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Article

THE CONTRACT IN THE TRADE SECRET BALLROOM--A FORGOTTEN DANCE PARTNER?

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***48 I. Introduction**

Trade secret business information is a valuable commodity. Companies that fail to protect it and the intellectual capital that it represents quickly lose ground to the competition.¹ One of the most versatile and commonly used documents to protect that information is a nondisclosure agreement or clause covering confidentiality obligations in an employment or business contract.² These agreements seek to bar trade secret information from being disclosed, but more than that, these agreements are used as an important--and sometimes the sole--factor a court considers when evaluating whether the information at issue qualifies as trade secret information. They are therefore protected by the laws governing trade secrets or exist as another kind of information that is not protected by such laws.³

This article first provides an overview of the evolution of trade secret law. It then follows with a summary of the view taken by many courts that the use of a nondisclosure agreement to protect information meets the requirement under the Uniform Trade Secrets Act (UTSA) that an owner of information must make efforts that are reasonable under the circumstances to maintain its secrecy, even when little or no other efforts are made.⁴ This article further explores the common reasons that plaintiffs in trade secret disputes often ignore the nondisclosure agreement that initially served to establish the information, as a trade secret case will yield more liberal remedies than a breach of contract case brought under the nondisclosure ***49** agreement. In such cases it is common that courts may loosely apply contract interpretation principles, and contractual provisions which limit a contracting party's liability may be ignored. Finally, this article suggests that the practitioner must account for these unusual risks when drafting agreements that apply to the exchange of trade secret information.

II. The Rise of the Knowledge Economy and Trade Secret Rights

A. An Overview

As economies transition from the machine age to an age where information transactions comprise a significant portion of both national and international trade, the laws which define and protect that information are increasingly important.⁵ This type of economy, often referred to as a "knowledge economy," is one where society's economic activity is based on information as a business product, with innovative intellectual products transported to all corners of the world.⁶ Trade secrets can be considered quite simply as proprietary information which gives a business a competitive advantage.⁷ Naturally, as

economies have changed, so have these trade secrets. Trade secret rights and the disputes that surround them have evolved from those involving traditional commercial formulas⁸ or customer lists,⁹ to more amorphous types of information like broad business plans¹⁰ or high-tech “know-how.”¹¹ Trade secret rights have evolved so much that some commentators *50 have argued that the ease by which trade secrets can be established and maintained make them superior to patent rights, which are filled with bureaucratic delays and lengthy waiting periods for government grants.¹² Commentators have further noted that while the courts appear to be holding patents invalid with greater frequency, the number of decisions granting protection for trade secrets is on the increase.¹³

Trade secret law has been the subject of judicial decisions as far back as the mid-1800’s.¹⁴ However, trade secret law did not become significantly standardized until the National Conference of Commissioners on Uniform State Laws (NCCUSL) approved the UTSA in 1979.¹⁵ As of the date of this article, a version of the UTSA has been adopted in all but three states: Massachusetts, New Jersey, and New York.¹⁶

To qualify information as a trade secret under the UTSA, the owner of the information must make reasonable efforts to maintain the information’s secrecy.¹⁷ *51 One common effort is to use an agreement to govern a recipient’s obligation to maintain the secrecy of the information and to specify the permissible use of that information.¹⁸ Many trade secrets disputes involve information provided from an employer to an employee, where the information is covered by a nondisclosure obligation in the employee’s employment contract.¹⁹ Indeed, many types of business contracts are likely to contain nondisclosure provisions, including joint venture agreements, licenses, stock price adjustment agreements, executive compensation agreements, and many others.²⁰ When the owner of information requires such agreements be executed prior to releasing that information, is this effort sufficient to meet the UTSA’s requirement that the owner make a reasonable effort to maintain the secrecy of the information? This article will demonstrate that the answer to this question is often yes. This article then explores what happens when the recipient of trade secret information breaches the obligation to keep information a secret as specified in a nondisclosure agreement. Such breaches can lead to both a breach of contract action as well as an independent cause of action for misappropriation of trade secrets.²¹ What is the effect of a limitation of damages provision in the applicable nondisclosure agreement? Since both the breach of contract action and the misappropriation of trade secret action can arise from the same set of facts, does the limitation apply to both situations? This article seeks to answer these questions, and in doing so, it seeks to provide practical advice to help the practitioner use contractual provisions to establish and protect trade secret information.

***52 B. The Increasing Need for Trade Secret Law in the Knowledge Economy**

“The essence of trade secret law is that it provides rules of fair play in business transactions and stabilizes the relation[ship] between otherwise competing parties.”²² Instead of hoarding valuable information, the owner of a trade secret may share it through agreements and still be “assured continued ownership of the trade secret.”²³ The sharing of information is as important as ever as the business landscape has evolved into a service-oriented, information-based economy relying on the rapid development of advanced technologies.²⁴

For example, consider a new biotechnology company that is identifying its information assets. Rather than pursuing the more expensive route of protecting its information assets through patents, this company could choose to create a portfolio of trade secret information.²⁵ This company would be aided in building its portfolio of trade secret rights because it would be tasked simply with protecting the applicable information, as opposed to the owner of a patent, who would bear the task of creating it.²⁶

At the same time that this biotech company is building its portfolio of trade secret information and relying on trade secret laws to protect it, the company is facing a business environment which puts that information increasingly at risk. Consider the biotech company employees, for example. The knowledge economy is providing employees with opportunities, and the employees themselves are increasingly moving from company to company rather than remaining with a single *53 employer.²⁷ At the same time that employees are becoming more mobile, the size and complexity of modern businesses have increased such that companies must entrust confidential business information to a greater number of mobile employees.²⁸ This employee mobility increases the chances that confidential information from one employer will intentionally or unintentionally be shared with competing enterprises.²⁹

All of these factors--the advent of the knowledge economy, employee mobility, and increasing business size--have resulted in a competitive marketplace where the misappropriation of trade secrets has become common. The result has been business

revenue loss and an increased desire among business people to maintain the legal rights in any valuable commercial information they may hold. Trade secret law is left to create a balance of interests, which allows the trade secret holder to share information with his employees or others while still maintaining the ownership and competitive advantage of that information in an increasingly information-based economy.³⁰ Trade secret law has been rising in importance such that it is now considered to be the intellectual property protection of choice in the knowledge economy.³¹

***54 III. Brief History of Trade Secret Law**

A. Trade Secret Law in the Early Years and the Need for the UTSA

It is said that the trade secret is “one of the most elusive and difficult concepts in the law to define.”³² The United States Constitution grants the federal government the authority to protect intellectual property.³³ Congress has used this power to protect the intellectual property rights of patents and copyrights under federal statutory schemes.³⁴ Trade secret rights, on the other hand, have not been historically protected by the federal government, but instead through a combination of state property, contract, and tort law.³⁵ The federal intellectual property protections that cover copyrights, patents, and trademarks arise from an agreement between the creator of the property and the government.³⁶ “On the other hand, trade secret protection stems from the creator’s ability to keep the property a secret.”³⁷ Indeed, there is no federal trade secret law.³⁸

The varied combination of property, contract and tort law left the earlier courts free to draw upon a variety of legal concepts in deciding trade secret cases.³⁹ As trade secrets can be protected through these varied state law rights, it is not unusual to see causes of action brought under each theory arising from the same set of facts. For example, if a party breaches an agreement by disclosing a trade secret, the aggrieved party may seek redress not only under contract principles but also under tort law.⁴⁰ In one of the earliest trade secret cases, decided in 1868 by a *55 Massachusetts state court, the plaintiff sued his employee, who had signed a contract agreeing not to disclose information about the plaintiff’s secretly developed machinery.⁴¹ When the employee later joined a competing company, the court held that the employee had breached the nondisclosure agreement. However, rather than following a straight contract interpretation, the court instead recognized the existence of the employer’s property right in the trade secret information and set a precedent by applying injunctive relief in what was termed one of the first trade secret cases.⁴² Approximately twenty years later, one of the earliest Supreme Court cases granted trade secret protection to the ingredients of a medicine.⁴³ From that point on, the Supreme Court heard only a handful of cases dealing with trade secret issues until the relatively recent case of *Ruckelshaus v. Monsanto Co.*,⁴⁴ in which the Supreme Court recognized a property right in the trade secret since it is a product of the individual’s labor and invention.⁴⁵

Even with the recognition of trade secret rights by the Supreme Court, trade secret law developed primarily in the state courts.⁴⁶ Like any body of law developed by various entities, the development was random.⁴⁷ With the law evolving from common law instead of from one statutory edict, the trade secret protections varied slightly from jurisdiction to jurisdiction.⁴⁸ While the Supreme Court interpreted a particular state’s trade secret law in *Ruckelshaus* as conferring a property right to the trade secret owner, other states had rejected this notion of property as the basis of liability. Many states maintained that trade secret law protected against breaches of confidential relationships, or they suggested that *56 while the holder’s rights in a trade secret include a property right, it is the breach of confidence, rather than the infringement of a property right, that is the gravamen of trade secret cases.⁴⁹ At various times, actions for misappropriation of trade secrets had their origins in property law, contract law or tort law depending upon the court and the particular facts and circumstances of the case.⁵⁰ The difference described above led to a cry for uniformity in the law.

B. The Restatement

As set forth above, the law of trade secrets is a development of state common law.⁵¹ The advancement of uniformity among the states when it came to trade secret law began with the adoption of sections 757 through 759 of the Restatement (First) of Torts. It was the first attempt to enunciate the generally accepted principles of trade secret law.⁵² “In 1939, the Restatement attempted to clarify the common law principles of trade secret law from a ‘confusing body of precedent.’”⁵³ Indeed, until the UTSA was published, the Restatement was “considered the ‘most widely accepted’ statement of common law trade secret principles.”⁵⁴ The provisions of the Restatement became primary authority for trade secret law by virtue of their adoption in nearly every reported case.⁵⁵

*57 Under the Restatement, there are three requirements for a common law cause of action of trade secret misappropriation:

(1) proof of a trade secret, (2) improper disclosure or use of the trade secret, and (3) a loss which resulted from the improper disclosure or use of the trade secret.⁵⁶ Under the Restatement, a trade secret may consist of any formula, pattern, device or compilation of information that is used in one's business and gives one an opportunity to obtain an advantage over competitors who do not know or use it.⁵⁷ The Restatement provides six factors to consider in determining whether information falling into the above categories qualifies as trade secret information or is information that is perhaps valuable, but is not trade secret information. The six factors are:

(1) the extent to which information is known outside of [one's] business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.⁵⁸ Since the Restatement was drafted, however, the economy has evolved into one increasingly focused on information. At the same time, the development of trade secret law has been a piecemeal effort within jurisdictions.⁵⁹ In addition, the common law development has failed at times to adequately deal with important trade secret issues.⁶⁰

C. Introduction to the Uniform Trade Secrets Act

In an attempt to bring uniformity to the law of trade secrets in the various states and to correct the perceived inadequacies of the Restatement in the face of rapid changes in the nature of business and the employer-employee relationship, the National Conference of Commissioners on Uniform State Laws drafted the UTSA in 1979.⁶¹ The House of Delegates of the American Bar Association approved the uniform act in February 1980.⁶² In August 1985, the NCCUSL adopted minor amendments to the UTSA.⁶³ In the prefatory notes to the 1985 amended document, *58 the commissioners note that trade secret law had not developed satisfactorily, notwithstanding its importance to interstate business.⁶⁴ Even in states where trade secret law had developed, there was undue uncertainty regarding the parameters of trade secret protection and the appropriate remedies for misappropriation.⁶⁵ Thus, the UTSA was proposed to help remedy this confusion as well as to establish common rules for trade secret disputes. Under the UTSA, a trade secret is any "information, including a formula, pattern, compilation, program, device, method, technique, or process, that . . . derives independent economic value, actual or potential, from not being generally known."⁶⁶ The UTSA, like the Restatement, is not law, but rather it establishes a set of model rules that states can reject, accept in part, or accept in full.⁶⁷ Similarly, the UTSA does not supersede the Restatement, as the Restatement continues to be cited and used for guidance in cases involving the UTSA.⁶⁸ Today, the UTSA is the most prevalent statutory approach to trade secret law.⁶⁹

D. Distinguishing the Uniform Trade Secret Act from the Restatement

The UTSA is derived largely from the Restatement and from the case law that developed around it following its adoption by the various states.⁷⁰ Yet, there are differences between the UTSA and the Restatement. Under the UTSA, "[a] trade secret can be almost any information used in the operation of a business that is both sufficiently valuable and secret enough to allow a business a competitive advantage."⁷¹ The information protected includes programs, methods, techniques and processes that have either potential or actual value.⁷² This is a wider body of information than could be considered a trade secret as envisioned by the Restatement, which requires a trade secret to be a "process or device for continuous *59 use in the operation of business."⁷³ As a result, the Restatement can be read to exclude protection of research and development information because it is not yet in "continuous use."⁷⁴ Similarly, the Restatement can be read to deny protection to "negative information" such as data on failed experiments, as these are not processes or devices. Such information could be viewed as simply information relevant to the conduct of business, but not protected as a trade secret,⁷⁵ or it could be viewed as simply "business information" and similarly not protected.⁷⁶

In addition, the UTSA's criteria for determining whether information qualifies as a trade secret are different from those under the Restatement.⁷⁷ Under the UTSA, a trade secret can be any type of information that meets just two general requirements. The requirements are that the information

(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.⁷⁸

Another distinction between the UTSA and the Restatement involves the employer-employee relationship. Under the Restatement, one of six factors used to determine whether information should be protected as a trade secret is the extent to which the information is known by employees.⁷⁹ Under the UTSA, information does not lose trade secret status even if revealed to employees so long as the second statutory requirement in the definition of a trade secret is satisfied: the information ***60** must be subject to reasonable efforts to maintain its secrecy.⁸⁰ From a practical standpoint, consider the hypothetical small biotech company discussed earlier. In such company, it could be necessary for all employees of the company to become intimately aware of the information sought to be protected as a trade secret. The very nature of an employee-employer relationship will often make it both unavoidable and entirely reasonable to disclose such information.⁸¹ The UTSA recognizes this reality.

Further, the UTSA provides that a complainant is entitled to injunctive relief and damages for the misappropriation of a trade secret, where damages are defined to refer to the actual loss caused by the misappropriation and the unjust enrichment that is not taken into account by computing the actual loss.⁸² A key difference between the UTSA and the Restatement is that the UTSA specifically provides for injunctive relief while the Restatement does not.⁸³

IV. The Use of Contracts to Protect Trade Secret Information

A. Reasonable Efforts and Other Requirements

While the UTSA provides that a broad variety of information may be considered trade secret information, the UTSA also limits the scope of protectable trade secrets in three key ways. First, for the information to be considered a trade secret, it must not be generally known or readily ascertainable.⁸⁴ Comments to the UTSA indicate the information is readily ascertainable if it is available in trade journals, reference books, or other published materials.⁸⁵ Second, the UTSA ***61** protects only the information which has value because it is not generally known.⁸⁶ Third, trade secret information loses its status as such if it is not the “subject of efforts that are reasonable under the circumstances to maintain its secrecy.”⁸⁷ This third requirement is based on the rationale that if the owner of the information does not treat it as a trade secret, then the courts should not as well.

Put simply, there are three questions the owner of information should ask herself under the UTSA:

- a. Is the information generally known in the industry?
- b. Would the information be valuable to a competitor?
- c. Have I made reasonable efforts to keep the information confidential?⁸⁸

If the owner answers no, yes, and yes, respectively, then the information is probably a trade secret under the UTSA.⁸⁹

B. Reasonable Efforts Influence Other Factors

This article focuses primarily on the third requirement above, the concept that a trade secret loses its trade secret status if the information owner does not use reasonable efforts to maintain the secrecy of such information. The efforts used to maintain information as a trade secret are of vital importance as there is no fixed term for trade secret protection. “It lasts as long as the holder satisfies the secrecy and reasonable efforts requirements.”⁹⁰ However, the holder constantly faces the uncertainty that she could suddenly lose her trade secret rights through disclosure, which could occur at any time she is deemed to have failed to use reasonable efforts.⁹¹

As the American Bar Association has recognized, “[t]here is no precise definition of what ‘reasonable measures’ are; what is reasonable depends on the ***62** situation.”⁹² However, these efforts, regardless of what they are, will have an influential effect on the other two aforementioned requirements, namely that the trade secret is not generally known and that it would be valuable to a competitor. For example, the fact that a trade secret owner requests that a confidentiality agreement be signed before revealing certain information suggests that the information is both valuable to a competitor and not generally known;

otherwise, why would the trade secret owner insist that the agreement be signed?⁹³

Further, consider the requirement that information must be valuable to a competitor to be considered a trade secret. Since most business information would have some value to a competitor, this requirement is fairly easy to satisfy, leaving the reasonable efforts a party takes to maintain secrecy as the most important factor a court considers when determining whether the information is worth protecting.⁹⁴ In support of this position, the Restatement (Third) of Unfair Competition provides that the precautions taken to protect the secrecy of the information are a key factor to consider when determining its value.⁹⁵

The reasonable efforts a party takes to protect and safeguard information may also allow the party redress against an alleged misappropriator, even if the information at issue is readily ascertainable or generally known. Consider, for example, the case of Amoco Production Co. v. Laird, where an employee of Amoco, tasked with assessing geological fault lines for potential oil reserves, became frustrated with his employer and contacted a wildcatter regarding the likely location of oil on a piece of property.⁹⁶ After the wildcatter acquired the property, Amoco determined its employee had divulged information to the wildcatter and sought a preliminary injunction against the wildcatter. The wildcatter argued that the information could have been discovered without the aid of the information from the Amoco employee; in essence, it was readily ascertainable or generally known.⁹⁷ *63 However, the court held that due to Amoco's expenditure of time and effort in locating the potential oil reserves the resulting locations were considered to be trade secrets.⁹⁸ Thus, the "reasonable efforts" taken by Amoco to safeguard its information were successful in persuading the court that the information was a trade secret, even though the information could have been readily ascertainable or known to those in the industry.⁹⁹

C. Reasonable Efforts Are Needed to Protect Trade Secrets

Determining whether or not something is a trade secret is a heavily fact-sensitive inquiry. "[I]nformation that qualifies as a trade secret under one set of facts may not be afforded protection under a different set of facts."¹⁰⁰ One of the most commonly used and well-recognized approaches to safeguarding the access of trade secret information is a confidentiality agreement. Note, for example, the Model Jury Instructions quoted below, which provide the following factors to be considered when determining whether reasonable measures were taken to protect the secrecy of trade secret information:

- (1) whether plaintiff made it a practice to inform its employees or others involved with its business that the information was a trade secret . . .;
- (2) whether plaintiff required employees or others involved in its business to sign confidentiality agreements regarding the information or agreements not to compete . . .;
- (3) whether plaintiff restricted access to the information on a "need to know" basis; and
- (4) whether plaintiff generally maintained tight security to protect the alleged trade secret, and did not voluntarily disclose it to others, except in confidence.¹⁰¹

When a trade secret owner requires that confidentiality agreements be signed, this act alone satisfies the first two criteria identified above. This act shows that the trade secret owner made it a practice in the business to apprise employees that they would be exposed to confidential information (as this could be set forth in the confidentiality agreement), and it also shows that these agreements were in fact signed. Presumably, a company which systematically insisted such agreements be signed would also satisfy the fourth requirement, namely that the company maintained tight security controls and did not voluntarily disclose the information to others.

Unlike other forms of intellectual property, information becomes valuable trade secret property only if access to it is safeguarded.¹⁰² As a practical matter, when it comes to litigation, the issue of the information owner's reasonable efforts *64 is one frequently raised by the defendant.¹⁰³ What a court interprets to be "reasonable efforts" varies with the circumstances, as do many tests of reasonableness, but it is clear trade secret owners need not engage in extreme and unduly expensive procedures to protect their trade secrets--only reasonable efforts.¹⁰⁴ Given the uncertainty as to what comprises reasonable efforts in many trade secret disputes, in many cases, "the holder's efforts to preserve secrecy of the information are a key point of attack," with omissions "frequently difficult to justify as 'reasonable' in retrospect."¹⁰⁵

As long as information is subject to these reasonable efforts, the fact that the trade secret owner was not able to prevent the disclosure of the information does not mean the information loses its status as a trade secret.¹⁰⁶ In addition to Amoco Production Co. v. Laird discussed earlier, another case that stands for such a proposition is Aries Information Systems, Inc. v. Pacific Management Systems Corp.¹⁰⁷ In this case, the plaintiff's software was discovered and misappropriated by its employees, the defendants, notwithstanding the fact that the plaintiff protected its software through proprietary notices on customer contracts and the source code as well as through confidentiality agreements covering the software itself.¹⁰⁸ Although

the defendants had discovered the software, this fact alone does not indicate that the steps taken to safeguard the trade secret information were inadequate. Rather, the plaintiff's efforts were found to be reasonable under the circumstances, and therefore, the software itself was deemed a trade secret.¹⁰⁹ The law does not require the owner of the trade secret to guard against unpreventable methods of misappropriation.¹¹⁰

Another example is the case of the Settles, a couple who claimed to have a copy of the secret fried-chicken recipe developed by KFC founder Colonel Harland Sanders more than 60 years ago.¹¹¹ Preparing to sell it at an auction, the Settles took the recipe to KFC officials to have it authenticated. KFC refused. Instead, it *65 sought and was successful in obtaining a temporary restraining order against the Settles, preventing them from giving the recipe to a third party. The efforts KFC took to protect its trade secret information included arranging for two different companies to each make half of the seasoning recipe for KFC and later mixing the recipe halves, with each company's personnel restricted from knowing the other company's contribution.¹¹² In this case, the measures that KFC took to protect the secret recipe were sufficient to obtain the restraining order, even absent any relationship between the trade secret owner, KFC, and the Settles.

Normal business parties cannot be expected to go to the same lengths as KFC did to protect their trade secrets. The breach in a trade secret case often occurs when employees of a business misappropriate information owned by the business owner; in such scenarios, the contract between the parties plays a key role in determining the outcome.¹¹³

D. Using a Contract to Demonstrate Reasonable Efforts

Before the UTSA came into effect courts frequently relied upon a contract, either express or implied, to afford trade secret protection to information.¹¹⁴ Courts believed that trade secret protection was warranted only where there was some legal relationship, such as a contractual agreement or confidential relationship giving rise to a duty not to disclose.¹¹⁵ Virtually all trade secret protection programs include a form of confidentiality protection. "An employer will want to have its employee [] sign [a] confidentiality agreement[] to protect the employer's trade secrets . . . and prevent disclosure of such information both during and [if possible,] following the termination of the employment."¹¹⁶ Courts have looked favorably, and sometimes disapprovingly, upon the fact that the trade secret owner sought to protect its trade secrets under contract when determining whether *66 reasonable efforts were made to protect the potentially trade secret information.¹¹⁷ In some cases, the contract is thought to serve the dual function of satisfying trade secret requirements and also defining the employer-employee relationship.¹¹⁸

Several courts have held that requiring employees to sign confidentiality agreements respecting trade secrets is sufficient to constitute reasonable efforts to ensure secrecy of the information for trade secret protection.¹¹⁹ For example, in *Morlife, Inc. v. Perry*, the court approved trade secret protection for customer lists after the plaintiff showed that it had limited the circulation of the lists and advised its employees through an employment agreement and an employee handbook that the information was confidential.¹²⁰ In another case, a helicopter manufacturer was entitled to trade secret protection because its drawings were stored in vaults, and the manufacturer had maintained security measures at its plants, which had included the use of confidentiality agreements with its vendors.¹²¹ In another case, the reasonable measures to ensure secrecy included computer databases with password restrictions and an employee handbook mandating that certain business information be kept confidential and was binding on the employee.¹²² Another court held that an employer which had all employees sign confidentiality agreements was able to pursue a case of misappropriation even though the *67 employer did not provide its employees a written policy regarding this information.¹²³

In a case involving manufacturing drawings, it was not considered favorably that the manufacturer had failed to take reasonable precautions to maintain secrecy of its drawings when it permitted them to be given to numerous outside vendors without requiring return of the drawings and when it permitted its own employees to photocopy drawings without having to return photocopies to its vault.¹²⁴ However, the court held that only "reasonable" precautions were necessary, and the fact that the manufacturer required vendors and employees to sign confidentiality agreements, along with the fact that it would have been impractical to forbid vendors from using drawings were matters for the jury to weigh against the manner in which the manufacturer allowed its drawings to be used.¹²⁵

In the last case, the only affirmative act the manufacturer took was to have confidentiality agreements signed. In *MAI Systems Corp. v. Peak Computer, Inc.*, the Court of Appeals for the Ninth Circuit determined that one step employers could take to protect the trade secret status of their confidential information is to require that employees and third parties who are given access to the information sign confidentiality agreements.¹²⁶ Indeed, the court held that the requirement that employees

sign confidentiality agreements was enough to demonstrate reasonable steps to preserve secrecy.¹²⁷

Similarly, in other cases mentioned, while factors other than the confidentiality agreement may have been cited in finding that the party had taken reasonable efforts to protect secrecy, these measures are largely a product of doing business. What business fails to segregate its customers' information from its own? Prudent business owners would almost certainly make sure to disallow their employees from leaving the premises with their customers' information. Where else would drawings be held except in a database or vault? Clearly, it is the confidentiality agreement which is the lynchpin of trade secret protection in these cases.

E. Failure to Obtain a Confidentiality Agreement or to Comply with Its Terms

While contracts will greatly aid trade secret owners, or be determinative, when considering whether they have satisfied the UTSA reasonable efforts requirement, public disclosures of the information can destroy protection.¹²⁸ In a *68 case decided under the Illinois Trade Secret Act, information related to the practice of distributing whey as a hog feed element did not constitute a trade secret; the court specifically noted that the parties' contract under which the information was disclosed did not contain any confidentiality or nondisclosure provisions, and therefore the information was not a trade secret.¹²⁹

Another case where the owner of information did not insist upon a confidentiality agreement to cover the information and thereby did not satisfy the UTSA reasonable efforts requirements is a case involving the makers of flash-frozen, beaded ice cream. In this case, the makers of the ice cream had no confidentiality agreement with the alleged infringers, and had never indicated to the alleged infringers that the information disclosed was a trade secret.¹³⁰ In another case the court held that a plaintiff, who had granted access to its alleged trade secret equipment without requiring a confidentiality agreement, failed to meet minimum safeguard standards.¹³¹ As numerous cases indicate, granting access to an allegedly secret piece of information that is not protected by a confidentiality agreement does not meet the requirements for the information to be considered a trade secret.¹³²

Of course, the lack of a confidentiality agreement will not eliminate trade secret protection in all cases if the trade secret owner takes other significant steps to safeguard the information. For example, in one case, the trade secret owner had no written policy or procedures to ensure the confidentiality of its customer lists.¹³³ The court noted that if the distribution of customer list information were strictly limited to employees and outsiders whose access was necessary to the business, the *69 reasonable efforts requirement may be satisfied, particularly if those given access to the information were advised to preserve its confidentiality.¹³⁴

At the same time, it is possible that even with the inclusion of a confidentiality agreement, one might not meet the reasonable steps requirement. For example, if a party obtains a confidentiality agreement but does not treat the information as a secret, the court will not recognize the trade secret.¹³⁵ Logically, if a party desires to use a nondisclosure agreement to establish its trade secret rights but does not adhere to the applicable requirements of the agreement, it is not entitled to the benefits under that agreement.¹³⁶ Likewise, no degree of effort to preserve the confidentiality of information will suffice if the information is readily ascertainable by proper means or otherwise fails to qualify as a trade secret.¹³⁷

V. Contracts and Trade Secret Law

A. Introduction

It is common for an information owner to use a contract to identify and protect trade secret information. When the information is used in conflict with the contract, then the contract may be used as the basis for both a trade secret claim and a breach of contract action. This dual cause of action is recognized in the Restatement (Third) of Unfair Competition, which states: "The existence of an express or implied-in-fact contract protecting trade secrets does not preclude a separate cause of action in tort under the rules in this [s]ection."¹³⁸ Indeed, one *70 state supreme court has stated, "[t]he basis of [the] trade secret case is a 'breach of contract.'"¹³⁹

If a party uses trade secret information in violation of an express agreement, trade secret law provides a variety of incentives to bring a trade secret cause of action, including more liberal remedies to the aggrieved party and no requirement that an express contractual relationship be established in a trade secret misappropriation claim.¹⁴⁰ At the same time, given the

challenges of proving the information is a trade secret, some plaintiffs may prefer filing the straightforward breach of contract action rather than having to satisfy the requirements of the UTSA.¹⁴¹ Some commentators have even suggested that bringing both causes of action better directs the court's attention to the unfairness of the trade secret theft, particularly when one party acts in opposition to the manner required by a contract. This strategy could potentially allow the proponent to skirt some of the evidentiary requirements of each claim.¹⁴² Yet, for a variety of reasons, when it comes to these dual causes of action, plaintiffs often abandon their breach of contract causes of action before entering the courtroom. Further, courts tend to pay little attention to the terms of a contract that could limit damages in a trade secret case, notwithstanding whether this same contract can be used to establish the existence of the trade secret. This section of the article investigates some common reasons for the plaintiffs' and courts' treatment of the contract--the forgotten dance partner in the trade secret ballroom.

B. Trade Secret Damages

The traditional remedy for trade secret misappropriation is an injunction against further use and disclosure followed by damages for the harm resulting from unauthorized interim use of the trade secret.¹⁴³ "Generally, once the court finds misappropriation, it issues an injunction as a matter of course and awards provable damages."¹⁴⁴ As one noted commentator puts it, the objective of the injunction is *71 to "plug the leaks in the dam first, then assess the damages afterward."¹⁴⁵ Injunctive relief is vital to trade secret cases as damages are often difficult to prove and money may be insufficient to remedy the misappropriation.¹⁴⁶

Beyond injunctive relief, damages awards can include both the actual loss caused by the misappropriation and the unjust enrichment to the defendant that is not taken into account in computing actual loss.¹⁴⁷ The type of damages included in the term "actual loss" vary depending on the circumstances, but the term clearly includes the profits gained by the misappropriation and the lost business opportunities of the trade secret owner.¹⁴⁸ In fact, some extremely sizable trade secret awards--221 million dollars in one case and 47 million in another--have been comprised largely of lost profits.¹⁴⁹

As long as there is no double counting, the Act also allows recovery of the misappropriator's unjust enrichment caused by the misappropriation in addition to actual losses.¹⁵⁰ Unjust enrichment is not based upon the trade secret owner's loss; instead, it is based on the benefits, profits, or advantage gained by the misappropriator. The court compares the costs incurred by the defendant using the trade secret against the costs that he would have incurred had he not used the trade secret.¹⁵¹

***72 C. Breach of Contract Damages: The Restatement**

To arrive at a damages award in a breach of contract case, the plaintiff and the court must overcome some institutional calculation hurdles, namely establishing what set of law applies and what damages are appropriate for the breach. The Restatement (Second) of Contracts provides an approach to calculate damages¹⁵² as does the Uniform Commercial Code (U.C.C.).

The Restatement's approach to damages is based on the distinction between expectation and reliance damages, meaning the difference between the position that an injured party would have expected to occupy had the breach not occurred and the position he would have occupied had the contract never existed at all.¹⁵³ The expectation measure of damages allows for recovery of lost profits, while the reliance damages allow only for out-of-pocket costs.¹⁵⁴ Typically courts award these out-of-pocket, or reliance, expenses, only when a party is unable to prove lost profits with a reasonable degree of certainty.¹⁵⁵ Under the Restatement, if a claimant is suing for breach, the best he could hope for would be a recovery for lost profits, as out of pocket costs are awarded when the claimant is unable to prove lost profits.

As opposed to a breach of contract case, a claimant suing for misappropriation of trade secrets may recover lost profits, lost business opportunity, injunctive relief, and unjust enrichment. Therefore, it is clear that there is no advantage to pursuing a breach of contract case under the Restatement, unless, as set forth above, the party is unable to prove that the information was indeed a trade secret.

D. Breach of Contract Cases: The U.C.C.

Article two of the U.C.C. governs the rights and obligations of buyers and sellers in transactions for the sale of goods.¹⁵⁶ One might envision a scenario *73 where U.C.C. rules and trade secret laws would mingle, such as if the owner of the small

biotech company described earlier sold a computer bio-chip, and the sale contract included a confidentiality clause which applied to certain features of the chip.

The U.C.C. has been adopted wholly, or at least partially, in all of the fifty states.¹⁵⁷ Like the Restatement, the underlying goal of the U.C.C. when it comes to damages is to put the injured party in as good a position as it would have occupied if the other party had fully performed.¹⁵⁸ When a party fails to perform under a contract, the damages differ depending on whether the party is the seller or the buyer in the transaction.¹⁵⁹ Specifically, the U.C.C. refers to both incidental damages and consequential damages. Incidental damages do not overlap with the damages typically awarded in trade secret cases as they are unique to the transaction between a buyer and seller. Typically, they relate specifically to the goods, such as the costs associated with rejecting non-conforming goods or the costs in caring for goods before they are rejected.¹⁶⁰

Consequential damages, on the other hand, are those that were foreseeable at the time the contracting party entered into the contract.¹⁶¹ Consequential damages include a “loss resulting from general or particular requirements and needs of which the [breaching party] at the time of contracting had reason to know and which could not be reasonably be prevented by cover or otherwise.”¹⁶² A commonly awarded consequential damage is the lost profits that a party failed to realize due to the breach.¹⁶³

*74 Considering that a cause of action for the misappropriation of a trade secret includes lost profits as a component of the “actual losses” that are awarded, there is little advantage to pursuing a breach of contract case under the U.C.C. unless the party is unable to prove that the information was indeed a trade secret.¹⁶⁴ The compensation model under both the U.C.C. and the Restatement is to put the aggrieved party in the same position as if the breaching party had performed.¹⁶⁵ Similarly, one model of compensation for trade secret misappropriation is to compensate the trade secret owner the profits it lost due to the acts of the misappropriating party.¹⁶⁶ However, the UTSA goes further than to simply put the trade secret owner in the same position as if its trade secret had not been misappropriated. The UTSA provides compensation to the trade secret owner whether or not such benefit was reasonably obtainable by the trade secret owner.¹⁶⁷ For example, under the UTSA, the owner of a trade secret is entitled to profits that he lost due to the misappropriation or the unjust enrichment the wrongdoer gained by misappropriation, whichever is greater. No similar “either/or” calculation is available under a traditional breach of contract claim.¹⁶⁸ In fact, under the UTSA, *75 the plaintiff may obtain damages measured by the amount the plaintiff was required to lower its own prices to compete effectively with the defendant’s products, as well as an amount to compensate the plaintiff for future price erosion until it can reestablish its prices.¹⁶⁹ Further, a party who misappropriates a trade secret associated with a product is also liable for negatively impacting the market for goods. For example, if a misappropriating party sells faulty goods and negatively affects the market or goodwill of the trade secret owner’s business for the original goods, the trade secret owner has been found entitled to damages.¹⁷⁰ Such damages are well beyond the scope of incidental and consequential damages.

Recall that damages in a breach of contract case are those that would put the injured party in as good a position as if the other party had not breached and had fully performed. Contrast this position with that taken by the court in *University Computing Co. v. Lykes-Youngstown Corp.*,¹⁷¹ a case cited in various jurisdictions when calculating trade secret damages. In this case, the defendants were unsuccessful in marketing a product developed using the misappropriated trade secret and failed to realize profits on that product.¹⁷² In such a case, if the damages had been strictly limited to those under a breach of contract action, then the damages would have been zero, as the information owner was not injured and was essentially in as good a position as if the other party had not taken the wrongful action. Instead, in this case, the court held the proper measure of damages was not the profits lost, but the fair price of licensing the trade secret, amounting to a royalty.¹⁷³

Clearly the UTSA casts a broad net when considering what comprises an “actual loss.” Undoubtedly, one influence on this policy has been the Supreme Court’s historical view that the relationship of the intellectual property owner and the intellectual property holder is one of a principal to an agent or trustee, where the agent or trustee must hand over the proceeds of his wrongdoing.¹⁷⁴ This historical *76 basis, along with the broad scope of damages available to a trade secret owner, makes a case of trade secret misappropriation more attractive than the traditional breach of contract case.

E. Further Advantages of the Trade Secret Misappropriation Case

The damages under the UTSA are flexible and allow for the courts to formulate the appropriate damages for the situation.¹⁷⁵ For example, the UTSA provides for exemplary damages if the misappropriating party acted willfully and maliciously.¹⁷⁶ This type of damage is not typically available in breach of contract actions.¹⁷⁷ Trade secret damages may also include recovery of out-of-pocket and employee expenses when the trade secret owner must incur these costs to protect its business from the

effects of the misappropriation its trade secrets.¹⁷⁸

In addition to the wide scope of damages available to the misappropriation claimant, various limitations apply to damages under the U.C.C. and the Restatement that do not generally apply to damages under the UTSA. For example, under the U.C.C. and the Restatement damages must be “reasonable to know” at the time of contracting.¹⁷⁹ Further, the Restatement requires that damages must be established with reasonable certainty in order to be recoverable.¹⁸⁰ The U.C.C. requires that the damages have some degree of definitiveness and accuracy, given the facts at hand.¹⁸¹ In other words, damages which are speculative cannot be *77 recovered.¹⁸² In addition, the damages under the Restatement and the U.C.C. must be “foreseeable.”¹⁸³

The UTSA has no similar requirements that the damages must be reasonable to know, able to be established with reasonable certainty, and foreseeable.¹⁸⁴ When damages are unable to be established with certainty in a trade secret case, that uncertainty does not preclude recovery, for the plaintiff is afforded every opportunity to prove damages once a misappropriation is shown.¹⁸⁵ Indeed, in cases where actual losses would not be able to be calculated with reasonable certainty, the damages are not denied; instead, they may be “measured by imposition of liability for a reasonable royalty.”¹⁸⁶ For example, courts in trade secret cases have awarded lost profits to the information owner, even though the plaintiff was unable to show the lost profits in any way.¹⁸⁷

***78 F. No Privity Required Under the UTSA**

Under a contract theory of damages a baseline assumption is that the parties were in privity of contract when the damages arose. The general rule is that only parties to a contract may sue or be sued for breach of that contract.¹⁸⁸ Trade secret damages require no such relationship. In some instances, damages are extended to third parties not otherwise involved in the original disclosure of confidential information. For example, when an employer learns that trade secret information was disclosed to it by a new employee, the employer is equally liable for the trade secret “use” even before the employer uses the information and even if the employer is innocent of the knowledge of the misappropriation.¹⁸⁹ When facing a use or disclosure claim against it, the employee’s new company may assert that it did not know that its employee had used or disclosed trade secret information. However, to be liable for trade secret misappropriation, the standard is not actual knowledge of the wrongdoing. It is constructive knowledge.¹⁹⁰ If the facts shown that a company’s directors or officers knew or should have known that the alleged wrongdoing was occurring, liability may attach to those individuals.¹⁹¹

G. Attorney Fees and Punitive Damages

Unless the contract explicitly provides for an award of attorney fees, they are typically not available in a breach of contract action.¹⁹² In a trade secret case under the UTSA, a court may award reasonable attorney fees to the prevailing party “[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.”¹⁹³

*79 As to punitive damages, they are not allowed in contract cases except in those rare cases in which the breach constitutes an independent tort, meaning the contract case itself does not give rise to such damages.¹⁹⁴ If willful and malicious misappropriation exists, the UTSA recognizes the damages as arising from a tort rather than a contract action, and it allows the court to award exemplary damages as long as they do not exceed twice any award for compensatory damages.¹⁹⁵

H. Summarizing the Differences Between Trade Secret and Contract Damages

Generally speaking, in any breach of contract case, it is an advantageous tactic for a plaintiff to plead a tort case in addition to the breach of contract case, as the tort damages are typically less restricted by the concepts of foreseeability, and a tort claim may also avoid a contract clause limiting consequential damages.¹⁹⁶ Similarly, a party who may bring both a breach of contract case and a misappropriation of trade secret case has substantial advantages in focusing on the trade secret misappropriation case. The plaintiff in a trade secret case is not only entitled to receive all of the damages typically awarded in a breach of contract case, but she also benefits from the possibility of receiving punitive damages, attorney fees, and a broad construction of “actual losses.” Further, there is no requirement that privity of contract exist between the parties or that the damages be reasonable, foreseeable or able to be established with reasonable certainty.

VI. Contract and Trade Secret Cases

A. Introduction

The fact patterns that lead a plaintiff to claim both breach of contract and misappropriation of trade secrets are legion, as the contract that can be used to meet the requirement of the trade secret owner using “reasonable efforts” to protect its trade secrets can also provide the basis of a breach of contract claim. Because of its frequent emphasis on relational duties, trade secret law often implicates contract *80 principles more than property principles.¹⁹⁷ Recall that the damages referred to as “consequential damages” are typically awarded in a contract case. Consider, however, the recent Seventh Circuit case, Micro Data Base Systems, Inc. v. Dharma Systems, Inc. in which the court concluded that the lost business suffered by the trade secret holder constituted “reasonably foreseeable” consequential damages.¹⁹⁸ Another prominent trade secret case is World Wide Prosthetic Supply, Inc. v. Mikulsky.¹⁹⁹ In this trade secret case, the court concluded the lost profits sought by the claimant would be reasonably foreseeable damages and therefore properly awarded.²⁰⁰ The court found that the plaintiff’s claim for consequential damages could include its lost sales due to the defendant introducing an inferior product into the market.²⁰¹ Both the appellate court and the Wisconsin Supreme Court were not convinced by the argument of Mikulsky, who argued these lost sales made it potentially liable for unlimited consequential damages.²⁰²

In both of these cases, the plaintiffs made claims for breach of contract in addition to misappropriation under their respective states’ versions of the UTSA.²⁰³ In both cases the plaintiffs were awarded consequential damages. However, in both cases, it was not the breach of contract that yielded these damages, but instead, the misappropriation of trade secrets.²⁰⁴

B. Contract Superseding Trade Secret Theories

The plaintiff in a breach of contract case may strategically plead a cause of action in tort, such as fraud, to avoid having a clause in the contract limit damages.²⁰⁵ In such an event, it is often the case that plaintiffs are making an effort to avoid the effect of the contract altogether. In a trade secret misappropriation case, the plaintiff must do just the opposite. The existence and effect of the contract are extremely important to the case, for without the contract, the information at issue may not qualify as trade secret information under the UTSA. *81 The trade secret misappropriation case is a paradoxical case, where the contract is needed by the plaintiff in order to establish the trade secret, but then is also unwanted, particularly if the contract would limit damages available to the plaintiff.

In one trade secret misappropriation case, the court stated, “Our review of the case law leads us to the conclusion that every case requires a flexible and imaginative approach to the problem of damages.”²⁰⁶ This flexibility would appear to work in the plaintiff’s favor and may not be surprising, considering a common view of courts is that trade secret law is rooted in commercial morality.²⁰⁷ Clearly, courts want to be flexible, be imaginative, and “do the right thing” when it comes to plaintiffs who have proven misappropriation. However, what happens when the contract, which helps the plaintiff prove the existence of the trade secret, also limits the remedies available to the plaintiff?

Take the case of an employee, Richard Michels, who appealed a decision rendered in favor of his employer Dyna-Kote Industries, Inc.²⁰⁸ After Michels resigned from Dyna-Kote, his employer sued him, seeking a preliminary injunction preventing Michels from using certain formulas and mixing instructions while soliciting business for himself.²⁰⁹ Michels had executed an employment agreement which covered this information, and the company was successful in obtaining a preliminary injunction on the basis that Michels was unlawfully using this information.²¹⁰

On appeal, the court stated that Dyna-Kote had originally sought injunctive relief under Indiana’s version of the UTSA.²¹¹ The appellate court further noted that the UTSA as adopted in Indiana “displaces all conflicting law of this state pertaining to the misappropriation of trade secrets, except contract law.”²¹² The appellate court therefore decided that because Michels’s employment contract with Dyna-Kote governed the relationship of the parties and their respective interests in *82 the trade secrets relevant to the employment relationship, Dyna-Kote could not make a separate claim for misappropriation under the Indiana UTSA.²¹³ In essence, because the parties elected to cover certain trade secrets in their contract, the contract was their sole vehicle for resolving any resulting claim or defense to that claim that might arise as related to those trade secrets.

C. Courts Ignore the Contract

A rule of contract interpretation provides that if language is clear and explicit, a court will ascertain the intent of the parties from the written provisions of the contract itself.²¹⁴ Similarly, without evidence that the intention of the parties was to use a different meaning, the ordinary meaning of the language of the contract is entitled to prevail.²¹⁵ Simply put, if a provision in a contract is clear and has been agreed upon, it is entitled to its application. However, when giving effect to contractual terms in a trade secret dispute, courts frequently skip the contractual terms altogether. An illustrative case is *McRoberts Software, Inc. v. Media 100, Inc.*²¹⁶ In this case, McRoberts Software, Inc. (“MSI”) licensed a software program to Media 100, including the source code and executable code of the product.²¹⁷ The license agreement under which Media 100 received the program included both an integration paragraph and a limitation of liability paragraph providing that liability “shall not exceed the aggregate amount paid [by the breaching party] to the other under this Agreement.”²¹⁸ Further, this same limitation precluded “special, *83 indirect, incidental, or consequential damages including without limitation loss of profit.”²¹⁹ MSI sued Media 100 on various theories, including breach of contract, trade secret misappropriation, and copyright infringement, all based on acts which were founded upon a breach of the terms of the license agreement.²²⁰ MSI claimed that the source code provided to Media 100 was a trade secret under the UTSA, as implemented under Indiana law, and that Media 100 misappropriated the source code, entitling MSI to damages.²²¹ Media 100 argued, on the other hand, that all of the actions were contractual in nature, and the cap on damages was applicable to the damages claimed by MSI.²²² The court ruled that simply because McRoberts entered into a license agreement did not mean that it waived its rights to a cause of action based on the trade secret misappropriation. “Were the [c]ourt to hold otherwise, any party seeking to protect its trade secrets would be obliged not to put its intentions into the contract, lest that become a Trojan horse, limiting rather than protecting the party’s rights to seek redress.”²²³ Recognizing that the Indiana law would allow contracting parties to waive some or all of their rights to sue based on a trade secret cause of action, the court indicated:

the proper legal presumption is that MSI retains the right not to have its trade secrets misappropriated, the burden falls on [Media 100] to show either that: (a) the language of the contract unambiguously shows that MSI waived that right; or (b) the language is ambiguous, but the parties’ intent was to address all misappropriation claims solely as contract claims.²²⁴

As to the limitation of liability contained in the license agreement, which limited monetary damages and precluded consequential damages including loss of profit, the court deemed it as “nothing more than a back door attempt to make the same argument (through a restriction on permissible damages instead of a restriction on permissible causes of action) that the [c]ourt has already rejected--that a licensing agreement presumptively preempts the intellectual property rights *84 of the licensor.”²²⁵ The court then indicated that considering the nondisclosure clause did not specifically waive the redress under the UTSA, Media 100 failed to establish that the parties intended to waive their rights under Indiana’s UTSA.²²⁶

The court here turns the normal principle of contract interpretation on its head. Rather than giving meaning to a limitation of liability provision contained in the parties’ agreement, the court puts the burden of proof on the contracting party, Media 100, to prove that MSI intended to waive its intellectual property rights and have its trade secrets misappropriated. Not surprisingly, Media 100 was unable to meet this high threshold.²²⁷ The appellate court later granted judgment for McRoberts in an amount of over 2.1 million dollars, which included damages for trade secret misappropriation, and lost profits were a component of the damages awarded.²²⁸

It may be persuasive that if MSI and Media 100 intended that their contract cover the trade secret rights of each party, then the contract could have specifically mentioned this. At the same time, it seems at least equally persuasive that to give any meaningful effect to the contractually agreed upon limitation of liability which excluded lost profits, MSI should have been barred from receiving lost profits as a result of the misuse of the information provided under that same contract. One could reasonably wonder whether it is the claim of misappropriation that is the Trojan horse, limiting the plain meaning of the contract.

Another case in which a court ignored a contractual term is *Sikes v. McGraw-Edison Co.*²²⁹ In this case, the court ruled in favor of the trade secret holder Sikes, who had disclosed a trade secret to the defendant under an agreement which required the defendant to hold the information in confidence for two years.²³⁰ The defendant argued that when considering damages, the court should take into account that the agreement entitled the defendant to use the information after the two year confidentiality period without prohibition. The court completely disregarded this contractual term, indicating that the defendant had breached the agreement and therefore should not benefit from its terms.²³¹ The court then went *85 on to uphold the jury’s damages award considering a period of use well beyond the two year period. In support of its holding, the court said, “[N]o man can say with certainty what might have happened had McGraw-Edison complied with the clause.”²³² Oddly, the court in this case did not hold that the contract was not applicable, but instead recognized the opposite, indicating

that the defendant had breached the contract. However, even while so finding, it refused McGraw-Edison the benefit of applying its applicable terms.

In yet another trade secrets case, the court recognized that a party's breach of a contract containing a confidentiality clause might be deemed a breach of contract, but the court found the breach relevant only as it related to proving whether the party breached its duty of confidence, as is required for the injured party to make a trade secret claim.²³³

D. Courts Apply the Contract

There are cases where courts give effect to agreed-upon contractual language. In the case of *Allen Brothers, Inc. v. Abacus Direct Corp.*,²³⁴ the plaintiff sued Abacus Direct (now known as DoubleClick), claiming that DoubleClick had disclosed confidential information about its customers to a competitor, in violation of the contracts between Allen Brothers and DoubleClick. These contracts contained a limitation of liability clause which stated that the parties "will not hold each other responsible for any incidental or consequential damages[,] including but not limited to lost profits, lost data, or lost business that may arise from this relationship regardless of the cause."²³⁵ Allen Brothers argued to the District Court in the Northern District of Illinois, Eastern Division that it should be permitted to seek actual damages as permitted under the Colorado Trade Secrets Act, notwithstanding the limitation of liability clause contained in the contract, which appeared to limit those damages. However, the court noted that as a general rule, parties may enter into contracts extinguishing or limiting the statutory provisions which may confer a right upon the respective parties, such as those conferred by the Colorado Trade Secrets Act.²³⁶ The court then ruled that the limitation of liability provision in the contract limited Allen Brothers from seeking anything but nominal *86 damages for any actual loss.²³⁷ However, to the court noted that the Colorado Trade Secrets Act allowed the plaintiff to assert a claim of unjust enrichment as well, despite the existence of the express contract.²³⁸

These case examples show the inconsistency of courts when applying contractual limitations to a trade secret misappropriation case. In the Allen Bros. case, the contract provision that excluded damages was heeded by the court, regardless of whether the damages arose under a theory of contract or trade secret. In *McRoberts Software*, the court refused to apply a provision in the contract limiting damages, as the court believed the contract would "preempt" the intellectual property rights of the plaintiff.

E. Commentators Views on Trade Secret Versus Contract Cases

Commentators offer a variety of views as to why the language in a contract may give way to a misappropriation claim based on the same contract. One view contends that since intellectual property law reflects a careful balance of interests, contracts that supersede or conflict with that balance should not be enforced.²³⁹ Another view contends that courts should essentially ignore breach of contract actions altogether and avoid treating the trade secret misappropriation regime separately from breach of contract actions:²⁴⁰

Courts must avoid treating the two regimes as entirely independent claims for the misappropriation of confidential information through violation of a quid pro quo agreement. . . . There is only one "wrong": [t]he use or disclosure of the confidential information in violation of the quid pro quo agreement. A contract claim for breach of that same agreement is a weaker "lesser included" fallback theory. Contract claims should be considered only when the holder cannot satisfy . . . [the] requirements [of trade secret protection], and consequently, there is no trade secret law violation.²⁴¹ *87 As has been stated earlier, trade secret law is rooted in commercial morality. If courts agree that trade secret law serves a primary function of preserving standards of commercial ethics, as one commentator argues, then perhaps it is not surprising that courts will sidestep provisions in contracts that, if enforced, would serve to undermine their view of this morality.²⁴²

VII. Contract Drafting

Contracts between commercial parties, as opposed those between an employer and employee, frequently contain provisions in which one party or both seek to limit their liability for damages. These provisions often have the parties disclaim their right to special, incidental and consequential damages, as in illustrated by an example clause from the American Bar Association's Model Electronic Payments Agreement, which states that "[n]either party shall be liable to the other under this Agreement for any special, incidental or consequential damages."²⁴³ Generally, the parties that receive the benefit of such limitations, regardless of the exact text, are seeking to eliminate their potential liability for damages that were both reasonably foreseen at

the time the contract was executed and those that were not reasonably foreseen at the time of drafting.²⁴⁴

What can the parties to a contract expect if they include a limitation of liability provision in an agreement, and subsequently, one party breaches the contract and misappropriates a trade secret? As stated earlier, a general contract interpretation principle is that unless another meaning is clearly intended by the parties, words should be given their ordinary meaning.²⁴⁵ Another common principle is that contracts are to be read as a whole, with each part having its own *88 significance.²⁴⁶ Could this be said to have happened in the case of McRoberts Software, which explicitly carved out “loss of profits” as a potential type of damages that could be awarded to a party to the contract? Recall that in this case this limitation was ineffective to exclude the damages for trade secret misappropriation, despite the fact that the information at issue was provided under the contract, and that the same factual circumstance (i.e. the breach of a duty of confidentiality in a nondisclosure agreement) gave rise to both the misappropriation case and the breach of contract case. The cardinal rule for contract interpretation is to ascertain the intention of the parties,²⁴⁷ and contract interpretation principles state that each part of a contract is to have its own significance, with words given their ordinary meaning, so shouldn’t the court have given the express prohibition of lost profits their ordinary meaning? Is it necessary that a contract drafter specifically mention every single statute under which such damages could potentially be awarded to increase the likelihood that the contract’s limitation of liability will be enforced?

Will the contractual limitation be applied as it was in Allen Brothers, or will the defendant be deemed to have breached the contract and therefore not entitled to benefit from any limitation of liability that may have been included, as the court indicated in Sikes? Under current law, it is unclear. What seems clear is that drafters of agreements should specifically mention trade secret damages and the applicable state UTSA statute in their limitation of liability provisions if they wish to increase the likelihood of excluding liability for trade secret damages that may arise from information exchanged under that agreement.

VIII. Conclusion

Since trade secret business information is a valuable commodity, companies that fail to protect it quickly lose ground to the competition. Nondisclosure agreements and clauses seek to prevent trade secret information from being disclosed. Furthermore, these agreements are used to determine whether the information at issue qualifies as trade secret information under the Uniform Trade Secrets Act. Once the agreement is used to establish the information as a trade secret, if there is misuse of the information, there is strategic benefit to plaintiffs pursuing a misappropriation of trade secret case as opposed to a breach of contract case, due to the more widely varied damages available to plaintiffs under a misappropriation case. In addition, courts and juries sometimes view a misappropriation claimant more favorably than a contract claimant, as trade secret law is rooted in commercial morality.

While plaintiffs may abandon their breach of contract cases for trade secret cases, it appears the courts may sometimes do the same, as is evidenced by certain *89 courts’ refusals to apply contractual provisions which may serve to limit trade secret damages. This dual approach by courts and claimants leaves contracts that are brought to trial, but quickly left behind, like a forgotten dance partner in the trade secret ballroom.

Footnotes

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¹ Eileen Barish & Brent Caslin, Before Signing Your Next Nondisclosure Agreement, Count to 10, ACC Docket, Jan. 2006, at 25.

² Id. Note that this article uses the term “nondisclosure agreement” to refer to both an independent nondisclosure agreement as well as a clause covering nondisclosure obligations in an employment, business, or other contract.

³ The term “information” as used in this article means: “Knowledge obtained from investigation, study, or instruction.”

Dictionary.com, Information, <http://dictionary.reference.com/browse/information> (last visited July 4, 2006). This article will ultimately describe that not all such “information” is protectible as trade secret information. See 1 Melvin F. Jager, *Trade Secrets Law* §3:35 (West 2007) (noting that the broad definition of trade secret as information is narrowed by two provisions of the Uniform Trade Secrets Act: the information must not be readily ascertainable and it must have economic value).

⁴ See Unif. Trade Secrets Act §1(4)(ii) (amended 1985), 14 U.L.A. 433 (2005). The Uniform Trade Secrets Act (UTSA) was approved and adopted for use by the National Conference of Commissioners in 1979, and then amended by the National Conference of Commissioners in 1985. *Id.*, Historical Notes. The amendments were intended to clarify certain provisions of the 1979 version and add to the remedies available for misappropriation. References to the UTSA in this article refer to those of the 1985 UTSA and will be cited as UTSA § [section number].

⁵ See Pamela Samuelson, *Intellectual Property and Contract Law for the Information Age: Foreword to a Symposium*, 87 Cal. L. Rev. 1, 3 (1999) (urging the adoption of UCC Article 2B, which would govern transactions in information).

⁶ “Knowledge economy” is defined by Wikipedia, the online encyclopedia, as “a phrase that refers to the use of knowledge to produce economic benefits.” Wikipedia, *Knowledge economy*, http://en.wikipedia.org/wiki/Knowledge_economy (last visited Dec. 30, 2005). This encyclopedia entry credits Peter Drucker with popularizing the phrase “knowledge economy” in his book, *The Age of Discontinuity*. Peter F. Drucker, *The Age of Discontinuity: Guidelines to Our Changing Society* (Transaction Publishers 1992) (1969).

⁷ See Craig L. Uhrich, *The Economic Espionage Act--Reverse Engineering and the Intellectual Property Public Policy*, 7 Mich. Telecomm. & Tech. L. Rev. 147, 153 (2001) (citing William C. Holmes, *Intellectual Property & Antitrust Law* §2.01 (2000) (describing trade secrets)).

⁸ See Phillip Morris Inc. v. Reilly, 113 F. Supp. 2d 129, 137 (D. Mass. 2000) (holding that the ingredients of cigarettes are a protectible trade secret), rev’d on other grounds, 267 F.3d 45 (1st Cir. 2001), aff’d en banc, 312 F.3d 24 (1st Cir. 2002).

⁹ See Reeves v. Hanlon, 95 P.3d 513, 522 (Cal. 2004); Fred’s Stores of Miss., Inc. v. M & H Drugs, Inc., 725 So. 2d 902, 911 (Miss. 1998); Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 1521 (1997) (all indicating that customer lists are protectible trade secrets).

¹⁰ See Motor City Bagels, L.L.C. v. Am. Bagel Co., 50 F. Supp. 2d 460, 478-80 (D. Md. 1999); Merck & Co. Inc. v. Lyon, 941 F. Supp. 1443, 1449-50 (M.D.N.C. 1996); La Calhene, Inc. v. Spolyar, 938 F. Supp. 523, 530 (W.D. Wis. 1996) (all recognizing that product strategies can be protectible trade secrets).

¹¹ See Picker Int’l Corp. v. Imaging Equip. Servs., Inc., 931 F. Supp. 18, 38-41 (D. Mass 1995) (holding that maintenance and repair manuals for a particular configuration of components were trade secrets), aff’d, 94 F.3d 640 (1st Cir. 1996); see also BBA Nonwovens Simpsonville, Inc. v. Superior Nonwovens, LLC, 303 F.3d 1332, 1337-41 (Fed. Cir. 2002) (recognizing machine design, process design, and a combination of processes as trade secrets); Gen. Elec. Co. v. Sung, 843 F. Supp. 776, 779-80 (D. Mass 1994) (recognizing that technical elements are considered as trade secrets when included in a production process); Natural Organics, Inc. v. Proteins Plus, Inc., 724 F. Supp. 50, 53 (E.D.N.Y. 1989) (recognizing formulas and recipes as trade secrets). See generally Myrphy Kalaher Readio, *Recent Development, Balancing Employers’ Trade Secret Interests in High-Technology Products Against Employees’ Rights and Public Interests in Minnesota*, 69 Minn. L. Rev. 984 (1985) (discussing Minnesota courts’ treatment of high-technology companies).

¹² See Julie A. Henderson, *Comment, The Specifically Defined Trade Secret: An Approach to Protection*, 27 Santa Clara L. Rev. 537, 538 (1987) (noting trade secret rights can be established relatively easily by the conduct or agreement of the parties); see also James Pooley, *Trade Secrets: How to Protect Your Ideas and Assets* 26-27 (1982).

¹³ See Suellen Lowry, *Inevitable Disclosure Trade Secret Disputes: Dissolutions of Concurrent Property Interests*, 40 Stan. L. Rev. 519, 519 (1998) (noting that “trade secret litigation is burgeoning”).

¹⁴ See Peabody v. Norfolk, 98 Mass. 452 (1868) (finding the existence of a property right in trade secret information). In this early

state case, Peabody sued his employee, Norfolk, alleging that Norfolk had breached his agreement not to disclose information about Peabody's secretly developed machinery. *Id.* at 453-54. The court in Peabody held that Norfolk had breached the nondisclosure agreement and emphasized the existence of a property right in the trade secrets of Peabody. *Id.* at 459-60. The court also provided for injunctive relief in a case it termed to involve "secrets of trade." *Id.* at 459. See also Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 Cal. L. Rev. 241, 254 (1998) (discussing the Peabody case and its effect on the development of trade secret laws).

¹⁵ See *supra* note 4 and accompanying text (describing adoption of UTSA). The National Conference of Commissioners on Uniform State Laws was organized in 1892 to promote uniformity in state laws. About NCCUSL, NCCUSL Web, <http://www.nccusl.org/Update/DesktopDefault.aspx?tabindex=0&tabid=9> (last visited June 27, 2007). The NCCUSL is currently composed of select members of the bar from each state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. *Id.*

¹⁶ See <http://www.nccusl.org> for an updated list of the adoption of the UTSA and other uniform laws. See also *Unif. Trade Secrets Act* (amended 1985), 14 U.L.A. 433 (2005) (including a table of jurisdictions where the UTSA has been adopted).

¹⁷ *Unif. Trade Secrets Act* §1(4)(ii) (amended 1985), 14 U.L.A. 433 (2005). Even in the earliest days of trade secret law courts recognized that information must be maintained in secrecy to be considered a trade secret. See *Tabor v. Hoffman*, 23 N.E. 12, 12 (N.Y. 1889) (holding that the plaintiff, who had "placed the perfected pump upon the market, without obtaining the protection of the patent laws," had "published that invention to the world and no longer had any exclusive property [right] therein.").

¹⁸ Two sample nondisclosure agreements (NDAs) are available for review. The first is available at The How-To Network, *Nondisclosure Agreement*, <http://www.how-to.com/Operations/NDAform.html> (last visited July 9, 2006) (on file with Journal). Section 3 of this sample NDA sets forth confidentiality restrictions and identifies permissible uses for the information provided. *Id.* Another sample NDA can be found at Francis J. Burke, Jr., Mark G. Kisicki, & John B. Nickerson, *Protecting Trade Secrets in a Digital World*, in 754 Seventh Annual Internet Law Institute 533, 651-55 (Practising L. Inst. 2003), available at <http://www.steptoe.com/assets/attachments/1121.pdf> (on file with Journal). This NDA is drafted in relation to a possible acquisition by one party to the agreement of the other. Section 1 identifies the duty to maintain secrecy along with the obligation to use the information only "in order to evaluate and consummate the [a]cquisition"). *Id.*

¹⁹ See *Comment, Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. Pa. L. Rev. 378, 382 (1971) (noting that most trade secret controversies relate to information shared between employers and employees).

²⁰ Barish & Caslin, *supra* note 1, at 25.

²¹ See *Peabody v. Norfolk*, 98 Mass. 452, 459-60 (1868) (stating that the court has jurisdiction in law and equity for enforcing "secret art" property rights as well as enforcing written contracts); see also *infra* Part V (discussing the overlap of contracts and trade secrets in many cases and judicial decisions).

²² See Robert T. Neufeld, *Note, Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act*, 7 Fordham Intell. Prop. Media & Ent. L.J. 883, 884 (1997) (citing Dan L. Burk, *Misappropriation of Trade Secrets in Biotechnology Licensing*, 4 Alb. L.J. Sci. & Tech. 121, 128-29 (1994)) ("Trade secret laws promote 'ethical' behavior among competing businesses by penalizing misappropriation of a competitor's proprietary information."); see also J. H. Reichman, *Beyond the Historical Lines of Demarcation: Competition Law, Intellectual Property Rights, and International Trade After the GATT's Uruguay Round*, 20 Brook. J. Int'l L. 75, 77 (1993) (discussing the role of trade secrets law as well as other intellectual property law in the economy).

²³ Neufeld, *supra* note 22, at 884.

²⁴ See *supra* notes 5-6.

²⁵ See Steven Wilf, *Trade Secrets, Property, and Social Relations*, 34 Conn. L. Rev. 787, 792 (2002) (indicating that "[r]ust-belt

industrial corporations, as well as information economy businesses,” are increasingly “valuing their knowledge assets,” including trade secrets and trademarks, to “attract investors and leverag[e] [their] assets”) (footnote omitted).

²⁶ See *id.*, at n.26 (comparing 18 U.S.C. §1839(3) (2000) (“[T]he term ‘trade secret’ means all forms and types of financial, business, scientific, technical, economic, or engineering information … memorialized physically, electronically, graphically, photographically, or in writing if … the owner thereof has taken reasonable measures to keep such information secret.”) (emphasis added), with 35 U.S.C. §101 (1994 & Supp. 2000) (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.”) (emphasis added)).

²⁷ See Miles J. Feldman, Comment, Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship, 9 High Tech. L.J. 151, 156 (1994) (citing pace of change in the computer industry and business as reasons that members of the industry frequently change jobs).

²⁸ See Readio, *supra* note 11, at 991; see also Henderson *supra* note 12, at 540 (citing Michael J. Hutter, Trade Secret Misappropriation: A Lawyer’s Practical Approach to the Case Law, 1 W. New Eng. L. Rev. 1, 3 (1978)) (“When key executives and technicians change jobs, they often take with them information acquired during the course of their previous employment. Frequently these employees do not hesitate to forward their former employers’ confidential information because their loyalties shift to their new employers.”).

²⁹ See Henderson, *supra* note 12, at 539.

³⁰ Peter C. Quittmeyer, Trade Secrets and Confidential Information Under Georgia Law, 19 Ga. L. Rev. 623, 626 (1985) (discussing the “balance between encouraging the development of useful ideas and promoting free competition in the exploitation of existing ideas”); Neufeld, *supra* note 22, at 885 (citing David D. Friedman et al., Some Economics of Trade Secret Law, 5 J. Econ. Persp. 61, 71 (1991)) (noting the efficiency properties of trade secret law); cf. Roger E. Meiners & Robert J. Staaf, Patents, Copyrights, and Trademarks: Property or Monopoly?, 13 Harv. J.L. & Pub. Pol'y 911, 926 (1990) (noting that exclusive rights prevent competitors from copying an invention without incurring any costs); Edmond Gabbay, Note, All The King’s Horses --Irreparable Harm In Trade Secret Litigation, 52 Fordham L. Rev. 804, 815 (1984) (stating that research and innovation are underlying policy rationales for the existence of trade secret law).

³¹ R. Mark Halligan, Trade Secrets and the Inevitable Disclosure Doctrine, in *Trade Secrets 2002: How to Protect Confidential Business & Technical Information* 145, 151 (Practising L. Inst. 2002).

³² Jager, *supra* note 3, §5:2 (quoting *Lear Siegler, Inc. v. Ark-Ell Springs, Inc.*, 569 F.2d 286, 289 (5th Cir. 1978)).

³³ U.S. Const. art. I, §8, cl. 8 (granting Congress the power to promote the progress of science and useful arts).

³⁴ See 35 U.S.C. §§100-105, 271-296 (2000) (patents); 17 U.S.C. §§101-121 (1994) (copyrights).

³⁵ Neufeld, *supra* note 22, at 886. See Henderson, *supra* note 12, at 542 (“The protection of trade secret rights has been based on a number of different theories”); Uhrich, *supra* note 7, at 155 (“Since it does not fit within the traditional federal scheme of granting protection in exchange for adding information to the public domain, trade secret protection has been left to the states to regulate.”); see also Mary Brandt Jensen, Comment, Softright: A Legislative Solution to the Problem of Users’ and Producers’ Rights in Computer Software, 44 La. L. Rev. 1413 (1984); Lowry, *supra* note 13, at 522.

³⁶ Uhrich, *supra* note 7, at 163.

³⁷ Uhrich, *supra* note 7, at 164.

³⁸ See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474 (1974) (holding that federal patent law of the United States did not preempt trade secret laws of the state of Ohio); see also *The Economic Espionage Act of 1996*, 18 U.S.C. §§1831-1839 (2000) (making certain trade secret misappropriations federal criminal offenses but not preempting state trade secret law, and relying heavily on state law concepts, particularly those contained in the UTSA); Robert P. Merges et al., *Intellectual Property in the New Technological Age* 20 (3d ed. 2003) (stating that there is no federal agency in existence to register or “issue” trade secrets).

³⁹ Henderson, *supra* note 12, at 542-43.

⁴⁰ See Dan L. Burk, *Misappropriation of Trade Secrets in Biotechnology Licensing*, 4 *Alb. L.J. Sci. & Tech.* 121, 125-26 (1994) (discussing the legal doctrines from which trade secret law has arisen).

⁴¹ *Peabody v. Norfolk*, 98 Mass. 452, 453-54 (1868).

⁴² *Id.* at 460.

⁴³ *Fowle v. Park*, 131 U.S. 88, 97 (1889) (holding that a property right existed in the secret ingredients of a medicine).

⁴⁴ 467 U.S. 986 (1984).

⁴⁵ *Id.* at 1003.

⁴⁶ Jager, *supra* note 3, §2:4, at 2-20 to -21; see also *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 493 (1974) (“Trade secret law and patent law have co-existed in this country for over one hundred years. Each has its particular role to play, and the operation of one does not take away from the need for the other. Trade secret law encourages the development and exploitation of those items of lesser or different invention than might be accorded protection under the patent laws, but which items still have an important part to play in the technological and scientific advancement of the Nation. 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. Congress, by its silence over these many years has seen the wisdom of allowing the States to enforce trade secret protection.”).

⁴⁷ Lisa A. Jarr, Note, *West Virginia Trade Secrets in the 21st Century: West Virginia’s Uniform Trade Secrets Act*, 97 *W. Va. L. Rev.* 525, 531 (1995).

⁴⁸ Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 *Marq. L. Rev.* 277, 309 (1980) (“[T]he evolution of trade secret law has proceeded along different lines in different jurisdictions.”); see also Neufeld, *supra* note 22, at 885 (citing *Rohm & Haas Co. v. Adco Chem. Co.*, 213 U.S.P.Q. 723, 751 (D.N.J. 1981) (stating that trade secret cases “are not marked by any discernible consistency” and “vary quite widely”), rev’d, 215 U.S.P.Q. 1081 (3d Cir. 1982)).

⁴⁹ See *E.I. Du Pont De Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917) (“The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them.”); *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134 (9th Cir. 1965) (involving the use of confidential information by former employees of Minnesota Mining to develop a machine put to use by Winston Research, where the court affirmed the trial court’s injunction restricting Winston from using the trade secrets for a period of two years, based on breach of confidence); Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 *U. Rich. L. Rev.* 313, 316-18 (1997) (discussing the role of breach of confidence in Anglo-American law).

⁵⁰ See Andrew Beckerman-Rodau, *Trade Secrets--The New Risk to Trade Secrets Posed by Computerization*, 28 Rutgers Computer & Tech. L.J. 227, 230 n.19 (2002) (citing Unif. Trade Secrets Act prefatory note (amended 1985), 14 U.L.A. 433 (2005)) (“The Prefatory Note to the Uniform Trade Secrets Act notes that common law trade secret law has been based on a variety of theories including property, quasi-contract and breach of fiduciary relationships.”).

⁵¹ See *supra* notes 33-39 and accompanying text.

⁵² Elizabeth A. Rowe, *When Trade Secrets Become Shackles: Fairness and the Inevitable Disclosure Doctrine*, 7 Tul. J. Tech. & Intell. Prop. 167, 191-92 (2005).

⁵³ Brandon B. Cate, Note, *Saforo & Associates, Inc. v. Porocel Corp.: The Failure of the Uniform Trade Secrets Act to Clarify the Doubtful and Confused Status of Common Law Trade Secret Principles*, 53 Ark. L. Rev. 687, 694-95, 701-04 (2000) (quoting Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 Cal. L. Rev. 241, 247 (1998)) (arguing that the adoption of the UTSA in nearly every state has not led to uniformity of laws among these states largely due to the fact that each state relies upon its historical case law when interpreting the UTSA).

⁵⁴ Cate, *supra* note 53, at 694-95; see Unif. Trade Secrets Act prefatory note (amended 1985), 14 U.L.A. 433 (2005).

⁵⁵ Klitzke, *supra* note 48, at 285-86.

⁵⁶ Cate, *supra* note 53, at 695; see also *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 623-24 (7th Cir. 1971) (citing Restatement (First) of Torts §757 cmt. b (1934)). Section 757 was omitted from the Restatement (Second) of Torts. Unif. Trade Secrets Act prefatory note (amended 1985), 14 U.L.A. 433 (2005). Trade secrets are now covered in the Restatement (Third) of Unfair Competition. Restatement (Third) of Unfair Competition §§39-45 (1995).

⁵⁷ Restatement (First) of Torts §757 cmt. b (1939).

⁵⁸ *Id.*

⁵⁹ See Klitzke, *supra* note 48, at 309.

⁶⁰ See Klitzke, *supra* note 48, at 309.

⁶¹ See *supra* notes 59-62 and accompanying text; see also Lowry, *supra* note 13, at 539-44.

⁶² See Jager, *supra* note 3, §3:28, at 3-72 to -73.

⁶³ Unif. Trade Secrets Act prefatory note (amended 1985), 14 U.L.A. 433 (2005).

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.* §1(4) (amended 1985).

⁶⁷ See *id.*, General Statutory Notes (illustrating variations among various state adoptions).

⁶⁸ Jager, *supra* note 3, §3:2, at 3-7; see Merges et al., *supra* note 38, at 29-30 (stating that the UTSA represents an attempt to codify the principles in the Restatement).

⁶⁹ See *supra* note 16 and accompanying text.

⁷⁰ See Merges et. al, *supra* note 38, at 20.

⁷¹ Scott D. Marrs & John W. Lyne, *When It's None of Their Business*, Legal Times, June 20, 2005 (noting that requirements are not as stringent for trade secrets compared to patented items, which must meet requirements for invention and novelty).

⁷² Feldman, *supra* note 27, at 153 ("Unlike the Restatement (First) definition, which emphasizes the use of information, the UTSA focuses on the information and expands the definition of a trade secret to include programs, methods, techniques, and processes. The UTSA also protects information that has either potential or actual value, and eliminates the requirement that a trade secret be used continuously in the holder's business. Therefore, the UTSA has expanded the definition of what constitutes a trade secret.") (footnote omitted).

⁷³ Restatement (First) of Torts §757 cmt. b (1939).

⁷⁴ Unif. Trade Secrets Act §1 cmt. (amended 1985), 14 U.L.A. 433 (2005) ("The definition of 'trade secret' contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be 'continuously used in one's business.' The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use."); see also Allison Coleman, *The Legal Protection of Trade Secrets* 20 (1992) (noting that some courts have rejected the Restatement view that information must be in "continuous use" to be a trade secret).

⁷⁵ Unif. Trade Secrets Act §1 cmt. (amended 1985) ("The definition [of 'trade secret'] 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"); see also Cal. Civ. Code §3426.1 cmt. (West 1987) (noting the proposed Act's departure from the Restatement).

⁷⁶ *USM Corp. v. Marson Fastener Corp.*, 393 N.E.2d 895, 903 (Mass. 1979) (construing the Restatement, the court states, "A plaintiff who may not claim trade secret protection either because it failed to take reasonable steps to preserve its secrecy or because the information, while confidential, is only 'business information' may still be entitled to some relief against one who improperly procures such information.").

⁷⁷ Compare Unif. Trade Secrets Act §1 (amended 1985) with Restatement (First) of Torts §757 (1939).

⁷⁸ Unif. Trade Secrets Act §1(4) (amended 1985).

⁷⁹ Restatement (First) of Torts §757 cmt. b. (1939).

⁸⁰ Unif. Trade Secrets Act §1 cmt. (amended 1985). "The efforts required to maintain secrecy are those 'reasonable under the circumstances.' The courts do not require that extreme and unduly expensive procedures be taken to protect trade secrets against flagrant industrial espionage." *Id.* See also *E. I. duPont deNemours & Co., Inc. v. Christopher*, 431 F.2d 1012, 1016-17 (5th Cir. 1970) (indicating that the law does not require the owner of a trade secret to guard against unanticipated, undetectable, or

unpreventable methods of misappropriation).

⁸¹ Cate, *supra* note 53, at 709; see also Feldman, *supra* note 27, at 154 (setting forth the principle that employees are entitled to use experience gained while working for a company in subsequent employment; “[i]f, however, an employee possesses confidential information or knowledge gained at the employer’s expense, the employee has a duty to maintain its secrecy.”).

⁸² Unif. Trade Secrets Act §3(a) (amended 1985).

⁸³ Jarr, *supra* note 47, at 526-27; see also Unif. Trade Secrets Act §2 (amended 1985) (a section of the UTSA that is devoted entirely to injunctive relief).

⁸⁴ Unif. Trade Secrets Act §1(4)(i) (amended 1985); see also Courtesy Temp. Serv., Inc. v. Camacho, 222 Cal. Rptr. 352, 358 (Cal. Ct. App. 1990) (holding that customer lists were trade secrets because they included information that was not readily ascertainable through public sources); Alamar Biosciences, Inc. v. Difco Labs., Inc., No. Civ-S-941856 DFL PAN, 1995 WL 912345, at *6 (E.D. Cal. Oct. 13, 1995) (stating that the failure to take prompt action to prevent trade secret misappropriation may go the merits of whether plaintiff has met the definition of a trade secret by reason of both the information not being generally known and plaintiff’s having exercised reasonable safeguards to maintain secrecy).

⁸⁵ Unif. Trade Secrets Act §1 cmt. (amended 1985).

⁸⁶ Unif. Trade Secrets Act §1(4)(i) (amended 1985) (“‘Trade secret’ means information ... 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....”).

⁸⁷ Unif. Trade Secrets Act §1(4)(ii) (amended 1985); see also Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731, 736 (Cal. Ct. App. 1997) (reasoning that the amount of effort an employer expends in protecting information will be considered when concluding whether that information is in fact a trade secret); Metro Traffic Control, Inc. v. Shadow Traffic Network, 27 Cal. Rptr. 2d 573, 578-79 (Cal. Ct. App. 1994) (holding an employee’s talents, qualities, and characteristics are not considered trade secrets, as these are not secret by nature).

⁸⁸ Burke, Kisicki, & Nickerson, *supra* note 18, at 542-43.

⁸⁹ Burke, Kisicki, & Nickerson, *supra* note 18, at 543.

⁹⁰ Vincent Chiapetta, Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law, 8 Geo. Mason L. Rev. 69, 78 (1999).

⁹¹ *Id.*; see also Feldman, *supra* note 27, at 155 (“Where the employer fails to take reasonable precautions to protect the secrecy of its computer operations, an employee has no duty to maintain confidentiality.”); see also *infra* notes 103-135.

⁹² Model Jury Instructions: Business Torts Litigation §8.3.2, at 401 (Ian H. Fisher & Bradley P. Nelson eds., 4th ed. 2005); see also 1 Roger M. Milgrim, *Milgrim on Trade Secrets* §1.04, at 1-259 (2007) (“[T]o determine if secrecy has been maintained, the trier of fact must consider the entirety of circumstances surrounding use.”).

⁹³ See *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1199 (5th Cir. 1986) (“One’s subjective belief of a secret’s existence suggests that the secret exists. Security measures, after all, cost money; a manufacturer therefore presumably would not incur these costs if it believed its competitors already knew about the information involved.”); *Alamar Biosciences, Inc. v. Difco Labs., Inc.*, No. Civ-S-941856 DFL PAN, 1995 WL 912345, at *6 (E.D. Cal. Oct. 13, 1995).

⁹⁴ See Wilf, *supra* note 25, at 793 n.31 (“Confidential information that does not rise to the level of trade secret is by definition either worthless, generally known or readily ascertainable, or not the subject of reasonable secrecy efforts.”) (quoting *IDX Sys. Corp. v. Epic Sys. Corp.*, 165 F. Supp. 2d 812, 820 (W.D. Wis. 2001)).

⁹⁵ Restatement (Third) of Unfair Competition §39 cmt. e (1995) (setting forth the following as illustrative of the value of a trade secret: a) precautions taken to protect secrecy, b) willingness of others to pay for access, c) plaintiff’s investment in the production of the trade secret, and d) use of trade secrets in the operation of the plaintiff’s business).

⁹⁶ *Amoco Production v. Laird*, 622 N.E. 2d 912, 914 (Ind. 1993).

⁹⁷ *Id.* at 915.

⁹⁸ *Id.* at 920.

⁹⁹ See *id.* at 918, 920 (finding that while the information utilized was “easily accessible” in the public domain, the ultimate compilation of information was worthy of trade secret protection).

¹⁰⁰ *Id.* at 916 (quoting *Henderson*, *supra* note 12, at 551).

¹⁰¹ Model Jury Instructions, *supra* note 92, §8.3.2, at 401.

¹⁰² Wilf, *supra* note 25, at 791.

¹⁰³ See *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 180 (7th Cir. 1991) (noting that although the plaintiff took some precautions the question remained as to whether added precautions were required to meet the reasonable efforts requirement); see also *infra* notes 111-42.

¹⁰⁴ Unif. Trade Secrets Act §1 cmt. (amended 1985), 14 U.L.A. 433 (2005).

¹⁰⁵ Chiapetta, *supra* note 90, at 77.

¹⁰⁶ See Scott M. Alter, *Trade Secrets and Telecommunications: The Problems with Local Area Networks*, 31 IDEA 297, 311 (1991) (noting that absolute secrecy is not required).

¹⁰⁷ *Aries Info. Sys., Inc. v. Pac. Mgmt. Sys. Corp.*, 366 N.W.2d 366 (Minn. Ct. App. 1985).

¹⁰⁸ *Id.* at 367-68.

¹⁰⁹ *Id.* at 368-69.

¹¹⁰ *Id.* at 368; see also *E.I. duPont deNemours & Co., Inc. v. Christopher*, 431 F.2d 1012, 1016-17 (5th Cir. 1970) (indicating that the law does not require the owner of a trade secret to guard against unanticipated, undetectable or unpreventable methods of misappropriation).

¹¹¹ See Amy Zuber, Chicken Flap Ends as KFC Drops Recipe Lawsuit, Nation's Restaurant News, Feb. 12, 2001, http://www.findarticles.com/p/articles/mi_m3190/is_7_35/ai_70778130.

¹¹² Id. KFC Corp. ultimately dismissed the lawsuit after concluding the Settles recipe was not the one used by KFC. Id.

¹¹³ Wilf, *supra* note 25, at 794 (citing 2 Milgrim, *supra* note 92, §6.01); see also Halligan, *supra* note 31, at 153 ("There has always been a tension in the law between the employer's right to protect trade secrets and the employee's right to pursue his or her livelihood.").

¹¹⁴ See Jager, *supra* note 3, §4:1, at 4-2 (describing that plaintiffs use the contract to advance a damage claim for the misappropriation of trade secrets most often when an express contract exists or when a contract could be reasonably implied from the facts).

¹¹⁵ See Cate, *supra* note 53, at 709 (arguing that the Restatement has not displaced the UTSA's factors when considering whether information merits trade secret protection, and noting that although the UTSA does not necessitate a confidential relationship to prove misappropriation of a trade secret, a number of courts applying the UTSA have indicated a confidential relationship can and will be inferred in certain situations); see also Surgidev Corp. v. Eye Tech., Inc., 828 F.2d 452, 455 (8th Cir. 1987) (noting that the trade secret issues are governed by Minnesota and California law and affirming a lower court finding that Surgidev exercised sufficiently reasonable efforts to protect trade secrets by requiring employees to sign nondisclosure agreements, restricting visitor access, and keeping customer documents in locked files).

¹¹⁶ Burke, Kisicki, & Nickerson, *supra* note 18, at 589.

¹¹⁷ See United Prods. Corp. v. Transtech Mfg., Inc., No. 4051 Aug. Term 2000, 2000 WL 33711051, at *12 (Pa. Ct. Com. Pl. Nov. 9, 2000) ("The confidentiality agreements do not create or broaden the [trade secret] protection, but are evidence of the confidential nature of the data involved."); see also MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511, 521 (9th Cir. 1993) (holding that a requirement that employees sign confidentiality agreements was enough to demonstrate "reasonable steps" to preserve secrecy); Henderson, *supra* note 12, at 562 ("To insure protection [of trade secret information] it is therefore essential that an employer follow the two-step procedure of: (1) defining his or her proprietary information; and (2) confidentially imparting a specific definition of that information to employees whose assistance is vital to its valuable use. Execution of this two-step procedure should achieve two goals: (1) employees will be on notice of the existence and scope of the trade secret; and (2) a duty of confidentiality in the employees will be created by virtue of the employer's effort to convey the confidentiality of the information in question. In addition, the UTSA requirement of 'reasonable efforts' to maintain the secrecy of the information should be satisfied.") (footnotes omitted).

¹¹⁸ See Emery Indus., Inc. v. Cottier, 202 U.S.P.Q. 829, 836 (S.D. Ohio 1978) (considering interests of employer and employee as related to enforcing a non-compete agreement in an employment agreement); By-Buk Co. v. Printed Cellophane Tape Co., 329 P.2d 147, 151 (Cal. Dist. Ct. App. 1958) (indicating a duty to maintain the secrets of an employer are implied by law and viewing it as impossible to envision an employer-employee relationship where an employee would be "licensed to steal [the employer's] secrets").

¹¹⁹ See Burke, Kisicki, & Nickerson, *supra* note 18, at 590 (citing MAI Sys. Corp. v. Peak Computer, Inc., 991 F.2d 511 (9th Cir. 1993); Religious Tech. Center v. Netcom On-Line Commc'n Servs., Inc., 923 F. Supp. 1231 (N.D. Cal. 1995); Am. Credit Indem. Co. v. Sacks, 262 Cal. Rptr. 92 (Cal. Ct. App. 1989)).

¹²⁰ Morlife, Inc. v. Perry, 66 Cal. Rptr. 2d 731, 735-36 (Cal. Ct. App. 1997).

¹²¹ See IAC, Ltd. v. Bell Helicopter Textron, Inc., 160 S.W.3d 191 (Tex. App.--Fort Worth 2005, no pet.).

¹²² See Sunbelt Rentals, Inc. v. Head & Engquist Equip., LLC, No. 00-CVS-10358, 2002 WL 31002955 (N.C. Super. Ct. July 10, 2002).

¹²³ See *Stone v. Williams Gen. Corp.*, 597 S.E.2d 456, 459 (Ga. Ct. App. 2004), rev'd on other grounds, 614 S.E.2d 758 (Ga. 2005).

¹²⁴ See *Rockwell Graphic Sys., Inc. v. DEV Indus., Inc.*, 925 F.2d 174, 177 (7th Cir. 1991).

¹²⁵ *Id.* at 180.

¹²⁶ *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 521 (9th Cir. 1993).

¹²⁷ *Id.*

¹²⁸ See *Unif. Trade Secrets Act* §1 cmt. (amended 1985), 14 U.L.A. 433 (2005).

¹²⁹ *Sw. Whey, Inc. v. Nutrition 101, Inc.*, 117 F. Supp. 2d. 770, 779-80 (C.D. Ill. 2000).

¹³⁰ *In re Dippin' Dots Patent Litig.*, 249 F. Supp. 2d 1346, 1376 (N.D. Ga. 2003).

¹³¹ *Zemco Mfg., Inc. v. Navistar Int'l Transp. Corp.*, 759 N.E.2d 239, 246, 249-50 (Ind. Ct. App. 2001).

¹³² See 1 Milgrim, *supra* note 92, §1.05[2], at 1-319 (noting that the absence of a contract ensuring confidentiality may destroy trade secret protection); see also *Vasquez v. Ybarra*, 150 F. Supp. 2d 1157, 1172 (D. Kan. 2001) (holding that there was no misappropriation of trade secrets when a Mexican restaurant competed with another by hiring the other's cooks--despite claims that cooks used information regarding menus, timing of supply orders, selection of suppliers, and popularity of various items that constituted trade secrets--because the cooks were not informed that any information they acquired was confidential and restricted); see also, e.g., *Gemisys Corp. v. Phoenix Am. Inc.*, 50 U.S.P.Q.2d 1876 (N.D. Cal 1999) (holding that a contract was sufficient to show reasonable efforts vis à vis an employer's employees, but the employer failed to follow the requirements of its own agreement by identifying the information as confidential, and therefore the safeguards were inadequate); *Secure Servs. Tech., Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354, 1359-62 (E.D. Va. 1989) (holding the plaintiff abandoned its right to trade secret protection of features in a fax machine when it provided the machine to the government with no contractual restrictions); *Tyson Foods, Inc. v. ConAgra, Inc.*, 79 S.W.3d 326, 330-32 (Ark. 2002) (holding Tyson had not engaged in reasonable measures to ensure secrecy, as the corporate code of conduct it adopted to protect trade secrets did not qualify as an agreement between Tyson and its employees not to disclose the particular trade secrets); *Moss. v. O.E. Clark Paper Box Co.*, No. B152258, 2002 WL 849940, at *5 (Cal. Ct. App. May 3, 2002) (finding information was not a trade secret as it was readily ascertainable, freely supplied without a duty of confidentiality, and not the plaintiff's information, but another employer's).

¹³³ See *Fleming Sales Co., Inc. v. Bailey*, 611 F. Supp. 507, 511 (N.D. Ill. 1985).

¹³⁴ *Id.* At 512-13; see also *Marshall v. Gipson Steel, Inc.*, 806 So. 2d 266, 272 (Miss. 2002) (holding that the evidence supported the determination that a bid estimation process was subject to reasonable efforts to preserve its secrecy despite the employee never being bound to any sort of nondisclosure agreement, since key elements of the information were never released, bid packets were kept in filing cabinets in controlled area, older files were kept either in monitored area or in locked metal building, and only three employees had access to computer terminals in which program was stored).

¹³⁵ See *Fishing Concepts v. Ross*, 226 U.S.P.Q. 692, 695 (D. Minn. 1985) (commenting that trade secret law does not protect information that the employer voluntarily reveals); *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 901-02 (Minn. 1983) (holding that the trade secret owner failed to establish measures which would have given rise to the appropriate duty of confidentiality despite asking some of its employees to sign confidentiality agreements because the owner treated the information at issue as non-secret).

¹³⁶ See *Electro-Craft Corp.*, 332 N.W.2d at 902-03 (noting examples of the trade secret owner's failure to adhere to requirements in that technical documents were not marked "confidential," drawings and parts were sent to third parties without special marking, and employee access to documents was unrestricted).

¹³⁷ See *Hickory Specialties, Inc. v. Forest Flavors Int'l*, 26 F. Supp. 2d 1029, 1032 (M.D. Tenn. 1998) (holding that the routine practice of having employees sign contracts promising not to divulge confidential information will not warrant trade secret protection unless the information is secret, business-related, and competitively advantageous to the employer); *United Prods. Corp. v. Transtech Mfg., Inc.*, No. 4051 Aug. Term 2000, 2000 WL 33711051, at *13 (Pa. Ct. Com. Pl. Nov. 9, 2000) (holding that a design is not a trade secret if it is in public view and susceptible to reverse engineering).

¹³⁸ Restatement (Third) of Unfair Competition §40 (1995).

¹³⁹ *K&G Oil Tool & Serv. Co., Inc. v. G & G Fishing Tool Serv.*, 314 S.W.2d 782, 787 (Tex. 1958).

¹⁴⁰ See *infra* notes 159-93 and accompanying text regarding damages.

¹⁴¹ 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, 123 (2005); see also *id.* at 163 ("If lawsuits to enforce trade secret clauses related to mass distributed information are seen for what they really are--breach of contract actions and not trade secret infringement claims--then the plaintiffs in such cases must meet the requirements imposed by the law of contracts.").

¹⁴² See *id.* at 123-24. Sandeen also argues that emotion plays a part in trade secret cases: "Trade secret cases are often presented in a rush, on a motion for preliminary relief, amid claims that the plaintiff's business will be 'ruined' unless its trade secret claims are allowed. With or without an understanding of the trade secret law, most people react negatively to such assertions particularly when it is also alleged that an express agreement of confidentiality has been breached." *Id.* at 127-28.

¹⁴³ Unif. Trade Secrets Act §§2-3 (amended 1985).

¹⁴⁴ Chiapetta, *supra* note 90, at 79; see also 4 Milgrim, *supra* note 92, §15.02(1)(a).

¹⁴⁵ Halligan, *supra* note 31, at 155.

¹⁴⁶ See Jarr, *supra* note 47, at 542-43; see also Jude A. Thomas, *Trade Secret Injunctions: Contemporary Issues and Public Policy Considerations* 9-10, http://www.judethomas.com/prof_pages/tradesecrets_web.pdf ("Because an injunction is frequently the only reasonable measure which can be used to protect a plaintiff's issues when confronted with the misappropriation (or the threat of misappropriation) of a trade secret, courts often tailor their analyses to find some means by which to allow an injunction.") (last visited Oct. 28, 2007).

¹⁴⁷ Unif. Trade Secrets Act §3(a) (amended 1985), 14 U.L.A. 433 (2005).

¹⁴⁸ Unif. Trade Secrets Act §3 cmt. (amended 1985); see also *Yeti by Molly Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1107-08 (9th Cir. 2001) (finding plaintiff had proven \$1.8 million in lost profits and lost business opportunities); *Sands, Taylor & Wood v. Quaker Oats Co.*, 34 F.3d 1340, 1345 (7th Cir. 1994) (noting a royalty based approach was possible if calculating the plaintiff's lost profits was not feasible); *Rohm and Haas Co. v. Adco Chem. Co.*, 689 F.2d 424, 433-34 (3d Cir. 1982) (awarding damages of lost profit arising in New Jersey); *Clark v. Bunker*, 453 F.2d 1006, 1011 (9th Cir. 1972) (awarding damages of lost profits arising in the Ninth Circuit); *Eagle Group, Inc. v. Pullen*, 58 P.3d 292, 298 (Wash. Ct. App. 2002) (finding actual loss under the UTSA could include the reasonable value of business opportunities, with reasonable probability of profits in the future); *Erik Elec. Co. v. Elliot*, 375 So. 2d 1136 (Fla. Dist. Ct. App. 1979) (awarding damages of lost profits arising in Florida).

¹⁴⁹ See *Pioneer Hi-Bred Int'l v. Holden Found. Seeds, Inc.*, 35 F.3d 1226 (8th Cir. 1994); *Kilbarr Corp. v. Business Sys. Inc.*, 679 F. Supp. 422 (D.N.J. 1988).

¹⁵⁰ Unif. Trade Secrets Act §3 cmt. (amended 1985) (citing *Tri-Tron Int'l v. Velt*, 525 F.2d 432 (9th Cir. 1975) (holding that complainant's loss and misappropriator's benefit can be combined)); see also *Litton Sys., Inc. v. Ssangyong Cement Indus. Co.*, No. C-89-3832 VRW, 1993 WL 317266, at *2 (N.D. Cal. Aug. 19, 1993) (holding that unjust enrichment principles may apply when the defendant's expected profits are too difficult to ascertain).

¹⁵¹ *Telex Corp. v. IBM Corp.*, 510 F.2d 894, 930 (10th Cir. 1975) (citing *Int'l Indus., Inc. v. Warren Petroleum Corp.*, 248 F.2d 696, 699 (3d Cir. 1957)).

¹⁵² See Restatement (Second) of Contracts §§347-349 (1981).

¹⁵³ *Id.* §§344, 347-48 (describing the remedies for breach of contract, the expectation interest of damages, and the alternate measure of damages based on the party's reliance interest).

¹⁵⁴ *Id.*; see also 3 E. Allan Farnsworth, *Farnsworth on Contracts* §12.1, at 154 (Aspen Pub. 3d ed. 1990) (1982) (describing the difference between expectation interests and reliance interests).

¹⁵⁵ See *Sec. Stove & Mfg. Co. v. Am. Rys. Express Co.*, 51 S.W.2d 572, 575-76 (Mo. Ct. App. 1932) (holding the manufacturer could not prove the profits lost and therefore, the court limited the recovery to expenditures the plaintiff had made in reliance on the other party's promise); see also *Scott v. Grinnell Mut. Reinsurance Co.*, 653 N.W.2d 556, 562-63 (Iowa 2002) (focusing on reliance damages where the injured party could not offer proof of lost profits or opportunities).

¹⁵⁶ The U.C.C. is one of a number of uniform acts that have been promulgated in conjunction with efforts to harmonize the law of sales and other commercial transactions in 49 states (all except Louisiana). Wikipedia, Uniform Commercial Code, http://en.wikipedia.org/wiki/Uniform_Commercial_Code (last visited July 24, 2007). The U.C.C. is not itself the law, but only a recommendation of the laws that should be adopted in the states. Once enacted in a state by the state's legislature, it becomes law. *Id.* Developmental versions of the U.C.C. are available at <http://www.nccusl.org>.

¹⁵⁷ See Legal Information Institute, U.C.C. Locator (Mar. 15, 2004), <http://www.law.cornell.edu/uniform/ucc.html#a2> (containing links to the various states codes corresponding to the U.C.C.).

¹⁵⁸ See U.C.C. §1-106(1) cmt. a (2004).

¹⁵⁹ See Cal. Com. Code §§2701-2725 (West 2002). This article refers to the California Commercial Code when providing U.C.C. citations. California adopted the U.C.C. in 1963; thus over 40 years of case law interpreting it exists. California Commercial Code, Stats. 1963, c. 819.

¹⁶⁰ See Cal. Com. Code §§2710, 2715(1) (West 2002). The California Commercial Code defines incidental damages as "damages to an aggrieved seller includ[ing] any commercially reasonable charges, expenses or commissions incurred in stopping delivery, in the transportation, care and custody of goods after the buyers' breach, in connection with return or resale of the goods or otherwise resulting from the breach." *Id.* §2710. The California Commercial Code goes on to state, "Incidental damages resulting from the seller's breach include expenses reasonably incurred in inspection, receipt, transportation and care and custody of goods rightfully rejected, any commercially reasonable charges, expenses or commissions in connection with effecting cover and any other reasonable expense incident to the delay or other breach." *Id.* §2715.

¹⁶¹ See *Hadley v. Baxendale*, 156 Eng. Rep. 145, 9 Ex. 341, 347 (Exch. 1854); Black's Law Dictionary 416 (8th ed. 2004) (defining consequential damages as "[l]osses that do not flow directly and immediately from an injurious act but that result indirectly from the act.").

¹⁶² Cal. Com. Code §2715(2) (West 2002).

¹⁶³ See Arntz Contracting Co. v. St. Paul Fire & Marine Ins. Co., 54 Cal. Rptr. 2d 888, 903 (Cal. Ct. App. 1996); Resort Video, Ltd. v. Laser Video, Inc., 42 Cal. Rptr. 2d 136, 146 (Cal. Ct. App. 1995); S. C. Anderson, Inc. v. Bank of Am., 30 Cal. Rptr. 2d 286, 289 (Cal. Ct. App. 1994); Sun-Maid Raisin Growers of Cal. v. Victor Packing Co., 194 Cal. Rptr. 612, 614 (Cal. Ct. App. 1983) (all cases providing for or discussing lost profits under the California Commercial Code as a component of consequential damages).

¹⁶⁴ See supra notes 143-51 and accompanying text on trade secret damages.

¹⁶⁵ See U.C.C. §1-106(1) (2004) (“The remedies provided by this act shall be liberally administered to the end that the aggrieved party may be put in as good a position as if the other party had fully performed but neither consequential or special nor penal damages may be had except as specifically provided in this code or by other rule of law.”); Restatement (Second) of Contracts §347 (1981) (“Subject to the limitations stated in §§350-53, the injured party has a right to damages based on his expectation interest as measured by (a) the loss in the value to him of the other party’s performance caused by its failure or deficiency, plus (b) any other loss, including incidental or consequential loss, caused by the breach, less (c) any cost or other loss that he has avoided by not having to perform.”); see also David W. Barnes, *The Meaning of Value in Contract Damages and Contract Theory*, 46 Am. U. L. Rev. 1, 24-29 (1996) (discussing the U.C.C. approach and the Restatement approach).

¹⁶⁶ See supra notes 147-51 and accompanying text.

¹⁶⁷ See Unif. Trade Secrets Act §3 cmt. (amended 1985), 14 U.L.A. 433 (2005) (providing further explanation of monetary damages). Other cases have awarded damages other than lost profits. See, e.g., *Tri-Tron Int’l v. Velto*, 525 F.2d 432 (9th Cir. 1975) (holding that complainant’s loss and misappropriator’s benefit may be combined); *Purple Onion Foods, Inc. v. Blue Moose of Boulder, Inc.*, 45 F. Supp. 2d 1255 (D.N.M. 1999) (holding that damages in a trade secret misappropriation case are not limited to lost profits, and may also include disgorgement of any profits earned from the use of misappropriated trade secrets); *Basic Am., Inc. v. Shatila*, 992 P.2d 175 (Idaho 1999) (holding that damages for unjust enrichment award in favor of the manufacturer of dehydrated potato products against a competitor included the competitor’s gross sales, less associated costs, with the percentage of the competitor’s general and administrative expenses included within associated costs); *Sonoco Prods. Co. v. Johnson*, 23 P.3d 1287 (Colo. Ct. App. 2001) (awarding \$6.9 million in direct and punitive damages, as this amount was considered to be the amount the misappropriating party avoided in research and development costs by misappropriating the trade secret owners’ information).

¹⁶⁸ See Unif. Trade Secrets Act §3 cmt. (amended 1985); see also *Pro-Comp Mgmt., Inc. v. R.K. Enters., LLC*, No. 05-459, 2006 WL 1516453, at *3-4 (Ark. June 1, 2006) (remanding a trade secret misappropriation case to determine damages under unjust enrichment); *Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co.*, 407 N.E.2d 319, 327 (Mass. 1980) (“[T]he appropriate measure of damages in this case was the greater of the plaintiff’s lost profits or the defendant’s gain”).

¹⁶⁹ See *Roton Barrier, Inc. v. Stanley Works*, 79 F.3d 1112, 1120 (Fed. Cir. 1996); see also *Jet Spray Cooler, Inc. v. Crampton*, 385 N.E.2d 1349, 1363 (Mass. 1979) (holding, in this pre-UTSA case, that the plaintiff’s damages in a trade secret misappropriation case may also be measured by the defendant’s profits, particularly mentioning it as a useful measurement of damages where the plaintiff has not shown that it has lost any profits, and the only advantage to the defendant is that it saved time in developing a new product).

¹⁷⁰ See *World Wide Prosthetic Supply, Inc. v. Mikulsky*, 640 N.W.2d 764, 766-70 (Wis. 2002) (holding that “actual losses” as permitted to be recovered under the UTSA include the seller’s lost profits resulting from another company’s manufacture and distribution of a defective product incorporating seller’s trade secret).

¹⁷¹ *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974).

¹⁷² *Id.* at 536.

173 Id. at 539.

174 See *L. P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 277 U.S. 97, 99-100 (1928) (“To call the infringer an agent or trustee is not to state a fact but merely to indicate a mode of approach and an imperfect analogy by which the wrongdoer will be made to hand over the proceeds of his wrong.”).

175 See *Marc J. Zwillinger & Christian S. Genetski, Calculating Loss Under the Economic Espionage Act of 1996*, 9 *Geo. Mason L. Rev.* 323, 328 (2000); see also *Smith v. Dravo Corp.*, 208 F.2d 388, 391 (7th Cir. 1953) (holding that the plaintiffs in a trade secret case were entitled, under equitable principles, to interest on the amount of their lost investment, even though the allowance may not have been within the terms of the statute).

176 Unif. Trade Secrets Act §3(b) (amended 1985), 14 U.L.A. 433 (2005) (“If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a.”); see also Unif. Trade Secrets Act §3 cmt. (amended 1985); *Conseco Fin. Servicing Corp. v. N. Am. Mortgage Co.*, 381 F.3d 811, 825 (8th Cir. 2004) (holding that the \$7 million damage award was sufficiently punitive without violating notions of fundamental fairness).

177 *Cherne Indus., Inc. v. Grounds & Assocs.*, 278 N.W.2d 81, 95 (Minn. 1979) (holding that generally “punitive damages are not recoverable in action for breach of contract”; however, if the damages flow instead from a tort, and the breaching party acted with malice, such damages are available); *Johnson v. Radde*, 196 N.W.2d 478, 480 (Minn. 1972) (stating that the general rule is to award only pecuniary damages in actions for breach of contract and that exemplary damages may be recovered only in exceptional cases).

178 See *Dozor Agency, Inc. v. Rosenberg*, 218 A.2d 583, 585-86 (Pa. 1966) (ordering the Chancellor to reappraise the damages awarded to the plaintiff, taking into account plaintiff’s out-of-pocket expenses and employee salaries).

179 See U.C.C. §2-715 (2004); Restatement (Second) of Contracts §351 (1981); see also *Hadley v. Baxendale*, 156 Eng. Rep. 145, 9 Ex. 341, 347 (Exch. 1854) (limiting damages to those that are foreseeable).

180 See Restatement (Second) of Contracts §352 (1981).

181 See U.C.C. §1-106 cmt. 1 (2004) (“Compensatory damages are often at best approximate: they have to be proved with whatever definiteness and accuracy the facts permit, but no more.”).

182 See Restatement (Second) of Contracts §352 (1981); see also Cal. Civ. Code §3301 (West 2007) (requiring that damages must be certain); *McDonald v. John P. Scripps Newspaper*, 257 Cal. Rptr. 473, 475-76 (Cal. Ct. App. 1989) (denying damages for being speculative); *Mistletoe Express Serv. v. Locke*, 762 S.W.2d 637, 639 (Tex. App.—Texarkana 1988, no pet.) (awarding reliance damages as opposed to expectation damages, as what would occur in the future was deemed too speculative); *Anglia Television Ltd. v. Reed*, 1 Q.B. 60 (C.A. 1971) (refusing an award based on lost profits as these damages were too speculative). See generally *Charles Knapp, Commercial Damages: A Guide to Remedies in Business Litigation* §5.04 (1987) (discussing the certainty requirement for damages).

183 U.C.C. §2-715 (2004) (requiring seller to have a “reason to know” the buyer’s requirements and needs for the buyer to recover consequential damages); Restatement (Second) of Contracts §351 (1981) (denying recovery of damages that breaching party did not have reason to foresee); see *Knapp*, *supra* note 182, §5.02[3] (stating that foreseeability can be proved by way of actual knowledge of the breach party at the time of making the contract or by the general nature of the buyer’s business or the particular transaction).

184 See *supra* notes 143-51 and accompanying text.

185 *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 538 (5th Cir. 1974) (“Our review of the case law leads us to the

conclusion that every case requires a flexible and imaginative approach to the problem of damages.”); see also *K-Sun Corp. v. Heller Invs., Inc.*, No. C4-97-2052, 1998 WL 422182, at *4 (Minn. Ct. App. July 28, 1998) (allowing for damages to be supported by reasonable estimates based in fact).

¹⁸⁶ Unif. Trade Secrets Act §3(a) (amended 1985), 14 U.L.A. 433 (2005); see also *Cacique, Inc. v. Robert Reiser & Co., Inc.*, 169 F.3d 619, 623 (9th Cir. 1999) (“[R]easonable royalty is reserved for those instances where the court finds that neither actual damages to the holder of the trade secret nor unjust enrichment to the user is provable.”) (quoting *Morlife, Inc. v. Perry*, 66 Cal. Rptr. 2d 731, 740 (Cal. Ct. App. 1997)). But see *Houston Mercantile Exch. Corp. v. Dailey Petroleum Corp.*, 930 S.W.2d 242, 248 (Tex. App.—Houston [14th Dist.] 1996, no pet.) (stating that the plaintiff must show by “competent evidence with reasonable certainty” that the defendant’s misappropriation caused the loss, and the loss estimate must be based on “objective facts, figures, or data”).

¹⁸⁷ See *Larsen v. Walton Plywood Co.*, 390 P.2d 677, 687-88 (Wash. 1964) (awarding lost profits to a new business with no history upon which to base a calculation of lost profits); *Eagle Group, Inc. v. Pullen*, 58 P.3d 292, 298 (Wash. Ct. App. 2002) (holding that expert testimony formed a sufficient basis to award lost profits where the plaintiff was a new business with no profit history).

¹⁸⁸ Cf. *Farnsworth*, *supra* note 154, §10.1, at 3-4 (citing unusual cases of successful attempts to enforce a contract by a person other than one of the contracting parties).

¹⁸⁹ See *Jager*, *supra* note 3, §7:20, at 7-92 (citing *Computer Print Sys., Inc. v. Lewis*, 422 A.2d 148, 212 (Pa. Super. Ct. 1980)).

¹⁹⁰ See Cal. Civ. Code §3426.1(b)(2)(B) (West 2007); *Injection Research Specialists, Inc. v. Polaris Indus., L.P.*, Nos. 97-1516, 97-1545, 97-1557, 1998 WL 536585, at *10 (Fed. Cir. Aug. 13, 1998) (“Under this statutory standard, the relevant inquiry is whether Polaris ‘knew or had reason to know’ that it was acquiring information from Injection Research under circumstances giving rise to a duty to maintain its secrecy or limit its use.”).

¹⁹¹ See *PMC, Inc. v. Kadisha*, 93 Cal. Rptr. 2d 663, 676-78 (Cal. Ct. App. 2000) (articulating a theory of officer and director liability when a new business is the beneficiary of trade secret misappropriation or other unlawful conduct).

¹⁹² See *Farnsworth*, *supra* note 154, §12.8, at 190 & n.5 (citing *Bunnell v. Smallwood*, 793 P.2d 157 (Colo. 1990) (holding that a non-breaching party is not entitled to award of attorney fees absent contractual, statutory, or rule authorization)); see also Cal. Civ. Code §1717 (West 2007) (providing attorney fees and costs in contract case if specifically provided in the contract).

¹⁹³ Unif. Trade Secrets Act §4 (amended 1985), 14 U.L.A. 433 (2005); see also *id.* §4 cmt. (“Section 4 allows a court to award attorney fees to a prevailing party in specified circumstances as a deterrent to a specious claims of misappropriation....”).

¹⁹⁴ See, e.g., *Morrow v. L.A. Goldschmidt Assocs., Inc.*, 492 N.E.2d 181, 183-86 (Ill. 1986) (denying punitive damages because the plaintiff’s complaint did not state a cause of action for tort); see also *Tex. Tanks, Inc. v. Owens-Corning Fiberglas Corp.*, 99 F.3d 734, 740 (5th Cir. 1996), withdrawn, 99 F.3d 740 (holding that evidence that the defendant began its own design one week after receiving plaintiff’s prototype, completed its design within six weeks rather than the originally estimated two years, and included copies of the plaintiff’s trade secrets in defendant’s own invention record sufficiently justified the jury’s award of punitive damages for theft of trade secrets).

¹⁹⁵ Unif. Trade Secrets Act §3 cmt. (amended 1985); see also *World Wide Prosthetic Supply, Inc. v. Mikulsky*, 640 N.W.2d 764, 769 (Wis. 2002); *Minuteman, Inc. v. Alexander*, 434 N.W.2d 773, 777 (Wis. 1989) (each case discussing the types of damages, including punitive damages, appropriate in a claim under the UTSA).

¹⁹⁶ Mark J. Bereyso, *Damages in Commercial Litigation: Plaintiff’s Viewpoint*, Part III.B.2 (July 25, 1996), http://www.bereysolaw.com/articles_1.shtml (last visited Sept. 9, 2007) (on file with Journal).

¹⁹⁷ Bone, *supra* note 14, at 244-45.

198 Micro Data Base Sys., Inc. v. Dharma Sys., Inc., 148 F.3d 649, 658 (7th Cir. 1998).

199 World Wide Prosthetic Supply, Inc. v. Mikulsky, 631 N.W.2d 253, 257-58 (Wis. Ct. App. 2001) (concluding that actual loss in a trade secret case included lost profits which resulted from the defendant's manufacture and distribution of a defective product incorporating the plaintiff's trade secret, and holding that in the absence of interpretive decisions from within the forum state, the court may look to UTSA decisions from other jurisdictions for guidance), aff'd, 640 N.W.2d 764 (Wis. 2002).

200 Id. at 259 (citing Micro Data Base Sys., 148 F.3d at 658).

201 Id.

202 See World Wide Prosthetic Supply, 640 N.W.2d at 770-72.

203 In World Wide Prosthetic, the claim for breach of contract was dismissed at summary judgment, and so was not related to the award of trade secret damages. 640 N.W.2d at 766 n.3.

204 See generally 2 Dan B. Dobbs, *Law of Remedies* §10.5(3), at 692 (2d ed. 1993) (indicating that consequential damages are available in trade secret cases).

205 Bereyso, *supra* note 196, at Part III.B.2.

206 Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518, 538 (5th Cir. 1974).

207 See Merges et al., *supra* note 38, at 31-35 (discussing "duty-based theory" or "the maintenance of commercial morality"); see also *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986) (specifically tying judgment to equitable notions of "fairness"); *E.I. duPont deNemours & Co., Inc. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970) (noting that industrial competition cannot "force [the court] into accepting the law of the jungle as the standard of morality expected in our commercial relations"); *Model Jury Instructions*, *supra* note 92, §8.1, at 387 (stating that public policies governing trade secret misappropriation reflect "the desire to maintain commercial standards of ethics among business competitors, and the desire to allow for as much free competition and entrepreneurial activity as possible").

208 *Michels v. Dyna-Kote Indus., Inc.*, 497 N.E.2d 586, 587 (Ind. Ct. App. 1986).

209 Id. at 587-88.

210 Id. Following a hearing on Dyna-Kote's motion for a preliminary injunction, the trial court ordered that Michels turn over a number of chemical formulas and mixing instructions he had helped develop while an employee of the company and refrain from using them in any way. *Id.*

211 *Id.* at 588-89 (noting that in the trial court, Dyna-Kote had argued, and the trial court had accepted, that formulas and their mixing instructions could be properly classified as "trade secrets," as defined under the Indiana UTSA (citing Ind. Code Ann. §24-2-3-2 (West 2006))).

212 *Id.* at 589 (citing Ind. Code Ann. §24-2-3-1(c) (West 2006)).

²¹³ Michels v. Dyna-Kote Indus., Inc., 497 N.E.2d 586, 590-91 (Ind. Ct. App. 1986).

²¹⁴ See Joseph M. Perillo, Calamari and Perillo on Contracts §3.10, at 151 (5th ed. 2003) (“The Plain Meaning Rule states that if a writing, or the term in question, appears to be plain and unambiguous on its face, its meaning must be determined from the four corners of the instrument without resort to extrinsic evidence of any kind.”); 11 Samuel Williston, Williston on Contracts §30:2 (Richard A. Lord ed., West 4th ed. 1999) (1920) (stating that the cardinal rule to begin all contract interpretation is to ascertain the intention of the parties); see also Cal. Civ. Code §§1638, 1639 (West 2007) (requiring that intention be ascertained from the language or writing of a contract). See generally Caminetti v. United States, 242 U.S. 470, 485 (1917) (embracing the idea of the plain meaning rule where language of a statute is plain).

²¹⁵ See *supra* note 211; see also W.W.W. Assocs., Inc. v. Giancontieri, 566 N.E.2d 639, 642 (N.Y. 1990) (holding that if parties set down their agreement in a clear, complete document, then their writing should be enforced according to its terms without review of extrinsic evidence); Frank Elkouri & Edna Asper Elkouri, *How Arbitration Works* 448 (Alan Miles Ruben ed., 6th ed. 2003) (stating that arbitrators give words their ordinary meaning in absence of a contract definition which would indicate the parties intended some other meaning).

²¹⁶ McRoberts Software, Inc. v. Media 100, Inc. (McRoberts I), No. IP99-1577-C-M/S, 2001 WL 1224727 (S.D. Ind. Aug. 17, 2001), aff’d in part, rev’d in part, 329 F.3d 557 (7th Cir. 2003). Media 100 appealed to the Court of Appeals for the Seventh Circuit and the court rendered a decision in favor of McRoberts and also reinstated a \$300,000 trade secret component of damages. McRoberts Software, Inc. v. Media 100, Inc. (McRoberts II), 329 F.3d 557, 573 (7th Cir. 2003).

²¹⁷ McRoberts I, 2001 WL 1224727, at *2. Source code is computer programming language that is readable by a human whereas executable code is programming language that is readable by a computer. *Id.* Most software programs are created using source code which is then translated into executable code. *Id.*

²¹⁸ *Id.* at *4.

²¹⁹ *Id.* at *15.

²²⁰ *Id.* at *6-7 (stating that MSI alleged four distinct offenses: 1) Media 100 had modified its software in such a way that was outside the scope of the license; 2) Media 100 had modified its software and then marketed it under its own product line; 3) Media 100 had made disclosures of the source code that were not authorized by the agreement; and 4) Media 100 had failed to turn over a copy of the modified source code to MSI, as required by the license agreement).

²²¹ *Id.* at *13.

²²² *Id.* at *7 (according to Media 100, “each wrongful act alleged by MSI was contemplated by the Agreement, and therefore MSI’s only claim would be for breach of contract.... [This] argument takes on particular significance because, as noted above, the Agreement limits cumulative damages for breaches of contract to, at most, the \$85,000 paid by [Media 100] to MSI under the terms of the Agreement.”).

²²³ McRoberts I, 2001 No. IP99-1577-C-M/S, 2001 WL 1224727, at *14 (S.D. Ind. Aug. 17, 2001), aff’d in part, rev’d in part, 329 F.3d 557 (7th Cir. 2003).

²²⁴ *Id.*; see also McRoberts II, 329 F.3d 557, 570 (7th Cir. 2003) (noting that it is possible to recover damages based on more than one legal theory in the same suit (citing *Pub. Servs. Co. of Ind. v. Bath Iron Works Corp.*, 773 F.2d 783, 793-95 (7th Cir. 1985))).

²²⁵ McRoberts I, 2001 WL 1224727, at *15.

226 Id. at *16.

227 See *id.* (concluding that “the license does not state any express intention on the part of the parties to have the contract control any of the intellectual property claims asserted by MSI,” and so it therefore does not limit or affect those claims).

228 *McRoberts II*, 329 F.3d at 563 (“Specifically, the jury awarded MSI damages for copyright infringement in the amount of \$1.2 million for actual damages and \$900,000 for lost profits; for trade secret misappropriation in the amount of \$300,000; and for breach of contract in the amount of \$85,000.”)

229 *Sikes v. McGraw-Edison Co.*, 665 F.2d 731 (5th Cir. 1982).

230 *Id.* at 732 (quoting the contract: “This confidential disclosure agreement shall remain in full force and effect between myself and McGraw-Edison Company for a period of two (2) years from date of disclosure....”).

231 *Id.* at 737 (indicating that McGraw-Edison’s argument has some “plausibility” but must be rejected).

232 *Id.* at 737.

233 *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1203 (5th Cir. 1986) (“A breach of confidence under the rule stated in this Clause may also be a breach of contract which subjects the actor to liability.... But whether or not there is a breach of contract, the rule stated in this Section subjects the actor to liability if his disclosure or use of another’s trade secret is a breach of the confidence reposed in him by the other in disclosing the secret to him.”)

234 *Allen Bros. Inc. v. Abacus Direct Corp.*, No. 01-C-6158, 2005 WL 433324 (N.D. Ill. Feb. 23, 2005) (citing *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 769 (Tex. 1958) (quoting Restatement (First) of Torts §757 & cmt. j. (1934))).

235 *Id.* at *1.

236 *Id.* at *2 (citing *Denner Enters., Inc. v. Barone, Inc.*, 87 P.3d 269, 273 (Colo. Ct. App. 2004)).

237 *Id.* at *2.

238 *Id.*

239 Dennis S. Karjala, Copyright Owner’s Rights and Users’ Privileges on the Internet: Federal Preemption of Shrink-wrap and On-Line Licenses, 22 U. Dayton L. Rev. 511, 512-13 (1997) (“The basic argument can be stated rather simply. Copyright has always represented a balance between owners’ and users’ rights.... [T]his carefully nurtured balance is in danger of tilting almost completely in the direction of the copyright owner who offers copies of works in digital form pursuant to purported ‘licenses.’... If these ‘licenses’ are uniformly enforceable, all of the users’ rights of copyright will soon disappear.”).

240 Chiapetta, *supra* note 90, at 144-46 (discussing *Celeritas Techs., Ltd. v. Rockwell Int’l Corp.*, 150 F.3d 1354 (Fed. Cir. 1998)). In this case the plaintiff alleged that the defendant’s violation of its nondisclosure agreement constituted both a trade secret misappropriation and a breach of contract. Chiapetta, *supra* note 90, at 145. In determining the proper damages award, the court noted that the plaintiff waived the award under the misappropriation claim by electing the higher compensatory damages granted under the breach of contract claim, and therefore, the court found it unnecessary to address the merits of the trade secret misappropriation verdict. Chiapetta, *supra* note 90, at 145-46. Chiapetta views this as an improper analysis, considering the breach of the nondisclosure agreement was not both a breach of contract and misappropriation, for the misappropriation absorbed the

breach. Chiapetta, *supra* note 90, at 146.

²⁴¹ Chiapetta, *supra* note 90, at 145.

²⁴² See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974) (maintaining commercial morality is a dominant policy interest in trade secret law); see also William LaFuze & Steven R. Borgman, *A General Overview of Trade Secrets—Texas Style*, 53 Tex. B.J. 725 (1990) (stating that trade secrets serve two basic functions: providing a means for preserving standards of commercial ethics and encouraging innovation); *Model Jury Instructions*, *supra* note 92, §8.1, at 387 (asserting that public policies governing trade secret misappropriation reflect “the desire to maintain commercial standards of ethics among business competitors, and the desire to allow for as much free competition and entrepreneurial activity as possible”).

²⁴³ Paul S. Turner, *Consequential Damages: Hadley v. Baxendale Under the Uniform Commercial Code*, 54 SMU L. Rev. 655, 663 & n.20 (2001) (referring to a Model Electronic Payments Agreement, available from the ABA at Publication Orders, P.O. Box 10892, Chicago, IL 60610-0892, 1-800-285-2221).

²⁴⁴ See *id.* (describing the history of the term “consequential damages,” beginning with the famous case of *Hadley v. Baxendale*, 156 Eng. Rep. 145, 9 Ex. 341 (Exch. 1854), in which the unforeseeable lost profits were considered consequential damages, and suggesting that the various types of damages available to parties in contract actions overlap and are unduly complex).

²⁴⁵ Perillo, *supra* note 214, §3.13, at 159; see also *Richardson v. John F. Kennedy Mem'l Hosp.*, 838 F. Supp. 979, 990 (E.D. Pa. 1993) (“[E]xpress indemnity contracts, like any other contracts, are construed to effectuate the contracting parties’ intent as manifested from the contract’s plain language and in light of the situation of the parties and the circumstances connected with the transaction.”); Elkouri & Elkouri, *supra* note 215, at 448 (stating that arbitrators usually give words their ordinary meaning when interpreting contract language).

²⁴⁶ Restatement (Second) of Contracts §202 cmt. d (1981).

²⁴⁷ Williston, *supra* note 214, §30:2 (stating the cardinal rule a court is to apply in the interpretation of a contract is to ascertain the intention of the parties).