *Restatement of Torts*,<sup>2</sup> and reflect changes in U.S. law that have occurred since the publication of the first Restatement in 1939, most particularly the adoption of the 1985 version of the Uniform Trade Secrets Act by 39 states and the District of Columbia.<sup>3</sup>

II. THE EXPANSION OF TRADE SECRET PROTECTION

The trade secret sections of the Restatement provide timely evidence that the United States is in compliance with Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)<sup>4</sup> of the General

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1. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39-45 (1993) [hereinafter RESTATEMENT].

2. See RESTATEMENT OF TORTS §§ 757-759 (1939) (these sections were not included in the *Restatement (Second) of Torts*).

3. See UNIF. TRADE SECRETS ACT, 14 U.L.A. 437, Table of Jurisdictions Wherein Act Has Been Adopted (1985).

4. Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, 33

Agreement on Tariffs and Trade (GATT).<sup>5</sup> In Article 39, the United States and the other signatory countries agreed to provide legal protection for undisclosed information of private parties when disclosed or used contrary to "honest commercial practices."<sup>6</sup> Unlike the other provisions of the TRIPS relating to the protection of trademark, copyright, and patent, the United States' compliance with this commitment is based on state law. Article 39, paragraph 2 of the TRIPS provides:

2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret; and

(c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.<sup>7</sup>

A footnote to the phrase "honest commercial practices" explains:

For purpose of this provision, "a manner contrary to honest commercial practices" shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.<sup>8</sup>

Section 39 of the Restatement defines a trade secret in a way that is compatible with the requirements of the TRIPS. It provides that "[a] trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others."<sup>9</sup>

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I.L.M. 1197 (entered into force Jan. 1, 1995) [hereinafter TRIPS].

5. General Agreement on Tariffs and Trade (GATT), Oct. 30, 1947, 55 U.N.T.S. 187 (as amended) [hereinafter GATT]. That the Restatement does so is fortuitous. So far as I am aware, the provisions of the TRIPS played no role in the deliberations relating to the drafting and adoption of the Restatement.

6. TRIPS, *supra* note 4, at art. 39, para. 2.

7. *Id.* (footnote omitted).

8. *Id.* art. 39 n.10.

9. RESTATEMENT, *supra* note 1, § 39.

Section 757 of the first Restatement of Torts did not provide a black letter definition of a trade secret. However, comment b to section 757 stated that 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, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like.<sup>10</sup>

The expansion of the meaning of the term “trade secret” in the Restatement of Unfair Competition follows the definition of trade secret in the Uniform Trade Secrets Act, which has no such limitation.<sup>11</sup>

The limitation of the term trade secret in the Restatement of Torts did not mean that the law provided no protection for the wrongful acquisition of information that did not fall within its definition of trade secret. Section 759 of the Restatement of Torts provided that “[o]ne who, for the purpose of advancing a rival business interest, procures by improper means information about another’s business is liable to the other for the harm caused by his possession, disclosure or use of the information.”<sup>12</sup>

The Restatement of Torts established three principal differences between the protection provided to a trade secret under section 757 and the protection against the procurement of information by improper means under section 759. First, an injunction was available as a remedy only against misappropriation of a trade secret, not against use of information procured by improper means.<sup>13</sup> Second, remedies were available against third parties who acquired a trade secret with knowledge or reason to know that it was a trade secret,<sup>14</sup> but not against third parties who came into possession of information

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10. RESTATEMENT OF TORTS, *supra* note 2, § 757 cmt. b (citation omitted).

11. RESTATEMENT, *supra* note 1, § 39 cmt. b. Section 1(4) of the Uniform Trade Secrets Act provides that:

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

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

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

UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. at 438 (1985).

12. RESTATEMENT OF TORTS, *supra* note 2, § 759.

13. *Id.* § 757 cmt. e; *id.* § 759.

14. *Id.* § 757(c), (d); *see also id.* § 757 cmts. m & n (explaining the notice requirement of § 757).

improperly procured by someone else.<sup>15</sup> Third, the protection against improper procurement of information only applied if the information was improperly procured "for the purpose of advancing a rival business interest."<sup>16</sup>

These provisions of the Restatement of Torts would not have complied with Article 39 of TRIPS, for they did not provide for remedies against third parties who came into possession of confidential information not within the Restatement's definition of a trade secret. In a 1980 article<sup>17</sup> I pointed out that the then-existing state of American trade secrecy law permitted much information to flow out of firms with departing employees,<sup>18</sup> and speculated about why such limited protection for information might be consistent with social welfare.<sup>19</sup> No doubt other and more directly interested parties reached similar conclusions about the state of the law, and their interest spurred the redrafting and subsequent widespread adoption of the 1985 version of the Uniform Trade Secrets Act.

The Restatement of Unfair Competition, following the lead of the Uniform Trade Secrets Act and cases following the Act,<sup>20</sup> eliminates the distinction between information that is a trade secret and other confidential information.<sup>21</sup> All secret information of economic value falls within the definition of trade secrets.<sup>22</sup> Trade secrets are protected against any misappropriation.<sup>23</sup> Any misappropriation of secret information of economic value may be enjoined.<sup>24</sup> And remedies are available against third parties in possession of confidential information, except those without notice or reason to know of

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15. RESTATEMENT OF TORTS, *supra* note 2, § 758; *see also id.* § 758 cmt. b (explaining that use of another's trade secret prior to notice is not tortious).

16. *Id.* § 759; *see also id.* § 759 cmts. a & d (explaining the meaning of a rival business interest).

17. Edmund W. Kitch, *The Law and Economics of Rights in Valuable Information*, 9 J. LEGAL STUD. 683 (1980).

18. *Id.* at 704-05.

19. *Id.* at 708-23.

20. *See, e.g.*, *Surgidev Corp. v. Eye Technology, Inc.*, 828 F.2d 452 (8th Cir. 1987) (finding that lens manufacturer's list of ophthalmologists was a "trade secret" entitled to protection under California law); *Optic Graphics, Inc. v. Agee*, 591 A.2d 578 (Md. Ct. App.), *cert. denied*, 598 A.2d 465 (Md. Ct. Spec. App. 1991) (stating that the Maryland Uniform Trade Secrets Act definition of a trade secret is broader than that of the Restatement of Torts definition); *Gillis Assoc. Indus. v. Cari-All, Inc.*, 564 N.E.2d 881 (Ill. App. Ct. 1990), *cert. denied*, 571 N.E.2d 147 (Ill. 1991) (using the trade secret definition found in the Uniform Trade Secrets Act as adopted by Illinois); *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665 (Wash. 1987) (applying the Uniform Trade Secrets Act definition of trade secrets).

21. *See* RESTATEMENT, *supra* note 1, § 39 cmt. d.

22. *Id.* § 39 cmt. e.

23. *Id.* § 40.

24. *Id.* § 44.

its confidential nature.<sup>25</sup> The Restatement of Unfair Competition integrates the Uniform Trade Secrets Act with the common law,<sup>26</sup> and confirms a significant expansion of the remedies available to protect confidential information in private hands.

One consequence of this expansion is that the conceptual structure of the law is simplified. Now instead of one set of rules for the protection of trade secrets, another for the protection of confidential information from business rivals, and yet a third applicable to idea submitters, all are handled under a single rubric: trade secrecy law. The conceptual simplicity, however, does not resolve the underlying tensions endemic to this area of law.

The expansion of trade secret protection embodied in the Restatement of Unfair Competition and in the separately conceived and negotiated TRIPS agreement reflects the importance that contemporary firms put on the protection of the valuable information they control through intellectual property rights, and the conception of trade secret rights as an important component requiring protection. In the information age, rights in information are as important a component of the asset base of the successful corporation as are rights in tangible property.<sup>27</sup>

The expansion of rights in the law inevitably raises new issues as the expanding rights intersect with established practices and expectations in society. For instance, the modern formulation of trade secret law creates a cause of action against the press whenever the press discloses information that it knows has been obtained in breach of confidence. This cause of action disrupts the settled expectation of the press that it has the right to publish any

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25. *Id.* § 41.

26. RESTATEMENT, *supra* note 1, § 39 cmt. d & reporters' note to cmt. d.

27. To quote Judge Posner:

This [a case involving a claim that trade secrets were misappropriated] is an important case because trade secret protection is an important part of intellectual property, a form of property that is of growing importance to the competitiveness of American industry. Patent protection is at once costly and temporary, and therefore cannot be regarded as a perfect substitute. If trade secrets are protected only if their owners take extravagant, productivity-impairing measures to maintain their secrecy, the incentive to invest resources in discovering more efficient methods of productions will be reduced, and with it the amount of invention. . . . The future of the nation depends in no small part on the efficiency of industry, and the efficiency of industry depends in no small part on the protection intellectual property.

Rockwell Graphic Systems, Inc. v. DEV Indus., 925 F.2d 174, 180 (7th Cir. 1991).

accurate information known to it, no matter how obtained.<sup>28</sup> How that particular conflict will work out is not yet clear.

### III. THE EFFECT ON THE MOBILITY OF EMPLOYEES

Another important area where expanded protection of trade secrecy creates tension is the relationship between remedies to protect trade secrets and the ability of ex-employees to use their skills and knowledge in new employment. This tension is the subject of section 42 of the Restatement.<sup>29</sup>

The expansion of trade secrecy protection to encompass all confidential information increases the range of employees who are subject to an obligation not to make that information available to a new employer. In the past, trade secrecy issues with ex-employees generally arose in the context of employees in possession of information relating to the firm's methods of production or in possession of information about the identity and requirements of regular customers of the firm.<sup>30</sup> Information about the firm's strategic plans, the identity of its profitable lines of business, and its internal operational problems were not trade secrets.<sup>31</sup> It was true that such information was confidential, and that an employee could not properly provide it to persons outside the firm while still employed.<sup>32</sup> But such information was not used regularly and repetitively in the business, and once the employee left the firm it formed part of the employee's general stock of knowledge about the industry which he was free to employ elsewhere.<sup>33</sup> Although section 759 of the Restatement of Torts

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28. See *Proctor & Gamble Co. v. Bankers Trust Co.*, 78 F.3d 219 (6th Cir. 1996) (finding that a district court injunction prohibiting publication of an article disclosing the contents of documents obtained in violation of a protection order was not justified because publication did not pose a significant threat to a critical government interest or to a constitutional right); Shauna Snow, *Morning Report*, L.A. TIMES, Nov. 10, 1995, at F1 (stating that CBS declined to broadcast an interview with a former tobacco company executive due to concern that CBS might be held legally responsible because the interview violated a nondisclosure contract provision between the executive and the Brown & Williamson Tobacco Corporation).

29. RESTATEMENT, *supra* note 1, § 42.

30. "Almost all of the pure trade secret cases—namely, those not arising in the context of restrictive covenants—involve information about production methods or the appropriation of detailed customer information, usually a written list of customers." Kitch, *supra* note 17, at 702.

31. See RESTATEMENT, *supra* note 1, § 39 cmt. d.

32. See, e.g., *Nucor Corp. v. Tennessee Forging Steel Serv., Inc.*, 476 F.2d 386 (8th Cir. 1973) (stating that proof of a trade secret is unnecessary to impose liability on a current employee for a breach of confidence); *Vigtron, Inc. v. Ferguson*, 419 A.2d 1115 (N.H. 1980) (issuing an injunction against a breach of confidence by a current employee without proof of a trade secret); see also RESTATEMENT (SECOND) OF AGENCY § 395 (1958) (stating that an agent has a duty not to compete with the principal and not to use or disclose confidential information to the principal's detriment).

33. See, e.g., *AMP Inc. v. Fleischhacker*, 823 F.2d 1199 (7th Cir. 1987) (denying employer an interest in the general skill and knowledge of former employees); *Thomas v. Best Mfg. Corp.*,

condemned improper appropriation of information, such as espionage, the use by an ex-employee at his or her new employment of the information that was simply in his or her head was not viewed as improper.<sup>34</sup>

In the past, trade secrecy protection affected production managers, research employees, and sales personnel with direct contacts with customers. Trade secrecy protection had a limited impact on their alternative employment opportunities. Even if a production manager could not move to another employer and set up a duplicate of his first employer's production line because of trade secrecy restraints, his familiarity with techniques of organizing and maintaining a production facility would make him eligible for a wide range of comparable employment. Even if a research employee could not move to another employer to work on research relating to the same subject matter he worked on for his first employer, his knowledge of research methods and techniques would make him eligible for a wide range of comparable employment. Even if a salesman could not solicit and service exactly the same customers he had served for his first employer, his general selling skills would make him eligible for a wide range of comparable employment.

The expanded scope of trade secrecy protection afforded by the Restatement brings a new class of employees within the ambit of its prohibitions.<sup>35</sup> These are employees who are privy to information about the plans and strategies of the firm, information that is not used continuously in the business because it is constantly changing, but information that is of economic value to competitors because they can use it to adapt and modify their own strategies. Under previous law, there was no possibility that the generalist managerial employee, unfamiliar with the concrete details of production processes, ongoing research efforts, or particular customers, would be faced with trade secrecy restraint. For such employees, their knowledge of the industry, indeed their detailed knowledge of their ex-employer, may be the only marketable attribute they have. Stripped of the ability to use that knowledge, these employees may have little to offer beyond the knowledge of a freshly-minted (and far cheaper) M.B.A. graduate.

A widely-publicized controversy involving these issues was the departure from General Motors to Volkswagen of Jose Ignacio Lopez de Arriortua, a Spanish cost-cutting expert and high-ranking GM manager, along with seven

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218 S.E.2d 68 (Ga. 1975) (stating that certain information is part of an employee's general skill and knowledge and that an employer cannot prevent a former employee from using this information); *Vigitron, Inc. v. Ferguson*, 419 A.2d 1115 (N.H. 1980) (stating that the fact that the employees' general skill and knowledge has been exchanged by the former employment does not entitle the former employer to prohibit subsequent exploitation on behalf of another).

34. RESTATEMENT OF TORTS, *supra* note 2, § 759 cmt. c.

35. Many employees remain unaffected. Any employee whose work involves the use of well-known skills, such as word processing, operating a lathe or other machine tool, welding, or driving a vehicle remains free to quit and use those skills elsewhere.



other managers in 1983. GM has claimed that Arriortua departed with GM trade secrets, and its complaints have spurred criminal investigations both in the United States and Germany. On March 7, 1996, with the criminal investigation still not completed, GM filed a civil trade secret case in the Eastern District of Michigan against Arriortua and Volkswagen.<sup>36</sup>

The Restatement itself is of little help in addressing these issues. Section 42, entitled "Breach of Confidence by Employees" provides that "[a]n employee or former employee who uses or discloses a trade secret owned by the employer or former employer in breach of a duty of confidence is subject to liability for appropriation of the trade secret under the rule stated in § 40."<sup>37</sup> Thus, section 42 adds little beyond the injunction: Thou shalt not appropriate valuable information received in confidence.

Section 42 does provide an opportunity for comments and Reporters' notes directed to the special problems of the application of the trade secret principles of the Restatement in the context of employees who go to work for a competitor. As comment b notes: "Application of the rules protecting trade secrets in cases involving competition by former employees requires a careful balancing of interests."<sup>38</sup> The Restatement does little, however, to resolve the balancing of interests beyond identifying them.<sup>39</sup> This is in part due to the scope of the coverage of the Restatement. The Restatement deals with remedies for particular breaches of confidence, but it does not deal with the contractual relationships which create those obligations of confidence in the first place. Thus the critical but unanswered question in the employment context is what obligations of confidence the employment contract creates in the first place, a topic covered by the *Restatement (Second) of Agency*,<sup>40</sup> not the Restatement of Unfair Competition.

Because that question is in the first instance one of contract, it would appear that the only issue is what the default contract rule should be, leaving it to the parties to contract around the default rule if they prefer a different arrangement. For instance, one could reasonably conclude that it is the usual expectation of employees that they are free to quit their jobs and seek employment elsewhere using whatever they have happened to learn on their previous job or jobs. This could be the default rule, and employers desiring

36. GM, Opel Unit File Suit in U.S. v. Volkswagen Execs., Dow Jones News Service, Mar. 8, 1996, *available in* Westlaw, Wires Database (claiming an alleged theft of industrial secrets).

37. RESTATEMENT, *supra* note 1, § 42. Section 40 provides liability for appropriation of a trade secret when (among other situations) "the actor knows or had reason to know that the information is a trade secret that the actor acquired under circumstances creating of duty of confidence . . ." *Id.* § 40(b)(1).

38. *Id.* § 42 cmt. b.

39. *Id.* § 42 cmts. c, d, e.

40. RESTATEMENT (SECOND) OF AGENCY §§ 395-396 (1958).

greater restraints could insist upon contracts that would restrict an employee's post-employment use of information.

The courts, however, have been quite skeptical of employment contracts which restrain the post-employment options of an employee. They have required the employer to show a valid interest in any such restriction, and that the restriction is not unreasonably broad in relation to that interest.<sup>41</sup> One interest that the courts recognize is the protection of the employer's proprietary information, looking to the law of trade secrecy to define what information an employer can properly consider proprietary.<sup>42</sup> As comment g to section 42 notes, "the rules governing trade secrets remain relevant in assessing the reasonableness and hence the enforceability of . . . contractual restrictions [in the form of a covenant not to compete or a nondisclosure agreement]."<sup>43</sup> These relationships become circular when the scope of trade secrecy is defined by the scope of the confidentiality obligation, and the permissible scope of the confidentiality obligation is defined by the scope of trade secrecy protection.

This is not to criticize the Restatement for its failure to provide more guidance as to how to actually resolve the balance between the employer's interest in protecting confidential information and the employee's interest in maintaining his employment options. For the truth is that the expanded scope of trade secrecy protection is too recent a phenomenon for there to be much law to restate. Perhaps the Restatement (Fourth) will be able to better fill this void. At this point there are only a few cases which address this conflict.

*AMP Inc. v. Fleischhacker*<sup>44</sup> is an example of a court refusing to enforce trade secrecy restrictions against a managerial-level employee. The case involved the defection of James Fleischhacker from his position as the manager of AMP's Components & Assemblies Division for a smaller but vigorous competitor in the same business, Molex Inc., where he was to be Director of Marketing for the Commercial Products Division.<sup>45</sup> The court described

41. *Emery v. Merrimack Valley Wood Products, Inc.*, 701 F.2d 985 (1st Cir. 1983) (upholding as reasonable a one-year restraint of reasonable scope); *Amex Distributing Co. v. Mascari*, 724 P.2d 596 (Ariz. Ct. App. 1986) (containing a good analysis of the employer's interest and the extent to which this particular covenant exceeded that interest); *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670 (Tex. 1990), *cert. denied*, 498 U.S. 1048 (1991) (finding that employer had not shown that the agreement not to compete was necessary to protect any legitimate business interest); *see* RESTATEMENT (SECOND) OF CONTRACTS §§ 186, 188 (1977).

42. *Rigging Int'l Maintenance Co. v. Gwin*, 180 Cal. Rptr. 451 (Ct. App. 1982) (using trade secrets law to determine if a former employee is unfairly competing with ex-employer); *Thomas v. Best Mfg. Corp.*, 218 S.E.2d 68 (Ga. 1975) (protecting employer's trade secrets from use by a former employee even without an express restraint agreement); *1st American Systems, Inc. v. Rezatto*, 311 N.W.2d 51 (S.D. 1981) (using trade secrets law to define what information an employer can protect).

43. RESTATEMENT, *supra* note 1, § 42 cmt. g.

44. 823 F.2d 1199 (7th Cir. 1987).

45. *Id.* at 1200.

Fleischhacker's responsibilities at AMP as follows: "His duties as Division Manager included reviewing and approving business programs, interfacing with group management, implementing strategic policies and plans, and developing personnel. His primary energies, however, were devoted to motivating and coordinating the efforts of others."<sup>46</sup> Fleischhacker had signed a confidentiality agreement with AMP agreeing

[t]o keep confidential during and subsequent to the period of said employment, except for those whom his authorized activities for the Company require should be informed, all information relating to the Company's business, its research or engineering activities, its manufacturing processes or trade secrets, its sources of supply or lists of customers and its plans or contemplated actions.<sup>47</sup>

Because the confidentiality agreement was unlimited in duration, the court held that it was unenforceable.<sup>48</sup>

AMP then contended that Fleischhacker would disclose trade secrets to Molex. The allegedly threatened trade secrets included "business and strategic planning information for the Components & Assemblies Division; new product development information; manufacturing information, including equipment, processes, cost, and capacity information; financial information, including product-line profit-margin, sales, and budget information; and marketing and customer information."<sup>49</sup>

The court refused to protect this information, finding that AMP had failed to identify any specific trade secret, and only complained of the loss of generalized confidential business information. Rejecting AMP's complaint on this ground, it went on to comment on the impact the requested relief would have on Fleischhacker:

The persuasive logic of this position is evidenced by the fact that the practical effect of any grant of injunctive relief in favor of AMP would be to prohibit Mr. Fleischhacker from working in the connector industry. In its brief AMP disingenuously claims that the injunctive relief requested would not deny Mr. Fleischhacker his choice of employer, *i.e.*, Molex, but would only remove him from the conflicting position he now holds. Molex, however, obviously hired Mr. Fleischhacker as a result of his expertise, skill, and experience as a Director of Marketing in the connector industry. It is unlikely that Mr. Fleischhacker would be of much use to Molex in a position wholly unrelated to the duties he performed at AMP.

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46. *Id.*

47. *Id.* at 1202.

48. *Id.* at 1201-03.

49. *AMP Inc.*, 823 F.2d at 1203.

The same would undoubtedly be true of any other company in the connector industry.<sup>50</sup>

The court concluded that an employer who wanted to protect itself in AMP's situation should do so through a reasonable restrictive covenant; however, the court gave no guidance as to what a reasonable restrictive covenant would be under the circumstances.<sup>51</sup>

The AMP case illustrates that the courts want to see proof of a specific and identifiable trade secret to be protected. To the extent that the information can be related to a specific piece of paper or other information media, that designation can help provide the requisite identification. As the Restatement notes:

A person claiming rights in a trade secret bears the burden of defining the information for which protection is sought with sufficient definiteness to permit a court to apply the criteria for protection described in this Section and to determine the fact of an appropriation. . . . [A] court may require greater specificity when the plaintiff's claim involves information that is closely integrated with the general skill and knowledge that is properly retained by former employees.<sup>52</sup>

*Sigma Chemical Co. v. Harris*<sup>53</sup> provides an example of a court providing trade secrecy protection against an ex-employee who went to work for a competitor with general knowledge of purchasing procedures in a particular business. Sigma was and is in the business of preparing and selling some 16,000 different specialty chemicals for laboratory use.<sup>54</sup> Sigma purchased these chemicals from 2,300 different suppliers.<sup>55</sup> Because laboratory use requires that the chemicals meet certain rigid specifications, Sigma had accumulated expertise regarding the qualities of the products of various suppliers.<sup>56</sup> This expertise was embodied in product and vendor files which had been developed over a period of 40 years. A typical product file would contain the name of the product, information about Sigma's source or sources for the product, quality control testing information, price and purchasing history information, and complaints, if any, from customers. A typical vendor

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50. *Id.* at 1205-06.

51. *Id.* at 1206-07.

52. RESTATEMENT, *supra* note 1, § 39 cmt. d (citation omitted).

53. 794 F.2d 371 (8th Cir. 1986).

54. *Id.* at 372.

55. *Id.* at 373.

56. *Id.*

file would contain the supplier's name, and price and quality information regarding products purchased from that vendor.<sup>57</sup>

Harris was an experienced purchasing agent for Sigma, and in that job had regularly used the files. He had signed a non-competition agreement which prohibited him from working for any company, worldwide, in the same business for a period of two years after leaving Sigma.<sup>58</sup> Nevertheless, he left Sigma and went to work for ICN, one of Sigma's top competitors. When Harris left he did not take copies of the product and vendor files, but he did take his knowledge of the products and the suppliers, built up over the years he had been a purchaser. One of the key issues in the case was whether the non-competition agreement was enforceable because the product and vendor files qualified as trade secrets.<sup>59</sup> The court held that the files were trade secrets and that the restrictive covenant was enforceable.<sup>60</sup> Although the court did not explain why Harris should be subject to the restriction when he had not taken the files, the implicit reasoning seems to have been that the restrictive covenant was a reasonable precaution to protect the information in the files from loss to competitors through the memories of ex-employees.

In *Sigma*, the employer had made it clear through the restrictive covenant that it did not want ex-employees to be able to use the information in subsequent employment, and it was able to describe to the court in concrete terms the information it wished to protect. In this context, the court was willing to bar an ex-employee from using for a competitor his general knowledge of the business and the firms available to act as suppliers.

*SI Handling Systems, Inc. v. Heisley*<sup>61</sup> involved several employees who left SI at different times and for various reasons. The first to leave the company was Michael Heisley. He formed Heico, a similar technologically based business,<sup>62</sup> and subsequently hired several of SI's employees to join his new company.<sup>63</sup> The lawsuit was occasioned by their successful efforts in developing a product which competed with SI's CARTRAC, a material handling system used in automation. SI had developed the car-on-track system, in which vehicles were propelled by a spinning wheel, and successfully sold it to the automobile and other industries. None of the employees were subject to a non-competition agreement.<sup>64</sup>

The district court enjoined the ex-employees from working on a competing CARTRAC system both because they had used technical engineer-

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57. *Id.*

58. *Sigma Chem. Co.*, 794 F.2d at 372-74.

59. *Id.* at 373.

60. *Id.* at 373-74.

61. 753 F.2d 1244 (3d Cir. 1985).

62. *Id.* at 1250.

63. *Id.*

64. *Id.* at 1251-54.

ing information about how to build the system, and because they had taken business information from SI about suppliers and a principal customer, General Motors.<sup>65</sup> The Third Circuit Court of Appeals held that the technical information constituted trade secrets, but the business information did not.<sup>66</sup> As a result, the court remanded the case to the district court with instructions to narrow the injunction.<sup>67</sup>

It is possible to read the *SI Handling* case, decided under Pennsylvania law, as reflecting the fact that Pennsylvania has not adopted the Uniform Trade Secrets Act<sup>68</sup> and its expanded definition of "trade secret."<sup>69</sup> But it is also possible to read the case for the proposition that courts will not prevent ex-employees from using information learned on their previous jobs, other than traditional trade secrets, unless their employer has obtained explicit promises of confidentiality.

Another important development reflected in the Restatement is the limitation of the period of injunctions "to the time necessary to protect the plaintiffs from any harm attributable to the appropriation."<sup>70</sup> This rule, which has developed at the same time that trade secrecy protection has expanded, and which is consistent with the Uniform Trade Secrets Act,<sup>71</sup> ameliorates some of the harshness that follows from a finding of a trade secrecy violation. For instance, Judge Adams, concurring in *SI Handling*, suggested that upon remand the district court might find that no further injunction was appropriate because so much time had passed during the litigation and because the preliminary injunction had been in effect long enough for the defendants to have reached any of the protected trade secrets through reverse engineering.<sup>72</sup>

#### IV. CONCLUSION

The *Restatement (Third) of Unfair Competition* correctly reflects the fact that trade secrecy protection in American law has expanded. This expansion makes trade secrecy issues important for a broader class of employees. However, available decisions suggest that courts are unlikely to enforce trade secrecy limitations against departed managerial employees unless their former employer has explicitly required a non-disclosure or non-competition agreement, and the former employer can describe in concrete terms the information that is secret. In all cases, the effects of expanded trade secrecy

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65. *Id.* at 1259.

66. *SI Handling Systems, Inc.*, 753 F.2d at 1259.

67. *Id.* at 1265-66.

68. *See supra* note 3.

69. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438.

70. RESTATEMENT, *supra* note 1, § 44.

71. *See* UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 449 (1985).

72. *SI Handling Systems, Inc.*, 753 F.2d at 1268.

protection is ameliorated by the fact that a perpetual injunction is no longer available as a matter of course. Thus, in many civil cases the remedy will do no more than return the parties to the position they would have been in had the secrets not been misappropriated, reduced, of course, by the costs of the litigation.