

Restatement Third, Unfair Competition, © 1995 by The American Law Institute. Reproduced with permission. All rights reserved.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 39. Definition Of Trade Secret**

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.

Comment:

a. Rationale for protection. The protection of confidential business information dates at least to Roman law, which afforded relief against a person who induced another's employee to divulge secrets relating to the master's commercial affairs. The modern law of trade secrets evolved in England in the early 19th century, apparently in response to the growing accumulation of technical know-how and the increased mobility of employees during the industrial revolution. In the United States the protection of trade secrets was recognized at common law by the middle of the 19th century, and by the end of the century the principal features of contemporary trade secret law were well established.

The protection of trade secrets advances several interests. Early cases emphasized the unfairness inherent in obtaining a competitive advantage through a breach of confidence. The imposition of liability for the appropriation of a trade secret protects the plaintiff from unfair competition and deprives the defendant of unjust enrichment attributable to bad faith. The development of rules protecting trade secrets formed part of a more general attempt to articulate standards of fair competition. More recently, the protection of trade secrets has been justified as a means to encourage investment in research by providing an opportunity to capture the returns from successful innovations. The rules protecting trade secrets also promote the efficient exploitation of knowledge by discouraging the unproductive hoarding of useful information and facilitating disclosure to employees, agents, licensees, and others who can assist in its productive use. Finally, the protection afforded under the law of trade secrets against breaches of confidence and improper physical intrusions furthers the interest in personal privacy.

The subject matter and scope of trade secret protection is necessarily limited by the public and private interest in access to valuable information. The freedom to compete in the marketplace includes, in the absence of patent, copyright, or trademark protection (see §§ 16 and 17), the freedom to copy the goods, methods, processes, and ideas of others. The freedom to copy, however, does not extend to information that is inaccessible by proper means. Liability for the appropriation of a trade secret thus rests on a breach of confidence or other wrongful conduct in acquiring, using, or disclosing secret information.

b. Doctrinal development. Early trade secret cases, responding to requests for injunctive relief against breaches of confidence, frequently supported the exercise of equity jurisdiction by describing the plaintiff's interest in the trade secret as a property right, often said to derive from the discovery of valuable information. Similar characterizations sometimes appear in the modern case law. The property rationale emphasizes the nature of the appropriated information, especially its value and secrecy. Even the earliest cases, however, also include an examination of the propriety of the defendant's conduct. The plaintiff's property right was effective only against defendants who used or acquired the information improperly. No exclusive rights were recognized against those who acquired the information by proper means. Other cases, choosing to begin their analysis with an examination of the defendant's behavior, concluded that the

essence of a trade secret action is a breach of confidence or other improper conduct, sometimes explicitly disavowing any property dimension to a trade secret. The influential formulation in § 757 of the Restatement of Torts (1939), reporting that the property conception "has been frequently advanced and rejected," concluded that the prevailing theory of liability rests on "a general duty of good faith." *Id.*, Comment a. Both the former Restatement and the supporting case law, however, also require that the information qualify for protection as a trade secret, thus incorporating the elements of secrecy and value that underlie the property rationale.

The dispute over the nature of trade secret rights has had little practical effect on the rules governing civil liability for the appropriation of a trade secret. The cases generally require that the plaintiff establish both the existence of a trade secret under the principles described in this Section and the fact of misconduct by the defendant under the rules stated in § 40. Many cases acknowledge that the primary issue is the propriety of the defendant's conduct as a means of competition. The substantive scope of the rights recognized under the law of trade secrets thus reflects the accommodation of numerous interests, including the trade secret owner's claim to protection against the defendant's bad faith or improper conduct, the right of competitors and others to exploit information and skills in the public domain, and the interest of the public in encouraging innovation and in securing the benefits of vigorous competition.

In 1979, the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Trade Secrets Act. The Prefatory Note states that the "Uniform Act codifies the basic principles of common law trade secret protection." The original Act or its 1985 revision has been adopted in a majority of the states. (See the Statutory Note following this Section.) Except as otherwise noted, the principles of trade secret law described in this Restatement are applicable to actions under the Uniform Trade Secrets Act as well as to actions at common law. The concept of a trade secret as defined in this Section is intended to be consistent with the definition of "trade secret" in § 1(4) of the Act.

Some states have adopted criminal statutes specifically addressed to the appropriation of trade secrets. In other states, more general criminal statutes have been interpreted to reach such appropriations. In some circumstances the appropriation of a trade secret may also violate the federal wire and mail fraud statutes (18 U.S.C.A. §§ 1341, 1343) and the National Stolen Property Act (18 U.S.C.A. § 2314). The definition of a trade secret contained in this Section, however, is directly applicable only to the imposition of civil liability under the rules stated in § 40. It does not apply, other than by analogy, in actions under criminal statutes or in other circumstances not involving civil liability for the appropriation of a trade secret, such as the protection of trade secrets from disclosure under the Freedom of Information Act (5 U.S.C. § 552).

c. Relation to patent and copyright law. Federal patent law offers protection to "any new and useful process, machine, manufacture, or composition of matter," 35 U.S.C.A. § 101, unless the invention "would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." 35 U.S.C.A. § 103. Federal design patents protect "any new, original and ornamental design for an article of manufacture," again subject to the requirement of non-obviousness. 35 U.S.C.A. § 135. Unlike the limited protection against improper acquisition, disclosure, and use accorded to the owner of a trade secret under the rules stated in § 40, the holder of a patent enjoys a general right to exclude others from making, using, or selling the patented invention, 35 U.S.C.A. § 271, enforceable even against persons relying on independent discovery or reverse engineering. An application for a patent must include a specification containing "a written description of the invention, and of the manner and process of making and using it," and "the best mode contemplated by the inventor of carrying out" the invention. 35 U.S.C.A. §§ 111 and 112. Upon issuance of a patent, the specification and other materials comprising the patent file become available for public inspection. 37 C.F.R. § 1.11. Thus, for matter disclosed in the patent, issuance terminates the secrecy required for continued protection as a trade secret, even if the patent is subsequently declared invalid. See Comment f. Pending, denied, and abandoned patent applications, however, are not generally

open to public inspection. 35 U.S.C.A. § 122; 37 C.F.R. § 1.14. Thus, the filing of a patent application does not in itself preclude continued protection of the invention as a trade secret.

The United States Supreme Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974), held that federal patent law does not preempt the protection of inventions and other information under state trade secret law. The Court concluded that the requirement of secrecy fundamental to the protection of trade secrets (see Comment f) avoids interference with the federal patent policy of access to information in the public domain. It also concluded that the limitations on the scope of state trade secret protection (see § 40) make it unlikely that the federal policy of inducing public disclosure in exchange for the protection of a patent will be significantly undermined by reliance on trade secret protection for patentable inventions. In a subsequent decision, however, the Supreme Court emphasized that any rule of state law that substantially interferes with the use of information that has already been disclosed to the public or that is readily ascertainable from public sources is preempted. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 109 S.Ct. 971, 103 L.Ed.2d 118 (1989).

Federal copyright law protects "original works of authorship fixed in any tangible medium of expression," 17 U.S.C.A. § 102(a), against unauthorized reproduction, use in the preparation of derivative works, distribution, public performance, or public display. 17 U.S.C.A. § 106. Protection is limited, however, to the manner in which the authorship is expressed and does not extend to "any idea, procedure, process, system, method of operation, concept, principle, or discovery" embodied in the work. 17 U.S.C.A. § 102(b). Copyright protection subsists from the creation of a work and is not contingent upon public dissemination. See 17 U.S.C.A. § 302. A claim of federal copyright is thus not in itself inconsistent with a claim to trade secret protection for information contained in the work. Although § 301 of the Copyright Act preempts the recognition under state law of "rights that are equivalent to any of the exclusive rights" of copyright in works "within the subject matter" of the statute, the protection afforded to trade secrets under the rules stated in § 40 has been held to lie outside the preemptive scope of the Copyright Act.

Registration of a copyright is not a condition of copyright protection. 17 U.S.C.A. § 408. The registration of a copyright claim in an unpublished work ordinarily requires the deposit of a complete copy of the work, 17 U.S.C.A. § 408(b)(1), which is then open to public inspection. 17 U.S.C.A. § 705. However, the regulations of the Copyright Office permit the deletion of material constituting trade secrets from deposits made in connection with computer programs and also authorize the granting of special relief from the normal deposit requirements in other cases. The status as a trade secret of information contained in a work that is the subject of a copyright registration is determined under the general principles governing secrecy and accessibility described in Comment f.

d. Subject matter. A trade secret can consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret can also relate to other aspects of business operations such as pricing and marketing techniques or the identity and requirements of customers (see § 42, Comment f). Although rights in trade secrets are normally asserted by businesses and other commercial enterprises, nonprofit entities such as charitable, educational, governmental, fraternal, and religious organizations can also claim trade secret protection for economically valuable information such as lists of prospective members or donors.

The prior Restatement of this topic limited the subject matter of trade secret law to information capable of "continuous use in the operation of a business," thus excluding information relating to single events such as secret bids and impending business announcements or information whose secrecy is quickly destroyed by commercial exploitation. See Restatement of Torts § 757, Comment b (1939). Both the case law and the prior Restatement, however, offered protection against the "improper" acquisition of such short-term information under rules virtually

identical to those applicable to trade secrets. See *id.* § 759, Comment c. The Restatement, Second, of Agency in § 396 similarly protects both trade secrets and "other similar confidential matters" from unauthorized use or disclosure following the termination of an agency relationship. The definition of "trade secret" adopted in the Uniform Trade Secrets Act does not include any requirement relating to the duration of the information's economic value. See Uniform Trade Secrets Act § 1(4) and the accompanying Comment. The definition adopted in this Section similarly contains no requirement that the information afford a continuous or long-term advantage.

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. In the case of technical information, a physical embodiment of the information in the form of a specific product, process, or working model often provides the requisite definition. However, there is no requirement that the information be incorporated or embodied in a tangible form if it is otherwise sufficiently delineated. The degree of definiteness required in a particular case is also properly influenced by the legitimate interests of the defendant. Thus, 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. See § 42, Comment d.

An agreement between the parties that characterizes specific information as a "trade secret" can be an important although not necessarily conclusive factor in determining whether the information qualifies for protection as a trade secret under this Section. As a precaution against disclosure, such an agreement is evidence of the value and secrecy of the information, see Comments e and f, and can also supply or contribute to the definiteness required in delineating the trade secret. The agreement can also be important in establishing a duty of confidence. See § 41. However, because of the public interest in preserving access to information that is in the public domain, such an agreement will not ordinarily estop a defendant from contesting the existence of a trade secret. (On the protection of information by contract, see § 41, Comment d.)

It is not possible to state precise criteria for determining the existence of a trade secret. The status of information claimed as a trade secret must be ascertained through a comparative evaluation of all the relevant factors, including the value, secrecy, and definiteness of the information as well as the nature of the defendant's misconduct.

e. Requirement of value. A trade secret must be of sufficient value in the operation of a business or other enterprise to provide an actual or potential economic advantage over others who do not possess the information. The advantage, however, need not be great. It is sufficient if the secret provides an advantage that is more than trivial. Although a trade secret can consist of a patentable invention, there is no requirement that the trade secret meet the standard of inventiveness applicable under federal patent law.

The value of information claimed as a trade secret may be established by direct or circumstantial evidence. Direct evidence relating to the content of the secret and its impact on business operations is clearly relevant. Circumstantial evidence of value is also relevant, including the amount of resources invested by the plaintiff in the production of the information, the precautions taken by the plaintiff to protect the secrecy of the information (see Comment g), and the willingness of others to pay for access to the information.

The plaintiff's use of the trade secret in the operation of its business is itself some evidence of the information's value. Identifiable benefits realized by the trade secret owner through use of the information are also evidence of value. Some early cases elevated use by the trade secret owner to independent significance by establishing such use as an element of the cause of action for the appropriation of a trade secret. Such a "use" requirement, however, imposes unjustified limitations on the scope of trade secret protection. The requirement can deny protection during periods of research and development and is particularly burdensome for innovators who do not possess the capability to exploit their innovations. See Comment h. The

requirement also places in doubt protection for so-called "negative" information that teaches conduct to be avoided, such as knowledge that a particular process or technique is unsuitable for commercial use. Cases in many jurisdictions expressly renounce any requirement of use by the trade secret owner. It is also rejected under the Uniform Trade Secrets Act. See the Comment to § 1 of the Act. Use by the person asserting rights in the information is not a prerequisite to protection under the rule stated in this Section.

f. Requirement of secrecy. To qualify as a trade secret, the information must be secret. The secrecy, however, need not be absolute. The rule stated in this Section requires only secrecy sufficient to confer an actual or potential economic advantage on one who possesses the information. Thus, the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to the wrongful conduct proscribed under § 40. Novelty in the patent law sense is not required. Although trade secret cases sometimes announce a "novelty" requirement, the requirement is synonymous with the concepts of secrecy and value as described in this Section and the correlative exclusion of self-evident variants of the known art.

Information known by persons in addition to the trade secret owner can retain its status as a trade secret if it remains secret from others to whom it has potential economic value. Independent discovery by another who maintains the secrecy of the information, for example, will not preclude relief against an appropriation by a third person. Similarly, confidential disclosures to employees, licensees, or others will not destroy the information's status as a trade secret. Even limited non-confidential disclosure will not necessarily terminate protection if the recipients of the disclosure maintain the secrecy of the information.

Information that is generally known or readily ascertainable through proper means (see § 43) by others to whom it has potential economic value is not protectable as a trade secret. Thus, information that is disclosed in a patent or contained in published materials reasonably accessible to competitors does not qualify for protection under this Section. Similarly, information readily ascertainable from an examination of a product on public sale or display is not a trade secret. Self-evident variations or modifications of known processes, procedures, or methods also lack the secrecy necessary for protection as a trade secret. However, it is the secrecy of the claimed trade secret as a whole that is determinative. The fact that some or all of the components of the trade secret are well-known does not preclude protection for a secret combination, compilation, or integration of the individual elements.

The theoretical ability of others to ascertain the information through proper means does not necessarily preclude protection as a trade secret. Trade secret protection remains available unless the information is readily ascertainable by such means. Thus, if acquisition of the information through an examination of a competitor's product would be difficult, costly, or time-consuming, the trade secret owner retains protection against an improper acquisition, disclosure, or use prohibited under the rules stated in § 40. However, any person who actually acquires the information through an examination of a publicly available product has obtained the information by proper means and is thus not subject to liability. See § 43. Similarly, the theoretical possibility of reconstructing the secret from published materials containing scattered references to portions of the information or of extracting it from public materials unlikely to come to the attention of the appropriator will not preclude relief against the wrongful conduct proscribed under § 40, although one who actually acquires the secret from such sources is not subject to liability.

Circumstantial evidence is admissible to establish that information is not readily ascertainable through proper means and hence is eligible for protection as a trade secret. Precautions taken by the claimant to preserve the secrecy of the information (see Comment g), the willingness of licensees to pay for disclosure of the secret, unsuccessful attempts by the defendant or others to duplicate the information by proper means, and resort by a defendant to improper means of acquisition are all probative of the relative accessibility of the information. When a defendant has engaged in egregious misconduct in order to acquire the information, the

inference that the information is sufficiently inaccessible to qualify for protection as a trade secret is particularly strong. See § 43, Comment d.

Although courts have recognized that trade secret rights may not be asserted in information that is in the public domain, the cases disagree on the consequences of a loss of secrecy that occurs between the time of a defendant's confidential receipt of the trade secret and the defendant's subsequent unauthorized use or disclosure. Some decisions refuse to consider the availability of the information from public domain sources at the time of the alleged appropriation, at least when the defendant's knowledge derives from the confidential disclosure rather than from the public sources. Other decisions, more narrowly construing the obligations attendant upon a confidential disclosure, hold that protection against unauthorized use or disclosure is not available after the information has ceased to be a secret. (On the remedial consequences of a loss of secrecy occurring after a defendant's appropriation, see § 44, Comment f; § 45, Comment h.) However, in many of the cases that refuse as a matter of law to take into account a loss of secrecy, the information was in fact only theoretically rather than readily ascertainable from the public domain at the time of the defendant's use or disclosure, thus justifying relief under either rule.

When information is no longer sufficiently secret to qualify for protection as a trade secret, its use should not serve as a basis for the imposition of liability under the rules stated in § 40. If the information has become readily ascertainable from public sources so that no significant benefit accrues to a person who relies instead on other means of acquisition, the information is in the public domain and no longer protectable under the law of trade secrets. Even those courts that decline to take into account a loss of secrecy following a confidential disclosure to the defendant often assert in dicta that no liability attaches if the defendant actually extracts the information from public sources. When the information is readily ascertainable from such sources, however, actual resort to the public domain is a formality that should not determine liability. The public interest in avoiding unnecessary restraints on the exploitation of valuable information supports the conclusion that protection as a trade secret terminates when the information is no longer secret. The defendant remains liable, however, for any unauthorized use or disclosure that occurred prior to the loss of secrecy. This position is consistent with the language and policy of the Uniform Trade Secrets Act. Section 1(2) of the Act defines "misappropriation" as the improper acquisition, disclosure, or use of a "trade secret," and § 1(4) excludes from the definition of "trade secret" information "generally known * * * or readily ascertainable by proper means." Termination of trade secret rights upon a loss of secrecy is also consistent with the limitations on injunctive and monetary relief in §§ 2 and 3 of the Act (and in §§ 44 and 45 of this Restatement) applicable to appropriations occurring prior to the loss of secrecy.

g. Precautions to maintain secrecy. Precautions taken to maintain the secrecy of information are relevant in determining whether the information qualifies for protection as a trade secret. Precautions to maintain secrecy may take many forms, including physical security designed to prevent unauthorized access, procedures intended to limit disclosure based upon the "need to know," and measures that emphasize to recipients the confidential nature of the information such as nondisclosure agreements, signs, and restrictive legends. Such precautions can be evidence of the information's value (see Comment e) and secrecy (see Comment f). The prior Restatement of this topic included the precautions taken to maintain the secrecy of the information as one of a number of factors relevant in determining the existence of a trade secret. See Restatement of Torts § 757, Comment b (1939). The Uniform Trade Secrets Act requires a trade secret to be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Section 1(4)(ii). Whether viewed as an independent requirement or as an element to be considered with other factors relevant to the existence of a trade secret, the owner's precautions should be evaluated in light of the other available evidence relating to the value and secrecy of the information. Thus, if the value and secrecy of the information are clear, evidence of specific precautions taken by the trade secret owner may be unnecessary.

The precautions taken by the trade secret owner are also relevant to other potential issues in an action for the appropriation of a trade secret. They can signal to employees and other recipients that a disclosure of the information by the trade secret owner is intended to be in confidence. See § 41. They can also be relevant in determining whether a defendant possessed the knowledge necessary for the imposition of liability under the rules stated in § 40 (see § 40, Comment d), whether particular means of acquisition are improper under the rule stated in § 43 (see § 43, Comment c), and whether an accidental disclosure results in the loss of trade secret rights (see § 40, Comment e).

h. "Law of ideas." Cases involving the submission of ideas by employees, customers, inventors, and others to businesses capable of reducing the idea to practice are sometimes analyzed under separate rules referred to as the "law of ideas." Idea submission cases often arise in the context of suggestions for new or improved products submitted to manufacturers, or in connection with programming and other ideas submitted to the entertainment industries. Plaintiffs seeking compensation for their ideas typically rely on contract claims alleging an express or implied-in-fact promise by the recipient to pay for the submitted idea. In some cases, however, compensation is sought through tort or restitutionary claims. These non-contractual claims are generally resolved through an analysis of the nature of the information and the circumstances of the submission that is fundamentally indistinguishable from the rules governing trade secrets. Some decisions explicitly incorporate such claims within the scope of trade secret law.

To sustain a claim in tort for the appropriation of an idea, most courts require the submitted idea to be "novel" in the sense of not being generally known (cf. Comment f) and sufficiently "concrete" to permit an assessment of its value and the fact of its use by the recipient (cf. Comment d). The courts also examine the circumstances of the disclosure to determine whether the recipient is bound by an obligation of confidentiality. Factors such as the relationship between the submitter and recipient, prior dealings between the parties, the customs of the industry, and the recipient's solicitation or opportunity to refuse the disclosure are relevant in determining the recipient's obligations. Cf. § 41.

With the rejection under the Uniform Trade Secrets Act and under this Section of any requirement of use by the owner of a trade secret, see Comment e, there is no longer a formal distinction between trade secrets and the ideas that form the subject matter of the idea submission cases. The developing rules governing the rights of submitters and recipients of ideas in the absence of an express or implied-in-fact contract can thus be understood as specific applications of the general rules stated here. The rules in this Restatement relating to the protection of trade secrets are therefore applicable, either directly or by analogy, to claims in tort alleging the appropriation of ideas.

Since the public and private interests favoring access to information that is in the public domain are also relevant in analyzing contractual claims, many jurisdictions require proof of novelty and concreteness for the enforcement of express or implied-in-fact contracts to pay for submitted ideas. Thus, the rules stated here may also be helpful in analyzing contractual liability in idea submission cases.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 40. Appropriation Of Trade Secrets**

One is subject to liability for the appropriation of another's trade secret if:

(a) the actor acquires by means that are improper under the rule stated in § 43 information that the actor knows or has reason to know is the other's trade secret; or

(b) the actor uses or discloses the other's trade secret without the other's consent and, at the time of the use or disclosure,

(1) the actor knows or has reason to know that the information is a trade secret that the actor acquired under circumstances creating a duty of confidence owed by the actor to the other under the rule stated in § 41; or

(2) the actor knows or has reason to know that the information is a trade secret that the actor acquired by means that are improper under the rule stated in § 43; or

(3) the actor knows or has reason to know that the information is a trade secret that the actor acquired from or through a person who acquired it by means that are improper under the rule stated in § 43 or whose disclosure of the trade secret constituted a breach of a duty of confidence owed to the other under the rule stated in § 41; or

(4) the actor knows or has reason to know that the information is a trade secret that the actor acquired through an accident or mistake, unless the acquisition was the result of the other's failure to take reasonable precautions to maintain the secrecy of the information.

Comment:

a. Scope. The rules stated in this Section are applicable to common law actions in tort or restitution for the appropriation of another's trade secret, however denominated, including actions for "misappropriation," "infringement," or "conversion" of a trade secret, actions for "unjust enrichment" based on the unauthorized use of a trade secret, and actions for "breach of confidence" in which the subject matter of the confidence is a trade secret. Except as otherwise noted, the rules governing trade secrets as stated in this Restatement are also intended to be consistent with and applicable to actions under the Uniform Trade Secrets Act. This Section does not govern the imposition of liability for conduct that infringes other protected interests such as interference with contractual relations (see Restatement, Second, Torts §§ 766-774A (1979)), breach of the duty of loyalty owed by an employee or other agent (see Restatement, Second, Agency §§ 387-398 (1958)), or a breach of confidence not involving a trade secret (see § 41, Comment c).

The rules stated in this Section are not applicable to actions for breach of contract, including breach of a promise not to use or disclose a trade secret or a promise not to compete with the owner of a trade secret. Such agreements are governed by the rules generally applicable to the formation and enforcement of contracts, including the limitations on the enforcement of contracts in restraint of trade stated in Restatement, Second, Contracts §§ 186-188 (1981). The rules stated in this Chapter, however, can be useful in interpreting and implementing the principles embodied in those limitations. See § 41, Comment d. The existence of an express or implied-in-fact contract protecting trade secrets does not preclude a separate cause of action in tort under the rules in this Section. The terms of the contract may be relevant to a number of issues in such an action, including the existence of a protectable trade secret (see § 39, Comment d) and the creation of a duty of confidence (see § 41, Comment b).

In an action for the appropriation of a trade secret, the plaintiff bears the burden of proving both a proprietary interest in information that qualifies for protection as a trade secret under the rule stated in § 39 and an acquisition, use, or disclosure of the information by the defendant in violation of the rules stated here. A proprietary interest sufficient for relief under this Section can arise through the discovery of a trade secret or through the acquisition of rights in a trade secret discovered by another. On the rights of an employer in trade secrets discovered by an employee, see § 42, Comment e. Since neither novelty nor absolute secrecy is a prerequisite for protection

as a trade secret, see § 39, Comment f, each of several independent discoverers can have a proprietary interest in the same information.

b. Improper acquisition. The prior Restatement of this topic imposed liability only for the wrongful use or disclosure of another's trade secret. Improper acquisition of a trade secret was not independently actionable. See Restatement of Torts § 757 (1939). Wrongful use or disclosure is also frequently recited in the case law as an element of the cause of action for trade secret appropriation. The cases requiring proof of wrongful use or disclosure, however, typically involve information that has been acquired by the defendant through a confidential disclosure from the trade secret owner. In such cases the acquisition of the secret is not improper; only a subsequent use or disclosure in breach of the defendant's duty of confidence is wrongful. Even in these circumstances the courts have recognized a plaintiff's right to obtain relief prior to any wrongful use or disclosure if such misconduct by the defendant is sufficiently likely. See § 44, Comment c. A defendant's willingness to resort to improper means in order to acquire a trade secret is itself evidence of a substantial risk of subsequent use or disclosure. Subsection (a) of this Section follows the rule adopted in § 1(2)(i) of the Uniform Trade Secrets Act, which imposes liability for the acquisition of a trade secret by improper means. Thus, a person who obtains a trade secret through a wiretap or who induces or knowingly accepts a disclosure of the secret in breach of confidence is subject to liability. See § 43, Comment c. Subsequent use or disclosure of a trade secret that has been improperly acquired constitutes a further appropriation under the rule stated in Subsection (b)(2) of this Section. The relief available to the trade secret owner in such circumstances, however, may be more extensive than that available prior to any use or disclosure of the secret by the defendant.

c. Improper use or disclosure. There are no technical limitations on the nature of the conduct that constitutes "use" of a trade secret for purposes of the rules stated in Subsection (b). As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a "use" under this Section. Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret (see § 42, Comment f) all constitute "use." The nature of the unauthorized use, however, is relevant in determining appropriate relief. See §§ 44 and 45.

The unauthorized use need not extend to every aspect or feature of the trade secret; use of any substantial portion of the secret is sufficient to subject the actor to liability. Similarly, the actor need not use the trade secret in its original form. Thus, an actor is liable for using the trade secret with independently created improvements or modifications if the result is substantially derived from the trade secret. The extent to which the actor's sales or other benefits are attributable to such independent improvements or modifications, however, can affect the computation of monetary relief. See § 45, Comment f. However, if the contribution made by the trade secret is so slight that the actor's product or process can be said to derive from other sources of information or from independent creation, the trade secret has not been "used" for purposes of imposing liability under the rules stated in Subsection (b). Although the trade secret owner bears the burden of proving unauthorized use, proof of the defendant's knowledge of the trade secret together with substantial similarities between the parties' products or processes may justify an inference of use by the defendant.

The owner of a trade secret may be injured by unauthorized disclosure of a trade secret as well as by unauthorized use. A public disclosure injures the trade secret owner by destroying the secrecy necessary for continued protection of the information as a trade secret. See § 39, Comment f. A private disclosure can increase the likelihood of both unauthorized use and further disclosure. An actor may thus be subject to liability under the circumstances described in Subsection (b) in connection with either a public or private disclosure of a trade secret. To subject the actor to liability, the unauthorized disclosure need not be express. Any conduct by the actor that enables another to learn the trade secret, including the sale or transfer of goods or

other tangible objects from which the trade secret can be obtained, is a "disclosure" of the secret under the rules stated in this Section.

The unauthorized disclosure of a trade secret ordinarily occurs as part of an attempt to exploit the commercial value of the secret through use in competition with the trade secret owner or through a sale of the information to other potential users. The scope of liability at common law and under the Uniform Trade Secrets Act for disclosures that do not involve commercial exploitation of the secret information is unclear. If the trade secret is disclosed primarily for the purpose of causing harm to the trade secret owner, a court may properly conclude that the actor is subject to liability despite an absence of commercial exploitation. Thus, a former employee who publicly discloses trade secrets of the former employer in retaliation for a termination of the employment is subject to liability under this Section. In other circumstances, however, the disclosure of another's trade secret for purposes other than commercial exploitation may implicate the interest in freedom of expression or advance another significant public interest. A witness who is compelled by law to disclose another's trade secret during the course of a judicial proceeding, for example, is not subject to liability. The existence of a privilege to disclose another's trade secret depends upon the circumstances of the particular case, including the nature of the information, the purpose of the disclosure, and the means by which the actor acquired the information. A privilege is likely to be recognized, for example, in connection with the disclosure of information that is relevant to public health or safety, or to the commission of a crime or tort, or to other matters of substantial public concern.

d. Knowledge of wrongful possession. The owner of a trade secret is protected under Subsection (b) of this Section only against a use or disclosure of the trade secret that the actor knows or has reason to know is wrongful. If the actor has not acquired the information through a confidential disclosure from the trade secret owner, see Subsection (b)(1), use or disclosure of the information will not subject the actor to liability unless the actor knew or had reason to know that the use or disclosure was wrongful due to the manner in which the actor acquired the trade secret. See Subsection (b)(2)-(4). Thus, if an actor acquires a trade secret by improper means, such as by inducing or knowingly accepting a disclosure of the information from a third person that is in breach of a duty of confidence, the actor is subject to liability for any subsequent use or disclosure of the secret. See Subsection (b)(2). However, an actor who acquires a trade secret from a third person without notice of that person's breach of confidence has not acquired the information by improper means and is not subject to liability for use or disclosure unless the actor subsequently receives notice that its possession of the information is wrongful. See Subsection (b)(3).

To subject an actor to liability under the rules stated in Subsection (b)(2)-(4), the owner need not prove that the actor knew that its possession of the trade secret was wrongful; it is sufficient if the actor had reason to know. Thus, if a reasonable person in the position of the actor would have inferred that he or she was in wrongful possession of another's trade secret, the actor is subject to liability for any subsequent use or disclosure. A number of cases also subject an actor to liability if, based on the known facts, a reasonable person would have inquired further and learned that possession of the information was wrongful. Studious ignorance of the circumstances surrounding the acquisition of the information thus will not necessarily avoid liability under this Section. Among the facts relevant in establishing the actor's actual or constructive knowledge are the actor's knowledge of any precautions against disclosure taken by the trade secret owner, the actor's familiarity with industry customs or practices that would justify an assumption that a disclosure to the actor by a third person was unauthorized, information known to the actor regarding the nature of the relationship between the trade secret owner and the person from whom the actor acquired the secret, and any direct communications to the actor from the trade secret owner. The actor's reliance on claims of ownership or other assurances given by the person from whom the actor acquired the information is sufficient to avoid liability only if the actor's reliance is reasonable under the circumstances.

If an actor possesses the actual or constructive knowledge required under Subsection (b)(2)-(4) of this Section at the time of the initial acquisition of the secret, the actor is subject to liability for all use or disclosure of the trade secret. If the actor obtains such knowledge after acquisition of the trade secret, the actor is subject to liability for any use or disclosure occurring subsequent to receipt of the requisite knowledge, but is not liable for prior use or disclosure. However, although receipt of the requisite knowledge is sufficient to subject the actor to liability for subsequent conduct, the relief available to the trade secret owner may be limited by the equities of the case. Thus, if before receiving the required knowledge the actor has in good faith paid value for the trade secret, undertaken significant investment in equipment or research relating to the secret, or otherwise substantially changed its position in reliance on the information, the imposition of particular remedies for subsequent use or disclosure may be inappropriate. See § 44, Comment b; § 45, Comment b.

e. Accidental disclosure. An accidental or mistaken disclosure of the trade secret to the actor under the rule stated in Subsection (b)(4) of this Section may result from a mistake by the owner of the trade secret, the actor, or a third person. If the disclosure to the actor is not the result of the owner's failure to take reasonable precautions to protect the trade secret, an actor who knows or has reason to know that the information is a trade secret that has been disclosed to the actor through an accident or mistake is subject to liability for subsequent use or disclosure. If the actor in good faith has substantially changed its position in reliance on the information prior to acquiring the requisite knowledge, however, the relief available to the trade secret owner may be appropriately limited. See § 44, Comment b; § 45, Comment b.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 41. Duty Of Confidence**

A person to whom a trade secret has been disclosed owes a duty of confidence to the owner of the trade secret for purposes of the rule stated in § 40 if:

(a) the person made an express promise of confidentiality prior to the disclosure of the trade secret; or

(b) the trade secret was disclosed to the person under circumstances in which the relationship between the parties to the disclosure or the other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure,

(1) the person knew or had reason to know that the disclosure was intended to be in confidence, and

(2) the other party to the disclosure was reasonable in inferring that the person consented to an obligation of confidentiality.

Comment:

a. Scope. This Section describes when the recipient of a trade secret disclosure is bound by a duty of confidence. Section 42 treats the special considerations that influence the application of the principles discussed in this Section when the disclosure occurs within an employment relationship.

b. Confidential disclosures. A duty of confidence enforceable under the rules stated in § 40 can be created by an express promise of confidentiality made by the recipient of the disclosure. A duty of confidence may also be inferred from the relationship between the parties

and the circumstances surrounding the disclosure. However, no duty of confidence will be inferred unless the recipient has notice of the confidential nature of the disclosure. Although no specific form of notice is required, the circumstances must indicate that the recipient knew or had reason to know that the disclosure was intended as confidential. In addition, the circumstances must justify the other party's belief that the recipient has consented to the duty of confidence. Thus, a disclosure to one who has indicated an unwillingness to accept the confidence or who has no opportunity prior to the disclosure to object to the imposition of the confidence will not create an obligation of confidentiality in the recipient.

In some cases the customs of the particular business or industry may be sufficient to indicate to the recipient that a particular disclosure is intended as confidential. The customary expectations surrounding the disclosure of information in noncommercial settings may differ from those arising in connection with disclosures in commercial contexts. The customary expectations regarding the confidentiality of information disclosed within the research facilities of an industrial firm, for example, may differ from those regarding disclosures in a nonprofit research laboratory. Precautions undertaken by the trade secret owner to maintain the secrecy of the information, if known to the recipient, can be evidence that the recipient knew or had reason to know of the owner's expectation of confidentiality. Solicitation of the disclosure by the recipient can also contribute to an inference of confidentiality, particularly if the disclosure is prompted by a misrepresentation or other improper conduct on the part of the recipient. In some cases an express agreement regarding the confidentiality of particular information may be evidence of the parties' expectations regarding the confidentiality of other information not within the scope of the agreement.

If the owner of a trade secret discloses information for a limited purpose that is known to the recipient at the time of the disclosure, the recipient is ordinarily bound by the limitation unless the recipient has indicated an unwillingness to accept the disclosure on such terms. During negotiations with prospective buyers, customers, or licensees, for example, it is sometimes necessary to disclose trade secrets in order to permit the other party to evaluate the merits of the proposed transaction. The law of trade secrets provides the necessary assurance that the limited purpose of such disclosures will be respected.

In the absence of an agreement to the contrary, the sale of a product embodying a trade secret is not ordinarily regarded as a confidential disclosure. The purchaser is thus free to exploit any information acquired through an examination or analysis of the product. However, a transaction such as a lease or a bailment may be more likely to support an inference of confidentiality if the parties understand the transfer to be for a limited purpose. The transfer of a machine embodying trade secrets for the purpose of repair, for example, does not ordinarily authorize the transferee to use or disclose trade secrets learned as a result of the transaction.

Courts frequently recognize an obligation to refrain from the unauthorized use or disclosure of information that is communicated between parties in a so-called "confidential relationship." Certain business relationships such as employer-employee and licensor-licensee are sometimes characterized as "confidential." The fact that the parties are engaged in such an on-going relationship is relevant in determining whether a specific disclosure creates a duty of confidence, but not every disclosure made in the context of a particular relationship is properly treated as confidential. Even within a relationship generally characterized as "confidential," the purpose of the disclosure, the past practice of the parties, the customs of the industry, and the other circumstances of the disclosure remain relevant in determining the recipient's obligations. Thus, although the disclosure to a licensee of a secret formula that is the subject of a license is normally regarded as confidential, a disclosure of other information to a licensee with no indication that the information is confidential may not give rise to a duty of confidence. The special considerations applicable to disclosures within an employment relationship are considered in § 42.

c. Breach of confidence as a separate tort. Some courts have recognized liability in tort for the unauthorized disclosure of confidential business information found to be ineligible for protection as a trade secret. In some cases the claim is designated as one for "breach of confidence," while in others it is described as one for "unfair competition." Many of these cases rest on a narrow definition of "trade secret" that excludes non-technical information such as customer identities or information that is not subject to continuous, long-term use. Such information is now subsumed under the broader definition of "trade secret" adopted in § 39. In other cases the imposition of liability for breach of confidence may be justified by interests other than the protection of valuable commercial information, such as the interests that prompt recognition of the general duty of loyalty owed by an employee to an employer, see § 42, Comment b, or the special duties of confidence owed in particular relationships such as attorney and client or doctor and patient. However, in the absence of interests justifying broader duties, the plaintiff should be required to demonstrate that the information qualifies for protection as a trade secret under the rule stated in § 39. The recognition of more extensive rights against the use or disclosure of commercial information can restrict access to knowledge that is properly regarded as part of the public domain. Cf. § 39, Comment f.

d. Contractual protection of trade secrets. The owner of a trade secret may seek protection against unauthorized use or disclosure through a contract with the recipient of a disclosure. Such contracts may take several forms, including a promise by the recipient not to compete with the trade secret owner, a general promise to refrain from disclosing or using any confidential information acquired within the context of a particular relationship or transaction, or a promise to refrain from using or disclosing particular information specified in the agreement. Use or disclosure in violation of such agreements can result in liability for breach of contract under the rules stated in the Restatement, Second, of Contracts. However, since such agreements can reduce or eliminate potential competition, they are subject to the traditional rules governing contracts in restraint of trade and are accordingly enforceable only when ancillary to a valid transaction and otherwise reasonable. See Restatement, Second, Contracts §§ 186-188. As a general matter, a restraint is unreasonable if it is greater than necessary to protect the legitimate interests of the promisee or if the promisee's interest in protection is outweighed by the likely harm to the promisor or to the public. *Id.* § 188, Comment a.

In many jurisdictions a reasonable covenant not to compete is enforceable against the promisor. The rules governing the protection of trade secrets as stated in this Restatement can sometimes be helpful in evaluating the reasonableness of such a covenant. A promise by an employee not to compete with the employer after the termination of the employment or by a seller of a business not to compete with the buyer after the sale may be justified as a reasonable attempt to protect confidential information, provided that the duration and geographic scope of the covenant are appropriately related to the promisee's legitimate interests. When this justification is offered to support the enforcement of a covenant not to compete, the rules governing trade secrets, although not determinative, can be useful in identifying both the legitimate interests served by the covenant and the appropriate limitations on the scope of protection.

The reasonableness of an agreement that merely prohibits the use or disclosure of particular information depends primarily upon whether the information protected by the agreement qualifies as a trade secret. If the information qualifies for protection under the rule stated in § 39, a contract prohibiting its use or disclosure is generally enforceable according to its terms. Although in some cases courts have enforced nondisclosure agreements directed at information found ineligible for protection as a trade secret, many of these decisions merely reflect a more narrow definition of trade secret than that adopted in § 39. However, a nondisclosure agreement that encompasses information that is generally known or in which the promisee has no protectable interest, such as a former employee's promise not to use information that is part of the employee's general skill and training (see § 42, Comment d), may be unenforceable as an unreasonable restraint of trade. Agreements that deny the promisor the right to use information that is in the public domain are ordinarily enforceable only if justified on the basis of interests other than the protection of confidential information.

Some courts have indicated that nondisclosure agreements are subject to the same durational and geographic limitations traditionally applied to covenants not to compete. However, a nondisclosure agreement can be reasonable even if the agreement is not limited to a specific geographic area. Once a secret is disclosed, knowledge of the information cannot normally be confined to a particular area. Unauthorized disclosure in any geographic area can therefore result in harm to the trade secret owner. Similarly, unauthorized use in any area may deprive the trade secret owner of potential licensing opportunities. Thus, although the more onerous burden of a covenant not to compete is normally enforceable only if confined within appropriate geographic limits, an absolute prohibition against the use or disclosure of a trade secret is ordinarily justified by the legitimate interests of the trade secret owner. The absence of an express duration on a promise not to use or disclose a trade secret should also not in itself render the agreement unenforceable since in the absence of a clear intention to the contrary a nondisclosure agreement is ordinarily interpreted as imposing an obligation of confidentiality only until the information becomes generally known or readily ascertainable by proper means. However, enforcement of an agreement that is interpreted to prohibit the promisor from using information even after it has entered the public domain cannot be justified by the interest in protecting confidential information, although it may be justified on some other basis. For example, licensing agreements that require the continuation of royalty payments for the use of a trade secret even after the secret becomes generally known are ordinarily enforceable. Such agreements may be justified as a reasonable attempt by the parties to measure the value of the head start obtained by the licensee through the initial disclosure of the trade secret. Similarly, in some circumstances an agreement not to use information that is in the public domain may be justified by a legitimate interest in protecting the reputation or good will of the promisee. The rules stated here do not purport to encompass the full range of justifications that may support the enforcement of an agreement not to use or disclose particular information. These rules may be helpful, however, in determining the appropriate limits on the enforceability of an agreement that the promisee seeks to justify on the basis of interests analogous to those protected under the law of trade secrets.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 42. Breach Of Confidence By Employees**

An 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.

Comment:

a. Scope. This Section is a specific application of the general rules stated in §§ 40 and 41 prohibiting the use or disclosure of a trade secret in violation of a duty of confidence. The issues discussed in this Section are primarily applicable to persons who are regarded under the law of agency as employees or "servants" of the trade secret owner as distinguished from "independent contractors." See Restatement, Second, Agency §§ 2, 220. The Section applies to the use or disclosure of trade secrets by both current and former employees. Current employees, however, are also subject to a general duty of loyalty that is broader than the specific obligations arising under the law of trade secrets. See Comment b. The obligations imposed by trade secret law on persons who provide services to the trade secret owner as independent contractors such as attorneys, financial advisors, or consultants are determined according to the general principles governing duties of confidence as stated in § 41. In some circumstances, however, the rules relating to employees as stated in this Section may be useful by analogy in cases involving independent contractors. To advance interests other than the maintenance of fair competition,

some professionals such as attorneys and physicians are also subject to obligations of confidentiality apart from those arising under the law of trade secrets.

b. Duties of employees and former employees. During the duration of an employment relationship, an employee is subject to a duty of loyalty applicable to all conduct within the scope of the employment. See Restatement, Second, Agency § 387. The duty of loyalty encompasses a general duty not to compete with the employer in the subject matter of the employment, id. § 393, including a duty to refrain from using confidential information acquired through the employment in competition with the employer. Id. § 395. Thus, if a current employee enters into competition with the employer, liability may be imposed without regard to the existence or appropriation of trade secrets. The duty of loyalty also includes a duty not to disclose the employer's confidential information to others. Id. When it is alleged that a current employee has disclosed to third persons valuable information acquired in the course of the employment, the emphasis is properly on whether there has been a breach of loyalty by the employee and not on the character of the particular information. However, it is not ordinarily regarded as a breach of loyalty to "disclose" information that is common knowledge or that the employee has no reason to believe is confidential. Id., Comment b. Although a current employee can be subject to liability for the appropriation of a trade secret under the rules stated in this Chapter, the liability of current employees for the unauthorized use or disclosure of valuable information is more typically determined under the rules governing the general duty of loyalty owed by an employee to the employer.

The rules governing liability for the appropriation of trade secrets play a more central role in regulating the behavior of employees after the termination of the employment relationship. Once the employment has ended, the former employee has the right to compete with the former employer absent an enforceable agreement to the contrary. Restrictive covenants limiting competition by former employees are enforceable only if the restriction is reasonable. See § 41, Comment d. However, even in the absence of an enforceable covenant a former employee remains subject to the general rules prohibiting use or disclosure of another's trade secrets in breach of a duty of confidence.

Application of the rules protecting trade secrets in cases involving competition by former employees requires a careful balancing of interests. There is a strong public interest in preserving the freedom of employees to market their talents and experience in order to earn a livelihood. The mobility of employees also promotes competition through the dissemination of useful skills and information. In many instances, however, employers cannot conduct business efficiently without disclosing valuable trade secrets to their employees. Absent reasonable protection against the unauthorized use or disclosure of such information by former employees, employers would be forced to adopt expensive and inefficient restrictions on access to information. Businesses would also be less likely to invest in research and development if competitors could easily appropriate the gains from such investments through disclosures by former employees. Thus, the interests of both the former employer and the former employee must be weighed in light of the circumstances of the particular case in order to insure sufficient protection for trade secrets without unduly restraining the mobility of employees.

c. Employment as a confidential relationship. The employment relationship by its nature ordinarily justifies an inference that the employee consents to a duty of confidence with respect to any information acquired through the employment that the employee knows or has reason to know is confidential. See § 41, Comment b. The duty to refrain from unauthorized use or disclosure of confidential information continues after termination of the employment relationship. However, some information developed during the employment relationship may belong to the employee rather than the employer. See Comment e. Former employees are also entitled to exploit their general skill, knowledge, training, and experience, even when acquired or enhanced through the resources of the former employer. See Comment d. Although some courts have justified particular decisions in favor of employees on the absence of a confidential relationship, these cases are often better understood as resting on the absence of a protectable trade secret

owned by the employer or on a lack of adequate notice to the employee of the confidential nature of the information. If an employer establishes ownership of a trade secret and circumstances sufficient to put the employee on notice that the information is confidential, the employment relationship will ordinarily justify the recognition of a duty of confidence.

d. General skill, knowledge, training, and experience. Information that forms the general skill, knowledge, training, and experience of an employee cannot be claimed as a trade secret by a former employer even when the information is directly attributable to an investment of resources by the employer in the employee. The Statute of Apprentices enacted in England in 1562, 5 Eliz. I, ch. 4, which mandated a seven-year period of apprenticeship to a master, was in part an early attempt to reconcile the interest of employers in capturing the benefits of their investment in the training of employees and the interest of employees in a competitive market for their services. The modern balance relies primarily on the recognition of a duty of loyalty during the period of employment, see Comment b, the ability of employers and employees in most states to contract for reasonable restrictions on the employee's freedom to compete with the employer after termination of the employment, see § 41, Comment d, and the recognition of rights in specific information that is eligible for protection as a trade secret. Thus, absent an enforceable covenant not to compete, a former employee may utilize in competition with the former employer the general skills, knowledge, training, and experience acquired during the employment, but the employee remains obligated to refrain from using or disclosing the employer's trade secrets.

Whether particular information is properly regarded as a trade secret of the former employer or as part of the general skill, knowledge, training, and experience of the former employee depends on the facts and circumstances of the particular case. An employer who is asserting rights in information against a former employee bears the burden of proving the existence and ownership of a trade secret. Trade secret rights are more likely to be recognized in specialized information unique to the employer's business than in information more widely known in the industry or derived from skills generally possessed by persons employed in the industry. The relative contribution of the employer and employee to the development of the information can also be relevant. The fact that other competitors have been unsuccessful in independent attempts to develop the information may suggest that the information qualifies for protection as a trade secret. Courts are also more likely to conclude that particular information is a trade secret if the employee on termination of the employment appropriates some physical embodiment of the information such as written formulas, blueprints, plans, or lists of customers. However, although information that is retained in the employee's memory may be less likely to be regarded as a trade secret absent evidence of intentional memorization, the inference is not conclusive.

The distinction between trade secrets and general skill, knowledge, training, and experience is intended to achieve a reasonable balance between the protection of confidential information and the mobility of employees. If the information is so closely integrated with the employee's overall employment experience that protection would deprive the employee of the ability to obtain employment commensurate with the employee's general qualifications, it will not ordinarily be protected as a trade secret of the former employer.

e. Allocation of ownership between employers and employees. The law of agency has established rules governing the ownership of valuable information created by employees during the course of an employment relationship. See Restatement, Second, Agency § 397. In the absence of a contrary agreement, the law ordinarily assigns ownership of an invention or idea to the person who conceives it. However, valuable information that is the product of an employee's assigned duties is owned by the employer, even when the information results from the application of the employee's personal knowledge or skill:

If, however, one is employed to do experimental work for inventive purposes, it is inferred ordinarily, although not so specifically agreed, that patentable ideas arrived at through the experimentation are to be owned by the employer. This is even more clear where one is employed to achieve a particular result which the invention accomplishes. On the other hand, if

one is employed merely to do work in a particular line in which he is an expert, there is no inference that inventions which he makes while so working belong to the employer.

Restatement, Second, Agency § 397, Comment a.

An employee is ordinarily entitled to claim ownership of patents and trade secrets developed outside the scope of the employee's assigned duties, even if the invention or idea relates to the employer's business and was developed using the employer's time, personnel, facilities, or equipment. In the latter circumstances, however, the employer is entitled to a "shop right"-- an irrevocable, nonexclusive, royalty-free license to use the innovation. Similarly, employees retain ownership of information comprising their general skill, knowledge, training, and experience. See Comment d. The allocation of ownership between employers and employees is also subject to alteration by contract. See Comment g.

If a trade secret developed by an employee is owned by the employer, the employee is subject to liability under the rule stated in § 40 for any unauthorized use or disclosure. If the trade secret is owned by the employee, the employee is free, when no longer subject to the duty of loyalty owed by current employees, to use the information or to disclose it to others even if the former employer retains a "shop right" in the trade secret.

Although the rules governing ownership of valuable information created during an employment relationship are most frequently applied to inventions, the rules are also applicable to information such as customer lists, marketing ideas, and other valuable business information. If an employee collects or develops such information as part of the assigned duties of the employment, the information is owned by the employer. Thus, if the information qualifies for protection as a trade secret, unauthorized use or disclosure will subject the employee to liability under the rule stated in § 40.

f. Customer lists. The general rules that govern trade secrets are applicable to the protection of information relating to the identity and requirements of customers. Customer identities and related customer information can be a company's most valuable asset and may represent a considerable investment of resources. Although issues relating to the protection of customer lists may arise in a variety of contexts, most cases involve the solicitation of a company's customers by a former employee who acquired information about the customers in the course of the former employment. The public and private interests that are implicated in the protection of customer information are best accommodated through application of the traditional rules governing trade secrets, covenants not to compete, and the duty of loyalty owed to an employer by a current employee.

A customer list is not protectable as a trade secret under the rule stated in § 39 unless it is sufficiently valuable and secret to afford an economic advantage to a person who has access to the list. Thus, if the potential customers for a particular product or service are readily identifiable, their identities do not constitute a trade secret. On the other hand, specialized customer information that cannot easily be duplicated, such as a list of homeowners who employ commercial cleaning services or a compilation of specific information about individual customers, may be sufficiently valuable and secret to qualify as a trade secret. The fact that an employee has appropriated a written list or has made an attempt to memorize customer information prior to terminating the employment may justify an inference that the information is valuable and not readily ascertainable by proper means. However, solicitation of the same customers by a number of competitors is evidence that the customer identities are generally known or readily ascertainable in the trade. Some of the customer list cases involve the identities of customers on delivery routes. In most cases the identities of such customers are readily ascertainable by observing the delivery vehicle. Information concerning the particular requirements of individual customers may be eligible for protection as a trade secret if such knowledge is difficult to obtain and valuable in gaining or retaining patronage.

When information relating to the identities or requirements of customers qualifies for protection as a trade secret, the rules described in Comment e are applicable in determining ownership. If the employer discloses the list of customers to the employee, or if the employee is specifically assigned to identify potential customers, the employer is ordinarily the owner of the information. On the other hand, in the absence of an enforceable covenant not to compete, an employee who possessed the relevant customer information prior to the former employment is free to use the information in competition with the former employer after termination of the employment relationship.

If the identities of the former employer's customers are not protectable as a trade secret, a former employee is entitled, absent an enforceable agreement to the contrary, to solicit the customers in competition with the former employer once the employment has ended. A few courts, particularly in delivery route cases, have nevertheless enjoined such solicitation when the former employee had developed substantial personal relationships with the customers. However, such a prohibition can unfairly limit employee mobility. If the customer list or related information does not qualify for protection as a trade secret, the former employer should ordinarily be limited to the protection available through a reasonable covenant not to compete. See § 41, Comment d.

g. Contractual protection. The rules governing the protection and ownership of trade secrets are generally subject to reasonable modification by the parties. By means of a reasonable covenant not to compete, an employer may achieve protection against the competitive use by a former employee of information not technically protectable as a trade secret. See § 41, Comment d. Similarly, a nondisclosure agreement prohibiting the use or disclosure of particular information can clarify and extend the scope of an employer's rights. *Id.* However, the rules governing trade secrets remain relevant in assessing the reasonableness and hence the enforceability of such contractual restrictions. *Id.*

The common law accords to an employer ownership of inventions and discoveries made by an employee only when the information is the product of the employee's assigned duties. See Comment e. However, absent an applicable statutory prohibition, agreements relating to the ownership of inventions and discoveries made by employees during the term of the employment are generally enforceable according to their terms. Employment agreements sometimes include provisions granting the employer ownership of all inventions and discoveries conceived by the employee during the term of the employment. In some situations, however, it may be difficult to prove when a particular invention was conceived. The employee may have an incentive to delay disclosure of the invention until after the employment is terminated in order to avoid the contractual or common law claims of the employer. It may also be difficult to establish whether a post-employment invention was improperly derived from the trade secrets of the former employer. Some employment agreements respond to this uncertainty through provisions granting the former employer ownership of inventions and discoveries relating to the subject matter of the former employment that are developed by the employee even after the termination of the employment. Such agreements can restrict the former employee's ability to exploit the skills and training desired by other employers and may thus restrain competition and limit employee mobility. The courts have therefore subjected such "holdover" agreements to scrutiny analogous to that applied to covenants not to compete. Thus, the agreement may be unenforceable if it extends beyond a reasonable period of time or to inventions or discoveries resulting solely from the general skill and experience of the former employee.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 43. Improper Acquisition Of Trade Secrets**

"Improper" means of acquiring another's trade secret under the rule stated in § 40 include theft, fraud, unauthorized interception of communications, inducement of or knowing participation in a breach of confidence, and other means either wrongful in themselves or wrongful under the circumstances of the case. Independent discovery and analysis of publicly available products or information are not improper means of acquisition.

Comment:

a. Scope of protection. The owner of a trade secret does not have an exclusive right to possession or use of the secret information. Protection is available only against a wrongful acquisition, use, or disclosure of the trade secret. See § 40. Use or disclosure of a trade secret in breach of a duty of confidence is treated in §§ 41 and 42. This Section considers the acquisition, use, and disclosure of trade secrets by persons who have not obtained the secret through a confidential disclosure.

b. Proper means of acquisition. Unless a trade secret has been acquired under circumstances giving rise to a duty of confidence, a person who obtains the trade secret by proper means is free to use or disclose the information without liability. Unlike the holder of a patent, the owner of a trade secret has no claim against another who independently discovers the secret. Similarly, others remain free to analyze products publicly marketed by the trade secret owner and, absent protection under a patent or copyright, to exploit any information acquired through such "reverse engineering." A person may also acquire a trade secret through an analysis of published materials or through observation of objects or events that are in public view or otherwise accessible by proper means.

c. Improper means of acquisition. It is not possible to formulate a comprehensive list of the conduct that constitutes "improper" means of acquiring a trade secret. If a trade secret is acquired through conduct that is itself a tortious or criminal invasion of the trade secret owner's rights, the acquisition ordinarily will be regarded as improper. Thus, a person who obtains a trade secret by burglarizing the offices of a competitor acquires the secret by improper means. So also does one who obtains a trade secret by wiretapping the owner's telephone or by employing fraudulent representations to induce the owner to disclose the trade secret. A person who obtains a trade secret by inducing or knowingly accepting a disclosure from a third person who has acquired the secret by improper means, or who induces or knowingly accepts a disclosure from a third person that is in breach of a duty of confidence owed by the third person to the trade secret owner, also acquires the secret by improper means.

The acquisition of a trade secret can be improper even if the means of acquisition are not independently wrongful. The propriety of the acquisition must be evaluated in light of all the circumstances of the case, including whether the means of acquisition are inconsistent with accepted principles of public policy and the extent to which the acquisition was facilitated by the trade secret owner's failure to take reasonable precautions against discovery of the secret by the means in question. Among the factors relevant to the reasonableness of the trade secret owner's precautions are the foreseeability of the conduct through which the secret was acquired and the availability and cost of effective precautions against such an acquisition, evaluated in light of the economic value of the trade secret.

d. Existence of a trade secret. A person is not subject to liability for an appropriation of information under the rules stated in § 40 unless the information qualifies for protection as a trade secret under the rule stated in § 39. Thus, although an actor may be subject to liability under other rules for conduct that is actionable as an invasion of other protected interests, the acquisition of information that is not a trade secret will not subject the actor to liability under § 40 regardless of the means of acquisition. Information that is readily ascertainable by proper means is not protectable as a trade secret, see § 39, Comment f, and the acquisition of such information even by improper means is therefore not actionable under § 40. However, the accessibility of information, and hence its status as a trade secret, is evaluated in light of the difficulty and cost of

acquiring the information by proper means. See § 39, Comment f. In some circumstances the actor's decision to employ improper means of acquisition is itself evidence that the information is not readily ascertainable through proper means and is thus protectable as a trade secret. Because of the public interest in deterring the acquisition of information by improper means, doubts regarding the status of information as a trade secret are likely to be resolved in favor of protection when the means of acquisition are clearly improper.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009**

**CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS**

§ 44. Injunctions: Appropriation Of Trade Secrets

(1) If appropriate under the rule stated in Subsection (2), injunctive relief may be awarded to prevent a continuing or threatened appropriation of another's trade secret by one who is subject to liability under the rule stated in § 40.

(2) The appropriateness and scope of injunctive relief depend upon a comparative appraisal of all the factors of the case, including the following primary factors:

(a) the nature of the interest to be protected;

(b) the nature and extent of the appropriation;

(c) the relative adequacy to the plaintiff of an injunction and of other remedies;

(d) the relative harm likely to result to the legitimate interests of the defendant if an injunction is granted and to the legitimate interests of the plaintiff if an injunction is denied;

(e) the interests of third persons and of the public;

(f) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights;

(g) any related misconduct on the part of the plaintiff; and

(h) the practicality of framing and enforcing the injunction.

(3) The duration of injunctive relief in trade secret actions should be limited to the time necessary to protect the plaintiff from any harm attributable to the appropriation and to deprive the defendant of any economic advantage attributable to the appropriation.

Comment:

a. Scope. This Section states the principles governing injunctive relief in actions for the appropriation of a trade secret. The general rules relating to injunctive relief in tort actions stated in Chapter 48 of the Restatement, Second, of Torts apply in actions for the appropriation of trade secrets. Only those rules that have particular significance to injunctions in trade secret cases are considered here. This Section is derived from Restatement, Second, Torts § 936, which sets forth the general factors relating to the appropriateness of injunctions in tort actions. See also §§ 933-935, stating the standard of "appropriateness" for injunctive relief, and §§ 937-943, describing in detail the factors relevant in determining appropriateness. Additional considerations may influence the award of preliminary injunctive relief. See Comment g.

The appropriation of a trade secret is more closely analogous to tortious interference with rights in tangible property than is trademark infringement or deceptive marketing, which depend

on the perceptions of prospective purchasers. The general rules on injunctions in tort actions stated in Restatement, Second, Torts §§ 933-943 are thus more likely to be directly applicable in trade secret cases than in other unfair competition actions.

This Restatement does not treat the rules governing the various techniques available to preserve the secrecy of trade secrets during litigation, such as protective orders, in camera proceedings, and the sealing of records. See Uniform Trade Secrets Act § 5.

b. Relation to other remedies. The usual remedy in tort actions is an award of damages, and the equitable remedy of an injunction was traditionally available only when the remedy of damages was inadequate. With the merger of law and equity, courts are generally free to select the remedy or combination of remedies that most effectively protects the interests threatened by the defendant's misconduct. See Restatement, Second, Torts § 938, Comment c. In trade secret cases, the primary interest of the plaintiff is in the secrecy and exclusive use of the appropriated information. As in the case of other forms of unfair competition, the harm caused by the appropriation of a trade secret may not be fully reparable through an award of monetary relief due to the difficulty of proving the amount of loss and the causal connection with the defendant's misconduct. Thus, a defendant's continuing or threatened use or disclosure of a trade secret normally justifies an award of injunctive relief.

In many trade secret cases, both injunctive and monetary relief are appropriate: monetary relief to compensate the plaintiff for existing losses and injunctive relief to prevent future loss through further use or disclosure of the trade secret. In some cases, however, an injunction may be the only appropriate remedy, as when the defendant has not yet disclosed or used a trade secret acquired by improper means or when a defendant threatens to breach a duty of confidence arising from a confidential disclosure of the trade secret. In other cases, unqualified injunctive relief may be inappropriate, as when the defendant in good faith makes a substantial investment in reliance on the trade secret prior to receiving knowledge sufficient to subject the defendant to liability for further use. See § 45, Comment b.

c. Appropriateness of injunctive relief. Injunctive relief is often appropriate in trade secret cases to insure against additional harm from further unauthorized use of the trade secret and to deprive the defendant of additional benefits from the appropriation. If the information has not become generally known, an injunction may also be appropriate to preserve the plaintiff's rights in the trade secret by preventing a public disclosure. If the trade secret has already entered the public domain, an injunction may be appropriate to remedy any head start or other unfair advantage acquired by the defendant as a result of the appropriation. However, if the defendant retains no unfair advantage from the appropriation, an injunction against the use of information that is no longer secret can be justified only on a rationale of punishment and deterrence. Because of the public interest in promoting competition, such punitive injunctions are ordinarily inappropriate in trade secret actions.

An injunction may sometimes be appropriate to prevent a threatened use or disclosure of a trade secret. The scope of such an injunction should be carefully framed to avoid undue restraint on legitimate competition. For example, a court will not ordinarily enjoin an employee who has knowledge of a former employer's trade secret from engaging in a particular occupation or working for a particular competitor in the absence of an enforceable covenant not to compete or clear evidence that the contemplated employment will result in disclosure of the secret. However, if there is a substantial risk of disclosure, an injunction prohibiting the disclosure or prohibiting participation in a particular project that presents a special risk of disclosure may be appropriate.

Although injunctive relief is routinely granted in trade secret cases, the remedy remains subject to equitable principles, including the factors stated in Subsection (2) of this Section. The appropriateness of injunctive relief must be determined in light of the interests of both the parties and the public, including the interest of the plaintiff in preserving the commercial advantage

inherent in the trade secret, the interest of the defendant in avoiding interference with legitimate business transactions, and the interest of the public in fostering innovation and promoting vigorous competition. For example, although employers are entitled to protection against appropriations of trade secrets by employees, employees are entitled, absent an enforceable contractual restraint, to market their skills and training to others. These competing interests are properly considered not only in defining the subject matter eligible for protection as a trade secret, see § 42, Comment d, but also in fashioning appropriate relief. The traditional equitable principles of laches, estoppel, and unclean hands are also applicable in trade secret cases.

Under the rules stated in § 40, innocent use of another's trade secret is not actionable. A defendant is subject to liability only for use occurring after the defendant acquires actual or constructive knowledge that the information is the trade secret of another. See § 40, Comment d. There is some authority for the rule that a good faith user who pays value for the secret or otherwise invests in its use before receiving notice of the appropriation is not subject to liability for continued use after notice. A more appropriate balance of interests can be achieved in such cases, however, by limiting the remedy rather than precluding liability for subsequent use. Although it may sometimes be inequitable to prohibit the defendant from continued use of the secret after notice, it may be appropriate to impose other remedies such as an injunction conditioning further use on the payment of a reasonable royalty. See Uniform Trade Secrets Act § 2(b).

A court contemplating injunctive relief in a trade secret case must also consider its ability to fashion and enforce the injunction so as to protect the legitimate interests of the trade secret owner without unduly interfering with legitimate competition by the defendant. For example, an injunction should be sufficiently precise to give the defendant fair notice of the information that is encompassed within the terms of the injunction.

d. Factors determining the scope of injunctive relief. The factors listed in Subsection (2) of this Section are relevant in determining the scope as well as the appropriateness of injunctive relief. An injunction ordinarily prohibits only use or disclosure of the trade secret and information substantially derived from the trade secret. Practical considerations, however, may sometimes justify broader relief. In some cases, for example, an injunction limited to the trade secret and its derivatives may be impossible to enforce due to the difficulty of distinguishing further improper use or disclosure of the trade secret from independent discovery. An injunction against participation in a particular project or business may then be appropriate. Similarly, in some cases, although liability may be clear, the exact boundaries of the trade secret may be difficult to define. The proper balance between the plaintiff's right to protection and the defendant's right to fair notice of prohibited conduct may then require the court to include a somewhat broader or somewhat narrower field of information within the scope of the injunction.

When the trade secret is narrow in scope and closely related to publicly available information, the injunction should be carefully restricted to the contours of the trade secret in order to avoid encroachment on the public domain. Nevertheless, if the trade secret is an essential component of a larger process or product, other aspects of which are in the public domain, in some cases the only effective means of protecting the trade secret may be an injunction against use of the process or manufacture of the product.

Geographic limitations on the scope of injunctive relief in trade secret cases are ordinarily inappropriate. A defendant will normally be enjoined from disclosing or using the trade secret even outside the geographic market of the trade secret owner. The defendant's use of the secret in any market may increase the risk of disclosure to the public and may deprive the plaintiff of potential licensing revenues. Even when direct injury to the plaintiff is unlikely, an injunction unlimited in geographic scope is ordinarily appropriate to deprive the defendant of further unjust enrichment from the appropriation of the trade secret.

In some circumstances the unauthorized disclosure of another's trade secret for a purpose other than commercial exploitation may be privileged. See § 40, Comment c. Although there is little case law, any injunctive relief issued in such situations must accommodate protection of the plaintiff's trade secret with the free speech or other interests underlying the privilege.

e. Surrender of objects and assignment of patents. In order to insure full compensation to the trade secret owner and to deprive the defendant of all unjust gains, a court may properly require a defendant to return to the trade secret owner documents, blueprints, customer lists, or other tangible embodiments of the trade secret. See Uniform Trade Secrets Act § 2(c). If the defendant has obtained a patent covering either the trade secret or an invention derived from the trade secret, a court may also require the defendant to assign the patent to the owner of the trade secret.

f. Duration of injunctive relief. Injunctions are appropriate in trade secret cases to protect the plaintiff from further harm caused by the use or disclosure of the trade secret and to deprive the defendant of further unjust gain. However, the law of trade secrets does not afford protection against losses or gains that are not attributable to the defendant's appropriation. This principle establishes the appropriate duration of injunctive relief in trade secret cases. Thus, injunctive relief should ordinarily continue only until the defendant could have acquired the information by proper means. Injunctions extending beyond this period are justified only when necessary to deprive the defendant of a head start or other unjust advantage that is attributable to the appropriation. See Uniform Trade Secrets Act § 2(a). More extensive injunctive relief undermines the public interest by restraining legitimate competition.

The issuance of a patent or other public disclosure renders the disclosed information ineligible for continued protection as a trade secret. See § 39, Comment f. Some courts, however, have issued or continued injunctions after public disclosure of the trade secret against defendants who appropriated the information while it was still secret. Other courts hold that public disclosure precludes the subsequent issuance of an injunction and justifies termination of an injunction previously granted. When the trade secret is publicly disclosed by the plaintiff or a third person after the defendant's appropriation, the proper inquiry is whether injunctive relief remains necessary to protect against future injury to the plaintiff or future unjust enrichment to the defendant that is attributable to the defendant's wrongful actions prior to the public disclosure. Whether an injunction remains appropriate thus depends on the facts of the particular case. For example, early access to information subsequently disclosed in a patent may allow the defendant to bring to market or reduce to practice the teachings of the patent more quickly than otherwise possible. Similarly, the public disclosure may not encompass all aspects of the information appropriated by the defendant. Limited injunctive relief may thus remain appropriate to eliminate an improper economic advantage that would otherwise be retained by the defendant after the public disclosure of the trade secret. If the public disclosure results from the defendant's own unauthorized conduct, injunctive relief may remain appropriate until the information would have become readily ascertainable to the defendant through proper means. However, if the defendant's public disclosure results in extensive use of the information by others, a continuing injunction against the defendant may yield little benefit to the plaintiff. It may also be difficult to determine the appropriate duration of such an injunction. Since the defendant is subject to liability for the pecuniary loss to the plaintiff resulting from the destruction of the trade secret and for its own pecuniary gain derived from the unauthorized disclosure, see § 45, in some cases a court may properly conclude that monetary relief is a sufficient remedy.

An injunction also should not ordinarily extend beyond the time when the defendant could have properly acquired and implemented the information through reverse engineering or independent discovery. Subsequent use by the defendant does not subject the plaintiff to harm that is attributable to the appropriation of the trade secret. In some cases this duration may be measured by the time it would take a person of ordinary skill in the industry to discover the trade secret by independent means or to obtain the trade secret through the reverse engineering of

publicly marketed products. The opinions of experts familiar with the particular industry are thus relevant in determining an appropriate duration. The experience of other competitors in attempting to acquire the information by proper means is also relevant in determining the time it would have taken the defendant to acquire the information in the absence of the appropriation. The defendant may also show that because of a comparative advantage unrelated to the appropriation, the period of lawful development would have been shorter than that for others in the industry. The duration of the injunction, however, should be sufficient to deprive the defendant of any head start or other economic advantage attributable to the appropriation. In some cases courts have issued injunctions for a specific period reflecting the time when the defendant could have acquired the information by proper means. In other cases courts have awarded unlimited injunctions, with the burden on the defendant to seek a modification of the injunction when the commercial advantage from the appropriation has ended. The most efficient procedure depends on the ease and certainty with which the appropriate duration of relief can be determined in advance. In either case the defendant remains liable for any expenses of reverse engineering or independent development that the defendant has saved as a result of the appropriation. See § 45, Comment f.

g. Preliminary relief. The rule stated in this Section deals primarily with injunctions granted as final relief, but the factors stated in Subsection (2) are also relevant to the imposition of provisional remedies. Although courts differ on the precise formulation, all courts recognize that the appropriateness of preliminary relief depends upon the likelihood that the plaintiff will suffer irreparable harm in the absence of preliminary relief, the plaintiff's likelihood of success on the merits, the balance of equities between the parties, and the interest of the public. In evaluating the possibility of irreparable harm in trade secret cases, the courts have recognized that the loss to a trade secret owner from the unauthorized use or disclosure of a trade secret is often difficult to remedy through a subsequent award of monetary relief.

**RESTATEMENT (THIRD) OF UNFAIR COMPETITION
CURRENT THROUGH JUNE 2009
CHAPTER 4. APPROPRIATION OF TRADE VALUES
TOPIC 2. TRADE SECRETS
§ 45. Monetary Relief: Appropriation Of Trade Secrets**

(1) One who is liable to another for an appropriation of the other's trade secret under the rule stated in § 40 is liable for the pecuniary loss to the other caused by the appropriation or for the actor's own pecuniary gain resulting from the appropriation, whichever is greater, unless such relief is inappropriate under the rule stated in Subsection (2).

(2) Whether an award of monetary relief is appropriate and the appropriate method of measuring such relief depend upon a comparative appraisal of all the factors of the case, including the following primary factors:

(a) the degree of certainty with which the plaintiff has established the fact and extent of the pecuniary loss or the actor's pecuniary gain resulting from the appropriation;

(b) the nature and extent of the appropriation;

(c) the relative adequacy to the plaintiff of other remedies;

(d) the intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor;

(e) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights;
and

(f) any related misconduct on the part of the plaintiff.

Comment:

a. Scope. This Section states the rules governing the recovery of monetary relief in actions for the appropriation of a trade secret. Monetary relief may consist of compensatory damages measured by the loss to the plaintiff or restitutionary relief measured by the unjust gain to the defendant. This Section states the rules applicable to both measures of monetary relief.

The general rules relating to the recovery of compensatory damages in tort actions apply in actions for the appropriation of trade secrets. This Section addresses only issues that have particular significance to the recovery of damages in trade secret actions. The following sections of the Restatement, Second, of Torts are also relevant: §§ 902 and 903 defining "damages" and "compensatory damages"; § 907 stating the rule for recovery of nominal damages; §§ 908 and 909 stating the rules for recovery of punitive damages; § 912 stating the requirement of "certainty"; and §§ 435A and 435B stating rules relating to intended and unintended consequences of tortious conduct.

The general rules relating to the restitution of benefits tortiously acquired are also applicable in actions for the appropriation of trade secrets. See Restatement of Restitution § 136 (1937).

b. Appropriateness of monetary relief. Loss to the plaintiff or gain to the defendant can result from either unauthorized use or unauthorized disclosure of a trade secret. The courts have recognized the need for flexibility in formulating monetary remedies in order to achieve both compensatory and restitutionary objectives.

The plaintiff is generally entitled to recover any proven pecuniary loss attributable to the appropriation of the trade secret. The plaintiff bears the burden of proving the fact and cause of any loss for which recovery is sought. However, the plaintiff is required to prove the amount of such loss with only as much certainty as is reasonable under the circumstances. See Restatement, Second, Torts § 912. If otherwise appropriate, the plaintiff may also recover any gain acquired by the defendant as a result of the appropriation, subject to the limitation on double recovery. See Comment c.

The knowledge and intent of the defendant are relevant in determining appropriate relief. A defendant is not subject to liability under the rules stated in § 40 until the defendant has actual or constructive knowledge that the use or disclosure of the trade secret is wrongful. See § 40, Comment d. If the defendant has invested in the trade secret prior to acquiring such knowledge, it may be inequitable to deprive the defendant of all gains attributable to subsequent use of the trade secret. The award of a reasonable royalty for use made after notice and an injunction conditioning further use upon payment of a reasonable royalty may be an appropriate remedy. See Comment g.

The conduct of the plaintiff may also affect the appropriateness of monetary relief. The traditional equitable doctrines of laches, estoppel, and unclean hands are applicable to the award of monetary as well as injunctive relief in trade secret actions. Cf. §§ 31 and 32.

c. Relationship of legal and equitable remedies. The rules governing the award of monetary relief for the appropriation of a trade secret derive from both legal and equitable principles. Cf. § 36, Comment b. The traditional measure of damages awards relief measured by the loss to the plaintiff resulting from the appropriation. The nature of a competitive marketplace, however, often makes it difficult for a plaintiff to prove lost sales or other losses attributable to the appropriation of a trade secret. Similarly, the value of a trade secret that has been destroyed through public disclosure is often speculative. The remedy of restitution is thus an important form of monetary relief in trade secret cases. The restitution remedy awards to the plaintiff the

enrichment unjustly acquired by the defendant as a result of the appropriation of the plaintiff's trade secret. In some situations the defendant's enrichment is represented by profits from sales made possible by the appropriation; in others, by savings achieved through the use of the trade secret in the defendant's business. In some cases the measure of the plaintiff's compensatory damages and the measure of the defendant's unjust enrichment may converge. For example, relief based on the defendant's profits on sales can measure either the gain derived by the defendant or the loss to the plaintiff from diverted business. Similarly, relief based on a reasonable royalty for the defendant's use may measure either the defendant's savings or the plaintiff's lost revenue. Thus, many cases do not maintain a sharp distinction between compensatory and restitutionary remedies.

Although a few cases have required the plaintiff to elect between compensatory damages and restitution, others permit the plaintiff to pursue both measures provided that there is no double recovery. The better rule permits the plaintiff to prove either or both measures since in many circumstances the loss to the plaintiff and the gain to the defendant do not fully overlap. Both compensatory and restitutionary objectives are ordinarily satisfied, however, if the plaintiff is permitted to recover only the greater of the two measures. The restitutionary remedy serves to deprive the defendant of unjust gains, but it also has the effect of compensating the plaintiff to the extent of the award for any losses resulting from the appropriation. Similarly, an award of the plaintiff's proven losses also has the effect of reducing the defendant's unjust enrichment by the amount of the award. An award of the greater of the two remedies thus ordinarily serves the objectives of both forms of relief and best prevents double recovery. See also § 36, Comment c.

d. Measures of monetary relief. Courts have recognized at least four methods of measuring monetary relief in trade secret cases. The first method measures the loss to the plaintiff caused by the appropriation. The plaintiff's loss usually consists of profits lost on sales diverted from the plaintiff by the appropriation, loss of royalties or other income that would have been earned by the plaintiff but for the appropriation, or the value of the trade secret if it has been destroyed through a public disclosure by the defendant. The second measure awards to the plaintiff the defendant's profits earned on sales that are attributable to the trade secret. A third method, the "standard of comparison" measure, is derived from patent infringement cases and measures the savings to the defendant that are attributable to the use of the trade secret. This method compares the costs to the defendant of achieving the same result with and without the improper use of the trade secret and awards the difference to the plaintiff. The fourth method awards to the plaintiff a reasonable royalty for the defendant's use of the trade secret. A reasonable royalty is the price that would be agreed upon by a willing buyer and a willing seller for the use made of the trade secret by the defendant. The method is not limited to a percentage of the defendant's sales or profits and may instead rely on any appropriate measure of the fair market value of the defendant's use. Selection of the appropriate method of measuring monetary relief depends on the facts and circumstances of the particular case. See Comments e-g.

e. Relief measured by plaintiff's loss. A frequent element of loss resulting from the appropriation of a trade secret is the lost profit that the plaintiff would have earned in the absence of the use by the defendant. The plaintiff may prove lost profits by identifying specific customers diverted to the defendant. The plaintiff may also prove lost profits through proof of a general decline in sales or a disruption of business growth following the commencement of use by the defendant, although the presence of other market factors that may affect the plaintiff's sales bears on the sufficiency of the plaintiff's proof. If the evidence justifies the conclusion that the sales made by the defendant would have instead been made by the plaintiff in the absence of the appropriation, the plaintiff may establish its lost profits by applying its own profit margin to the defendant's sales. Upon sufficient proof, the plaintiff may also recover lost profits on sales of spare parts, service, supplies, or other items normally purchased from the original seller. In some cases it may be appropriate to measure the plaintiff's loss by a reasonable royalty on the sales made by the defendant. See Comment g.

A plaintiff may also recover any other proven pecuniary loss attributable to the appropriation. Courts have permitted recovery of the costs of remedial efforts such as promotional expenses undertaken to recapture customers lost as a result of the defendant's appropriation. The plaintiff is also entitled to recover losses associated with sales of its own goods at reduced prices resulting from the wrongful competition of the defendant.

Damages resulting from the unauthorized disclosure of a trade secret are frequently more difficult to measure than damages caused by unauthorized use. For example, in some cases a defendant's unauthorized disclosure to one competitor of the plaintiff may cause the trade secret to become known to other competitors or to enter the public domain, thus destroying the value of the secret. The appropriate measure of relief may then be the fair market value of the trade secret at the time of the appropriation. This measure can depend upon a variety of factors, including the likelihood that the trade secret would have become known in the absence of the defendant's appropriation. See Comment h. If the destroyed trade secret is a central asset of the plaintiff's business, the plaintiff can in some cases measure damages by the reduction in the capital value of the business caused by the appropriation.

f. Relief measured by defendant's gain. The traditional form of restitutionary relief in an action for the appropriation of a trade secret is an accounting of the defendant's profits on sales attributable to the use of the trade secret. The general rules governing accountings of profits are applicable in trade secret actions. The plaintiff is entitled to recover the defendant's net profits. The plaintiff has the burden of establishing the defendant's sales; the defendant has the burden of establishing any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits. The rules governing the deductibility of expenses and the allocation of overhead are analogous to those stated in § 37, Comments g and h, on accountings in actions for trademark infringement. The defendant must account not only for profits earned on sales of products incorporating the trade secret, but also on other sales dependent on the appropriation. For example, profits on the sale of consumable supplies used in a machine embodying the trade secret or profits on spare parts and service may be included in the accounting to the extent that such profits were made possible by the defendant's sale of the original product.

If the trade secret accounts for only a portion of the profits earned on the defendant's sales, such as when the trade secret relates to a single component of a product marketable without the secret, an award to the plaintiff of defendant's entire profit may be unjust. The royalty that the plaintiff and defendant would have agreed to for the use of the trade secret made by the defendant may be one measure of the approximate portion of the defendant's profits attributable to the use. See Comment g.

If the benefit derived by the defendant consists primarily of cost savings, such as when the trade secret is a more efficient method of production, the "standard of comparison" measure that determines relief based on the savings achieved through the use of the trade secret may be the most appropriate measure of relief. The standard of comparison measure determines the defendant's gain by comparing the defendant's actual costs with the costs that the defendant would have incurred to achieve the same result without the use of the appropriated trade secret. When it would have been possible for the defendant to acquire the trade secret by proper means such as reverse engineering or independent development, the appropriate comparison may be between the costs of such acquisition and the cost of using the appropriated information. In determining the costs of proper acquisition, the court may consider the actual development costs of the plaintiff and, if available, the development or reverse engineering costs of third persons. When acquisition of the trade secret by proper means is unlikely, the appropriate comparison may be between the costs of using the trade secret and the costs of alternative methods available to the defendant to achieve the same result.

Under the principles discussed in § 44, Comment f, it is often appropriate to enjoin the defendant's use of a trade secret only for the period of time that would have been required for the

defendant to acquire the information by proper means. In such cases, however, the defendant remains liable for any development or reverse engineering costs saved as a result of the appropriation that are not otherwise accounted for through an award of the defendant's profits or other monetary relief.

g. Reasonable royalty. A reasonable royalty measure of relief awards to the plaintiff the price that would be set by a willing buyer and a willing seller for the use of the trade secret made by the defendant. However, the royalty agreed to in an actual market transaction reflects a price at which both parties gain from the transaction. To the extent that a court-awarded reasonable royalty accurately reflects the marketplace, the royalty may compensate the plaintiff for loss but it does not necessarily deprive the defendant of the full gain attributable to the appropriation. Since the imposition of a reasonable royalty requires the defendant to pay only the amount it would have paid had it fairly bargained for use of the plaintiff's secret, it may not adequately discourage the appropriation of trade secrets.

There are at least three situations in which the reasonable royalty measure of relief has been applied. First, when the defendant has made a substantial good faith investment in the trade secret prior to receiving notice of the plaintiff's claim, it may be inequitable to require the relinquishment of all profits earned by the defendant after notice. An award of damages measured by a reasonable royalty for use subsequent to the notice and an injunction conditioning future use on the payment of a reasonable royalty gives the plaintiff the market value of the trade secret but protects the defendant's good faith reliance. Second, when the plaintiff's loss, although difficult to measure, is apparently greater than any gain acquired by the defendant, a reasonable royalty may be the most appropriate measure of relief. For example, if the defendant's inefficiency results in little or no profit from the exploitation of the trade secret and the loss to the plaintiff cannot otherwise be established, a reasonable royalty may be the best available approximation of the plaintiff's loss. Third, in cases in which the defendant's gain from the trade secret is difficult to measure but apparently exceeds the plaintiff's loss, a reasonable royalty may be the best means of approximating the defendant's unjust enrichment.

The purpose for which the reasonable royalty measure is invoked and the equities of the particular case may properly influence the calculation of the appropriate royalty. To insure adequate deterrence and to prevent unjust enrichment, a court may resolve issues relating to the amount of the royalty against a defendant who has willfully appropriated the trade secret.

h. Limitation on monetary relief. Monetary remedies, whether measured by the loss to the plaintiff or the gain to the defendant, are appropriate only for the period of time that the information would have remained unavailable to the defendant in the absence of the appropriation. This period may be measured by the time it would have taken the defendant to obtain the information by proper means such as reverse engineering or independent development. Similarly, the issuance of a patent or other public disclosure of the information by the plaintiff or a third person terminates the secrecy necessary to the protection of the trade secret. Monetary relief based on the defendant's use of the information after the loss of secrecy is therefore appropriate only to the extent necessary to remedy a head start or other unfair advantage attributable to the defendant's prior access to the information. The limitations on the appropriate duration of injunctive relief as stated in § 44, Comment f, are thus also generally applicable to the calculation of monetary relief.

The rules governing the appropriate period of liability for monetary relief in actions in tort for the appropriation of a trade secret are not necessarily applicable in actions in contract for breach of agreements relating to the use or disclosure of trade secrets. Remedies for breach of contracts relating to trade secrets are ordinarily measured by the terms of the obligations imposed under the agreement. Licensing agreements, for example, can ordinarily provide for royalty payments covering a period that ends before or after any public disclosure of the trade secret. See § 41, Comment d. Similarly, although a nondisclosure agreement that is interpreted to extend beyond a public disclosure of the trade secret may be unenforceable as an

unreasonable restraint of trade, *id.*, obligations under a nondisclosure agreement may terminate according to its terms prior to any public disclosure. The use of a trade secret in breach of an enforceable agreement, however, can give rise to both a claim for breach of contract and a claim for appropriation in tort under the rules stated in § 40. Durational limits contained in the agreement may influence but do not necessarily determine the appropriate duration of monetary relief awarded in a tort action pursuant to the rules stated here.

i. Punitive damages. A successful plaintiff in an action at common law for the appropriation of a trade secret may recover punitive damages under the rules generally applicable in the jurisdiction to the award of punitive damages in tort actions. See Restatement, Second, Torts § 908. The purpose of punitive damages is to deter and punish egregious conduct, and normally proof of malice or willful misconduct is required. Section 3(b) of the Uniform Trade Secrets Act provides for an award of punitive damages not exceeding twice the amount of compensatory and restitutionary damages in cases of "willful and malicious misappropriation."

j. Attorney's fees. Most states do not provide for an award of attorney's fees in actions at common law. In actions under the Uniform Trade Secrets Act, reasonable attorney's fees may be awarded if the appropriation is "willful and malicious," if the claim of appropriation is made in bad faith, or if a motion to terminate an injunction is made or resisted in bad faith. *Id.* § 4.