

7-1-2013

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### Recommended Citation

Jonathan R. Stroud, *The Tragedy of the Commons: A Hybrid Approach to Trade Secret Legal Theory*, 12 Chi. -Kent J. Intell. Prop. 232 (2013).

Available at: <http://scholarship.kentlaw.iit.edu/ckjip/vol12/iss2/4>

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# THE TRAGEDY OF THE COMMONS: A HYBRID APPROACH TO TRADE SECRET LEGAL THEORY

*Jonathan R.K. Stroud\**

## INTRODUCTION

*If you say my name, then I am gone.<sup>1</sup>*

The current legal theories explaining U.S. trade secret law incompletely and inadequately explain the law's existence, utility, and justification. Academics and the courts continue to debate theories supporting trade secret protection sounding in tort, contract, or property. This results in confusion, uneven judicial enforcement, and uncertainty. What is protected? Will it be enforced? Rights-holders do not have the answers.

The academy's failure to adequately explain the policy governing trade secret law confuses innovators as to what is protected, how, and why. This leads directly to the loss of substantial investment in innovation. Thus, state trade secret laws as explained by existing theories are inefficient, reactionary, and largely illusory. This Article presents a better approach.

Trade secret law encourages companies to innovate by providing protection not offered by other forms of intellectual property rights. The laws ostensibly serve to recoup time and money spent pursuing innovation or investment—innovation or investment that may benefit the greater public good. Without strong trade secret protection, the “tragedy of the commons” leads to the unfair destruction of the fruits of capital and labor and discourages investment in activities calculated to benefit the public.<sup>2</sup>

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\* American University Washington College of Law, JD 2013, *cum laude*. I would like to thank the hundreds of people who have helped me throughout my as-yet-short career who, as always, will mostly be neglected due to space limitations—thank you all, deeply. In particular, I would like to thank, in ascending order of importance for this article's purpose: Professor Andrew Popper, for his excellent mentoring and friendship throughout the years; former Administrative Law Judge Robert K. Rogers, for the same; Professor Jonas Anderson, for his excellent trade secret class, his constant availability, his congeniality, and his support; P. Andrew Riley, who has been a skillful mentor, and who has always provided excellent advice; and last and most importantly, to Viki Economides, who sparked my interest in trade secrets with her publication in the field, and who is the best part of my life.

<sup>1</sup> LA VITA È BELLA (Miramax Films 1997).

<sup>2</sup> See *infra* Part I.

This Article's examination of trade secret protection begins with a discussion of the legal and theoretical backgrounds of trade secret law in Part I. Next, Part II argues that both the property and contract theories behind trade secret law fail to adequately protect innovation and investment because they generally require privity and only act retrospectively to compensate for trade secret misappropriation. Finally, Part III proposes a hybrid property theory that blends elements of both property and tort trade secret theories in an attempt to recalibrate the incentives U.S. law offers innovators in the Internet age.

## I. BACKGROUND

### A. *The Legal Basics of Trade Secrets*<sup>3</sup>

State common law and state statutes represent the vast majority of the body of trade secret law in the United States.<sup>4</sup> Today, the Uniform Trade Secrets Act (UTSA)<sup>5</sup> and/or some form of the Restatements of Law<sup>6</sup> have influenced nearly all state trade secret law.<sup>7</sup> Forty-eight states and the International Trade Commission (ITC)<sup>8</sup> rely in some way on the UTSA for guidance.<sup>9</sup> The UTSA defines a trade secret as:

[I]nformation . . . [that] derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and . . . is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>10</sup>

The UTSA's analysis of trade secret violations has four elements: (1) subject matter (i.e., there is a secret), (2) commercial value; (3) reasonable measures to keep secret; and (4) acquisition through improper means.

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<sup>3</sup> Note that the background section is derived and paraphrased from, and substantially repeated elsewhere in, my published literature, most notably in Jonathan R.K. Stroud & P. Andrew Riley, *Trade Secrets at the International Trade Commission: A Survey*, 15 COLUM. SCI. & TECH. L. REV. 21 (forthcoming Nov. 2013).

<sup>4</sup> Some federal statutes ostensibly govern or incorporate elements of trade secret protection. The Economic Espionage Act most notably governs criminal penalties for trade secret violations, with a focus on international espionage. A more complete discussion of the federal statutes and remedies is beyond the scope of this paper.

<sup>5</sup> UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 529 (2005).

<sup>6</sup> RESTATEMENT (FIRST) OF TORTS (1939); RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995).

<sup>7</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1995).

<sup>8</sup> See *infra* Part II.

<sup>9</sup> Texas became the forty-eighth state to adopt trade secret protection in May of 2013 when it passed the Texas Uniform Trade Secrets Act (TUTSA). See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002 (West 2013).

<sup>10</sup> UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 538 (2005).

The so-called Restatements definition of trade secrets, derived from the now-defunct Restatement of Torts,<sup>11</sup> uses a more subjective balancing test. A trade secret under the Restatement of Torts was “any formula, pattern, device,” or otherwise, that is secret and is not a matter “of public knowledge.”<sup>12</sup> That definition has been expanded to now include “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”<sup>13</sup>

The old Restatement of Torts definition balanced the following six factors:

(1) the extent to which the information is known outside of [the plaintiff’s] business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>14</sup>

The misappropriation of a trade secret generally requires a confidential relationship between an employer and an employee, and a breach of that confidence.

### *B. The Current Theoretical Bases of Trade Secrets*

The academy and the courts generally agree that “[t]he law governing protection of trade secrets essentially is designed to regulate unfair business competition.”<sup>15</sup> Judges and scholars have argued that trade secret actions are based variously in tort, contract, and property law theories.<sup>16</sup> Unfortunately, courts, scholars, and other legal authorities disagree on which theory should control. For instance, according to one leading treatise, “the basis for trade secret protection rests on both property and tort theories, in which a plaintiff must establish the existence of a trade secret and the fact of misconduct by the defendant.”<sup>17</sup>

As stated above, state law seeks to provide a remedy for acts of unfair competition perpetrated against companies acting in good faith.<sup>18</sup> It balances the employer’s right to enjoy the fruits of his capital investment against the laborer’s

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<sup>11</sup> RESTATEMENT (FIRST) OF TORTS (1939).

<sup>12</sup> RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (1939).

<sup>13</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

<sup>14</sup> RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

<sup>15</sup> *Univ. Computing v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974).

<sup>16</sup> *But see* Christopher Rebel J. Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 428 (1995) (“this cause of action more closely resembles a property right than an ordinary tort”).

<sup>17</sup> PHILIP F. POSTLEWAITE ET AL., FEDERAL INCOME TAXATION OF INTELLECTUAL PROPERTIES & INTANGIBLE ASSETS ¶ 4.01 (2012).

<sup>18</sup> *See Univ. Computing*, 504 F.2d at 539; *see also supra* text accompanying note 14.

interests in mobility and retention of acquired skills and knowledge. The tort/contract “relationship” theory and the “property” theory dominate the discussion. Neither theory alone sufficiently justifies the law or rewards innovation and investment.

Both dominant theories—the relationship and property theories—arise from the social contract theories of the renaissance. The work of the philosophers John Locke and Adam Smith exemplify these social contract theories. John Locke developed the labor theory of acquisition, which advocated for a system where individuals could retain property rights in the fruits of their labor as the most efficient means of encouraging such labor.<sup>19</sup> Adam Smith argued instead that property rights are the only efficient means to avoid the inefficient “tragedy of the commons,” whereby all rational yet self-interested actors in a system will deplete or destroy resources to their immediate benefit, but ultimately hurt the long-term interests of the state.<sup>20</sup> Thus, both a relationship approach emphasizing the natural rights of the two parties at issue and a property approach emphasizing the rights of the individual vis-à-vis the state share the same common theoretical root—a social contract theory based on efficiently rewarding labor by awarding rights to the fruits of that labor.

### *C. Tort/Contract Theory of Trade Secrets—Relationships*

The tort and contract theories of trade secrets are closely linked in that they both root in equity as protecting the parties’ natural rights—Locke’s “life, liberty, and the pursuit of property.”<sup>21</sup> Tort law rests on relationships between parties and the subsequent duty to bear the costs of any harm inflicted; contract law expressly recognizes the parties’ intent to create such a relationship.

In trade secret law, the relationship theory focuses on balancing the employer’s rights with that of the employee, and is less concerned with the larger aspects of social innovation and economic growth. For instance, some courts have concluded that a party given access to a trade secret through confidential disclosures may still be held to have misappropriated the trade secret, even *after* general publication,<sup>22</sup> and even in situations where the secret was not truly “secret” to begin with.<sup>23</sup> For example, a Pennsylvania court applying the relationship theory held that ingenious shipping containers could be protected, despite the fact that the design made the “secret” readily apparent to

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<sup>19</sup> JOHN LOCKE, *Second Treatise of Government*, in TWO TREATISES OF GOVERNMENT (Peter Laslett ed., Cambridge Univ. Press 1988) (1690).

<sup>20</sup> ADAM SMITH, AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS, BK. I, CH. II (Prometheus Books Pub. 1991) (1776) (explaining at length the “tragedy of the commons” problem inherent in nature). The term “tragedy of the commons” was later developed in an influential essay by ecologist Garrett Hardin. See Garrett Hardin, *The Tragedy of the Commons*, 162 SCIENCE 1243 (1968).

<sup>21</sup> LOCKE, *supra* note 19, §§ 87, 123, 209, 222.

<sup>22</sup> See, e.g., *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1228 (7th Cir. 1982) (applying Minnesota law).

<sup>23</sup> See *infra* note 25 and accompanying text.

anyone seeking to reverse-engineer the devices.<sup>24</sup> Thus, the bad acts of the misappropriator could be punished, despite the lack of an actual “secret from society” in general, because of the privity between parties and the duty owed to the employer. Had the case been brought against a third-party purchaser of the “secret,” however, the plaintiffs would have lost under a pure relationship theory.

*D. The Property Theory of Trade Secrets—Rights Against the World*

A true property theory, instead, is rooted in the party’s relationship with the state. This true “social contract” theory seeks to reward individual actors for innovation, expense, and labor, at the immediate expense—but long-term gain—of other parties.<sup>25</sup> The state rewards individual innovation, knowledge, and labor in the short-term in exchange for the long-term benefit to society.

This theory directly confronts the “tragedy of the commons” problem, and is the basis of patent law.<sup>26</sup> For instance, if an employee who steals the trade secret publishes it to the world (e.g., posts it on the Internet or otherwise publicly discloses it), all rational businesses would use the publicly available information to compete. The competition almost always drives prices so low that no one innovator could recoup research and development costs. The disclosure destroys the incentive to innovate or invest—the tragedy—by the rational market actions of others—the commons. A property right in the fruits of that innovation or investment counterbalances the problem by preventing rational market actors from destroying the socially beneficial incentive—one they, too, would like to utilize if the situation was reversed.

Thus, a *true* effectual property regime in trade secrets would proscribe rigid categories of invention, and reward innovators for the fruits of their labor with a right to exclude *any others* not independently developing those rights.

The more-rigid UTSA definition of trade secrets is ostensibly a property theory, encouraging protectable, proscribable assets in an attempt to offset the machinations of the tragedy of the commons. However, the traditional property theory of trade secrets contains one major flaw. Applying (perhaps erroneously) this strict property theory of trade secrets conjunctively and prospectively (i.e., reading the UTSA as requiring the four elements listed below to be both

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<sup>24</sup> *Smith v. Dravo Corp.*, 203 F.2d 369, 373–74 (7th Cir. 1953).

<sup>25</sup> *See Pace*, *supra* note 16, at 428 (“[T]he prevailing modern justification for protecting against trade secret misappropriation is that such protection permits businesses to reap the benefits of their activities—again a property concept distinguishable from the usual tort justification of requiring persons to bear the costs of their harmful activities.”).

<sup>26</sup> The theory traces back to Aristotle: “That which is common to the greatest number has the least care bestowed upon it. Every one thinks chiefly of his own, hardly at all of the common interest; and only when he is himself concerned as an individual.” ARISTOTLE, *POLITICS*, BK. II, CH. III 17 (BENJAMIN JOWETT trans., *THE POLITICS OF ARISTOTLE: TRANSLATED INTO ENGLISH WITH INTRODUCTION, MARGINAL ANALYSIS, ESSAYS, NOTES AND INDICES*, Oxford, Clarendon Press 1885) (384–322 BC).

contemporaneous with the use of the subject matter by another *and* that it currently be secret), courts have held that once bad actors publish secret material, it ceases to be secret, thereby destroying any value.<sup>27</sup>

Recall that the UTSA approach has four elements: (1) subject matter (i.e., there is a secret), (2) commercial value; (3) reasonable measures to keep secret; and (4) acquisition through improper means. Thus, if a chemical formula *was* secret, *had* value, and the innovator *had* used reasonable measures to keep it secret, the disclosure of the secret *originally* through improper means should not destroy the owner's right against the world prospectively.

Instead, courts have ruled that once a secret is initially "disclosed," any further right is destroyed beyond the original instance.<sup>28</sup> Applying such a strict secret subject-matter understanding of trade secrets under the UTSA in such a manner fundamentally misunderstands the goals for and reasoning behind a property-based regime. The UTSA's "secret" requirement should not be used to prospectively limit recovery.

## II. ARGUMENT: BOTH THEORIES ARE IMPERFECT

The relationship theory *and* property theory, taken separately and strictly applied, inadequately protect substantial investment in innovation by limiting prospective rights in trade secrets. They do so in two problematic ways. First, the relationship theory generally requires privity between employer and the employee-misappropriator. The privity requirement limits recovery to those immediately involved in the transaction and limits the scope of relief, destroying the social incentive to innovate and/or invest.

Second, both theories act retroactively to compensate "victims" and do not adequately apply prospectively. Courts limit exclusionary remedies to the parties involved in the lawsuit currently, and in general fail to protect a right once a bad actor publishes a secret.

Two key modern developments render each theory inadequate: first, the ease of Internet publication (and thus worldwide destruction of secrecy)<sup>29</sup>; and second, the international practice of patent application publication.

Both create new problems rendering traditional trade secret protections valueless. If a single misappropriator or other third party can destroy the prospective value of a secret instantly and cheaply via the internet, court judgments against the misappropriator will drastically undercompensate the

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<sup>27</sup> See, e.g., *Group One v. Hallmark Cards*, 254 F.3d 1041, 1045 (Fed. Cir. 2001) (applying Missouri law and finding that a prior PCT publication destroyed any trade secret right); *Electro-Craft Corp. v. Controlled Motion*, 332 N.W. 2d 890, 897 n.5 (Minn. 1983) (disagreeing with *Goldberg*, 686 F.2d at 1227).

<sup>28</sup> Cf. *Shellmar Products Co. v. Allen-Qualley Co.*, 87 F.2d 104, 108 (7th Cir. 1937) (enjoining potential licensee from using licensor's trade secret process after disclosure, but only because the enjoined party had misappropriated the now-disclosed process prior to disclosure).

<sup>29</sup> See Bruce T. Atkins, Note, *Trading Secrets in the Information Age: Can Trade Secret Law Survive the Internet?*, 1996 U. ILL. L. REV. 1151, 1161 (1996).

innovator for his or her lost rights and value against the world. Recent examples illustrating the value of stolen trade secrets include single employees stealing secrets worth \$50 million, \$400 million, or more.<sup>30</sup> The likelihood that a single actor has the means or ability to repay an innovator company, even if caught, is small. If the trade secret is disclosed in a published patent application, the publication will likely be permanent and irreversible.

Thus, downstream effects now dominate the equation<sup>31</sup> and demand a new theory and policy. In the Internet age and with public patent application publication, privity matters far less than it once did. An “innocent” third party should not reap a windfall based on a privity party’s bad action. This is particularly true when the means of publication to the world is an officially sanctioned irreversible publication, such as a patent application.

Take the case of *In re Rubber Resins and Processes for Manufacturing Same*.<sup>32</sup> *Rubber Resins*, an ongoing ITC trade secret “§ 337” investigation, involves a highly valuable chemical manufacturing process for commercial-grade rubber tackifier necessary for most tire production.<sup>33</sup> The complainant, SI Group, Inc., and multiple respondents from China, Hong Kong, and Canada (collectively, Sino Legend) disputed the origin of a chemical manufacture process.<sup>34</sup> The complaint alleges that an employee who knew the chemical process was hired away by a competitor, and, subsequently, Sino Legend applied for a Chinese patent application, thus publishing the “secret” to the world.<sup>35</sup> The more than sixty-page complaint includes facts stretching back to 2004, and SI Group claims the formula took over a quarter of a century and substantial resources to develop.<sup>36</sup>

Should SI Group’s substantial investment be destroyed because of public disclosure? No.<sup>37</sup> The law allows SI Group to recover damages only against the

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<sup>30</sup> EXEC. OFFICE OF THE PRESIDENT, ADMINISTRATION STRATEGY ON MITIGATING THE THEFT OF U.S. TRADE SECRETS 1, 4 (2013) (misappropriator caught stealing trade secrets worth \$50 million); *id.* at 5 (\$400 million).

<sup>31</sup> See Pace, *supra* note 16, at 439–40 n.44 (defining four factors rational parties weigh, including eventual disclosure, but finding that reasonable companies ignore some of other the additional factors, resulting in downstream effects—the financial losses following unauthorized disclosure—dominating the judgment equation on whether trade secrets give worthwhile protection); see also JOSEPH A. SCHUMPETER, CAPITALISM, SOCIALISM AND DEMOCRACY 84–85 (3d ed. 1950) (arguing an economy’s growth wholly depends on incentives and ability to innovate).

<sup>32</sup> Certain Rubber Resins and Processes for Manufacturing Same Institution of Investigation Pursuant to 19 U.S.C. 1337, 77 Fed. Reg. 38,083-01 (June 26, 2012).

<sup>33</sup> *Id.*

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

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

<sup>37</sup> *But see* Group One v. Hallmark Cards, 254 F.3d 1041, 1051–52 (Fed. Cir. 2001) (finding under a “property” theory that PCT publication destroyed secrecy and thus no trade secret existed).

misappropriating company who published the secret, Sino Legend. Sino Legend certainly does not have the resources to cover, nor should it be responsible for, all of the damage resulting from competition from all other market actors in the field. SI Group's many competitors, on the other hand, will be allowed to continue to use SI Group's once-secret process, thereby destroying SI Group's competitive advantage. Even if Sino Legend had the resources to "cover" all of the loss of competitive value for the disclosure, and even if such damage could be calculated, forcing Sino Legend to pay *all* of the damages for their wrongdoing would shift the loss *entirely* away from third parties, giving them no incentive to *not* simply jump on the first disclosure and reap an unremitted windfall.

The "tragedy of the commons" should not be allowed to rule. Courts and the U.S. International Trade Commission should (and can) order prospective exclusion orders to allow companies investing in property to retain the economic benefit of that investment.

Regarding retroactivity, a hybrid trade secrets approach recognizes that worldwide instantaneous publishing renders financial and injunctive relief only between parties in privity wholly insufficient, particularly when measuring the timelines in court against the nanoseconds of the modern marketplace. Indeed, by analogy scholars have argued persuasively in the Federal context that a modified federal version of trade secrets<sup>38</sup> would more appropriately balance and reward substantial investment in secret innovation, something Professor Jonas Anderson of American University, Washington College of Law has recently advocated in his article, *Secret Inventions*.<sup>39</sup> Indeed, "in a private market economy, individuals will generally not invest in invention or creation unless the expected return from doing so exceeds the cost of doing so," i.e., the investment will result in a profit.<sup>40</sup>

### III. A PROPOSED SOLUTION: A HYBRID RELATIONSHIP/PROPERTY THEORY

A hybrid approach, on the other hand, protects investment and innovation better, sweeps wider, and rewards more fully the socially beneficial use of capital than either the relationship or property theory alone. A hybrid theory considers *both* the individual wrong being compensated—the tort or contract violation—and the secret subject matter destroyed—the property right. By recognizing both, courts and scholars can apply the existing frameworks more effectively thereby rewarding rights to innovators against third parties. The

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<sup>38</sup> See, e.g., Pace, *supra* note 16.

<sup>39</sup> J. Jonas Anderson, *Secret Inventions*, 26 BERKELEY TECH. L.J. 917, 956–75 (2011) (supporting a "choice" regime whereby patents and trade secrets may complement one another, and advocating for a "secret invention registry" and other forms of tangibly fixing trade secrets in advance of any potential misappropriation).

<sup>40</sup> Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1054 (2005).

hybrid approach thus emphasizes the importance of protecting the trade secret owner's innovation investment by analyzing the nexus between the secret and the *initial* misappropriation, and offering the possibility of widespread prospective exclusion against third parties after misappropriation.

The cases of *Smith v. Dravo Corp.*<sup>41</sup> and *ILG Industries v. Scott*<sup>42</sup> support this argument. In *Dravo*, the defendant obtained through a confidential relationship, knowledge of the plaintiff's rather ingenious interlocking shipping container design. Applying a Restatement-like analysis under Pennsylvania law, the court ruled for the plaintiff, rewarding the substantial investment in the innovation, while remarking that the container design was not an "invention" *per se* and could have been easily reverse-engineered from public models.

Under a traditional property theory, this lack of outright secrecy—i.e., the relative ease of reverse-engineering—would have been fatal to the plaintiff's claim. Indeed, the court had difficulty identifying the subject matter being protected, and whether Smith made reasonable efforts to maintain its secrecy (given the ease of reverse-engineering). A conjunctive analysis requiring those two factors would have precluded the plaintiff from recouping substantial investment in the shipping containers. Instead, while the court said that "confidential business information is not given protection merely as a reward to its accumulator,"<sup>43</sup> the court ostensibly applied a relationship theory of trade secrets, finding a violation. The court held that the bad actions of the defendant merited punishment under "the general principle that intentionally inflicted harm is actionable unless privileged."<sup>44</sup>

Had the relationship *not* existed between parties, e.g., the designs were stolen and published on the internet, should the plaintiff have not been entitled to reasonable *prospective* protection of his investment? Under the hybrid approach, the lack of secrecy would not destroy the claim. Instead, a court could allow the plaintiff to enjoin others from making or using the invention for a limited period of time given that the disclosure occurred against his will, and he had yet to recoup his investment fully. Courts would enjoy powers in equity that would allow them to exclude others from making or using the secret.

Similarly, in *ILG Industries v. Scott*,<sup>45</sup> defendants were enjoined from using certain drawings of "industrial fan designs" obtained through improper means despite the ability to ascertain those designs from commercially available

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<sup>41</sup> *Smith v. Dravo Corp.*, 203 F.2d 369, 373 (7th Cir. 1953) ("Pennsylvania will not deny recovery merely because the design could have been obtained through inspection."). *Contra* *Van Prods. v. Gen. Welding & Fabricating*, 213 A.2d 769, 779 (Pa. 1965) (rejecting *Dravo's* equitable relationship theory in favor of a pure property theory).

<sup>42</sup> *ILG Industries, Inc. v. Scott*, 49 Ill. 2d 88, 89–95 (1971).

<sup>43</sup> *Dravo*, 202 F.2d at 375.

<sup>44</sup> *Id.* (quoting Note, *Protection and Use of Trade Secrets*, 64 HARV. L. REV. 976, 978 (1951)).

<sup>45</sup> At the time this case was decided, Illinois was also a Restatement jurisdiction.

information.<sup>46</sup> The court enjoined the defendants from using those designs and also enjoined them from delivering or selling any component built on information derived from those designs.<sup>47</sup> Affording *prospective* exclusion akin to a patent right makes sense in the context of trade secrets misappropriated and purposefully passed to third parties. Those third parties would otherwise benefit from the bad actions of others, providing an incentive to seek out bad actors such as disgruntled employees to misappropriate trade secrets for them. *ILG Industries* illustrates that the hybrid approach would stop third parties from skirting liability and experiencing a windfall at the expense of the innovator.

Rather than holding that no secret existed, the court granted a limited exclusion order (similar to ITC exclusion orders or rights given to patent owners), not with the intent to allow the defendants to recoup their hard-earned competitive advantage, but rather to compensate them for the wrong committed against them.<sup>48</sup> “What in reality is protected in cases of this nature is not the product or process, but the secrecy of it [ . . . ] Commercial morality is preserved by preventing one from wrongfully using secret information for a period of time no longer than that required to discover or reproduce that information by lawful means.”<sup>49</sup> While I agree with the outcome, I find the reasoning flawed. Why should the outcome differ if the information had been stolen and published by a party not in privity with the plaintiff? The court’s reasoning does not address the property value of the secret itself, and thus allows third parties to benefit from the wrong of another without protecting the investment of the innovator.

These cases provide support for the basic provision found in *Metallurgical Industries v. Fourtek, Inc.*: “[A] trade secret can exist in a combination of characteristics and components each of which, by itself, is in the public domain, but the unified process, design and operation of which in unique combination, affords a competitive advantage and is a protectible secret.”<sup>50</sup>

Thus, even a currently *public*, non-secret innovation can (and should) qualify for trade secret protection if the company attempted, but failed,<sup>51</sup> to keep that valuable information secret. Under the hybrid property/relationship approach, parties could protect secret inventions made public, while not necessarily requiring relationships between the owners of trade secret inventions and the bad actors.

These cases pay lip service to relationship reasoning, but hold more in line with protecting substantial investment in the research and development of intellectual property. Compare these cases with a Minnesota court’s erroneous

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<sup>46</sup> *ILG Industries*, 49 Ill.2d at 89–95.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.*

<sup>49</sup> *Id.* at 97 (citing *Jones v. Ulrich*, 95 N.E.2d 113, 120 (Ill. App. Ct. 1950)).

<sup>50</sup> *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202 (5th Cir. 1986) (citing *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 736 (5th Cir. 1982)).

<sup>51</sup> By “failed,” I mean to imply that if, despite best efforts, a secret was still misappropriated (which is almost always the case in court) they should not be punished by the mere fact of the crime.

holding in *Electro-Craft Corp. v. Controlled Motion, Inc.*<sup>52</sup> This case involved an employee who left Electro-Craft Corp. and took the company's brushless electro servo-motors invention with him.<sup>53</sup> He entered into direct competition with his former company by producing the same brushless motors, using the same method of manufacture, and even employing the same business model.<sup>54</sup>

The Minnesota court, adopting the strict "property view,"<sup>55</sup> also paid lip service, *correctly*, to the dual-nature of trade secrets, before brushing it aside:

We recognize that the confidential relationship is also a prerequisite to an action for misappropriation . . . and that the elements of trade secret status and the confidentiality of the relationship "should not be artificially separated for purposes of analysis since, in a significant sense, they are interdependent." However, without the finding of a trade secret, we cannot grant relief to ECC. Otherwise this court would come dangerously close to expanding the trade secrets act into a catchall for industrial torts.<sup>56</sup>

Strictly applying the UTSA categories of property, including secrecy, the court reversed the lower court, finding the trade secrets unprotectable despite the presence of a confidential relationship and substantial investment in the property's development.<sup>57</sup> The court found only that Electro-Craft had not taken "reasonable efforts" to maintain secrecy.<sup>58</sup>

This unfortunate result could have been avoided had the court applied a hybrid approach, taking into consideration the confidential relationship and the substantial, years-long business investment in the innovation. Thus, a showing of substantial initial investment could outweigh the inadequacy of measures taken to keep the property secret. The hybrid approach adequately balances the many underlying factors behind trade secret protection and affords companies and individuals added incentive to innovate by offering both pre- and post- trade secret disclosure protection.

## CONCLUSION

The advances of modern technology coupled with inadequate trade secret enforcement and protection demand a new hybrid property/relationship approach to trade secret law. A hybrid theory would grant trade secret owners prospective protection of publicly disclosed trade secrets against third parties. Parties that obtain a trade secret "innocently" (i.e., without misappropriation) via

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<sup>52</sup> *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 904 (Minn. 1983).

<sup>53</sup> *Id.* at 890–92.

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

<sup>55</sup> *Id.* at 897 ("In defining the existence of a trade secret as the threshold issue, we first focus upon the "property rights" in the trade secret rather than on the existence of a confidential relationship.").

<sup>56</sup> *Id.* (citations omitted).

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

publication should not reap a windfall; courts should protect the investment in the original right as against the world. Only then can the legal system appropriately balance the costs and benefits of substantial investment in innovation against the ability to compete in the marketplace. It is the only answer in the Internet age.