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Trade Secrets, Property, and Social Relations

STEVEN WILF*

I. INTRODUCTION

A loyal and competent employee works for a large corporation. Like many others in executive positions, she has been privy to some of the most valuable information held by the company. This individual has participated in a variety of employee trade secret awareness programs. In the course of these programs, she has been warned about unauthorized disclosure. Following procedures set out in a trade secret security policy manual, the corporation's security office keeps a list of the information accessible to each employee; the office has control to permit only limited access to parts of the facility and to computer files for specially authorized employees; and employees working at home require prior permission to remove files. Regular reminders are posted on bulletin boards, printed in the company newsletter, and attached at the end of each email concerning the disclosure of proprietary information. The company trade secret plan includes a requirement that employees periodically sign agreements acknowledging access to trade secret information; awareness of company policy to protect this information; a promise not to disclose or misappropriate the information; and a requirement to immediately report to the company all unauthorized disclosures or uses of the information.¹

Due to a sudden downturn in the economy, and much to the surprise of the employee who has performed well within the company, she is called into her immediate supervisor's office and suddenly fired. In order to prevent her from copying files without authorization, the hard drive of her computer is immediately impounded. The files are checked to determine the full scope of her trade secret access. The employee must clean out her

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¹ See, e.g., Michael A. Epstein, *If It's the Real Thing, Guard It Carefully: How Companies Can Protect Trade Secrets*, N.Y.L.J., Nov. 22, 1993, LEXIS, Legnew Library, Nylawj File.

desk within an hour, so there will be limited opportunity to remove proprietary information. Any files downloaded will be carefully checked. During the course of an exit interview, the employee is again warned about disclosure; made aware of criminal and civil penalties for wrongful disclosure; and asked to contact the company should there be any questions about post-employment confidentiality responsibilities and the scope of the proprietary information. Moreover, as an additional precautionary measure, the employee has been asked to sign a covenant promising not to disclose or misuse trade secret information.

When this employee finds herself seeking further employment, she may be facing restricted opportunities based upon a covenant not to compete,² which might have been signed when she first became an employee of the company. Accordingly, she may experience even more severely the adverse effects of dismissal. If this employee *does* transmit proprietary information from her past employer to a third party, she may be liable for a wide range of penalties, both civil and criminal, because she has breached the duty of trust reposed in her by the employer.³ It seems ironic to speak of a breach of trust in such situations, for indeed the relationship was fraught with suspicion, and with conflicting interests. Yet this case of trade secret doctrine, like so many aspects of employment law as a whole, rests upon the traditional master-servant relationship, and traditional notions of loyalty.⁴ This obligation is phrased as a "duty of trust and confidence."⁵ Even after dismissal, the employee owes a continuing affirmative duty of confidentiality to her prior employer.⁶ Like a Harold Pinter play, then, protection of trade secrets is predicated upon employment relationships that have at their core fundamental issues of loyalty and betrayal. Loyalty, trade secret doctrine suggests, is the sinew that connects corporations and

² A covenant not to compete is "[a]n agreement, generally part of a contract of employment or a contract to sell a business, in which the covenantor agrees for a specific period of time and within a particular area to refrain from competition with the covenantee." BLACK'S LAW DICTIONARY 329 (5th ed. 1979).

³ See, e.g., 18 U.S.C. § 1832(a) (2000) (setting forth both a monetary fine and imprisonment as penalties for disclosure of a trade secret); UNIF. TRADE SECRETS ACT §§ 2 & 3, 14 U.L.A. 449-56 (1990 & Supp. 2001) (setting for injunctive relief and damages as remedies for disclosure of a trade secret).

⁴ See, e.g., RESTATEMENT (SECOND) OF THE LAW OF AGENCY § 396(b) (1958).

Unless otherwise agreed, after termination of the agency, the agent: . . . has a duty to the principal not to use or disclose to third persons on his own account or on account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use or acquired by the agent in violation of duty.

Id.

⁵ Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441, 443 (2001).

⁶ See, e.g., RESTATEMENT (SECOND) OF THE LAW OF AGENCY § 396(b) (1958).

individuals who work together. Law orders—as it does in marriage and divorce—the aftermath of failed or simply altered relationships.

In her article, Katherine V.W. Stone analyzes the shifting expectations of loyalties that create the underpinnings for employment-based trade secret law.⁷ According to Stone, nineteenth-century employers adopted mechanisms that served to bind employees to companies.⁸ Loyalty was encouraged through hierarchical vertical labor structures that provided for step-by-step progress up a career ladder within companies, and rewarded loyalty; training was assumed under the umbrella of the company itself; and promotion took place in orderly fashion with step-like increases in salary.⁹ Most importantly, there was often an implied promise of job security.¹⁰ The classic example of this paradigm was International Business Machines (“IBM”), which once frequently advertised to potential hires that it never had a layoff in its history.¹¹ Rather than risk the turnover of experienced employees and perhaps even sabotage, as had occurred earlier, a psychological contract—to use Stone’s term—was formulated to reinvigorate the older terms of master-servant loyalty.¹²

Stone argues that a new psychological contract, which emerged in the late 1970s, has recently altered employment practices.¹³ The labor shortage of the United States post-war boom years, which encouraged lifetime employment, was replaced by free trade and highly competitive international business markets which demanded agile hiring to meet needs.¹⁴ In addition, companies retreated from investing in the layered managerial structures required to organize internal labor markets; rather, the skills required for the new information economy demanded flexible individuals who brought experience from elsewhere.¹⁵ Large corporations no longer held out the implied promise of life-long employment. Instead, employment relationships became contingent, and the relationship marked by employees migrating from one opportunity to another with different employers.¹⁶ In lieu of job security, employees are provided with training in order to

⁷ See generally Katherine V.W. Stone, *Knowledge at Work: Disputes Over the Ownership of Human Capital in the Changing Workplace*, 34 CONN. L. REV. 721 (2002).

⁸ *Id.* 725-26.

⁹ *Id.*

¹⁰ *Id.*

¹¹ Kenneth G. Dau-Schmidt, *Employment in the New Age of Trade and Technology: Implications for Labor and Employment Law*, 76 IND. L.J. 1, 10 (2001).

¹² See generally Katherine V.W. Stone, *The New Psychological Contract: Implications of the Changing Workplace for Labor and Employment Law*, 48 UCLA L. REV. 519 (2001).

¹³ Stone, *supra* note 7, at 730-32.

¹⁴ *Id.* at 727.

¹⁵ *Id.* at 726.

¹⁶ *Id.*

ensure their employability.¹⁷ Employers gain by having an increasingly flexible, highly skilled work force; employees gain through the investments companies make in their human capital.¹⁸

Such a new psychological contract has important implications for the question of who owns trade secrets after the termination of employment. In addition to the express contracts of covenants not to compete, which might define post-employment relations, there are also implied psychological contracts full of subtle exchanges of productivity for training, of flexible employment with the risk of termination for the accumulation of skills which might make an ex-employee employable by another enterprise. Stone urges us to read covenants not to compete and trade secret cases using the lenses of the psychological contract.¹⁹ What was exchanged? What were the expectations of both parties—the employer and the employee? Who feels wronged when expectations were breached, and—especially important for its normative implications—how should courts respond to this sense of injury? Stone tells us that the current judicial approaches to the ownership of information are out of step with the new psychological employment contract.²⁰ She urges a rethinking of legal doctrine that takes into account whether or not, expressly or implicitly, the promise of skills training was represented as a benefit of employment, and therefore employees should not be restrained from exploiting the information—the knowledge at work—they have obtained.²¹

Lawyers tell stories. Good lawyers spin out compelling ones. Katherine Stone's work provides us with masterful narratives about how employers came to embrace the new psychological contract, and why the shift from employee vesting in the workplace to the recasualization of work is of significant importance for understanding the control of information after employment. From her vantage point as a scholar of labor law, Stone balances trade secret law on the fulcrum of employment relations and contract. However, I want to suggest a different story—one which is about the relationship between the owner and the object, and with proprietary ideas about property at its very core. However, unlike Stone, I will focus on the importance of intellectual property law in *establishing* expectations. I will suggest that adopting equitable doctrines embedded in property law allows courts to curb an ever growing solicitude to trade secret protection and to establish a more reasonable equilibrium between employee and employer stakes in proprietary information.

¹⁷ *Id.* at 734.

¹⁸ *Id.* at 735.

¹⁹ *Id.* at 724.

²⁰ *Id.* at 738.

²¹ *Id.* at 756.

In Part II of this brief Essay, I describe how corporations seeking to uncover new assets focused on the capacity of owners to establish trade secrets by safeguarding their secrecy. This aspect of trade secret law, where the spotlight is on policing rather than creating value, led to a reinvigorating of the property paradigm in trade secret doctrine. In contrast to other forms of intellectual property, trade secrets *become* property only if third-party access is vigilantly policed. This creates a powerful incentive for businesses to monetize trade secrets through erecting more rigorous procedures for protecting them. As suggested with the narrative of the dismissed employee, the policing requirements for trade secrets—maintaining protocols for monitoring the dissemination of information; requiring periodic warnings to employees and signed covenants; and the threat of post-employment legal action—has led to a psychological atmosphere marked by heightened suspicion. I want to turn Stone's narrative on its head. It is not the changing employment patterns alone that define the bonds of loyalty. In my counter-narrative, law has a constitutive power to shape how employers and employees relate to each other. The irony of trade secret doctrine, as it emerges in the shadow of property law, is that it incorporates a tort-based concern with breach of trust in service of a property theory, which constantly ratchets up distrust in the workplace.

Part III suggests a normative solution to this problem. Drawing upon the social relations theory of property, I suggest that defining the scope of covenants not to compete and trade secrets as proprietary in terms of the relationship to others—employees, competitors, and the public welfare interest—serves to create proper limits to the scope of employer demands for a capacious trade secret doctrine founded upon *their* discovery of trade secrets as new property. Much of this argument relies upon uncovering the equitable roots of trade secret law. The relationship of the property to each stakeholder—the core of the social relations property approach—suggests that courts must set expectations for loyalty dependent upon the *uses* of the trade secrets by employers with the labor and commercial markets. Two recent cases show how equitable understandings of the social relations between the parties might apply to both types of cases—the old psychological contract of long-term employment and the new psychological contract of employee mobility.

II. TRADE SECRETS AS SELF-HELP INTELLECTUAL PROPERTY

In the late 1980s and early 1990s, the United States found itself facing an increasingly weak competitive position as an industrial power. It turned to a series of multilateral treaties, such as the Agreement on Trade Related Aspects of Tariffs and Trade (“TRIPS”) component of General Agreement on Tariffs and Trade (“GATT”) in order to police intellectual property pi-

racy and to secure potential markets for its intellectual property assets. Moreover, the United States, as a country well-to-do in both overall economic output and marketable intellectual property resources, claimed that a strengthening of international intellectual property rights would serve as an economic motor on a global basis.²² Focusing on intellectual property assets, the United States was concerned with trademark, patent, and, especially, copyright. However, corporations were soon to adopt the idea that intellectual property might play a leading role in asserting their economic worth to investors. Consultants remind companies that their major assets are often not in real estate or industrial equipment, but in the knowledge required to run businesses. Indeed, the Brookings Institute has estimated that fifty to eighty-five percent of the value of a business may reside in its intangible assets, including trademarks and trade secrets.²³

In the last decade, intellectual property assets have become a frequent topic for seminars.²⁴ Rust-belt industrial corporations,²⁵ as well as information economy businesses, turned to valuing their knowledge assets to attract investors and leveraging these assets. In part, the idea of trade secrets as assets was fostered by new start-ups, and especially biotechnology companies, which chose to create portfolios of trade secrets rather than pursue the much more expensive route of protection through patent. In part, information asset management as a whole fits in perfectly with managerial models of corporations, where internal efficiencies could be heightened by identifying the economic potential of each part of the company. Moreover, it was easier to create claims to trade secret value because a trade secret required the company to *protect* this information rather than to *create* it.²⁶

²² Keith Aoki, *Neocolonialism, Anticommons, Property and BioPiracy in the (Not-so-Brave) New World Order of International Intellectual Property Protection*, 6 IND. J. GLOBAL LEGAL STUD. 11, 22-23 (1998).

²³ Margaret M. Blair, *New Ways Needed to Assess New Economy*, L.A. TIMES, Nov. 13, 2000, at 7B, LEXIS, News Library, Lat File.

²⁴ See, e.g., Section of Intellectual Prop. Law, Am. Bar. Assoc., Homepage (listing upcoming intellectual property protection seminars), at <http://www.abanet.org/intelprop/home.html> (last visited Mar. 12, 2002) (on file with the Connecticut Law Review); TechNet, The World Bank, Upcoming TechNet Seminars (listing intellectual property protection seminars from 1996-2002), at <http://www.worldbank.org/html/fpd/technet/seminars.htm> (last visited Mar. 12, 2002) (on file with the Connecticut Law Review).

²⁵ The "rust belt" is the "economic region in the NE quadrant of the United States, focused on the Midwestern . . . states of Illinois, Indiana, Michigan, and Ohio, as well as Pennsylvania." ENCYCLOPEDIA.COM, at <http://www.encyclopedia.com/articles/11256.html> (last visited Mar. 12, 2002) (on file with the Connecticut Law Review).

²⁶ Compare 18 U.S.C. § 1839(3) (2000) ("[T]he term 'trade secret' means all forms and types of financial, business, scientific, technical, economic, or engineering information . . . memorialized physically, electronically, graphically, photographically, or in writing if . . . the owner thereof has taken reasonable measures to keep such information secret.") (emphasis added), with 35 U.S.C. § 101 (1994 & Supp V 2000) ("Whoever invents or discovers any new and useful process, machine, manufacture, or

Many states enacted statutes codifying the traditional common law definition of trade secrets as embodied in the Uniform Trade Secrets Act.²⁷ A trade secret is any “information, including a formula, pattern, compilation, program, device, method, technique, or process, that . . . derives independent economic value, actual or potential, from not being generally known . . .”²⁸ It must be protected through reasonable efforts to maintain its secrecy.²⁹ Such a definition is capacious indeed. It includes business methods, strategies, customer information, and technical knowledge.³⁰ Trade secret assets might be claimed by businesses of all sorts, not simply companies with a stake in new technologies.

Since most information has *some* value, actual or potential, the prong of reasonable efforts to maintain secrecy has become the more important one for determining corporate policy. Reasonable secrecy has become a mechanism for courts to determine whether the property is worth protecting.³¹ It has been suggested that the investment of companies in maintaining secrecy—the costs of security and the economic burden of inhibiting the free flow of information within corporations—provides an evidentiary showing of the information’s value.³² However, protection of trade secrets has become routinized through the mechanisms described at the beginning of this essay. As identity cards, the supervision of the dissemination of information within the business, covenants-not-to-compete and potential notice of trade secret liability became standardized, the costs of maintaining secrecy was simply a part of day-to-day business operations. Companies might establish more extensive protocols for the policing of informa-

& Supp V. 1999) (“Whoever *invents or discovers* any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.”) (emphasis added).

²⁷ See, e.g., CONN. GEN. STAT. § 35-51(d).

“[T]rade secret” means information, including a formula, pattern, compilation, program, device, method, technique, process, drawing, cost data or customer list that: (1) 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 (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Id.

²⁸ UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 437 (1990 & Supp. 2001).

²⁹ *Id.* To be a trade secret, the information must be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

³⁰ See, e.g., *supra* note 28.

³¹ See, e.g., *Maharis v. Omaha Vaccine Co.*, No. 90-56356, 1992 U.S. App. LEXIS 14588, at *11 (finding “on the issue of reasonable secrecy efforts, there was sufficient evidence presented to the jury to support its conclusion that the lists [at issue] were trade secrets”); *IDX Sys. Corp. v. Epic Sys. Corp.*, 165 F. Supp. 2d 812, 820 (W.D. Wis. 2001) (“Confidential information that does not rise to the level of trade secret is by definition either worthless, generally known or readily ascertainable, or *not the subject of reasonable secrecy efforts.*”) (emphasis added).

³² *Rockwell Graphic Sys. v. DEV Indus., Inc.*, 925 F.2d 174, 178 (7th Cir. 1991) (“The requirement of reasonable efforts [to maintain secrecy] has both evidentiary and remedial significance . . .”).

tion with remarkably little scrutiny about whether it was a worthwhile investment for the particular knowledge protected.

What constitutes reasonable efforts to maintain secrecy? Reasonable was interpreted as not creating burdensome costs that might interfere with the competitive capability of companies.³³ A company might widely circulate mechanical drawings of spare parts among employees who are routinely called upon to provide replacements.³⁴ Trade secrets, therefore, were very different from other species of intellectual property. Trademarks must be used in commerce.³⁵ If the trademark is weak, it may be challenged by the crowding of competitors and imitators in the marketplace; or, if it is registered, through oppositions filed in *inter partes* proceedings.³⁶ Copyright is established through being fixed in a tangible medium of expression.³⁷ Patents must undergo a rigorous process of registration—demonstrating, utility, novelty, and non-obviousness.³⁸ In this sense, trade secrets may be considered *self-help* intellectual property. The trade secret rights are established, to a large part, not by affirmatively creating an expression or invention—like trademark, copyright, or patent—but through policing secrecy.³⁹ A business evidences a trade secret by being sure *not* to disclose information that has value to unnecessary parties, and to be vigilant with those who have access to the information.

The breach in trade secret cases often comes from those who are in a relationship of privity with the owner of the information,⁴⁰ and therefore contract doctrine has played a pivotal role in determining duties of confidentiality of employees and third parties.⁴¹ Nevertheless, the relational duties not to breach secrecy emerge from the owner's requirement to establish control over the dissemination of information.⁴² If the owner of the

³³ *Id.* at 180 (“If trade secrets are protected only if their owners take extravagant, productivity-improving measures to maintain their secrecy, the incentive to invest resources in discovering more efficient methods of production will be reduced, and with it the amount of invention.”).

³⁴ *See generally id.*

³⁵ 15 U.S.C. § 1051 (2000) (“The owner of a trademark *used in commerce* may request registration of its trademark on the principal register”) (emphasis added).

³⁶ *Id.* § 1063.

³⁷ 17 U.S.C. § 102 (2000) (“Copyright protection subsists . . . in original works of authorship *fixed in any tangible medium of expression*, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.”) (emphasis added).

³⁸ 35 U.S.C. §§ 101 (utility), 102 (novelty) & 103 (non-obviousness).

³⁹ *See supra* notes 29-30.

⁴⁰ *See, e.g.,* Rockwell Graphic Sys. v. DEV Indus., Inc., 925 F.2d 174 (7th Cir. 1991) (employees).

⁴¹ 2-6 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 6.01 (Matthew Bender & Co. ed., 2001); 2-7 MILGRIM, *supra*, § 7.01.

⁴² *See supra* notes 29-35.

information wishes to make knowledge available to the public, or to overlook its use by competitors, he or she may certainly do so, and waive property rights in knowledge. The relational duty—the responsibility of the employee, for example, to the employer—emerges as a consequence of the employer's legal need to establish control in order to ensure that the information is indeed property.⁴³ Thus, property, not contract, is at the center of trade secret doctrine.

In 1917, the Supreme Court's well-known decision, *E.I. du Pont de Nemors v. Masland*,⁴⁴ shifted the lens of trade secret towards the breach. As the Court stated: "the property may be denied, but the confidence cannot be."⁴⁵ Again, addressing the issue over sixty years later, the Court in *Ruckelshaus v. Monsanto*,⁴⁶ called trade secret property worthy of the protection of the Takings Clause.⁴⁷ Nowhere has this property aspect of trade secret been more clearly seen than in the first full-scale establishment of federal protection for trade secrets, the Economic Espionage Act of 1996.⁴⁸ The Economic Espionage Act provides for criminal prosecution of individuals whosoever "appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret."⁴⁹ Using a computer to download a trade secret without authorization or, alternatively, destroying a trade secret so as to make it no longer available to the *bona fide* owner, violates the statute.⁵⁰ Appropriation alone—absent commercial use or even disclosure—may trigger criminal liability.⁵¹ Here, the trade secret is conceived of as a species of property, and the breach of fiduciary duties recedes into the background.

Drawing upon the Midas touch of an increasingly deferential trade secret law—both state and, more recently, federal—businesses saw themselves as surrounded by information that might be transformed into gold. Information *is* property. Property *is* an asset—and these monetized assets

⁴³ 1-5 MILGRIM, *supra* note 42, § 5.02.

Extensive analysis has been devoted to the recognition of a property right in a trade secret. Analytically, it is this property right upon which protection is predicated. This property right permits the employer-owner to communicate or otherwise entrust confidential information to or with employees. Such communications are protected disclosure and do not negate or dilute the owner's trade secret.

Id. (footnotes omitted).

⁴⁴ 244 US 100 (1917).

⁴⁵ *Id.* at 102.

⁴⁶ *Ruckelshaus v. Monsanto*, 467 U.S. 986 (1984).

⁴⁷ *Id.* at 1003. Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313, 321 (1997); Suellen Lowry, *Inevitable Disclosure Trade Secrets Disputes: Dissolution of Concurrent Property Interests*, 40 STAN. L. REV. 519, 536 (1988).

⁴⁸ 18 U.S.C. §§ 1831-1839 (2000).

⁴⁹ 18 U.S.C. § 1831(a)(1).

⁵⁰ *Id.* § 1831(a)(2).

⁵¹ *Id.* § 1831(a)(1).

might be leveraged with investors. As with real property, owners had the power, and indeed the duty, to exclude. Since the probative evidence of the value of the trade secrets depended upon policing, there was a powerful incentive for owners to tend the boundaries around the trade secrets themselves. The scarce resource of knowledge would maintain its value through artificially enforced scarcity. Not surprisingly, since the same policing mechanisms might be shared without any additional cost to protect both core proprietary knowledge and information which may or may not be proprietary, businesses made ever greater claim to the ownership of trade secrets.

The problem of extending the borders around a core property stake is common in intellectual property regimes. It may be illustrated through the metaphor of a field. Surrounding fields, which border the property on all sides, cannot hem in the owner of the field and establish property stakes immediately up to the boundaries of the original field. Trademark owners, for example, are able to protect not simply against the use in commerce of the identical mark, but also against any mark that might cause a likelihood of confusion.⁵² The trademark holder has the power to bar others from using similar marks. Copyright does not just protect against literal infringement. Among the rights of the copyright holder is the right of adaptation, which prevents others from making derivative works with only slight modifications of the original.⁵³ Patent law includes the doctrine of equivalence, under which products or processes not literally within a claim, but which perform substantially the same function and means to obtain the function, infringe.⁵⁴

Trade secret, too, has such extensions beyond the scope of the information itself. Perhaps the best example is the inevitable disclosure doctrine. The inevitable disclosure doctrine allows courts to enjoin actual or threatened misappropriation of trade secrets, and restrain an ex-employee who was privy to proprietary information from taking a new employment situation in a related field, because of a likelihood of divulging this information in his or her new job.⁵⁵ However, as the well-known and troubling

⁵² 15 U.S.C. § 1114 (2000) (providing a remedy for the trademark owner against anyone: "who shall . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is *likely to cause confusion*").

⁵³ 17 U.S.C. § 106(2) (2000) (providing copyright holder with the exclusive right to "to prepare derivative works based upon the copyrighted work").

⁵⁴ See e.g., *Goodyear Dental Vulcanite Co. v. Davis*, 102 U.S. 222, 230 (1880) ("It may be conceded the patentee is protected against equivalents for any part of his invention. He would be, whether he had claimed them or not.").

⁵⁵ See *PepsiCo v. Redmond*, 54 F.3d 1262, 1268-69 (7th Cir. 1995) (citing *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353, 357 (7th Cir. 1987)).

*PepsiCo v. Redmond*⁵⁶ demonstrates, the cost of such an extension is externalized to the employee. PepsiCo sued William E. Redmond, Jr., general manager of its Northern California unit, seeking to enjoin him from assuming new duties as a vice-president of field operations for Quaker Oats, which was the maker of the beverages Gatorade and Snapple.⁵⁷ Although Redmond had not signed a covenant not to compete, PepsiCo claimed he had extensive knowledge of its future strategies.⁵⁸ The court found that the value of the proprietary information, set against the backdrop of intense competition in the soft-drink industry and the fact that Redmond could not help but draw upon that information, would lead to the inevitable breach of confidentiality, and enjoined Redmond from assuming his post at Quaker.⁵⁹ Despite the remarkable limitation on the liberty interest of Redmond, this case is not outside the mainstream of trade secret doctrine.⁶⁰

What alternative conceptions exist in trade secret doctrine to limit this increasing solicitude to the property rights of employers? How does a property-based theory work to mediate between the property rights of a company in proprietary information and the limitations placed upon the mobility of labor? How can we distinguish between the knowledge, general and specific, derived from an employer and the skills honed through the diligence of an employee? In short, the discovery of trade secrets as a *new* property, with broad rights granted to those who expend resources to maintain secrecy, has led to a tilting of rights in favor of employers, and an ever more capacious sense of entitlement. How does the property-based theory cure the very problem it has exacerbated?

III. PROPERTY, SOCIAL RELATIONS, AND EQUITY

A number of property theorists have turned to the social-relations approach to property.⁶¹ This approach challenges traditional assertions of property rights as autonomous from the way property is used between individuals, and asserts its role in establishing both mutual dependencies and unequal bargaining power.⁶² Trade secret doctrine itself has often seen its role as establishing social relations. In *E.I. DuPont de Nemours & Co. v.*

⁵⁶ 54 F.3d 1262 (7th Cir. 1995).

⁵⁷ *Id.* at 1265.

⁵⁸ *See id.* at 1264-65.

⁵⁹ *See generally id.*

⁶⁰ *See, e.g., Lumex, Inc. v. Highsmith*, 919 F. Supp. 624 (E.D.N.Y. 1996) (enjoining employee from working for competitor based on the inevitable disclosure doctrine).

⁶¹ *See generally* Joseph William Singer, *The Reliance Interest in Property*, 40 STAN. L. REV. 611 (1988) [hereinafter Singer, *The Reliance Interest*]; JOSEPH WILLIAM SINGER, ENTITLEMENT: THE PARADOXES OF PROPERTY 197-216 (Yale University Press 2000).

⁶² *See* Singer, *The Reliance Interest*, *supra* note 62, at 635-36 (describing some limitations of an "individualistic property and contract theory").

Christopher,⁶³ for example, an important goal of trade secret law was maintaining commercial morality. Dupont claimed as a trade secret a process for producing methanol that was to be used in a new plant being constructed in Texas.⁶⁴ The Christophers, free-lance photographers, were hired by a third party, presumably a competitor, to fly over the site and take aerial photographs.⁶⁵ Although there was no relationship between the parties, the court found a breach commercial morality that applies even absent privity.⁶⁶ As with persons, corporations may have a right to commercial privacy. However, if courts have been ready to use a relational approach in cases of industrial espionage, they have been less willing to do so when considering the relationships between parties who have a stake in proprietary information created in an employment setting.

What relationships should courts consider? For example, courts might see proprietary information as the joint creation of the employer and the employee. Both have invested in its creation and therefore might be said to have a property stake.⁶⁷ More significantly, it should be considered *how* the parties utilize the proprietary information within the context of social relations. The threat of enforcing a covenant not to compete barring future employment in the area where the employee's skills are strongest; the atmosphere of suspicion, which reinforces power relationships in the workplace; and the extent of civil and criminal sanctions all suggest that a narrow understanding of the traditional model of an employer entitlement in trade secret, absent any reference to the effect on social relations within the labor market, might have a coercive effect on employees.

Trade secret law is frequently described as an equitable doctrine.⁶⁸ First, courts have occasionally reached to the issue of *reasonableness* to suggest that covenants that suffer from over-breadth in terms of geographic or duration restrictiveness may be found void.⁶⁹ The Uniform Trade Se-

⁶³ 431 F.2d 1012 (5th Cir. 1970).

⁶⁴ *Id.* at 1013-14.

⁶⁵ *Id.* at 1013.

⁶⁶ *Id.* at 1015 (noting that Texas courts recognize and enforce high standards of "commercial morality").

⁶⁷ See generally Suellen Lowry, *Inevitable Disclosure Trade Secrets Disputes: Dissolutions of Concurrent Property Interests*, 40 STAN. L. REV. 519 (1988).

⁶⁸ See generally Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441 (2001).

⁶⁹ See, e.g., *Harvest Ins. Agency v. Inter-Ocean Ins. Co.*, 492 N.E.2d 686, 689-90 (Ind. 1986) (holding a non-competition agreement void and observing that "the determination of reasonableness . . . focuses on . . . time, pace and the types of activity proscribed"); *Protocomm Corp. v. Fluent, Inc.*, No. 93-0518, 1995 U.S. Dist. LEXIS, at *21 (E.D. Penn. 1995) (identifying duration and geographic scope as two of the factors to be considered in determining "the reasonableness of a noncompetition cove-

crets Act, a model for many state statutes, creates a “reasonable under the circumstances” standard for the secrecy that must be maintained.⁷⁰ This has been used as a requirement for companies to invest in secrecy maintenance programs; but immunizes them, if physical circumstances cause the protections to seem too costly (i.e., it is difficult to protect a plant under construction from aerial surveillance or there is an economic need to have widely distributed blueprints).⁷¹ However, it may also be that certain types of secrecy maintenance programs might be found unreasonable and unnecessary *because* they represent an overly capacious claiming of trade secret entitlements.⁷²

Second, there is a relationship between the business and its competitors. As the *Christopher* court stated, trade secret is meant to protect fundamental commercial morality.⁷³ However, this does not mean simply protecting against industrial espionage. Employers might use covenants not to compete as a means to restrict the future employment of ex-employees in order to improve their own competitive position in regard to competitors. To bind employees to restrictive covenants absent the reasonable need for protection of proprietary information has been found by some courts as a mechanism to hold employees “virtual hostages of their employers.”⁷⁴ Courts could expand upon this equitable analysis of the employer’s *uses* of covenants not to compete and trade secret law.

Third, as a number of courts have suggested, there is a public welfare interest in employee mobility.⁷⁵ Covenants not to compete, and trade secret law in general, must be understood against this need. Employee mobility allows for the transfer of ideas and practices from one corporation to another, and thus increases competitiveness. It also provides for the most efficient use of human resources. In *Metro Traffic Control v. Shadow*

ant’s restraint”).

⁷⁰ UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437 (1990 & Supp. 2001).

⁷¹ See *E.I. DuPont de Nemours & Co.*, 431 F.2d at 1017 (“Reasonable precautions against predatory eyes we may require, but an impenetrable fortress is an unreasonable requirement, and we are not disposed to burden industrial investors with such a duty in order to protect the fruits of their efforts.”).

⁷² See *Hickory Specialties, Inc. v. Forest Flavors Int’l*, 26 F. Supp. 1029, 1032 (M.D. Tenn. 1998) (holding that a routine practice of having employees sign contracts promising not to divulge confidential information will not warrant trade secret protection unless the information is secret, business related and affords the employer a competitive advantage).

⁷³ *E.I. DuPont de Nemours & Co.*, 431 F.2d at 1015-16 (describing espionage to obtain trade secrets as running afoul of “commercial morality”).

⁷⁴ *Reed, Roberts Assocs. v. Strauman*, 353 N.E.2d 590, 594 (N.Y. 1976).

⁷⁵ See, e.g., *APAC Teleservices, Inc. v. Access Direct Telemarketing, Inc.*, 985 F. Supp. 852, 868 (N.D. Iowa 1997) (“[T]he public has an interest in ensuring the free movement of employees from one company to another in order to hone competition . . .”); *Woodward v. Cadillac Overall Supply Co.*, 240 N.W.2d 710, 719 (Mich. 1976) (reasoning that overbroad enforcement of a non-compete clause creates a negative effect on the “public interest” by “detering competition and employee mobility. . .”).

Traffic,⁷⁶ for example, the court determined that the attempt to restrict the mobility of radio air traffic announcers was motivated by the fact that these employees had become local personalities, and not by a desire to prevent the disclosure of trade secrets, and the court denied injunctive relief.⁷⁷

A social relations approach to trade secret, therefore, depends less upon what the expectations of the party are—express or implied contracts, as Stone recommends⁷⁸—and addresses instead the equitable property rights embedded in trade secret. According to the social relations property-based approach, courts would recognize the sense of property entitlements employers have for proprietary information, but would balance these with the equitable requirements of employees, competitors, and public welfare as a whole. This requires looking at trade secrets within the context of a broad array of facts concerning the employment relationship, and not simply evaluating the value and the policing of the proprietary information. Expectations of the scope of trade secrets would be altered by setting legal limits to misuse.

Such a property approach incorporates Stone's keen psychological insights into the changing nature of the workplace. Both old psychologies and new might be treated appropriately. Two cases best point to the use of social relations to determine post-employment restrictions. The first is the case of *Elm City Cheese v. Federico*.⁷⁹ Federico was accountant and vice-president of Elm City Cheese, a small family-owned Connecticut business which manufactured hard cheese from milk whose date-of-sale had expired.⁸⁰ Elm City Cheese had done little to protect its trade secrets. Employees did not sign covenants and evidence presented concerning the maintenance of secrecy described a locked filing cabinet.⁸¹ The defendant, Federico, was like a family member in the eyes of the company's owners and, as an accountant, he was entrusted with information about customers and business procedures.⁸² He had known the family since he was seven years old. Over time, Federico assumed various duties, including, signatory of the checkbook, day-to-day operations, and was named an executor of the owner's will.⁸³ In 1995, immediately after the distribution of profits for the previous year, he left the company and secured a bank loan based on the overall business plan of Elm City Cheese in order to compete within

⁷⁶ 22 Cal. App. 4th 853 (1994).

⁷⁷ *Id.* at 862-63.

⁷⁸ See generally Stone, *supra* note 7.

⁷⁹ 251 Conn. 59, 752 A.2d 1037 (1999).

⁸⁰ Elm City Cheese, 752 A.2d at 1040-41.

⁸¹ *Id.* at 1050-51.

⁸² *Id.* at 1040-41.

⁸³ *Id.* at 1040.

the same niche market.⁸⁴ Although the court found little effort on the company's part to protect its trade secret, and the component parts of the business plan may not themselves have been trade secrets, there nevertheless appeared to be a trade secret in the whole.⁸⁵ The loyalty of the employee—the traditional social relations between a family and a trusted family friend who also served as an employee—was breached.⁸⁶ Finding Frederico had abused the trust of his employer and appropriated trade secrets, the court issued a three-year non-compete injunction and awarded \$300,000 in punitive damages as well as attorney fees.⁸⁷

If Frederico represents Stone's old psychological contract, the second case, *Earthweb, Inc. v. Schlack*,⁸⁸ epitomizes the new psychological contract. Mark Schlack worked for Earthweb, a company founded in 1994 which provided on-line products and services directed towards internet technology professionals, where he was vice-president of Worldwide Content, overseeing acquisition of content.⁸⁹ Within less than a year, Schlack left Earthweb for Itworld.com, another web-based publishing venture with largely in-house content.⁹⁰ Schlack had signed a restrictive covenant for twelve months.⁹¹ However, the court found that Schlack did not misappropriate specific information from his prior employer, but had acquired general skills in the course of that employment.⁹² Since a covenant not to compete must be reasonable and must not unduly restrict the mobility of ex-employees, even this period was deemed too long for the rapidly changing world of the Internet.⁹³ The court voided the restrictive covenant.⁹⁴ Similarly, in *Doubleclick v. Henderson*,⁹⁵ the court reduced a covenant not to compete to a mere six months because of rapid changes in the high-tech industry.⁹⁶

In both these cases—reflecting the old and the new psychological contracts—courts determined the scope of trade secrets within the context of

⁸⁴ *Id.* at 1041-42.

⁸⁵ *Id.* at 1044-45.

⁸⁶ *Id.* at 1052.

⁸⁷ *Id.* at 1043, 1058.

⁸⁸ 71 F. Supp. 2d 299 (S.D.N.Y. 1999), *injunction denied*, 2000 US App. Lexis 11446 (2d Cir.

2000).

⁸⁹ *Id.* at 302-03.

⁹⁰ *Id.* at 303, 306.

⁹¹ *Id.* at 306-07.

⁹² *Id.* at 315-16.

⁹³ *Id.* at 313 (“[T]his court finds that the one-year duration of Earthweb’s restrictive covenant is too long given the dynamic nature of this industry . . .”).

⁹⁴ *Id.* at 317.

⁹⁵ No. 116914/97, 1997 N.Y. Misc. LEXIS 577 (N.Y. Gen. Term Nov. 5, 1999).

⁹⁶ *Id.* at *23 (reasoning that a six month injunction would be sufficient in light of “the speed with which the Internet advertising industry apparently changes . . .”).

expectations. But they also set the expectations. Long-term employees must be deferential to the equitable needs of employers for the protection of proprietary information even where the policing mechanism is minimal; mobile employees might utilize such information where the relationship suggests a flow of knowledge is a commonplace in the employment market since all property, no matter how well protected, has limitations implied in ownership.

IV. CONCLUSION

To call for the reinvigorating of equitable property doctrine within trade secrets is indeed to ask for courts to recognize something they have acknowledged for a long time. However, the core property nature of information does not simply provide for proprietary rights. It also means the limitations of entitlement. Thinking about social relations has important implications for the sort of relations we *seek* to establish as well as for the recognition of expectations in the relationships themselves. Much ink has been spilled concerning the role of intellectual property in setting the contours of civil society. Mostly this has concerned the creation of a robust public sphere of expression independent of government influence.⁹⁷ Nevertheless, civil society exists within various niches and relationships, including the employment relationship. Perhaps one of the goals of trade secrets should include a turn away from the atmosphere of distrust created through self-help policing in order to establish property rights, and to reorder the balance of power between employers and employees. Equitable concerns with *misuse* of information by either party reflects this return to the idea that intellectual property, like real property or chattel, must be used within the framework of competing claims.

Coleridge once derided the telescope for altering the relationship of the eye to the senses but leaving the object untouched. Trade secrets might be established with different expectations under different psychological contracts. However, if we are to recover the equitable dimension of trade secrets we need to rethink the terms of entitlement—in short, we need to alter the proprietary object as well.

⁹⁷ See generally Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283 (1996).