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# **USE AT COMMON LAW AND UNDER THE UNIFORM TRADE SECRETS ACT**

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Use at Common Law and Under the Uniform Trade Secrets Act

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Introduction

Although the Uniform Trade Secrets Act (“Act”) aimed primarily at codifying trade secrecy as understood at common law, its drafters explicitly acknowledged that they were making at least one “reasonable departure.”<sup>1</sup> At common law, in order to claim that an intellectual work counts as a proprietary trade secret, the claimant must show that the work is in “continuous use in the operation of the [claimant’s] business.”<sup>2</sup> The Act dispenses with this element. It confers secrecy over a wider class of usable but currently-unused information, “to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use.”<sup>3</sup>

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<sup>1</sup> UNIF. TRADE SECRETS ACT § 1 cmt. (1985) [hereinafter in text, “the Act”]. The Act has been published in print in 14 U.L.A. 529 (1985), and posted on-line, see, e.g., <http://www.law.upenn.edu/bll/archives/ulc/fnact99/1980s/utsa85.htm>. By agreement with the editors of the *Hamline Law Review*, I cite to the Act’s language and commentary by Act section because such citations are accessible to readers no matter which version of the Act they consult.

<sup>2</sup> RESTATEMENT OF TORTS § 757 cmt. b (1939).

<sup>3</sup> UNIF. TRADE SECRETS ACT § 1 cmt.

In this Essay, I examine and critique this departure from common law. It is worth asking in a scholarly setting whether the Act's elimination of the use requirement might confuse the law of trade secrecy. Let me illustrate with reference to trade mark law, which is a very close cousin to trade secrecy. Twentieth-century case law and the Lanham Act broadened the scopes of the "uses" and "values" that trade mark claimants could cite to claim they had suffered harmful trade mark infringement. As Mark McKenna has shown, these changes severed trade mark law from its moorings, and contributed significantly to the confusion from which most scholars agree trade mark suffers now.<sup>4</sup> It is worth asking whether the Uniform Trade Secrets Act threatens to destabilize trade secrecy as much as these changes did trade mark law.

To cut to the chase: There is not nearly as much cause for alarm in trade secrecy as McKenna suggests there is in trade mark – but there is at least one significant area where the Uniform Trade Secrets Act could encourage bad consequences in to dubious results. In this Essay, I offer two soft praises and one significant criticism of the handiwork of the drafters of the Uniform Trade Secrets Act. Let me start with the praises. The Act's drafters eliminated trade secrecy's use requirement to prevent confusion about two hard doctrinal problems. One arises in cases in which the intellectual work in question is not being "used" because it is "negative know-how." The other arises in cases in which the intellectual work is not yet being used to commercialize goods or services because those goods or services are only in precommercial development. The Act's drafters thought that trade secrecy should cover negative know-how and secrets in precommercial development. Although common law was reasonably clear on both points, it did create some potential for confusion. The Act is salutary to a minor degree because it heads off possible future confusion.

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<sup>4</sup> See Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839 (2007).

In hindsight, however, the drafters of the Act did not sufficiently consider one unintended consequence of their handiwork.<sup>5</sup> The Act does not sufficiently consider the anti-innovative and -competitive error costs in what I will call “abandonment” cases. In an abandonment case, a business develops a trade secret, usually in collaboration with an employee or a licensee-producer. The business holds the proprietary interest in the secret, but it does not see significant competitive potential in the secret and either never deploys or discontinues application of the secret. If the business develops the idea in collaboration with an employee or licensee and the latter thinks the business errs in discontinuing research on the secret, the employee/licensee may deploy the secret on his own. At common law, the “use” element imposes on claimants a “use it or lose it” requirement. The “use” requirement therefore stops claimants from sitting on otherwise-valuable secrets. And it stops claimants from denying the public access to a wider range of goods or services (or price and quality ranges for such services).

Although the abandonment problem does not arise in many reported cases, I think it is of significant practical concern. I hope here to convince readers that this problem does matter, suggest how it should be resolved as a matter of principle, and suggest some ways for resolving it under controlling doctrines at common law and under the Act. In particular, in jurisdictions that have enacted the Act, I hope to give practicing lawyers and judges ideas about how to do damage control.

## I. An Overview of Trade Secrecy

Let me begin by setting up the context into which trade secrecy’s “use” requirement fits. Before proceeding, I acknowledge freely that different lawyers and judges may fairly quibble

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<sup>5</sup> Another possibility, not explored in this Essay, is that the Act blurs the lines between trade secrets and other confidences or intellectual property covered by other doctrines—business confidences, self-disclosing ideas, or idea submissions.

around the margins of my restatement of the main elements of trade secrecy law; I trust that these variations do not detract from my observations about the “use” element.

Trade secrecy does not confer on the owners of legal secrets the broad possessory rights lawyers associate with land, chattels, or patents. If a claimant establishes that he has a proprietary interest in a trade secret, that interest does not entitle him to sue any non-claimant for using the substance of his secret without his prior consent. Trade secrecy has traditionally been classified as a subfield of unfair competition<sup>6</sup> – as witnessed by the fact that the portion of the current Restatement covering trade secrecy is the Restatement (Third) of Unfair Competition.<sup>7</sup> As a result, the acts that count as torts against trade secrets generally track conceptions of commercial immorality: use or disclosure of a secret in violation of a duty of confidence;<sup>8</sup> use or disclosure of the secret with notice it was publicly available only by accident;<sup>9</sup> or use, disclosure, or also acquisition of the secret by improper means.<sup>10</sup>

Trade secrecy’s affirmative defenses bound the secret claimant’s rights to the same substance. Because trade secrecy focuses *only* on acts that violate general norms of commercial morality, it *precludes* liability when competitors discover the substance of a claimant’s secret by their own honest competitive efforts. If a competitor independently discovers the novel and valuable contribution of a secret, the effort provides a complete defense against misappropriation.<sup>11</sup> “Reverse engineering” provides a similar defense for “inspection or analysis

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<sup>6</sup> See, e.g., *Abbott Labs. v. Norse Chem. Corp.*, 147 N.W.2d 529, 533-34 (Wis. 1967); RESTATEMENT OF TORTS § 757 cmt. a.

<sup>7</sup> See RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39-45 (2007).

<sup>8</sup> See UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(II); RESTATEMENT OF TORTS § 757(b).

<sup>9</sup> See UNIF. TRADE SECRETS ACT § 1(2)(C); RESTATEMENT OF TORTS § 757(d).

<sup>10</sup> See UNIF. TRADE SECRETS ACT §§ 1(2)(i) & 1(2)(ii)(A); RESTATEMENT OF TORTS § 757(a). A defendant is also liable if he uses or discloses a secret knowing it was made available to him by someone else’s prior misappropriation, but that fourth theory of misappropriation is parasitic on the three species of misappropriation covered in the text. See UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(I) & (III); RESTATEMENT OF TORTS § 757(c).

<sup>11</sup> See UNIF. TRADE SECRETS ACT § 1 cmt.; RESTATEMENT OF TORTS § 757 cmt. a.

Please do not quote, cite, copy, or distribute without permission of author of the commercial [and publicly available] product embodying the secret.”<sup>12</sup> These defenses establish “essential distinctions” between trade secrecy and patent law.<sup>13</sup> Patent law declares any use of an invention under patent to be infringement, regardless of whether the infringer discovered the invention independently or by reverse-engineering.<sup>14</sup> For similar reasons, trade secrecy differs sharply (though not totally) with copyright. Authors of copyrighted works are not free from independently-created iterations of the ideas in their works, but copyright law does entitle them to be free from works prepared by copying their works.<sup>15</sup>

So much for the substantive rights a claimant enjoys if he holds a secret; what entitles the claimant to claim he actually *owns* a secret? Trade secrets protect a wide range of secret business ideas – customer lists, part or machine designs, software, and recipes, to name just a few.<sup>16</sup> Abstracted from the doctrine, a proprietary trade secrecy interest has three key features: The claimant engages in competitive activity selling a good or service, he deploys a secret intellectual discovery, and the discovery confers on the claimant an advantage in selling that good or service.

Most of the doctrine’s elements for establishing trade secrecy focus on the secrecy, the novelty or distinctness of the discovery, and its advantage. As proof of the advantage, the Restatement (First) of Torts requires claimants to establish that an intellectual work has “value,” and it assumes as necessary to a trade secret that it gives a businessman “an opportunity to obtain an advantage over competitors who do not know or use it.”<sup>17</sup> More elliptically, the Act keeps as a necessary element of trade secrecy that it cover “information, including a formula, pattern, compilation, program, device, method, technique, or process, that derives independent economic

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<sup>12</sup> RESTATEMENT OF TORTS § 757 cmt. a. *Accord* UNIF. TRADE SECRETS ACT § 1 cmt.

<sup>13</sup> UNIF. TRADE SECRETS ACT, prefatory note.

<sup>14</sup> *See* 35 U.S.C. § 271(a) (2006).

<sup>15</sup> *See* 15 U.S.C. § 106 (2006).

<sup>16</sup> *See generally* 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.09, at 1-506.1 to -646 (2009) (listing examples of matters which do or do not qualify as legally-cognizable trade secrets).

<sup>17</sup> RESTATEMENT OF TORTS § 757 cmt. b.

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value, actual or potential, from not being generally known to . . . other persons who can obtain economic value from its disclosure or use.”<sup>18</sup> If an intellectual work confers advantage so understood, the party who claims it is a secret must also show that the work remains secret, at least to individuals not bound to keep the work in confidence for the claimant’s ends.<sup>19</sup> The claimant must also show that the work is minimally novel in a non-patent sense. In the Act’s phrasing, the secret must be not only secret in fact (“not . . . generally known”) but also “not readily ascertainable by proper means by . . . other persons who can obtain economic value from its disclosure or use.”<sup>20</sup> The claimant must also take reasonable efforts to ensure that the work continues to remain secret.<sup>21</sup>

## II. The “Use” Requirement

Trade secrecy law now splits by jurisdiction on one last element of secrecy – the “use” element. The First Restatement of Torts and other older authorities require that the claimant deploy a secret, non-ascertainable, protected, and advantage-conferring intellectual work in “continuous use in the operation of the business.”<sup>22</sup> The Act, however, dispenses with this requirement. Any “formula, pattern, compilation” or other “information” with the character of an intellectual work may count as a secret if it has “economic value.”<sup>23</sup> Even if the claimant is not actually using the intellectual work to make its goods or services more competitive than those of

<sup>18</sup> UNIF. TRADE SECRETS ACT § 1(4).

<sup>19</sup> *See, e.g., id.* § 1(4)(i) (making an element of trade secrecy information’s “not being generally known to . . . other persons who can obtain economic value from its disclosure or use”); RESTATEMENT OF TORTS § 757 cmt. b (making trade secrecy depend on “the extent to which the information is known outside of [the claimant’s] business”).

<sup>20</sup> UNIF. TRADE SECRETS ACT § 4(i).

<sup>21</sup> *See, e.g., id.* § 1(4)(ii) (specifying that a trade secret must be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy”); RESTATEMENT OF TORTS § 757 cmt. b (making relevant to whether a work is a trade secret “the extent of measures taken by [the claimant] to guard the secrecy of the information”). The Restatement (Third) of Unfair Competition makes reasonable precautions not an element of trade secrecy but rather a defense against misappropriation of an accidentally disclosed secret. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39 (omitting precautions or intention to keep secret from the definition of a secret), & 40(b)(4) (making plaintiff’s failure to take reasonable precautions a defense against knowing use of an accidentally disclosed secret).

<sup>22</sup> RESTATEMENT OF TORTS § 757 cmt. b.

<sup>23</sup> UNIF. TRADE SECRETS ACT § 1(4)(i).

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rivals, the Act still makes the work a proprietary secret if it has “actual or *potential*” economic value to the claimant.<sup>24</sup>

The Act’s omission of a “use” requirement was intentional. In the words of the Act’s commentary:

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. The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor.<sup>25</sup>

Not many cases test the differences between these two approaches. The paucity of such cases should not be surprising. If a business thinks an intellectual work is valuable enough to spend time, effort, and money honing it and reducing it to practice, it would be foolish not to deploy the work and recoup its investments.

On rare occasions, however, businesses abandon or temporarily suspend deployment of the intellectual work. *Victor Chemical Works v. Iliff* provides an example of such a fact pattern,<sup>26</sup> and it has been cited as an important precedent contributing to the First Restatement of Torts’s decision to include a continuous use requirement.<sup>27</sup> While working for Victor Chemical, Iliff learned secret phosphate-making formulae, including a process for neutralizing phosphoric acid using lime.<sup>28</sup> Victor Chemical used the lime process to manufacture phosphate from April 1912

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<sup>24</sup> *Id.* (emphasis added).

<sup>25</sup> UNIF. TRADE SECRETS ACT § 1 cmt.

<sup>26</sup> 132 N.E. 806 (Ill. 1921).

<sup>27</sup> *See, e.g.,* *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912, 921 (7th Cir. 1953) (treating *Iliff* as “respectable authority to the effect that a plaintiff must be employing a trade secret before he can maintain a suit for its wrongful appropriation and use”); 1 MELVIN F. JAGER, *TRADE SECRETS LAW* § 5:7 (2009) (citing *Iliff* as a leading early example of the use-based approach to trade secrecy).

<sup>28</sup> *Iliff*, 132 N.E. at 808-09.

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until shortly before July 1914.<sup>29</sup> Iliff worked at Victor Chemical until July 1914, when he formed his own phosphate business and used the lime process to manufacture phosphates – in violation of his employment contract with Victor Chemical.<sup>30</sup> The Illinois Supreme Court reversed the entry of an injunction.<sup>31</sup> It believed that the lime process was common knowledge in the phosphate industry, it doubted that Victor Chemical’s skill at this process was a separable trade secret, and even assuming the contrary it suggested that Iliff and not Victor Chemical was the discoverer and owner of the lime process.<sup>32</sup> Yet the Illinois Supreme Court cited one additional ground for dissolving the injunction. The court noted that Victor Chemical “had ceased to use the lime process” for two years, and resumed using it only after it sued Iliff.<sup>33</sup> The court did not count this factor as a consideration disentitling Victor Chemicals from claiming it had a proprietary trade secret. But the court did suggest the next most severe consequence: Even assuming Victor Chemicals had a proprietary secret, the disuse of its process provided grounds for “failure to prove an allegation of irreparable injury” sufficient to entitle it to equitable relief.<sup>34</sup>

Other seminal cases focused the “use” element to make it complement the notion of secrecy. These cases required that a claimant’s “use” come as deployment of a secret to enhance the competitive advantage of a good or service that could be offered without disclosing the secret. For example, in *Bristol v. Equitable Life Assurance Society*, Bristol attempted to recover from Equitable Life for misappropriating a system of advertising.<sup>35</sup> In the course of affirming a judgment dismissing Bristol’s complaint, the New York Court of Appeals distinguished between

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<sup>29</sup> *Id.* at 809.

<sup>30</sup> *Id.*

<sup>31</sup> *Id.* at 813.

<sup>32</sup> *See id.* at 811-12.

<sup>33</sup> *Id.* at 813, 809.

<sup>34</sup> *Illif*, 132 N.E. at 813.

<sup>35</sup> 30 N.E. 506 (N.Y. 1892).

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ideas which can be used without disclosure and ones, like Bristol's, for which the idea's "use seems to be its disclosure."<sup>36</sup> More generally, the court explained:

Without denying that there may be property in an idea or trade secret or system, it is obvious that its originator or proprietor must himself protect it from escape or disclosure. If it cannot be sold or negotiated or used without a disclosure . . . it would seem proper that some contract should guard or regulate the disclosure; otherwise, it must follow the law of ideas, and become the acquisition of whoever receives it.<sup>37</sup>

The court analogized to a situation in which a house seller A negotiates a sale with buyer C after declining to retain B, a broker who notified A about C in an unsuccessful attempt to convince A to retain him.<sup>38</sup> "B has no cause of action against A. He had information which he hoped to market, but he parted with it without finding any market."<sup>39</sup>

Cases like these have fallen out of fashion, however. *Ferroline Corp. v. General Aniline & Film Corp.*, a prominent 1953 decision by the Seventh Circuit, expressly declined to follow *Iloff* or *Bristol*.<sup>40</sup> The two leading recent foundational accounts of trade secrecy, the Act and the Restatement (Third) of Competition, both omit a use requirement.<sup>41</sup> Contemporary trade secret commentators approve of this omission.<sup>42</sup> Roger Milgrim criticizes the "use" requirement's implications in "precommercial use" cases, involving "confidential disclosures of concepts, or as yet-untested, ideas for a new product or a new process."<sup>43</sup> Similarly, after recounting *Iloff* and *Bristol*, Melvin Jager notes that the majority trend has run against these cases.<sup>44</sup> According to that trend, "the important use to focus on is use by the misappropriator to the owner's

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<sup>36</sup> *Id.* at 507.

<sup>37</sup> *Id.* (citing *Peabody v. Norfolk*, 98 Mass. 452 (1868)).

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> See *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912, 921 (7th Cir. 1953).

<sup>41</sup> See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmts. d & e (2007).

<sup>42</sup> See, e.g., DAVID W. QUINTO & STUART H. SINGER, TRADE SECRETS: LAW & PRACTICE 4-5 & nn. 11-14 (2009); LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14:34 (4th ed. 2009).

<sup>43</sup> 2 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 9.05[4], at 9-487 (2007).

<sup>44</sup> 1 JAGER, *supra* note 27, § 5:7.

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detriment.”<sup>45</sup> Jager identifies several different lines of cases in support of the trend.<sup>46</sup> Other authorities, in accord with the Act’s drafters, cite as a “classic example of information that has value even though it is not in actual use . . . ‘negative know-how,’ or knowledge of what does not work.”<sup>47</sup>

In jurisdictions that continue to follow the common law and/or the First Restatement of Torts, however, the “use” requirement still hangs on in a diminished capacity. The requirement continues to play a prominent role in cases with fact patterns similar to *Bristol*’s – cases involving self-disclosing ideas, or cases involving what are often called “idea submission” disputes.<sup>48</sup>

On occasion, though more rarely, courts in common law jurisdictions apply the use/abandonment distinction propounded in *Iliff*. For example, in *Swartz v. Schering Plough Corp.*, Swartz sued Schering Plough for allegedly misappropriating his idea for a combination topical sunscreen and insect-repellant called “SUN-BUG.”<sup>49</sup> Swartz developed SUN-BUG in 1975; in 1975 and 1976, three mutual friends negotiated between him and Schering management about the possibility that Schering might produce SUN-BUG, but the principals never reached a satisfactory licensing arrangement.<sup>50</sup> In 1997, when Schering Plough started marketing a product called “BUG & SUN,” Swartz sued for misappropriation and trademark infringement.<sup>51</sup> The district court dismissed the claim, primarily on the ground that the secret at issue was really

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<sup>45</sup> *Id.*

<sup>46</sup> *See, e.g., id.*

<sup>47</sup> QUINTO & SINGER, *supra* note 42, at 4.

<sup>48</sup> *See, e.g., Lehman v. Dow Jones & Co., Inc.*, 783 F.2d 285, 288 (2d Cir. 1986) (“[T]he information at issue was not used to run Lehman’s business but was its *product*: like the car that rolls off the production line, this information was what Lehman had to sell.”); *accord* *Hudson Hotels Corp. v. Choice Hotels Intern.*, 995 F.2d 1173 (2d Cir. 1993); 1 RAYMOND T. NIMMER, *INFORMATION LAW* § 5:6 (2009).

<sup>49</sup> 53 F. Supp. 2d 95 (D. Mass. 1999).

<sup>50</sup> *Id.* at 99.

<sup>51</sup> *See id.* at 99-100.

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SUN-BUG’s trade dress and that this dress was no longer secret.<sup>52</sup> As an alternative basis, however, the court relied on the First Restatement of Torts’s “continuous use” passage to find that Swartz had abandoned any claim to a proprietary secret in the twenty-plus years from his purported discovery to the introduction of BUG & SUN.<sup>53</sup> In the court’s analysis, “there [was] little if any showing that any trade secrets surrounding SUN-BUG were used at any time thereafter by Swartz.”<sup>54</sup>

### III. Use Rights in the Common Law of Trade Secrecy

Doctrinally, except when it is cited to distinguish the law of trade secrecy from that regulating idea submissions or self-disclosing ideas, the “use” requirement shows few signs of vitality. Even the courts that apply it, like *Swartz*, confess they cannot find “precedent directly on point.”<sup>55</sup> Commentators speak of its “arguable artificiality,” which is to say they think it imposes technical pleading requirements that trip up trade secret claimants without advancing any substantive purposes.<sup>56</sup>

Even so, this commentary is missing important perspective – from property theory. By eliminating the “use” requirement, the Act is tinkering with a deep design principle differentiating trade secrecy from patent and copyright. Traditionally and doctrinally, trade secrets have been classified as “use rights” – in contrast with patents and copyrights, which have been conceived of as what I call here “control” rights.

Use rights have three main features. The first is a “use it or lose it” requirement. The owner of a use right enjoys a right only as long as he is actually using an asset. The second feature is a limitation. Because use rights are tied to use, they do not entitle users to exclude

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<sup>52</sup> *See id.* at 100.

<sup>53</sup> *Id.* at 101 n.7.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

<sup>56</sup> 1 MILGRIM, *supra* note 43, § 1.02, 1-240.24 to 1-251.

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others from acquiring similar use interests in the same asset – only from using more than their reasonable share of the asset. Finally, use rights endow owners with an ongoing right to protect a combination of two things – not merely the benefits from an asset but also the right to engage in the labor by which such benefits are extracted.

“Control” rights, by contrast, refer to exclusive rights of control, use, and disposition.

Control rights are much more boundary-driven than use rights. A riparian use right secures to an owner a right to labor on a flow of water for his own benefit, but control rights in land are defined by the land’s metes and bounds. The metes and bounds endow an owner with near-total discretion how to use an owned asset – not only to use it but also to alienate it, or destroy it, or to assign it others who want to use it productively. Control rights are shaped much less directly by use-it-or-lose-it concerns than use rights. When an owner acquires a control right over an asset, he does not need to use the asset on an ongoing basis to keep the right. In addition, because control rights endow owners with exclusive rights of control, ordinarily they let an owner blockade a non-owner from claiming like property rights from parallel use.

This distinction goes far back in Western law. Standard legal dictionaries used to distinguish between *jura utendi*, for “rights of using,” and *jura abutendi*, for “rights of abusing,” or the right to control or dispose of an asset even to the point of consuming it and without any need to sustain its ongoing use.<sup>57</sup> This distinction is also fairly familiar to lawyers who practice in real property. Normally, land owners are endowed with control rights over land. A land owner enjoys a right to exclude unconsented entries onto his land without showing that he was actually using the land.<sup>58</sup> Many water rights associated with rivers are use rights. For example, in

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<sup>57</sup> See 1 JOHN BOUVIER, INSTITUTES OF AMERICAN LAW 183 (1858).

<sup>58</sup> See, e.g., *Jacque v. Steenberg Homes, Inc.*, 563 N.W.2d 144, 157 (Wis. 1997) (holding that an elderly couple had a trespass action to exclude a company from using an empty field to circumvent a snow-blocked public road and to deliver a mobile home on time under a delivery contract). *Accord Longnecker v. Zimmerman*, 267 P.2d 543, 545

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reasonable-use riparian jurisdictions, a riparian has no right to exclude unconsented water diversions unless he can show that the diversion constituted an unreasonable use of the river flow and caused harm to his own reasonable use of that flow.<sup>59</sup>

Although many intellectual property lawyers and scholars do not appreciate it,<sup>60</sup> this distinction recurs in intellectual property law. Patent and copyright law both assign owners control rights. When a patent vests in a patentee the exclusive right to use or commercialize the invention or products made with the help of the invention, it vests in the patentee a right to control all uses or choices how to deploy the invention – whether or not the patentee is actually currently deploying the invention to gainful advantage. Similarly, copyright vests in an author general exclusive rights, including the exclusive right to copy, make derivative works based on, or to present performances based on such works. Although copyright conditions those rights on the fair-use exception and other similar exceptions, it too does not condition control over the copyrighted work on a responsibility to deploy the work in current practice for gainful advantage.<sup>61</sup> Neither of these regimes gives inventors or authors legal rights precisely over the sweat equity that went into their inventions or works of authorship (respectively). Instead, the definitions of infringement define, somewhat arbitrarily, the metes and bounds of a patent or a copyright. Both fields then, somewhat arbitrarily, expect that the inventor or author will recoup his sweat equity by commercializing the rights of exclusive control over the uses of the inventions or works within those metes and bounds.

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(Kan. 1954); *Giddings v. Rogalewski*, 158 N.W. 951, 953 (Mich. 1916); *Dougherty v. Stepp*, 18 N.C. 371, 371 (1835).

<sup>59</sup> See, e.g., JOHN W. JOHNSON, *UNITED STATES WATER LAW: AN INTRODUCTION* 23-24 (2009); *RESTATEMENT (SECOND) OF TORTS* § 850 (1979).

<sup>60</sup> For an important counterexample, see Richard A. Epstein, *Intellectual Property: Old Boundaries and New Frontiers*, 76 *IND. L.J.* 803 (2001).

<sup>61</sup> See 35 U.S.C. § 271(a); 17 U.S.C. §§ 106, 107.

Trade secrecy, by contrast, proceeds on the model of use rights. As Adam Mossoff explains, trade secrecy rules “essentially protect the right of the trade-secret owner to dictate the conditions under which the secret information will be *used*.”<sup>62</sup> To begin with, recall that a trade secret protects a proprietary interest not precisely in an advantage-conferring intellectual work, but rather in the application of that work for competitive advantage. Among the prima facie elements showing that the claimant has a proprietary interest, the “use” requirement is the one that makes the claimant prove the application. In jurisdictions that still follow common law, courts recognize, trade secrecy does not protect control over an intellectual work (as copyright or patent do) but “specifically . . . the *labor* – the so-called ‘sweat equity’ – that goes into creating a work.”<sup>63</sup>

Separately, trade secrecy does not make any unconsented use, copying, or disclosure of an intellectual work actionable. When trade secrecy protects competitors’ rights to reverse-engineer or discover independently a trade secret claimant’s intellectual work, it institutes one of the two main features of a usufructuary scheme: The owner of a use right has no basis for excluding others from acquiring and enjoying similar use rights. Trade secrecy implicitly reinforces the same structure in its definitions of misappropriation. Misappropriation does not make *any* unconsented use or disclosure of a proprietary secret actionable. The four prima facie theories for misappropriation accomplish the same end as the main defenses. They focus misappropriation against pure free-riding. They steer misappropriation cases away from situations in which a competitor discovers the substance of a claimant’s intellectual work by honest independent research and development. They stop the claimants of use rights from denying rivals opportunities to acquire equal use rights.

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<sup>62</sup> Adam Mossoff, *What Is Property? Putting the Pieces Back Together*, 45 ARIZ. L. REV. 371, 417 (2003).

<sup>63</sup> Alcatel USA, Inc. v. DGI Technologies, Inc., 166 F.3d 772, 778 (5th Cir. 1999).

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At common law, trade secrecy also tracks usufructuary principles in the elements needed to claim that an intellectual work qualifies as a proprietary secret. The common law requirements for proprietary secrecy discharge the other defining feature of a use right, the “use it or lose it” requirement. The First Restatement of Torts requires that a secret be deployed “for continuous use in the operation of the [claimant’s] business.”<sup>64</sup> If a claimant discovers an idea that is not otherwise known, the idea *could* add competitive advantage to his products, and he keeps it under cover but does not implement it in his business, he loses his claim to property protection.

#### IV. Use and Trade Secret Policy

Since trade secrecy is institutionally hardwired to differ foundationally from patent and copyright, it is at least possible that there is more to be said on behalf of the “use” requirement normatively than has been said by the leading authorities. Property law institutes exclusive control rights when the gains from exclusive control from commercializing a resource outweigh the costs of choking access to that resource. It institutes use rights, however, in situations in which many claimants have more or less equally strong claims on a resource. If trade secrecy has traditionally followed the usufructuary model, we lawyers should stop and consider whether the law embraces a formal category only for formality’s sake or in furtherance of sensible substance.

There is reason to suspect that the usufructuary approach makes substantive sense. Although trade secrecy is often classified as an intellectual property doctrine, it is also categorized often in the family of unfair competition. Intellectual property doctrines may decide close cases by erring on the side of encouraging innovation by idea discoverers. But unfair competition doctrines generally decide close cases by erring on the side of preserving self-help and competition among competitors and encouraging wide price and quality competition for the

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<sup>64</sup> RESTATEMENT (FIRST) OF TORTS, § 757 cmt. b (1939).

benefit of consumers. Trade secrecy does not have the luxury of leaning toward either set of error costs.

Existing commentary seems to be accentuating the error costs associated with not encouraging innovation and eliminating the error costs associated with restricting access and competition. To see why, let us recapitulate the basic policies that inform trade secrecy. I do so aware that a considerable amount of ink has been spilt exploring these policies, from a variety of different methodological perspectives.<sup>65</sup> I am also aware that some of the scholarship on trade secrecy is skeptical that trade secrecy can be rationalized at all in terms of any coherent unifying policy goals.<sup>66</sup> I am confident that these criticisms can be answered,<sup>67</sup> but the answers raise theoretical issues that would take us far beyond our focus here. Since this symposium focuses on the practice of trade secrecy, let us assume that trade secrecy practice is good enough for government work. On that assumption, I will briefly sketch here the policies that courts *claim* rationalize trade secrecy law, proceed assuming that these rationales are coherent and tolerably accurate, and highlight the contributions that the “use” element adds within those rationales.<sup>68</sup>

Since trade secrecy sounds in unfair competition, it starts with a presumption *against* trade secrecy. In all fields of unfair competition, the first policy interest to be considered is that of consumers. Normally, consumer access to more products enlarges social welfare. If a given

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<sup>65</sup> Normally, the standard academic protocol would include here an overly long and gratuitously collegial citation to all significant scholarly works on trade secrecy policy. To save ink and electronic memory, let me simply refer readers to Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 312 n.1 (2009).

<sup>66</sup> See Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241 (1998).

<sup>67</sup> For an overview of the relevant issues, see Eric R. Claeys, “Trade Secrecy and Corrective Justice,” (Sept. 15, 2010) (unpublished manuscript, on file with author).

<sup>68</sup> The policies restated in the following five paragraphs are distilled from *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 480, 482-83 (1974); *Abbott Labs. v. Norse Chemical Corp.*, 147 N.W.2d 529, 532-33 (Wis. 1967); *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 137-38 (9th Cir. 1965); *Wexler v. Greenberg*, 160 A.2d 430, 433-34 (Pa. 1960). I follow these cases (and the predilections of most academic readers) in that I restate the relevant policies in utilitarian terms. Although I have substantial reservations about those terms, see, e.g., Claeys, *supra* note 67, I do so as part of the effort to avoid theoretical difficulties noted *supra* text accompanying notes 65-66.

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intellectual work is not covered by trade secrecy, competitors may free-ride off of one another with abandon. Consumers then get a wider range of choices – of product features, quality, price, and other factors. Presumptively, this diversity and choice enlarge social welfare.

On the other hand, if free-riding goes too far, it discourages useful investments in information. Trade secrecy often encourages innovation. A competitor may invest considerable time, effort, and expense designing a tool that helps him produce a good more quickly and cheaply than rivals. Not all trade secrets are innovative in this sense; customer lists certainly are not. Yet even uninnovative discoveries can still be productive. They can require considerable investments of time, effort, and expense, to convert facts that seem noise into information with a focused competitive use.<sup>69</sup> Trade secrecy therefore tries to balance competition and consumer access on one hand against innovation and information-gathering on the other.

Trade secrecy flips its starting presumption in favor of access and competition, however, only for a narrow class of eligible intellectual works. If an intellectual work is commonly known, or if it does not confer significant competitive advantage on a claimant's products, the law presumes it is better to let multiple competitors reduce to practice the idea exemplified in the work. By refusing to recognize any property rights, trade secrecy promotes competition and consumer access – and it also frees all competitors to innovate or gather useful information by sparing them the transaction costs associated with bargaining with a right-holder. For similar reasons, even if the work is not known and does confer competitive advantage, the law continues to err on the side of competition and consumer access if the work is readily ascertainable. Even when the idea is *not* readily ascertainable, trade secrecy still presumes in favor of access in one

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<sup>69</sup> See Edmund W. Kitch, *The Law and Economics of Rights in Valuable Information*, 9 J. LEG. STUD. 683 (1980).

Please do not quote, cite, copy, or distribute without permission of author further respect, by giving any other competitor who independently discovers his own iteration of an intellectual work a parallel usufructuary right in *his* sweat equity and *his* iteration of the work.

All that said, if an intellectual work is secret from competitors, confers a competitive advantage, and is not readily ascertainable those findings override trade secrecy's starting presumption. The law then flips to a second presumption, restricting competition and consumer access somewhat to encourage innovation or information-gathering somewhat. Trade secrecy does so by giving the business that discovers a secret and not-ascertainable intellectual work a qualified usufructuary proprietary interest in the intellectual work and the sweat equity that led to its discovery, for as long as it would take a competitor to discover the work honestly and independently. That interest serves two functions. It helps a secret claimant reduce the expenses associated with keeping a secret secret. When the law deems an intellectual discovery or assembly as a trade secret, the claimant may leverage reasonable precautions into a guarantee and expectation that he may preserve legal secrecy even if the secret is stolen or accidentally disclosed. Separately, the proprietary interest guarantees that any competition or copycatting will come from honest and independent competitive research—not espionage or bribes to employees or licensees. This proprietary guarantee is modest. Because it consists of a use right, it does not guarantee the claimant total immunity from reuse of the idea reflected in his secret. All the same, a business has some security in knowing that, if competitors want to catch up with its research, they must do their own.

Yet that presumption of secrecy may be overridden in one of two directions. Trade secrecy reexamines the balance between competition and access and innovation and information-

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gathering when the dispute is between an employer and employee.<sup>70</sup> These cases are often closer in practice. The employee often is well-poised by virtue of his skill and experience to compete head to head with the employer. As long as an ex-employee is not copying and using his ex-employer's trade secrets in competition against that ex-employer, consumers benefit from the competition. So in employer/employee cases, courts are especially solicitous that trade secret law not give employers a bludgeon with which to deter outgoing employees from using their general skill and experience for the benefit of themselves and consumers.<sup>71</sup>

At the other end of the spectrum, trade secrecy's policy presumptions may be overridden by the policies built into patent law and other fields establishing control rights.<sup>72</sup> When patent law balances innovation against access and competition, it does so extremely differently from trade secrecy. Patent rights make sense when applied to goods that are research-intensive to develop, subject to a wide range of commercial uses, or both. Patent law's novelty requirement requires a claimant to show that his invention contributes more significantly to the store of public knowledge than trade secrecy's non-ascertainability element requires of a trade secret.<sup>73</sup> However roughly, this increase in proof accords with the significance of the invention. When an invention is novel enough, the law promotes innovation by restricting access nearly totally. The patentee has the right to make exclusive commercial use of products made with the invention patented during the patent's statutory term, and anyone else who uses the invention

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<sup>70</sup> Trade secrecy implicates different policies depending on whether the defendant is a stranger (a thief, a lucky discoverer of an accidentally-disclosed document, or a hostile competitor) or a confidante of the secret claimant (an employee, a former employee, a licensee, a customer, or a supplier). In what follows, I will focus on the cases in which the defendant is a confidante. These cases arise more often in practice; in cases in which the "use" element bears litigation pressure, the relations between the secret-claimant and the confidante seem especially likely to matter.

<sup>71</sup> See, e.g., *GTI Corp. v. Calhoon*, 309 F. Supp. 762 (D.C. Ohio 1969).

<sup>72</sup> Copyright implicates similar trade-offs. The text focuses on patent law trusting that readers can appreciate the basic trade-off between control and use rights and make for themselves the appropriate adjustments between patent and copyright.

<sup>73</sup> See, e.g., *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621, 624 (7th Cir. 1971); *Cataphote Corp. v. Hudson*, 444 F.2d 1313, 1315 (5th Cir. 1971); *A.O. Smith Corp. v. Petroleum Iron Wks.*, 73 F.2d 531, 538-39 (6th Cir. 1934).

inconsistently with the patent and the patentee's wishes is liable for infringement. These control rights reward and incentivize the development of significant intellectual contributions. Patent law gambles that, even though it restricts consumer access and competitor entrance in the short term, the innovation it encourages fosters access and entrance in the long term. "The productive effort . . . fostered [by the patent system] will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens."<sup>74</sup>

Trade secrecy makes an extremely different trade-off because it implements usufructuary principles. Because trade secrecy law provides defenses for independent discovery and reverse-engineering, it does not block competitors from entering markets created by first discoverers – only from entrance by various forms of improper free-riding. This trade-off makes sense for fairly "low tech" intellectual discoveries – assemblies of raw data, or technological improvements that are only modestly research-intensive and capable of being deployed in only a narrow range of commercial settings. In these settings, the error costs of discouraging innovation drop significantly. That is why trade secrecy falls back on the presumption dominant throughout most unfair competition law, that society suffers concrete and significant welfare losses when the law restrains employee mobility, competitor entrance, and consumer access. In all the situations we are about to discuss, we may therefore assume away the possibility that the discoverer of an intellectual work has made a contribution so substantial as to justify significant restrictions on competitor entrance.

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<sup>74</sup> *Kewanee Oil Co.*, 416 U.S. at 480-81. See also Edmund W. Kitch, *The Nature and Function of the Patent System*, 20 J. L. & ECON. 265 (1977).

There is a significant possibility that patent law's statutory requirements do not sufficiently screen inventions to make sure that they are likely to satisfy the long-term promise this justification claims. Patent law's subject matter, novelty, utility, non-obviousness, and enablement criteria might not be sufficiently demanding. I do not propose to settle that question here or even to venture an opinion on it. Whether or not patent eligibility requirements are rigorous enough is an issue for the patent system.

## V. Reconsidering the “Use” Requirement: Precommercial Use and Know-How

That background allows us to reconsider the hard cases associated with the “use” requirement. In brief, the Act’s drafters and other critics of that requirement are right that the requirement should not be applied too aggressively in disputes about precommercial use or negative know-how. However, I doubt the case law was ever as confused as these critics suggest.

### A. Precommercial Use

To get a sense of the stakes in precommercial use disputes, consider *Contour Design, Inc. v. Chance Mold Steel Co.*<sup>75</sup> Contour Design and Chance Mold entered into a license agreement under which Contour Design would provide the design for and Chance would manufacture a series of ergonomic roller bars as competitive alternatives for computer mice.<sup>76</sup> Contour Design developed one version, called the Roller Mouse Free, which would have a removable roller ball to allow for easier cleaning, but it deferred production of that version for a later product release date due to engineering delays and turnover at Chance.<sup>77</sup> Within a few months, however, Contour Design discovered that a company called EKTouch, owned by the same principal as Chance (and sharing the same business address and phone) was making a roller bar with the removable roller ball, at a lower price than earlier versions of the Roller Mouse.<sup>78</sup> EKTouch was also starting to contact Contour Design’s distributors.<sup>79</sup> Chance breached the confidentiality agreements of its license agreements by sharing the design for the Roller Mouse Free with EKTouch – as long as the design for the removable roller ball was in fact a legally protected

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<sup>75</sup> No. 09-cv-451-JL, 2010 WL 174315 (D. N.H. Jan. 14, 2010).

<sup>76</sup> *Id.* at \*1.

<sup>77</sup> *See id.* at \*3.

<sup>78</sup> *Id.* at \*2.

<sup>79</sup> *Id.* at \*2.

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trade secret. Chance argued that that design was not a secret, however, because Contour Design had not yet reduced the design to practice in commercializable products.<sup>80</sup>

In fact situations like this, trade secrecy policies cut pretty clearly in favor of intellectual-work discoverers like Contour Design and not confidante-competitors like Chance (and EKTouch). If a confidante uses his own skill and experience to discover a secret independently, the equities cut in favor of the confidante. But the law follows the equities in such cases. The novelty or nonascertainability element of secrecy and the independent-discovery defense both suggest the secret claimant has no valid claim of misappropriation. If confidantes in Chance's position are not discovering product designs independently, they are more likely taking advantage of their inside position to identify products in development but not yet on market, and then free-riding on the discoverers' research and development.

It might be said that confidantes like Chance might undertake some meritorious risk. After all, Contour Design had not yet worked out all the bugs in its roller ball design, and Chance was taking a risk by working out all the bugs left. At the same time, in many respects the timing makes it even worse. Because Contour Design had not yet made any commercial use of its new roller ball, Chance was starting to compete at the most inopportune moment for Contour Design. In *INS v. AP*, the U.S. Supreme Court criticized a similar practice in the newspaper industry, in which papers in one news guild reprinted the substance of another guild's reports without researching the stories:

Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to

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<sup>80</sup> *Id.* at \*5-\*6.

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defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news.<sup>81</sup>

In precommercial use cases, the Act leads to a sensible result. Because the Act focuses on potential economic value without any reference to use, claimants who satisfy the other elements of trade secrecy are entitled to be free from misappropriation whether or not they deploy their secrets for commercial advantage. Since *Contour Design* was litigated in a jurisdiction under the Act, the district court made just such a holding.<sup>82</sup>

All the same, I doubt that common law courts used the “use” requirement to defeat precommercial use cases very often. Because a trade secret is a usufructuary property right, the proprietary interest covers not only the claimant’s advantage-conferring intellectual work but also the research and development that goes into the work. Under this model, *any* ongoing efforts to acquire competitive advantage proves the property right – and also counts as part of the property. In such cases, the First Restatement of Torts does not require that the claimant’s claim of proprietary secrecy be rejected. Under that Restatement, the trier of fact may lean heavily on “the amount of effort or money expended by [the claimant] in developing the information” to conclude a secret exists.<sup>83</sup>

To the extent they consider the Restatement’s language about “continuous use,” courts therefore construe the concept to accord with “the amount of effort or money” expended by the secret-claimant. So courts construe “use” ecumenically, to mean “any act tending to deploy the

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<sup>81</sup> *Int’l News Serv. v. Associated Press*, 248 U.S. 215, 240 (1918). Similarly, the case for covering a trade secret is just as strong when the secret has not even left development and the defendant claims to have perfected it. “[T]he user of another’s trade secret is liable even ‘if he uses it with modifications or improvements upon it effected by his own efforts,’ as long as the substance of the process used by the actor is derived from the other’s secret. . . . For without the misappropriated trade secrets defendants had no viable conception of the machine which they subsequently constructed and patented.” *Prince Mfg., Inc. v. Automatic Partner, Inc.*, 191 U.S.P.Q. 450, 460 (N.J. Super. Ct. Ch. Div. 1976) (quoting *Forest Labs., Inc. v. Pillsbury Co.*, 452 F.2d 621 (1971)).

<sup>82</sup> See *Contour Design*, 2010 WL 174315, at \*5-\*7 (relying on *Learning Curve Toys, Inc. v. Playwood Toys, Inc.*, 342 F.3d 714 (7th Cir. 2003)).

<sup>83</sup> See RESTATEMENT (FIRST) OF TORTS, § 757 cmt. b (1939).

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secret for present or reasonably imminent competitive advantage.” To illustrate, consider *Dresser-Rand Co. v. Virtual Automation, Inc.*, decided under Texas law and therefore trade secrecy common law.<sup>84</sup> Dresser-Rand developed a novel system, called the Trax system, to control both the turbines and operations generally at turbine plants. Mezzatesta, an employee of Dresser-Rand under a confidentiality arrangement, set up a competing company while still under Dresser Rand’s employ, and agreed with Apix, a licensee of Dresser-Rand to produce and market a turbine-controlling system similar to the Trax system in competition with the Trax system.<sup>85</sup>

The Fifth Circuit first considered and rejected Mezzatesta and Apix’s claim that

because the Trax project was never completed, there was no final product to misappropriate. This Court, however, has previously determined that the Texas misappropriation law is “specially designed to protect the *labor*—the so-called ‘sweat equity’—that goes into creating a work.” . . . As Dr. Stephen Carr, an expert witness, testified, “Dresser–Rand came up with the plan to do the product, the specifications for the product, . . . and that’s where the essence of a product is, in the work, in the contribution of Dresser–Rand.” . . . [I]t appears clear that a final product is not required before it can be misappropriated . . . .<sup>86</sup>

The Act did diminish the risk that the “use” requirement might be construed to defeat secrecy claims in precommercial-use disputes. *Dresser-Rand*, however, provides some evidence that the Act’s drafters probably overstated that risk.

## B. Negative Know-How

The Act’s drafters also eliminated the “use” requirement to fix a problem in “negative know-how” cases. To see negative know-how at play, consider *Winston Research Corp. v. 3M*.<sup>87</sup> 3M had spent 4 years researching a “servo” system to diminish variations in speed in tape recorders during recording. Yet “[w]hen [3M] had substantially completed the research phase of

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<sup>84</sup> 361 F.3d 831 (5th Cir. 2004).

<sup>85</sup> *Id.* at 837-38.

<sup>86</sup> *Id.* at 839 (quoting *Alcatel, USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 778 (5th Cir. 1999)).

<sup>87</sup> *See, e.g., Winston Research Corp. v. Minnesota Mining and Mfg. Corp.*, 350 F.2d 134, 140, 142-43 (9th Cir. 1965).

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its program and was just beginning the development of a production prototype,” the head of its research on the servo motor unit joined Winston (which had been formed by a former 3M sales manager),<sup>88</sup> in violation of a valid provision of a non-compete agreement in the former research head’s employment contract.<sup>89</sup> Among other objections, Winston protested a conclusion by the trial court that 3M had trade secrets in “knowledge of what not to do” while developing a servo motor “and how not to make the same mistakes” while developing a high-performance servo motor.<sup>90</sup> The case does not specify how Winston made this argument doctrinally. Yet Winston could easily have done so by arguing that 3M was not “using” in any meaningful sense its knowledge of servo motors that didn’t work.

The U.S. Court of Appeals for the Ninth Circuit disagreed. The district court had held (and the Ninth Circuit agreed) that 3M was entitled to legal protection of a trade secret (and an injunction against its unconsented use) “for the approximate period it would require a legitimate [3M] competitor to develop a successful machine” by reverse-engineering a 3M servo motor once such motors went on the market.<sup>91</sup> The district court had also enjoined Winston’s use of “knowledge of what not to do”; here, the Ninth Circuit reversed, finding that this provision of the injunction had as its “necessary effect . . . to prohibit conduct by [former 3M] employees in which they have a right to engage.”<sup>92</sup>

This holding strikes the right balance between innovation and information-gathering on one side and consumer access and employee competition on the other. On one hand, negative know-how must count as part of the trade secret to a reasonable extent. Recall that trade secrecy establishes a proprietary interest not precisely in a discovered intellectual work, but in the sweat

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<sup>88</sup> *Id.* at 137.

<sup>89</sup> *Id.* at 141.

<sup>90</sup> *Id.* at 140.

<sup>91</sup> *Id.* at 142.

<sup>92</sup> *Id.* at 143.

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equity that discovers and the competitive activity that deploys the work. The sweat equity should include competent trial and error leading to the work's discovery. If trade secrecy refrained from protecting the errors, it would encourage employees to play a game of "Heads I win, Tails *we* lose." When their research and development was not successful, employees would stay employed and let their companies subsidize their fruitless research. When their research and development *was* fruitful, however, they would quit, use negative know-how to shorten their research, and reverse-engineer the products they used to build for their former employers. At the same time, a secret claimant should not be allowed to suppress use of negative know-how beyond the time it would take a competent competitor to reverse-engineer its secret by honest independent research. That limitation still secures claimants some exclusivity from free-riding, but not to the point that they get immunity from competition by former employees.

By eliminating the "use" requirement, the Act eliminates the risk that the requirement will confuse courts into denying protection for negative know-how when such know-how is neither common knowledge nor readily ascertainable by skilled competitors. Because, under the Act, negative know-how confers on businesses "independent economic value, actual or potential" over competitors who have not conducted as many trials and learned as many errors, it counts as a trade secret.<sup>93</sup> As *Winston Research* suggests, however, the Act's drafters may have overstated the risk that the "use" requirement might confuse gullible courts. Again, because trade secrecy counts as a usufructuary interest, the proprietary interest extends not only to the secret but also to the sweat equity that goes into the secret.

Courts have intuited as much. They have not applied a separate "use" requirement to negative know-how. Rather, they have pigeonholed "negative know-how" as part of "the amount

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<sup>93</sup> UNIF. TRADE SECRETS ACT § 1(4)(i) (1985).

Please do not quote, cite, copy, or distribute without permission of author of effort or money expended by [the claimant] in developing the information.”<sup>94</sup> For example, in *Metallurgical Industries Inc. v. Fourtek* (another case decided under Texas law and therefore trade secrecy common law) Metallurgical Industries sued several ex-employees for misappropriating secret modifications it had made to tungsten-carbide furnaces to make the furnaces more effective.<sup>95</sup> The ex-employees convinced the trial court that no trade secret was at stake, because at most they had only reused and disclosed “only negative, ‘what not to do,’ input” about how *not* to improve the furnaces in question.”<sup>96</sup> The Fifth Circuit rejected this argument: “We do not understand how the changes that we have described can be seen as only showing what not to do . . . . One may say, of course, that [Metallurgical Industries’ positive] actions result from realizations what not to do, but so does every human process.”<sup>97</sup> Rather than treat the negative know-how as a separate secret, the Fifth Circuit properly treated it as part of Metallurgical Industries’ labor and therefore its property: “It seems only fair that [the discoverer] should be able to keep and enjoy the fruits of his labor.”<sup>98</sup>

## VI. Abandonment Disputes

### A. The Scope of “Abandonment”

My strongest reservation about the Act, however, relates to what I will call “abandonment” cases. Let me explain the abandonment problem more precisely and offer a few illustrations. Abandonment *qua* disuse does *not* cover precommercial use cases. Assume an

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<sup>94</sup> RESTATEMENT (FIRST) OF TORTS § 757 cmt. b.

<sup>95</sup> 790 F.2d 1195, 1198 (5th Cir. 1986).

<sup>96</sup> *Id.* at 1202-03 (quoting *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir.), *cert. denied*, 454 U.S. 829 (1981)).

<sup>97</sup> *Id.* at 1203.

<sup>98</sup> *Id.* at 1201.

Of course, courts will sometimes reject suggestions that “negative know-how” counts as proprietary trade secrets. When they reject such suggestions, however, they do so most often and defensibly when the negative know-how lies within the skill set of reasonably competent competitors in the claimant’s industry. *See, e.g.*, *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 143-44 (9th Cir. 1965). In other words, negative know-how does not count as proprietary labor when it does not count as “productive” labor because it is not novel as explained *supra*, Section V.D.

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employee or licensee-producer, under a duty of confidentiality, tries to divert use of the secret while the claimant is getting ready to produce items using it. In such a case, trade secrecy policy requires that the confidante be found to be misappropriating a still-existing secret. At the other extreme, however, take any case like *Swartz*<sup>99</sup> (except with a secret that falls more squarely within the domain of trade secrecy than *Swartz*'s SUN-BUG idea): The claimant (allegedly) discovers a secret but then does not reduce it to practice or commercialize it for two decades or more. The equities strongly cut in favor of dispelling the claim of proprietary secrecy and letting someone exposed to the secret use it and commercialize it.

I will use the term “abandonment” to describe this latter fact pattern because the cases do so. I use the term with trepidation, however, because the cases are not using the term “abandonment” consistently with general principles of property.<sup>100</sup> Generally, abandonment applies to assets subject to control rights but not to ones subject to use rights. “Abandonment” ordinarily requires an owner to commit an affirmative act manifesting an intention of disclaiming any interest in the asset in dispute.<sup>101</sup> The owner of a pen continues to own it, whether or not he is actually using it, until he commits an action that the rest of the community understands to signal he is disclaiming any further ownership of it. Unless the species of property at issue bars it, the holder of a usufructuary property interest can disentitle himself to his interest by a similar act of disclaimer. But the holder of such a usufruct may also lose his interest by conduct logically prior to abandonment. If the owner of a usufruct fails to continue using the asset in a regular manner, he ceases to have a proprietary interest in it. So technically, where the “use” requirement remains in force, it is wrong to say a secret “[i]s available for plaintiff’s use any

<sup>99</sup> See *supra* notes 49-54 and accompanying text.

<sup>100</sup> In addition to *Swartz v. Schering-Plough Corp.*, 53 F. Supp. 2d 95, 100 n.7 (D. Mass. 1999), see also *General Aniline & Film Corp. v. Frantz*, 151 U.S.P.Q. 136, 140 (N.Y. Sup. Ct. 1966); *Harris Mfg. Co. v. Williams*, 157 F. Supp. 779, 787 (D. Ark. 1957).

<sup>101</sup> See, e.g., 1 AM. JUR. 2D *Abandoned, Lost, and Unclaimed Property* § 3 (West 2009).

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time it desires to do so, and its failure to use said [secret] at the present time does not militate against its right to have the defendants enjoined from copying said [secret] and violating plaintiff's" rights.<sup>102</sup> Rather, once the plaintiff ceases to use the asset for a significant length of time, the secret is no longer for his use, and his failure to use it militates against his claiming future expectations of use.

*Swartz* presents a fairly compelling case for deeming a claimant to have abandoned his trade secret. In practice, however, I have no doubt that "abandonment" issues are much less clear-cut. In some of the cases (like *Iloff*), there is strikingly little explanation why the claimant ceases using the secret. In others, the claimant may have perfectly good intentions of commercializing the secret but it currently lacks capital. In *Elcor Chemical Corp. v. Agri-Sul, Inc.*, for example, ex-employees appropriated and commercialized a manufacturing process that Elcor discontinued, in part because Elcor thought the process cost-prohibitive, and in part because Elcor was going bankrupt and was short capital.<sup>103</sup> In other cases, a secret turns out not to be useful for one good (at which the claimant excels) but it is useful for another (in which the confidante sees the potential). In *Ferroline Corp.*, for example, the claimant used a process for making iron pentacarbonyl only intermittently because pentacarbonyl was not particularly effective as an additive for gasoline. The ex-confidante, however, used the process with success to make pentacarbonyl as an ingredient for making powdered iron.<sup>104</sup> In other cases, the secret turns out to be valuable for down-market competitors but not up-market, or vice versa. In *Harris Manufacturing Co. v. Williams*, for instance, the claimant developed its own adhesive as a cheaper alternative to the leading adhesive for gluing parquet floors together, but then

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<sup>102</sup> *Harris Mfg.*, 157 F. Supp. at 787-88.

<sup>103</sup> 494 S.W.2d 204, 208-09 (Tex. Civ. App. 1973).

<sup>104</sup> See *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912, 917-18 (7th Cir. 1953).

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discontinued use because its adhesive was not effective as the leader.<sup>105</sup> An ex-employee took the adhesive formula with him to join a former supplier of the claimant in an effort to make competing parquet floors.<sup>106</sup>

#### B. Enforcing a Use Requirement with Bite

To many lawyers, *Elcor Corp.*, *Ferroline Corp.*, and *Harris Manufacturing* seem to portray the secret-claiming plaintiff in a sympathetic light. The claimant's disuse or non-use lasts only a few years, if that long. The claimant may at some point resume using the secret. As the *Harris Manufacturing* court put it,

The mere fact that plaintiff is not using the [adhesive] at the present time does not prevent said [adhesive] from being a trade secret and does not give defendants the liberty of appropriation and using said [adhesive]. The [adhesive] is available for plaintiff's use any time it desires to do so, and its failure to use said [adhesive] at the present time does not militate against its right to have the defendants enjoined from copying said [adhesive] and violating plaintiff's trade secret.<sup>107</sup>

This argument makes superficial sense because many of our property intuitions are keyed to possessory proprietary interests. "If I build my house with your axe and out of your wood, I cannot gain a clear title to your house."<sup>108</sup>

Nevertheless, this argument does not necessarily apply to usufructuary interests. Trade secrecy policy tracks the basic design of usufructuary property rights in this respect. Ordinarily, if a business discovers a non-ascertainable and potentially competitively advantageous discovery, the law should presume that it get the first opportunity to make commercial use of the discovery. If the business decides not to commercialize the discovery, however, and a confidante close to the business thinks the business is wrong, standard trade secret policy suggests that the

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<sup>105</sup> 157 F. Supp. 779, 782-83 (D. Ark. 1957).

<sup>106</sup> *Id.*

<sup>107</sup> *Harris Mfg. Co.*, 157 F. Supp. at 787-88. *Accord Elcor Chem. Corp.*, 494 S.W.2d at 213 ("[T]he mere fact that the injured party was not utilizing the information at the present time does not prevent same from being a trade secret and does not give the wrongdoers the liberty of appropriating and using said secret for their profit and gain.").

<sup>108</sup> A. JOHN SIMMONS, *THE LOCKEAN THEORY OF RIGHTS* 275 (1992).

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confidante should get second opportunity. By stipulation, the business first discovering the work is not going to enhance consumer welfare, because it plans merely to sit on the work. If the law lets the confidante commercialize the idea, the confidante may satisfy a non-trivial segment of consumers and in the process provide himself with a decent living. I am not aware of detailed empirical evidence reporting how often abandonment fact situations arise in practice, and I am not aware that anyone else knows, either. As a first cut, such situations probably do not arise very often. Businesses have ample incentives to try commercializing intellectual works in which they have sunk significant research and development. Even when a business decides not to develop an idea, I doubt the business's choice precipitates litigation very often. If an employee sees a lot more potential in the idea than the business does, the business and the employee can separate amicably – and the employee may end up developing a line of business that benefits his former employer.

Even so, there is at least some impressionistic evidence to suggest that abandonment problems occur fairly often in business. Before becoming a patent and trade secrecy scholar, Michael Risch litigated trade secrecy cases. In his view:

[D]eparting employees rarely directly compete when they create a start-up company. Usually they are developing some offshoot idea, and they are exploiting something that is more akin to a corporate opportunity. It's something the old employer doesn't want to do, and therefore, the employee wants to spin-off. . . . Such companies are developing complementary components rather than directly competing.<sup>109</sup>

If Risch's impressions are representative, companies develop many "offshoot" secrets that go un- or under-used because they are not central to the business's core mission. As a matter of sound property policy, such businesses should get first opportunity to commercialize what they have developed. But the virtue of use rights is that they encourage the use of low-value assets when

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<sup>109</sup> Michael V. Risch, *Labor and Employment Law in the New Economy*, 12 EMP. RTS. & EMP. POL'Y J. 339, 341 (2008).

nominal owners decide not to use them. Trade secrecy is designed for such intellectual works generally, but it is tailor-made for intellectual works of the kind Risch is describing. If a trade secret has obvious huge commercial potential, the business will pursue it. Even though Texas Instruments' comparative advantage lay in transistors in the 1960s, management quite reasonably invested heavily in the semiconductor chip after a company employee developed the chip in free time.<sup>110</sup> If the secret is obviously useless, the ex-employee will not want to leave and bet his professional livelihood on making it work. Secrets of the type Risch is describing are neither sure winners nor sure duds. The business and the ex-employee may reasonably disagree how much commercial potential such secrets have.

Trade secrecy policy strongly favors letting *someone* take an entrepreneurial risk that the secret will work. Common law usufructuary principles give strangers, ex-employees, and other confidantes an opportunity to take those risks when secret-claiming companies choose not to do so.

### C. Misbehavior by Employees and Other Confidantes

That suggestion may cause some readers to wonder whether the use requirement encourages disloyalty by employees or other confidantes. Many assume that “the locus of the trade secret right is in the behavior of the nonowner B, rather than the trade secret of the owner A.”<sup>111</sup> According to this understanding, if B breaches a duty of confidentiality to A in relation to a trade secret, B's breach makes A liable no matter how much or little A is using the secret. Often, but not always. A must have a legally valid proprietary interest in the secret; if not, B

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<sup>110</sup> See T.R. REID, THE CHIP: HOW TWO AMERICANS INVENTED THE MICROCHIP AND LAUNCHED A REVOLUTION 62-80 (2d ed. 2001).-

<sup>111</sup> Pamela Samuelson, *Privacy As Intellectual Property?*, 52 STAN. L. REV. 1125, 1154 n.148 (2000).

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may behave pretty badly without triggering liability for misappropriation.<sup>112</sup> If A's recipes are generic versions of staples like barbecued chicken or macaroni and cheese, B may put his son up to impersonate a worker in A's kitchen and acquire the recipes. B is not liable for trade secret misappropriation unless A's recipes are really non-ascertainable.<sup>113</sup> More relevant here, if A protects a secret's confidentiality only casually, employee B may quit, start a competitor, raid A's personnel, and develop a second version of the secret in competition with A. B is not liable for trade secret misappropriation unless A perfects his claim over the trade secret with reasonable precautions.<sup>114</sup> The common law use element extends that same general principle only slightly.

This requirement may sound tough, and it may cause hardship in some individual cases. Nevertheless, the non-ascertainability requirement deters research over generic products – on the ground that the law does not need to encourage innovation into generic information. The reasonable-precautions requirement also discourages innovation – on the ground that society gains net innovation and more effective use of innovations already discovered when claimants are required to signpost what intellectual works they do and do not claim as proprietary secrets. A “use it or lose it” requirement makes a similar gamble – society gains more overall actual consumption value from innovations if claimants are required to deploy the secrets they discover productively.

### C. Innovation

Nevertheless, some readers may wonder whether a strong use requirement would discourage individuals from investing in research and development. After all, trade secrecy law

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<sup>112</sup> See Lynn C. Tyler, *Trade Secrets in Indiana: Property v. Relationship*, 31 IND. L. REV. 339 (1998). Of course, B may be liable for other torts or breaches of fiduciary – just not unfair competition by the specific means of misappropriating a trade secret.

<sup>113</sup> See *Buffets, Inc. v. Klinke*, 73 F.3d 965 (9th Cir. 1996).

<sup>114</sup> See *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890 (Minn. 1983).

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has as one of its main objectives “the encouragement of invention.”<sup>115</sup> If we focus on how *trade secrecy* is institutionally hardwired to promote innovation, however, the objection is overdrawn.

To begin with, this argument is strong only to the extent to which a researcher has a reasonable legal expectation that intellectual property law protects his investment as much as he thinks it does. That expectation depends on “pre-existing limitation[s]” on the investor’s property rights, “inher[ing] . . . in the restrictions that background principles of the State’s law of property . . . already place upon land ownership.”<sup>116</sup> As this Essay has argued, however, at common law, researchers did not have a reasonable expectation that they could rely on trade secrecy law to sit on the useful fruits of research. Of course, in jurisdictions now governed by the Act, it is at least plausible that the Act changed background law and expectations. Here, the evidence is mixed. Read in isolation, the Act seems to change expectations. Especially when it speaks of “actual or potential” economic value, the Act’s text grants in a claimant the right to blockade non-owners and non-licensees from using secrets he could but is choosing now not to use. Yet trade secrecy is a common law field. In such fields, courts construe statutes generously to the extent they declare principles latent in the common law and narrowly to the extent they are in derogation of such principles.<sup>117</sup> That canon provides a pretty strong case for disregarding the Act, especially given our lessons thus far: The Act’s drafters mistakenly assumed that the common law of trade secrecy protects neither precommercial use nor negative know-how, did not consider the abandonment issue, and showed little familiarity with trade secrecy’s connection to usufructuary principles. If I were a judge, I would give the Act’s text priority over the derogation canon in a case such as this simply because the text seems fairly

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<sup>115</sup> *Kewanee Oil Corp. v. Bicron Corp.*, 416 U.S. 470, 481 (1974). *Accord* Lemley, *supra* note 65, at 329-332. I thank Chris Holman for encouraging me to develop the arguments considered in this section.

<sup>116</sup> *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 1029 (1992).

<sup>117</sup> *See, e.g.*, William N. Eskridge, Jr. & John Ferejohn, *Super-Statutes*, 50 DUKE L.J. 1215, 1218, 1246-47 (2001).

clear.<sup>118</sup> But the case is close – enough to raise real issues about what expectations researchers may reasonably claim they are guaranteed under the Act.

But let us abstract from what trade secrecy law requires and focus on what it ought to require. Again, to consider the relevant normative issues exhaustively, one would need complete empirical information relevant to the many indirect consequentialist issues that intellectual property regimes raise. Again, information seems not to exist now and unlikely to exist anytime soon.<sup>119</sup>

Even so, there are two reasons to be skeptical that a stringent use requirement would restrict innovation. First, by stipulation, the use element comes into play primarily when a first-discovering business has already written a line of research off. True, the business suffers greater financial losses if competitors can then use the research head to head against it. But it is not obvious that this extra competition will “hurt” the business significantly more than its write-off did. Or that the competitor will actually use the product in head-to-head competition.

Second, given what this Essay teaches about trade secrecy, trade secrecy is institutionally hardwired *not* to consider the relation between rights and investment as does the objection under consideration. The objection assumes that the innovation/competition balance in trade secrecy resembles the corresponding balance in patent. As Part IV explained, however, trade secrecy strikes a different balance. At a high level of abstraction, intellectual property rights of *any* sort create costs on owners and non-owners. An owner must expend private costs either applying for a patent or taking reasonable precautions to keep a secret secret. Depending on the intellectual property rights at stake, non-owners must expend private costs to steal innovations, to discover

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<sup>118</sup> That said, I do not think the Act’s text requires judges to enter injunctions for unused secret works on the same terms as they do for used ones. See *infra* notes 131-132 and accompanying text.

<sup>119</sup> Cf. George Priest, *What Economists Can Tell Lawyers About Intellectual Property*, 8 RESEARCH IN L. & ECON. 19 (1986).

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them independently, or to bargain with owners for licenses or transfers.<sup>120</sup> Patent law makes a relatively aggressive gamble: The social costs that accrue when early innovators use control rights to blockade and demand bargains with later innovators are outweighed by the social gains from encouraging an inventor to develop an invention that would not otherwise have been discovered.<sup>121</sup> Trade secrecy makes a relatively cautious gamble: The social costs of restricting parallel innovation outweigh the gains the first discoverer would generate if he were given exclusive rights to discover the secrets. To be sure, some companies may use trade secrecy to protect “high tech” discoveries on the ground that they can protect the discoveries longer with trade secrecy than they can with a 20-year patent.<sup>122</sup> But trade secrecy’s presumptions should not be adjusted to apply to an intellectual discovery when it is patentable and the discoverer refrains from applying for a patent for opportunistic reasons.

#### D. Line-Drawing and Safe Harbors

Lawyers and judges, however, may wonder whether it is too difficult in practice to determine whether a business decisively rejects or discontinues efforts to develop underused but still-valuable secrets. There are at least two possible problems. In some situations, market conditions make it impossible or infeasible for a secret claimant to deploy it productively. *Ferrolite Corp.* suggests this problem; the first developer of a pentacarbonyl-producing process used the process intermittently in part because pentacarbonyl was needed for commercial uses only intermittently.<sup>123</sup> On one hand, if the use requirement is applied too strictly in a case such as this, it penalizes the discoverer of a secret for market conditions beyond his control; on the other hand, if the use element is retained but applied leniently, claimants may try to circumvent

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<sup>120</sup> See Steven N.S. Cheung, *Property Rights in Trade Secrets*, 20 *ECON. INQUIRY* 40, 49 (1982).

<sup>121</sup> See Mark A. Lemley, *The Economics of Improvement in Intellectual Property Law*, 75 *Tex. L. Rev.* 989, 993-1000 (1997).

<sup>122</sup> See David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 *J. ECON. PERSP.* 61, 62-64 (1991).

<sup>123</sup> See *supra* note 104 and accompanying text. I thank Robert Suggs for encouraging me to consider this objection.

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the requirement by citing market conditions as a pretext for what is actually abandonment through disuse. This situation presents a legitimate hard case. But the law should not discard a principle that applies well across many cases simply because it is difficult to apply to a few cases. Similar problems arise elsewhere in property law. It can be hard to nail down the scope of a usufruct in a river when the river level drops suddenly and unexpectedly, or the scope of a land owner's possessory interest in using a farm free from pollution when blight or drought makes the farm unusable temporarily for its primary intended use. Neither problem is so great that the relevant law despairs of protecting use rights. In trade secrecy, better to leave all claimants with a clear responsibility to put their discoveries to productive use and trust that judges will understand the use element well enough to apply it conscientiously to cases like *Ferroline Corp.* If companies in an industry find this approach too risky, they may and probably should petition for more specialized legislation, whether at the state or federal level, specifying and securing their rights.

The other problem is more general: In everyday practice, businesses may not decisively terminate research on potentially valuable secrets very often. For example, in *General Aniline & Film Corp. v. Frantz*, General Aniline sued Frantz, an ex-employee, who reduced to practice and started selling commercially an electrostatic photocopier that General Aniline had been developing on and off for three years.<sup>124</sup> General Aniline had planned to commercialize the copier in early 1962 but decided against doing so later in that year due to critical recommendations from its commercial development department.<sup>125</sup> Later in 1962 and in 1963, the company unsuccessfully attempted to negotiate with Smith-Corona and Minolta to see if

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<sup>124</sup> 272 N.Y.S.2d 600 (N.Y. Sup. Ct. 1966).

<sup>125</sup> *Id.* at 603-04.

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either company would be interested in producing the copier.<sup>126</sup> The project then lay idle for more than a year, until the company reactivated the program in late 1964.<sup>127</sup> Since precommercial development and efforts to license both count as “use,”<sup>128</sup> General Aniline clearly had a trade secret in the photocopier design as of mid-1963. If the trial court had found for Frantz on an abandonment theory,<sup>129</sup> however, it would have needed to say that General Aniline relinquished its property claim by leaving the photocopier on the back burner for a year. Such a holding may seem formalistic. Courts may be uncomfortable enforcing such distinctions.

I do not deny that this objection raises serious practical problems. Let me close, however, by offering a few suggestions for how those problems can be mitigated. Many of these disputes may be simplified if lawmakers or judges institute presumptions. Most simply, if a business discontinues efforts to commercialize or reduce a secret to practice for more than a year, perhaps a trier of fact should presume that the secret is abandoned by disuse. If practitioners find a year too short and harsh, they can substitute a longer time frame, perhaps two years. By contrast, if a business is engaged in any efforts to commercialize or license a secret, the trier of fact should presume strongly that the business is using the secret, and reverse that presumption only if the confidante shows that the business’s efforts are in bad faith. Bad faith would exist if, for example, General Aniline had entered into negotiations with Smith-Corona but insisted on royalties so high as to be all but certain to sabotage the negotiations.

Another and, to my mind, extremely constructive proposal would be to institute presumptions encouraging the party who wants to use the discovery in dispute to make a demand on its technical claimant. Assume that a business discontinues efforts to reduce to practice and

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<sup>126</sup> *Id.* at 604.

<sup>127</sup> *See id.* at 605.

<sup>128</sup> *See supra* Section V.A; *see, e.g.*, *Sikes v. McGraw-Edison Co.*, 671 F.2d 150, 151 (5th Cir. 1982), *cert. denied*, 458 U.S. 1108 (1982).

<sup>129</sup> It did not. *See General Aniline Corp.*, 272 N.Y.S.2d at 1001-02.

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commercialize a secret discovery and that a confidante of that business (an employee, or a licensee producing goods with the secret) formally demands that the business resume work within a reasonable time or abandon its secrecy claim. If the business resumes active efforts, the business should be presumed to keep the secret; if it does not do so within the appointed time, the law should then presume that the secrecy claim is abandoned through disuse. Some may doubt whether the law or the trier of fact learn anything they didn't already know from the confidante's demand and the business's response.<sup>130</sup> Yet the demand forces both the business and the confidante to reveal their true preferences by their behavior. If the confidante makes a demand, he believes the secret so commercially valuable and so underused that he is willing to jeopardize his existing relationship with the business. If the business resumes efforts to reduce to practice or commercialize the secret, it signals *it* thinks it holds the property interest and agrees with the demander's assessment of the secret's potential. If the business does little in response, it signals it places fairly low priority on the discovery's commercial potential and confirms that the confidante deserves an opportunity to vindicate his optimistic assessment of that potential. In addition, the demand may encourage the business to negotiate a license or buy-out. Such an arrangement would resolve the dispute more amicably than litigation; in such litigation, it is quite likely that the business will accuse the ex-confidante of being a thief or a traitor.

My last suggestion is this: Courts need not resolve abandonment disputes on an all-or-nothing basis. *Iloff* is an extremely suggestive precedent because it used abandonment facts, not to establish prima facie liability, but rather at the remedy stage.<sup>131</sup> Victor Chemical's discontinued use of the secret provided proof that the company did not stand to suffer the

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<sup>130</sup> I thank Rebecca Tushnet for encouraging me to consider this objection.

<sup>131</sup> *Victor Chemical Works v. Iloff*, 132 N.E. 806, 813 (Ill. 1921).

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irreparable harm that a secret claimant normally suffers from misappropriation.<sup>132</sup> That holding makes considerable sense in many abandonment disputes as I am describing them here. In situations in which an ex-confidante and a business are quarrelling over ownership of a secret, the dispute has the characteristics of a merger dispute – like the one in which I use my labor and your wood and axe to build myself a house.

*Hliff* points toward a merger approach. If the business has at least a colorable claim to continue using the secret and the ex-confidante appropriates it furtively and maliciously, that counts as a strong reason to assign the business use right and to award the business the injunction it would normally deserve. Ordinarily, injunctions properly align employees' incentives with employers': "If the employee fails to reach his goal the loss falls upon the employer, but if he succeeds in accomplishing the prescribed result then the [discovery] belongs to the employer . . . ."<sup>133</sup> If, however, the employer declines to pursue the commercial potential in a discovered secret, the public's interest in competition and the employee's interest in self-help justify the employee's attempt to exploit that potential. Those factors counsel against entering the otherwise-routine injunction. At the same time, since the employer supported the development of the secret to some substantial extent (and probably claimed ownership of the secret under standard-form employment contract provisions), he deserves some compensation for the secret's value and his research and development costs. In these situations, it makes considerable practical sense to award the employer a judgment for misappropriation but limit him to a damage remedy. The business gets compensatory damages or an after-the-fact royalty roughly approximating its lost costs, but because the ex-confidante is not subject to an injunction, it keeps any upside it manages to extract from commercializing the secret.

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<sup>132</sup> *Id.*

<sup>133</sup> *National Dev. Co. v. Gray*, 55 N.E.2d 783, 787 (Mass. 1944).

## VII. Constructive Criticism, Damage Control, and Conclusion

Let me restate my conclusions and offer a few pieces of constructive criticism where it is warranted. When the drafters of the Uniform Trade Secret Act omitted from their model statute a “use” requirement, they introduced into trade secrecy statutory law a significant departure from the common law’s foundations in usufructuary property rights. Fortunately, this conceptual departure is unlikely to create problems for trade secrecy anywhere near as significant as the problems Mark McKenna traced in the evolution of the “use” and “value” principles in trade mark.<sup>134</sup>

This Essay has identified three important consequences that followed when the Act’s drafters omitted the “use” requirement. That omission diminished the likelihood that courts would apply foundational trade secrecy principles mistakenly in precommercial-use and negative know-how disputes. Although I doubt whether this risk was as significant as the drafters seemed to think, I acknowledge that the Act was salutary in these two respects. More important, however, the Act now gives the discoverers of secrets perverse incentives in abandonment disputes: to sit on secrets they do not intend to use.

Let me close with a few pieces of advice about abandonment disputes. One piece is directed to judges and lawyers in jurisdictions that still follow common law unfair competition principles or the authority of the First Restatement of Torts: Don’t go weak at the knees simply because the Act and modern commentators think that the “use” requirement should be ignored. In situations in which the claimant of a secret seems to be sitting on it without developing it, the “use” requirement provides a clean doctrinal way to free the information for active and productive use by someone else with access to it. The Act’s commentary and other leading

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<sup>134</sup> See generally McKenna, *supra* note 4.

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authorities justify abolishing the “use” requirement by citing other fact patterns where it encourages bad results when wrongly construed. However, courts in common law jurisdictions have not misconstrued the use principle as those authorities worried they would. In addition, neither the Act’s drafters nor leading treatise writers have sufficiently considered the abandonment scenario and the doctrinal work a “use” requirement does in that scenario.

I have different advice for judges and lawyers who practice in jurisdictions that have adopted the Act, and for participants in the Uniform Law Commission in case they ever consider revisions to the Act. In the long term, Act jurisdictions may want to consider making slight modifications to their local versions of the Act. The simplest amendment might be to delete the word “potential” and replace it with the phrase “reasonably imminent,” so that the first clause of the Act’s definition of “trade secret” would read:

Derives independent economic value, actual or **reasonably imminent**, 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.

In the short term, however, until such amendments are incorporated into state trade secrecy statutes, judges and lawyers should consider whether any existing doctrines provide doctrinal escape hatches in cases in which a secret claimant sits on a secret. There are two possibilities. Both should be considered, but only one should be used.

First, courts might consider resurrecting the principle of abandonment through disuse as I have explained it in Part VI, as if the Act had never been passed. I would not encourage this approach. Although I disagree with the Act’s consequences, I do think the Act’s text mandates those consequences clearly enough. Any secret information with “actual or potential” economic value counts as a legal secret even if unused.

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Separately, when the facts make it seem appropriate, courts should consider using merger principles to split claims to the economic value of secrets in abandonment disputes. Nothing in the Act stops courts from using their equitable discretion to specify how far claimants' proprietary interests really run in trade secrets. The Act is layered over the general policy instincts that trade secrecy hardwired into the common law and equity long before the Act was drafted. Merger principles strike a decent balance. Normatively, they recognize some force to the claims of secret's original discoverers, but they also transfer equitable ownership to another party more interested in enlarging the value of that equitable interest. Legally, they respect the formal text of the Act, but they limit the extent to which that text wreaks consequences that are unintended and inconsistent with the principles unifying trade secrecy.