

A CONTRACT BY ANY OTHER NAME IS STILL A CONTRACT: EXAMINING THE EFFECTIVENESS OF TRADE SECRET CLAUSES TO PROTECT DATABASES

SHARON K. SANDEEN*

I. INTRODUCTION

In the famous case of *Feist Publications v. Rural Telephone Service*, the United States Supreme Court recognized that the scope of copyright protection is limited and that due to the constitutionally-mandated requirement of originality, purely factual information is not within the scope of copyright protection.¹ As a result, although the plaintiff in *Feist* had expended significant time, trouble and money to compile its list of residential phone numbers, it could not use a copyright claim to prevent the defendant from copying and redistributing such facts.²

Due largely to the limits on the scope of copyright protection that are expressed in *Feist*, the compilers and publishers of factual information³

* Associate Professor of Law, Hamline University School of Law, St. Paul, Minnesota; LL.M., U.C. Berkeley, Boalt Hall School of Law; J.D., University of the Pacific, McGeorge School of Law; B.A., U.C. Berkeley. This article would not have been possible without the invaluable research assistance of Kris Huether, Amanda Skorr, and Caren Stanley. I also want to acknowledge my colleagues at Hamline University School of Law, Pamela Samuelson, and the members of MSP/IP (the Intellectual Property Law professors from the law schools in Minnesota) for their input on early drafts of this article. © 2005 Sharon K. Sandeen.

¹ 499 U.S. 340 (1991). In *Feist*, the U.S. Supreme Court held that facts lack the requisite originality to be protected by copyright law but that factual compilations may be protected by copyright law to the extent their selection and arrangement evince a “minimal degree of creativity.” *Id.* at 348.

² *Id.* at 363-64.

³ The term “information” is used herein to mean: “knowledge obtained from investigation, study, or instruction” regardless of the tangible form that the information takes. Merriam-Webster, *Merriam-Webster OnLine*, *Merriam-Webster Online Dictionary*, <http://www.m-w.com/cgi-bin/dictionary?%20book=Dictionary&va=information> (accessed Nov. 16, 2004). As so used, it is not limited to “computer information” as

[hereinafter collectively referred to as “database owners”] have been advocating in recent years for legislation to provide increased protection for their compilations.⁴ While efforts to adopt a database protection law in the United States have so far proven unsuccessful,⁵ these database owners have not been content to wait for Congress to come to their aid. Instead, taking a cue from their software industry brethren who use licenses in an attempt to bolster legal protection for their computer code,⁶ many database owners rely

defined in the Uniform Computer Information Transactions Act (UCITA). See UCITA § 102(a)(10) (2002) (“‘computer information’ [is] information in electronic form which is obtained from or through the use of a computer or which is in a form capable of being processed by a computer”). Thus, the policy issues that are discussed in this article, while brought to light by the licensing practices of the database owners, are not limited to the electronic distribution of information. If one accepts the notion that contract law can be used to broaden the scope of trade secret law, then conceptually there is no limit to the use of such tactics. See Pamela Samuelson & Kurt Opsahl, *How Tensions Between Intellectual Property Policy and UCITA are Likely to be Resolved*, 570 PLI/Pat 741 (1999) (noting that the same principles could be used to fundamentally alter the way books are sold).

⁴ As noted by the U.S. Supreme Court in *Feist*, portions of compilations will be protected by copyright law if they contain a sufficient amount of originality, but to the extent such protection exists it does not extend to the factual information contained in the compilations. 499 U.S. at 348.

⁵ See *Consumer Access to Information Act of 2004*, H.R. 3272, 108th Cong. (2004) (to prohibit the misappropriation of certain databases) (placed on Union Calendar, Calendar No. 252); *Database and Collections of Information Misappropriation Act*, H.R. 3261, 108th Cong. (2004) (placed on Union Calendar, Calendar No. 253); *Collections of Information Antipiracy Act*, H.R. 354, 106th Cong. (1999) (to provide protection for certain collections of information) (placed on Union Calendar, Calendar No. 212); *Collections of Information Antipiracy Act*, Sen. 2291, 105th Cong. (1998) (to prevent the misappropriation of collections of information) (died in Subcommittee); *Collections of Information Antipiracy Act*, H.R. 2652, 105th Cong. (1997) (to provide protection for certain collections of information) (died in Senate Judiciary Committee after passing the House); *Database Investment and Intellectual Property Antipiracy Act of 1996*, H.R. 3531, 104th Cong. (1996) (to promote investment and prevent intellectual piracy with respect to databases) (died in Committee).

⁶ See Stephen T. Keohane, *Mass Market Licensing*, 704 PLI/Pat 269, 275 (2002) (“The accepted business model of the software industry is that software development companies make their products available only subject to a contract, or ‘license,’ that states out rights and obligations with respect to the underlying software.”); David A. Rice, *Public Goods, Private Contract and Public Policy: Federal Preemption of Software License Prohibitions Against Reverse Engineering*, 53 U. Pitt. L. Rev. 543, 548 (1992) (“[S]oftware typically is distributed only in machine-readable form under use licenses which, among other things, prohibit disassembly, decompiling or other reverse engineering of machine-readable object code to reconstruct its human-readable equivalent.”).

upon contracts to supplement the limited protection that copyright law provides their information.⁷ These contracts can take several forms.⁸ One form is a definition of rights clause in which the database owner claims that all or most of a database is protected by some type of intellectual property law.⁹ Another form is a restriction on use clause in which the database owner purports to contractually restrict the way information can be used without regard to its intellectual property status.¹⁰ Often, both types of clauses are included in the same agreement.¹¹

The use of software licenses can be traced back to the 1960s. At that time, the state of copyright and patent law was such that it was unclear whether either body of law would provide sufficient protection against the wholesale copying of computer code. In the late 1960s and early 1970s, most software was specially commissioned and, thus, the contract between a software developer and his client became the perfect vehicle for imposing a contractual duty of confidentiality. See generally David Bender, *Trade Secret Protection of Software*, 38 Geo. Wash. L. Rev. 909 (1970); Michael C. Gemignani, *Legal Protection for Computer Software: The View from '79*, 7 Rutgers Computer & Tech. L.J. 269 (1979); Note: *Computer Programs and Proposed Revisions of the Patent and Copyright Laws*, 81 Harv. L. Rev. 1541 (1968); Richard Raysman, *Protection of Proprietary Software in the Computer Industry: Trade Secrets as an Effective Method*, 18 Jurimetrics 335 (Summer 1978); see also Mark A. Lemley, *Intellectual Property and Shrinkwrap Licenses*, 68 S. Cal. L. Rev. 1239 (1995) (describing the history of shrinkwrap licenses and the key provisions thereof, including: (1) proprietary rights clauses; (2) limitations on warranties; and (3) limitations on user rights).

⁷ See the multitude of Terms of Use Agreements that are resident on websites and consider that websites are largely a compilation of factual information.

⁸ See generally Sharon K. Sandeen, *The Sense and Nonsense of Web Site Terms of Use Agreements*, 26 Hamline L. Rev. 499 (2003) (discussing the apparent purpose of various provisions of online terms of use agreements, including definition of rights and restrictions on use clauses).

⁹ *Id.* at 518-23. See also the Terms of Use Agreement of Wal-Mart which provides, in pertinent part:

Unless otherwise noted, all contents are copyrights, trademarks, trade dress and/or other intellectual property owned, controlled or licensed by WALMART.COM, one of its affiliates or by third parties who have licensed their materials to WALMART.COM and are protected by U.S. and international copyright laws.

Wal-Mart.com USA, LLC, *Terms of Use Copyrights and Trademarks*, <http://www.walmart.com/catalog/catalog.gsp?cat=119985&path=0:5436:120160:119833:119985> (accessed Nov. 16, 2004) (emphasis added).

¹⁰ See Sandeen, *supra* n. 8, at 523-33. See also the Conditions of Use Agreement of Amazon.com which provides, in pertinent part:

This site or any portion of this site may not be reproduced, duplicated, copied, sold, resold, visited, or otherwise exploited for commercial purposes without the express written consent of Amazon.com.

Dubbed “private ordering” and “privately legislated intellectual property rights” by some scholars,¹² the practice of using contracts to expand protection for intellectual property has received significant attention in recent years.¹³ Essentially, the debate concerns whether and when contracts can be used to modify the limited scope of intellectual property rights. Those who question the use of private ordering to expand the scope of intellectual property rights generally argue that since intellectual property laws reflect a careful balancing of competing interests, including the public’s interest,

Amazon.com, *Conditions of Use*, <http://www.amazon.com/exec/obidos/tg/browse> (accessed Jan. 27, 2005).

¹¹ *Id.*

¹² See e.g. David Friedman, *In Defense of Private Orderings: Comments on Julie Cohen’s “Copyright and the Jurisprudence of Self Help,”* 13 Berkeley Tech. L.J. 1151 (1998); J. H. Reichman & Jonathan A. Franklin, *Privately Legislated Intellectual Property Rights: Reconciling Freedom of Contract with Public Good Uses of Information*, 147 U. Pa. L. Rev. 875 (1999).

¹³ See generally Julie E. Cohen, *Copyright and the Jurisprudence of Self-Help*, 13 Berkeley Tech. L.J. 1089 (1998) [hereinafter Cohen I]; Julie E. Cohen, *Reverse Engineering and the Rise of Electronic Vigilantism: Intellectual Property Implications of “Lock-Out” Programs*, 68 S. Cal. L. Rev. 1091 (1995) [hereinafter Cohen II]; Eric Douma, *The Uniform Computer Information Transactions Act and the Preemption of Contractual Provisions Prohibiting Reverse Engineering, Disassembly, or Decompilation*, 11 Alb. L.J. Sci. & Tech. 249 (2001); Niva Elkin-Koren, *Copyright Policy and the Limits of Freedom of Contract*, 12 Berkeley Tech L.J. 93 (1997); Dennis S. Karjala, *Copyright Owner’s Rights and Users’ Privileges on the Internet: Federal Preemption of Shrinkwrap and On-Line Licenses*, 22 U. Dayton. L. Rev. 511 (1997); Deanna L. Kwong, *The Copyright-Contract Intersection: SoftMan Products Co. v. Adobe Systems, Inc. & Bowers v. Baystate Technologies, Inc.*, 18 Berkeley Tech. L.J. 349 (2003); Lemley, *supra* n. 6; Michael J. Madison, *Legal-Ware, Contract and Copyright in the Digital Age*, 67 Fordham L. Rev. 1025, 1035-49 (1998); Charles R. McManis, *The Privatization (or “Shrink-Wrapping”) of American Copyright Law*, 87 Cal. L. Rev. 173 (1999); Robert P. Merges, *Intellectual Property and the Costs of Commercial Exchange: A Review Essay*, 93 Mich. L. Rev. 1570 (1995); David Nimmer et al., *The Metamorphosis of Contract Into Expand*, 87 Cal. L. Rev. 17 (1999); Maureen A. O’Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 Duke L.J. 479 (1999) [hereinafter O’Rourke I]; Maureen A. O’Rourke, *Striking a Delicate Balance: Intellectual Property, Antitrust, Contract and Standardization in the Computer Industry*, 12 Harv. J.L. & Tech 1 (1998) [hereinafter O’Rourke II]; Maureen A. O’Rourke, *Copyright Preemption after the ProCD Case: A Market-Based Approach*, 12 Berkeley Tech L.J. 53, 54 (1997) [hereinafter O’Rourke III]; J. H. Reichman & Pamela Samuelson, *Intellectual Property Rights in Data*, 50 Vand. L. Rev. 51, 70; Rice, *supra* n. 6; Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 Yale L.J. 1575 (2002); Joel Rothstein Wolfson, *Contract and Copyright Are Not at War: A Reply to “The Metamorphosis of Contract Into Expand*, 87 Cal. L. Rev. 79 (1999).

contracts that attempt to alter the balance should not be enforced.¹⁴ Those who promote the use of contracts to fill the gaps of intellectual property law invoke the principle of freedom of contract and argue that individuals and companies should generally be free to order their private relationships any way they see fit.¹⁵

While many of the issues that are discussed in this article relate generally to the propriety of overly-broad definitions of rights and restrictions on use clauses, it focuses on a particular type of definitions of rights clause: the “trade secret clause.”¹⁶ Through the use of these clauses, database owners assert that all or a portion of their compilations are trade secrets. As will be seen, with respect to databases that enjoy some semblance of secrecy, this contention has merit. With respect to databases that are accessible on the Internet, however, the strategy is highly suspect.

But it is not trade secret law alone that is at issue when one considers the effectiveness of trade secret clauses. This is because such clauses are typically used as the basis of both a trade secret claim and a breach of contract action. On one hand, the proponents of trade secret clauses understandably cling to trade secret claims because of the limits of contract law and the broad remedies that are available under trade secret law. On the other hand, given the difficulty of proving the existence of a trade secret particularly with respect to widely-distributed information, database owners appreciate the relative simplicity of a breach of contract action. Moreover, by bringing both causes of action and then focusing on the asserted

¹⁴ See e.g. Karjala, *supra* n. 13, at 512 (discussing the “traditional copyright balances”); O’Rourke I, *supra* n. 13 (discussing how software licenses alter the copyright balance).

¹⁵ See *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1455 (7th Cir. 1996) (“Terms and conditions offered by contract reflect private ordering, essential to the efficient functioning of the markets.”); Wolfson, *supra* n. 13, at 84 (“An increasing proportion of the value of the United States economy depends on the creation and compilation of information ‘that is uncopyrightable under section 102(b) [of the Copyright Act] or otherwise,’ for which contract is the chief, and sometimes only, means of protection.”); see also O’Rourke III, *supra* n. 13 (detailing the competing legal arguments that were raised in the *ProCD* case).

¹⁶ An example of a trade secret clause can be seen in the Terms of Use Agreement of Barnes and Noble which provides, in pertinent part:

User acknowledges that the Barnes & Noble.com Website contains Content that are protected by copyrights, trademarks, *trade secrets*, or *other proprietary rights*, and that *these* rights are valid and protected in all forms, media and technologies existing now or hereinafter developed.

Barnes & Noble, *Terms of Use, Content* http://www.barnesandnoble.com/include/terms_of_use.asp (accessed Nov. 16, 2004) (emphasis added).

“unfairness” of the situation, the proponents of trade secret clauses can often skirt the strict evidentiary requirements of both claims.¹⁷

Based upon the foregoing, in order to determine the effectiveness and propriety of trade secret clauses one must examine both trade secret law and contract law. More importantly given the practical realities of trade secret litigation and the public policy issues surrounding private ordering, the interrelationship of the two causes of action must be taken into account.

This article begins in Part I with a discussion of the limits of trade secret law, beginning with an examination of the secrecy requirement. Since the early days of trade secret law secrecy has been the *sine qua non* of a trade secret claim. Unfortunately, a number of factors have led to the failure of some courts to focus on the secrecy requirement. Of particular concern given the contractual relationship that is allegedly created by trade secret clauses are cases that focus more on the relationship between the parties than on the nature of the information to be protected.¹⁸ Admittedly, the relationship between a trade secret owner and an alleged infringer has a crucial bearing on a trade secret claim because it helps prove the requisite element of misappropriation. However, the mere existence of an agreement is not enough. A trade secret cannot be created by contract. Instead, like patents, copyrights and trademarks, it has an independent existence. This is made clear in the Uniform Trade Secret Act (UTSA) provisions which re-focus attention on the secrecy requirement and which restrict the scope of trade secret law.¹⁹

When it is difficult to prove that information is a trade secret, the proponents of trade secret clauses argue that they should be allowed to protect their information pursuant to a contractual duty of confidentiality.

¹⁷ See e.g. *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953) (where the court discounts evidence of the public disclosure of the alleged trade secret and highlights the business relationship between the plaintiff and defendant); *Shellmar Prod. Co., v. Allen-Qualley Co.*, 87 F.2d 104 (7th Cir. 1936) (holding that a contractual duty of confidentiality continues even after the disclosure of a trade secret); see also Kieff & Paredes, *The Basics Matter: At the Periphery of Intellectual Property*, Stan. L. & Econ. Olin Working Paper No. 275 (Feb. 2004), Wash. U. Sch. of L. Working Paper No. 04-02-03, <http://ssrn.com/abstract=501142>, at 14, *forthcoming* ___ G.W. L. Rev. ___ (recognizing the same phenomenon in patent cases).

¹⁸ See e.g. *supra* n. 17; but cf. *Conmar Prod. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2nd Cir. 1949).

¹⁹ Unif. Trade Secrets Act §§ 1-12 (NCCUSL 1985). See also Melvin F. Jager, *Trade Secrets Law* § 3:35 (West 2004) (“The broad definition of trade secret as ‘information’ is narrowed by two provisions in the Act . . . ‘independent economic value,’ and . . . ‘readily ascertainable.’”); Ramon A. Klitzke, *The Uniform Trade Secret Act*, 64 Marq. L. Rev. 277, 288 (1980) (noting that the UTSA combines the concepts of trade secrets and business information into the term “information”).

Couched in the rhetoric of personal autonomy and freedom of contract, their arguments have a superficial appeal. Who can resist the argument that parties to a contract should be free to order their relationships as they see fit? But as will be seen, the issues presented are more complex and subtle than the question of whether the parties mutually assented to a contract. As is discussed in Part II of the article, there are other details of contract law that limit the potential effectiveness of trade secret clauses. Most notably given the desire of database owners to restrict the wide-scale dissemination of their information are the principle of privity of contract and limits on the availability of injunctive relief, i.e., specific performance.

The efforts of database owners to use contracts to expand the protection of information beyond that allowed under intellectual property law is also limited by a number of public policy concerns. In Part III of this article two of these concerns, the law prohibiting unreasonable restraints of trade and the doctrine of preemption, are examined. As will be seen, while even the most strident private ordering advocates admit that there are times when public policy trumps contractual provisions,²⁰ they generally contend that the public's interest is minor in comparison to the importance of upholding the terms of privately negotiated contracts.²¹ In the case of efforts to enforce trade secret clauses, however, this argument misses a very important point. Trade secret misappropriation claims are not limited to just the parties to a contract but extend to anyone who had reason to know that a trade secret was misappropriated.²² Moreover, when trade secret clauses are

²⁰ See Kieff & Paredes, *supra* n. 17, at 12 (“At bottom, whatever strictures property law and contract law impose on private ordering, parties are generally free to order their affairs and to carve up rights, duties and obligations as they see fit.”); Raymond T. Nimmer, *Images and Contract Law—What Law Applies to Transactions In Information*, 36 Hous. L. Rev. 1, 20 (1999) (“[T]he doctrine of contract choice and the doctrine of unconscionability state a simple premise: in most cases, the agreement controls, but a court has limited power to set aside some of the contract terms when the circumstances manifest clear abuse and over-reaching.”); Holly K. Towle & Brian Dengler, *Contract Formation: Electronic Contracts and Online Terms, in the UCITA Revolution: The New E-Commerce Model for Software and Database Licensing*, 600 PLI/Pat 131, 143 (PLI Intellectual Property Course, Handbook Series No. G-600 (2000)) (“The theory underlying freedom of contract is that in a market society, supply and demand, the opportunity to obtain commercial benefits, and competition in the marketplace will assure that providers of goods and services will provide what people want and not waste resources on goods and service that people do not want. Where a software license is neither unconscionable nor against public policy, a statute which calls for enforcing it in accordance with its terms reiterates the common law of contracts and is a statement of confidence in the market system, and the ability of the market to reject terms which are unacceptable.”).

²¹ *Id.*; see also *ProCD*, 86 F.3d at 1449-50.

²² Unif. Trade Secrets Act § 1.

utilized in online terms of use agreements or other widely-distributed form agreements they have a much broader impact than the parties to a contract because such clauses purport to control the activities of multitudes of individuals and companies.²³

Based upon a review of U.S. Supreme Court cases on the issue of preemption, this article highlights the need to differentiate between a preemption analysis conducted in the abstract and one that focuses on the actual relief sought. Similarly, when examining whether the contract is an unreasonable restraint of trade, the true nature of the information to be protected must be determined.

II. THE LIMITS OF MODERN TRADE SECRET LAW

A simple reading of the UTSA,²⁴ the Restatement (Third) of Unfair Competition²⁵ and the Restatement (First) of Torts²⁶ reveals that there are two essential elements of a trade secret infringement claim: (1) the existence of a trade secret and (2) its misappropriation.²⁷ Of these two elements, however, secrecy is the most important because it is the lynchpin of all trade secret cases.²⁸ As Roger Milgrim explains: “[a]s a logical matter, the first issue to

²³ See Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 Cal. L. Rev. 111, 149 (1999) (making the same point with respect to contracts involving the licensing of copyrights); Samuelson & Opsahl, *supra* n. 3, at 753 (“Validation of mass-market contracts raises the stakes. In an individual contract, where only two parties are involved, the effects of a conflict are isolated to the licensor and licensee. But where the same contract term is included in a mass market license, any conflict expands to affect the entire marketplace for that information product.”).

²⁴ Unif. Trade Secrets Act §§ 1-12.

²⁵ *Restatement (Third) of Unfair Competition* §§ 39-40 (1995).

²⁶ *Restatement (First) of Torts* §§ 757-759 (1939).

²⁷ See the definitions of “misappropriation” and “trade secret” set forth in Unif. Trade Secrets Act § 1 and the *Restatement (Third) of Unfair Competition* §§ 39-40; see also *Restatement (First) of Torts* § 757, which provides that “[o]ne who discloses or uses another’s trade secret” is liable for trade secret infringement if he engaged in one of a list of four wrongful acts.

Trade secret law in the United States developed at common law and, today, is largely governed by the UTSA. See Uniform Law Commissioners, *A Few Facts About the Uniform Trade Secrets Act*, http://www.nccusl.org/nccusl/uniformact_factsheets/uniformacts-fs-utsa.asp (accessed Nov. 17, 2004) (indicating that more than 44 states and the District of Columbia have adopted the Uniform Trade Secrets Act).

²⁸ See *Pope v. Alberto-Culver Co.*, 694 N.E.2d 615, 617 (Ill. App. 1st Dist. 1998) (“Under the Act, whether the information sought to be protected qualifies as a trade secret focuses fundamentally on the secrecy of such information.”).

be determined in a trade secret case is not whether there was a breach of a confidential relationship or of a contract . . . but whether, in fact, there was a trade secret to be misappropriated.”²⁹ Thus, the proper order of analysis in a trade secret case is: (1) is there a trade secret and, if so (2) was the trade secret misappropriated? If the first question is answered in the negative, the nature of the relationship between the plaintiff and defendant is irrelevant.³⁰

Despite the importance of the secrecy requirement as a matter of law, it often receives insufficient attention in practice.³¹ This is due to a number of factors that have little to do with the law. First, there is the visceral reaction to claims that “secrets” have been “stolen.”³² Trade secret cases are often presented in a rush, on a motion for preliminary relief, amid claims that the plaintiff’s business will be “ruined” unless its trade secret claims are allowed.³³ With or without an understanding of trade secret law, most people react negatively to such assertions particularly when it is also

The need for an identifiable and separately justifiable “secret” cannot be understated. If anything can be defined as a trade secret, then there is no limit to what could be subject to “reasonable efforts to control secrecy” and everything could be the subject of restrictions on use.

²⁹ Roger Milgrim, *Milgrim on Trade Secrets* vol. 1, § 3.01 n. 4 (Matthew Bender 2004) (citing a number of cases including *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1225-30 (Pa. Super. 1989) which states, “the starting point for an analysis of whether there is likely to be a breach of a confidentiality agreement or a misappropriation of trade secrets is the existence of a trade secret”); see also Risdale Ellis, *Trade Secrets* § 12 (Baker, Voorhis & Co., Inc. 1953) (stressing the importance of secrecy).

³⁰ *Mycalex Corp. of Am. v. Pemco Corp.*, 64 F. Supp. 420, 423 (D. Md. 1946) (“The question of whether any detriment has been caused the plaintiff by reason of what the defendants may have done becomes material only if plaintiff has first proved that the information obtained by the defendants from the plaintiff . . . was of a ‘secret’ character.”); *Electro-Craft Corp. v. Controlled Mot., Inc.*, 332 N.W.2d 890, 897 (Minn. 1983) (“Without a proven trade secret there can be no action for misappropriation, even if defendants’ actions were wrongful.”).

³¹ This observation is based largely on my experience handling trade secret infringement cases. Unfortunately, the full scope of this phenomenon cannot be measured from reported appellate cases alone. Many trade secret cases in which an overly broad and erroneous conception of trade secret law is applied are never appealed.

For a sampling of appellate cases that appear to exalt the existence of a confidentiality agreement over the requirement of secrecy see *Dravo Corp.*, 203 F.2d 369; *Simplified Telesys, Inc. v. Live Oak Telecom, L.L.C.*, 68 S.W.3d 688 (Tex. App. 3d Dist. 2000).

³² See e.g. *Acuson Corp. v. Aloka Co.*, 209 Cal. App. 3d 425 (1989) (appeal of a decision by the trial court which granted a broad preliminary injunction even though the alleged trade secret was in the public domain).

³³ See e.g. *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 670 (Wash. 1987) (alleged trade secrets described as the “lifeblood” of the plaintiff’s company).

alleged that an express agreement of confidentiality has been breached. Thus, the plaintiff in a trade secret action, while trying to prove the essential elements of his claim, is likely to appeal to the sense of fairness of the judge or jury in the hope that the substantive weaknesses of his case (including the non-existence of a trade secret) will be overlooked.

The fact that trade secret law developed at common law as part of the law of unfair competition makes the appeal to emotion a logical and often effective strategy. Because many common law cases recognize that trade secret law is based upon concepts of “fair play and business ethics,” there is no shortage of quotes that a plaintiff can cite in support of an “unfairness” claim.³⁴ Unfortunately, these quotes are often taken out of context.³⁵ Moreover, even if the context is explained, many attorneys and judges fail to recognize that the cases relied upon are old and out of date. This is particularly true with respect to cases that were decided before the adoption of the UTSA. Many older cases, decided in the pre-UTSA formative days of trade secret law, tend to focus more on the relationship between the parties than the existence of a trade secret.³⁶

³⁴ *Ed Nowogroski Ins., Inc. v. Rucker*, 971 P.2d 936, 942 (Wash. 1999) (citing *Boeing*, 738 P.2d at 679 and *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974)) (“A purpose of trade secrets law is to maintain and promote standards of commercial ethics and fair dealing in protecting those secrets.”).

³⁵ In many cases where the “unfairness” of the situation is discussed, there was no dispute about the existence of a trade secret. *See e.g. Pachmayr Gun Works, Inc. v. Olin Mathieson Chem. Corp.*, 502 F.2d 802, 807 (9th Cir. 1974) (“It appears settled that the law of trade secrets is essentially concerned with protecting ‘against breach of faith and reprehensible means of learning another’s secret.’”); *see also supra* n. 17.

³⁶ Commenting on the definition of trade secrets contained in the *Restatement (First) of Torts*, one commentator noted:

While on its face the foregoing Restatement provision purports to be a precise definition of a trade secret, a closer look will reveal that it may be anything but, giving at most examples of what it may be and differences from what it is not, but never stating what it is. Moreover, the secrecy required for a trade secret by the Restatement may relate less to the absolute secrecy [of] the idea and more to the improper means in acquiring the information (which may not have been secret to begin with).

Paul R. Wylie, *Legal Theories and Developments in Trade Secret Law*, 224 PLI/Pat 43, 50 (1986). *See also* Continuing Education of the Bar, California, *Trade Secrets Practice in California* §§ 10.17-10.25 (2d ed. 2003) (detailing the types of relationships that have been found to create a duty of loyalty or confidentiality).

Unfortunately given the intent of the drafters of the UTSA to focus attention on the existence of a secret, the historic focus on the relationship between the parties has carried over into some post-UTSA cases. *See e.g. Boeing*, 738 P.2d 665; *Lamorte Burns & Co., v. Walters*, 770 A.2d. 1158, 1167 (N.J. 2001).

The significance of the UTSA is not that it fundamentally changed the law of trade secrets from that which existed at common law,³⁷ but that it was designed to re-focus attention on the character of the thing to be protected and, thereby, limit the cases in which a successful trade secret claim can be brought.³⁸ Initially, this refocusing is seen in the organization and content of the UTSA. In contrast to the Restatement (First) of Torts provisions on trade secret law, the UTSA begins with a definitions section that includes a very detailed definition of a trade secret.³⁹ By including such

³⁷ Although the Restatement and statutory definitions of a trade secret have been refined over the years, one thing has remained constant: trade secret law does not protect any “proprietary” or “confidential” information, but a specific category of information that is limited in its scope. Thus, even in the earliest days of the development of trade secret law it was recognized that disclosure of the secret results in a loss of protection. See *Tabor v. Hoffman*, 23 N.E. 12, 12 (N.Y. 1889) (“As the plaintiff had placed the perfected pump upon the market, without obtaining the protection of the patent laws, he thereby published that invention to the world and no longer had any exclusive property therein.”).

³⁸ See *Spring Indus., Inc. v. Nicolozakes*, 2000 WL 1751163 at *2 (Ohio App. 5th Dist. Nov. 21, 2000) (noting that the UTSA “sets a stricter standard for defining trade secrets”). This interpretation is consistent with the drafting history of the UTSA. At its First Reading before the National Conference of Commissioners on Uniform State Laws (NCCUSL), when asked to explain why the common law was not sufficient to protect trade secrets, the Reporter indicated that one of the reasons the UTSA was needed was because of the lack of identification of trade secrets. The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Transcript of NCCUSL Proceedings of the Whole* 31-33 (Martin C. Johnson Reporting Services Aug. 10, 1972).

In the commentary to the First Tentative Draft of the UTSA it is noted that the maintenance of secrecy factor of the definition of a trade secret “makes clear that trade secret rights can be lost through abandonment.” The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Act, First Tentative Draft*, § 1(2) cmt. (July 18, 1972).

When, after a six year delay in considering the proposed UTSA, it was again presented at the annual meeting of NCCUSL, the need for a uniform law to replace the common law was explained as follows:

Notwithstanding the commercial importance of state trade secret law to interstate business, this law has not developed satisfactorily. In the first place, its development is uneven Secondly, even in states in which there has been significant litigation, there is undue uncertainty concerning the parameters of trade secret protection

The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Fifth Tentative Draft* Prefatory Note (June 26, 1978).

³⁹ Compare Unif. Trade Secrets Act § 1 with *Restatement (First) of Torts* § 757. As noted in the comments to the *Restatement (First) of Torts*, a trade secret was thought to be too difficult to define. *Restatement (First) of Torts* § 757 cmt. b. Thus, the *Restatement (First) of Torts* sets forth six factors to be examined to determine the existence of a trade

definition, the drafters of the UTSA sought to reduce the inconsistency in case law that naturally flowed from the Restatement (First) of Torts' indeterminate list of trade secrecy factors.⁴⁰

As with the Restatement (First) of Torts, the wrongdoing of the defendant remains a critical point of inquiry under the UTSA.⁴¹ However, because "misappropriation" is defined separately from a "trade secret," the UTSA's structure establishes that the wrongdoing of the defendant, alone, is not enough.⁴² The existence of a trade secret must also be shown.⁴³ Furthermore, by listing breach of confidentiality as but one of a litany of possible acts of misappropriation, the UTSA further de-emphasizes the nature of the relationship between the trade secret plaintiff and the trade secret defendant.⁴⁴

The refocusing of trade secret law away from the relationship between the parties and toward the information to be protected can also be seen in the definition of a trade secret. While the UTSA broadened the scope of protectable trade secrets by deleting the requirements of the Restatement (First) of Torts that the protected information be non-ephemeral and used in one's business, it also limited the scope of protected information in four significant ways.⁴⁵ First, in order to be protected as a trade secret, the information must not be "generally known" or "reasonably ascertainable."⁴⁶

secret. *Id.* The approach of the UTSA is markedly different. It sets forth a specific definition of a trade secret that, while encompassing many of the original Restatement factors, requires a specific order of analysis.

⁴⁰ *Supra* n. 38. See also *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986) (applying the *Restatement (First) of Torts* indeterminate definition of a trade secret).

⁴¹ Unif. Trade Secrets Act § 1(2).

⁴² *Id.*

⁴³ In this sense, the "business ethics" rationale for trade secret law is not based upon the immorality of copying *per se*, but on the immorality of copying something that is truly secret and that the plaintiff took adequate steps to protect.

⁴⁴ Unif. Trade Secrets Act § 1(2).

⁴⁵ "[A] protectable trade secret has four characteristics: (1) information, (2) which derives independent economic value, (3) is not generally known, or readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and (4) the subject of efforts reasonable under the circumstances to maintain its secrecy." *Hydraulic Exch. & Repair, Inc. v. KM Specialty Pumps, Inc.*, 690 N.E.2d 782, 785-86 (Ind. App. 4th Dist. 1998) (applying Indiana's version of the Uniform Trade Secrets Act). See also Jager, *supra* n. 19, at § 3:35 ("The broad definition of trade secret as 'information' is narrowed by two provisions in the Act . . . 'independent economic value,' and 'readily ascertainable.'").

⁴⁶ Unif. Trade Secrets Act § 1(4)(i).

Second, assuming the information qualifies for trade secret protection in the first instance, it loses its trade secret status if it is not “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁴⁷ Third, the UTSA does not protect all secret information, but only that secret information which “derive[s] independent economic value from not being generally known [to] . . . other[s].”⁴⁸ Obviously, because information must meet the foregoing requirements to be deemed a trade secret, a trade secret cannot be established by the mere recitation of its existence in a contract.⁴⁹

In an early draft of the UTSA, the definition of a trade secret provided that information could not be a trade secret if it was “easily discoverable.” The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Fifth Tentative Draft* § 1(1) (April 29, 1978). This language was replaced in the Sixth Tentative Draft by the language “generally known” and “readily ascertainable.” The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Sixth Tentative Draft* § 1(3)(i) (July 28, 1978). There is no indication in the drafting history of the UTSA why this change was made, but clearly, the current definition includes a broader conception of what is not protectable because it expressly excludes information of general knowledge. Substitution of the phrase “readily ascertainable” for “easily discoverable” was probably designed to avoid any connection with the civil discovery process.

⁴⁷ Unif. Trade Secrets Act § 1(4)(ii).

⁴⁸ *Spring Indus.*, 2000 WL 1751163 at *2 (“Based on the statute, the mere fact that a knowledge or process is confidential is insufficient to render it a trade secret. In order to be a trade secret, the item must derive independent economic value from not being generally known, and not readily ascertainable by other persons.”).

⁴⁹ Milgrim, *supra* n. 29, at § 3.02 (Matter which is not a trade secret at the time of disclosure cannot be protected as such either by express or implied contract.); *Id.* at § 4.02[1][b] (“The mere presence of a confidentiality agreement does not elevate non-trade secret matter to trade secret status.”). See also *Am. Paper & Packaging Prods., Inc. v. Kirgan*, 183 Cal. App. 3d 1318, 1325 (1986); *Dynamics Research Corp. v. Analytic Sci. Corp.*, 400 N.E.2d 1274, 1287-88 (Mass. App. 1980); *Fairchild Engine & Airplane Corp. v. Cox*, 50 N.Y.S.2d 643, 665 (1944).

In the concurring opinion in *DVD Copy Control Assn. v. Bunner*, 75 P.3d 1, 10 n. 5 (Cal. 2003) (Moreno, J., concurring), Justice Moreno observed:

[N]owhere has it been recognized that a party wishing to protect proprietary information may employ a consumer form contract to, in effect, change the statutory definition of ‘improper means’ under trade secret law to include reverse engineering, so that an alleged trade secret holder may bring an action even against a nonparty to that contract.

But see James Pooley, *Update on Trade Secret Law*, 670 PLI/Pat 163, 171 (2001) (“The cases are not philosophically consistent on this point, with some courts declaring that one may not create by contract a trade secret in information which otherwise does not qualify, while others recognize a middle ground of protectable data called ‘confidential information.’”) (citing *Bernier v. Merrill Air Engrs.*, 770 A.2d 97, 103 (Me. 2001), *Lamorte*, 770 A.2d at 1166 and *Harvard Apparatus, Inc. v. Cowen*, 130 F. Supp. 2d 161,

Fourth, unlike the Restatement (First) of Torts, the UTSA does not provide protection for confidential business information that is not a trade secret.⁵⁰

A. *The Not “Generally Known” Requirement*

The modern view of trade secret law, as expressed in the UTSA’s definition of a trade secret, highlights the fact that there are at least two points in time when secrecy is important: at the beginning of the relationship between the purported trade secret owner and the person to whom he wishes

177 (D. Mass. 2001)). As suggested by Mr. Pooley, the foregoing schizophrenia of the courts may be due to the lingering effects of the *Restatement (First) of Torts* provisions that provided protection for both trade secrets and confidential information. *Id.* (citing *Harvard Apparatus*, 130 F. Supp. 2d at 177). See also *Restatement (First) of Torts* § 757 cmt. b. In jurisdictions where the UTSA has been adopted, however, this distinction is no longer valid. The drafters of the UTSA directly addressed the question of whether protection should be provided for mere confidential information and rejected the proposal. See *infra* n. 50.

⁵⁰ Compare full text of the Unif. Trade Secret Act with *Restatement (First) of Torts* § 759; see also Klitzke, *supra* n. 19, at 288 (noting that the UTSA combines the concepts of trade secrets and business information into the term “information”).

As the drafting history of the UTSA reveals, the elimination of protection for mere “business information” was not accidental. Rather, it was prompted by a concern that providing protection for information that did not meet the definition of a trade secret would create a conflict between trade secret law and federal patent law. See The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Transcript of NCCUSL Proceedings of the Whole* 18 (Aug. 10, 1972) (“The second policy [question to be considered] is one we have touched upon. Persons with a confidential relationship owe obligations to each other solely because of that relationship. To what extent should the proposed Uniform Act deal with liabilities arising from confidential relationships?”); The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, Transcript of NCCUSL Proceedings of the Whole* 6 (Aug. 3, 1978) (“Secondly, to what extent should the Act deal with confidential relationships? The answer then and now was and is: only to the extent that confidential relationships involve trade secrets.”).

See also letter from Richard F. Dole, Jr., Prof. of Law and Chairperson, Subcomm. A of Com. 402, ABA Sec. of Pat., Trademark, and Copy. Law, to Subcomm. A members (Dec. 31, 1975) (“Should Committee 402 support or discourage the expansion of the proposed Uniform Act to include misappropriation of nonconfidential but commercially valuable ideas and information?”); Subcomm. A of Com. 402, ABA Sec. of Pat., Trademark, and Copy. Law, *Final Report of Subcomm. A* 6, Discussion (Mar. 1, 1976) (“A majority of Subcommittee A believes that [broadening the scope of the proposed Uniform Act to include misappropriation of nonconfidential intellectual property] could delay the promulgation of uniform state legislation . . . could conflict with the present copyright laws, and may not be feasible in view of the pending federal copyright revision legislation which is likely to preempt expressly certain state remedies.”).

to disclose the secret and later, when infringement is alleged to have occurred.⁵¹ But not all information can be a trade secret. To understand what types of information might be a trade secret, it is important to understand what types of information cannot be a trade secret. As a threshold matter, only information that is not “generally known” or “readily ascertainable” has the potential of being a trade secret.

Trade secret law cannot protect matters of public knowledge.⁵² Thus, the fact that the earth is round cannot be a trade secret. Although most courts hold that novelty in the patent sense is not a requirement of trade secret law, some novelty is required.⁵³ As stated by one court, “mere variations on widely used processes cannot be trade secrets.”⁵⁴ Furthermore, even when information is not known to the public at large, it cannot be a trade secret if it is generally known within an industry.⁵⁵ As explained in the comments to the UTSA:

The language ‘not being generally known to and not being readily ascertainable by proper means by other persons’ does not require that information be generally known to the public for trade secret rights to be lost. If the principal persons who can obtain economic benefit from [the] information are aware of it, there is no trade secret.⁵⁶

⁵¹ As explained by Raymond Nimmer:

[As the UTSA formulation indicates, t]he idea of secrecy entails two distinct elements. The first, novelty, gauges the extent to which the information is generally known by others independent of disclosure to or by confidential sources affiliated with the owner of the secret. The second element, security, deals with the owner’s efforts to protect the secret and to restrict the information to persons who agree to confidentiality restraints. [Both elements] must be present in order to justify protection as a trade secret.

Raymond T. Nimmer, *The Law of Computer Technology* ch. 3, ¶ 3.03, 3-10 (3d ed., West 1997).

⁵² See *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 257 (S.D. Cal. 1958), *aff’d*, 283 F.2d 695, 695 (9th Cir. 1960); *Pope*, 694 N.E.2d at 617; *Allis-Chalmers Mfg. Co. v. Conl. Aviations & Engr. Corp.*, 255 F. Supp. 645, 653 (E.D. Mich. 1966); *Van Prods. Co. v. Gen. Welding & Fabricating Co.*, 213 A.2d 769, 779-80 (Pa. 1965).

⁵³ See Nimmer, *supra* n. 51, at ¶ 3.04, 3-12 (“The level of novelty required does not correspond to patent law standards . . . A trade secret must involve novel information, but the threshold of inventiveness is substantially lower.”). See also *Restatement (First) of Torts* § 757 cmt. b (“Novelty and invention are not requisite for a trade secret as they are for patentability . . . The nature of the secret is, however, an important factor in determining the kind of relief that is appropriate against one who is subject to liability under the rule stated in this Section.”).

⁵⁴ *Electro-Craft*, 332 N.W.2d at 899.

⁵⁵ Unif. Trade Secrets Act § 1(4)(i).

⁵⁶ *Id.* at § 1 cmt. 5. See also *Natl. Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 20 (Mo. 1966) (“Although the Restatement points out that the amount of effort or money expended in

Based upon the foregoing, the fact that a database owner expended a lot of time, money, and energy to compile well-known information into a comprehensive and searchable form does not transform such compilation or the information it contains into a trade secret.⁵⁷ Parts of the compilation may be protected by copyright law,⁵⁸ but to establish trade secret protection for a compilation of information, or even individual bits of information, a database owner must first establish that the information is not generally known by both the public and members of the relevant industry.⁵⁹ Once this fact is established, the database owner must further establish that the information is not readily ascertainable by proper means.⁶⁰

developing information is a matter to be considered in determining whether it is a trade secret, that element alone cannot convert otherwise obvious shapes and forms, positions and relationships and materials into trade secrets.”).

⁵⁷ However, for reasons that are explained, *infra*, the time, trouble and expense of collecting information may bear on the issue of whether the information is “readily ascertainable.” *See infra* n. 65 and accompanying text. *See also Morlife, Inc. v. Perry*, 56 Cal App. 4th 1514 (Cal. Ct. of App. 1997) (court noted that the time and effort that was expended to collect information may result in the creation of specialized information that is protectable as a trade secret). Also, for reasons that I discuss throughout this article, some courts still cling to old conceptions of trade secret law and unduly focus on the time, trouble, and expense that was expended to compile a database rather than on the nature of the information collected. *See e.g. Courtesy Temp. Serv., Inc. v. Camacho*, 222 Cal. App. 3d 1278 (Cal. App. 2d Dist. 1990).

⁵⁸ *See Feist*, 499 U.S. at 345; *see also* Jane C. Ginsburg, *Copyright, Common Law, and Sui Generis Protection of Databases in the United States and Abroad*, 66 U. Cin. L. Rev. 151 (Fall 1997).

⁵⁹ *See Renee Beauty Salons, Inc. v. Blose-Venable*, 652 A.2d 1345, 1350 (Pa. Super. 1995) (finding that a compilation of customer data was not a trade secret); *Den-Tal-Ez*, 566 A.2d at 1229-30 (finding a compilation of information identifying railcar parts suppliers was not a trade secret); *Dicks v. Jensen*, 768 A.2d 1279, 1283 (Vt. 2001) (discussing the circumstances under which customer lists may be readily ascertainable and noting that “the threshold amount of time and money that must be invested before a customer list is accorded statutory protection varies considerably”).

While some cases have noted that the definition of a trade secret is broad enough to protect matters of public knowledge that are combined in a unique way, *see Amoco Prod. Co. v. Laird*, 622 N.E.2d 912, 919-20 (Ind. 1993) (citing *Trandes Corp. v. Guy F. Atkinson Co.*, 798 F. Supp. 284, 288 (D. Md. 1992)), trade secret protection should only apply to the unique aspects of the combination. *But see Morlife*, 56 Cal. App. 4th at 1522 (suggesting that the existence of a trade secret may be measured solely by the amount of time and resources a person expends to gather information).

⁶⁰ Although the UTSA requirement that information not be readily ascertainable is a part of the plaintiff’s prima facie case (*see* Unif. Trade Secrets Act § 1(4)(i)), in some jurisdictions it is an affirmative defense. *Compare* Cal. Civ. Code § 3426.1(d) (2004) (which does not include the “readily ascertainable” language in the definition of a trade

B. The “Readily Ascertainable” Requirement

As the plain meaning of the words suggest, whether information is “readily ascertainable” depends upon how easy it is to find the allegedly infringing information without reference to the alleged trade secrets.⁶¹ The comments to the UTSA explain: “[i]nformation is readily ascertainable if it is available in trade journals, reference books, or published materials.”⁶² Also, if the alleged secrets can be easily gleaned from products that are on the market, through reverse engineering or simple observation, they are readily ascertainable.⁶³ As one writer explains, “[r]eady ascertainability’ is defined by a spot on the continuum of reverse engineering difficulty.”⁶⁴ The easier it is to reverse engineer something, the less likely it is a trade secret in the first instance.

In considering whether information is readily ascertainable, some courts have examined the amount of time, effort, and expense that would have been required by the defendant to acquire the information by proper means.⁶⁵ This inquiry apparently stems from the six trade-secrecy factors enumerated in the Restatement (First) of Torts.⁶⁶ Under the Restatement (First) of Torts, the amount of effort or money expended by the putative trade secret owner could be considered when determining if information is a trade secret.⁶⁷ Because the trade secret provisions of the Restatement (First)

secret) with *Am. Paper*, 183 Cal. App. 3d at 1326 (where the court, applying California law, considered whether the alleged trade secret information was readily ascertainable).

⁶¹ “Readily” means without delay or without difficulty. *Shorter Oxford English Dictionary* 2479 (5th ed., Oxford U. Press 2002). “Ascertainable” means capable of being determined or learned. *Id.* at 127. See also *Vigoro Indus., Inc. v. Crisp*, 82 F.3d 785, 790 (8th Cir. 1996) (“Vigoro’s two hundred farm store customers could be easily discovered because they farm in a small geographic area.”); *Hamer Holding Group, Inc. v. Elmore*, 560 N.E.2d 907, 918 (Ill. App. 1st Dist. 1990) (“[T]he key to secrecy [under the Act] is the ease with which information can be developed through other proper means: if the information can be readily duplicated without involving considerable time, effort or expense, then it is not secret.”).

⁶² Unif. Trade Secrets Act § 1 cmt. 5.

⁶³ *Id.*

⁶⁴ Continuing Educ. of the Bar, *supra* n. 36, at § 1.8.

⁶⁵ See e.g. *Televation Telecomm. Syss., Inc. v. Saindon*, 522 N.E.2d 1359, 1365 (Ill. App. 2d Dist. 1988); *Amoco Prod. Co.*, 622 N.E.2d at 918-19; *Electro-Craft*, 332 N.W.2d at 899.

⁶⁶ *Restatement (First) of Torts* § 757 cmt. b.

⁶⁷ See *Pope*, 694 N.E.2d at 618 (citing the six factors set forth in the comments to the *Restatement (First) of Torts*).

Restatement (First) of Torts § 757 cmt. b, provides that in determining whether information is a trade secret the following six factors should be considered:

of Torts are still followed in a few jurisdictions and are persuasive authority in others, database owners are likely to seize on this source to argue that their databases are trade secrets because of the tremendous amount of time, money and effort they expend to compile the information. This argument is improper for a number of reasons.

First, as noted above, the indeterminate definition of a trade secret that was contained in the Restatement (First) of Torts was consciously replaced by the UTSA's more precise and, arguably, narrower definition.⁶⁸ Significantly, the UTSA definition of a trade secret makes no mention of the effort and money that goes into creating a trade secret. Rather, it looks principally at the secrecy of the information and secondarily at whether the information is of value to others because of its secrecy.⁶⁹

Second, in light of the foregoing, the amount of effort and money that goes into creating a database logically relates only to the question of whether the information is readily ascertainable, i.e., whether the information is relatively easy to acquire.⁷⁰ It does not relate at all to the initial question of whether the information is "not generally known." Nor does it answer the latter question whether the information was the subject of "reasonable efforts

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

All of the foregoing factors are included in the UTSA, but in a different order and with different emphases. Conceptually, the first factor is a restatement of the "not generally known" requirement. Factors 2, 3 and 5 relate to the reasonable efforts requirement. Factor 6 is an early statement of the "not readily ascertainable" requirement. Finally, factor 4 concerns the economic prong of the analysis, but does not include the UTSA's requirement that the value be derived from secrecy.

⁶⁸ *Supra* nn. 38-39 and accompanying text.

⁶⁹ Unif. Trade Secrets Act § 1(1); *see also* Nimmer, *supra* n. 51, ¶ 3.04[3], 3-20 ("The UTSA focuses on current value, rather than investment cost.").

⁷⁰ "The requirement that there be some measure of time, effort, and funding expended in the duplication or acquisition of information appears calculated to assure not 'that trade secrets be unascertainable at all by proper means, but only that they not be *readily* or *quickly* ascertainable by such means.'" *Amoco Prod. Co.*, 622 N.E.2d at 919 (citing Gerald B. Buechler, Jr., *Revealing Nebraska's Trade Secrets Act*, 23 Creighton L. Rev. 323, 340 (1990)) (emphasis in the original); *but see* Nimmer, *supra* n. 51, at ¶ 3.04[34], 3-20 (arguing that the amount of money a company has invested in developing a trade secret "can be a positive indication that protection should be granted to the information.").

to maintain its secrecy.” A database owner who wants to protect a compilation of information as a trade secret must first establish that it includes information that is not generally known.

Third, because the inquiry relates only to information that is not generally known, the entire cost of creating the database is irrelevant. A more appropriate analysis would filter out that part of the database that is generally known, *i.e.*, the part that clearly is not protected by trade secret law, and then determine the ease with which the remainder of the information can be ascertained.⁷¹ In other words, it should not be the effort alone that trade secret law protects, but the effort that is expended to create an actual trade secret. This is because the U.S. Supreme Court in *Feist* expressly rejected the “sweat of the brow” doctrine.⁷² As the Court in *Feist* explained: “It may seem unfair that much of the fruit of the compiler’s labor may be used by others without compensation . . . [but] [t]his result is neither unfair or unfortunate. It is the means by which copyright advances the progress of science and art.”⁷³ To claim protection under copyright law, the compiler of information must add something “original.”⁷⁴

A similar *quid pro quo* requirement pertains to the compiler who seeks to protect information as a trade secret. There must be some modicum of novelty, *i.e.*, something other than public domain information that justifies its protection as a trade secret.⁷⁵ Thus, where trade secret protection is claimed for a compilation of information that consists, in part, of information that cannot be a trade secret, the owner of the compilation should bear the burden of identifying the parts that can be trade secrets.

Fourth, to the extent database owners argue that they expended a substantial amount of time, money and effort to create their compilations of information—and not just to establish that the information is not readily ascertainable—the preemption issue that is discussed below becomes more relevant. As the Supreme Court has repeatedly noted, state law cannot be applied in a manner that results in the removal of information from the public

⁷¹ *Computer Assocs. Intl., Inc. v. Altai, Inc.*, 982 F.2d 693, 706-712 (2d Cir. 1992) (applying the filtering process in the copyright context); *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930).

⁷² 499 U.S. at 352.

⁷³ *Id.* at 349-50.

⁷⁴ *Id.* at 347.

⁷⁵ Nimmer, *supra* n. 51. If we reward mere effort and do not insist on the actual creation of a trade secret that is of value to others because of its secrecy, then the incentive rationale for modern trade secret law is not being achieved. Under the unfair competition rationale for trade secret law, the asserted “fairness” of protecting information because of the effort and money that was expended to compile it is outweighed by the barriers to entry that such protection would erect.

domain. In the early case of *Sears, Roebuck & Co. v. Stiffel Co.*, the Court said: “[A] State may not, when the article is unpatented and uncopyrightable, prohibit the copying of the article itself or award damages for such copying.”⁷⁶ More broadly in *Lear, Inc. v. Adkins*, the Court held that “[F]ederal law requires, that all ideas in general circulation, be dedicated to the common good unless they are protected by a valid patent.”⁷⁷ In *Kewanee Oil Co. v. Bicron Corp.*, the Court emphasized: “that which is in the public domain cannot be removed therefrom by action of the States.”⁷⁸ To allow publicly available information to be protected as a trade secret would interfere with the public’s right to the free use and enjoyment of public domain information.

As those who have surfed the Internet know, many online databases consist of little more than a compilation of generally known facts (like the names of cities in the United States) or information that can be gleaned from other sources (like the names and model numbers of television sets).⁷⁹ Thus, since much of what is included in an online database consists of information that is generally known or readily ascertainable, at most, the owners of such databases can assert trade secret protection only with respect to a fraction of the information they have posted. With respect to this fraction, the next question is whether they have engaged in reasonable efforts to maintain its secrecy.

C. The “Reasonable Efforts” Requirement

Assuming *arguendo* that a portion of a database is a trade secret at the time it is initially distributed to others, it loses its trade secret status if its owner does not exercise reasonable efforts to maintain the secrecy of such information.⁸⁰ One rationale behind the rule is that if a trade secret owner is not willing to exercise efforts to protect its own secrets, the courts will not do

⁷⁶ 376 U.S. 225, 232-33 (1964).

⁷⁷ 395 U.S. 653, 668 (1969).

⁷⁸ 416 U.S. at 481; *see also Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 156-57 (1989) (“[S]tate law that interferes with the enjoyment of [free trade in publicly known] . . . unpatented design and utilitarian conceptions . . . contravenes the ultimate goal of [patent law of] public disclosure and use that is the centerpiece of federal patent policy.”).

⁷⁹ *See e.g.* <http://www.mapquest.com> (accessed Nov. 19, 2004); <http://www.circuitcity.com> (accessed Nov. 19, 2004).

⁸⁰ Unif. Trade Secrets Act § 1(4).

so.⁸¹ It has also been noted that the ability of companies to share secret information increases economic efficiency by dispersing creative efforts.⁸² The rule stems from the secrecy requirement and the concept of relative secrecy. Because trade secrets have no value unless they can be used and said use often requires disclosure to others, numerous cases recognize that absolute secrecy is not required.⁸³ All that is needed for information to maintain its trade secret status is “relative” or “substantial” secrecy.⁸⁴

Of course, saying that relative secrecy is all that is required and determining what efforts are needed to ensure the requisite level of secrecy are two different matters. As the many cases that have explored the issue make clear, a very fact-specific analysis is required.⁸⁵ First and logically, the identity and nature of the information to be protected must be ascertained.⁸⁶ Next, the nature, extent and circumstances of any disclosure must be examined.⁸⁷ Generally, the more valuable and critical information is to a company and the wider its distribution, the more efforts that are required to protect its secrecy.⁸⁸

The identity of the discloser is also an important part of the analysis. In contrast to cases like *Religious Technology Center v. Netcom On-Line*

⁸¹ See *Electro-Craft*, 332 N.W.2d at 901 (“[T]he employer cannot complain of the employee’s use of information if the employer has never treated the information as secret.”).

⁸² See *Wexler v. Greenberg*, 160 A.2d 430, 434-45 (Pa. 1960).

⁸³ See e.g. *Metallurgical Indus.*, 790 F. 2d at 1200.

⁸⁴ *Id.*

⁸⁵ Some factors a court may examine to determine whether the information “[i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy” include:

- (1) the extent to which the information is known outside the plaintiff’s business;
- (2) the extent to which employees and other involved in the plaintiff’s business know the information;
- (3) the nature and extent of measures the plaintiff took to guard the secrecy of the information;
- (4) the existence or absence of an express agreement restricting disclosure; and
- (5) the circumstances under which the information was disclosed to any employee, to the extent that the circumstances give rise to a reasonable inference that further disclosure without the plaintiff’s consent is prohibited.

Spottiswoode v. Levine, 730 A.2d 166, 175 n. 7 (Me. 1999).

⁸⁶ See e.g. *Wal-Mart Stores, Inc. v. The P.O. Mkt., Inc.*, 66 S.W.3d 620, 631-32 (Ark. 2002) (noting the difficulty of conducting the necessary trade secret analysis when the alleged trade secret is not identified with particularity).

⁸⁷ See *Dicks*, 768 A.2d at 1284 (identifying “[1] whether parties had a written agreement not to compete, [2] whether knowledge was confined to a restricted group of employees, and [3] the extent of the measures to guard access to information” as factors going to the reasonableness issue).

⁸⁸ *Milgrim*, *supra* n. 29, at § 1.07[2].

*Communication Services, Inc.*⁸⁹ and *DVD Copy Control Association v. Bunner*⁹⁰ in which the courts considered the alleged loss of trade secret status due to the distribution of the trade secrets by alleged wrongdoers, many databases are distributed voluntarily by their owners. This is particularly obvious in the case of online databases. Thus, where a court might be willing to find that information is still a trade secret when it is widely disseminated through no fault of the trade secret owner, the disclosure of such information by the putative trade secret owner is fatal to a trade secret claim unless it is accompanied by adequate security measures.

There are a variety of efforts that can be utilized to protect trade secrets including “advising employees of the existence of a trade secret, limiting access to a trade secret on a ‘need to know basis’ and controlling plant access.”⁹¹ Where information is distributed outside a close-knit business, it is generally recommended that trade secret owners obtain written confidentiality agreements from everyone who is given access to the secrets.⁹² This recommendation leads some to believe that obtaining such an agreement is all that is required. However, while a confidentiality agreement is some evidence of reasonable efforts, it is not determinative of the issue.⁹³ Where an alleged trade secret is disseminated to a great number of people, for instance via distribution over the Internet, more is required.⁹⁴

⁸⁹ 923 F. Supp. 1231, 1256 (N.D. Cal. 1995) (noting the need to distinguish between postings by the defendant and postings by third parties).

⁹⁰ 75 P.3d 1.

⁹¹ Unif. Trade Secrets Act § 1 cmts.

⁹² See Continuing Education of the Bar, *supra* n. 36, at § 4.4.

⁹³ See *United Prods. Corp. v. Transtech Mfg., Inc.*, 2000 WL 33711051 at *12 (Pa. Ct. of Com. Pleas. 2000) (“The confidentiality agreements do not create or broaden the protection, but are evidence of the confidential nature of the data.”) (citing *Morgan’s Home Equip. Corp. v. Matucci*, 136 A.2d 838, 843 n. 5 (Pa. 1957) and *Bell Fuel Corp. v. Cattlico*, 544 A.2d 450, 461 (Pa. 1988)); see also *Machen, Inc. v. Aircraft Design, Ind.*, 828 P.2d 73, 78 (Wash. App. Div. 3 1992) (noting that general efforts to protect information are not sufficient if such efforts are “not designed to protect the disclosure of information . . .”).

⁹⁴ See *Montgomery County Assn. of Realtors, Inc. v. Realty Photo Master Corp.*, 878 F. Supp. 804, 814 (D. Md. 1995) (noting that the widespread distribution of a database deprives it of its secrecy), *aff’d*, 91 F.3d 132 (4th Cir. 1996). Any suggestion to the contrary in *Bd. of Trade of the City of Chi. v. Christie Grain & Stock Co.*, 198 U.S. 236, 250-51 (1905) must be viewed in the light of the evolution of trade secret law since 1905 and the point, made earlier, that the focus of early trade secret cases was on the relationship of the parties and not the nature of the information to be protected.

D. The “Economic Value” Requirement

The economic value requirement of the UTSA has been the subject of little attention by scholars, judges and attorneys alike.⁹⁵ One explanation for this is that the Restatement (First) of Torts only required evidence of value in the abstract and there is not broad recognition of the fact that the UTSA includes a more specific value requirement.⁹⁶ Another explanation concerns the practical ways in which “value” is proven. As noted by James Pooley, seldom is there direct evidence of the value of trade secrets.⁹⁷ Instead, it is established through circumstantial evidence such as the fact that others are willing to pay for access to the information or that plaintiff would not have gone to the expense and hassle of bringing a trade secret infringement claim unless the alleged trade secrets have value.⁹⁸ Based upon this simplistic logic, the specific requirements of the economic value prong, i.e., whether the information “derives independent economic value, actual or potential, from not being generally known to . . . other persons who can obtain economic value from its disclosure or use,” are frequently ignored.

While some courts are confused about the economic value prong of trade secret law, the language of the UTSA is clear.⁹⁹ The issue presented is not whether the information has value in the abstract, but whether the information (1) derives value from its secrecy and (2) is of value “to others.”¹⁰⁰ In basic terms: is someone willing to pay the putative trade secret

⁹⁵ There is little mention and no analysis of this requirement of the UTSA in Milgrim’s treatise on trade secret law. See Milgrim, *supra* n. 29. James Pooley discusses the requirement briefly in his book. James Pooley, *Trade Secrets* § 4.05[1] (Law J. Press 2004) (citing *Dynamics Research Corp.*, 400 N.E.2d. at 1285 and *Buffets, Inc. v. Klinke*, 73 F.3d 965, 968-69 (9th Cir. 1996) (court noted “lack of evidence of relationship between competitor’s lack of success and the unavailability of recipes . . .”).

⁹⁶ Compare *Restatement (First) of Torts* § 757, cmt. b with Unif. Trade Secrets Act § 1(4)(i).

⁹⁷ See Pooley, *Trade Secrets*, *supra* n. 95, at § 4.05[2], 4-48.

⁹⁸ *Id.*; see also Rucker, 971 P.2d at 942 (citing Gale R. Peterson, *Recent Developments in Trade Secret Law in an Information Age*, PLI Pats., Copys., Trademarks, and Literary Prop. Course Handbook Series No. G4-4042 (1998) (available in WL 507 PLI/Pat 351), in which the court states that “the effort and expense that was expended in developing the information” was a “key factor” in determining whether the information has “independent economic value . . .”).

⁹⁹ Unif. Trade Secrets Act § 1(4)(i).

¹⁰⁰ There is also some authority for the proposition that trade secrets must have “commercial value.” See *Relig. Tech. Ctr. v. Wollersheim*, 796 F.2d. 1076, 1090 (9th Cir. 1986) (holding that a commercial advantage must be shown and that the alleged spiritual advantage was not enough).

owner for the use or disclosure of the secret because it is secret? If the willingness to pay for the information is based upon other factors, like the veracity and completeness of information, or the ease and clarity of its presentation, then it is not of value due to its secrecy.¹⁰¹

You need only pick-up the daily newspaper to understand the willingness of people to pay for information even if it is not secret. People derive value from obtaining information in a pre-arranged and easily accessible form. People also value information because of its content and appearance. Thus, an online database may have value simply because it contains photographs of Britney Spears. Those who provide such information are not denied an income by virtue of the absence of trade secret protection. Typically, they make their money through advertising and subscriptions. Thus, just because someone is willing to pay money for access to information does not mean that such information has value for trade secret purposes. Moreover, as noted in the case of *LeJeune v. Coin Acceptors, Inc.*, just because secret information is of value to its owner does not mean it has value to others.¹⁰² Information may be so variable or short-lived that it is not of value to others.¹⁰³ Similarly, although information may be of value to the alleged trade secret owner, it may not be of value to others because they are unwilling to incur the expense of changing their incumbent systems.

E. The UTSA Does Not Apply To Mere “Confidential” or “Proprietary” Information

Prior to the enactment of the UTSA, the Restatement (First) of Torts and a number of cases extended protection to information that, although not a

¹⁰¹ See *RogersCasey, Inc. v. Nankof*, 2003 WL 1964049 at *5 (S.D.N.Y. April 24, 2003) (citing *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 30 U.S.P.Q.2d 1684, 1688 (Cal. App. 2d Dist. 1995), in which the court cited the economic value requirement as a major impediment to plaintiff’s claim, explaining that the alleged trade secret information “derives its economic value not from its secrecy, if any, but rather from its relevance to the needs of the particular client”); see also *Spring Indus.*, 2000 WL 1751163 at *2 (finding that the alleged trade secret information was of no value to the defendant); *Montgomery County Assn. of Realtors*, 878 F. Supp. at 814 (noting that the database “derives economic value not from its secrecy, but from being widely distributed . . .”).

¹⁰² 849 A.2d 451, 462-63 (Md. 2004) (citing *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 587 (Md. Spec. App. 1991)).

¹⁰³ *Id.* at 462 (“The pricing information had no ‘economic value’ to the competitor because it was composed of so many variables, generally subject to change, and specific to the printing company.”).

trade secret, constituted “confidential” or “proprietary” information.¹⁰⁴ On the basis of this authority, it is suggested that trade secret clauses should be enforced even if the subject information does not meet the definition of a trade secret. Where information is not a trade secret but constitutes confidential or proprietary information, it is argued that a party who contractually agrees to maintain the confidentiality of such information is bound to honor the contract.

While the existence of such a contract may give rise to a breach of contract claim, discussed *infra*, it is clear that no cause of action can be stated under the UTSA because it does not protect mere confidential and proprietary information. Moreover, according to section 7 of the UTSA, the only remedies that are available for the alleged misuse of information not qualifying for trade secret status are contract remedies.¹⁰⁵ Section 7 of the UTSA unequivocally states that the UTSA “displaces conflicting tort, restitutionary and other law of this State providing civil remedies for misappropriation of a trade secret.”¹⁰⁶

The drafting history of the UTSA reveals that section 7 was not just an afterthought, but a carefully considered provision that was intended to restrict the nature and number of claims that could be brought for trade secret infringement.¹⁰⁷ In contrast to cases brought under common law principles that often included a litany of causes of action, section 7 of the UTSA instructs that only one claim can be brought for the alleged infringement of a

¹⁰⁴ *Restatement (First) of Torts* § 759 cmt. b.

¹⁰⁵ Unif. Trade Secrets Act § 7.

¹⁰⁶ *Id.*; see *Savor, Inc. v. FMR Corp.*, 812 A.2d. 894, 898 (Del. 2002) (holding that the trial court did not err in applying sec. 7 and dismissing plaintiff’s “common law claims . . .”).

¹⁰⁷ Section 7 was one of the provisions of the UTSA that was the subject of the most amendments (the other being section 1). There was never any suggestion, however, that it not be included at all. Rather, the fact that it was the subject of numerous changes reflects the apparent difficulty that the drafters of the UTSA had in expressing their intent to displace all conflicting causes of action.

As initially drafted, section 7 was simply a place holder. See The National Conference of Commissioners on Uniform State Laws, *Uniform Trade Secrets Protection Act, First Tentative Draft*, §7 (July 18, 1972). Its apparent purpose was to list those common law claims that would be superseded by the UTSA. Initially, the only thing listed was the “common-law tort of trade secret misappropriation.” However, space was left for the addition of other causes of action.

As originally drafted, section 7 also contained a provision that stated: “(b) It is an affirmative defense to the enforceability of restrictive covenants concerning trade secrets that the secret on which a contractual restraint is predicated is not a trade secret as defined in § 1(2).” *Id.* at § 7(b). In subsection (c), it was stated that the “Act does not affect: (1) criminal penalties . . . [and] liability which derives from a confidential relationship and does not involve the existence of a trade secret.” *Id.* at § 7(c)(1).

trade secret: an action under the UTSA. Although the UTSA recognizes that remedies can also be sought for breach of contract,¹⁰⁸ it does not allow the elements of a claim under the UTSA to be substituted for the elements of a breach of contract claim. Thus, if a plaintiff wants to bring a breach of contract action in addition to a trade secret infringement claim, he must prove all the elements of such claim and is subject to all applicable defenses. Moreover, by limiting breach of contract claimants to breach of contract remedies, section 7 of the UTSA precludes the use of such claims to “bootstrap” trade secret remedies onto the limited remedies available for breach of contract.

III. THE LIMITS OF CONTRACT LAW

As the foregoing discussion establishes, the problem with many trade secret clauses, particularly those that are included in online terms of use agreements, is that the information to be protected was not secret at the time the alleged agreement was entered into. In the event the information was secret at some point in time, it quickly lost its secrecy when it was widely-distributed without adequate efforts to maintain its secrecy. The fact that the information may have been distributed pursuant to a blanket confidentiality agreement contained in a terms of use agreement does not change this result because contracts cannot create trade secrets.¹⁰⁹

In practice, however, the weaknesses inherent in many trade secret clauses do not deter their proponents from including them in employment agreements, terms of use agreements and other arrangements. As noted by Roger Milgrim, even though trade secret rights cannot be established by contract, express confidentiality agreements have a number of advantages.¹¹⁰ He opines that “the single most advantageous use of an agreement might be to establish an express basis for enjoining competitive employment.”¹¹¹ Moreover, given the fact specific nature of trade secret law and its emotional appeal, it is not unheard of for a trade secret claim to succeed despite the

¹⁰⁸ Unif. Trade Secrets Act § 7.

¹⁰⁹ Milgrim, *supra* n. 29, at § 1.03 n. 8.

¹¹⁰ *Id.* at § 4.02. Such advantages include: (1) clarifying an ambiguous situation, (2) defining the relationship as a confidential one, thereby, increasing the likelihood of a finding of misappropriation, (3) putting employees and vendors on notice, and (4) providing the basis upon which a court might enjoin competitive employment.

¹¹¹ *Id.* at § 4.02[1][d][i] n. 21.

non-existence of a trade secret.¹¹² For this reason, actions for the breach of confidentiality agreements are usually coupled with a trade secret infringement claim.¹¹³

Where the proponents of trade secret clauses bring multiple causes of action, the courts must take care to keep the evidentiary requirements of each cause of action separate and distinct.¹¹⁴ This is because the essential elements of each cause of action are different. Although the proponents of a trade secret clause might prefer to rely upon a breach of contract claim when it is difficult to prove the existence of a trade secret, the requirements of contract law may make it difficult to prove a breach of contract claim as well. Moreover, the public policy issues that attach to an action to enforce an agreement, discussed *infra*, will differ depending upon whether the subject information is a trade secret, is merely confidential or is in the public domain.

¹¹² See *Amoco*, 622 N.E.2d at 916 (noting that “[b]ecause a determination of a trade secret is so heavily fact-specific, ‘the same information that qualifies as a trade secret under one set of facts may not be afforded protection under a different set of facts.’”).

¹¹³ See e.g. *Courtesy*, 222 Cal. App. 3d at 1285 (complaint included a litany of causes of action including misappropriation of trade secrets and breach of confidentiality); *Labor Ready, Inc. v. Labor*, 2001 WL 1807932 at *1 (Pa. Com. Pl. Jan. 25, 2001) (plaintiff’s complaint described as having three counts, a breach of contract claim for the alleged breach of a confidentiality agreement, a claim for misappropriation of trade secrets, and a claim for tortious interference with business relations).

¹¹⁴ The importance of keeping a breach of contract action separate from a trade secret infringement action is illustrated by the case of *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979), a case frequently cited for the proposition that trade secret law can be modified by contract. *Aronson*, however, did not involve a trade secret infringement claim. Rather, it arose as a declaratory judgment action in which the plaintiff, Quick Point Pencil Co., sought to have a royalty agreement declared unenforceable on the ground that its enforcement was pre-empted by federal patent law.

Pursuant to the subject contract, the inventor of a device for holding keys agreed to disclose her idea and allow Quick Point to use it in exchange for Quick Point’s promise to pay royalties. Because the device was not patented at the time the agreement was entered into, the contract specified two different royalty rates: one that assumed the invention would be patented and a second, lower rate if the patent was not allowed within five years. Finding no conflict with U.S. patent policy, the Supreme Court held that there was no reason not to enforce the terms of the contract. *Id.* at 257. This result naturally follows from the fact that the contract was an agreement to pay over time for the early disclosure of an idea. It does not stand for the proposition that the useful life of a trade secret can be extended by contract. There was no trade secret counter-claim brought because the idea that was the subject of the contract had already been fully disclosed to the public, i.e., it was no longer secret.

A. *The Important Differences Between Breach of Contract and Trade Secret Infringement Claims*

At the most abstract level, a trade secret infringement claim sounds in tort while a breach of contract claim is based upon contract law. As any first year law student will attest, this difference alone greatly impacts such important litigation issues as standing, jurisdiction, venue, and the applicable statute of limitations. Of course, the basic difference between the two causes of action concerns the essential elements of each and the fact that each element may be more or less difficult to prove. But the principal reasons the proponents of trade secret clauses are likely to couple their breach of contract actions with trade secret claims is because of the doctrine of privity of contract and the limited remedies that are available under contract law. In particular, plaintiffs in such cases want to allege a trade secret claim because it is much easier to obtain preliminary injunctive relief pursuant to a trade secret claim than under a breach of contract action.

For important public policy and economic reasons, the type of harm that is compensable under contract law is more limited than the type of harm that is compensable under tort law.¹¹⁵ In a breach of contract action, the plaintiff is entitled to recover damages in an amount that will place him in the position that he would have been in if there was no breach of contract.¹¹⁶ Referred to as “expectation damages,” this measure of damage recognizes that there is no recovery for the “wrong” or “unfairness” of the breach of contract itself.¹¹⁷ Indeed, one of the principles underlying the limitation on contract remedies is the notion that parties to a contract should be free to breach it if it is economically wise for them to do so (i.e., if the cost of breaching the contract and paying applicable damages is less than the cost of performance).¹¹⁸

¹¹⁵ F. Allan Farnsworth, *Farnsworth on Contracts* vol. 3, § 12.1 (3d ed. Aspen 2004) (discussing the expectation measure of damages of contract law).

¹¹⁶ *Restatement (Second) of Contracts* § 347 cmt. a (1981).

¹¹⁷ Farnsworth, *supra* n. 115, at § 12.8 at 189-196. Indeed, efforts to provide a tort remedy for the asserted “bad faith” of a breach of contract have been roundly criticized by the business community and economists alike. *See id.* at 196-203 (discussing the rise and fall of bad faith breach of contract claims). In light of such criticism, it is interesting to observe that the business community seems unconcerned about the use of trade secret law to provide tort remedies for what, in many cases, is a weak breach of contract claim. The arguments in favor of the efficient breach of contract theory should still apply, but apparently misunderstandings about the scope of trade secret law have masked the problem in the trade secret context.

¹¹⁸ Farnsworth, *supra* n. 115, at §12.3 (describing the “efficient breach” of contract theory). *See also* Daniel R. Cahoy, *Oasis or Mirage?: Efficient Breach as a Relief to the Burden*

Consistent with the foregoing limitation on contract damages, unless the contract provides for an award of attorney's fees to the prevailing party, attorney's fees and exemplary damages are not available for breach of contract.¹¹⁹ Additionally, while injunctive relief is not unheard of in a breach of contract action, it is an alternative remedy that is infrequently granted, particularly at the preliminary relief stage.¹²⁰ In order to obtain mandatory injunctive relief (also known as "specific performance"), the plaintiff in a breach of contract action must prove both the existence of a breach of contract and that an award of damages would be inadequate.¹²¹

In contrast to a breach of contract claim that requires evidence of actual harm before relief will be granted, a trade secret claim can be established based upon the mere threat of the wrongful acquisition, use or disclosure of a trade secret.¹²² Thus, even in the absence of actual harm, a plaintiff in a trade secret case can obtain relief in the form of a temporary or permanent injunction.¹²³ In addition, the trade secret laws of most states allow successful plaintiffs to recover damages as measured by either actual loss or unjust enrichment.¹²⁴ Exemplary damages and attorney's fees are also available in appropriate circumstances.¹²⁵

But as noted above, it is not the broad remedies alone that attract breach of confidentiality agreement claimants to trade secret claims. Another important difference between a trade secret action and a breach of contract claim is the number and identity of potential defendants. Under the doctrine of privity of contract, the general rule is that only parties to the contract may sue or be sued for breach thereof.¹²⁶ In contrast, the potential

of Contractual Recapture of Patent and Copyright Limitations, 17 Harv. J.L. & Tech. 135 (2003).

¹¹⁹ Farnsworth, *supra* n. 115, at § 12.8, 190, 194.

¹²⁰ See *Cargo Protectors, Inc. v. Am. Lock Co.*, 92 F. Supp. 2d 926, 928 (D. Minn. 2000) (court declined to grant injunctive relief for breach of a confidentiality agreement); see generally *Restatement (Second) of Contracts* §§ 357–369; Farnsworth, *supra* n. 115, at § 12.4.

¹²¹ Farnsworth, *supra* n. 115, at § 12.8 at 163-166 (discussing the adequacy test for specific performance).

¹²² Unif. Trade Secrets Act § 1(2).

¹²³ See *Boeing*, 738 P.2d at 681 (noting that irreparable harm need not be shown for injunctive relief under the UTSA).

¹²⁴ See e.g. *World Wide Prosthetic Supply, Inc. v. Mikulsky*, 640 N.W.2d. 764, 767 (Wis. 2002) (describing the broad measure of damages under the UTSA).

¹²⁵ Unif. Trade Secrets Act §§ 3-4.

¹²⁶ Farnsworth, *supra* n. 115, at § 10.1. The only exceptions to this rule involve principles of agency law and the third party beneficiary doctrine.

subjects of a trade secret infringement claim include not only the person who agreed to maintain the confidentiality of information, but also anyone who acquired, used or disclosed such information under circumstances where they knew or should have known that it was a protected trade secret.¹²⁷ Thus, where a breach of confidentiality agreement claim can typically be brought only against a party to the agreement, a trade secret infringement action can be initiated against any person or entity that is suspected of wrongfully acquiring, using or disclosing trade secret information.¹²⁸

B. The Essential Elements of a Breach of Contract Claim

While it is easy to assert that contracts should be enforced, the need to enforce trade secret clauses contained in form agreements related to mass-distributed information is not so clear. If, as the proper application of trade secret law dictates, the owner of a database does not have a trade secret infringement claim and must, instead, rely upon a breach of contract claim, then he is required to establish all of the essential elements of a contract claim. In some cases, this may prove to be an easier task than proving a trade secret infringement claim. In the case of online terms of use agreements, however, it is arguably more difficult because of problems with mutual assent and consideration.¹²⁹ Moreover, although some courts have stretched traditional concepts of mutual assent in order to find a binding contract under circumstances where the terms of a contract are not presented to a consumer until after a transaction is completed,¹³⁰ a court sitting in equity should be disinclined to grant specific performance with respect to such contract.

Even if a database owner can establish the existence of a contract, he still has the burden of proving that he suffered harm “as a result of” the

¹²⁷ Unif. Trade Secrets Act § 1(2); see also Steven D. Glazer, *Special Issues Relating to Third Party Liability for Trade Secret Misappropriation*, 719 PLI/Pat 39 (2002).

¹²⁸ Unif. Trade Secrets Act §1(2); see e.g. *Mycalex Corp. v. Pemco Corp.*, 64 F. Supp. 420, 424 (D. Md. 1946) (discussing potential trade secret liability of a third party); *DVD Copy Control*, 75 P.3d at 7-8 (plaintiff brought a trade secret claim against a defendant who had no direct relationship with and was far removed from the person who allegedly misappropriated the trade secret in the first instance).

¹²⁹ See generally Christina L. Kunz et al., *Click-Through Agreements: Strategies for Avoiding Disputes on Validity of Assent*, 57 Bus. Law., 401 (2001); Jane K. Winn & Benjamin Wright, *Law of Electronic Commerce* § 6.02[A] (4th ed., Aspen 2002) (discussing potential problems with the enforceability of shrinkwrap, clickwrap, and webwrap contracts).

¹³⁰ See e.g. *ProCD, Inc.*, 86 F.3d. 1447; *Hill v. Gateway 2000, Inc.*, 105 F.3d. 1147 (7th Cir. 1996).

breach of contract.¹³¹ If the information that is the subject of a trade secret clause is widely- available, how is the database owner harmed by its further dissemination?¹³² While the database owner will undoubtedly attempt to measure harm by arguing lost profits or by seeking restitution of defendant's profits, the alleged loss in the form of increased competition was not caused by the breach of contract. Rather, it is the result of the public availability of the compiled information and the right of members of the public to re-use and disseminate such information.

If it is injunctive relief that he desires, the database owner must make an additional showing over and above the essential elements of a breach of contract.¹³³ At a minimum, he must show that a damage award is inadequate and that the subject matter of the injunction is adequately identified in the contract.¹³⁴ In addition, because specific performance is an equitable remedy, equitable principles will apply to determine if and when such relief is granted.¹³⁵ Issues that can prevent the grant of specific performance in a

¹³¹ Idea submission cases are relevant on this point. Although it is recognized that ideas need not be "novel" in the patent sense to be the proper subject of a promise to pay for their disclosure, in some jurisdictions and depending upon the nature of the claim brought, if the ideas do not exhibit some novelty there is a failure of consideration and the alleged promise will not be enforced. *See e.g., Downey v. Gen. Food Corp.*, 286 N.E. 2d 257 (N.Y. 1972); *Johnson v. Benjamin Moore Co.*, 788 A. 2d. 906 (N.J. Super. A.D. 2002) (discussing California and New York law).

¹³² *See Bowers v. Baystate Tech. Inc.*, 320 F.3d 1317, 1325 (Fed. Cir. 2003), *cert. denied*, 539 U.S. 928 (2003) (noting that damages are likely to be *de minimis* if the defendant merely identified non-protected code).

¹³³ In contrast to the UTSA, which sets forth injunctive relief as a primary remedy, injunctive relief under contract law is an alternative remedy. *See Restatement (Second) of Contracts* §§ 359-361; Unif. Trade Secret Act § 2.

¹³⁴ *Restatement (Second) of Contracts* § 362 cmt. a ("It may be, . . . that the terms are certain enough to provide the basis for the calculation of damages but not certain enough to permit the court to frame an order of specific performance or an injunction . . ."). As stated by Farnsworth: "A court will not grant specific performance or an injunction to enforce a contract unless the terms of the contract are sufficiently definite to provide the basis for an appropriate order." Farnsworth, *supra* n. 115, at 778.

¹³⁵ *Restatement (Second) of Contracts* § 357 cmt. c ("The granting of equitable relief has traditionally been regarded as within judicial discretion. . . . It is also subject to general principles of equity . . . such as those that bar relief to one who has been guilty of laches or who has come to court with unclean hands."). Issues that can prevent the grant of specific performance in a breach of contract action include: the adequacy of the legal remedy, the specificity (or lack thereof) of contract terms, the fairness of the contract, the effect of public policy, the difficulty the court may encounter in enforcing or supervising its order, and whether the contract requires the rendering of personal service. *Id.* at §§ 357-367.

breach of contract action include the fairness of the contract¹³⁶ and the effect of public policy.¹³⁷ Thus, where a plaintiff in a breach of contract case may be able to overcome concerns regarding the enforceability of the contract when he is seeking damages, those concerns may result in the denial of specific performance.¹³⁸

All of the foregoing requirements pose obstacles to the enforcement of trade secret clauses contained in terms of use and other form agreements. As has been explored in depth elsewhere, serious questions exist whether mere visitors to a website have mutually assented to the agreements contained therein.¹³⁹ More importantly, particularly given trade secret claimants' love of injunctive relief,¹⁴⁰ the failure of most trade secret clauses to identify the trade secrets with specificity makes the availability of injunctive relief questionable.¹⁴¹ Where an injunction is sought to prevent the disclosure of information that is not a trade secret, a number of public policy issues arise that, due to the equitable nature of the relief sought, should also result in a denial of injunctive relief.

IV. LIMITATIONS IMPOSED BY PUBLIC POLICY

Those who have considered the wisdom of private ordering as it relates to intellectual property rights have identified a number to policies that act as constraints on the freedom to contract including unconscionability,

¹³⁶ *Id.* at § 364.

¹³⁷ *Id.* at § 365.

¹³⁸ As explained in *Restatement (Second) of Contracts*:

Courts have traditionally refused equitable relief on grounds of unfairness or mistake in situations where they would not necessarily refuse to award damages. . . . For instance they will refuse to grant specific performance where the terms of a contract "fall short of what is required for unenforceability on grounds of unconscionability."

Id. at § 364 cmt. a.

¹³⁹ *Supra* n. 129.

¹⁴⁰ In the briefs of appellant and *amici* in *DVD Copy Control Assn. v. Bunner*, the availability of injunctive relief for trade secret infringement, and particularly preliminary injunctive relief, was cited as the key benefit of trade secret law. For instance, in the *Amicus Curiae* brief of The Intellectual Property Owners Association, it was argued that "trade secret rights are illusory in the absence of pretrial injunctive remedies." Br. of Amicus Curiae The Intell. Prop. Owners Assn. at 4, *DVD Copy Control Assn.*, 75 P.3d 1; see also James Pooley, *Update on Trade Secret Law*, 764 PLI/Pat 173, 182 (2003) ("In litigation over misuse of trade secrets, the opportunity or threat of injunction is perhaps the most important issue.").

¹⁴¹ *Supra* n. 135. See also *infra* n. 154.

unfair trade practices, and the copyright and patent misuse doctrines.¹⁴² Two policy issues that are of particular relevance to trade secret clauses are the laws prohibiting unreasonable restraints of trade and the doctrine of preemption. As will be seen, both issues are inexorably tied to the intellectual property status of the underlying information. If legitimate trade secrets exist, then the contractual restraint is more likely to be valid and enforcement of the trade secret clause under either a trade secret or breach of contract claim is less likely to be preempted. However, where no legitimate trade secrets exist, then trade secret clauses appear to conflict directly with federal intellectual property policy and should constitute unreasonable restraints of trade in most states.

A. Many Trade Secret Clauses Are Unreasonable Restraints On Trade

The principal purpose of a trade secret clause is to restrict the use and dissemination of the purported trade secrets. In this way, trade secret clauses restrict the future activities of others and should be scrutinized accordingly.

There is a large body of law on restraints of trade.¹⁴³ As reflected in United States antitrust laws and many comparable state laws, agreements in restraint of trade are generally unenforceable unless an adequate justification exists for the restraint. If an adequate justification for the restraint exists, most states will nonetheless refuse to enforce restrictive covenants that are unreasonable in time and geographic scope.¹⁴⁴ Although the laws of the states vary somewhat in the particulars of an unreasonable restraint of trade,

¹⁴² See e.g. Cohen I, *supra* n. 13, at 1129 (discussing preemption and the “Dormant Intellectual Property Clause”); Lemley, *supra* n. 23 (noting that in addition to preemption issues, contracts that attempt to expand intellectual property rights may constitute copyright misuse or otherwise conflict with federal and state statutes); Lemley, *supra* n. 6 (discussing unconscionability, limits on the enforcement of standardized contract terms, public policy and preemption); Reichman & Franklin, *supra* n. 12 (identifying preemption, misuse, unconscionability and the “public policy” exception as traditional constraints on private ordering); Rice, *supra* n. 6 (discussing preemption); Roger E. Schecter, *The Unfairness of Click-On Software Licenses*, 46 Wayne L. Rev. 1735 (2000) (arguing that various terms contained in software licenses may violate the Federal Trade Commission Act’s prohibition against unfair trade practices).

¹⁴³ For a discussion of restraints of trade involving efforts to protect trade secrets and confidential information, see Milgrim, *supra* note 29, at § 4.02.

¹⁴⁴ “Reasonableness is determined with reference to the situation, business and objects of the parties in light of all the surrounding circumstances.” Milgrim, *supra* n. 29, at § 4.02[1][d][vi] n. 40.

with some states being more accepting of such restrictions than others,¹⁴⁵ numerous cases reveal the essential features of valid restrictive covenants. These are: (1) a legitimate purpose or justification for the restraint which overrides the strong public policy against restraints of trade; (2) restraint language which is “no greater than needed to protect the promisee’s legitimate interest;”¹⁴⁶ and (3) a restraint which is limited both in time and geographic scope.¹⁴⁷

What constitutes a legitimate purpose varies from state-to-state. In California, for instance, such purposes are limited to restrictions in connection with the sale of a business or as necessary to protect legitimate trade secrets.¹⁴⁸ Other states take a broader view of what constitutes a legitimate purpose and will enforce confidentiality agreements between an employer and employee that seek to protect “confidential and proprietary information” not qualifying as a trade secret.¹⁴⁹ According to the law of Texas, restrictive covenants are enforceable as long as they are “ancillary to some other legitimate agreement”.¹⁵⁰

The justification for trade secret clauses is usually expressed as the need to control and protect intellectual property rights.¹⁵¹ When such

¹⁴⁵ Compare Cal. Bus. & Professions Code Ann. § 16600 (West 1997) with Tex. Bus. & Com. Code § 15.50(a) (Vernon’s Tex. Stat and Codes Ann. 2002).

¹⁴⁶ *Juliette Fowler Homes, Inc. v. Welch Assocs., Inc.*, 793 S.W.2d 660, 662 (Tex. 1990) (agreements not to compete are restraints of trade which will be held valid only if ancillary to a legitimate contract or other relationship, with the restraint to be no greater than needed “to protect the promisee’s legitimate interest” and the impact on the promisor not creating undue hardship or injury to the public).

¹⁴⁷ See generally *DeVoe v. Cheatham*, 413 So.2d 1141 (Ala. 1982) (although Alabama has a statutory prohibition seemingly rendering restrictive covenants void, they will be enforced to the extent that the employer has a protectable interest and the restriction is reasonably related to the interest, is reasonable in time and place, and imposes no undue hardship upon the employee); *Milgrim*, *supra* n. 29, at § 4.02[1][v] and cases cited therein, including *W.R. Grace & Co. v. Mouyal*, 422 S.E.2d 529 (Ga. 1992) (restrictive covenants are considered to be partial restraints of trade and will be upheld where the restraint imposed is reasonable, is based on consideration and is reasonably necessary to protect the employer’s legitimate interest without undue prejudice to the public interest);

¹⁴⁸ Cal. Bus. & Professions Code §§ 16601-16602.5; Tex. Bus. & Com. Code § 15.50(a); *Muggill v. Reuben H. Donnelley Corp.*, 398 P.2d 147, (Cal. 1965).

¹⁴⁹ See e.g. *Novelty Binding Co. v. Shevrin*, 175 N.E.2d 374 (Mass. 1961) (employee covenants not to compete generally are enforceable only to the extent that they are necessary to protect the legitimate business interests of the employer).

¹⁵⁰ Tex. Bus. & Com. Code Ann. § 15.50(a) (2002).

¹⁵¹ See generally Daniel L. Gifford, *The Antitrust Intellectual Property Interface: An Emerging Solution to An Intractable Problem*, 31 Hofstra L. Rev. 363 (2002) (“[R]ecent

restrictions seek to protect information that does not qualify for intellectual property protection, however, the justification is illusory and the restriction is arguably against public policy.¹⁵² Although as noted above, some courts are willing to enforce mere promises of confidentiality against a claim of restraint of trade, ordinarily these promises arise out of the employment relationship and not the consumer relationship that is the subject of online terms of use and other form agreements. In the employment context, restrictions on the activities of former employees are arguably justified by the fiduciary duty that employees owe to their employers. The question that is raised by confidentiality agreements that are imposed upon mere visitors to a website is whether there is any justification, other than the alleged contract itself, for the restraint. If no such justification exists, then arguably the agreement is an unreasonable restraint of trade, particularly when it seeks to restrict the use of public domain information and the communicative aspects of such use.¹⁵³

The illusory nature of the justification is also seen in trade secret clauses that fail to adequately identify the alleged secret.¹⁵⁴ If a database owner possesses a legitimate trade secret that is the subject of reasonable efforts to maintain its secrecy, then he should have no hesitation identifying the secret in terms that will allow it to be identified by the parties to the contract. Without some identifying language, the scope of the restrictive clause is much greater than it needs to be to protect the database owner's legitimate interests.¹⁵⁵ In essence, the possibility of trade secret protection

cases have . . . [held] that a patent (or copyright) may justify a tie that would otherwise be invalid.”).

¹⁵² *E.g. Dynamics Research Corp.*, 400 N.E.2d at 1288 (“[A] non-disclosure agreement which seeks to restrict the employee’s right to use an alleged trade secret which is not such in fact or in law is unenforceable as against public policy.”); *see also Painton & Co. Ltd. v. Bourns, Inc.*, 442 F.2d 216, 225-26 (2nd Cir. 1971) (“Provisions against competition not utilizing the trade secret, after expiration of the agreement, are a different matter which must be judged on their own facts.”).

¹⁵³ The later point raises free speech issues that may serve as the basis for the denial of preliminary injunctive relief. *See DVD Copy Control Assn.*, 75 P.3d 1.

¹⁵⁴ *See Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 661 (4th Cir. 1993) (plaintiff failed to identify its trade secrets in a manner sufficient to establish their existence); *AMP, Inc. v. Fleischacker*, 823 F.2d 1199, 1203 (7th Cir. 1987) (judgment for defendant upheld based in large part on the plaintiff’s failure “to identify any particularized trade secrets actually at risk”); *MAI Sys. Corp. v. Peak Computer, Inc.* 991 F.2d 511, 522 (9th Cir. 1993) (failure of plaintiff to identify alleged trade secrets contained in computer software was the basis for the reversal, in part, of summary judgment).

¹⁵⁵ *See Dynamics Research Corp.*, 400 N.E.2d. at 1287 (“[T]he nondisclosure agreement which Bicknell signed on entering DRC’s employ cannot be said to have put Bicknell on notice, either when he signed it or any time thereafter, that the obvious notions with

with respect to some portion of the database is being “misused” to secure protection for unprotected content.¹⁵⁶

Finally, trade secret clauses often fail to place any limitations on the length and geographic scope of the alleged duty of confidentiality.¹⁵⁷ Database owners who rely on trade secret clauses contained in TOUs apparently believe that simply by visiting a website, a person can be contractually bound in perpetuity and throughout the world. For those who are more realistic about the scope of their intellectual property rights and their ability to restrain future activities, there is a more troubling rationale for unlimited restrictions: to intimidate and threaten website visitors into compliance even though no independent legal duty exists. This ability to claim intellectual property rights where none exist is the real problem with such clauses; they can be easily abused. As Justice Scalia observed in *Wal-Mart v. Samara Brothers, Inc.*,¹⁵⁸ concerns about the over-assertion of intellectual property rights should not focus entirely on the ultimate merits of a plaintiff’s case, i.e., whether a defendant in a case to enforce a trade secret clause is likely to prevail.¹⁵⁹ Where the law is applied in a way that increases the filing of lawsuits based upon weak or non-existent intellectual property claims, competition is unreasonably hampered.

B. The Doctrine of Preemption

One way to control the filing of lawsuits that restrain competition is to preclude the assertion of state law claims that conflict with federal intellectual property policy. Such was the result of the seminal case of *Sears, Roebuck & Co. v. Stiffel Co.* in which the U.S. Supreme Court ruled that a state law claim of unfair competition was preempted by U.S. patent

which he was working were trade secrets.”); see also *Motorola, Inc. v. Fairchild Camera & Instrument Corp.*, 366 F.Supp. 1173, 1185 n. 3 (D. Ariz. 1973) (discussing the problems inherent in vague contracts and noting that the requirement of specificity is needed to ensure that trade secret law does not unduly conflict with federal patent law).

¹⁵⁶ The use of the term “misused” is in reference to the patent and copyright misuse doctrines which some have argued can and should be extended to other areas. See Dan L. Burk, *Anticircumvention Misuse*, 50 UCLA L. Rev. 1095 (2003); Lemley, *supra* n. 23.

¹⁵⁷ “A restrictive covenant which contains no territorial limitation is unreasonable as written and cannot be enforced in accordance with its terms.” *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1498 (5th Cir. 1990) (applying Louisiana law).

¹⁵⁸ 529 U.S. 205 (2000).

¹⁵⁹ *Id.* at 214 (“Competition is deterred . . . not merely by successful suit but by the plausible threat of successful suit . . .”).

law.¹⁶⁰ Applying the doctrine of preemption, the Court explained: “[w]hen state law touches upon the area of . . . federal statutes, it is ‘familiar doctrine’ that the federal policy ‘may not be set at naught, or its benefits denied’ by state law.”¹⁶¹ Or as explained in the earlier case of *Hines v. Davidowitz*,¹⁶² state law is preempted when it “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”¹⁶³

As the foregoing suggests, there is more to a preemption analysis than simply looking for a statutory pronouncement of a desire to preempt.¹⁶⁴ Preemption can arise without an express preemption provision in a number of ways, for instance when state law interferes with federal policy as expressed in a federal statute or the Constitution or when the federal law “so occupies the field” that the desire to preempt state law can be inferred.¹⁶⁵ Moreover, in applying the preemption analysis, one must consider not only the language and intent of the state law but how it is applied in practice.¹⁶⁶

¹⁶⁰ 376 U.S. at 229.

¹⁶¹ *Id.* (quoting *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 172, 176 (1942)).

¹⁶² 312 U.S. 52 (1941).

¹⁶³ *Id.* at 67.

¹⁶⁴ The Supreme Court has stated:

For when the question is whether a Federal act overrides a state law, the entire scheme of the statute must, of course, be considered, and that which needs must be implied is of no less force than that which is expressed. If the purpose of the act cannot otherwise be accomplished—if its operation within its chosen field else must be frustrated and its provisions be refused their natural effect—the state law must yield to the regulation of Congress within the sphere of its delegated power.

Savage v. Jones, 225 U.S. 501, 533 (1912).

¹⁶⁵ See David A. Rice, *Copyright and Contract: Preemption After Bowers v. Baystate*, 9 Roger Williams U. L. Rev. 595 (2004) (discussing preemption under section 301 of the Copyright Act); Samuelson & Opsahl, *supra* n. 3 (describing “direct conflict preemption,” “statutory preemption,” “field preemption,” “constitutional preemption,” and “interference with federal purpose preemption” and how these different formulations of the doctrine of preemption might be applied with respect to federal intellectual property policy).

¹⁶⁶ Comparing Ohio law to federal patent law, the court in *Kewanee* described the multi-faceted nature of the analysis as follows:

The patent law does not explicitly endorse or forbid the operation of trade secret law. However, as we have noted, if the scheme of protection developed by Ohio respecting trade secrets ‘clashes with the objectives of federal patent laws,’ then the state law must fall. To determine whether the Ohio law ‘clashes’ with the federal law it is helpful to examine the objectives of both the patent and trade secret laws.

Kewanee Oil, 416 U.S. at 480 (citation omitted).

Those who promote private ordering tend to give short shrift to the issue of preemption. They argue that content owners should be allowed to protect information under principles of contract law regardless of its intellectual property status.¹⁶⁷ Because trade secret clauses are part of a contract, and breach of contract claims are not generally preempted by federal law, they contend that preemption is of little concern.¹⁶⁸ Citing cases that have refused to find preemption where an “extra element” of proof is required above the elements of the federal claim, they argue that the contract is the extra element needed to avoid preemption.¹⁶⁹ Additionally, because the U.S. Supreme Court in *Kewanee* found that trade secret law, at least as it was understood and applied in that case, was not preempted by federal patent law, it is suggested that no further examination of the issue is needed.

There are a number of problems with the foregoing arguments. First, the extra element test applies to preemption under section 301 of the Copyright Act and not to other theories of preemption, including patent preemption. Moreover, the argument that a contract provides the “extra element” to avoid preemption fails to recognize the complexity of the policy

¹⁶⁷ Nimmer argues,

Traditional intellectual property law regimes have a long and rich history of debate concerning the balance between proprietary rights and unprotected zones. But this traditional scholarship and much of the base upon which it was founded was ripped apart and reshaped by computer information technologies and the opportunities as well as risks they create. . . . To focus solely on intellectual property when discussing licensing is to miss an important point. Modern transactions in information do not always stem from intellectual property rights; often, such rights are irrelevant.

Raymond T. Nimmer, *Licensing in the Contemporary Information Economy*, 8 Wash. U. J. L. & Policy 99, 105-06 (2002); see also *ProCD*, 86 F.3d 1447.

¹⁶⁸ See e.g. Raymond T. Nimmer, *Information Law* ¶ 2.14 at 2-42 (3d ed., West 2003) (“Preemption claims are generally rejected in context of properly pleaded claims relating to contract, confidentiality or similar relationships. The state interest in enforcing relational obligations provides an “extra element” that avoids preemption unless the claim conflicts with specific rules in copyright law.”) [hereinafter Nimmer I]; Raymond T. Nimmer, *The Uniform Commercial Code Proposed Article 2B Symposium: Article 2b: An Introduction*, 16 John Marshall J. Computer & Info. L. 211, 225 (1997) (“[B]oth as a practical and a conceptual matter, copyright does not preempt contract law. A contract defines rights between parties to the agreement, while a property right creates rights against all the world.”) [hereinafter Nimmer II]; see also 3 Paul Goldstein, *Copyright* vol. III, § 15.2.1.2, 15:10 (2d ed., Aspen 1996).

¹⁶⁹ Nimmer I, *supra* n. 168, at ¶ 2.14 (citing *ProCD*, 86 F.3d at 1447; *Natl. Car Rental Sys., Inc. v. Assoc. Intl., Inc.*, 991 F.2d 426 (8th Cir. 1993); *Brignoli v. Balch Hardy & Scheinman*, 645 F. Supp. 1201 (S.D.N.Y. 1986)); see also *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568 (4th Cir. 1994); *Wrench, LLC v. Taco Bell*, 256 F.3d 446 (6th Cir. 2001); *Micro Data Base Sys., Inc. v. Nellcor Puritan-Bennett, Inc.*, 20 F. Supp. 2d 1258 (N.D. Ind. 1998).

issues involved¹⁷⁰ and that there is disagreement about the scope and meaning of section 301 of the Copyright Act.¹⁷¹ While some courts have held that copyright law did not preempt the enforcement of a privately negotiated contract,¹⁷² there is no blanket rule that contracts can never be preempted.¹⁷³ To the contrary, as the court in the recent case of *Bowers v. Baystate* observed: “at times, federal regulation may preempt private contract.”¹⁷⁴ The principle underlying the rule is explained in *Nebbia v. People of New York*:

But neither property rights nor contract rights are absolute; for government cannot exist if the citizen may at will use his property to the detriment of his fellows, or exercise his freedom of contract to work them harm. Equally fundamental with the private right is that of the public to regulate it in the common interest.¹⁷⁵

The argument that contracts provide the extra element necessary to avoid copyright preemption fails to acknowledge that U.S. copyright law not

¹⁷⁰ See generally Samuel M. Bayard, *Chihuahuas, Seventh Circuit Judges, and Movie Scripts, Oh My!: Copyright Preemption of Contracts to Protect Ideas*, 86 Cornell L. Rev. 603 (2001); Cohen I, *supra* n. 13; Llewellyn Joseph Gibbons, *Stop Mucking Up Copyright Law: A Proposal For a Federal Common Law of Contract*, 35 Rutgers L. J. 959, 1006-14 (2004); I. Trotter Hardy, *Copyright, Contracts, and Preemption in a Digital World*, 1 Rich. J. L. & Tech. 2 (1995); Mary Brandt Jensen, *The Preemption of Shrinkwrap Licenses in the Wake of Vault Corp. v. Quaid Software Ltd.*, 8 John Marshall J. Computer & Info. L. 157 (1998); Karjala, *supra* n. 13; O’Rourke III, *supra* n. 13, at 76 (“Commentators and courts have never definitively resolved the question of whether a breach of contract claim in which the act which constitutes breach is also the act which would infringe the copyright is preempted.”); Rice, *supra* n. 165 (noting that there are both qualitative and quantitative aspects to the preemption analysis under section 301 of the Copyright Act).

¹⁷¹ “Courts have described the legislative history as ‘confusing,’ ‘ambiguous,’ and ‘puzzling and unreliable,’ due in part to the floor discussion by three Members of the House of Representatives in which they ‘agreed that examples should be deleted, but seemed to differ on whether this action was to limit or expand preemption.” Gibbons, *supra* n. 170, at 1009 (citing *Kabehie v. Zoland*, 102 Cal. App. 4th 513, 524 n. 5 (Cal. App. 2d Dist. 2002)).

¹⁷² See e.g. *ProCD*, 86 F.3d at 1455; *Natl. Car Rental*, 991 F.2d at 435; *Bowers*, 320 F.3d at 1323.

¹⁷³ See e.g. *Lipscher v. LRP, Publications, Inc.*, 266 F.3d 1305 (11th Cir. 2001) (noting that “acquisition misconduct claims” were within general scope of copyright); *Wolff v. Inst. of Elec. & Elec. Engrs., Inc.*, 768 F. Supp. 66, 69 (S.D.N.Y. 1991) (breach of contract claim preempted because it was not “qualitatively” different from copyright infringement claim).

¹⁷⁴ *Bowers*, 320 F.3d at 1322-23 (quoting *Nebbia v. People of N.Y.*, 291 U.S. 502, 523 (1934)).

¹⁷⁵ *Nebbia*, 291 U.S. at 510.

only defines what information is protected but also reflects a decision by Congress that certain classes of information should be available to the public at large.¹⁷⁶ Thus, state law may conflict with federal intellectual property policy, not just because it seeks to protect information that is within the scope of copyright or patent protection but also because it seeks to protect information that Congress decided not to protect.¹⁷⁷ The argument also assumes that the extra elements are actually applied. But if a breach of contract claimant is not held to the strict requirements of contract law (as discussed *supra*), then such is not the case. Finally, holding that a breach of contract action is not preempted simply because of the existence of a contract fails to take account of the actual nature of the underlying contractual obligation.

The U.S. Supreme Court has, in a number of cases, recognized that the enforcement of a contract may be contrary to federal patent policy.¹⁷⁸ In *Lear, Inc. v. Adkins*, the Court considered whether a patent licensee should be estopped from challenging the validity of the patent¹⁷⁹. The Court stated: “At the core of this case . . . is the difficult question whether federal patent policy bars a State from enforcing a contract regulating access to an unpatented secret idea.”¹⁸⁰ In other words, the case involved a contract that, at its inception, involved only a trade secret. Noting the need to “examine the interface between national patent policy and state control,” the Court said the question was “whether overriding federal policies would be *significantly frustrated* by enforcing the license.”¹⁸¹ Significantly, there is

¹⁷⁶ See e.g. 17 U.S.C. § 102(b) (2000); *Lear*, 395 U.S. at 668 (“[F]ederal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent.”).

¹⁷⁷ See Stephen M. Dorvee, *Protecting Trade Secrets Through Copyright*, 1981 Duke L. J. 981, 993 (1981) (noting that, for purposes of applying section 301 of the Copyright Act, the Copyright Act might be read to include as part of copyright’s subject matter the limits on copyright protection that are detailed in section 102(b)); Karjala, *supra* n. 13 (“Fundamental federal copyright policy holds that at least for widely distributed works, the copyright owner is not free to draw the balance between owners’ and users’ rights as he or she chooses.”); see also *Bonito Boats*, 489 U.S. at 151 (noting that the same principle is applicable to U.S. patent law: “To a limited extent, the federal patent laws must determine not only what is protected, but also what is free for all to use.”); Lemley, *supra* n. 6, at 1274 (“In the context of intellectual property law, therefore, it matters greatly whether the federal statutes were intended as default rules or whether there is a public interest in enforcing the rights of vendor and users as the laws are written.”).

¹⁷⁸ See *Lear*, 395 U.S. 653; *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

¹⁷⁹ *Lear*, 395 U.S. at 655.

¹⁸⁰ *Id.* at 672.

¹⁸¹ *Id.* at 673; see also Samuelson & Opsahl, *supra* n. 3 (discussing “policy preemption”).

no discussion in the case of the “extra element” of a breach of contract claim. The conflict with the policies underlying patent law, and not the details of contract law, is what made enforcement of the subject contract problematic.¹⁸²

Although *Kewanee Oil Co. v. Bicron Corporation* is often cited for the broad proposition that trade secret law is not preempted by federal law, the decision is actually much narrower than it appears on the surface.¹⁸³ First, it involved a classic form of trade secret – a manufacturing process – and not the broad range of highly factual information that is often the subject of trade secret clauses.¹⁸⁴ Related to this point is the fact that the Court in *Kewanee* examined the issue of preemption from the perspective of patent law and did not consider the preemptive effect of U.S. copyright law.¹⁸⁵ Indeed, at the time *Kewanee* was decided, the 1976 Copyright Act had not been passed by Congress and protection for unpublished works was still within the purview of the states.¹⁸⁶ More importantly, the Supreme Court applied a narrow conception of trade secret law that is more in keeping with the strict requirements of the UTSA than with the broad, amorphous form of trade secret law applied by some courts.¹⁸⁷

Applying the pre-UTSA law of Ohio, the Supreme Court in *Kewanee* quickly identified secrecy as the most important element of a trade secret claim.¹⁸⁸ Noting that “[b]y definition a trade secret has not been placed in the public domain,”¹⁸⁹ the Court observed that the protection of

¹⁸² *Lear*, 395 U.S. at 676.

¹⁸³ As noted by Rice, “the immediately important lesson of *Bonito Boats* . . . is that unbridled reliance upon *Kewanee* to preserve all that a state declares to be within its software trade secret law or related contract law is unsound.” Rice, *supra* n. 6, at 585.

¹⁸⁴ *Kewanee Oil*, 416 U.S. at 473.

¹⁸⁵ *But see Computer Associates Intern., Inc. v. Altai, Inc.*, 982 F. 2d. 693, 716-718 (2d Cir. 1992) (court vacated lower court’s preemption ruling on plaintiff’s trade secret claim finding that a trade secret claim may provide the “extra element” necessary to avoid copyright preemption).

¹⁸⁶ *See Goldstein v. Cal.*, 412 U.S. 546 (1973) (cited with favor in *Kewanee Oil*, 416 U.S. at 470).

¹⁸⁷ *Kewanee Oil*, 416 U.S. at 475 (“The subject of a trade secret must be secret, and must not be of public knowledge or of general knowledge in the trade or business.”). In addition to stressing secrecy, the court noted the requirement of misappropriation and the fact that trade secret law “does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering.” *Id.* at 476.

¹⁸⁸ *Id.* at 475 (citing *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99, 104 (Ohio App. 1963)).

¹⁸⁹ *Id.* at 484.

trade secrets did not withdraw information that was already available to the public and was unlikely to discourage the disclosure of information that is part of U.S. patent policy.¹⁹⁰ Significantly, it was on the basis of this interpretation and the concomitant weakness of trade secret protection that the Court concluded that Ohio's trade secret law was not preempted.¹⁹¹ Because the existence of a trade secret was assumed, the Supreme Court did not address the question whether the enforcement of "confidentiality" and "proprietary" rights would conflict with federal patent policy.

Although the U.S. Supreme Court has yet to decide if trade secret law is preempted by U.S. copyright law, its pronouncements in a number of seminal preemption cases demonstrate that the required analysis demands more than the counting of the elements of a cause of action. The critical question is whether the enforcement of a privately negotiated contract or state trade secret law is likely to remove information from the public domain.

In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, the U.S. Supreme Court re-invigorated the preemption doctrine when it emphasized the narrow scope of its holding in *Kewanee*.¹⁹² In so doing, the Court identified several factors that it said were "critical" to its decision in that case.¹⁹³ First, was the fact that, by definition, trade secrets are not in the public domain.¹⁹⁴ Second, was the weak protection that trade secret law provides.¹⁹⁵ Third, the Court noted that trade secret law "operated to protect non-economic interests outside the sphere of congressional concern in the patent laws;" namely, a right to be free from industrial espionage.¹⁹⁶ While the Court in *Bonito Boats*

¹⁹⁰ *Id.*

¹⁹¹ The court stated:

Trade secret law provides far weaker protection in many respects than the patent law. While trade secret law does not forbid the discovery of the trade secret by fair and honest means, e.g., independent creation and reverse engineering, patent law operates "against the world," forbidding any use of the invention for whatever purpose for a significant length of time. The holder of a trade secret also takes a substantial risk that the secret will be passed on to his competitors, by theft or by breach of a confidential relationship, in a manner not easily susceptible to discovery or proof. [Citations omitted] . . . Where patent law acts as a barrier, trade secret law functions relatively as a sieve.

Id. at 489-90.

¹⁹² *Bonito Boats*, 489 U.S. at 155.

¹⁹³ *Id.*

¹⁹⁴ *Id.*

¹⁹⁵ *Id.*

¹⁹⁶ *Id.*

noted its unwillingness to establish a *per se* rule that all state regulation of intellectual property is preempted, it emphasized that state law could not be used to remove information from the public domain.¹⁹⁷ “[W]e have consistently reiterated the teaching of *Sears and Compco* that ideas once placed in public without protection of a valid patent are subject to appropriation without significant restraint.”¹⁹⁸

Obviously, to the extent trade secret and related contract law is applied to protect a broader range of information than legitimate trade secrets, preemption is a significant obstacle to the enforcement of trade secret clauses because of at least one of the concerns expressed in *Kewanee* and *Bonito Boats*. If the information sought to be protected is already in the public domain, enforcement of the trade secret clause would have the effect of withdrawing information from the public domain.¹⁹⁹ This is particularly true with respect to trade secret clauses contained in online terms of use agreements where the proponents of such clauses contend that everyone who visits their website is restricted in the use of such information.²⁰⁰

The arguments that actions to enforce trade secret clauses are not preempted also fail to recognize the limits on the scope of trade secret law that are contained in the UTSA and the fact that the UTSA was adopted amidst concern that it would conflict with federal patent and copyright policy.²⁰¹ In this regard, it is significant that *Kewanee* was decided five years before the final draft of the UTSA was presented to NCCUSL for approval and at a time when U.S. copyright law did not protect unpublished works of authorship. Moreover, the drafters of the UTSA had the benefit of the Supreme Court’s reasoning and understood the narrow conception of trade secret law that the Court applied in that case. As a result, they were careful not to draft the definition of a trade secret in a way that allowed non-secret information to be protected.²⁰²

If and when the U.S. Supreme Court considers whether trade secret law is preempted by U.S. copyright law, the decision of the drafters of the UTSA not to expand the definition of protected information to include “confidential information” will be significant because of their expressed

¹⁹⁷ *Id.* at 156.

¹⁹⁸ *Id.*

¹⁹⁹ See Karjala, *supra* n. 13 (arguing that preemption is more likely with respect to widely distributed works).

²⁰⁰ See Rice, *supra* n. 6, at 589 (making the same point with respect to restrictions on reverse engineering).

²⁰¹ See *supra* n. 50 and accompanying text; see also Rice, *supra* n. 6, at 574-76.

²⁰² In fact, it was for this reason that they decided that the UTSA should not provide protection for confidential information. See *supra* n. 50.

concern that such a definition would conflict with the scope of copyrighted works contained in the 1976 Copyright Act.²⁰³ More importantly, however, is the conflict that would exist when a trade secret infringement or breach of contract case is brought to protect information that U.S. copyright law has defined as unprotected.²⁰⁴ Neither *Kewanee* nor U.S. copyright law support the proposition that trade secret claims can be used to protect information that is not secret.²⁰⁵ Yet, that is precisely what the proponents of trade secrets clauses often seek to protect.

The argument that breach of contract claims are not preempted also ignores one of the rationales for such rule: contract law affects only the parties to the contract.²⁰⁶ Or to use the parlance of the Supreme Court in *Kewanee* and *Bonito Boats*, contract rights are not “rights against the world.”²⁰⁷ However, trade secret claims that are disguised as breach of contract actions in order to avoid preemption problems have a broader reach than just the parties to the contract. First, in the case of online terms of use agreements, such claims purportedly apply to all people who visit the associated website. Moreover, as noted above, trade secret actions frequently seek injunctions that will apply to the activities of strangers.²⁰⁸ To the extent such actions also seek to protect information that is in the public domain, the public at large is harmed.²⁰⁹

By imposing restrictions on the use of information that is publicly disseminated, database owners are clearly attempting to limit the use of ideas and information that are revealed on their websites and elsewhere. To the extent such ideas and information meet the definition of a trade secret

²⁰³ *Id.*

²⁰⁴ As noted in the legislative history of the 1976 Copyright Act: “Copyright does not preclude others from using the ideas or information revealed by the author’s work.” 3 Omnibus Copyright Revision Legislative History, *Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, p. 3. Pursuant to the principles set forth by the U.S. Supreme Court in *Feist*, the mere discovery of factual information cannot be protected by copyright law because it lacks the Constitutionally mandated requirement of “originality.”

²⁰⁵ *Supra* n. 187 and accompanying text.

²⁰⁶ See *ProCD*, 86 F.3d at 1454 (noting that *Kewanee Oil* “holds that contracts about trade secrets may be enforced—precisely because they do not affect strangers’ ability to discover and use the information independently”).

²⁰⁷ *Bonito Boats*, 489 U.S. at 142; *Kewanee Oil*, 416 U.S. at 470.

²⁰⁸ Although on the surface it may seem that injunctions in trade secret cases are only binding upon the parties to the action, in practice, the injunctions are often worded in a manner that restricts the activities of non-parties, for instance, by being made applicable to a company and “its agents and employees.”

²⁰⁹ *Supra* n. 76-78 and accompanying text.

under the U.S. Supreme Court's understanding of the stringent requirements of trade secret law, then such claims are not preempted. However, if a lesser standard of trade secrecy is applied, then the claims should be preempted, particularly where the remedy sought affects more than just the parties to a contract. To hold otherwise would restrict the use of too much information and would quell the very creativity and innovation that U.S. patent and copyright laws and state trade secret laws are intended to encourage.

V. CONCLUSION

If lawsuits to enforce trade secret clauses related to mass distributed information are seen for what they really are—breach of contract actions and not trade secret infringement claims—then the plaintiffs in such cases must meet the requirements imposed by the law of contracts. This, of course, includes the law and evidentiary requirements applicable to requests for specific performance. If, in addition, the proponents of trade secret clauses want to pursue a trade secret infringement claim, then they must understand that trade secret protection is limited in its scope and that no relief will be granted if no trade secrets exist. Under either approach, the fact that the information is not a trade secret stands as a major impediment to recovery because federal law favors the free use and dissemination of information that is in the public domain and it is against public policy to restrain the use of such information.