TRADE SECRET INJUNCTIONS: CONTEMPORARY ISSUES AND PUBLIC POLICY CONSIDERATIONS

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INTRODUCTION

In trade secret litigation, injunctive relief is the most commonly-sought form of relief.[1] This is generally attributed to two considerations: (1) damages are often difficult, if not impossible, to calculate in many trade secret cases, and (2) injunctions are the most effective means to thwart the use or disclosure of a trade secret by a misappropriator.[2] Thus, any consideration of the contemporary issues associated with trade secrets will almost invariably involve some discussion of the problems associated with the use of injunctions in this area of law.

Historically, trade secrets have been regarded as a kind of anomaly of intellectual property law,[3] but they are quickly evolving as the intellectual property protection of choice in the modern economy.[4] To a great extent this is attributed to the growth of the intangible forms of intellectual property which are the product of the "Information Age."[5] As the use of trade secrets increases in business and industry, so do the issues which arise from their application. Particularly, the adaptation of injunctive relief to trade secret disputes has met with several difficulties which occupy the attention of courts, legal scholars, and parties to litigation. The aim of this work is to discuss some of these controversies. The following topics will be addressed:

1. 4 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 15.02(1)(a) (2003).
2. HENRY H. PERRITT, JR., TRADE SECRETS: A PRACTITIONERS GUIDE, 491-92 (Practicing Law Institute 2003).
3. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 243 (1998).
4. R. Mark Halligan, *Trade Secrets and the Inevitable Disclosure Doctrine*, 719 PLI/PAT 145, 151 (2002).
5. *See Id.*

(1) the suitability of awarding equitable rather than legal relief for trade secret misappropriation; (2) the appropriate temporal scope of trade secret injunctions; (3) the doctrine of inevitable disclosure; and (4) First Amendment considerations.

I. OVERVIEW OF TRADE SECRET LAW

The Uniform Trade Secrets Act defines a trade secret as:

> [I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[6]

More simply stated, a trade secret is essentially information which is valuable by virtue of the fact that it is kept secret through reasonable measures. Examples of information which may be the subject of a trade secret include: customer lists and client information; manufacturing processes; software object and source code; designs, drawings, and models; internal specifications and testing procedures; strategic plans; marketing, development, and research plans; negative information (failed experimental techniques); vendor and supplier information; and pricing and cost information.[7]

Interestingly, only relative (not absolute) secrecy is required to protect trade secrets.[8] Where the measures used to protect a secret are reasonable under the given circumstances, this requirement will be met. Reasonable measures may include activities such as marking

6. UNIF. TRADE SECRETS ACT § 1(4) (amended 1985) 14 U.L.A. 443, 449 (1990) [hereinafter UTSA].

7. MARK A. GLICK ET AL., INTELLECTUAL PROPERTY DAMAGES GUIDELINES AND ANALYSIS 286 (2003).

8. ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 35 (3d ed. 2003).

documents as "confidential," asking employees and contractors to sign confidentiality and nondisclosure agreements, limiting access to facilities where trade secret information might be discovered, utilizing passwords to prevent unauthorized access to electronic information, and implementing employee exit interviews.[9] These techniques can be used to minimize the risk that a trade secret will become publicly known or illicitly used by a competitor.

Trade secret disputes typically arise under two circumstances: (1) when a trade secret is misappropriated, i.e., acquired through illegitimate means, and (2) when there is a likely or inevitable *threat* of misappropriation. Misappropriation may occur through " . . . theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."[10] The *threat* of misappropriation typically takes place when an employee or partner leaves a company to work for a competitor and she brings trade secret knowledge with her which may be valuable to the competitor.

Clearly, trade secrets may also be lost or granted to others through legitimate means. This can occur through discovery via independent invention by a competitor or discovery through reverse engineering.[11] Also, where a trade secret is observed in public use or in a public display, the trade secret may be lost.[12] Additionally, a trade secret may be properly discovered under a license from the owner of the trade secret.[13] Finally, the publication of a trade secret will also result in its loss.[14] The latter scenario commonly occurs when a trade secret holder elects to

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9. GLICK, *supra* note 7, at 284-85.
10. UTSA, *supra* note 6, § 1(1), at 437.
11. *Id.* § 1 cmt., at 438. The term "reverse engineering" refers to the process of "starting with the known product and working backward to find the method by which it was developed." *Id*. For example, the ingredients of a pharmaceutical may determined through chemical analysis of the drug; if the pharmaceutical is not patented, the trade secret is lost and may be used freely by competitors.
12. *Id.*
13. *Id.*
14. *Id.*

patent the protected idea. If the patent issues, the trade secret becomes publicly known; upon the expiration of the patent, it may be freely used by anyone.

There are essentially two schools of thought concerning the public policy underlying trade secret law: the utilitarian view and the deterrence view.[15] Recognizing these views is useful to a discussion of trade secret injunctions because the decision to grant an injunction and the manner in which a court crafts an injunction are usually reflective of one of these legal theories.

The utilitarian view asserts that the protection of information which is kept secret encourages the investment in such information, and this leads to innovation.[16] This view is essentially analogous to the legal theories behind traditional property rights, and support for this theory exists in the finding that trade secrets have many of the same qualities of tangible property: for example, they are assignable, and they can form the res of a trust.[17]

Alternately, the deterrence view, which is analogous to a tort theory, suggests that trade secret protection is founded in the need to discourage wrongful acts.[18] In the context of trade secrets, this has been expressed as a "duty-based theory" or "the maintenance of commercial morality."[19] Ultimately, this theory of protection also largely encourages investment in trade secret information.[20]

It can also be said that both views, which serve to promote research and development, generally parallel the rationale behind federal patent law, which seeks to protect and encourage inventors by offering them " . . . the right to exclude others from making, using, offering for sale, or selling . . . " their inventions.[21] This right is embodied in Article I, Section 8 of the United

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15. MERGES, *supra* note 8, at 31-32.
16. *Id.*
17. Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002 (1984).
18. MERGES, *supra* note 8, at 31-32.
19. *Id.* (citing 1 MELVIN JAGER, TRADE SECRETS LAW §1.03, at 1-4 (2001)).
20. MERGES, *supra* note 8, at 31-32.
21. 35 U.S.C. § 154(a)(1) (2000).

States Constitution, which encourages " . . . the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."[22] The United States Supreme Court summarized the intent of the federal patent law in *Aronson v. Quick Point Pencil Co.* in 1979:

> First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.[23]

Thus, society tends to benefit through the protection of an innovator's efforts because the innovation is encouraged by the potential for monetary reward. However, like patents, trade secrets also have the power to limit competition and provide monopolies on information.[24] This is significant in light of an important distinction between the protection of trade secrets and the protection of patents: patents may only provide protection for a limited period of time, while trade secrets may be protected for as long as they are kept secret. This distinction creates a potential conflict between federal and state laws, in light of the legislative intent behind federal patent law, and the fact that trade secrets are governed almost exclusively by state laws.[25]

Specifically, in fashioning the patent law, Congress sought to create a system through which society could provide inventors with what is essentially an exclusive license to their own inventions for a *limited* period of time. Following the expiration of this period, the right to the invention returns to the public domain so that society may benefit freely from its usefulness.

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22. U.S. CONST. art I, § 8, cl. 8.
23. 440 U.S. 257, 262 (1979) (citing *Kewanee Oil*, 416 U.S. 470, 480-481 (1974)).
24. GLICK, *supra* note 7 at 308.
25. Recently, some federal laws have also emerged which govern trade secrets, particularly where technology plays a role. Sections of both the Computer Fraud and Abuse Act and the Digital Millennium Copyright Act may reach aspects of trade secret law not previously addressed by state law. Additionally, the Economic Espionage Act of 1996 provides criminal sanctions for trade secret misappropriation. STEPHEN M. MCJOHN, INTELLECTUAL PROPERTY EXAMPLES AND EXPLANATIONS 290 n.1 (2003).

This would appear to conflict with state trade secret laws, which create a system through which innovators may maintain the exclusive rights to their ideas *indefinitely*.

The United States Supreme Court addressed this issue in *Kewanee Oil Co. v. Bicron Corp.*, where the Court sought to determine whether federal patent law preempts state trade secret laws under the Supremacy Clause of the Constitution.[26] Writing for the Court, Justice Burger held that because the objectives of federal patent law were not likely to be frustrated by state trade secret laws, and because trade secret laws met long-recognized needs, there was no preemption:

> Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation . . . Congress, by its silence over these many years, has seen the wisdom of allowing the States to enforce trade secret protection. Until Congress takes affirmative action to the contrary, States should be free to grant protection to trade secrets.[27]

However, the Supreme Court later offered an important distinction to this opinion in *Bonita Boats, Inc. v. Thunder Craft Boats, Inc.*[28] That case involved a dispute between two Florida boat manufacturers regarding the unauthorized duplication of one manufacturer's vessel hull designs by the other.[29] A Florida trade secret law, which was designed to promote the profitable boat-manufacturing industry, prohibited such duplication even where the protected design was in the plain view of the public.[30] Writing for the majority, Justice O'Connor stated that while *Kewanee* had established the principle that trade secrets may be protected under state

26. 416 U.S. 470 (1974).
27. *Kewanee Oil*, 416 U.S. at 493.
28. 489 U.S. 141 (1989).
29. *Bonita Boats*, 489 U.S at 144-45.
30. *Id.*

law, this protection did not extend to information which was already before the public, e.g., in open view in a public place, because such protection is barred by federal patent law.[31] Under the patent law, any article which has been in public use or on sale for greater than a year is no longer patentable, because it is thought to have entered the public domain.[32] To this end, Justice O'Connor wrote: "State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable . . . [but] . . . ideas once placed before the public without the protection of a valid patent are subject to appropriation without significant restraint."[33] Thus, where a state trade secret law is extended to protect information which is already in the public domain, that law frustrates the goals of federal patent law and may be preempted.

In the context of trade secret injunctions, it follows that federal preemption might result when an injunction disturbs the balance established by Congress in crafting the patent law, i.e., where the injunction excludes information from the public domain which is rightfully due the public. This subject has historically led to substantial disagreement among the courts, particularly in determining the appropriate duration for an injunction. This topic is addressed in detail in section IV(b) below.

It is not uncommon for trade secret disputes to converge with issues pertaining to patents. This is because the subject matter for which protection is sought under these two forms of intellectual property is often similar.[34] The choice of one form of protection over the other is

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31. *Id*. at 156.
32. 35 U.S.C. § 102(b) (2000).
33. *Bonita Boats*, 489 U.S. at 156.
34. However, not all information which may be protected by trade secret can be the subject matter of a patent. For example, customer lists and vendor/supplier information are commonly safeguarded by trade secrets, but may not be the subject of a patent. Under federal patent law, statutory subject matter includes " . . . any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . . " 35 U.S.C. § 101 (2000). In 1998, this statute was further interpreted to extend patent protection to business methods. *See* State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998).

typically a decision which results from balancing the comparative cost of obtaining and enforcing these two forms of protection with the value which the information will have over time. Patents are generally expensive to obtain and enforce, but they provide very effective protection, albeit for a limited time.[35] Trade secrets may be substantially less expensive to maintain and they may be enforced indefinitely, but they also provide more fragile protection.[36]

II. THE LEGAL ORIGINS OF TRADE SECRET INJUNCTIONS

As noted above, unlike other forms of intellectual property law, trade secrets are governed almost exclusively by state laws. Further, no state or federal agencies exist to register or "issue" trade secrets.[37] Despite the disharmony one might expect to emerge from this system, trade secret law in the United States has become increasingly uniform in recent years with the adoption of the Uniform Trade Secret Act (UTSA) by nearly all of the states.[38] Prior to the drafting of the UTSA, states relied on common law, and later the Restatements to provide principles for trade secret law.[39] The UTSA represents an attempt to codify the basic principles of the common law, and it reflects many of the principles asserted by the Restatements.[40]

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35. MCJOHN, *supra* note 25, at 290-91.

36. *Id.*

37. MERGES, *supra* note 8, at 20.

38. The UTSA was first promulgated by the Uniform Law Commissioners in 1979 and amended to its present form in 1985. To date, the UTSA has been adopted in some form by all but five states: New Jersey, Texas, Wyoming, Massachusetts, and New York are the only remaining states which still rely on the common law or the Restatements. The latter two states are expected to adopt the Act in 2004. *See A Few Facts About the Uniform Trade Secrets Act*, *available at* http://www.nccusl.org/.

39. MERGES, *supra* note 8, at 29-30. Trade secret law was first addressed in §757 of the Restatement of Torts, but this section was later omitted in the Restatement (Second) of Torts. Following the drafting of the UTSA, a section on trade secrets was included in the Restatement (Third) of Unfair Competition, which is largely consistent with the UTSA. *Id.*

40. *Id.; but cf.* Brandon B. Cate, *Saforo & Associates, Inc. v. Porocel Corp.: The Failure of the Uniform Trade Secrets Act to Clarify the Doubtful and Confused Status of Common Law Trade Secret Principles*, 53 ARLR 687 (2000) (arguing that despite the adoption of the UTSA by a majority of the states, a lack of uniformity still

Notably, the UTSA comprises only twelve brief sections, the second of which is devoted exclusively to the topic of injunctive relief.[41] This section sets forth guidelines for the appropriate period of restraint for trade secret injunctions, and it authorizes injunctive relief for both actual and threatened trade secret misappropriations.[42] The inclusion of a section dedicated entirely to injunctions in the rather concise UTSA is likely no accident; a substantial number of the disputes which have arisen from the body of trade secret law as a whole are the product of issues stemming from the use of injunctions. Further, it is not by mistake that the UTSA section which is dedicated to injunctions precedes the section which describes damages, as it may be said that in trade secret law, "[t]he objective is . . . to plug the leaks in the dam first, then assess the damages afterward."[43]

III. Modern Issues

A. The Suitability of Awarding Equitable Rather than Legal Relief for Trade Secret Misappropriation

Perhaps the most fundamental question regarding the use of injunctions in trade secret law is whether and when these equitable remedies may be used at all, in lieu of legal remedies. The answer to this question in the context of trade secret law is complex and the subject of substantial debate. Because an injunction is frequently the only reasonable measure which can be used to protect a plaintiff's interests when confronted with the misappropriation (or the threat of misappropriation) of a trade secret, courts often tailor their analyses to find some means by

exists among the UTSA jurisdictions because individual states tend to rely on their own common law trade secrets principles).

41. UTSA, *supra* note 6, § 2, at 449.
42. *Id.*
43. Halligan, *supra* note 4, at 155.

which to allow an injunction. This has been met with criticism in light of the traditional rules governing legal and equitable remedies.

Historically, the equitable-legal remedy division can be traced to the fifteenth century when the English court system divided into what would become distinctly separate courts of law and equity by the seventeenth century.[44] This judicial framework was later inherited by the United States, and although these courts eventually merged into a single system in all but a few of the American states, vestiges of this division persist in our judicial scheme.[45] One example of this is the doctrine, generally regarded as "hornbook law," that where a legal remedy will suffice, an equitable remedy may not be granted in its place.[46] However, it is argued that although "[t]his rule is still on the books everywhere . . . it no longer has much bite," and "[w]here the law/equity distinction is especially murky . . . lawyers and judges tend to overlook it, and the distinction becomes less significant and less important."[47] This view has been reinforced by intellectual property scholars: "with the disappearance in federal courts (and in many state jurisdictions) of the distinction between law and equity, more and more we see cases being tried with legal and equitable issues joined."[48]

Central to the blurring of this distinction is the decline of the "irreparable injury" rule.[49] This rule, which is essentially a restatement of the doctrine noted above, asserts that equity is available only to prevent injury that is irreparable at law.[50] However, Professor Laycock argues

44. Ellen E. Sward, *A History of the Civil Trial in the United States*, 51 UKSLR 347, 357-58 (2003).
45. DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES 7 (3d ed. 2002).
46. *Id.* at 370.
47. *Id.* at 7-8.
48. 4 MILGRIM, *supra* note 1, at § 15.02(1)(a).
49. LAYCOCK, *supra* note 45, at 381-82.
50. *Id.*

that at least in regard to permanent relief, “any litigant with a plausible need for specific relief can satisfy the irreparable injury rule.”[51]

In the context of trade secret law, this is especially evident. As noted previously, the commonly cited justification for the frequent use of injunctions to address trade secret misappropriations is the fact that legal remedies are generally inadequate to prevent or repair the harm which is likely to follow a misappropriation. Indeed, the UTSA states that a trade secret "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 . . . "[52] Thus, the value of a trade secret lies in the fact that it is kept secret; when the secrecy is lost, the value of the trade secret is also lost or reduced. Because this value is generally the product of the time, money, or effort invested in the development of the information, or of its value as a competitive tool in the marketplace, it is often difficult or impossible to measure. Further, it has been said that “[a]ny unauthorized disclosure or use of a trade secret causes irreparable harm as a matter of law because once another person or entity obtains access to the trade secret without authorization, the value of a trade secret is diminished or destroyed.”[53]

This consensus is often reflected in the decisions of the courts. Frequently, courts satisfy the irreparable harm inquiry in trade secret cases by simply holding that trade secret misappropriation inevitably results in irreparable harm. Citing the Court of Appeals for the Second Circuit, the District Court for the Eastern District of New York said in 1996: “It is clear that irreparable harm is presumed where a trade secret has been misappropriated . . . ‘a trade secret once lost is, of course, lost forever’ and, as a result, such a loss ‘cannot be measured in

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51. *Id.*
52. UTSA, *supra* note 6, § 1(4)(i), at 438.
53. Halligan, *supra* note 4, at 155.

money damages' . . . [F]or purposes of a motion for a preliminary injunction, loss of trade secrets is not measurable in terms of money damages and is thus considered irreparable harm."[54]

Not all legal commentators agree with the relaxation of this rule in trade secret cases. Some scholars argue that courts should adhere to the historic principles which govern the choice of legal and equitable remedies. This view is asserted by Thomas Casagrande in a recent article in which he discusses the use of permanent injunctions in trade secret disputes.[55]

Casagrande begins by identifying the convergence of two elements which have historically been required to permit the use of an equitable remedy: irreparable harm and the absence of an adequate remedy at law.[56] He adopts the opinion of some legal scholars who believe that these two elements actually merge into a single requirement, namely that equitable remedies are only appropriate when harm cannot be adequately repaired by monetary damages.[57] In other words, harm is reparable when it can be compensated monetarily, but irreparable when it cannot. Thus, Casagrande seems to posit that the central question which must be answered in deciding whether equitable relief is appropriate in *trade secret* disputes is whether the plaintiff can be adequately compensated monetarily for the harm that he suffered in the misappropriation of his trade secret.

Casagrande proceeds to describe two common scenarios which may follow trade secret misappropriation: one in which the misappropriator has, thus far, made no use or disclosure of the trade secret, and a second in which the misappropriator has either made commercial use of

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54. Lumex, Inc. v. Highsmith, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (citing FMC Corp. v. Taiwan Tainan Giant Indus. Co., 730 F.2d 61, 63 (2d Cir. 1984)).

55. Thomas L. Casagrande, *Permanent Injunctions in Trade Secret Actions: Is a Proper Understanding of the Role of the Inadequate Remedy at Law/Irreparable Harm Requirement the Key to Consistent Decisions?,* 28 AIPLA Q.J. 113 (2000).

56. *Id.* at 119-20.

57. *Id.* (citing OWEN M. FISS & DOUG RENDLEMAN, INJUNCTIONS 24 (2d ed. 1984)); *But see* LAYCOCK, *supra* note 45, at 371 (arguing that Professor Fiss and other commentators create confusion by improperly using these two phrases interchangeably).

the secret or disclosed it to others.[58] He argues that in the first scenario, irreparable harm necessarily occurs because the plaintiff's loss of control of the trade secret is not measurable and is therefore irreparable.[59] Stated otherwise, the harm arises not from the acts which follow the misappropriation, but rather from the immeasurable loss of control over the secret itself.

Interestingly, Casagrande asserts that in the second scenario, where the misappropriator has already either used or disclosed the secret, the harm may be reparable because it is potentially measurable.[60] At first blush, this scheme seems to run counter to logic: a defendant who has misappropriated a trade secret but has done nothing with it may be said to have caused irreparable harm, yet a defendant who has used a misappropriated trade secret for his own economic benefit or revealed that secret to the public may have caused something less than irreparable harm. Indeed, some danger does lie in this generalization: it is difficult to imagine a misappropriation of the latter variety which does not carry with it the risk of future harm. For example, if a defendant steals a trade secret from a competitor and uses it to undercut the competitor's business, the damages might be measurable, but what of the *potential* damages which may result if the defendant later reveals the information to a third party, who possesses the means to utilize the trade secret in much greater volume? An injunction would serve as a useful deterrent under these facts.

Further, it would seem that the plaintiff has lost control of his trade secret in both of the situations Casagrande describes, regardless of whether the defendant has used or disclosed the secret subsequent to acquiring it. If Casagrande's assertion that the trade secret owner's loss of control of the trade secret "makes up a large part of the injury," and " . . . that injury, virtually by

58. Casagrande, *supra* note 55, at 124-25.
59. *Id.*
60. *Id.*

definition, is irreparable,"[61] then it follows that *all* trade secret misappropriations should result in irreparable injuries which could be granted injunctive relief.

Thus, using the irreparable harm rule as a litmus test for the appropriateness of injunctive relief does not seem to be very practical. In general, applying rigid, traditional legal/equitable standards to providing remedies in trade secret disputes may be a daunting or unnecessary burden for the courts to bear. As Professor Laycock stated, "[a] rule designed to preserve the jurisdictional boundaries between two courts that have long been merged should die unless it serves some modern purpose."[62]

Casagrande does offer one pill that is somewhat easier to swallow: he suggests that " . . . permitting injunctions to go beyond prevention [in order to] fulfill compensatory and punitive goals . . . " violates equitable objectives.[63] This point is more reasonable; where a misappropriator's actions are measurable, compensatory damages should be available to the plaintiff. This is, in fact, provided for in the UTSA.[64] Similarly, where a misappropriator's actions are willful or malicious, exemplary damages are properly available to the plaintiff.[65] Injunctions should not be selected to punish the defendant or repay the plaintiff.

However, in both cases, damages need not be awarded to the *exclusion* of injunctive relief, except to the extent that the two objectives overlap.[66] Further, a court may craft an injunction so that it is not redundant with the competing goals of compensation or punishment by

61. *Id.*

62. LAYCOCK, *supra* note 45, at 371.

63. Casagrande, *supra* note 55, at 132.

64. UTSA, *supra* note 6, § 3(a), at 455-56.

65. *Id.*, § 3(b), at 456. Notably, the UTSA also states: "[a]lthough punitive perpetual injunctions have been granted . . . this Act adopts the position of the trend of authority limiting the duration of injunctive relief to the extent of the temporal advantage over good faith competitors gained by a misappropriator." *Id.*, § 2 cmt., at 449-50.

66. The UTSA also supports this: "A claim for actual damages and net profits can be combined with a claim for injunctive relief, but, if both claims are granted, the injunctive relief ordinarily will preclude a monetary award for a period in which the injunction is effective." UTSA, *supra* note 6, § 3 cmt., at 456.

simply adjusting the scope and duration of the injunction. This point is described in greater detail below.

Thus, in deciding whether injunctive relief is appropriate in a case of trade secret misappropriation, a court need not deliberate extensively on whether there is an adequate legal remedy or whether irreparable damage will result absent an injunction. Rather, it should focus on providing whatever relief meets the needs of the parties and of society through a fact-driven analysis of the defendant's actions and the plaintiff's present and potential future injuries. The goal of the court should be, first, to prevent harm, when the threat of such harm is real. The measure of this prevention should be guided public policy, in the sense that the use and the ability to protect trade secrets should be supported, always with an eye to the benefits which free competition, research, and development afford the public.

B. The Temporal Scope of Trade Secret Injunctions

Generally, injunctions may be either perpetual, that is to say permanent in duration, or they may be of limited duration. During the last seventy years the federal circuit courts have engaged in considerable dispute concerning the proper standard to apply in determining how long a trade secret injunction should last. This disagreement is illustrated in the Shellmar-Conmar-Winston line of cases which arose during this period. The hypothetical which follows is useful in illustrating the essential controversy which occupied the attention of these courts.

In a very simple example of trade secret misappropriation, D steals information about a trade secret-protected manufacturing process from her competitor, P. The manufacturing process is highly efficient and has not been used or discovered by any other manufacturer but P, who spent several years developing the process. D soon begins to use the manufacturing process in her own facility and her productivity increases substantially. P learns of the misappropriation and sues D, seeking an injunction to stop D from using the process or revealing it to another. The court must then decide: how long should D be prevented from using or disclosing the misappropriated trade secret? Further, should the injunction continue if the trade secret later enters the public domain through legitimate means?

The United States Court of Appeals for the Seventh Circuit was the first of the circuit courts to offer a definitive pronouncement on these issues, in *Shellmar Products Co. v. Allen-Qualley Co*.[67] In *Shellmar*, the appellant had been previously enjoined from making, using, selling, or disclosing the process or machinery used for manufacturing a kind of candy wrapper which had been the subject of a trade secret owned by the appellee.[68] Shortly after the injunction was issued, the trade secret was disclosed legitimately through publication in the form of several issued patents.[69] The appellant argued that because the secret had been revealed to the world, the injunction should terminate because the appellee's right to secrecy was extinguished when publication occurred.[70] The district court disagreed with the appellant, and the Seventh Circuit affirmed: the injunction would not be dissolved despite the entry of the information into the public domain.[71] The *Shellmar* court held:

> Appellant first made that disclosure in an unlawful manner, and because of that fact it cannot contend that it is a member of the public to whom it made the disclosure. To hold otherwise would be to permit appellant to profit by its own wrong. We are dealing here not with [appellee's] right against the world, but with that company's right against appellant.[72]

67. 87 F.2d 104 (7th Cir. 1937).
68. *Id.* at 104-5.
69. *Id.* at 105-6.
70. *Id.* at 105.
71. *Id.* at 109-10.
72. *Shellmar*, 87 F.2d at 110.

Several years later, the United States Court of Appeals for the Second Circuit disagreed, following the opposite approach in *Conmar Products Co. v. Universal Slide Fastener Co.*[73] In *Conmar*, a dispute arose over trade secrets used in the zipper-manufacturing industry when employees of the plaintiff who had knowledge of the plaintiff's trade secrets went to work for the defendant, a competitor in the industry.[74] Later, the trade secrets were published in several patents.[75] A suit followed and the district court dismissed, inter alia, the plaintiff's complaint that the defendant had induced the plaintiff's employees to divulge its trade secrets.[76] On appeal, the Second Circuit affirmed the district court's decision.[77] Writing for the court, Judge Learned Hand expressly rejected the Seventh Circuit's contrary holding:

> The Seventh Circuit . . . held that if before [patents] issue one has unlawfully obtained and used [trade secret] information which the [patent] specifications later disclose, he will not be free to continue to do so after issue; his wrong deprives him of the right which he would otherwise have had as a member of the public. We have twice refused to follow this doctrine; and we adhere to our decisions.[78]

The *Shellmar* and the *Conmar* decisions illustrate two widely divergent approaches to the issue of how long a trade secret injunction should endure when the information contained in that secret enters the public domain through means other than the bad acts of the defendant. The *Shellmar* decision implies that such an injunction may last indefinitely; the *Conmar* approach suggests that regardless of the defendant's acts, the plaintiff's right to injunctive relief terminates at the moment the secret is made known to the public through legitimate means.

73. 172 F.2d 150 (2d Cir. 1949).
74. *Id.* at 151.
75. *Id.*
76. *Id.*
77. *Id.* at 156.
78. *Conmar,* 172 F.2d at 155-56.

The U.S. Court of Appeals for the Ninth Circuit adopted a middle-ground approach to these two decisions in *Winston Research Corp. v. Minnesota Mining and Manufacturing Co.*[79] In what has become known as the "head start" approach, the Ninth Circuit advocated the position that an injunction may extend beyond the entry of the trade secret into the public domain, but only for as long as it would have taken the defendant to discover the trade secret through legitimate means, absent the misappropriation.[80] In this manner the defendant would be denied the head start which would have been gained through his bad acts.[81] In *Winston Research*, the defendant argued that the *Conmar* approach should be used, and no injunction should issue; the plaintiff argued that the injunction should be perpetual, in accordance with the *Shellmar* view.[82] The Ninth Circuit accepted the trial court's view that an injunction of limited duration was the best approach.[83] Writing for the court, Judge Browning concluded:

> A permanent injunction would subvert the public's interest in allowing technical employees to make full use of their knowledge and skill and in fostering research and development. On the other hand, denial of any injunction at all would leave the faithless employee unpunished . . . and he and his new employer would retain the benefit of a headstart [sic] over legitimate competitors who did not have access to the trade secrets until they were publicly disclosed. By enjoining use of the trade secrets for the approximate period it would require a legitimate . . . competitor to develop a successful machine after public disclosure of the secret information, the district court denied the employees any advantage from their faithlessness, placed [the plaintiff] in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.[84]

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79. 350 F.2d 134 (9th Cir. 1965).
80. *Id.* at 142.
81. *Id.*
82. *Id.* at 141.
83. *Id.* at 142.
84. *Winston Research*, 350 F.2d at 142.

Thus, under the Ninth Circuit's approach, defendants are neither enjoined from the use of a trade secret after it becomes publicly known, nor are they given the advantage of a head start over other competitors which would be gained through their impropriety.

The head start rule espoused by the *Winston Research* court has been adopted by both the UTSA and the Restatement (Third) of Unfair Competition.[85] However, despite the adoption of the UTSA by nearly all of the states, the courts continue to be divided on which approach they favor.[86] It has been suggested that this persistent split among the various jurisdictions may be the result of the variable weight judicial bodies give to the different interests which are in conflict in these cases.[87] Courts must balance the trade secret entrepreneur's claim to the knowledge which results from his efforts against the public's interest in free competition and against the employee's interest in benefiting from the use of his own knowledge.[88] Others have suggested that the split is the product each courts' philosophy in regard to the purpose of trade secret laws.[89] Courts which subscribe to the belief that trade secret laws are meant to encourage ethical behavior (the deterrence view) are likely to apply a *Shellmar* approach, while courts which hold that trade secret laws are designed to foster research and development (the utilitarian view) may be more inclined to apply a *Conmar* or head start approach.[90]

There is also an argument that despite the findings in *Kewanee*, federal preemption under the patent law requires a *Conmar* or head start (*Winston*) approach because the *Shellmar*

85. The UTSA states: "[A]n injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation." UTSA, *supra* note 6, § 2(a), at 449; similarly, the Restatement (Third) of Unfair Competition advocates: "[I]njunctive relief should ordinarily continue only until the defendant could have acquired the information by proper means. Injunctions extending beyond this period are justified only when necessary to deprive the defendant of a head start or other unjust advantage that is attributable to the appropriation." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. f (1995).

86. 2 RUDOLF CALLMANN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14.43, at 160 (Louis Altman, ed., 4th ed. 1998).

87. *Id.* at 161.

88. *Id.*

89. PERRITT, *supra* note 2, at 512-13.

90. *See Id.*

approach would frustrate the goals of the patent law described above.[91] In this sense, federal preemption becomes an issue once again in trade secret disputes in terms of the permissible duration of a trade secret injunction.[92]

Courts will almost certainly continue to apply their own common law in determining the proper temporal scope for trade secret injunctions. Arguably, the public is ultimately better-served by those jurisdictions which are flexible enough to balance the *Shellmar*, *Conmar*, and *Winston* approaches in order to arrive at a remedy which is rationally suited to the case at hand. Jurisdictions which dogmatically adhere to a single approach may not satisfy the best interests of the public, particularly when a case does not precisely resemble the models set forth in the three approaches. Despite the benefits of a uniform system of law, parties which rely on trade secrets are better served when courts interpret the law in light of the best interests of the parties and the public as a whole.

C. The Doctrine of Inevitable Disclosure

"Prefrontal lobotomies cannot be performed on former employees."[93] This statement by Professor Halligan, who borrows language from the United States Court of Appeals for the Seventh Circuit, illustrates a frustrating dilemma which judicial bodies face when employees with valuable trade secret knowledge defect to new employers. When there has been no actual misappropriation of trade secrets, yet the threat of misappropriation exists, courts must attempt to balance two competing goals: (1) allowing employees the freedom of unrestricted job mobility,

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91. *See* 2 CALLMANN, *supra* note 86, § 14.43, at 161.
92. *See* Louis Altman, *A Quick Point Regarding Perpetual Trade Secret Royalty Liability*, 13 J. MARSHALL L. REV. 127, 130-32 (1979).
93. Halligan, *supra* note 4, at 157 (citing AMP, Inc. v. Fleischhacker, 823 F.2d 1199, 1205 (7th Cir. 1987)).

and (2) protecting the trade secrets which have been entrusted to those employees by the businesses and industries which formerly employed them.

Disputes arising from employer-employee relationships account for the vast majority of all reported trade secret cases.[94] A subset of these cases is the group of conflicts which arise under the "inevitable disclosure" doctrine. This doctrine asserts the presumption that in certain cases, a " . . . former employee will inevitably disclose and use the trade secrets of his former employer in carrying out the same duties and responsibilities of his new employer."[95] Very often this arises in the setting where a former employee, who was under an express or implied obligation not to use or disclose his former employer's trade secrets, is not bound by a post-employment covenant not to compete.[96] The employee will argue that he has a right to use his knowledge and experience to his own benefit, or in the very least, he has a right to be freely mobile in seeking other employment opportunities – despite the knowledge that he carries with him. The former employer will counter that notwithstanding the lack of a non-compete agreement, the employee should be restrained because inevitable disclosure will occur when " . . . the nature of the trade secrets and the nature of the employee's new position are such that, even if the employee and the new employer have the best of intentions, the transfer of trade secret information to the new employer is inevitable."[97]

Thus, in its simplest form, the circumstance recognized by the doctrine of inevitable disclosure is the one in which an employee finds that it is impossible not to utilize his knowledge when his new position entails duties similar to those which he performed in his prior employment. An employee cannot, for example, forget what he has learned from the years of

94. 1 MILGRIM, *supra* note 1, at § 5.02(1).
95. Halligan, *supra* note 4, at 158.
96. 4 MILGRIM, *supra* note 1, at § 16.01(5)(c).
97. 2 CALLMANN, *supra* note 86, § 14.43 (4th ed. Supp. 2003).

failed experiments which preceded the discovery of a successful technique. However, simultaneously, industries often cannot afford to consolidate their trade secrets too closely; development necessitates the dissemination of information and the exchange of ideas, and therefore trade secrets are typically shared. The real dilemma resides in the realization that once an employer has chosen to entrust such information to a worker, the ship has sailed and it cannot be called back to port. The only way to maintain property rights over the cargo is to prevent the ship from visiting other ports where the cargo would be considered to be valuable. Whether this restraint on mobility is fair is the question which divides the courts.

The best known opinion addressing this issue is the Seventh Circuit's 1995 decision in *PepsiCo, Inc. v. Redmond*.[98] To date, this case has been cited in nearly one hundred published opinions which reach the inevitable disclosure issue. *PepsiCo* involved a marketing battle which pitted the makers of the popular sports drink "Gatorade," manufactured by Quaker Oats, against the newcomer rival "All Sport," manufactured by PepsiCo.[99] The primary figure in the case was William E. Redmond, who was the general manager of one of PepsiCo's largest business divisions until 1994, when he was offered a vice presidential position by Quaker Oat's Gatorade division.[100] Redmond had intimate knowledge of PepsiCo's marketing and distribution plans, and PepsiCo feared that his defection to Gatorade would compromise this information, which they considered the subject matter of trade secrets.[101] PepsiCo filed a diversity suit in an Illinois district court seeking injunctive relief and naming Redmond and Quaker Oats as defendants.[102] In December, 1994, the district court granted a preliminary injunction enjoining Redmond from

98. 54 F.3d 1262 (7th Cir. 1995).
99. *Id.* at 1263-64.
100. *Id.* at 1264-65.
101. *Id.* at 1265.
102. *Id.*

accepting the position at Gatorade through May 1995, and also permanently enjoining him from using or disclosing the trade secrets.[103]

On appeal, the Seventh Circuit affirmed. Writing for the court, Judge Flaum indicated that PepsiCo's suit was not a traditional trade secret case: the suit did not involve the theft or transfer of trade secret information, but rather the inevitable reliance by a defecting employee on the trade secrets known to him.[104] The court further noted that language in the Illinois Trade Secrets Act provided that " . . . a court may enjoin the 'actual or threatened misappropriation' of a trade secret."[105] Thus, the court recognized that a cause of action might exist if it could be shown that Redmond's acts rose to the level of threatened misappropriation. However, identifying "threatened misappropriation" proved to be the issue that occupied the attention of the court, which stated: "[w]hile the ITSA plainly permits a court to enjoin the threat of misappropriation of trade secrets, there is little law in Illinois or in this circuit establishing what constitutes threatened or inevitable misappropriation."[106]

In its analysis, the Seventh Circuit did not arrive at a bright line test or definition for threatened misappropriation, but it did conclude that it was inevitable that Redmond would rely upon PepsiCo's trade secrets once employed by Quaker.[107] The court based this determination on evidence demonstrating that (1) Redmond had extensive personal knowledge of PepsiCo's trade secrets, (2) under the circumstances, it would be impossible for Redmond to avoid reliance

103. *PepsiCo*, 54 F.3d at 1265, 67.
104. *Id.* at 1270.
105. *Id.* at 1267 (citing 765 ILCS § 1065/3(a)). This language is identical to the language in Section 2 of the Model Act. UTSA, *supra* note 6, § 2(a), at 449.
106. *PepsiCo*, 54 F.3d at 1268.
107. *Id.* at 1271. The court noted that the issue was left open: "Questions remain, however, as to what constitutes inevitable misappropriation." *Id.* at 1269.

on the trade secrets, and (3) the secrets would award Quaker a considerable advantage over PepsiCo.[108]

Notably, the Seventh Circuit also briefly recognized the tension between the application of the threatened misappropriation clause and the rights of employees to pursue " . . . their livelihoods when they leave their current positions."[109] This issue is a common thread which appears throughout cases that address the use of the doctrine.

Like Illinois, most states which have adopted the UTSA have, by extension, accepted the inevitable disclosure doctrine.[110] Of these states, approximately half have applied the doctrine in some manner in published court decisions.[111] However, three of the states which have adopted the UTSA have expressly *declined* to apply the inevitable disclosure doctrine.[112] These include Virginia, Florida, and most notably, California.[113] The precedent among the few remaining states which have not adopted the UTSA states is mixed.[114]

California and New York provide two of the most colorful examples of the disagreement and confusion among the various jurisdictions regarding what inevitable disclosure means and when the doctrine should be invoked, if at all. New York, which is presently a non-UTSA state, has relied upon the doctrine in its case law. Although the New York courts purport to disfavor the doctrine, it has been applied in both federal and state courts in that jurisdiction.[115]

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108. *Id.* at 1269-70.

109. *Id.* at 1268.

110. As noted previously, the UTSA has been adopted in some form by all but five states (*see supra* note 38 and accompanying text).

111. *See* Brandy L. Treadway, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?*, 55 SMULR 621, 626-48 (2002); *see also* Keith A. Roberson, *South Carolina's Inevitable Adoption of the Inevitable Disclosure Doctrine: Balancing Protection of Trade Secrets with Freedom of Employment*, 52 SCLR 895, 900-3 (2001).

112. Treadway, *supra* note 111, at 644-48.

113. *Id.*

114. *Id.* at 629-48.

115. *See, e.g.*, Marietta Corp. v. Fairhurst, 754 N.Y.S. 2d 62, 65-66 (N.Y.A.D. 2003); *see also* EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 310 (S.D.N.Y. 1999).

In *DoubleClick Inc. v. Henderson*, the New York Supreme Court enjoined an internet advertising company's former employees for a period of six months from starting a competing company in the same line of business.[116] Referring to both an earlier New York district court decision and to the *PepsiCo* decision, the *DoubleClick* Court surmised that "[i]njunctive relief may issue where a former employee's new job function will inevitably lead her to rely on trade secrets belonging to a former employer."[117] After analyzing the facts, the court deduced that the defendant former employees could not " . . . eradicate [DoubleClick's] secrets from [their] mind" and therefore the defendants' reliance on the secrets was unavoidable.[118] Additionally, the *DoubleClick* Court held that the misconduct of the defendants leading up to the suit was indicative of their " . . . cavalier attitude toward their duties to their former employer," and these acts further indicated that they would rely on the trade secrets.[119]

New York's view of the doctrine of inevitable disclosure was later refined in *EarthWeb, Inc. v. Schlack*, a district court decision which has been cited extensively by both state and federal courts in the jurisdiction.[120] The *EarthWeb* Court noted that the earlier *DoubleClick* holding appeared " . . . to represent a high water mark for inevitable disclosure in New York," and the court set out to narrow and qualify the doctrine.[121] Writing for the district court, Judge Pauley noted that " . . . in its purest form, the inevitable disclosure doctrine treads an exceedingly narrow path through judicially disfavored territory. Absent evidence of *actual* misappropriation by an employee, the doctrine should be applied in only the rarest of cases."[122] The court then proposed three factors which might be used to determine whether injunctive relief was

116. 1997 WL 731413, at *8 (N.Y. Co. Ct. 1997).
117. *Id.* at *5 (N.Y. Co. Ct. 1997) (citing Lumex Inc. v. Highsmith, 919 F. Supp. 624, 631 (E.D.N.Y. 1996) and *PepsiCo*, 54 F.3d at 1262).
118. *Id.* at *5 (alteration in original) (citations omitted).
119. *Id.* at *6.
120. 71 F. Supp. 2d 299 (S.D.N.Y. 1999).
121. *Id.* at 310.
122. *Id.* (emphasis added).

appropriate in cases where no actual appropriation had occurred.[123] The first factor considered whether " . . . the employers in question [were] direct competitors providing the same or very similar products or services."[124] The second factor sought to determine if " . . . the employee's new position [was] nearly identical to his old one, such that he could not reasonably be expected to fulfill his new job responsibilities without utilizing the trade secrets of his former employer."[125] The third factor considered whether " . . . the trade secrets at issue [were] highly valuable to both employers."[126] The court also noted that "[o]ther case-specific factors such as the nature of the industry and trade secrets should be considered . . . "[127]

The three part test provided in *EarthWeb* has been treated favorably in subsequent New York state and federal decisions.[128] In this manner, the New York courts have developed a framework which guides the inquiry as to what constitutes threatened misappropriation, the same question which the *PepsiCo* Court sought to answer.

Notably, the *EarthWeb* Court also dismissed the *DoubleClick* Court's reliance on the bad acts of the defendants in analyzing the inevitable disclosure issue.[129] Such acts were to be treated as evidence of actual, not threatened misappropriation, and could form the basis for an injunction without an inevitable disclosure inquiry.[130] Thus, the *DoubleClick* Court was mixing questions of actual misappropriation with consideration of the doctrine, and the *EarthWeb* Court

123. *Id.*
124. *Id.*
125. 71 F. Supp. 2d at 310.
126. *Id.*
127. *Id.*
128. *See Marietta*, 754 N.Y.S. 2d at 66; Jay's Custom Stringing, Inc. v. Yu, 2001 WL 761067, at *9 (S.D.N.Y. 2001); PSC, Inc. v. Reiss, 111 F. Supp. 2d 252, 256-57 (W.D.N.Y. 2000).
129. 71 F. Supp. 2d at 310.
130. *Id.*

did not approve.[131] An *EarthWeb*-type analysis would only be appropriate if the facts were changed such that the defendants had not engaged in any actual misappropriation.

In summary, the New York courts have recognized a limited acceptance of the doctrine in cases where the disclosure of trade secrets is either inevitable or threatened, and only when this threat or inevitability can be demonstrated adequately by the facts of the given case. This approach is fundamentally in line with the broad view asserted by the UTSA, despite the fact that New York has not yet enacted a trade secret act corresponding to the Model Act.[132]

Conversely, California *does* subscribe to the UTSA, yet the California courts have declined to apply the doctrine. This is attributable to California's strong policy of favoring employee mobility, codified in California Business and Professions Code Section 16600, which states that " . . . every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."[133] The California courts have reasoned that if non-compete agreements are disfavored by the California legislature, so too must be the inevitable disclosure doctrine, because it would otherwise create identical limitations on employee mobility.[134] California's federal courts have been unfailing in this view; in *Bayer Corp. v. Roche Molecular Systems*, the district court stated:

> To the extent that the theory of inevitable disclosure creates a de facto covenant not to compete without a nontrivial showing of actual or threatened use or disclosure, it is inconsistent with California policy and case law . . . [i]n sum, the Court holds that California trade-secrets law does not recognize the theory of inevitable disclosure; indeed, such a rule would run counter to the strong public policy in California favoring employee mobility.[135]

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131. *Id.*
132. As noted above, New York is expected to adopt the UTSA this year (*see supra* note 38 and accompanying text).
133. CAL. BUS. & PROF. CODE § 16600 (Deering 1999).
134. *See* Bayer Corp. v. Roche Molecular Systems, 72 F. Supp. 2d 1111, 1119-20 (N.D. Cal. 1999).
135. *Id.* at 1120; *See also* Danjaq LLC v. Sony Corp., 1999 WL 317629, at *1 (C.D. Cal. 1999), stating: "But the Plaintiffs' reliance on the inevitable disclosure doctrine is misplaced. *PepsiCo* is not the law of the State of California or the Ninth Circuit."

However, California's *state* courts have not always been so consistent. In the 1999 case of *Electro Optical Industries, Inc. v. White,* the Court of Appeal broke tradition and found support for the doctrine, stating: "[a]lthough no California court has yet adopted it, the inevitable disclosure rule is rooted in common sense and calls for a fact specific inquiry. We adopt the rule here."[136] Nevertheless, this apparent shift in the policy of the state courts was abruptly cut short when the California Supreme Court ordered de-publication of the *Electro Optical* decision, without comment, just a few months later.[137] The apparent rejection of the doctrine by the Supreme Court was echoed in no uncertain terms by the Court of Appeal in the 2002 opinion of *Whyte v. Schlage Lock.*[138] There the court stated: "[l]est there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete . . . regardless whether a covenant not to compete is part of the employment agreement, *the inevitable disclosure doctrine cannot be used as a substitute for proving actual or threatened misappropriation of trade secrets*."[139]

While the majority of jurisdictions seem to treat the "threatened misappropriation" language of the UTSA and the doctrine of inevitable disclosure nearly synonymously, California courts following the *Whyte* decision ostensibly draw a distinction between these two concepts. The *Whyte* court seems to imply that a decision based solely upon the doctrine is one based on only the possibility of misappropriation, while a decision based upon threatened misappropriation is backed by a factual analysis of what is likely to occur. Ultimately, it is really just a question of semantics: although the California courts reject "inevitable disclosure," they accept "threatened misappropriation." At the same time, New York courts apply "inevitable disclosure," but only where there is threatened (or actual) misappropriation. The result is the

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136. 90 Cal. Rptr. 2d 680, 684 (Ct. App. 1999), *ordered depublished* (April 12, 2000).
137. *Id.*
138. *Id.*
139. 125 Cal. Rptr. 2d 277, 293-94 (Cal. App. 4 Dist. 2002) (emphasis added).

same: where there is proof of threatened misappropriation, both jurisdictions will allow a cause of action to proceed.

The core issue which leads to this semantic mess is the duty felt by the courts and legislatures to balance the competing goals first identified in this section: the tension between employee mobility and the need to protect valuable trade secrets which have been developed through the substantial investment of business and industry. In a sense it is pure public policy: society must strike a balance between protecting and the meeting the needs of the individual worker while simultaneously promoting efficient business methods which maximize economic gains. Once again, society is best-served when courts are flexible in looking to the underlying facts to reach decisions based in sound policy. When courts adhere to rigid constructs that ignore these considerations, judicial decisions may become more predictable, but ultimately they do so at the expense of the public.

D. First Amendment Considerations.

Perhaps the most contemporary issue confronting courts which utilize trade secret injunctions is the conflict between the First Amendment and trade secrets injunctions. Such confrontations are rare, but may be poised to become more common in the future.[140] The simplest example in which such a conflict might arise is the scenario in which D has possession of P's trade secret, and fearing disclosure of the secret, P seeks an injunction to restrain D from revealing it to others. D responds by claiming that her right to free speech would be restrained by such an injunction.

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140. Pamela Samuelson, *Resolving Conflicts Between Trade Secrets and the First Amendment*, 1 (2003) *at* http://www.sims.berkeley.edu/~pam/papers.html.

Several reasons for the historical paucity of such conflicts have been noted by Professor Samuelson.[141] First, trade secrets are generally meant to protect conduct rather than speech.[142] Although conduct may, of course, rise to the level of speech, the conduct at issue in trade secret disputes is usually not of this variety.[143] Second, injunctions are usually designed to prevent the disclosure of trade secrets to specific individuals or private groups, rather than to the public as a whole.[144] Third, the subject matter of trade secrets is generally a matter of private rather than public concern, and disclosure of this information would rarely promote a legitimate public interest.[145] Finally, a substantial proportion of trade secret law generally involves the protection of information which is disclosed through express or implied confidentiality agreements, and such agreements are protected under unfair competition laws.[146]

However, First Amendment conflicts may become more prevalent in trade secret disputes in light of the facilitation which the Internet provides to the dissemination of trade secret information via online publication.[147] A trade secret, once made public by a misappropriator on a single website, may become widely disseminated through republication and linking on other websites. To wit: " . . . one of the Internet's virtues, that it gives even the poorest individuals the power to publish to millions of readers . . . can also be a detriment to the value of intellectual property rights."[148] This was addressed by the California Court of Appeal in the February, 2004

141. *Id.* at 2-3.
142. *Id.* at 2.
143. *Id.*
144. *Id.* at 2-3
145. Samuelson, *supra* note 140, at 3.
146. *Id.*
147. *Id.* at 8.
148. Religious Technology Center v. Netcom On-Line Communication Services, 923 F. Supp. 1231, 1256 (N.D. Cal. 1995) (citations omitted).

opinion in *DVD Copy Control Association v. Bunner.*[149] This case and its direct predecessors presently serve as the touchstone for the issue discussed here.

The *DVD Copy* cases involved a dispute between numerous website owners and the DVD Copy Control Association. The latter (hereinafter DVD CCA) is an administrative body which was established by the motion picture industry (among others) to grant and administer licenses to encryption software designed to prevent the copying of motion pictures and other media contained on DVDs.[150] This software, known as the Content Scrambling System or CSS for short, essentially transforms media content (e.g., motion pictures) stored on DVDs into gibberish, which can only be decrypted by electronic devices that contain the proper software decryption keys.[151] These keys are provided directly to manufacturers of DVD players and other electronic devices under license from DVD CCA so that consumers are able to view, but not copy, movies and other media.[152] Notably, these licenses contain additional end user license provisions which specifically proscribe end users from reverse-engineering the code.[153]

Very soon after CSS entered the marketplace, computer users became interested in unraveling this encryption technology, and in 1999 a Norwegian teenager named Jon Johansen reverse engineered the CSS code.[154] Johansen then wrote a program he called DeCSS which was able to decrypt movies contained on DVDs, enabling users of the code to freely copy DVD movies.[155] Johansen next published the source code for DeCSS on the Internet, and the code was

149. 116 Cal. App. 4th 241 (2004).
150. DVD Copy Control Association v. Bunner, 31 Cal. 4th 864, 871 (2003).
151. *Id.*
152. *Id.*
153. Samuelson, *supra* note 140, at 8.
154. *DVD Copy*, 31 Cal. 4th at 871-72.
155. *Id.*

eventually picked up and republished by other website operators, including the defendant in this case, Andrew Bunner.[156]

DVD CCA eventually filed suit, alleging trade secret misappropriation against numerous individuals (including Bunner) who had published or provided links to the DeCSS code on the Internet.[157] DVD CCA sought no damages, but rather requested an injunction enjoining the defendants from further using, disclosing, or posting links to the code.[158] The trial court granted the injunction, basing its holding on three findings: (1) DVD CSA had maintained the CSS software as a trade secret through reasonable measures for three years before Johansen posted it on the Internet; (2) the trade secret was obtained by Johansen via reverse engineering, which, though a legitimate means of obtaining a trade secret, was specifically prohibited by the end user license agreement; and (3) from an equitable standpoint, the harm suffered by the website operators in complying with the injunction was de minimus compared to the harm that would be suffered by DVD CCA if its trade secret was lost.[159]

Bunner was the only defendant to appeal this decision.[160] The trial court's decision was reversed by the California Court of Appeal,[161] but this decision proved to be ephemeral as the California Supreme Court reversed in turn.[162] In its analysis, the Supreme Court assumed that the factual findings presented in the lower court were true, and focused its determination on the issue

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156. *Id.*

157. *Id.* at 872.

158. *Id.* at 872-73.

159. *DVD Copy*, 116 Cal. App. 4th at 249-50. As previously noted, reverse engineering is a legitimate means by which to obtain a trace secret under the UTSA (*see supra* note 11 and accompanying text). However, Johansen probably reverse-engineered the CSS code in violation of the end user license, which prohibited him from doing so. Interestingly, DVD CCA did not pursue an action against Johansen, opting instead to name as defendants the website operators who republished the Norwegian teenager's findings. Thus, Bunner and the other website operators were held accountable because they " . . . knew or should have known that Johansen acquired [the] trade secrets by improper means when they posted DeCSS on their Web sites." *See DVD Copy*, 31 Cal. 4th at 871-3.

160. *DVD Copy*, 31 Cal. 4th at 874.

161. DVD Copy Control Association v. Bunner, 93 Cal.App.4th 648 (2002).

162. *DVD Copy*, 31 Cal. 4th at 890.

of whether the injunction violated Bunner's First Amendment right to free speech.[163] This proved to be a polarizing issue and amici curiae briefs were filed by numerous interested parties on both sides.[164]

In its free speech analysis, the Supreme Court first deduced that " . . . restrictions on the dissemination of computer codes . . . *are* subject to scrutiny under the First Amendment," and then sought to determine what level of scrutiny should apply.[165] Finding that the injunction was content-neutral, the court applied the lesser standard of scrutiny articulated under *Madsen v. Women's Health Center*,[166] and concluded that " . . . the preliminary injunction issued by the trial court achieves the requisite balance and burdens 'no more speech than necessary to serve' the government interests at stake . . . "[167] Thus, the court found that the injunction was not a prior restraint on free speech. However, the Supreme Court opened the door for a reversal of this decision on remand to the Court of Appeal by stating:

> Our decision today is quite limited. We merely hold that the preliminary injunction does not violate the *free speech clauses of the United States* and California Constitutions, *assuming* the trial court properly issued the injunction under California's trade secret law. On remand, the Court of Appeal should determine the validity of this assumption.[168]

Predictably, the Court of Appeal again reversed the order granting the injunction. Analyzing the facts presented to the trial court more closely, the Court of Appeal this time reasoned that the evidence suggested that the broad dissemination and availability of the code to persons most

163. *Id.* at 875.

164. Briefs in support of DVD CCA were filed by the California Attorney General and the Intellectual Property Owners Association, as well as by industry giants Microsoft Corporation, Ford Motor Company, the Boeing Company, Sears, Roebuck & Co., the Procter and Gamble Company, AOL Time Warner Inc., BellSouth Corporation, the Coca-Cola Company, and the National Association of Manufacturers. Briefs advocating affirmance of the Court of Appeal's decision were filed by the Computer Professionals for Social Responsibility, the ACLU, the Intellectual Property Law Professors, the Computer & Communications Industry Association, and the United States Public Policy Committee of the Association for Computing Machinery. *See DVD-CCA v. Bunner and DVD-CCA v. Pavlovich at* http://www.eff.org/IP/Video/DVDCCA_case/.

165. *DVD Copy*, 31 Cal. 4th at 876 (emphasis added).

166. 512 U.S. 753 (1994).

167. *DVD Copy*, 31 Cal. 4th at 880 (citing *Madsen*, 512 U.S. at 765).

168. *Id.* at 889.

interested in obtaining it may have destroyed DVD CCA's trade secret well before the time Bunner posted it on his website.[169] Further, the court noted that by the time DVD CCA requested the injunction, the information was so widely disseminated that there was little likelihood that the injunction could prevent further harm.[170] Thus, the court reasoned:

> DVD CCA has not shown a likelihood of success on the merits; nor has it demonstrated that it would suffer further harm if the preliminary injunction did not issue. The preliminary injunction, therefore, burdens more speech than necessary to protect DVD CCA's property interest and was an unlawful prior restraint upon Bunner's right to free speech.[171]

The *DVD Copy* cases may indicate an increased willingness by the courts to extend First Amendment rights to prevent injunctions against the disclosure of trade secret information, at least where the disclosure is by someone other than the initial misappropriator. Other arguments have been made toward this end. Professors Lemley and Volokh suggest that a preliminary injunction which prevents disclosure of a trade secret by someone other than a party not bound by agreement to protect the secret may run afoul of the First Amendment, in much the same way that attempts to block publication of the Pentagon Papers were found to be improper, notwithstanding the fact that the information in question had been leaked by an individual who had a duty to keep the information private.[172]

Further, even trade secret information protected by a confidential agreement might not be properly restrained by a preliminary injunction if there is any doubt as to the validity of the agreement under which it is protected. Under the doctrine of prior restraint, injunctions based solely upon a determination that the speaker *might* have promised not to speak would be

169. *DVD Copy*, 116 Cal. App. 4th at 252-53.
170. *Id.* at 253-55.
171. *Id.* at 256.
172. Mark A. Lemley & Eugene Volokh, *Freedom of Speech and Injunctions in Intellectual Property Cases*, 48 DUKE L.J. 147, 230-32 (1998); New York Times Co. v. United States, 403 U.S. 713 (1971) (per curiam).

unconstitutional whenever the speaker is able to raise a trial-worthy argument that he was not bound by an agreement not to disclose .[173]

Finally, it has been suggested that permanent injunctions against *prospective* speech in trade secret cases may conflict with the First Amendment.[174] Such is the case in inevitable disclosure cases where injunctions are based on the mere possibility of the future disclosure of a trade secret, rather than on evidence of actual disclosure.[175] Even after a trial on the merits, such restraints may violate free speech because of the undue burden placed on the speech.[176]

Nevertheless, courts may also weigh the equities and grant injunctions where no less-restrictive alternative exists to prevent impending irreparable harm to the trade secret owner.[177] Such decisions have historically been the result of balancing the speaker's interest in disclosing the information against the impact the disclosure would have on the owner of the trade secret.[178] However, as the *DVD Copy* cases and the aforementioned discussion of law and equity illustrate, irreparable harm and its causation may often be difficult to demonstrate in trade secret cases. Once again, courts must use discretion in balancing the interests of society and the parties to the dispute against adherence to traditional legal mechanisms when considering the benefit and burden of utilizing injunctions in trade secret disputes.

CONCLUSION

It has been argued that despite the existence of unifying statements and codifications of trade secret law, " . . . there is no such thing as a normatively autonomous body of trade secret

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173. *Id.* at 231.
174. *Id.* at 232.
175. *Id.*
176. *Id.*
177. Adam W. Johnson, *Injunctive Relief in the Internet Age: The Battle Between Free Speech and Trade Secrets*, 54 FED. COMM. L.J. 517, 534-35 (2002) (citing Garth v. Staktek Corp., 876 S.W.2d 545 (Tex. App. 1994)).
178. Johnson, *supra* note 177, at 535.

law. Rather, trade secret law is merely a collection of other legal norms-- contract, fraud, and the like--united only by the fact that they are used to protect secret information."[179] It is possible that many of the difficulties which arise from the use of injunctions in trade secret law may be attributed to this theory. Courts which rely on the use of injunctions in trade secret cases will invariably wrangle with the difficulty of neatly adapting these remedies to a body of law which is really an amalgamation of several older, formal legal constructs. However, the use and importance of trade secrets will continue to grow, and the law must continue to develop with it. Courts and legal scholars should be mindful of the magnitude of this form of intellectual property: it has been noted that between 50 and 85 percent of the value of American companies may be attributable to their intangible assets.[180] In light of this, where trade secrets case do not easily fit the structure to which traditional legal remedies may be applied, courts should be flexible in order to adapt these remedies in a manner which is both reasonable to the parties and sensitive to public policy. When such adaptation is inconsistent with established legal theories, courts must be allowed some discretion in order to reach these ends.

179. Bone, *supra* note 3, at 245.

180. Halligan, *supra* note 4, at 151 (citing Margaret Blair, *New Way Needed to Access New Economy*, L.A.TIMES, Nov. 13, 2000, at B7).