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SKILL OR SECRET? — THE LINE BETWEEN TRADE
SECRETS AND EMPLOYEE GENERAL SKILLS
AND KNOWLEDGE

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“Information is not knowledge.”¹

As agents, employees owe a duty of loyalty and confidentiality to their current and former employers not to use or disclose proprietary confidential information, which can be protected as a trade secret. Nevertheless, former employees are free to use general knowledge, skills, and experience acquired on the job without incurring liability for trade secret misappropriation. This rule is tied to the need to protect competition and employee mobility. However, the line between employer trade secrets and employee general knowledge and skills acquired during employment is not always clear and the courts have not always been consistent in differentiating between the two. This article details the results of a study to explore the factors relied upon by courts in reaching their determinations.

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INTRODUCTION

Most businesses own at least one trade secret. Trade secrets are valuable assets for businesses of all types and sizes. Small businesses in particular rely entirely on trade secret law to protect such intangible proprietary assets such as business methods, marketing plans, customer lists, formulas, know-how, and databases.² Trade secret protection promotes the diffusion of knowledge as well as economic development.³ As a type of intellectual property protection, a trade secret is informally obtained. There is no registration or examination process involved. A business need only possess information that provides it with an economic advantage because it is unknown to com-

2. Kurt M. Saunders, *The Law and Ethics of Trade Secrets: A Case Study*, 42 CAL. W. L. REV. 209, 216 (2006).

3. See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 493 (1974) (“Trade 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.”). Another purpose served by trade secret law is “[t]he maintenance of standards of commercial ethics.” *Id.* at 481.

petitors and take reasonable steps to keep the information secret.⁴

Several trends have reinforced the importance of safeguarding trade secrets. In an expanding knowledge-based economy, information—the subject matter of trade secret protection—is a critical asset.⁵ Likewise, an increase in employee mobility, especially in advanced technology fields, means that trade secret information may be taken, either intentionally or inadvertently, by departing employees.⁶ When the available employee pool is limited or highly mobile, as is true with advanced technologies prone to rapid rates of obsolescence, firms have a greater incentive to hire away key employees from competitors.⁷ According to a recent study, more than 90 percent of trade secret misappropriation cases involve a trade secret owner's departing employee or former business partner.⁸ Moreover, the ability to easily store and transfer large amounts of electronic data raises the risks associated with increased employee mobility.⁹

The role of employees as agents who access trade secrets as part of their work pinpoints the intersection of trade secrets law and agency law. Once an agency relationship is formed, the agent owes certain fiduciary duties that arise apart from any express contract of employment.¹⁰ Among those duties is a duty of loyalty whereby, among other obligations, the employee is prohibited from using confidential information acquired during the term of employment in a manner that is adverse to the employer's business.¹¹ This confidentiality obligation survives termination of the employment relationship. However, an employee remains free to use his or her general knowledge, skills, and experience, even if these were acquired

4. See *infra* notes 52–54 and accompanying text.

5. David S. Almeling, *Seven Reasons Why Trade Secrets are Increasingly Important*, 27 BERKELEY TECH. L.J. 1091, 1104 (2012).

6. *Id.* at 1101–02. See also Miles J. Feldman, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 BERKELEY TECH. L.J. 151, 156 (1994) (analyzing the effect on high technology industries).

7. See Saunders, *supra* note 2, at 212.

8. See David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 69 (2010).

9. See Almeling, *supra* note 5, at 1098–1101.

10. See *infra* notes 27–28 and accompanying text.

11. See *infra* notes 25–26, 29 and accompanying text.

or increased during employment. Such knowledge, skills, and experience are not protectable as trade secrets by the employer.¹²

An employee's right to use his or her general knowledge, experience, and skill promotes the public interest in employee mobility, supports the employee's ability to practice his or her profession, and limits what would otherwise be a restraint of legitimate competition.¹³ In most instances, an employee's work experience with a former employer has refined or added to his knowledge and skill set. However, differentiating between an employer's trade secrets and an employee's general knowledge and skills is not always so easy, particularly when the employee's knowledge or skills are superior or unique.¹⁴ In many cases, courts merely repeat the rule like an incantation without explaining how they arrived at their conclusion.¹⁵ The reasoning in other cases is fact-specific without identifying an overarching test.¹⁶

As an illustration of the dilemma, suppose that a trained and experienced mixologist is employed by a trendy bar where she mixes and serves a variety of popular drinks. Some of these are made using familiar cocktail recipes. Like most mixologists, she often experiments with creating unique cocktails. Through trial and error, she has created several recipes for cocktails made with unusual fresh fruit purees, such as pumpkin, jalapeno, and apricots. These drinks are so popular that they have become some of the bar's most in-demand signature

12. See *infra* notes 66, 76 and accompanying text.

13. See AMP Inc. v. Fleischhacker, 823 F.2d 1199, 1202 (7th Cir. 1987); Edwards v. Athena Capital Advisors, Inc., 2007 WL 2840360, at *3 (Mass. Super. Ct. 2007). In other words, “[r]estraints cannot be lightly placed upon an employee’s right to compete in the area of his greatest worth.” Bendinger v. Marshalltown Trowel Co., 994 S.W.2d 468, 475 (Ark. 1999); see also CVD, Inc. v. Raytheon Co., 769 F.2d 842, 852 (1st Cir. 1985) (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”).

14. See Saunders, *supra* note 2, at 218.

15. See, e.g., T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 22 (Tex. App. 1998); Tomaydo-Tomahhdo L.L.C. v. Vozary, 82 N.E.3d 1180, 1188–89 (Ohio Ct. App. 2017).

16. See, e.g., Van Products Co. v. Gen. Welding & Fabricating Co., 213 A.2d 769, 775–76 (Pa. 1965); Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 467 (Tex. App. 2004).

drinks. Due to the configuration of the bar, the precise content and proportions of ingredients used are not within the eyesight of patrons, and only she and her employer know the recipes. If she decided to open her own bar, planning to use these recipes and the others, and was sued for misappropriation by her former employer, how would a court separate any trade secret ownership in the recipes from the employee's general knowledge and skill as a proficient mixologist? Are the recipes she used at the bar, or any of the ones she created, her former employer's trade secrets, or are they merely part of or the product of her general knowledge and skill as a mixologist?¹⁷

These are questions that courts often confront in cases involving breach of fiduciary duty and trade secret misappropriation against departing employees. In this article, we explore how the courts have distinguished between an employee's general knowledge and skill from an employer's confidential information like trade secrets. We begin in Part I with an overview of the relevant principles of agency law and trade secret law and then examine how courts have attempted to explain the difference between employer trade secrets and employee general skills and knowledge in Part II of this article. Next, in Part III, we detail the results of a study to explore other aspects of a survey of cases that might be relevant to distinguishing between trade secret information and the general skills and knowledge of employees. Finally, we conclude by offering our observations and conclusions based on our study of the cases.

I.

THE INTERSECTION OF AGENCY LAW AND TRADE SECRETS LAW

A. *Agency Relationships*

In an agency relationship, the agent acts on behalf of and for the benefit of the principal.¹⁸ In a consensual relation-

17. Trade secret protection for alcoholic drink recipes was considered in *Mason v. Jack Daniel Distillery*, 518 So. 2d 130 (Ala. Civ. App. 1987), in which the court held that the recipe for a cocktail known as "Lynchburg Lemonade" could constitute a trade secret. The authors thank mixologist Gail Gramlich for inspiring this example.

18. See RESTATEMENT (THIRD) OF AGENCY § 1.01 (AM. LAW INST. 2006).

ship,¹⁹ the principal chooses to have the agent act on his or her behalf, and gives the agent authority to affect the principal's legal relations.²⁰ Authority may either be actual, where the principal has conferred upon the agent the power to do certain things on the principal's behalf,²¹ or apparent, where the principal's behavior leads a third party to form a reasonable belief that the agent has the authority to act on the principal's behalf.²² Types of agencies cover a wide variety of relationships, ranging from employer and employee and attorney and client, to those that people form to accomplish a specific purpose, such as real estate agent and property owner, to those that involve providing a particular service, such as retaining an artist to paint a portrait.²³

B. Agent's Fiduciary Duties

Since the agency relationship is a fiduciary relationship²⁴—one of trust and confidence—the agent must act loyally and in the principal's best interests on all issues related to that relationship.²⁵ By acting loyally, the agent upholds a number of fiduciary duties to the principal, while not doing so constitutes a breach of a fiduciary duty for which the principal will have remedies.²⁶ Fiduciary duties, which are inherent to the agency relationship, include the duty of care, which requires

19. See *id.* cmt. d. E.g., Barrs v. Acree, 691 S.E.2d 575, 579 (Ga. Ct. App. 2010); Theos & Sons, Inc. v. Mack Trucks, Inc., 729 N.E.2d 1113, 1119 (Mass. 2000).

20. See RESTATEMENT (THIRD) OF AGENCY § 1.01 cmt. c. E.g., Garczynski v. Countrywide Home Loans, Inc., 656 F. Supp. 2d 505, 511 (E.D. Pa. 2009); Andonov v. Christoff, 348 N.E.2d 84, 85 (Ind. Ct. App. 1976).

21. See RESTATEMENT (THIRD) OF AGENCY §§ 1.01, 2.01. Whether actual or apparent, an agent's authority to act must come from the principal. See Euclid Plaza Assoc. v. African Am. Law Firm, LCC, 55 S.W.3d 446, 450 (Mo. Ct. App. 2001).

22. See RESTATEMENT (THIRD) OF AGENCY § 2.03. E.g., Boudwin v. Hastings Bay Marina, Inc., 614 F.3d 780, 784–85 (8th Cir. 2010); City Elec., Corp. v. Dean Evans Chrysler-Plymouth, Corp., 672 P.2d 89, 90 (Utah 1983).

23. See RESTATEMENT (THIRD) OF AGENCY § 2.03 cmt. c.

24. *Id.* § 1.01 cmt. e. An agency creates a fiduciary relationship as a matter of law. See Smith v. Estate of Reid, 998 S.W.2d 324, 334 (Tex. App. 1999).

25. RESTATEMENT (THIRD) OF AGENCY § 8.01. See also Huong Que, Inc. v. Luu, 58 Cal. Rptr. 3d 527, 535 (Ct. App. 2007) (“[T]he agent assumes ‘a fiduciary duty to act loyally for the principal’s benefit in all matters connected with the agency relationship.’”).

26. RESTATEMENT (THIRD) OF AGENCY § 1.01 cmt. e.

the agent to act with the skill, diligence, and competence normally exercised by agents in the same type of business.²⁷ Agents in the same line of work in the same geographic area would be held to the same standards, absent any agreement to, for example, hold a particularly skilled or experienced agent to a higher than normal standard.²⁸ Thus a talent agent in Chicago would be held to the same standard as other talent agents in Chicago, and not to the standard to which Hollywood agents would be held. The exact scope of an agent's duty of loyalty owed to the principal may depend on the nature of the agency relationship, where an agent holding a position of great trust and confidence will owe a higher duty of loyalty than if she performed lower-level tasks.²⁹

Since agents work on behalf of and in the best interests of their principals, they must keep their principals informed of information that would be relevant to the agency business.³⁰ For instance, if an agent discovers that another business is going to release a new product that will directly compete with a product the principal is about to release, such as a new dating app, the agent would have a duty to inform the principal so that the principal could respond accordingly to move up the release date of the principal's dating app.

In executing their duties, agents must act within their actual authority³¹ and follow the principal's reasonable instructions, so long as the instructions are related to the agency business and are neither illegal nor unethical.³² Actual authority encompasses both express authority and implied authority. A principal gives an agent express authority by stating explicitly, either verbally or in writing, the actions the agent may perform.³³ Implied authority requires that the agent's actions be based on a reasonable belief—based on factors such as the principal's statements and the nature of the agency business

27. *Id.* § 8.08. cmt. c.

28. *See id.*

29. *Cameco, Inc. v. Gedicke*, 157 N.J. 504, 516 (1999).

30. *See RESTATEMENT (THIRD) OF AGENCY* § 8.11. *E.g.*, *Levin v. Kasmir World Travel Inc.*, 540 N.Y.S.2d 639, 641 (Civ. Ct. 1989); *Olsen v. Vail Assocs. Real Estate, Inc.*, 935 P.2d 975, 978 (Colo. 1997); *Testa v. Roberts*, 542 N.E.2d 654, 659 (Ohio Ct. App. 1988).

31. *See RESTATEMENT (THIRD) OF AGENCY* § 8.09.

32. *See id.* cmt. c.

33. *See id.* § 2.01 cmt. b.

and relationship—that the principal would want the agent to take certain actions. Suppose a principal instructs her agent, who is a party planner, that she wants to hold an extravagant Super Bowl party whose theme is football greats from the past and present. It would be appropriate to follow the instructions, and the agent would have actual authority to perform actions such as hiring previous football greats to circulate among the guests, decorating every table in the team colors of past winners, and renting the party venue.

Consistent with acting as the principal's fiduciary, the agent must neither act as nor represent an adverse party in a transaction with the principal.³⁴ To do so would risk the agent having a conflict of interest with the principal by potentially acting in the best interests of someone other than the principal. If the principal decides he needs more sustainable packaging for his products and the agent also works for, or is part-owner of, a recycling plant that specializes in high-quality recycled paper, the agent may not represent the recycling plant in a contract with the principal. Not only must the agent act in the principal's best interests, the agent must refrain from benefiting from information or taking advantage of the position afforded to the agent through the agency relationship.³⁵ A conflict could also arise if the agent, when dealing with a third party, strove to benefit directly from that interaction instead of obtaining the best terms possible for the principal.³⁶

The agent owes most fiduciary duties to the principal only until the end of the agency relationship. While the duty of loyalty includes that an agent must not compete with the principal or assist the principal's competitors during the course of the agency relationship,³⁷ an agent has no obligation to disclose to the principal any plans to compete with the principal

34. *Id.* § 8.03.

35. See *id.* § 8.02. E.g., *Timberline Four Seasons Resort Mgmt. Co. v. Herlan*, 679 S.E.2d 329, 338 (W. Va. 2009).

36. RESTATEMENT (THIRD) OF AGENCY § 8.02 cmt. b. E.g., *Detroit Lions, Inc. v. Argovitz*, 580 F. Supp. 542, 548 (E.D. Mich. 1984), *aff'd*, 767 F.2d 919 (6th Cir. 1985).

37. RESTATEMENT (THIRD) OF AGENCY § 8.04. E.g., *Nedschroef Detroit Corp. v. Bemas Enters. LLC*, 106 F. Supp. 3d 874, 883 (E.D. Mich. 2015), *aff'd*, 646 F. App'x 418 (6th Cir. 2016); *Ins. Co. of N. Am. v. Miller*, 765 A.2d 587, 597 (Md. 2001).

once that relationship has ended.³⁸ Absent an agreement to the contrary, an agent may compete with the principal upon the termination of their agency relationship, and use the general knowledge and skills acquired during the course of the agency.³⁹ For example, an agent who learned which was the most reliable shipping company or the best supplier of office furniture, or how to build a website while working for the principal would be free to use that information when setting up his own, competing business.

Generally speaking, breach of duty of loyalty claims are very fact-specific, with one court noting, “[t]he contexts giving rise to claims of employee disloyalty are so varied that they preclude the mechanical application of abstract rules of law.”⁴⁰ In *Taser International, Inc. v. Ward*,⁴¹ defendant Steve Ward appealed from a partial summary judgment awarded to his former employer, Taser International, which argued that he breached the duty of loyalty and misappropriated trade secrets, among other claims.⁴² Part of the case against Ward focused on whether or not he had competed with Taser prior to leaving its employ. While an employee has a fiduciary duty not to compete with his or her employer while still employed, in the absence of an enforceable non-compete agreement, the employee may take steps in preparation of competing and is free to compete upon termination of the employment relationship.⁴³ Ward developed a business plan, consulted attorneys for legal advice, and conducted preliminary research to develop a clip-on camera. The court concluded that the first two of Ward’s activities could not be classified as directly competing with Taser.⁴⁴ But because the extent of Ward’s research into the camera could have possibly constituted competition with Taser’s research and development of a recording device, summary judgment was inappropriate on the issue of the duty not to compete.⁴⁵

38. RESTATEMENT (THIRD) OF AGENCY § 8.04 cmt. c.

39. *See id.*

40. *Cameco, Inc. v. Gedcke*, 157 N.J. 504, 516 (1999).

41. *Taser Int’l, Inc. v. Ward*, 231 P.3d 921 (Ariz. Ct. App. 2010).

42. *Id.* at 924–25.

43. *Id.* at 926.

44. *Id.* at 927.

45. *Id.* at 928.

During the course of the agency business, agents may neither use the principal's property nor use or disclose confidential information for their own or a third party's purposes.⁴⁶ However, unlike the agent's other fiduciary duties, the duty to protect the principal's confidential information outlasts the termination of the agency relationship.⁴⁷ The duty of confidentiality "is an absolute and not a relative duty."⁴⁸ Generally, confidential information is that which is not widely known, is valuable to the principal because it is not widely known, and would harm the principal's business if it became known.⁴⁹ Examples of confidential information include a business' financial status, business plan, and trade secrets, although an agent's duty not to disclose confidential information may extend to information concerning the principal that does not directly relate to the agency business, such as the principal's health or personal opinions.⁵⁰ Whether the agent retains a physical record or simply remembers the confidential information, the agent may not use or disclose that information once the agency relationship has ended.⁵¹

C. Scope of Trade Secret Protection

As mentioned, among the confidential information a current or former employee may not use or disclose to others are the trade secrets of the employer. A trade secret is business information that has economic value and is subject to reasonable

46. E.g., RESTATEMENT (THIRD) OF AGENCY § 8.05 (AM. LAW INST. 2006); RESTATEMENT OF EMPLOYMENT LAW § 8.01 (AM. LAW INST. 2015); Ameristone Tile, LLC v. Ceramic Consulting Corp., 966 F. Supp. 2d 604, 619 (D.S.C. 2013).

47. See RESTATEMENT (THIRD) OF AGENCY § 8.05 cmt. c. This implied duty of confidentiality may be reinforced expressly in an employment agreement. See, e.g., Int'l Airport Ctrs., LLC v. Citrin, 440 F.3d 418 (7th Cir. 2006); N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38 (2d Cir. 1999).

48. Byrne v. Barrett, 197 N.E. 217, 218 (N.Y. 1935).

49. See RESTATEMENT (THIRD) OF AGENCY § 8.05 cmt. c.

50. See *id.* ("An agent may, additionally, acquire confidential information about a principal or otherwise in the course of an agency relationship that does not have competitive or other economic value.").

51. See *id.* See also ABKCO Music, Inc. v. Harrisongs Music, Ltd., 722 F.2d 988, 994–95 (2d Cir. 1983); Synthes, Inc. v. Emerge Med., Inc., 25 F. Supp. 3d 617, 667 (E.D. Pa. 2014); Jet Spray Cooler, Inc. v. Crampton, 282 N.E.2d 921, 926–27 (Mass. 1972); Lowndes Products, Inc. v. Brower, 191 S.E.2d 761, 769–70 (S.C. 1972).

ble measures to maintain its secrecy.⁵² So long as the information is not generally known to the public, confers an economic benefit or competitive advantage to the business, and is subject to reasonable efforts to maintain its secrecy, trade secret protection can last indefinitely.⁵³

Almost any kind of information used in a business can be the subject matter of trade secret protection. Trade secrets encompass technical and financial data, recipes, chemical formulas, patterns, compilations of data, computer programs, de-

52. This definition is found in Section 1(4) of the Uniform Trade Secrets Act (“UTSA”):

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

UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 538 (2005). The UTSA was intended to bring uniformity to the uneven strains of state trade secrets common law and has been adopted in 48 states. Although the law of trade secrets is primarily governed by the states, the federal Defend Trade Secrets Act also provides for a civil action for trade secret theft and its definition is based on that found in the UTSA.

[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

18 U.S.C. § 1839(3). See also Michelle Evans, *Plausibility Under the Defend Trade Secrets Act*, 16 J. MARSHALL REV. INTELL. PROP. L. 188, 189 (2017) (comparing the DTSA definition to that of the UTSA). The legislative history of the DTSA indicates that Congress did “not intend that the definition of a trade secret to be meaningfully different from the scope of that definition as understood by courts in States that have adopted the UTSA.” S. REP. NO. 114-220, at 10 (2016); H.R. REP. NO. 114-529, at 14 (2016). Presumably, employee general knowledge and skill is excluded from the scope of trade secret subject matter as well. See also H.R. REP. NO. 104-788, at 7 (1996), as reprinted in 1996 U.S.C.C.A.N. 4021, 4026 (no intent to include employee general knowledge and skill in the definition of trade secret of the Economic Espionage Act, which was amended by the DTSA).

53. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (AM. LAW INST. 1995).

vices, designs and product specifications, methods and systems, techniques, marketing plans, processes, research results, and lists of actual or potential customers or suppliers.⁵⁴ Moreover, a trade secret can also be “negative” information or know-how that results from research blind alleys, failed designs, and methods that do not work.⁵⁵ There is no requirement that the information be novel or in continuous use, or that it exist in a tangible form to be protected.⁵⁶

The information must be sufficiently secret so that the firm derives actual or potential economic value as a result.⁵⁷ The information’s value or advantage must result from it being not generally known or readily ascertainable, rather than due merely to its profitability or efficiency.⁵⁸ In other words, the information must be unknown and not easily discoverable. In assessing economic value, courts tend to look for evidence of how the information is useful—how much time, labor, or money it saves—and whether these are more than trivial in giving the business a competitive edge.⁵⁹ On the other hand, information that is obvious or widely known by the public or

54. See ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.09 (2017) (reviewing various types of confidential information that can be protected as trade secrets).

55. UNIF. TRADE SECRETS ACT § 1 cmt. (defining trade secret as “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”). See, e.g., Ashland Oil, Inc. v. Federal Trade Comm’n, 409 F. Supp. 297 (D.D.C. 1976); On-Line Techs., Inc. v. Perkin-Elmer Corp., 253 F. Supp. 2d 313 (D. Conn. 2003); Gillette Co. v. Williams, 360 F. Supp. 1171 (D. Conn. 1973); Mabrey v. Sandstream, Inc., 124 S.W.3d 302 (Tex. Ct. App. 2003).

56. See UNIF. TRADE SECRETS ACT § 1 cmt.; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d.

57. UNIF. TRADE SECRETS ACT § 1(4)(i).

58. See, e.g., Learning Curve Toys, Inc. v. PlayWood Toys, Inc., 342 F.3d 714, 722 (2d Cir. 2003); Metallurgical Indus. v. Fourtek, Inc., 790 F.2d 1195, 1201 (5th Cir. 1986); Stampede Tool Warehouse, Inc. v. May, 651 N.E.2d 209, 215 (Ill. Ct. App. 1995); Uncle B’s Bakery, Inc. v. O’Rourke, 938 F. Supp. 1450, 1460 (N.D. Iowa 1996); LaserMaster Corp. v. Sentinel Imaging, 931 F. Supp. 2d 628, 635 (D. Minn. 1996).

59. See, e.g., *Metallurgical Indus.*, 790 F.2d at 1201; Mattel, Inc. v. MGA Entm’t, Inc., 782 F. Supp. 2d 911, 972 (C.D. Cal. 2011).

by competitors is not protected because its economic value, if any, is not due to its secrecy.⁶⁰

Finally, to ensure that the information is not generally known or easily discovered, the owner must take specific and affirmative steps to protect it. The business need only take reasonable efforts to maintain the secrecy of the information.⁶¹ Absolute secrecy is not required, although as a general rule, the more valuable the information, the greater the precautions that its owner should employ to secure it. What is reasonable in each case depends on the particular circumstances, including the nature of the product or service, the state of the art in the trade or industry, and the level of risk of disclosure.⁶²

Confidentiality agreements are useful to establish the existence of trade secrets and demonstrate an effort to maintain secrecy. A confidentiality agreement, or nondisclosure agreement, is a contract between the trade secret owner and another who promises not to disclose the information in exchange for access to or use of it.⁶³ Such agreements are useful in explicitly reminding an employee that he or she may not reveal or use the information in competition with the employer even after the employment relationship has ended.⁶⁴ In effect, such agreements are an express statement of the implied fiduciary duty of loyalty and confidentiality arising out of the agency relationship.⁶⁵ Courts have held that employee confidentiality and nondisclosure agreements are enforceable

60. See, e.g., Composite Marine Propellers, Inc. v. Van Der Woude, 962 F.2d 1263 (7th Cir. 1992); George S. May Int'l Co. v. Int'l Profit Assocs., 628 N.E.2d 647, 788 (Ill. App. Ct. 1993).

61. UNIF. TRADE SECRETS ACT § 1(4)(ii). See, e.g., Rockwell Graphic Sys., Inc. v. DEV Indus., 925 F.2d 174, 179 (7th Cir. 1991); Data Gen. Corp. v. Grumman Sys. Support Corp., 825 F. Supp. 340, 359 (D. Mass. 1993); Mason v. Jack Daniel Distillery, 518 So. 2d 130, 133 (Ala. 1987); Peggy Lawton Kitchens, Inc. v. Hogan, 466 N.E.2d 138 (Mass. App. Ct. 1984); Aries Info. Sys., Inc. v. Pac. Mgmt. Sys. Corp., 366 N.W.2d 366, 368 (Minn. Ct. App. 1985); Leonard v. State, 767 S.W.2d 171 (Tex. App. 1988).

62. See Saunders, *supra* note 2, at 219.

63. See MICHAEL A. EPSTEIN, EPSTEIN ON INTELLECTUAL PROPERTY § 2.02(A) (5th ed. 2017).

64. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (AM. LAW INST. 1995) (“Precautions to maintain secrecy . . . includ[e] . . . measures that emphasize to recipients the confidential nature of the information such as nondisclosure agreements . . . ”).

65. See *supra* notes 46–51 and accompanying text.

if they do not prohibit the employee's use of his or her general knowledge and skills.⁶⁶

Although an employee has a fiduciary duty not to compete with his or her employer during the term of their relationship, he or she may do so after ending the employment relationship.⁶⁷ As such, an employer might request every employee to sign a noncompetition agreement, which is a contract between an employer and an employee that limits the employee's right to compete in business against the employer, or work for a competitor of the employer, following the employee's separation from employment.⁶⁸ These agreements may be used in combination with confidentiality agreements, and are enforceable if reasonable in terms of their geographic scope and duration.⁶⁹ Some courts have added that noncompetition agreements are enforceable only to the extent they do not restrict the employee's use of the general knowledge, skill, and experience acquired in former employment.⁷⁰

D. Trade Secret Misappropriation

Trade secret misappropriation occurs when a person acquires another's trade secret by improper means, or uses or discloses it without the trade secret owner's permission.⁷¹ Improper means includes obtaining the trade secret by theft, bribery, misrepresentation, breach or inducement to breach a duty to keep the information secret, or industrial espionage.⁷²

66. See, e.g., *Bernier v. Merrill Air Engineers*, 770 A.2d 97, 104 (Me. 2001); *Gary Van Zeeland Talent, Inc. v. Sandas*, 267 N.W.2d 242, 248 (Wis. 1978).

67. See *supra* notes 37–39 and accompanying text.

68. For a detailed discussion of noncompetition agreements, see generally John Ingram, *Covenants Not to Compete*, 36 AKRON L. REV. 49 (2002).

69. See, e.g., *DCS Sanitation Mgmt., Inc. v. Castillo*, 435 F.3d 892 (8th Cir. 2006); *Victoria's Secret Stores, Inc. v. Mays Dept. Stores, Inc.*, 157 S.W.3d 256 (Mo. Ct. App. 2004); *Hess v. Gebhard & Co.*, 808 A.2d 912, 917 (Pa. 2002). For a review of the factors courts consider in assessing reasonability of scope, see Kyle B. Sill, *Drafting Effective Noncompete Clauses and Other Restrictive Covenants: Considerations Across the United States*, 14 FLA. COASTAL L. REV. 365, 375–84 (2013).

70. See, e.g., *Jones v. United Propane Gas, Inc.*, 2009 WL 5083476, at *14 (Tenn. Ct. App. Dec. 28, 2009); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM. LAW INST. 1995).

71. See UNIF. TRADE SECRETS ACT § 1(2) (amended 1985).

72. See *id.* § 1(1). The main remedies for misappropriation are monetary damages and injunctive relief. *Id.* §§ 2–3. In addition, attorney's fees may be

In the context of an employment relationship, improper means of acquiring a trade secret might involve an employee who breaches a contractual duty found in a confidentiality agreement, or who breaches an implied fiduciary duty not to disclose or use the trade secret as arises in an agency relationship.⁷³

Liability for misappropriation can be overcome by proof of reverse engineering of a lawfully acquired product containing the trade secret, or through independent discovery of the same information constituting the trade secret. Reverse engineering is the process of starting with a publicly available and lawfully acquired product and working backward to disassemble and discover the trade secret and is considered to be a proper means of acquiring the information.⁷⁴ Likewise, one 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.⁷⁵

II.

HOW DO COURTS DISTINGUISH BETWEEN EMPLOYER TRADE SECRETS AND EMPLOYEE GENERAL SKILLS AND KNOWLEDGE?

As illustrated in this Part, numerous courts have had to resolve the question of how to categorize certain information as a trade secret or employee general knowledge and skill. The

awarded, if warranted. *Id.* § 4. Trade secret theft is also punishable as a felony under federal law and is a criminal offense in many states as well. *See generally* Kurt M. Saunders & Michelle Evans, *A Review of State Criminal Trade Secret Theft Statutes*, 21 UCLA J.L. & TECH. 1 (2017).

73. *See* RESTATEMENT (THIRD) OF AGENCY § 8.05 cmt. c (AM. LAW INST. 2006).

74. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 476 (1974) (describing reverse engineering as the process of "starting with the known product and working backward to divine the process which aided in its development or manufacture."). *See also* Chicago Lock Co. v. Fanberg, 676 F.2d 400, 404 (9th Cir. 1982); Kadant, Inc. v. Seeley Mach., Inc., 244 F. Supp. 2d 19, 39 (N.D.N.Y. 2003); Elle v. Babbitt, 488 P.2d 440 (Or. 1971).

75. *See* UNIF. TRADE SECRETS ACT § 1 cmt.; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. b (AM. LAW INST. 1995). *See, e.g.*, Penalty Kick Mgt. Ltd. v. Coca Cola Co., 318 F.3d 1284, 1293 (11th Cir. 2003); E.I. du Pont de Nemours & Co. v. United States, 288 F.2d 904, 911 (Ct. Cl. 1961). In addition, this defense is expressly recognized in the federal Defend Trade Secrets Act. *See* 18 U.S.C. § 1839(6)(B) ("'[I]mproper means' . . . does not include . . . independent derivation . . .").

reasoning of many courts is conclusive. The court simply recites that rule that employers cannot restrict former employees from using their general knowledge, skills, and experience, and then categorizes the information at issue as a trade secret or not.⁷⁶ Other courts are more forthcoming and offer a justification, or at least a perfunctory explanation, for their conclusions. In this section, we examine these various justifications.

A. *Information Committed to Memory and Preexisting Knowledge and Skill*

A few courts have suggested a distinction based on whether the employee took information that had been recorded in writing or some other tangible form, or whether the employee merely memorized it.⁷⁷ For instance, the steps of a process retained by departing employees in their minds rather than copied or taken with them would become part of their accumulated general knowledge or skills.⁷⁸ If the information was part of the employee's memory when he or she left the job, then it is part of his or her general knowledge and skill. Most courts, however, reject this approach as simplistic and antiquated, holding that an agent is duty-bound not to use or disclose a principal's trade secrets or other confidential information regardless of whether the information is recorded or retained in his or her memory.⁷⁹ Memorizing an employer's

76. See, e.g., Agency Solutions.com, LLC v. TriZetto Group, Inc., 819 F. Supp. 2d 1001, 1017 (E.D. Cal. 2011); Packard Instrument Co. v. Reich, 412 N.E.2d 617, 623 (Ill. Ct. App. 1980); ILG Indus. v. Scott, 273 N.E.2d 393, 396 (Ill. 1971); Eaton Corp. v. Appliance Valves Corp., 526 F. Supp. 1172, 1179 (N.D. Ind. 1981); Wexler v. Greenberg, 160 A.2d 430, 435 (Pa. 1960); Sharma v. Vinmar Int'l., Ltd., 231 S.W.3d 405, 424 (Tex. App. 2007).

77. See, e.g., Servisco v. Morreale, 312 F. Supp. 103, 106 (E.D. La. 1970); Cudahy Co. v. Am. Labs., 313 F. Supp. 1339, 1343 (D. Neb. 1970).

78. The distinction seems to rely on the tort and criminal law requirements for proving conversion or larceny, both of which require that the defendant "take" or "carry away" something tangible to prove culpability. See RESTATEMENT (SECOND) OF TORTS § 223(a) (AM. LAW INST. 1965) (defining conversion as "dispossessing another of a chattel"); WAYNE R. LAFAVE, CRIMINAL LAW § 19.3 (5th ed. 2010) (stating that larceny involves the taking and carrying away of the personal property of another).

79. See, e.g., Allen v. Johar, 823 S.W.2d 824, 827 (Ark. 1992) ("We believe that whether the customer information used was written down or memorized is immaterial, and the proper issue is whether the information is protectable as a trade secret."); Ed Nowogroski Ins., Inc. v. Rucker, 971 P.2d

trade secret does not mean that the information necessarily becomes part of his or her general knowledge and skill.⁸⁰

Another approach that some courts have used is based on whether the employee's knowledge and skills were acquired before the employment relationship began, or acquired while working for the employer who claims such knowledge and skills as a trade secret.⁸¹ In *Dynamics Research Corp. v. Analytic Sciences Corp.*,⁸² the employer sued a former employee to enjoin his use of a proprietary system and technical data, which the employer claimed as a trade secret. Because the former employee had extensive systems experience and graduate degrees in the field that he had acquired prior to employment, the court held that his knowledge, skill, and experience in organizing management information systems and understanding data was his own and not part of the employer's trade secret.⁸³ Like the distinction based on employee memory, such an approach is attractive for its simplicity. Nevertheless, it carries the risk of overprotection in that an employee may acquire additional knowledge or skills during employment that do not, for other reasons, qualify as a trade secret. For instance, this might be due to lack of reasonable measures to maintain the secrecy

936, 945 (Wash. 1999) ("The fact that the former employee memorized the information, rather than taking it in written form, made no difference.").

80. The Restatement of Employment Law similarly rejects the so-called "memory rule." See RESTATEMENT OF EMPLOYMENT LAW § 8.02 cmt. g ("Whether information is a trade secret does not turn on whether the information is in tangible form or retained in an employee's memory.").

81. See, e.g., *Triumph Packaging Grp. v. Ward*, 834 F. Supp. 2d 796, 807 (N.D. Ill. 2011) (holding that a lean manufacturing process was not a trade secret since the former employee had extensive twenty-year experience and training in lean manufacturing before working for the employer); *GTI Corp. v. Calhoon*, 309 F. Supp. 762, 769 (S.D. Ohio 1969) (finding that former employees' know-how in the design and use of stud lead welding machines had been acquired during their previous employment and therefore not plaintiff's trade secret). One court has suggested that using this distinction between general knowledge and special knowledge is more relevant where the technology is new or the former employee is an expert in the field. See *Microbiological Research Corp. v. Muna*, 625 P.2d 690, 697 (Utah 1981) (concluding that the process of manufacturing medical diagnostic kits was not a trade secret since the former employee used his own general knowledge and skill in developing them).

82. *Dynamics Research Corp. v. Analytic Scis. Corp.*, 400 N.E.2d 1274 (Mass. App. Ct. 1980).

83. *Id.* at 1282–87.

of the information, or because the information, though considered confidential by the employer, is known in the field or readily ascertainable by competitors.

B. Knowledge and Skill Particular to the Industry

Other courts have based the distinction on the proposition that when an employee's knowledge and skills are general to the particular industry or trade, then he or she is free to use them after termination of the agency relationship. Recall that information that is generally known or easily obtainable by competitors is not protectable as a trade secret because its economic value is not due to its secrecy.⁸⁴ If the employee's skills and knowledge in question are generally known, then by definition they cannot be trade secrets. An example of this approach can be found in *Head Ski Co. v. Kam Ski Co.*,⁸⁵ in which the employer claimed that former employees who quit to form a competing business used a trade secret design and manufacturing process of making a metal ski out of aircraft materials by using aircraft construction techniques. The former employees contended that the employer's processes, methods, and materials could not be trade secrets since they were known to and used by aircraft mechanics and engineers, and therefore part of their general knowledge and skills.⁸⁶

At the outset, the court posed two questions for determining whether the former employees had utilized general knowledge and skill instead of trade secrets of their former employer. First, did the employees derive the necessary knowledge to make their products from their employment with plaintiff or from their general knowledge of the arts of manufacture? Second, could the defendants proceed as they did independently of the knowledge gained as plaintiff's employee? If the answer to these tests is in the affirmative, the former employees relied upon general skill and not upon trade secrets of the former employer.⁸⁷

Based on the evidence, the court observed that other ski manufacturers in the United States and Europe had attempted to produce a metal ski that would compete successfully with

84. See *supra* notes 57–60 and accompanying text.

85. *Head Ski Co. v. Kam Ski Co.*, 158 F. Supp. 919 (D. Md. 1958).

86. *Id.* at 923.

87. *Id.* at 922.

the employer's product, but had failed to do so despite their knowledge and experience.⁸⁸ The former employees, however, "were able to do so immediately, because of the knowledge they had gained during their employment at plaintiff's plant."⁸⁹ As such, the process was not generally known and therefore not part of their general knowledge and skills.⁹⁰

A similar result can be found in the case of *Lee v. Cercoa, Inc.*,⁹¹ in which the employer manufactured and sold polishing compounds for glass and plastic materials. The employee had worked for two years as a production manager for the employer. As a part of his job, the employee learned about the combination of certain chemicals and products to formulate polishing compounds. When the employer learned that the employee was going to use the information he acquired during his employment to begin manufacturing his own glass polishing compound, the employer terminated the employee and filed suit to enjoin him from using its trade secrets.⁹² The former employee contended that many of the major elements of the employer's process were the same as those known to others in that field. However, the court disagreed that the process was part of the employee's general skills and knowledge, explaining that "the combination of elements into a compli-

88. *Id.* at 923.

89. *Id.* at 923–24.

90. *Accord Sys. Dev. Servs., Inc. v. Haarmann*, 907 N.E.2d 63, 78 (Ill. Ct. App. 2009) ("[T]he intricacies of a customer's computer system or network are readily accessible to other technicians in the competitive marketplace by similar means" and "[information] within the realm of general skills and knowledge in the industry cannot be a trade secret." (quoting *Pope v. Alberto-Culver Co.*, 694 N.E.2d 615, 617 (Ill. App. Ct. 1998))); *George S. May Int'l Co. v. Int'l Profit Assocs.*, 628 N.E.2d 647, 654 (Ill. App. Ct. 1993) (finding that financial formulas and sales techniques were general knowledge and skill since they were widely known by average salespersons in the trade); *Serv. Ctrs. of Chi., Inc. v. Minogue*, 535 N.E.2d 1132, 1136 (Ill. App. Ct. 1989) (finding that formula for estimating prices for storing and retrieving hospital records was not a trade secret because it was generally known); *Hallmark Pers. of Tex., Inc. v. Franks*, 562 S.W.2d 933, 935–36 (Tex. App. 1978) (finding that employment placement technique was general knowledge and skill and not a trade secret since it was generally known in the industry by experienced employment counselors).

91. *Lee v. Cercoa, Inc.*, 433 So. 2d 1 (Fla. Dist. Ct. App. 1983).

92. *Id.* at 1–2.

cated production process amounted to a trade secret and not merely a variation of a general process"⁹³

C. Knowledge and Skill Specific to the Employer

Another rationale focuses on the nature of the experience, knowledge, and skills that an employee acquires in the course of his or her employment. If the knowledge or information is specific as to the employer's particular business, then it cannot be classified as general knowledge or skills of the employee.⁹⁴ This distinction is similar to that between general knowledge known within an industry as outlined in the previous section,⁹⁵ but instead focuses on specialized knowledge known and used only by a particular employer.⁹⁶

This line of reasoning is illustrated in *B.F. Goodrich Co. v. Wohlgemuth*,⁹⁷ which involved an employee who was in technical charge of all research in space suits, and as a result gained detailed knowledge of the scientific and engineering principles involved in the production of space suits and possessed knowledge of his employer's trade secret designs.

[T]he fact that a number of engineers, scientists and technicians employed by a corporation for research and development in an area pertinent to the manufacture of an article, such as a space suit, are possessed of knowledge of the secret processes and devices discovered and created by their joint or individual efforts, does not make their knowledge general or public knowledge; and the processes and devices, if they are in fact trade secrets, remain trade secrets of their employer.⁹⁸

93. *Id.* at 2.

94. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM. LAW INST. 1995)

95. See *supra* Section II.B.

96. The same approach applies if the employee has gained the knowledge as a result of specialized training by the employer. See *Vantage Tech., LLC v. Cross*, 17 S.W.3d 637, 645 (Tenn. Ct. App. 1999) ("[A]n employer may have a protectable interest in the *unique* knowledge and skill an employee receives through special training by his employer").

97. *B.F. Goodrich Co. v. Wohlgemuth*, 192 N.E.2d 99 (Ohio Ct. App. 1963).

98. *Id.* at 104. See also *Cent. Bldg. & Cleaning Co. v. Vodnansky*, 406 N.E.2d 32, 35 (Ill. App. Ct. 1980) (finding that employer's method of estimating bids for construction projects was not a trade secret and that em-

Nevertheless, it is also possible that certain specialized knowledge, such as know-how associated with the employer's product or process, might not qualify for trade secret protection, and yet be regarded as confidential by the employer.

This is likely to be especially true as to customer and client lists. For example, in *Fleming Sales Co. v. Bailey*,⁹⁹ the defendant, through years of working as a sales representative, became an expert at networking, building relationships with customers, and closing deals. The court ruled that his former employer's list of customers was generally known and part of his skills and experience. As the court explained: "All the information . . . is nothing more than the kind of knowledge any successful salesman necessarily acquires through experience . . . [and is] readily ascertainable by proper means over the course of time without efforts beyond those ordinarily exerted by salesmen in developing customers."¹⁰⁰

D. Knowledge and Skill in Using a Trade Secret

Yet other courts have centered the inquiry on whether the employee has acquired specific expertise, techniques, or know-how in using an employer's trade secret during his or her employment. If so, such specific knowledge and skills are not considered to be part of the employee's general knowledge and skills. The case of *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*¹⁰¹ illustrates this line of reasoning. The employer specialized in high-performance upgrades for vehicles. When an employee departed to start a competing business, the em-

ployee "learned to estimate through his day to day experience and training on the job"); *Wright Med. Tech., Inc. v. Grisoni*, 135 S.W.3d 561, 590 (Tenn. Ct. App. 2001) ("[W]here the information is specific and confidential and would be useful primarily to a direct competitor of the former employer, it is likely not part of the former employee's general skill, knowledge and experience and is protectable.").

99. *Fleming Sales Co. v. Bailey*, 611 F. Supp. 507 (N.D. Ill. 1985).

100. *Id.* at 514. *But see The Agency, Inc. v. Grove*, 839 N.E.2d 606, 609–16 (Ill. App. Ct. 2005) (holding that client identities were within former employee's general knowledge, but client business cycles, expiration dates, personnel preferences and data about the personal characteristics of client contact people were not because they unknown in the industry and valuable to competitors who could contact them when their contracts were up for renewal and aid them in meeting client staffing needs).

101. *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18 (Tex. App. 1998).

ployer sought an injunction. The former employee argued that he was merely using general knowledge and expertise acquired in the automotive industry prior to and during his employment with the plaintiff.¹⁰² The court agreed that the idea of upgrading vehicle performance was not a new idea, but found that the specific means by which he completed the upgrades was a trade secret. The court held that specifications of assembling and modifying components were not common knowledge, nor was the employer's pricing, customer, and vendor information.¹⁰³

E. *The Restatement (Third) of Unfair Competition Approach*

Finally, the Restatement (Third) of Unfair Competition ties the inquiry to the public interest in protecting employee mobility and the right to compete:

The distinction between trade secrets and general skill, knowledge, training, and experience is intended to achieve a reasonable balance between the protection of confidential information and the mobility of employees. If the information is so closely integrated with the employee's overall employment experience that protection would deprive the employee of the ability to obtain employment commensurate with the employee's general qualifications, it will not ordinarily be protected as a trade secret of the former employer.¹⁰⁴

This rule aligns with the Restatement's overall policy of promoting competition, disseminating information, and preserving the freedom of employees,¹⁰⁵ but it provides little practical guidance for courts. Furthermore, the Restatement concedes that the determination of whether information is a trade

102. *Id.* at 22.

103. *Id.* at 23. *Accord Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 467–78 (Tex. App. 2004) (finding that knowledge of issues involved in implementing compensation management system are within former employee's general knowledge and skill as a computer programmer).

104. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM. LAW INST. 1995).

105. *Id.* § 42 cmt. b ("There is a strong public interest in preserving the freedom of employees to market their talents and experience in order to earn a livelihood. The mobility of employees also promotes competition through the dissemination of useful skills and information.").

secret or is instead an employee's general knowledge and skill "depends on the facts and circumstances of the particular case."¹⁰⁶

F. Overall Assessment of the Approaches

Few of the approaches or distinctions relied upon by courts and described above do much to clarify the boundary between trade secret information and employee general knowledge and skill, and it is likely that this has led to inconsistent application of principles of agency law and trade secrets law. Many of the explanations offered by the courts seem to be variations of the same theme or distinctions without a difference, and the outcomes appear to be highly fact-specific and fact-dependent.

Further adding to the lack of clarity may be the role of business "know-how"—the accumulated practical knowledge and experience as to how to do or produce something with commercial success¹⁰⁷—as a type of information included within the scope of trade secret protection.¹⁰⁸ The courts have reached different conclusions in identifying know-how as trade secrets or employee general knowledge and skill.¹⁰⁹ Although know-how can be protected as a trade secret, it is easy to see how an employee's mastery of a process or technique, or his or her accumulated proficiency in developing or collecting certain information, might just as easily be viewed as part of his or

106. *Id.* § 42 cmt. d.

107. Hooker Chem. Corp. v. Velsicol Chem. Corp., 235 F. Supp. 412, 424 (W.D. Tenn. 1964); *see also* MILGRIM, *supra* note 54, § 1.09[3] (underscoring the experiential and practical nature of know-how).

108. *See* SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244 (3d Cir. 1985); Space Aero Prods. Co. v. R.E. Darling Co., 208 A.2d 74 (Md. 1965). *See also* UNIF. TRADE SECRETS ACT § 1 cmt. 5 (amended 1985) ("The words 'method, technique' are intended to include the concept of 'know-how.'"); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d ("A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service.").

109. *Compare* Abbott Labs. v. Norse Chem. Corp., 147 N.W.2d 529 (Wis. 1967) (holding that know-how as to the scale up of laboratory chemical processes was a former employee's general knowledge and not a trade secret), *with* BladeRoom Grp. Ltd. v. Facebook, Inc., No. 5:15-cv-01370-EJD, 2018 WL 514923, at *5 (N.D. Cal. 2018) (stating that know-how related to designs and methods for the construction of a modular building can be a trade secret).

her general knowledge and skill. The issue may be even more clouded when “negative know-how” is involved.¹¹⁰ As one court put it, the skill of “[k]nowing what not to do often leads automatically to knowing what to do.”¹¹¹

With these considerations in mind, we began our study of these decisions to determine whether there might be other factors, clues, or common threads that would shed light on the boundary between trade secrets and general knowledge and skill.

III.

OBSERVATIONS FROM THE SURVEY AND STUDY OF CASES

A. Research Methodology

To answer the question of how courts distinguish between trade secrets and employee general skill and knowledge, we examined two categories of cases. The first category focused on the general knowledge versus trade secrets distinction, while the second category included the duty of loyalty in addition to that distinction. We retrieved reported opinions of state and federal trial and appellate courts using the Westlaw legal research database. Our original data pool consisted of a total of 434 cases, which we generated by entering two search prompts into the Westlaw database, one of which focused on trade secrets and general skills and knowledge, while the other focused on the agent’s duty of loyalty.

We narrowed the results to a representative sample of 93 cases by discarding any opinions that did not explain the reason for classifying the subject matter as a trade secret or general knowledge and skill, or include any discussion of the duty of loyalty or confidentiality. Next, we applied a coding scheme to discover if the outcome of a particular case could be predicted or if any patterns could be discerned. We did so by looking at a set number of data points: the state, year, and court in which the case was decided, the court’s procedural posture, type of industry (e.g., manufacturing, service), type of

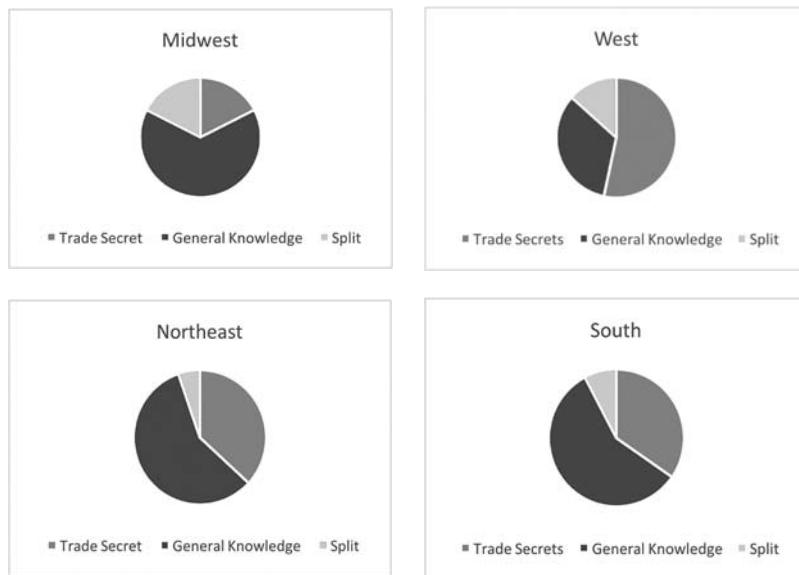
110. See *supra* note 55 and accompanying text.

111. Metallurgical Indus. Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir. 1986). See also Hurst v. Hughes Tool Co., 634 F.2d 895, 899 (5th Cir. 1981). For a discussion of trade secret protection of negative know-how, see Charles T. Graves, *The Law of Negative Knowledge: A Critique*, 15 TEX. INTELL. PROP. L.J. 387 (2007).

trade secret (e.g., chemical process, customer list), employee status (i.e., current or former), classification by the court as general knowledge or trade secret, existence of a nondisclosure or confidentiality agreement, whether or not the inevitable disclosure doctrine was mentioned, and whether or not the court found there to have been a breach of the duty of loyalty.

We also classified the cases by region as defined by the United States Census Bureau: West, Midwest, Northeast, and South.¹¹² With the exception of the Western region, the majority of courts throughout the country found more often that the issue in question involved general knowledge rather than trade secrets, thus favoring the employee (past or present) over the employer. While the Western region had the highest rate of trade secret findings, the Midwest had the lowest. Throughout all regions, courts found that some claims included information that constituted a trade secret and information that failed to do so, categorized as “split.”

FIGURE 1:



112. *Geography Atlas-Regions*, U.S. CENSUS BUREAU, <https://www.census.gov/geo/reference/webatlas/regions.html> (last visited Mar. 20, 2018).

B. Impact of Employment Agreements

When examining the trade secret claims, we looked at whether or not the employers had imposed some type of employment agreement—nondisclosure, confidentiality, or noncompetition—on their employees. In many of the cases,¹¹³ employers did require such an agreement prior to employment commencing as additional insurance that the employees would neither disclose valuable information to competitors nor use it for their own benefit upon termination of the employment relationship. Employees owe their employers the fiduciary duty of loyalty even in the absence of an employment agreement. As noted above, in *Taser International v. Ward*, the court considered whether summary judgment had been properly granted in a case that included breach of fiduciary duty claims but that lacked both an employment contract and a nondisclosure or noncompetition agreement.¹¹⁴ The court found that there existed a genuine issue of fact as to whether or not the former employee's actions constituted competition with the employer, and thus a breach of the duty of loyalty.¹¹⁵ Indicating that the existence of an employment agreement was not a prerequisite to finding that an employee breached a fiduciary duty, the court remanded the case for further proceedings.¹¹⁶

Implied in all employment relationships is the promise that the employee will keep confidential the employer's trade secrets, regardless of any employment agreement containing such a provision.¹¹⁷ However, the existence of a nondisclosure or confidentiality agreement can bolster an employer's claim against an employee should that employee breach the agreement by providing the employer with both a breach of contract and a breach of a fiduciary duty claim. Seeking to enjoin the defendant from using or constructing certain types of machines, the plaintiff in *L.M. Rabinowitz & Co. v. Dasher*¹¹⁸ stated two claims. First, that the defendant had a duty not to disclose

113. Employees in fifty-five of the ninety-three cases were subject to employment agreements, while the employees in the remaining thirty-eight cases were not.

114. *Taser Int'l v. Ward*, 231 P.3d 921, 932 (Ariz. Ct. App. 2010).

115. *Id.*

116. *Id.*

117. RESTATEMENT (THIRD) OF AGENCY § 8.05 (AM. LAW INST. 2006).

118. *L.M. Rabinowitz v. Dasher*, 82 N.Y.S.2d 431, 434 (Sup. Ct. 1948).

confidential information related to the plaintiff's products; and second, that the defendant was bound by a confidentiality agreement.¹¹⁹ The court stated that the plaintiff was not required to rely on a written employment contract in order to find that the defendant former employee breached the duty of loyalty, since even without a contract the duty would be implied.¹²⁰ But the existence of a contract strengthened the plaintiff employer's position that the defendant employee understood the importance of the information to the employer and should have kept it confidential.¹²¹

Courts may consider the existence of a contractual provision related to the employee's actions as one factor when determining whether or not that employee breached the duty of loyalty.¹²² Non-compete clauses are a type of such contractual provisions. They typically require that former employees abstain from engaging in the same business as and from competing with their former employers for a specified period of time or within a specified geographic area.¹²³ These restrictive covenants may also serve to afford some protection to confidential information that are not classified as a trade secret and would not be protected in the absence of the covenant.¹²⁴ However, there are limitations to non-compete clauses. Those that simply state a blanket prohibition against engaging in the same business and do not identify a geographic area or duration of the prohibition will be unenforceable as overbroad.¹²⁵

As illustrated in *Edwards v. Athena Capital Advisors*,¹²⁶ courts will not uphold clauses that too severely restrict employees' ability to work by limiting what they can do for an extended period of time in a wide geographic area. John Edwards, who worked for Athena Capital Advisors for approximately three years in different capacities (all having to do with financial management), resigned to take a new job at

119. *Id.*

120. *Id.* at 435.

121. *Id.*

122. See, e.g., *Kaye v. Rosefield*, 121 A.3d 862, 870 (N.J. 2015).

123. See *Vantage Tech., LLC v. Cross*, 17 S.W.3d 637, 644–45 (Tenn. Ct. App. 1999).

124. See *supra* notes 63–65 and accompanying text.

125. *Edwards v. Athena Capital Advisors, Inc.*, No. 072418E, 2007 WL 2840360 (Mass. Aug. 9, 2007).

126. *Id.*

Goldman Sachs as a financial manager. A prerequisite for accepting the position was Athena releasing him from the non-competition agreement he signed when he commenced employment with his former employer. When he was unsuccessful in obtaining a waiver, he sued to enjoin its enforcement.¹²⁷ At issue was a provision in the agreement that stated that for one year after the end of Edwards' employment, he could not perform "any services, either as a consultant, employee, owner, investor or otherwise, with or for any foreseeable business, product or service of the Company."¹²⁸ While acknowledging that non-compete clauses may be used to protect the employer's business interests, the court pointed out that, "it must be reasonably limited in time and geography and not be harmful to the public interest."¹²⁹ Finding that the one-year limitation was reasonable, the court then examined the language of the employment agreement. Determining that the language of the non-compete clause was so overbroad and vague that it could be construed to prevent Edwards from working in any financial services job anywhere in the world for that time period, the court granted the preliminary injunction.¹³⁰

While it might follow logically that courts would be more inclined to find the existence of a trade secret in cases where the employer required the employee to sign an employment contract, our results found otherwise. Although one court did suggest that the existence of a contract is evidence of a trade secret,¹³¹ most other courts did not share that view. Despite the added protection of an agreement, which would indicate the employer values the information and wants to maintain its secrecy, courts in only 35% of the 55 cases reviewed that had an employment agreement found the existence of a trade secret. Contrastingly, 50% of courts in cases lacking an employment agreement found that at least one trade secret did exist.¹³²

127. *Id.* at *1.

128. *Id.* (emphasis added).

129. *Id.* at *2 (citing *All Stainless, Inc. v. Colby*, 364 Mass. 773, 778 (1974)).

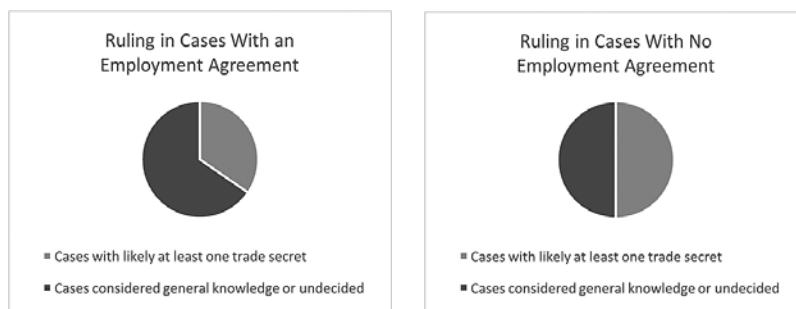
130. *Id.* at *4.

131. See *Cemen Tech., Inc. v. Three D Indus., LLC*, 753 N.W.2d 1, 7–9 (Iowa 2008).

132. See *infra* notes 142–151 and accompanying text.

There are many possible explanations for these results. One could argue that in the absence of an employment agreement, courts might be more likely to afford the protection of finding a misappropriation of trade secret claims since the employer cannot bring a breach of contract claim. Or perhaps when employers do utilize an employment agreement to safeguard proprietary information, they fail to take the required efforts to maintain secrecy that would allow them to classify the information as a trade secret.¹³³ Regardless of the reasons behind the results, there does appear to be a slight negative correlation between having an employment agreement and the court finding a protectable trade secret.

FIGURE 2:



C. Prevalence in Industry

We next examined the cases containing trade secret claims to determine if the outcomes could be predicted based on the industry in which the claims originated. We classified industries by applying the Standard Industrial Classification (SIC) system,¹³⁴ but found that a few of the cases were not readily classifiable as any SIC industry. Industries represented in the surveyed cases were information technology, finance, insurance and real estate, retail trade, construction, entertainment, and transportation. While the cases surveyed came from an array of industries, in many instances there were too few cases in any one of them to draw conclusions regarding the

133. See *supra* notes 61–62 and accompanying text.

134. *SIC Division Structure*, U.S. DEP’T OF LABOR OCCUPATIONAL SAFETY & HEALTH ADMIN., https://www.osha.gov/pls/imis/sic_manual.html (last visited Mar. 20, 2018).

likelihood of having a trade secret claim succeed in that industry.

When considering the overall results, we focused on the two industries with the greatest number of cases. Manufacturing and service industries accounted for the two most common industries, with 54 manufacturing and wholesale trade cases and 21 service industry cases. Consistent with our overall findings concerning employment agreements, courts more often than not found that trade secret claims contained general knowledge rather than actual trade secrets.¹³⁵ However, courts in manufacturing trade secret claims were considerably more likely to find the existence of a trade secret than service industry claims.¹³⁶ One hypothesis regarding this finding concerns the differences between the two industries. Manufacturing firms may be more likely to utilize chemical formulas special to a particular company, thereby constituting a trade secret, while service industries may use information more widely known within that industry.

FIGURE 3:



D. Types of Trade Secret Claims

The surveyed cases contained a variety of trade secret claims, with some claims appearing only once or twice. Commonly occurring themes involved chemical formulas, chemical processes and methods, customer lists (along with other customer information), and financial information. Of the six

135. See, e.g., *Dynamics Research Corp. v. Analytic Sciences Corp.*, 400 N.E.2d 1274 (Mass. App. Ct. 1980); *Stenstrom Petroleum Servs. Grp., Inc. v. Mesch*, 874 N.E.2d 959, 979 (Ill. App. 2d Dist. 2007).

136. See, e.g., *Basic Am., Inc. v. Shatila*, 992 P.2d 175 (Idaho 1999); *Schulenburg v. Signatrol, Inc.*, 212 N.E.2d 865 (Ill. 1965).

chemical formula claims, 50% were classified as trade secrets, while 41% of the 22 processing claims were classified as such. Courts found only 36% of the 33 claims involving customer lists to include trade secrets, while 43% of the 28 financial information claims were classified as trade secrets.

FIGURE 4:

Case Outcomes By Type of Trade Secret



Employers encountered the most difficulty when trying to claim a customer list as a trade secret. In order for information to qualify as a trade secret, the employer must take reasonable measures to protect that information from the public in general, as well as limit access to employees who do not require access to the information in order to do their jobs.¹³⁷ Many customer lists tend not to meet this requirement, since the information is frequently readily available and employers generally do not go to lengths to protect its secrecy.¹³⁸ Proving that an employee—or anyone else—improperly obtained a customer list in violation of the employer’s trade secret poses a challenge to the employer because that same information can often be discerned through appropriate means. If a business furnishes customers with computer network systems, it cannot

137. See *supra* notes 61–66 and accompanying text.

138. See *Microbiological Research Corp. v. Muna*, 625 P.2d 690, 700 (Utah 1981), superseded by statute, Utah’s Uniform Trade Secrets Act, Utah Code Ann. § 13-24-4(1), as recognized in *Storage Craft Tech., Corp. v. Kirby*, 744 F.3d 1183, 1185 (10th Cir. 2014).

prevent former employees from using its customer list to offer competing services to those same customers when the information contained in the list was already known within the industry or generally available.¹³⁹ Trade secret protection will not be extended to information that can be discovered through independent research, as is frequently the case with customer lists.¹⁴⁰

More than half of the service industry trade secret claims involve customer lists, and courts are least likely to find that customer lists are trade secrets.¹⁴¹ This appears, at least partially, to account for the differences in outcomes between manufacturing and service industry cases. While chemical formulas, which courts would often classify as trade secrets, only appeared in manufacturing cases, customer list misappropriation, which courts were disinclined to give trade secret protection, accounted for the majority of service industry claims.

One case surveyed demonstrates two propositions noted: that client lists generally will not be afforded trade secret protection (except when protected by an enforceable non-compete clause), and that chemical formulas will often be classified as trade secrets. In *Smith Oil Corp. v. Viking Chemical Co.*,¹⁴² three employees left Smith to work for Viking, a competing industrial oil lubricant business. Upon reviewing the trial court's granting of a preliminary injunction to the plaintiff former employer, the appellate court focused on whether or not certain types of information could be protected as trade secrets. Because no restrictive covenant limited the previous employees' actions, the court found that they were free to solicit Smith's customers once they started working for Viking.¹⁴³ The appellate court concurred with the trial court's finding that having familiarity with a customer list and even customer needs did not warrant trade secret protection¹⁴⁴: "[a]n employer ordinarily has no proprietary interest in his customers, although he can protect confidential information by a reason-

139. See *System Dev. Servs., Inc. v. Haarmann*, 907 N.E.2d 63, 74 (Ill. App. Ct. 2009).

140. See *supra* note 75 and accompanying text.

141. See *supra* notes 137–140 and accompanying text.

142. *Smith Oil Corp. v. Viking Chem. Co.*, 468 N.E.2d 797 (Ill. Ct. App. 1984).

143. *Id.* at 800.

144. *Id.*

able restrictive covenant.”¹⁴⁵ Since no restrictive covenant existed, the former employees were free to bring the customer information acquired at Smith to Viking. The fact that Smith placed no protections on customer sales reports or lists—such as restricting who had access to them or placing them under lock and key—provided additional support for the finding that customer lists did not constitute trade secrets.¹⁴⁶ “While it is undisputed that knowing who the customers are and what their needs are is valuable business information . . . that the salesman’s knowledge comes under the category of general knowledge and not under the category of a protectable trade secret is supported by the manifest weight of the evidence.”¹⁴⁷

On the question of the protectability of chemical formulas, the court in *Smith Oil Corp.* differentiated between two types. Proper formulas have a specific recipe, including ingredients and their proportions, which can be duplicated and customized for a particular client’s needs.¹⁴⁸ The second category of formulas are less specific, and an experienced blender may deduce the ingredients and proportions and duplicate them over time by utilizing readily available data sheets which list a product’s characteristics, such as base oil.¹⁴⁹ The court acknowledged this distinction by finding that the exact formulas are protected as trade secrets, “but that the ability to produce suitable comparable equivalents is within a general technical knowledge and is not a protectable trade secret.”¹⁵⁰ Applying the distinction, the court concluded that Smith’s former employees could use their general skills and knowledge of oil blending acquired while working for Smith to develop their own proper formulas.¹⁵¹

In contrast to *Smith Oil Corp.*, the facts in *Tower Oil & Technology Co. v. Buckley*¹⁵² demonstrate how a well-constructed restrictive covenant can be used to protect a customer list as confidential information even though it is not a trade secret.

145. *Id.*

146. *Id.* at 801.

147. *Id.*

148. *Id.* at 802.

149. *Id.*

150. *Id.*

151. *Id.*

152. *Tower Oil & Tech. Co. v. Buckley*, 425 N.E.2d 1060 (Ill. App. Ct. 1981).

Upon commencing employment with Tower Oil, Richard Buckley signed an employment agreement in which he promised not to solicit, contact, or sell similar products to any Tower Oil customer or prospect for a period of three years following employment with Tower Oil.¹⁵³ After ten years of working for Tower Oil, Buckley went to work for Tri-State Industrial Lubricants, Inc., another industrial lubricant company (and also a defendant in the case), where he contacted and sold lubricants to five of Tower Oil's customers.¹⁵⁴ The defendants appealed the jury verdict awarding Tower Oil both compensatory and punitive damages for Buckley's breach of the restrictive covenant in his employment agreement.¹⁵⁵

Arguing that the restrictive covenant was unreasonable and should not be enforced, the appellate court disagreed, concluding the reverse: that the covenant met the requirements for reasonableness and therefore could be enforced.¹⁵⁶ First, the covenant did not negatively impact any of the public's legitimate interests since there were over 30 lubricant companies in the Chicago area, and the public could obtain the desired product from any of them, even Tri-State.¹⁵⁷ Second, given the size of the industrial oil lubricant market in the area, prohibiting Buckley from doing business with 2.4% of them (a number which represented Tower Oil's share of the market) did not constitute an undue hardship on Buckley.¹⁵⁸ Finally, the court considered the appropriateness of the restraint in regards to protecting Tower Oil's interests, as well as the reasonableness of the time and geographic region restrictions.¹⁵⁹

Although an employer does not have a proprietary right to its customers, it can protect itself from having an employee use confidential information learned during the course of the employment by utilizing a restrictive covenant.¹⁶⁰ Additionally, protecting "an established clientele from takeover by a former

153. *Id.* at 1063.

154. *Id.*

155. *Id.*

156. *Id.* at 1065.

157. *Id.*

158. *Id.*

159. *Id.* at 1066.

160. *Id.*

employee is a legitimate interest of the employer.”¹⁶¹ In *Tower Oil*, the court found that Buckley did possess confidential information warranting a restrictive covenant, since prior to working for Tower Oil, Buckley knew little about the industry. It was through his employment with Tower Oil, particularly monthly meetings during which salesmen would troubleshoot customers’ problems, that Buckley acquired information valuable both to Tower Oil and to its competitors.¹⁶² Knowing a customer’s needs and what type of products would meet those needs would aid a salesman in trying to persuade a customer to change suppliers.¹⁶³

After considering the different factors surrounding the reasonableness of the restrictive covenant, the appellate court judged it to be both reasonable and enforceable. The three-year time period was not considered to be excessive, and the geographic region was not limited, since the restriction was placed only on 2.4% of customers in the Chicago area.¹⁶⁴ The court noted that it is not “per se unreasonable” for covenants to restrict the solicitation of former customers, and that the existence or misappropriation of a trade secret is not a prerequisite to an enforceable restrictive covenant.¹⁶⁵

E. The Intersection of Trade Secrets and the Duty of Loyalty

When examining the cases that contained both trade secret and duty of loyalty issues, we raised the following question: could an employee’s use or disclosure of information classified as general skills or knowledge constitute a breach of duty even though the information did not rise to the level of a trade secret? Courts have repeatedly answered that question in the affirmative.¹⁶⁶ Faced with a combination trade secret misappropriation and breach of duty claim, courts indicate a greater willingness to find that a duty has been breached than that a trade secret has been misappropriated.¹⁶⁷ Courts may

161. *Id.* (citing J.D. Marshall Int’l, Inc. v. Fradkin, 409 N.E.2d 4 (Ill. App. Ct. 1980)).

162. *Id.*

163. *Id.*

164. *Id.*

165. *See id.*

166. *See, e.g.*, Paint Brush Corp. v. Neu, 599 N.W.2d 384, 393 (S.D. 1999).

167. *See* Triton Constr. Co. v. Eastern Shore Elec. Servs., Inc., 2009 WL 1387115, at *66–73 (Del. Ch. 2009).

refuse to classify information as a trade secret, for example, because it is too widely known or because the employer failed to take adequate safeguards to maintain the secrecy of the information.¹⁶⁸ However, information considered to be general skills and knowledge—and therefore not afforded trade secret protection—may still be considered confidential. So disclosing that information may breach an employee's duty of confidentiality even without constituting trade secret misappropriation. Nondisclosure agreements may protect even general knowledge acquired by an employee, but courts may find a breach of the duty of loyalty even in the absence of such an agreement.¹⁶⁹

Most cases that found a breach of duty, but no misappropriation of trade secrets, did involve some type of employment agreement, be it a nondisclosure, confidentiality, or noncompetition agreement. These agreements served to prevent an employee from using or divulging even general information and knowledge, and a breach of the agreement could constitute a breach of the duty of loyalty even when courts found no misappropriation of trade secrets.¹⁷⁰ That said, the existence of an agreement itself does not guarantee that breaching it will automatically lead to a finding that an employee breached the duty of loyalty, since courts are careful to examine if an agreement is overly broad and therefore unenforceable.¹⁷¹

In cases comprised of both trade secret misappropriation and duty of loyalty claims, if employees were found to have misappropriated a trade secret, courts always found that they had also breached the duty of loyalty (in those cases in which the duty was discussed). In *Lamorte Burns & Co. v. Walters*,¹⁷² the plaintiff employer, which was in the business of investigating and adjusting marine and non-marine liability claims, brought an action against Michael Walters and Nancy Nixon, two former employees who left Lamorte to start their own competing business.¹⁷³ Prior to resigning from Lamorte, Wal-

168. See, e.g., *Burbank Grease Servs., LLC v. Sokolowski*, 717 N.W.2d 781, 793–94 (Wis. 2006).

169. See, e.g., *Triton Construction Co.*, 2009 WL 1387115, at *31–38.

170. *Id.* at *35.

171. See *George S. May Int'l v. Int'l Profit Assoc.*, 628 N.E.2d 647, 653–55 (Ill. App. Ct. 1993).

172. See *Lamorte Burns & Co. v. Walters*, 770 A.2d 1158 (N.J. 2001)

173. *Id.* at 1160.

ters and Nixon secretly gathered client information that included not only names and addresses, but specifics about particular claims and file numbers so that they could solicit those clients for their new business.¹⁷⁴ The New Jersey Supreme Court found that sufficient evidence indicated that trade secret protection should be afforded to the information gathered by Walters and Nixon. Walters himself stated in his deposition that had a competitor asked him for the type of information that he took from Lamorte, he would have refused to provide it.¹⁷⁵ Walters admitted that he knew his supervisor would never have authorized the disclosure of the information, and that he himself would have fired anyone who did so.¹⁷⁶ Even in the absence of trade secret protection, the client files represented proprietary information that was legally protectable as confidential.¹⁷⁷ Once the court classified the information surreptitiously gathered by Walters and Nixon as legally protectable, it found the duty of loyalty claim to be straightforward.¹⁷⁸ Rejecting the defendants' claims that they were merely preparing to compete with Lamorte, the court concluded that they took affirmative steps to harm their employer by gathering information that would give them an advantage once they resigned from Lamorte.¹⁷⁹

A significant percentage of the general knowledge cases also resulted in courts determining that employees had breached the duty.¹⁸⁰ This demonstrated that while clearly not as high a threshold as a trade secrets case, a general knowledge case could still result in a finding that an employee breached the duty by using or disclosing an employer's proprietary information. An employer's legitimate expectation that information would be held in confidence and an employee's violation of that trust constituted a key factor in courts deciding whether or not an employee had breached the duty of loyalty.

174. *Id.* at 1166.

175. *Id.* at 1163.

176. *Id.* at 1165.

177. *Id.* at 1167.

178. *Id.* at 1168.

179. *Id.* at 1168–70.

180. See, e.g., *Smith Oil Corp. v. Viking Chem. Co.*, 468 N.E.2d 797 (Ill. Ct. App. 1984); discussion *supra* notes 142–151 and accompanying text.

FIGURE 5:



CONCLUSION

Trade secrets are valuable assets to many businesses. The potential loss of a trade secret presents an ongoing risk since the owner loses all protection for the information once it has been stolen or disclosed, no matter how much was invested in developing it.¹⁸¹ At the same time, an employee cannot be expected to erase from his or her mind all of the knowledge, skills, and experience he or she may have acquired in a particular position. As one court stated: "Equity has no power to compel a man who changes employers to wipe clean the slate of his memory."¹⁸²

In examining a wide range of decisions to discern how courts distinguished between trade secrets and general knowledge and skills, we looked for any patterns or factors that could predict how a court might rule on the issue. Additionally, we explored the interplay between trade secrets and the agent's duty of loyalty. Before reviewing the cases, we suspected that they would explain the rationale used by courts to differentiate between trade secrets and general knowledge and skills. This was not the case. Courts used different rationales, were inconsistent, and frequently failed to explain adequately the reasons for their decisions. So we returned to the cases, this time to apply a coding scheme using various criteria in an attempt to reveal what other factors may have led to the courts' decisions.

181. See Saunders, *supra* note 2, at 211.

182. Peerless Pattern Co. v. Pictorial Rev. Co., 147 A.D. 715, 717 (N.Y. App. Div. 1911).

Based on our study of the cases, we reached several conclusions. First, we found that the courts continue to reiterate that not all confidential information is a trade secret, and that an employee can breach a fiduciary duty of loyalty by using or disclosing such information. Second, our study indicated that the industry in which the case arose may serve as a modest indicator of how the court classifies information. For instance, courts are more likely to classify information as trade secrets in manufacturing, and more likely to classify information as general knowledge and skills in service industries.

In addition, we found that geographic region played only a small role in predicting the classification of information as a trade secret versus general knowledge and skill. Perhaps most surprisingly, having a nondisclosure or noncompetition agreement was not an indicator that courts would necessarily find the existence of a trade secret. In fact, more courts found a trade secret in cases lacking some type of employment agreement than in those cases that had such an agreement. Cases in which courts found a breach of the duty of loyalty but no trade secret misappropriation involved some type of employment agreement. Finally, a significant percentage of the cases in which courts classified the information as general knowledge and skill were accompanied by a determination that employees had breached the duty of loyalty.

Our study did not yield any factors that would explain outcomes consistently, most likely because the decisions were very fact-dependent. It remains difficult to predict how a court might draw the line between trade secrets and general knowledge and skills, and to devise a test that will achieve consistent results due to the fact-dependent nature of these cases. We also believe that there exists an ongoing source of uncertainty among courts in how to properly define and categorize business “know-how,” which represents the practical and often tacit expertise often claimed by employees as part of their general knowledge and skills.¹⁸³ In the end, the distinction between trade secrets and general knowledge and skill may be one of impression. Courts may simply know it when they see it.¹⁸⁴

183. See *supra* notes 107–111 and accompanying text.

184. Cf. *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964) (Stewart, J., concurring) (“I know it when I see it.”).