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## THE LAW AND ETHICS OF TRADE SECRETS: A CASE STUDY

KURT M. SAUNDERS\*

*"[N]othing is secret, that shall not be made manifest . . . ."*<sup>1</sup>

### ABSTRACT

Almost every business owns proprietary information that adds value and provides a competitive advantage because the information is not known to the business's competitors. Trade secret law protects such information from theft or unauthorized disclosure. Because one of the principal policies underlying trade secret law is the maintenance of standards of commercial ethics, trade secrets are a rich source of material for exploring questions of business ethics alongside the law. This pedagogical case study offers a means to examine the legal and ethical issues involving the protection and misappropriation of trade secrets within the business environment.

### I. INTRODUCTION

Decisions made by business managers are never made in an ethical vacuum; usually such decisions have a wide-reaching impact on shareholders, employees, consumers, communities, and other businesses. This case study provides a means to integrate the study of trade secret law with business ethics.<sup>2</sup> Trade secrets are a form of in-

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1. *Luke 8:17* (King James).

2. For discussions of the normative foundations of trade secret law, see Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241 (1998); Vincent Chiappetta, *Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law*, 8 GEO. MASON L. REV. 69 (1999).

lectual property<sup>3</sup> and can consist of “any information that can be used in the operation of a business . . . and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”<sup>4</sup> Trade secret law differs from other forms of intellectual property law because it does not impose liability for mere unauthorized use; rather, the defendant must have *improperly* used, acquired, or disclosed the trade secret as a result of some wrongful or unethical conduct, such as by theft, fraud, or breach of a confidential duty.<sup>5</sup> Indeed, the U.S. Supreme Court has explained that one of the principal policies underlying trade secret law is “[t]he maintenance of standards of commercial ethics.”<sup>6</sup>

At least as far back as the Middle Ages and the Renaissance, rules have existed to protect guilds and other businesses against those who used their ideas and processes without permission.<sup>7</sup> Today, trade secrets are valuable assets for businesses of all types and sizes.<sup>8</sup> Indeed, the very survival of a business may depend on its ability to maintain

3. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1011 (1984) (“With respect to a trade secret, the right to exclude others is central to the very definition of the property interest.”).

4. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

5. See UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 433 (1985); *infra* notes 52-54 and accompanying text.

6. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974); see also *E.I. du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970) (“[O]ur devotion to free wheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality expected in our commercial relations.”); *Ed Nowogroski Ins., Inc. v. Rucker*, 971 P.2d 936, 942 (Wash. 1999) (“A purpose of trade secrets law is to maintain and promote standards of commercial ethics and fair dealing in protecting those secrets.”); *Abbott Labs. v. Norse Chem. Corp.*, 147 N.W.2d 529, 533 (Wis. 1967) (“The basis of [trade secret law] is an attempt to enforce morality in business.”); UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433 (1985) (“One of the broadly stated policies behind trade secret law is ‘the maintenance of standards of commercial ethics.’”); RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (“The protection is merely against breach of faith and reprehensible means of learning another’s secret.”). For a discussion on the use of trade secret law to enforce commercial ethical conduct, see Don Wiesner & Anita Cava, *Stealing Trade Secrets Ethically*, 47 MD. L. REV. 1076 (1988).

7. See S. R. Epstein, *Craft Guilds, Apprenticeship, and Technological Change in Preindustrial Europe*, 58 J. ECON. HIST. 684, 691-94 (1998). For further discussion of the historical origins of trade secrecy, see CARLO M. CIPOLLA, *BEFORE THE INDUSTRIAL REVOLUTION: EUROPEAN SOCIETY AND ECONOMY, 1000-1700* (2d ed. 1980).

8. See, e.g., Edwin Fraumann & Joseph Koletar, *Trade Secret Safeguards*, SECURITY MGMT., Mar. 1999, at 63-66. Most people are familiar with the famous formulas used to make Coca-Cola and Kentucky Fried Chicken, both of which have been successfully protected as trade secrets for many decades. *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985) (“The complete formula for Coca-Cola is one of the best-kept trade secrets in the world.”); see also About KFC: Original Recipe® Is Still a Secret, <http://www.kfc.com/about/secret.htm> (last visited Oct. 26, 2005).

the secrecy of its proprietary information.<sup>9</sup> One study estimated a typical business may derive seventy percent or more of its value from its intellectual property.<sup>10</sup> Theft and improper disclosure of trade secrets can be costly. Between 1992 and 1995, trade secret theft resulting from industrial espionage increased more than three hundred percent, with losses exceeding \$1.5 billion in 1995.<sup>11</sup> Once a trade secret has been disclosed, even if inadvertently, its owner may lose all protection, no matter how much was invested in its creation.<sup>12</sup>

There have been numerous recent and well-publicized instances of trade secret misappropriation involving information technologies.<sup>13</sup> The extent to which business managers might decide to appropriate or disclose another's trade secret may depend on several factors, including whether: (1) they might get caught and punished, (2) they are harming an individual or entity, (3) the trade secret owner has done anything perceived to be *wrong*, (4) others have acted improperly as well, (5) the business will benefit from the action, and (6) whether the benefit outweighs the harm to the owner. Nevertheless, investors pay a price when it comes to light that businesses have engaged in illegal

9. See Fraumann & Koletar, *supra* note 8, at 63. "Most businesses do not realize the importance of determining what proprietary information qualifies as a trade secret. . . . [A] company's portfolio of trade secrets changes constantly." *Id.*

10. ASIS INT'L, TRENDS IN PROPRIETARY INFORMATION LOSS 3 (2002), available at <http://www.asisonline.org/newsroom/surveys/spi2.pdf>.

11. Janet S. Greenlee & Michael Castelluccio, "Spies Like Them": How to Protect Your Company from Industrial Spies, 78 MGMT. ACCT. 31, 31 (1996).

12. See UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433 (1985); see also Warner Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655, 659, 665-66 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960) (holding that although publication of the Listerine secret formula in a medical journal terminated protection; however, a company was still required to pay royalties to the inventor under the terms of their contract); Precision Moulding & Frame, Inc. v. Simpson Door Co., 888 P.2d 1239, 1243 (Wash. Ct. App. 1995) (holding that trade secret protection terminates when the owner fails to take reasonable measures to maintain secrecy).

13. E.g., Cameron W. Barr, *Comcast Files Suit Against Ex-Manager*, WASH. POST, Aug. 18, 2005, at B7; Nancy Rivera Brooks, *The Often-Thin Line Between Cheating and Competing*, L.A. TIMES, Nov. 3, 1997, at D2; Patrick Danner, *Applica Files Against Yahoo Posters*, MIAMI HERALD, Aug. 16, 2005, available at <http://www.miamiherald.com/12391801.htm>; Sarah Karush, *Compuware and IBM Settle, Ending Federal Trial*, DETROIT FREE PRESS, Mar. 22, 2005, available at [http://www.freep.com/news/latest-news/pm3341\\_20050322.htm](http://www.freep.com/news/latest-news/pm3341_20050322.htm); Stefanie Olsen, *Cadence, Avant Settle Trade-Secret Suit*, NEWS.COM, Nov. 14, 2002, [http://news.com.com/2102-1023\\_3-965890.html](http://news.com.com/2102-1023_3-965890.html); Stephen Swoyer, *Cisco Wins Settlement in Intellectual Property Case*, CERTCITIES.COM, Sept. 13, 2004, <http://www.certcities.com/editorial/news/story.asp?EditorialsID=694>; Jim Wagner, *Apple Wins Subpoena in Trade Secrets Case*, INTERNETNEWS.COM, Mar. 11, 2005, <http://www.internetnews.com/bus-news/article.php/3489606>; *Wal-Mart Files Trade-Secrets Lawsuit Against Former Computer Worker*, ABC NEWS, Feb. 18, 2005, available at <http://www.abcnews.go.com/Business/wireStory?id=513451>.

or unethical activities.<sup>14</sup> The results of one study indicate the stock market “react[s] negatively to the release of news of firm illegality.”<sup>15</sup>

While some trade secret cases involve industrial espionage or theft by competitors, the majority of cases have arisen in the context of departing employees accused of stealing proprietary information from their former employers.<sup>16</sup> Overall social welfare is enhanced when individuals are encouraged to acquire knowledge and practice useful skills where they are in demand.<sup>17</sup> On the other hand, employers who have invested valuable time and resources in developing proprietary information will no longer continue to do so if there is no assurance of confidentiality by departing employees.<sup>18</sup> When the available employee pool is limited or highly mobile, as is the case with advanced technologies prone to rapid rates of obsolescence, firms will have a greater incentive to hire away key employees from competitors.<sup>19</sup> Situations in which courts balance a reluctance to restrain employee mobility against the protection of confidential employer assets<sup>20</sup> provide fertile ground for examining the ethical responsibilities of the parties involved.

The following case study offers a means to examine the legal and ethical issues involving the protection and misappropriation of trade secrets. Part II presents a hypothetical case for discussion. Part III of-

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14. See Wallace N. Davidson III et al., *Stock Market Reactions to Announced Corporate Illegalities*, 13 J. BUS. ETHICS 979, 985 (1994).

15. *Id.* (“Although there were insignificant stock market effects for the whole sample, specific types of crimes such as bribery, tax evasion, theft of trade secrets, financial reporting violations and the violation of government contracts were associated with negative abnormal stock returns.”).

16. For a collection of trade secrets cases arising from the employer-employee relationships, see ROGER MILGRIM, *MILGRIM ON TRADE SECRETS* § 5.02(1) (2005).

17. See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 364 (2003).

18. *See id.*

19. See Ann C. Hodges & Porcher L. Taylor, III, *The Business Fallout from the Rapid Obsolescence and Planned Obsolescence of High-Tech Products: Downsizing of Noncompetition Agreements*, 6 COLUM. SCI. & TECH. L. REV. 3 (2005) (discussing the willingness of courts to enforce noncompetition agreements in high technology industries); Felix Prandl, *Damages for Misappropriation of Trade Secret*, 22 TORT & INS. L.J. 447, 456 (1987) (“Trade secret litigation has become an important factor of competition in certain areas of business, such as the high-tech or the chemical industry.”); see also Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 586-92 (1999) (describing the high level of high technology employee mobility in the Boston and Silicon Valley regions); Tamara Loomis, *Non-Compete Pacts: Whether These Agreements Hold up Is Uncertain*, N.Y. L.J., Aug. 24, 2000, at 5 (noting that the annual employee turnover in high technology industries had doubled over five years to twenty percent).

20. *See infra* notes 77-79 and accompanying text.

fers questions to stimulate and direct discussion. Part IV includes an overview of trade secret law, including readings to provide foundational material on the law of trade secrets. Part V discusses four major ethical theories to serve as an analytical framework for the analysis of the case study. In Part VI, a teaching note provides pedagogical objectives as well as suggestions for the use of the case and additional questions for discussion. The case study concludes by offering an opportunity to assess legal, ethical, and managerial aspects of protecting and using trade secrets.<sup>21</sup>

## II. THE CASE STUDY

Jeremy Hart was a software engineer employed by Citadel Systems, Inc. (Citadel), a leading software and database applications developer. His colleagues and supervisor considered him one of the brightest and most insightful employees working with database applications. For the past several years, he was a member of a research team designing a sophisticated new database management system. In the course of building and refining its database management tools, Citadel developed unique protocols to solve a variety of technical problems. These protocols were not widely known or easily observable by Citadel's customers and competitors. Late last year, rumors began circulating within the software design industry that the team was nearing completion of a beta version of the system. Although this rumor was not quite true, after following a few unsuccessful design *blind alleys*, Hart's team made several breakthroughs to solve security and data manipulation problems arising with large databases that store multiple levels of information and are simultaneously accessible and used by hundreds of users. During his work on the project, Hart also acquired additional experience, skills, and insights into system design, database coordination, research methodology, and team interaction.

Northwell Networks, Inc. (Northwell) is Citadel's largest competitor. Several of Northwell's employees were acquainted with Hart and were aware of the nature of his work at Citadel. A few months ago, the head of Northwell's research division approached Hart and offered him a position with a higher salary, leadership opportunities, and a better benefits package than he had at Citadel. No mention was

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21. For a discussion about the use of cases to discuss law, ethics, and strategic management, see LOUIS B. BARNES ET AL., *TEACHING AND THE CASE METHOD* (3d ed. 1994); *ETHICAL THEORY AND BUSINESS* 41-42 (Tom L. Beauchamp & Norman E. Bowie eds., 7th ed. 2004); Anne Lawton, *Using a Management Driven Model to Teach Business Law*, 15 J. LEGAL STUD. EDUC. 211 (1997).

made of Hart's work on Citadel's database management system. After careful consideration, Hart accepted the offer and was immediately appointed the head of a research team designing a system very similar to the one he had worked on at Citadel. When he departed Citadel, Hart kept copies of his notes made during his work on the database management system. Although Hart was not required to sign a non-disclosure agreement regarding his work at Citadel, on several occasions Citadel research and development managers reminded him and other employees that their work was not to be discussed outside of the workplace.

In his work at Northwell, Hart was confronted with many new challenges, but some were the same issues and problems he faced at Citadel. He applied his skills and experience to resolve the new problems, but when it came to problems he had already encountered at Citadel, he sometimes found the approach Northwell intended to pursue less efficient or more inconclusive than what he learned at Citadel. In those instances, he often steered his team toward the solution he had already discovered. At lunch with his supervisor one day, Hart casually mentioned that in reviewing his old notes from Citadel he observed Citadel's progress on a new database management system was further along than Northwell's. At this point, Hart's supervisor suggested he could probably earn the gratitude of upper management, as well as a large bonus, if he shared those notes with his team to speed up their work on the new system. When Hart resisted, his supervisor pressed, "Don't ever forget, you're a Northwell employee now. Your loyalty and best efforts belong to Northwell, not our chief competitor. All I can say is that if you still feel obligated to Citadel, then you won't get far at Northwell." After pondering their conversation for a few days, Hart turned over his notes to his supervisor.

Eventually, both Citadel and Northwell marketed large database management products that were noticeably similar in their quality, sophistication, functionality, and performance. Not long afterwards, Citadel managers started hearing *industry gossip* about Hart's role in developing and refining Northwell's system.

### III. DISCUSSION QUESTIONS

1. Is trade secret law justifiable from the perspective of the public interest?
2. Based on the facts provided above, does Citadel have a protectable trade secret in any information? Was the in-

- formation of value? Did Citadel take reasonable measures to maintain secrecy of the information?
3. If Northwell applied Citadel's confidential information in developing its new system, what is the likelihood Citadel can successfully sue Northwell for trade secret misappropriation?
  4. If Citadel brings suit for misappropriation, does Northwell have any potential defenses or counterarguments to such a claim?
  5. Is it possible Northwell has violated the Economic Espionage Act? What does the government have to prove to establish such a violation?
  6. Did Northwell act ethically in hiring Hart? Is it ethical for a new employer to hire a competitor's former employee when the employee has knowledge of the former employer's trade secrets? How could Northwell avoid incurring liability for misappropriation by hiring Hart?
  7. Did Hart act ethically in accepting a position with Northwell? How likely would you be to accept Northwell's employment offer under the same circumstances? Would it matter if your willingness to disclose your previous employer's proprietary information increased or decreased your chances to be hired or promoted by Northwell?
  8. How likely would you be to share proprietary information you learned at Citadel with a new employer in order to improve the development of your current employer's new product? Does it matter whether you contributed to developing the information while at Citadel?
  9. Given the potential for detection and litigation, how does a business arrive at and justify a decision to misappropriate a competitor's trade secrets from an ethical standpoint?
  10. What could Citadel have done to prevent the theft or disclosure of its trade secrets by departing employees? What should any business do to protect its trade secrets?

#### IV. OVERVIEW OF TRADE SECRET LAW

Protecting trade secrets is important to encourage innovation and technological development by assuring the inventor or creator that he or she will have the first chance to reap the benefits of the invest-



ment.<sup>22</sup> As the Supreme Court explained, “[t]rade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it.”<sup>23</sup> In doing so, trade secret law protects an economic investment against “free riders” by discouraging unfair competition by those who might otherwise attempt to gain unauthorized access to and use of the information through improper means.<sup>24</sup>

Many small businesses rely entirely on trade secret law to protect such intangible proprietary assets, such as manufacturing processes, business systems, customer lists, formulas, and databases.<sup>25</sup> Trade secrets are protected primarily by state law.<sup>26</sup> The material in this section draws upon the Uniform Trade Secrets Act (UTSA),<sup>27</sup> a uniform law now adopted by forty-four states and the District of Columbia, to define the scope of trade secret protection.<sup>28</sup> Particular attention

22. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974).

23. *Id.*

24. See *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 561 (4th Cir. 1990). For an economic analysis of trade secret law, see LANDES & POSNER, *supra* note 18, at 354-71; see also Steven N. S. Cheung, *Property Rights in Trade Secrets*, 20 *ECON. INQUIRY* 40 (1982); David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 *J. ECON. PERSP.* 61 (1991); Edmund W. Kitch, *The Law and Economics of Rights in Valuable Information*, 9 *J. LEGAL STUD.* 683 (1980).

25. See ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 29 (3d ed. 2003) (“[T]rade secrets, though important to all firms, are absolutely crucial for the small companies that drive innovation in many developing fields.”).

26. See *id.*

27. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 433 (1985). Trade secret protection, in one form or another, exists in most countries. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) provides international protection for intellectual property rights, including protection of “undisclosed information.” Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 39, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, 33 *ILL.M.* 81 (1994) [hereinafter TRIPs Agreement]. Such information must (1) not be “generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;” (2) have “commercial value because it is secret;” and (3) be “subject to reasonable steps” by its owners to keep it secret. *Id.* The TRIPs Agreement requires Member States to protect “undisclosed information” against use by others without the consent of the owner if the use is “contrary to honest commercial practices.” *Id.* Additionally, there is third-party liability for misappropriation if third parties knew or were grossly negligent in not knowing that such information had been obtained dishonestly. *Id.* n.10. The TRIPs Agreement also requires Member States to provide effective remedies for trade secret misappropriation, including injunctive relief, monetary damages, and provisional relief to prevent misappropriation and to preserve evidence. See *id.* arts. 44-46.

28. See ALA. CODE §§ 8-27-1 to -6 (2005); ALASKA STAT. §§ 45.50.910-945 (2006); ARIZ. REV. STAT. ANN. §§ 44-401 to -407 (2005); ARK. CODE ANN. §§ 4-75-601 to -607 (2005); CAL. CIV. CODE §§ 3426.1-.11 (Deering 2005); COLO. REV. STAT. §§ 7-74-101 to -110 (2005); CONN. GEN. STAT. §§ 35-50 to -58 (2004); DEL. CODE ANN. tit. 6, §§ 2001-2009 (2005); D.C. CODE §§ 36-401 to -410 (2005); FLA. STAT. §§ 688.001-.009 (2005); GA. CODE ANN. §§ 10-1-

should be paid to the requirements for trade secret protection and the conduct by which misappropriation can occur.

### A. Definition of Trade Secret

The law of trade secrets provides a structure and incentive for encouraging innovation.<sup>29</sup> The initial step to securing trade secrets against theft or disclosure is to identify what subject matter can be protected.<sup>30</sup> According to the UTSA, a

“[t]rade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

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

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>31</sup>

Courts have found many tangible objects and intangible ideas to be trade secrets, including chemical formulas, recipes, procedures, customer and supplier lists, flow-charts, blueprints, quality control

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760 to -767 (2005); HAW. REV. STAT. §§ 482B-1 to -9 (2004); IDAHO CODE ANN. §§ 48-801 to -807 (2005); 765 ILL. COMP. STAT. 1065/1-9 (2005); IND. CODE §§ 24-2-3-1 to -8 (2005); IOWA CODE §§ 550.1-8 (2004); KAN. STAT. ANN. §§ 60-3320 to -3330 (2005); KY. REV. STAT. ANN. §§ 365.880-900 (LexisNexis 2004); LA. REV. STAT. ANN. §§ 51:1431-1439 (2005); ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (2005); MD. CODE ANN., COM. LAW §§ 11-1201 to -1209 (West 2005); MICH. COMP. LAWS §§ 445.1901-1910 (2005); MINN. STAT. §§ 325C.01-.08 (2005); MISS. CODE ANN. §§ 75-26-1 to -19 (2006); MO. REV. STAT. §§ 417.450-.467 (2006); MONT. CODE ANN. §§ 30-14-401 to -409 (2005); NEB. REV. STAT. §§ 87-501 to -507 (2005); NEV. REV. STAT. §§ 600A.010-.100 (2005); N.H. REV. STAT. ANN. §§ 350-B:1-.9 (2005); N.M. STAT. §§ 57-3A-1 to -7 (2005); N.C. GEN. STAT. §§ 66-152 to -157 (2005); N.D. CENT. CODE §§ 47-25.1-01 to -08 (2005); OHIO REV. CODE ANN. §§ 1333.61-.69 (LexisNexis 2006); OKLA. STAT. tit. 78, §§ 85-94 (2005); OR. REV. STAT. §§ 646.461-.475 (2003); 12 PA. CONS. STAT. §§ 5301-5308 (2005); R.I. GEN. LAWS §§ 6-41-1 to -11 (2006); S.C. CODE ANN. §§ 39-8-10 to -130 (2004); S.D. CODIFIED LAWS §§ 37-29-1 to -11 (2005); UTAH CODE ANN. §§ 13-24-1 to -9 (2005); VT. STAT. ANN. tit. 12, § 523 (2005); VA. CODE ANN. §§ 59.1-336 to -343 (2005); WASH. REV. CODE §§ 19.108.010-.940 (2005); W. VA. CODE §§ 47-22-1 to -10 (2005); Wis. STAT. § 134.90 (2005).

29. Cf. *Bauer & Cie v. O'Donnell*, 229 U.S. 1, 10 (1913). The Patent Act “was passed for the purpose of encouraging useful invention and promoting new and useful improvements by the protection and stimulation thereby given to inventive genius, and was intended to secure to the public, after the lapse of the exclusive privileges granted, the benefit of such inventions and improvements.” *Id.*

30. Fraumann & Koletar, *supra* note 8, at 63.

31. UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1985). The information must be “sufficiently valuable . . . to afford an actual or potential economic advantage over others.” RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995); see also *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986) (discussing an example of what is considered valuable information sufficient to be a trade secret).

data, techniques, designs, business plans, forecasts, know-how,<sup>32</sup> and just about any other type of nonpublic information that provides a competitive advantage to its owner.<sup>33</sup> Even if constituent components of the information are publicly available, their particular combination may nevertheless be protected as a trade secret.<sup>34</sup> Generally ascertainable knowledge and information that can be independently discovered or recreated upon inspection is not protected,<sup>35</sup> nor is an employee's aptitude, skill, experience, manual and mental ability, and other subjective knowledge an employee obtained in the course of employment.<sup>36</sup> Separating proprietary information from an employee's unprotectable knowledge, experience, and skills is sometimes difficult, particularly when the employee's knowledge or skills are superior or unique.<sup>37</sup> In these instances, the interests of employee mobility and the ability of departing employees to exploit their valuable knowledge and enhanced skills is at odds with an employer's interest in preventing competitors from exploiting its proprietary information and investment in employee training and development.<sup>38</sup> Here, the issue amounts to whether the employee's knowledge, experience, and skills are similar to those possessed by others working in the industry or whether the knowledge and skills are generally known or readily ascertainable by competitors through inspection.

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32. See 18 U.S.C. § 1839(3) (2000); *Metallurgical Indus.*, 790 F.2d at 1201 (quoting *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (Tex. 1958)); *Sims v. Mack Truck Corp.*, 488 F. Supp. 592, 601 (E.D. Pa. 1980); UNIF. TRADE SECRETS ACT § 1 cmt. ("The words 'method, technique' are intended to include the concept of 'know-how.'"). There is no requirement that information exist in a tangible form, nor is there any requirement that the trade secret be in continuous use. See UNIF. TRADE SECRETS ACT § 1 cmt. The use of a trade secret could be a one-time occurrence, such as information related to a corporate merger. STEPHEN M. MCJOHN, *INTELLECTUAL PROPERTY: EXAMPLES AND EXPLANATIONS* 296 (2003).

33. See, e.g., *Union Carbide Corp. v. UGI Corp.*, 731 F.2d 1186, 1191 (5th Cir. 1984) (finding marketing information and strategies protectable as trade secrets); *Telex Corp. v. Int'l Bus. Machs. Corp.*, 510 F.2d 894, 928-29 (10th Cir. 1975) (finding computer hardware to be a protectable trade secret); *On-Line Techs., Inc. v. Perkin-Elmer Corp.*, 252 F. Supp. 2d 313, 323-24 (D. Conn. 2003) (stating that using the trade secret in research and development plans and reports constitutes use of the trade secret).

34. E.g., *Rohm & Haas Co. v. Adco Chem. Co.*, 689 F.2d 424, 433 (3d Cir. 1982) (addressing misappropriation of a latex paint-making process by a former employee who went to work for a competitor).

35. See UNIF. TRADE SECRETS ACT § 1 cmt.

36. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995); see, e.g., *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 852 (1st Cir. 1985); *Fleming Sales Co. v. Bailey*, 611 F. Supp. 507, 514 (N.D. Ill. 1985); *Sims*, 488 F. Supp. at 600.

37. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1995).

38. Cf. *CVD*, 769 F.2d at 852 (stating that allowing a departing employee to take general knowledge and experience "effectuates the public interest in labor mobility, promotes the employee's freedom to practice a profession, and freedom of competition").

For information to be protected as a trade secret, it must be known only by its owner and those the owner has authorized to know.<sup>39</sup> The trade secret must have economic value because it is not generally known and is not easily discoverable by proper means.<sup>40</sup> Value might be measured by what the information yielded, such as increased market share, profits, or enhanced production efficiency, or by the amount invested in developing the information.<sup>41</sup> Information is known or readily ascertainable if it is available in publications such as trade journals, public records, or other sources accessible through proper means.<sup>42</sup> If the information's economic value results from its confidentiality, the owner must make efforts to maintain its secrecy.<sup>43</sup> Absolute secrecy of the information is not required; rather, the owner need only use those efforts reasonable under the circumstances to maintain secrecy and ensure that the information does not become generally known.<sup>44</sup> Such efforts might include physical measures to restrict access to the information and other policies that stress the confidential nature of the information.<sup>45</sup> Reasonable efforts to maintain secrecy "do not require that extreme and unduly expensive procedures be taken to protect trade secrets against flagrant industrial espionage."<sup>46</sup> "On the other hand, public disclosure of information through display, trade journal publications, advertising, or other carelessness can preclude protection."<sup>47</sup>

In determining whether the precautions used were reasonable, no one set of measures will guarantee the secrecy requirement is met. The standard is flexible and courts consider all relevant facts in determining whether the business has utilized reasonable measures.<sup>48</sup>

39. See UNIF. TRADE SECRETS ACT § 1(2).

40. *Id.* § 1(4)(i).

41. See McJOHN, *supra* note 32, at 295.

42. UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433 (1985).

43. *Id.* § 1(4)(ii).

44. *Id.* § 1 cmt. The requisite efforts taken to maintain secrecy will differ depending on the size of the business and the nature of the information to be protected. See Jermaine S. Grubbs, Comment, *Give the Little Guys Equal Opportunity at Trade Secret Protection: Why the "Reasonable Efforts" Taken by Small Businesses Should Be Analyzed Less Stringently*, 9 LEWIS & CLARK L. REV. 421, 423 (2005); see also David W. Slaby et al., *Trade Secret Protection: An Analysis of the Concept "Efforts Reasonable Under the Circumstances to Maintain Secrecy"*, 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321, 322 (1989). Although evaluated within the circumstances of the business, the courts are clear that a trade secret owner must apply definite and affirmative measures to ensure secrecy. See 2 STEVEN C. ALBERTY, *ADVISING SMALL BUSINESSES* § 34:14.25 (1997 & Supp. 2001).

45. ALBERTY, *supra* note 44, § 34:14.25.

46. UNIF. TRADE SECRETS ACT § 1 cmt.

47. *Id.*

48. See ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW*

Furthermore, absolute secrecy would not be possible in many businesses because employees may actively use the trade secret information during the course of business. Employers have a clear business interest in protecting trade secrets disclosed in confidence to an employee during the course of his or her employment, especially when the employee held a position of trust and responsibility. This is true even when there is no confidentiality agreement between the parties; employees have a duty of confidentiality when they expressly or impliedly consent to such a duty or knew or should have known of a confidential obligation.<sup>49</sup> Nevertheless, "reasonable efforts to maintain secrecy have been held to include 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."<sup>50</sup>

### *B. Trade Secret Misappropriation*

A claim for trade secret misappropriation arises when one acquires, uses, or discloses the information through improper means, which involve a breach of contract or confidential relationship or other wrongful or commercially unethical conduct.<sup>51</sup> According to the UTSA,

"Misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

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

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

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OF COPYRIGHTS, PATENTS AND TRADEMARKS § 24.2.1 (2003).

49. See *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917).

50. UNIF. TRADE SECRETS ACT § 1 cmt.

51. *Id.* § 1.

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.<sup>52</sup>

Proving misappropriation involves a fact-intensive analysis. Misappropriation by way of wrongful conduct does not only involve tortious, criminal, or otherwise unlawful acts,<sup>53</sup> but it can also include acts that violate the prevailing norms of business ethics. Further, “‘improper means’ includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”<sup>54</sup> The boundary between proper and improper means of acquiring competitive intelligence is the focus of most trade secret litigation and ethical dilemmas.<sup>55</sup>

Disclosing or using another’s trade secret without permission is the other manner of misappropriation defined by the UTSA.<sup>56</sup> In this manner of misappropriation, the defendant may have used or disclosed information he or she acquired wrongfully or knew was acquired wrongfully by someone else.<sup>57</sup> Alternatively, the defendant may have used or disclosed another’s trade secret that he or she obtained from a person who breached a duty of confidentiality. The duty of confidentiality may arise from an express duty not to disclose, found in a written confidentiality agreement, or an implied duty not to disclose, from an employment situation or similar relationship where the secret is re-

52. *Id.* § 1(2) (alteration in original).

53. See Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-1839 (2000); UNIF. TRADE SECRETS ACT § 7(b).

54. UNIF. TRADE SECRETS ACT § 1(1). “A complete catalogue of improper means is not possible. In general they are means which fall below the generally accepted standards of commercial morality and reasonable conduct.” RESTATEMENT (FIRST) OF TORTS § 757 cmt. f (1939). Nevertheless, the UTSA includes a partial list of practices that are *proper* means:

Proper means include:

1. Discovery by independent invention;
2. Discovery by “reverse engineering”, that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must, of course, also be by a fair and honest means, such as purchase of the item on the open market for reverse engineering to be lawful;
3. Discovery under a license from the owner of the trade secret;
4. Observation of the item in public use or on public display;
5. Obtaining the trade secret from published literature.

UNIF. TRADE SECRETS ACT § 1 cmt.; see also William E. Hilton, *What Sort of Improper Conduct Constitutes Misappropriation of a Trade Secret*, 30 IDEA 287 (1990).

55. See Lynn Sharp Paine, *Corporate Policy and the Ethics of Competitor Intelligence Gathering*, 10 J. BUS. ETHICS 423, 424-25 (1991).

56. UNIF. TRADE SECRETS ACT § 1(2)(ii).

57. *Id.* § 1(2)(ii)(A)-(B)(I).

vealed for business purposes.<sup>58</sup> Further, misappropriation may occur when it is clear from the circumstances the owner revealed the trade secret by mistake or accident.<sup>59</sup>

### C. Defenses to Liability

Assuming the information is not otherwise publicly available and reasonable means of secrecy have been used to protect the secret, a trade secret owner's right to sue for misappropriation arises only when the information has been wrongfully taken or disclosed.<sup>60</sup> As a result, one accused of trade secret misappropriation may escape civil liability if he or she can demonstrate that the same information could have been ascertained through proper means, such as independent discovery or reverse engineering.<sup>61</sup> A trade secret does not vest in its owner a right of exclusivity.<sup>62</sup> Others are free to arrive at precisely the same information through independent creation or discovery and to use it so long as they obtain their knowledge through their own independent efforts.<sup>63</sup> Therefore, a person who independently invents or discovers information identical to another's trade secret, without relying on improper means to do so, is not liable for misappropriation.<sup>64</sup>

Likewise, there is no liability for misappropriation if the trade secret was ascertained by reverse engineering, the process of "starting with the known product and working backward to find the method by which it was developed."<sup>65</sup> Thus, the trade secret owner is always

58. *See id.* § 1(2)(ii)(B)(III).

59. *Id.* § 1(2)(ii)(C).

60. *See id.* § 1(2).

61. *See id.* § 1 cmt. (discussing proper means of acquiring a trade secret); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. a (1995) ("Protection is available only against a wrongful acquisition, use, or disclosure of the trade secret.").

62. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. a (1995) ("The owner of a trade secret does not have an exclusive right to possession or use of the secret information.").

63. *See id.* § 43 cmt. b. Some courts hold that the trade secret owner has the burden of proving the defendant did not independently develop the allegedly misappropriated trade secret, though this is not the majority view. *See Moore v. Kulicke & Soffa Indus., Inc.*, 318 F.3d 561, 572 (3d Cir. 2003) (stating that the plaintiff has the burden of disproving independent discovery of the trade secret). *But see* 2 LOUIS ALTMAN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14.28 (4th ed. 2003) (stating that the burden is on the defendant to prove independent discovery when the defendant had access to the trade secret).

64. *See* UNIF. TRADE SECRETS ACT § 1 cmt.; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. b (1995).

65. UNIF. TRADE SECRETS ACT § 1 cmt. Reverse engineering is the process of "starting with the known product and working backward to divine the process which aided in its development or manufacture." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974). Ironi-

vulnerable to the innocent discovery of the secret through proper means, including reverse engineering.<sup>66</sup> However, courts have cautioned that “[t]he more difficult, time consuming, and costly it would be to develop the product, the less likely it can be considered to be ‘reverse engineerable.’”<sup>67</sup> The reverse engineering defense is more likely applied in cases involving publicly available products that contain or embody the trade secret, especially those products that are easy to disassemble and inspect.<sup>68</sup>

#### D. Remedies

The remedies available to a trade secret owner for misappropriation include (1) injunctive relief, where courts delay use of the misappropriated information for a period of time;<sup>69</sup> (2) monetary damages representing profits lost by the trade secret owner and gained by the defendant without the cost of independent development;<sup>70</sup> and (3) where warranted, reasonable attorney’s fees.<sup>71</sup>

Injunctions are appropriate for an actual or threatened misappropriation when monetary damages are inadequate and when a trade secret may be destroyed by disclosure.<sup>72</sup> The purpose of a preliminary injunction is to prohibit the defendant’s further use of the trade secret and maintain the status quo between the parties until trial.<sup>73</sup> The injunction will remain in place for only “as long as is necessary . . . to eliminate the commercial advantage or ‘lead time’ [over] good faith competitors that a person has obtained through misappropriation.”<sup>74</sup> The injunction will “terminate when a former trade secret becomes either generally known to good faith competitors or generally knowable

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cally, it is possible that one owner of the trade secret might be unaware that the same information is possessed and used by another, who also has an incentive to keep it secret. See UNIF. TRADE SECRETS ACT § 1 cmt. (stating that proper means includes discovery by independent invention).

66. See UNIF. TRADE SECRETS ACT § 1 cmt.

67. *Rycoline Products, Inc. v. Walsh*, 756 A.2d 1047, 1055 (N.J. Super. Ct. App. Div. 2000).

68. See DONALD S. CHISUM & MICHAEL A. JACOBS, UNDERSTANDING INTELLECTUAL PROPERTY LAW § 3E(3) (1992).

69. UNIF. TRADE SECRETS ACT § 2.

70. *Id.* § 3.

71. *Id.* § 4.

72. See *id.* § 3(a). Moreover, under “exceptional circumstances,” the court may condition future use of the trade secret on payment of a reasonable royalty for the time period during which the defendant’s use could have been prohibited. *Id.* § 2(b).

73. *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*, 174 F.3d 411, 422 (4th Cir. 1999).

74. UNIF. TRADE SECRETS ACT § 2 cmt.



to them because of the lawful availability of products that can be reverse engineered to reveal a trade secret."<sup>75</sup>

Some courts apply the inevitable disclosure doctrine to enjoin a former employee from working for a competitor.<sup>76</sup> Under the inevitable disclosure doctrine, even when there has been no actual misappropriation, a former employee will be prohibited from working for a competitor when it is shown that the former employee cannot perform his or her job without unavoidably using or disclosing a former employer's confidential and trade secret information.<sup>77</sup> The inevitable disclosure doctrine is controversial; not all courts apply it because it involves balancing the employer's right to protect its investments and trade secrets from competitors with the employee's right to freely change jobs and use the skills, knowledge, and experience he or she has gained over time.<sup>78</sup>

Trade secret owners may also recover monetary damages for actual losses and the disgorgement of revenues for unjust enrichment.<sup>79</sup> Recovery of actual damages is proper only for the period the information is entitled to trade secret protection, including any period the de-

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75. *Id.* To exemplify this point,

assume that A has a valuable trade secret of which B and C, the other industry members, are originally unaware. If B subsequently misappropriates the trade secret and is enjoined from use, but C later lawfully reverse engineers the trade secret, the injunction restraining B is subject to termination as soon as B's lead time has been dissipated. All of the persons who could derive economic value from use of the information are now aware of it, and there is no longer a trade secret. . . . It would be anti-competitive to continue to restrain B after any lead time that B had derived from misappropriation had been removed.

*Id.*

76. See *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995). For discussions of the application of the inevitable disclosure doctrine, see Joseph F. Phillips, *Inevitable Disclosure Through an Internet Lens: Is the Doctrine's Demise Truly Inevitable?*, 45 WM. & MARY L. REV. 395 (2003); Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 TUL. J. TECH. & INTELL. PROP. 167 (2005); William Lynch Schaller, *Trade Secret Inevitable Disclosure: Substantive, Procedural & Practical Implications of an Evolving Doctrine (Part I)*, 86 J. PAT. & TRADEMARK OFF. SOC'Y 336 (2004); Adam Gill, Note, *The Inevitable Disclosure Doctrine: Inequitable Results Are Threatened but Not Inevitable*, 24 HASTINGS COMM. & ENT. L.J. 403 (2002); Brandy L. Treadway, Comment, *An Overview of Individual States' Application of Inevitable Disclosure: Concrete Doctrine or Equitable Tool?*, 55 SMUL REV. 621 (2002).

77. *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451, 468 (Md. 2004). The inevitable disclosure doctrine has been applied in a majority of other UTSA-adopting jurisdictions. See, e.g., *PepsiCo*, 54 F.3d at 1269; *RKI, Inc. v. Grimes*, 177 F. Supp. 2d 859, 875-76 (N.D. Ill. 2001); *H & R Block E. Tax Servs., Inc. v. Enchura*, 122 F. Supp. 2d 1067, 1076 (W.D. Mo. 2000); *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996); *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transp. Servs., Inc.*, 987 S.W.2d 642, 646-47 (Ark. 1999); *Procter & Gamble Co. v. Stoneham*, 747 N.E.2d 268, 279 (Ohio Ct. App. 2000).

78. See Treadway, *supra* note 76, at 622.

79. UNIF. TRADE SECRETS ACT § 3.

fendant had a competitive advantage and is thereby unjustly benefited by the misappropriation.<sup>80</sup> The court may award damages irrespective of whether injunctive relief is granted.<sup>81</sup> “A claim for actual damages and net profits can be combined with a claim for injunctive relief....”<sup>82</sup> As an alternative method of measuring damages, the court may impose a reasonable royalty for a defendant’s unauthorized disclosure or use of the trade secret if a reasonable royalty can be determined.<sup>83</sup> A reasonable royalty is a court-imposed licensing fee set at a fair market rate.<sup>84</sup> Additionally, “[i]f (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney’s fees to the prevailing party.”<sup>85</sup>

### *E. The Economic Espionage Act*

In some instances, trade secret misappropriation may be prosecuted as a federal criminal offense.<sup>86</sup> The federal Economic Espionage

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80. *Id.* § 3 cmt. For cases from UTSA jurisdictions discussing the calculation of damages, see, for example, *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112, 1120 (Fed. Cir. 1996) (holding an award of actual damages proper when manufacturer lost market share, reduced its prices as a result of competitor’s entry into market, and would need a substantial period of time to reestablish prices and margins); *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 536 (5th Cir. 1974) (discussing lost profits, unjust enrichment, and reasonable royalties as damages); *Brown v. Rullam Enters., Inc.*, 44 S.W.3d 740, 744 (Ark. Ct. App. 2001) (holding that the proper method of calculating damages is on the basis of net profit, either lost by the injured party or gained by the wrongdoer); *Kubik, Inc. v. Hull*, 224 N.W.2d 80, 93-95 (Mich. Ct. App. 1974) (discussing injunctive relief).

81. UNIF. TRADE SECRETS ACT § 3 cmt.

82. *Id.* However, if both types of relief are granted, the injunction ordinarily will pre-empt a monetary award for the time during which the injunction is in effect. *Id.*

83. *Id.* § 3.

84. See *Univ. Computing*, 504 F.2d at 536-39 (“[M]ost courts adjust the measure of damages to accord with the commercial setting of the injury, the likely future consequences of the misappropriation, and the nature and extent of the use the defendant put the trade secret to after misappropriation.”).

85. UNIF. TRADE SECRETS ACT § 4. When considering whether to award attorney’s fees in cases involving willful and malicious misappropriation, “the court should take into consideration the extent to which a complainant will recover exemplary damages in determining whether additional attorney’s fees should be awarded.” *Id.* § 4 cmt. As to bad faith claims and motions, courts have considered whether the plaintiff believed that there was a colorable claim, whether the claim was vexatious or objectively specious, and whether the underlying conduct was egregious. See, e.g., *Contract Materials Processing, Inc. v. Katalena GmbH Catalysts*, 222 F. Supp. 2d 733, 744 (D. Md. 2002); *Russo v. Baxter Healthcare Corp.*, 51 F. Supp. 2d 70, 76 (D.R.I. 1999); *Colorado Supply Co. v. Stewart*, 797 P.2d 1303, 1308 (Colo. Ct. App. 1990).

86. See Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-1839 (2000). A number of states also have criminal laws governing trade secret theft. See Eli Lederman, *Criminal Liability for Breach of Confidential Commercial Information*, 38 EMORY L.J. 921 (1989) (surveying state criminal laws addressing trade secrets).

Act of 1996 (EEA)<sup>87</sup> prohibits the theft of trade secrets,<sup>88</sup> as well as industrial espionage when the theft benefits a foreign government.<sup>89</sup> The EEA definition of *trade secret* is similar to and as broad as the UTSA's definition.

[T]he term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public . . . .<sup>90</sup>

In determining secrecy, the information must "not be[] generally known to, and not be[] readily ascertainable through proper means by[] the public."<sup>91</sup> This standard is more expansive than the UTSA, which protects information deriving value "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."<sup>92</sup> Thus, the scope of protection is broader under the EEA since

87. 18 U.S.C. §§ 1831-1839. For more detailed analyses of the EEA, see COMPUTER CRIME & INTELLECTUAL PROP. SECTION CRIMINAL DIV., U.S. DEP'T OF JUSTICE, PROSECUTING INTELLECTUAL PROPERTY CRIMES 179-229 (2001); Geraldine Szott Moohr, *The Problematic Role of Criminal Law in Regulating Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. REV. 853 (2002); Gerald J. Mossinghoff et al., *The Economic Espionage Act: A New Federal Regime of Trade Secret Protection*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 191 (1997); James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177 (1997).

88. 18 U.S.C. § 1832. For cases applying and interpreting the EEA, see, for example, *United States v. Lange*, 312 F.3d 263 (7th Cir. 2002); *United States v. Yang*, 281 F.3d 534 (6th Cir. 2002); *United States v. Krumrei*, 258 F.3d 535 (6th Cir. 2001); *United States v. Martin*, 228 F.3d 1 (1st Cir. 2000); *United States v. Hsu*, 155 F.3d 189 (3d Cir. 1998).

89. 18 U.S.C. § 1831. In 1999, major U.S. corporations lost \$45 billion in profits and six million jobs due to industrial espionage by foreign governments. Robert C. Van Arnam, Comment, *Business War: Economic Espionage in the United States and the European Union and the Need for Greater Trade Secret Protection*, 27 N.C. J. INT'L L. & COM. REG. 95, 97-98 (2001).

90. 18 U.S.C. § 1839(3). Congress did not intend to include in this definition general knowledge or skills learned on a job when an employee leaves one company and moves to another in the same or similar field. H.R. REP. NO. 104-788, at 7 (1996), as reprinted in 1996 U.S.C.A.N. 4021, 4026.

91. 18 U.S.C. § 1839(3)(B) (emphasis added).

92. UNIF. TRADE SECRETS ACT § 1(4)(i), 14 U.L.A. 433 (1985) (emphasis added). While the UTSA requires the information to be of value to others, the EEA merely requires the information to be of value to the owner. Compare 18 U.S.C. § 1839(3)(B), with UNIF.

in many cases the general public will not easily know or learn about confidential business information.

Under the EEA, it is a federal crime for any person to convert a trade secret for his or her own benefit, or the benefit of others, intending or knowing the act will injure a trade secret owner.<sup>93</sup> For purposes of the EEA, an owner is “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.”<sup>94</sup> More specifically, the EEA provides that a violation occurs when a person or organization,

with intent to convert a trade secret, that is related to or included in a product that is produced for or placed in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly—

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;

(3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;

(4) attempts to commit any offense described in paragraphs (1) through (3); or

(5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy . . . .<sup>95</sup>

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TRADE SECRETS ACT § 1(4)(i).

93. 18 U.S.C. § 1832(a). The government does not have to prove the defendant definitely knew the information was a trade secret. “For a person to be prosecuted, the person must know or have a firm belief that the information he or she is taking is in fact proprietary.” 142 CONG. REC. S12201, 12213 (1996). Evidence that a defendant knew the owner marked the information “confidential” or “proprietary,” restricted access to the information, and required personnel to sign non-disclosure agreements is solid proof of this element. *See United States v. Martin*, 228 F.3d 1, 12 (1st Cir. 2000). On the other hand, a person who takes a trade secret because of ignorance, mistake, or accident, or who reasonably believes that the information is not proprietary, is not liable under the EEA. *See* 18 U.S.C. § 1832.

94. 18 U.S.C. § 1839(4).

95. *Id.* § 1832(a)(1)-(5). The EEA requires specific intent to misappropriate and prescribes an *attempt* and *conspiracy* to misappropriate trade secrets. *Id.* § 1832(a)(4)-(5). Another section of the EEA addresses trade secret theft and industrial espionage by foreign governments and their agents. *Id.* § 1831. The offense of “economic espionage” under § 1831 requires the government also prove the defendant knew the offense would benefit or was intended to benefit a foreign government, foreign instrumentality, or foreign agent, as defined in the Act. *Id.* § 1831(a).

A person convicted of violating the EEA may be imprisoned for up to ten years and fined.<sup>96</sup> A corporation or other organization may be fined up to \$5,000,000.<sup>97</sup> An additional penalty is forfeiture of property used to commit the offense or derived as a result of the offense.<sup>98</sup>

## V. ETHICAL THEORY AND BUSINESS

That which is legal or profitable may not always be the ethical choice. Ethics determine what we ought to do.<sup>99</sup> "In its most general sense ethics is a systematic attempt to make sense of our individual and social moral experience, in such a way as to determine the rules that ought to govern human conduct, the values worth pursuing, and the character traits deserving development in life."<sup>100</sup> There exists an array of approaches to guide ethical decision-making. Some theories are deontological and focus on the decision or action itself, while other theories are teleological and are primarily concerned with the outcome or consequence.<sup>101</sup> Deontology defines a pre-established set of overriding standards by which ethical behavior can be measured.<sup>102</sup> When an ethical dilemma arises, a person can apply these standards to define an ethical course of action, regardless of whether a good outcome results from the action.<sup>103</sup> A person decides what to do in a situation by asking if a particular action is right or wrong, because the act itself is more important than its consequence.<sup>104</sup> By contrast, when deciding whether an action is ethical, teleological theories focus on the result or consequence of the action, rather than on the nature of the action itself or any set of preexisting moral duties.<sup>105</sup> Whether an action is morally right or wrong depends on its overall consequences.<sup>106</sup>

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96. *Id.* § 1832(a).

97. *Id.* § 1832(b).

98. *Id.* § 1834(a).

99. See RICHARD T. DE GEORGE, BUSINESS ETHICS 19 (5th ed. 1999).

100. *Id.* at 20 (emphasis omitted).

101. *Id.* at 52.

102. See *id.*

103. See *id.*

104. See *id.*; WILLIAM H. SHAW, BUSINESS ETHICS 43 (5th ed. 2005).

105. DE GEORGE, *supra* note 99, at 52.

106. *Id.*; SHAW, *supra* note 104, at 43.

Business ethics is concerned with how business managers ought to behave.<sup>107</sup> "Ethical theories attempt to systematize ordinary moral judgments, and to establish and defend basic moral principles."<sup>108</sup> This section examines four predominant ethical theories that can be used to guide business managers in making ethical decisions: (1) formalism; (2) rights theory; (3) utilitarianism; and (4) justice theory. The strengths and weaknesses of each ethical theory are also presented. The discussion then turns to the ethical responsibility of business with a focus on applying these ethical frameworks to profit maximization, with stakeholder analysis as contrasting approaches to decision-making.

### A. Formalism

Formalism is a strict deontological approach to ethical decision-making most often associated with Immanuel Kant, a moral philosopher who believed certain ethical norms apply universally, irrespective of their consequences.<sup>109</sup> Kant viewed people as moral actors who could make ethical decisions by applying a universal principle that he referred to as the "categorical imperative."<sup>110</sup> For Kant, an act is either right or wrong in itself; even a wrong act that leads to a good result is unjustifiable.<sup>111</sup> One formulation of the categorical imperative is we should act or judge an action by applying it universally—whether a rule or decision is one a rational person would want applied universally to all people in every situation.<sup>112</sup> This principle sets out an ethical norm of universal reciprocity that places each person in the posi-

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107. See DE GEORGE, *supra* note 99, at 24.

108. *Id.* at 51.

109. See SHAW, *supra* note 104, at 53.

110. IMMANUEL KANT, FOUNDATIONS OF THE METAPHYSICS OF MORALS 38-39 (Lewis White Beck trans., 2d ed. rev. 1990); see also NORMAN E. BOWIE, BUSINESS ETHICS: A KANTIAN PERSPECTIVE 24 (1999).

111. See KANT, *supra* note 110, at 38-39; see also SHAW, *supra* note 104, at 53.

112. KANT, *supra* note 110, at 38-39. This principle can be thought of as a formulation of the Golden Rule as enunciated in Judeo-Christian religious texts. See DE GEORGE, *supra* note 99, at 52; SHAW, *supra* note 104, at 56; Luke 6:31 (King James) ("And as ye would that men should do to you, do ye also to them likewise."); Babylonian Talmud: Shabbath 31a ("What is hateful to you, do not to your neighbor . . ."). Examples of universal rules are: *It is always wrong to steal from others and Never tell a lie.* Kant also restated the categorical imperative to explain that we should always treat others as an end and never as a means to an end. KANT, *supra* note 110, at 46-47.

tion of owing an obligation to all others.<sup>113</sup> As a strict deontologist, Kant believed a person renders an ethical decision based on what is right, regardless of the consequences or results of the act.<sup>114</sup> Thus, an ethical rule is categorical because it guides us independent of the result sought.<sup>115</sup> Moreover, Kant believed it is wrong to objectify individuals—to treat others merely as a means to an end.<sup>116</sup> He argued that one person cannot use another simply to satisfy his or her own interests.<sup>117</sup>

Suppose a business desires to end its performance of a contract because the deal has been much less profitable than originally anticipated. To justify this action, the business owner applies the following ethical rule: *I am entitled to cancel a contract that proves to be less profitable to me than I expected.* According to Kant, the business owner would not select this rule as a universal norm because he would not want this rule applied to him by another contracting party.<sup>118</sup> Moreover, such a rule would ultimately undermine all contracts<sup>119</sup> and lead to economic instability. Nor would it be right for the business owner to except his own contracts from being rescinded by others. Kantian formalism holds that the principle governing the action must be universalized, and to make an exception for yourself is immoral.<sup>120</sup> As such, this rule does not satisfy the categorical imperative, and it is wrong to repudiate a contract merely because it turns out to be less profitable than expected.<sup>121</sup>

The main criticism of Kantian formalism is its premise that moral rules are absolute.<sup>122</sup> As such, they narrowly emphasize universal du-

113. See KANT, *supra* note 110, at 39.

114. See *id.*; see also SHAW, *supra* note 104, at 53.

115. See KANT, *supra* note 110, at 38-39.

116. *Id.* at 46-47.

117. *Id.*; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 22-23; SHAW, *supra* note 104, at 56-57.

118. See KANT, *supra* note 110, at 39.

119. See 407 E. 61st St. Garage, Inc. v. Savoy Fifth Ave. Corp., 244 N.E.2d 37, 42 (N.Y. 1968).

120. See KANT, *supra* note 110, at 39; see also SHAW, *supra* note 104, at 56.

121. This is also a well-established rule of contract law. See 407 E. 61st St. Garage, 244 N.E.2d at 42 (“[A] party [is not permitted] to abrogate a contract, unilaterally, merely upon a showing that it would be financially disadvantageous to perform it; were the rules otherwise, they would place in jeopardy all commercial contracts.”); Hancock Paper Co. v. Champion Int’l Corp., 424 F. Supp. 285, 290 (E.D. Pa. 1976) (“The fact that [a party does] not profit from its contract . . . does not render its performance impossible.”).

122. ETHICAL THEORY AND BUSINESS, *supra* note 21, at 25-26; SHAW, *supra* note 104, at

ties above particular obligations that may arise only in specific roles or relationships.<sup>123</sup> Such formulaic reasoning may lead to extreme or unfair results.<sup>124</sup> To illustrate, consider the universal rule directing: *Never cause harm to another person*. Because the rule is absolute, we could never justify using physical force that results in injury to an attacker, even in self-defense.<sup>125</sup> Another important limitation of strict deontology is it provides no guidance when a person is confronted by two conflicting rules and does not know which to follow; formalism does not explain how to determine which rule trumps the other to resolve the dilemma.<sup>126</sup>

### B. Rights Theory

Rights theory represents another formulation of deontology.<sup>127</sup> According to this theory, a key factor in determining whether a decision is ethical is how the decision affects the rights of others.<sup>128</sup> Rights are justified claims for or against something; they may be either positive or negative.<sup>129</sup> Negative rights obligate people to leave the rights-holder alone when he or she undertakes certain activities; positive rights obligate people to do something for the rights-holder.<sup>130</sup> When there is disagreement over the relative strength or importance of competing rights, the more fundamental right under the circumstances prevails.<sup>131</sup> Rights theory dictates that before a business acts, it must consider carefully how its decision will impact the rights of others.<sup>132</sup>

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123. ETHICAL THEORY AND BUSINESS, *supra* note 21, at 26.

124. *See* SHAW, *supra* note 104, at 58 (discussing when exceptions to a rule may be desirable).

125. *Cf. id.* (discussing that it may be permissible to steal rather than starve).

126. DE GEORGE, *supra* note 99, at 92.

127. *See* DE GEORGE, *supra* note 99, at 98-99. For discussions on rights theory, see generally RONALD DWORKIN, *TAKING RIGHTS SERIOUSLY* (1977); ROBERT NOZICK, *ANARCHY, STATE, AND UTOPIA* (1974); JUDITH JARVIS THOMSON, *THE REALM OF RIGHTS* (1990); J. L. Mackie, *Can There Be a Right-Based Moral Theory?*, in 3 *MIDWEST STUDIES IN PHILOSOPHY: STUDIES IN ETHICAL THEORY* 350 (1978).

128. *See* JOSEPH R. DESJARDINS & JOHN J. MCCALL, *CONTEMPORARY ISSUES IN BUSINESS ETHICS* 47-55 (4th ed. 2000); *see also* SHAW, *supra* note 104, at 62-63.

129. DE GEORGE, *supra* note 99, at 98-99.

130. *Id.* at 99; *see also* ETHICAL THEORY AND BUSINESS, *supra* note 21, at 29-30; SHAW, *supra* note 104, at 63.

131. *See* DE GEORGE, *supra* note 99, at 99-100; SHAW, *supra* note 104, at 63.

132. SHAW, *supra* note 104, at 64.



As such, rights function as a constraint on what a business may do to serve its own ends.<sup>133</sup>

Although rights theory is intended to emphasize rights rather than duties, each right implies a corresponding duty on the part of others.<sup>134</sup> To apply rights theory, the decision-maker must determine which fundamental rights are involved and how they should be ranked in importance.<sup>135</sup> It is often difficult to agree which rights are fundamental.<sup>136</sup>

Another limitation of rights theory is its lack of guidance for prioritizing rights and correlative duties.<sup>137</sup> For example, is an employee's right to privacy in the contents of his email or briefcase more fundamental than the employer's right to protect confidential proprietary information? In addition, rights theory emphasizes the costs and overall consequences of enforcing one right over another.<sup>138</sup> For instance, if an employee has a right to a job, how motivated will she be to put forth her best efforts to maintain or improve the quality of her work?

### C. Utilitarianism

Utilitarianism is the most well-known teleological or consequentialist theory of ethical justification.<sup>139</sup> Under utilitarian theory, the morality of an act is judged by the good or bad produced by its consequences in terms of social benefit or utility.<sup>140</sup> A utilitarian assumes

133. *Id.*

134. See DE GEORGE, *supra* note 99, at 99; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 29.

135. See DE GEORGE, *supra* note 99, at 98; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 30-31.

136. See ETHICAL THEORY AND BUSINESS, *supra* note 21, at 30-31; SHAW, *supra* note 104, at 65.

137. See ETHICAL THEORY AND BUSINESS, *supra* note 21, at 30-31.

138. See DE GEORGE, *supra* note 99, at 100.

139. *Id.* at 52. John Stuart Mill is the best known proponent of utilitarianism. See *id.* at 57 n.1; JOHN STUART MILL, THE BASIC WRITINGS OF JOHN STUART MILL: ON LIBERTY, THE SUBJECTION OF WOMEN AND UTILITARIANISM (Modern Library 2002) (1859).

140. DE GEORGE, *supra* note 99, at 57. There are two major forms of utilitarianism: act utilitarianism and rule utilitarianism. *Id.* at 61-65; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 20-21; SHAW, *supra* note 104, at 48. Act utilitarianism assesses each action according to whether it maximizes benefits over detriments. DE GEORGE, *supra* note 99, at 61; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 20; SHAW, *supra* note 104, at 48. Rule utilitarianism holds that certain general rules must be set out and followed even though following these rules may result in less overall utility than if they were not followed. DE GEORGE, *supra* note 99, at 62; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 20; SHAW, *supra* note 104, at 48.

material things generate utility or satisfaction, and an efficient allocation of resources contributes to overall material abundance.<sup>141</sup> The only concern is whether one action from among the available alternative actions produces maximum social utility.<sup>142</sup> An action is morally proper when it produces “the greatest amount of good for the greatest number of people affected by the action.”<sup>143</sup> Much like a cost-benefit analysis, the ends justify the means when the common good is maximized.<sup>144</sup> This simplicity is the main strength of utilitarianism as an ethical construct: our decision is ethical when we do what is best for society as a whole.<sup>145</sup>

A major criticism of utilitarian theory is it subordinates the interests of the individual and minority to the attainment of greatest overall gain.<sup>146</sup> In addition, utilitarianism does not address the likelihood that each increment of profit or material value yields decreasing marginal utility to its recipient.<sup>147</sup> Often, a utilitarian analysis must also attempt to measure things that are not easily measurable.<sup>148</sup> For instance, how do we measure a unit of happiness or satisfaction?<sup>149</sup> Likewise, utilitarianism is of limited value in decision-making when the outcome is not clear, and it does not provide a standard for predicting the success or failure of particular actions or for quantifying utility generated.<sup>150</sup> The well-being of an individual can be sacrificed for an action that brings society greater satisfaction,<sup>151</sup> leading to unfair distributions of benefits or unjust results for those not benefited.<sup>152</sup>

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141. See DE GEORGE, *supra* note 99, at 57; ETHICAL THEORY AND BUSINESS, *supra* note 21, at 19.

142. DE GEORGE, *supra* note 99, at 57.

143. *Id.*; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 18; SHAW, *supra* note 104, at 47.

144. DE GEORGE, *supra* note 99, at 57; see ETHICAL THEORY AND BUSINESS, *supra* note 21, at 18.

145. See ETHICAL THEORY AND BUSINESS, *supra* note 21, at 18; SHAW, *supra* note 104, at 49.

146. ETHICAL THEORY AND BUSINESS, *supra* note 21, at 21.

147. See *id.* at 21-22.

148. *Id.* at 21; SHAW, *supra* note 104, at 50.

149. ETHICAL THEORY AND BUSINESS, *supra* note 21, at 21; SHAW, *supra* note 104, at 50.

150. See ETHICAL THEORY AND BUSINESS, *supra* note 21, at 21-22.

151. *Id.* at 21. Because rights theory is deontological, a rights theorist would argue that when a claim based on the assertion of a right conflicts with a claim based on a consequence or utility, the claim based on assertion of a right must always trump the claim based on a consequence. See DE GEORGE, *supra* note 99, at 80.

152. See SHAW, *supra* note 104, at 48 (discussing researchers who intentionally infected

### D. Justice Theory

Justice theory is based on the idea of fairness.<sup>153</sup> It is another teleological approach to ethical decision-making, articulated by philosopher John Rawls.<sup>154</sup> This theory states that ethical decisions are guided by fairness and lead to an equitable distribution of society's resources.<sup>155</sup> Distributive justice expresses sensitivity as to how to share the benefits and allocate the burdens of society in making decisions.<sup>156</sup> Rawls suggests considering how to distribute benefits and burdens as if in the "original position"—in a natural state—and under a "veil of ignorance," to prevent knowing a particular social status.<sup>157</sup> He recommends considering the rules to impose on society without regard to whether a person would be rich or poor.

Rawls also posits building a fair system in which income and benefits would be distributed unequally only when it would benefit all or the least advantaged.<sup>158</sup> This result follows since decision-makers are behind the veil of ignorance and would not know whether they would be advantaged or disadvantaged until the veil was lifted.<sup>159</sup> As such, decision-makers would be less likely to act solely out of self-interest,<sup>160</sup> which is the main strength of Rawls' theory.

According to justice theory, while decisions are to be guided by fairness and impartiality, the main focus is on the outcome of the decision.<sup>161</sup> Ethical justice is measured by the likelihood that a decision

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mentally retarded children with viral hepatitis to expand understanding of the disease, and possibly excusing the practice as producing the "most good for the whole society").

153. John Rawls, *Justice as Fairness*, 67 *PHIL. REV.* 164, 164 (1958); see also DE GEORGE, *supra* note 99, at 101.

154. See JOHN RAWLS, *A THEORY OF JUSTICE* (1971); Rawls, *supra* note 153. Aristotle also enunciated the theory of justice as fairness. See ARISTOTLE, *NICOMACHEAN ETHICS* 1130b-1131a (Roger Crisp trans., 2000). Aristotle argued that society should aim to equitably distribute benefits and opportunities, with the goal of alleviating inequalities. See *id.* This does not mean that every member of society is entitled to an equal distribution; rather, they are entitled to a distribution based on their legitimate needs. See *id.*

155. See Rawls, *supra* note 153, at 164-65; see also SHAW, *supra* note 104, at 101-03.

156. See RAWLS, *supra* note 154, at 7; see also DE GEORGE, *supra* note 99, at 101; SHAW, *supra* note 104, at 103-04.

157. RAWLS, *supra* note 154, at 118-68; see also SHAW, *supra* note 104, at 96-98.

158. See RAWLS, *supra* note 154, at 17-22, 130-36; see also SHAW, *supra* note 104, at 98.

159. See RAWLS, *supra* note 154, at 136-42; see also SHAW, *supra* note 104, at 98.

160. RAWLS, *supra* note 154, at 137; see also SHAW, *supra* note 104, at 98.

161. RAWLS, *supra* note 154, at 10-11; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 630-31.

would be fair to all members of society, particularly the least advantaged.<sup>162</sup> In other words, Rawls suggests resolving ethical dilemmas without considering the personal position held in relation to the outcome and whether a person would incur a benefit or suffer a detriment as a result of the ultimate decision.<sup>163</sup>

Justice theory postulates a person would make the most socially just and fair decision in this situation.<sup>164</sup> For instance, consider a corporation facing the decision of whether to relocate a factory from a prosperous and relatively affluent region to an economically distressed part of the country. In deciding a course of action that most fairly allocates social benefits and burdens, the corporation may decide to relocate the factory because the residents in the distressed region have fewer employment opportunities and a lower standard of living.

Justice theory shares some of the criticisms often applied to rights theory. It treats equality and fairness as absolutes, without considering the costs involved in achieving equality or a fair distribution. For businesses, such costs may be significant because they may include fewer incentives for innovation, reduced profits, or lower productivity. Moreover, justice theory assumes it is possible to accurately measure wealth or advantage as a basis for allocating social benefits. In many instances, however, this is unrealistic.

### *E. Decision-Making and the Ethical Responsibility of Business: Profit Maximization vs. Stakeholder Analysis*

The most obvious context for analyzing ethical dilemmas in the business environment is managerial decision-making. Profit maximization is the traditional goal guiding business decision-making, making a firm's primary responsibility to maximize profits and obey the law.<sup>165</sup> The main thrust of this position is economic and stresses the

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162. See RAWLS, *supra* note 154, at 11; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 631-32.

163. RAWLS, *supra* note 154, at 118-68; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 633.

164. RAWLS, *supra* note 154, at 11; see also ETHICAL THEORY AND BUSINESS, *supra* note 21, at 633.

165. See ETHICAL THEORY AND BUSINESS, *supra* note 21, at 45. Profit maximization is based on the laissez-faire theory of capitalism widely espoused by Adam Smith in the eighteenth century. See ADAM SMITH, *THE WEALTH OF NATIONS* (C.J. Bullock ed., 1909) (1776). Profit maximization also justified the decision in *Dodge v. Ford Motor Co.*, 170 N.W. 668 (Mich. 1919), where shareholders of Ford sued when the board of directors reduced the price

interests of the firm's owners or shareholders.<sup>166</sup> Assuming it does so within the bounds of the law, a firm that maximizes long term profits in a competitive market also increases productivity and allocative efficiency.<sup>167</sup> Thus, the inquiry is whether an otherwise lawful action will lead to profit maximization.<sup>168</sup> By maximizing profits, firms ensure that scarce economic resources are allocated to the uses society values most highly, thereby maximizing overall economic welfare.<sup>169</sup> If an action does not maximize profits, then the rational firm should not undertake the action.<sup>170</sup> If an action is illegal, then the threat of punishment should deter a firm from engaging in such conduct.<sup>171</sup>

Advocates of profit maximization often look to utilitarianism as a source of ethical justification.<sup>172</sup> Because profit maximization under competitive conditions results in the most efficient allocation and use of resources, those actions that maximize profits will be morally supportable.<sup>173</sup> In addition, utilitarianism does not inevitably support profit maximization because profit maximization can also involve utility costs that may outweigh gains in utility resulting from greater efficiency.<sup>174</sup>

Rights theory could also be used to support profit maximization, because activities, such as maximizing profits, contribute to realizing certain positive economic rights and should be protected.<sup>175</sup> However,

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of their cars and refused to declare a special dividend. *Id.* at 670-71. The court stated, "[a] business corporation is organized and carried on primarily for the profit of the stockholders." *Id.* at 684; see also Local 1330, United Steel Workers v. United States Steel Corp., 631 F.2d 1264, 1277 (6th Cir. 1980) (refusing to prohibit a steel manufacturer from closing an unprofitable and obsolescent plant).

166. ETHICAL THEORY AND BUSINESS, *supra* note 21, at 45.

167. See Milton Friedman, *The Social Responsibility of Business Is to Increase Its Profits*, N.Y. TIMES, Sept. 13, 1970 (Magazine). Allocative efficiency is the optimal state that results when consumer surplus is maximized; it occurs when no further production and exchanges of goods would further improve the economic situation. WILLIAM G. SHEPHERD, *THE ECONOMICS OF INDUSTRIAL ORGANIZATION: ANALYSIS, MARKETS, POLICIES* 35 (4th ed. 1997).

168. See Friedman, *supra* note 167.

169. See *id.*

170. See *id.*

171. See DE GEORGE, *supra* note 99, at 196; John Hasnas, *Two Normative Theories of Business Ethics: A Critique*, in ETHICAL THEORY AND BUSINESS, *supra* note 21, at 65, 67.

172. Hasnas, *supra* note 171, at 67; see also DE GEORGE, *supra* note 99, at 57.

173. Hasnas, *supra* note 171, at 67; see also DE GEORGE, *supra* note 99, at 57.

174. See Hasnas, *supra* note 171, at 67; see also DE GEORGE, *supra* note 99, at 57-58.

175. See DE GEORGE, *supra* note 99, at 99 (discussing positive and negative rights).

other rights-based claims may overcome profit maximization when the two rights conflict.<sup>176</sup>

Those who reject profit maximization as the main goal for business typically point out that maximizing profits usually benefits only one set of the firm's constituents: its owners or shareholders.<sup>177</sup> This argument submits that profit maximization may result in harm to employees, consumers, communities, the environment, and society as a whole.<sup>178</sup> For instance, a U.S. corporation decides to outsource some of its operations to China in order to cut labor costs. This decision may in fact increase corporate profits and overall economic welfare, but the consequences to former employees and the surrounding community may be dire.<sup>179</sup> As such, some argue that rather than acting only to maximize profits for owners, a business should balance owner or shareholder interests against the interests of other constituencies.<sup>180</sup> According to this approach, businesses have different constituencies, or stakeholders, who often have conflicting goals.<sup>181</sup> A business is responsible to society at large and, more directly, owes fiduciary responsibilities to its stakeholders.<sup>182</sup> In making ethical and responsible

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176. See *ETHICAL THEORY AND BUSINESS*, *supra* note 21, at 30-31.

177. See Hasnas, *supra* note 171, at 69-70.

178. See *ETHICAL THEORY AND BUSINESS*, *supra* note 21, at 47.

179. On the other hand, not outsourcing operations to China may result in the need for the corporation to raise prices or accept lower profits and pay lower dividends. In the long run, this may steer investors away and result in less production and lower overall social welfare. Thus, supporters of profit maximization might argue that business managers should not concern themselves with social responsibility, either because market forces will lead them to social responsibility if it is economically efficient, or because government regulation will step in if there is sufficient public dissatisfaction. See Friedman, *supra* note 167.

180. R. Edward Freeman, *Stakeholder Theory of the Modern Corporation*, in *ETHICAL ISSUES IN BUSINESS: A PHILOSOPHICAL APPROACH* 247-48 (Thomas Donaldson & Patricia H. Werhane eds., 6th ed. 1999); see also David Millon, *Communitarianism in Corporate Law: Foundations and Law Reform Strategies*, in *PROGRESSIVE CORPORATE LAW* 12 (Lawrence E. Mitchell ed., 1995) ("[M]anagement should pursue profit-seeking strategies that harmonize shareholder and nonshareholder interests where possible."); Joseph S. Spoerl, *The Social Responsibility of Business*, 42 *AM. J. JURIS.* 277, 297 (1997) ("The duty of the business owner . . . is to create products that satisfy genuine human needs, and to do so as efficiently as possible while treating customers, suppliers, workers, and neighbors fairly.").

181. See Millon, *supra* note 180, at 12.

182. Freeman, *supra* note 180, at 247; Millon, *supra* note 180, at 12; see Spoerl, *supra* note 180, at 297. In resolving a shareholder suit, for example, the court in *A. P. Smith Manufacturing Co. v. Barlow*, 98 A.2d 581 (N.J. 1953), recognized that the board of directors could properly consider the public welfare of society in deciding to make a charitable contribution on behalf of the corporation to Princeton University. *Id.* at 590.

decisions, a firm should balance the interests of its various stakeholders and be managed for the benefit of all of its stakeholders.<sup>183</sup>

Although utilitarian theory might justify the stakeholder approach to decision-making, if recognizing each stakeholder's interest would yield more net utility than not, advocates of stakeholder analysis often look to deontology as a standard of ethical justification.<sup>184</sup> Underlying Kant's categorical imperative is a concern for the interests of others that directs a firm to act as it would want all other firms to act.<sup>185</sup> Moreover, Kantian formalism stresses the dignity of the person, so that considering and respecting the interests of stakeholders is consonant with respecting their humanity.<sup>186</sup>

Rights theory can also justify a decision arrived at through stakeholder analysis. If we assume each of the firm's stakeholders has positive economic rights, the implication is that the firm also has certain duties to those stakeholders.<sup>187</sup> In applying stakeholder analysis, the firm must first determine the stakeholders who will be affected by the decision and then assess the impact of the decision on them. The firm must balance the interests of each to make ethical decisions that do not unfairly benefit or harm one group over another.<sup>188</sup>

Obviously, the rights of relevant stakeholders often conflict.<sup>189</sup> When the firm does not maximize profits, investors and owners receive lower returns, employees may be paid lower wages, and consumers may pay higher prices or have fewer choices. The consumers' interest in lower prices may conflict with employees' interest in higher wages or with the community's interest in keeping the firm's plant in operation, even though relocating it would mean more efficient production and lower wages. Further, stakeholder analysis does not answer the ultimate questions of when to give priority to one group of stakeholders over another and why the firm's immediate constituent-

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183. See *ETHICAL THEORY AND BUSINESS*, *supra* note 21, at 48.

184. See *id.* at 59-63, 67 (discussing the deontologies of Kant and Rawls).

185. See *KANT*, *supra* note 110, at 38-39.

186. See *id.* at 47.

187. See *DE GEORGE*, *supra* note 99, at 99.

188. See *SHAW*, *supra* note 104, at 64. Interests include (1) owners and investors wanting to maximize profits, (2) members of the community where the business is located wanting to preserve jobs, (3) employees expecting job security and higher wages, (4) government regulators demanding compliance with applicable laws and regulations, and (5) consumers seeking product quality and lower prices. See *Freeman*, *supra* note 180, at 250-252 (describing the rights of the stakeholders).

189. See *Freeman*, *supra* note 180, at 250.

cies should be favored over society as a whole. Finally, opponents of stakeholder theory often argue that market forces, public opinion, and the law are sufficient to constrain unethical business practices.<sup>190</sup> As such, they argue that business managers should focus their efforts on obeying the law and maximizing profits.<sup>191</sup> Whether profit maximization or stakeholder analysis should be the preferred basis for business decision-making remains an ongoing debate in business ethics.<sup>192</sup>

## VI. TEACHING NOTES

### A. *Teaching Objectives*

This case study is intended to spark an appreciation for the legal and ethical issues that arise in businesses owning trade secrets. The main objectives for teaching the case are to:

1. Recognize the importance of trade secrets in business.
2. Acquire an understanding of trade secret law.
3. Identify legal and ethical issues involving the use of trade secrets.
4. Apply the legal principles of trade secret law to a fact situation and reach a conclusion.
5. Acquire an understanding of ethical frameworks used in business decision-making.
6. Analyze the ethical aspects of trade secret misappropriation.
7. Design practical strategies for protecting trade secrets.

The ultimate pedagogical goal of this case study is to encourage expanding the ability to analyze the legal and ethical issues into practical recommendations for businesses that want to develop and safeguard their trade secrets.

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190. See Hasnas, *supra* note 171, at 69-70.

191. See *id.* at 70.

192. See, e.g., John R. Boatright, *Fiduciary Duties and the Shareholder-Management Relation: Or, What's So Special About Shareholders?*, 4 BUS. ETHICS Q. 393 (1994); John Hasnas, *The Normative Theories of Business Ethics: A Guide for the Perplexed*, 8 BUS. ETHICS Q. 19 (1998).



### B. Potential Uses of the Case

A number of theorists have proposed educational models that recognize the importance of confronting ethical dilemmas in the process of moral development.<sup>193</sup> These and other models support the use of legal case studies as a means of promoting the development of ethical reasoning skills.<sup>194</sup> This case study can be used as part of a variety of courses devoted to intellectual property law or business law.

### C. Discussion

From a public interest standpoint, protecting trade secrets is important to encourage innovation, creativity, and technological development by assuring the inventor or creator that he or she will be given the first chance to harvest the benefits of the investment.<sup>195</sup> Using trade secret law to protect information represents a choice not to publicly disclose the information and to safeguard its value by preventing access to competitors.<sup>196</sup> In doing so, trade secret law protects an economic investment against free riders by discouraging those who might otherwise attempt to gain unauthorized access to the information through improper means.<sup>197</sup> Moreover, trade secret law encourages the development and exploitation of those inventions that might not be protected under the patent laws, but which still have an important role to play in technological and scientific advancement.<sup>198</sup>

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193. E.g., BENJAMIN S. BLOOM ET AL., HANDBOOK ON FORMATIVE AND SUMMATIVE EVALUATION OF STUDENT LEARNING 39-40 (1971) (describing Bloom's taxonomy of educational objectives); LAWRENCE KOHLBERG, THE PSYCHOLOGY OF MORAL DEVELOPMENT: THE NATURE AND VALIDITY OF MORAL STAGES (1984); WILLIAM G. PERRY, JR., INTELLECTUAL AND ETHICAL DEVELOPMENT IN THE COLLEGE YEARS (1970).

194. See Kurt M. Saunders & Linda Levine, *Learning to Think Like a Lawyer*, 29 U.S.F. L. REV. 121, 132-44 (1994) (discussing use of the Bloom, Perry, and Kohlberg models to study the process of learning legal and ethical reasoning).

195. See *supra* notes 22-24 and accompanying text. Some have argued trade secret law is now more concerned with protecting businesses and investors than with benefiting society. See Michael P. Simpson, Note, *The Future of Innovation: Trade Secrets, Property Rights, and Protectionism—An Age-Old Tale*, 70 BROOK. L. REV. 1121, 1149-55 (2005).

196. See UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1985).

197. See *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 561 (4th Cir. 1990).

198. See LANDES & POSNER, *supra* note 17, at 359.

### 1. Legal Analysis of the Case

Applying the UTSA, the analysis of this case involves two steps: does Citadel have any protectable trade secrets, and, if so, were any of the trade secrets misappropriated? A protectable trade secret is (1) information, (2) which derives independent economic value, (3) from not being generally known or readily ascertainable through proper means by those who can obtain economic value from its disclosure or use, and (4) is the subject of reasonable efforts under the circumstances to maintain its secrecy.<sup>199</sup> Based on the facts provided, Citadel has a protectable trade secret in all valuable information not known or readily discoverable by Northwell, and Citadel maintained the information as a secret by reasonable means.

The design protocols that Citadel engineers used, but were not known or detectable by consumers and competitors, would likely be protectable. Trade secrets include know-how, research results, and so-called negative information or "blind alleys."<sup>200</sup> This "includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor."<sup>201</sup>

It is crucial to determine whether Citadel used reasonable efforts to maintain secrecy in the disclosure and use of information by its employees that would give rise to an inference that further disclosure was not permitted.<sup>202</sup> If Citadel used reasonable efforts, it may have a

199. UNIF. TRADE SECRETS ACT § 1(4).

200. See *supra* notes 32-33 and accompanying text.

201. UNIF. TRADE SECRETS ACT § 1 cmt.

202. Cf. *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 901 (Minn. 1983) ("[T]he employer cannot complain of the employee's use of information if the employer has never treated the information as secret."). In *Spottiswoode v. Levine*, 730 A.2d 166 (Me. 1999), the court identified and considered the following factors in addressing this issue:

(1) the extent to which the information is known outside the plaintiff's business; (2) the extent to which employees and others 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.

*Id.* at 175 n.7; accord *Dicks v. Jensen*, 768 A.2d 1279 (Vt. 2001). Other "factors to determine the reasonableness of efforts to maintain the information's secrecy, includ[e] whether parties had a written agreement not to compete, whether knowledge was confined to any restricted

valid claim. However, Citadel is unlikely to have any protectable interest in Hart's aptitude, skill, dexterity, manual and mental ability, and such other subjective knowledge he obtained in the course of his employment because an employee's aptitude, skill, experience, and general knowledge are not information for purposes of trade secret law.<sup>203</sup>

If Citadel subsequently discovers Northwell applied Citadel's know-how and other confidential proprietary information contained in Hart's notes in developing Northwell's new system, Citadel will need to prove Northwell obtained the information through improper means.<sup>204</sup> Here, this might include inducing Hart to breach his fiduciary duty of confidentiality to Citadel.<sup>205</sup> Likewise, Hart may face liability for disclosing such information, knowing he was under an obligation to keep it secret.<sup>206</sup>

Given these facts, it is unlikely Northwell could assert reverse engineering or independent discovery as a defense.<sup>207</sup> However, Northwell could argue Citadel did not use reasonable means to maintain secrecy because it did not require Hart to sign a confidentiality agreement or return his notes before departing.<sup>208</sup> This argument will not likely be successful because employees owe a fiduciary duty of loyalty to the employer even in the absence of such an agreement.<sup>209</sup> Whether Citadel should have implemented other means of securing its proprietary information and know-how is also a relevant consideration. The facts also give rise to possible prosecution under the EEA.<sup>210</sup> Any criminal action against Northwell will hinge on proof that

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group of employees, and the extent of measures to guard access to the information." *Id.* at 1284 (citations omitted).

203. See *supra* notes 36-38 and accompanying text.

204. See UNIF. TRADE SECRETS ACT § 1(1).

205. See *id.* § 1(2)(ii)(B)(III).

206. See *supra* notes 52-54 and accompanying text.

207. See *supra* notes 66-67 and accompanying text.

208. See *supra* notes 49-50 and accompanying text.

209. RESTATEMENT (SECOND) OF AGENCY § 387 (1958) ("[A]n agent is subject to a duty to his principal to act solely for the benefit of the principal in all matters connected with his agency."); see also *Churchill Comm'ns Corp. v. Demyanovich*, 668 F. Supp. 207, 211 (S.D.N.Y. 1987); *Rubner v. Gursky*, 21 N.Y.S.2d 558, 561 (N.Y. Sup. Ct. 1940).

210. See Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-1839 (2000); *supra* notes 86-98 and accompanying text.

Northwell had specific intent to convert Citadel's trade secrets in hiring Hart and accepting his research notes.<sup>211</sup>

## 2. Ethical Analysis of the Case

When a business decides to misappropriate another's intellectual property, decision-makers may be unaware of the consequences or may attempt to justify their decision using profit maximization or stakeholder analysis as supported by traditional ethical theories. For instance, a business may base a decision to misappropriate on the grounds of profit maximization; that misappropriation, even if detected, will result in greater efficiency, higher profits and sales, or lower costs.<sup>212</sup> Here, Northwell gained access to valuable information that likely sped up its development of a rival product, allowing it to avoid at least some research and development costs it would have otherwise incurred. Another point worth considering, however, is the long-term effect on profits if the misappropriation leads to litigation and negative publicity.

By contrast, stakeholder analysis would begin by identifying all of the stakeholders who may be affected by the decisions and actions at issue. Here, the stakeholders include shareholders of the corporation, Northwell employees, the public, the customers, and perhaps the software industry. What responsibility does Northwell owe to each? Will the investing public perceive Northwell's and Hart's actions in a negative light? If so, will such an image influence how others in the supply chain deal with Northwell?

Turning to application of the ethical theories, a Kantian analysis would condemn misappropriation as a violation of the universal rule against stealing what belongs to another.<sup>213</sup> In applying Kant's categorical imperative, Northwell must consider whether it wants to do business in a market where competitors could so easily and cheaply appropriate the results of their investment in research and development. Rights theory would examine the rights of the various parties involved in this case.<sup>214</sup> Citadel has a property right in the software due to its investment in the product's development. What rights do

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211. See 18 U.S.C. § 1832(a).

212. See *supra* notes 165-170 and accompanying text.

213. See *supra* notes 110-121 and accompanying text.

214. See *supra* notes 128-137 and accompanying text.

Hart and Northwell have? Furthermore, do consumers have a right to benefit from the greater efficiency achieved in managing databases and the lower prices that may result from increased competition by other software developers seeking to create even better tools? Hart may argue he has a right to benefit from changing employers, and imposing liability on him will diminish his and other employees' ability to increase their incomes, take advantage of better job opportunities, and enhance their experience and bargaining positions. Likewise, the connections between employee mobility, competition, and increased economic growth may implicate the public interest as well.<sup>215</sup>

Alternatively, a business might rely on utilitarian analysis to conclude that infringement in the name of providing a competitive substitute will ultimately result in greater social utility and consumer satisfaction.<sup>216</sup> A utilitarian would consider whether more good is ever produced by hiring away employees from competitors with the intent of learning their trade secrets by balancing the costs against the possible benefits.<sup>217</sup> In applying utilitarian theory to this case, we must first identify who is most affected by the decision, and then weigh the benefits and detriments to those most involved. Northwell will likely increase its profits from Hart's development of the software, while consumers of Northwell's products will benefit from savings gained from more efficient database management tools. Citadel may lose first-mover advantage in the market, but it is likely to develop competing software that will yield additional profits, though less than it may have earned had it been the first to market such a product.

However, if there is no liability for misappropriation of a business's trade secret, then there will be no incentive in the future to engage in inventive activities because it would be cheaper to wait for others to develop an innovation and then appropriate it from them.<sup>218</sup> In the long run, however, this *free riding* will likely lead to an overall decline in innovation and technological development because there

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215. Cf. LANDES & POSNER, *supra* note 17, at 365-66 (suggesting that the performance of Silicon Valley firms and the economic growth in the surrounding area greatly surpassed that of the firms along Route 128 in Massachusetts because employee mobility and new business start-ups were more dynamic, due to the unenforceability of noncompetition agreements in California).

216. See *supra* notes 143-145 and accompanying text.

217. See *supra* notes 140-145 and accompanying text.

218. See *Eden Hannon & Co. v. Sumitomo Trust & Banking Co.*, 914 F.2d 556, 561 (4th Cir. 1990).

will be no reward for innovation.<sup>219</sup> Similarly, justice theory would question the overall fairness of the result achieved by Hart's and Northwell's actions.<sup>220</sup> It is unlikely that if Hart was in the original position and under the veil of ignorance, not knowing whether he might be an employee or a trade secret owner, he would choose a rule that allowed employees to freely disclose or sell an employer's trade secrets.<sup>221</sup>

### 3. Managerial Implications

There are a number of time-tested strategies Citadel, or any other business for that matter, can do to prevent theft or disclosure of its trade secrets. The first step to protecting trade secrets is identifying them.<sup>222</sup> A business's portfolio of trade secrets should be regularly audited as some information will become obsolete and not commercially viable over time, while new proprietary information will be generated and must therefore be protected.<sup>223</sup> Once a business has used due diligence to identify all proprietary information that may qualify as trade secrets, then the business should adopt, implement, and periodically reassess a set of affirmative practices to safeguard those trade secrets.<sup>224</sup> Of course, the type of measures applied to maintain secrecy will depend on the nature of the information, the type of business involved, and other relative circumstances.<sup>225</sup> Measures that would be considered reasonable for a large corporation may not be reasonable for a small business due to the expense of such measures.

A comprehensive and proactive trade secret protection strategy in this case might include the following measures: labeling as **SECRET**, **PROPRIETARY**, or **CONFIDENTIAL** all documents containing the information; limiting distribution and physical access through locks, access codes, computer passwords, firewalls, or security guards; disseminating detailed policies to all who have access to the information

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219. *See id.*

220. *See supra* notes 153-158 and accompanying text.

221. *See supra* notes 158-164 and accompanying text.

222. Fraumann & Koletar, *supra* note 8, at 63.

223. *See* Michael A. Epstein & Stuart D. Levi, *Protecting Trade Secret Information: A Plan for Proactive Strategy*, 43 *BUS. LAW.* 887, 899 (1988).

224. *See* Fraumann & Koletar, *supra* note 8, at 63-64.

225. *See* McJOHN, *supra* note 32, at 306-09.

to prevent inadvertent disclosure or distribution; limiting the number of and tracking all copies of relevant documents, including sign out and sign in procedures; encrypting the information; specifically-drafted licensing agreements for external users or licensees of the trade secret; and surveillance of employees or visitors to the business site.<sup>226</sup> If the trade secret must be disclosed to employees, customers, suppliers, joint venture partners, or other licensees, then the trade secret owner should do so on a need to know basis and conduct briefings for new employees and exit interviews for departing employees.<sup>227</sup> The employer should take steps to inform the user of the information's proprietary nature.

Using confidentiality and noncompetition agreements should be carefully considered. Many employees and managers, as a condition of employment, sign agreements acknowledging the employment creates a relationship of confidence and trust with respect to specified information.<sup>228</sup> By entering into a noncompetition agreement, an employee agrees not to work for any business that is a competitor of the employer for a specified period of time after the end of his employment.<sup>229</sup> These agreements could be used with independent contractors, consultants, or other partners of the trade secret owner because individuals may someday become a competitor of the trade secret owner.

Similarly, confidentiality and noncompetition agreements can be useful in defining the confidentiality expectations of the employer, proving that the trade secret owner used reasonable means to maintain the secrecy of the information, and establishing that an employee was aware of a duty to maintain its secrecy or limit its use.<sup>230</sup> Most states recognize and enforce noncompetition agreements as long as the restrictions are reasonable as to their geographical and temporal scope and their restrictions on the scope of competitive activities.<sup>231</sup> Citadel

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226. Epstein & Levi, *supra* note 223, at 891, 905, 907-09.

227. *Id.* at 906; see UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433 (1985). For additional suggestions as to practical steps to maintain secrecy, see MILGRIM, *supra* note 16, § 1.04.

228. See MERGES ET AL., *supra* note 25, at 73-74.

229. See generally KURT H. DECKER, COVENANTS NOT TO COMPETE (2d ed. 1993).

230. See *supra* note 49 and accompanying text.

231. See, e.g., *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 312 (S.D.N.Y. 1999); *Inflight Newspapers, Inc. v. Magazines In-Flight, LLC*, 990 F. Supp. 119, 134 (E.D.N.Y. 1996); *Habif, Arogetti & Wynne, P.C. v. Baggett*, 498 S.E.2d 346, 350-54 (Ga. Ct. App. 1998); see also RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981). A few states, however,

should consider using confidentiality and noncompetition agreements to protect its databases and other proprietary information.<sup>232</sup>

## VII. CONCLUSION

Almost every business owns proprietary information that adds value and provides a competitive advantage because it is not known by competitors. Trade secret law is intended to ensure basic norms of commercial ethics in a competitive market and to encourage investment in research by providing a means to capture the returns from the development of successful innovations.<sup>233</sup> Accordingly, trade secret law protects confidential and commercially valuable information from being improperly disclosed or appropriated.<sup>234</sup> The dual nature of trade secrets—as an intellectual property right and as a safeguard against commercial immorality—makes the study of this area useful for exploring legal and ethical aspects of using and protecting confidential proprietary information, particularly when employees are involved.

This case study is a tool to explore the law of trade secrets and the ethical judgments confronting a business when trade secrets are involved in a business decision. The fact scenario forming the basis for this case study represents a set of circumstances not uncommon in many trade secret disputes. Ultimately, by analyzing this case, one should gain a deeper understanding of how to make ethical judgments and manage legal risks when trade secrets are at stake.

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generally prohibit such agreements. See CAL. BUS. & PROF. CODE § 16600 (Deering 2005) (“Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.”); COLO. REV. STAT. § 8-2-113(2) (2005) (“Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void, but this subsection (2) shall not apply to: . . . (b) Any contract for the protection of trade secrets . . .”); OKLA. STAT. tit. 15, § 217 (2005) (“Every contract by which any one is restrained from exercising a lawful profession, trade or business of any kind, otherwise than as provided by . . . this title . . . is to that extent void.”).

232. See Sharon K. Sandeen, *A Contract by Any Other Name Is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Databases*, 45 IDEA 119, 144-50 (2005).

233. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

234. See UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 433 (1985).



