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ARTICLES

THE PROPERTY CONCEPT OF TRADE SECRETS IN ANGLO-AMERICAN LAW: AN ONGOING DEBATE

*Miguel Deutch**

I. PREFACE

The law of trade secrets is central to the protection of commercial interests in information. The protection of information by way of this law has certain advantages not provided by the more "traditional" laws regulating intellectual property, advantages which amplify the growing interest of modern jurisprudence in trade secrets law.¹ As has been correctly pointed out, the "traditional" rules governing intellectual property are ill suited to the demands of new technological developments.² This reality has increased the importance of the law of trade secrets, in as much as it is both more flexible and general, and thus, more easily applied to new technological situations.³

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1. See 1 M.F. JAGER, *TRADE SECRETS LAW*, § 1.01 (1985).

2. See *Rockwell Graphic Sys., Inc. v. DEV Indus. Inc.*, 17 U.S.P.Q.2d 1780, 1785 (1991); ROBERT C. DORR & CHRISTOPHER H. MUNCH, *PROTECTING TRADE SECRETS, PATENTS, COPYRIGHTS & TRADEMARKS* 44 (2d ed. 1995). For law's difficulty in adapting itself to fast technological developments, see R.W.M. DIAS, *JURISPRUDENCE* 452-87 (4th ed. 1985).

3. The legal protection of the right in trade secrets developed at a relatively late stage. In England the possibility of such protection was hinted at for the first time in the matter of *Perceval v. Philipps*, 35 Eng. Rep. 225 (1813). In the matter of *Newberry v. James*, 35 Eng. Rep. 1011 (1817), the Court recognized the grounds for claim in a suit for breach of trade secrecy, but rejected the petition for an injunction, referring the plaintiff to the remedy of damages. See JAGER, *supra* note 1, § 2.01.

Registration of a patent is neither the most convenient nor the most efficient way of protecting information. Patent laws are limited to products and processes and therefore do not protect all kinds of information.⁴ The laws of trade secrets, on the other hand, protect almost the entire gamut of commercial information.⁵ In addition, the crystallization of information into

Remedy was actually awarded on the grounds of misappropriation of a trade secret in *Yovett v. Winyard*, 37 Eng. Rep. 425 (1820). The jurisprudential basis of the law of trade secrets was not discussed seriously until the famous case of *Prince Albert v. Strange*, 64 Eng. Rep. 293 (1849). The grounds for claim in England in those cases were based upon the concept of "breach of confidence," which serves these days as the central legal institution protecting trade secrets in England (in addition to the claim based on contract law, when contractual relations may be inferred). See ALLISON COLEMAN, *THE LEGAL PROTECTION OF TRADE SECRETS* 3 (1992); ROBERT DEAN, *THE LAW OF TRADE SECRETS* 40-52 (1990). Protection of trade secrets was supplied in American law for the first time in *Vichey v. Welch*, 36 Mass. 523 (1837). See 1 JAGER, *supra* note 1, § 2.02.

4. According to the Patent Act, 35 U.S.C. § 101 (1953), protection is granted to "any new useful process, machine, manufacture of composition of matter, or any new or useful improvement thereof."

5. The definition of "trade secret" in the RESTATEMENT (FIRST) OF TORTS § 757(b), includes a large scale of examples, the general requirement being that the information "is used in one's business and (which) gives him an opportunity to obtain an advantage over competitors who do not know how to use it."

The Restatement (First) also listed the six criteria for identifying the protected objects. The RESTATEMENT (THIRD) OF THE LAW OF UNFAIR COMPETITION (1995), defines a "trade secret" as, "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." For the differences between the original definition of the Restatement, and the current one, see 1 ROGER M. MILGRIM, *MILGRIM ON TRADE SECRETS* ch. 1 (1997); 1 JAGER, *supra* note 1, § 3.03[2]. For an exhaustive discussion on this criteria, see 1 MILGRIM, *supra*, § 1.01[4]; DORR & MUNCH, *supra* note 2, at 44-47. The Uniform Trade Secrets Act of 1979 (UTSA) prescribes a wide definition. "Trade secret," includes:

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

Id. § 1(4).

English law as well protects a large scale of objects. The protected information includes information as to products (*Seager v. Copydex Ltd.*, 2 All E.R. 415 (1967); *Cranleigh Provision Eng'g Ltd. v. Bryant*, 1 W.L.R. 1293 (1965)); surveys (*Survey & Minimizing Ltd. v. Morrison*, Qd. R. 470 (1969)); methods (*Underwater Welders & Repairs Ltd. v. Street & Langthorne*, R.P.C. 498 (1968)); drawings (*Saltman Eng. Co. Ltd. v. Campbell Eng. Co. Ltd.*, 3 All E.R. 413 (1963)).

In light of the fact that the protection of trade secrets in the English law is found upon the claim of breach of confidence, and not upon a proprietary concept, there is obviously no place to differentiate sorts of information but according to their

a registered patent entitling its owner to monopolistic protection⁶ involves the disclosure of that information.⁷ The monopoly is granted for a strictly limited period⁸ at the end of which the proprietary interest in the information expires and it is released for general usage.

The laws of copyright are also limited in the scope of protection that they provide. They protect only the form in which the idea is expressed and not the idea itself.⁹ Although there has been an attempt within English jurisprudence to expand the copyright scope,¹⁰ whereby it would also protect the design of industrial products, this attempt proved justifiably shortlived despite initial and partial success.¹¹

confidential character.

6. For the extent of the monopoly granted by a patent in the American system, see S. Davidson, *Reverse Engineering and the Development of Compatible and Competitive Products under U.S. Law*, 5 COMPUTER SCI. HIGH TECH L.J. 329, 408-09 (1989). See also *University Computing Corp. v. Lykes-Youngs Town Corp.*, 504 F.2d 518, 534 (1974).

A theoretical dispute exists as to whether from a conceptual point of view, the protection of a patent should be viewed as a monopoly. This, as a monopoly derogates welfare from society, while as, in the case of patents, the inventor supplies an additional welfare to society, meaning the invention which will become available to the public when the patent expires. See Christopher S. Marchese, *Promoting the Progress of the Useful Arts by Narrowing Best Mode Disclosure Requirements in Patent Law*, 54 U. PITT. L. REV. 589 (1993).

7. For the "best mode disclosure" requirement, see Davidson, *supra* note 6; Marchese, *supra* note 6.

8. In American law, protection is usually granted for a period of 17 years and in the pharmaceutical field for a period of 22 years.

9. For English law, see generally COPINGER & SKONE JAMES ON COPYRIGHT (E.P. Skone James et al. eds., 13th ed. 1991). For American law, see 1 PAUL GOLDSTEIN, COPYRIGHT § 2.3 (2d ed. 1996).

10. In *British Leyland v. Armstrong Patents*, 1 All E.R. 850 (1986), the court, by a majority decision, acknowledged in principle that copyright law protects the producer of a useful article against copying of the design of the article by a competitor, although the article itself is not an artistic work. The court held that such copying constitutes an indirect copying of another work; the drawings of the article. *British Leyland* dealt specifically with the copying of exhaust pipes, and the court dismissed the claim preferring to protect the interests of the purchasers of cars, thereby allowing such purchasers to use the cars efficiently by freely purchasing replacement parts from other producers.

11. The English law has been amended in this point. See The Copyright, Design and Patents Act, 1988, § 51 (Eng.). According to that section, the design of an article should not be protected against copying through the copyright of the drawings of the article, unless the three-dimensional article to which the drawings relate may be classified as an artistic work.

In American law, copyright is denied regarding the design of useful articles,

Finally, the right in the goodwill of a business also functions as a source for protecting commercial interests. Yet, while having been recognized as an asset, and even as a property right,¹² this right has not been granted absolute protection against third parties acting in good faith.¹³ Furthermore, the content of the right is limited, for it prohibits only the unconsented use of those qualities that create the appeal for the customers, but does not protect the goodwill's owner against unconsented use of information concerning consumers.¹⁴

Trade secrets law constitutes an important jurisprudential junction at which legal arrangements deriving from varied branches of law become applicable. These include, *inter alia*: contract law; tort law (particularly the law of unfair competition); unjust enrichment law; law of confidence; labor law; and privacy law. However, the recognition of the right in a trade secret as a separate "legal entity" (as opposed to its being only an interest to which the abovementioned general laws apply) is doubtful if the right will not be classified as an *in rem* right. The issue which arises, therefore, is one which is in constant dispute within the Anglo-American law: Should the right in trade secrets be classified as an *in rem* right? In American

unless "[i]t incorporates pictorial, graphic or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article." Copyright Act § 101, 17 U.S.C. § 101 (1976); *see also* GOLDSTEIN, *supra* note 9, § 2.5.3.

12. CHRISTOPHER WADLOW, *THE LAW OF PASSING OFF* 49 (2d ed. 1995). "Goodwill is undoubtedly legal property and its nature is reasonably well understood." *Id.* *See also* Spalding & Bros. v. A.W. Gamage Ltd., 32 R.P.C. 273, 284 (1915); *Star Indus. Co. Ltd. v. Yap Kwee Kor*, F.S.R. 256, 261 (1976).

13. Misrepresentation by the defendant is the essence of the tort of passing off. "The essence of the tort of passing off is a misrepresentation made by the defendant which is calculated to cause damage to the business or goodwill of the plaintiff." WADLOW, *supra* note 12, at 179. "The action for passing off does not confer monopoly rights. Passing off recognizes no exclusive right to any name, mark or get-up." *Id.* at 181.

Indeed, a mental element is not required. *Id.* at 200-01. Yet the need for misrepresentation by the defendant restricts the scope of protection. If no misrepresentation is performed, the tort of passing off does not apply. If the defendant did not act in good faith, and no misrepresentation exists, the applicability of the general rules of unfair competition should be considered. This issue is beyond the scope of this article.

14. Thus, an ex-employee is free to approach the ex-employer's customers, notwithstanding the right of the employer in goodwill, unless the customers' names are trade secrets, the employee is in breach of a restraint of trade clause, or a dishonest act has been performed. *See* DEAN, *supra* note 3, at 213.

jurisprudence the following widely quoted dictum is frequently encountered: "[T]he word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith . . . the property may be denied, but the confidence cannot be."¹⁵ This dictum clearly emphasizes the personal non-proprietary aspect. Although similar dicta in American law have denied recognition of the right in a trade secret as an *in rem* right,¹⁶ there are also many who support the opposite view.¹⁷ English jurisprudence has also spoken in two voices, even though the more accepted view denies the *in rem* nature of the right in trade secrets, predicated the right on fiduciary or contractual relationships.¹⁸

Society's interest in preserving the confidentiality of commercial information has become critically important for modern economies. Thus, the resolution of the discussed dispute is of essential significance in commercial law.

Two preliminary comments should be made prior to entering the fray. First, above and beyond relating to the status of goodwill as a source from which inspiration and analogies may be drawn for solutions in the field of trade secrecy, it has been argued that trade secrets constitute an integral part of the goodwill of a business. Therefore as the right concerning goodwill is recognized as an *in rem* right, and the right in a trade

15. See *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917); see also 1 MILGRIM, *supra* note 5, § 1.01[1].

16. See, e.g., *Northern Petrochemical Co. v. Tomlinson*, 484 F.2d 1057, 1060 (1973); *Valco Cincinnati Inc. v. N.S.O. Machining*, 492 N.E.2d 814 (1986); 1 JAGER, *supra* note 1, § 4.07 [3].

17. See, e.g., *St. Michael's Convalescent Hosp. v. California*, 643 F.2d 1369 (9th Cir. 1981); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410 (E.D. Pa. 1980); *Lee v. Cercoa Inc.*, 433 So. 2d 1 (Fla. Dist. Ct. App. 1983); *Rockwell Graphic Sys. Inc. v. DEV Indus. Inc.*, 17 U.S.P.Q.2d 1780, 1785 (1981); 1 JAGER, *supra* note 1, § 4.01(3), at 1-2; 1 MILGRIM, *supra* note 5, at ch. 2; Arnold S. Weinrib, *Information and Property*, 38 U. TORONTO L.J. 117, 133 (1988).

18. For support of the *in rem* version, see *Seager v. Copydex*, 2 All E.R. 415 (1967); for its denial, see COLEMAN, *supra* note 3, at 30; *Boardman v. Phipps*, 2 A.C. 46, 128 (1967). For an exhaustive analysis of the authorities, concluding that the right in a trade secret is not an *in rem* right, see DEAN, *supra* note 3, at 53. See also W.R. CORNISH, *INTELLECTUAL PROPERTY* 232, 240-41 (2d ed. 1989).

secret is a part of that right, it necessarily follows that the right in a trade secret should be classified as well as an in rem right.¹⁹

Such argument is problematic even while assuming the in rem nature of the right in goodwill. For even though a trade secret is one of the factual components enhancing the value of the goodwill, it does not follow that the right in a trade secret is an element of the legal right in goodwill. The right in goodwill prohibits a party from arrogating the goodwill of another's business to himself and in doing so, attract his clients. The law of trade secrets, on the other hand, seeks to prevent accessibility to information regarding clients and its use in soliciting the clients. The prohibitions imposed by each right are different, and thus their legal classification is not necessarily similar.

Second, an assessment of the in rem nature of the right in trade secrets should bear in mind the jurisprudential differences between intellectual property and tangible property. Features of the right in trade secrets which do not generally characterize tangible property, but yet do fit intellectual property, may suffice in order to categorize the right in a trade secret as an in rem right.

II. A METHODOLOGICAL REMARK

An examination of the in rem nature of a right may be required for one of two purposes. The law may assume that a given right is an in rem one, while failing to specify all the features of the right. The interpreter's task in such a case is to identify the relevant missing features, which would be commensurate with the in rem nature of the right.

The need to examine the in rem nature of a right may also arise in other cases, in which some of the features of the right are established in a given legal instrument, while the classification of the right is not indicated. In such a case, the interpreter should first infer from the features prescribed by the legal in-

19. See DEAN, *supra* note 3, at 59-60. This argument is particularly relevant when lists of costumers are concerned. See also *Bolliger v. Costa Brava Wine Co. Ltd.*, 1 W.L.R. 227 (1961).

strument whether the right bears an in rem nature. The assumption would be that if the right under discussion evidences most of the typical features generally characterizing an in rem right, the lacking features should be "filled in" by assuming those features that would normally appear in an in rem right.

The trade secrets case falls *prima facie* within the second abovementioned category of cases. The law does not assume *a priori* the in rem character of this right. Varied characterizations of the right in a trade secret have been moulded within the Anglo-American case law and legal literature but other important features have not yet been elaborated. Should they be determined according to the decision on the in rem nature of the right? At this juncture, Dean's comment bears mention. He points out that such methodology may lead into a vicious circle: "For example, an argument that because third parties are enjoined in certain circumstances, confidential information is property, and because confidential information is property, third parties are enjoined, is superfluous and circular, unless it is to predict the Court's treatment of confidential information in all circumstances."²⁰ Indeed, Dean is correct in cautioning against a vicious circle. Current jurisprudence provides no definitive doctrine regarding the effect of the right in a trade secret upon innocent third parties, and trade secrets law cannot be said to confer an in rem right by virtue of any assumed effect of the right on such third parties. Such effect may derive from the in rem nature of the right, but the classification of the right as being in rem must first be established.

The "mosaic" methodology referred to above would attempt to examine the uncontested features of the right in a trade secret. Should it emerge from such examination that this right confers a "critical mass" of in rem features, the conclusion would be that the right is in rem, thus allowing inferences to be made regarding the missing elements. In the context of the right in trade secrets, however, the "mosaic" methodology is insufficient. Such an approach is useful when the missing features are of marginal importance. Yet, without any preliminary convention regarding the protection of the right in a trade secret against innocent third parties, it is impossible to identify a "critical

20. DEAN, *supra* note 3, at 61.

mass" of elements that would endorse an in rem classification of the right. Consequently, the decision concerning the effect of the right in a trade secret on innocent third parties must be independently established. It is only upon concluding that an extensive defense ought to be conferred in the right against third parties (if indeed such is the conclusion), that the "mosaic methodology" can be applied as a means of allocating additional features to the right in a trade secret, features which are not yet identified by jurisprudence.

III. TERMINOLOGY: "IN REM RIGHT" OR "PROPRIETARY RIGHT"?

The theoretical dispute regarding the in rem nature of the right in a trade secret derives in part from a misinterpretation of terms. Two terms should be differentiated: "proprietary right" and "in rem right." Frequently, the statement that a trade secret is "property" is actually not intended to convey the notion of an "in rem" right but rather a "proprietary right."²¹ "Proprietary rights" are merely rights bearing economic significance.²² This category consists of rights of different natures, amongst them, obligatory rights which are the "negative" of the in rem rights.²³ An obligatory right is also an asset and thus a proprietary right.

Therefore, an argument which emphasizes the asset quality of the right in trade secrets, as for example, the negotiability of the right, does not properly distinguish between different kinds of proprietary rights, and thus does not confer the right in a trade secret with an in rem status. An obligatory right, for example, is negotiable, even though it is obviously not an in rem right.²⁴ The terminological differentiation between the notion of "proprietary right" and "in rem right" should be taken into consideration, for example, when examining Milgrim's analysis of the nature of trade secrets.²⁵ Milgrim argues that a trade secret is "property" by virtue of factors including its negotiability and its functioning as an "asset" in the context of

21. See *infra* note 28 and accompanying text.

22. See SALMOND ON JURISPRUDENCE 238 (P.J. Fitzgerald ed., 12th ed. 1966).

23. See *id.* at 239.

24. See, e.g., *id.* at 446.

25. See 1 MILGRIM, *supra* note 5.

bankruptcy proceedings.²⁶ The author assesses these elements as indicating that rights in a trade secret are in the nature of property right.²⁷ Yet, such elements only lead to the conclusion that the right is proprietary and by themselves do not suffice to establish the in rem character of the right.²⁸

Indeed, in various contexts, when using the term "property" the law is in fact referring to a "proprietary right" and not to an "in rem" right. Such is the case of the term "property" in the American Constitution.²⁹ As far as the constitutional protection against "taking" is concerned, law should not differ in principle between the taking of an in rem right or any other proprietary right. All proprietary interests should be protected. Yet, when dealing with the complicated question regarding the intensity of the protection which should be granted to trade secrets against third parties, the classification of the right in a trade secret as a "proprietary right" does not yet lead to an answer, and the in rem issue has to be resolved.

IV. THE AIMS OF PROTECTING TRADE SECRETS AND THE IN REM CONCEPT—A GENERAL VIEW

Assessment of the goals of providing legal protection for trade

26. In previous releases of Milgrim's book, the author has dealt at length with the in rem issue, citing these features as evidence of the right in a trade secret being a "property right." See 1 MILGRIM, *supra* note 5, at ch. 1. In the present release this issue is dealt with only briefly. See *id.* at ch.2. He notes that in the interim, solutions have been found for many of the issues that previously demanded a decision to the in rem question for their resolution.

27. *Id.* at ch. 2.

28. It is quite unclear whether Milgrim uses the term "property" in order to describe an in rem right or rather just a proprietary one. Sometimes it seems clear that he refers to an in rem right: "This right is no less a property right than is the so called 'exclusive right' under the Copyright Act of 1976." 1 MILGRIM, *supra* note 5, § 2.01. Copyright is undoubtedly an in rem right. See *id.* "The property right in anything is always a relational right, i.e., the right that an owner may have vis-a-vis the world." *Id.* § 2.01 [1]. See also text § 2.01 [2] following n.18: Milgrim uses the term "property" examples representing in rem rights, like patents, copyright and ownership in land.

On the other hand, Milgrim sometimes seems to refer, while using the term "property," just to the proprietary character of the trade secret. See *id.* § 2.02 n.1. See also *id.* § 2.01. Milgrim stated that a "property right" is the "implicit mechanism that permits a court to recognize any remedy, be it for breach of a contract or confidential relationship." *Id.*

29. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984).

secrets may indicate a resolution of the in rem issue. There are three possible approaches. One approach would argue that the protection of the right in a trade secret should promote personal norms of commercial fairness. Another approach views the proprietary aspect of trade secrets as the dominant element. A third approach regards the protection of commercial secrecy as part of the general protection of privacy. It is the second approach that more readily leads to a conclusion that the right in a trade secret is an in rem right.

American case law has adopted a variety of approaches regarding the goals of trade secrets law. Several cases have ruled that these laws are intended exclusively for the protection of commercial ethics.³⁰ Others maintain that the goal is to encourage inventions for the public welfare.³¹ Such an approach would advocate the proprietary character of the right. Another approach sees both of the above goals as being functional.³² There are those that recognize the validity of the two aforementioned goals, yet emphasize the promotion of inventions as being the dominant factor in formation of legal policy.³³ Finally, there are those that emphasize the element of the protection of privacy.³⁴

As mentioned above, in English law the protection of trade secrets is based upon the laws of confidentiality.³⁵ In this system, the encouragement of inventions does not serve as a goal for protecting trade secrecy. Not surprisingly, English jurisprudence generally negates an in rem concept for trade secrets, though there are those who have expressed support for it.³⁶

It would appear that none of the abovementioned approaches can claim exclusivity and that they are reflected in the law of trade secrets. The desire to ensure commercial ethics is an

30. See 1 JAGER, *supra* note 1, § 1.03.

31. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Fowle v. Park*, 131 U.S. 88 (1889); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 9 U.S.P.Q.2d 1847 (1989); *Davidson*, *supra* note 6; 1 JAGER, *supra* note 1, § 1.04.

32. See *Kewanee Oil Co. v. Bicron Co.*, 416 U.S. 470, 481-82 (1973).

33. See, e.g., *College Watercolor Group, Inc. v. Newbauer*, 360 A.2d. 200 (1976). For further authorities, see 1 JAGER, *supra* note 1, § 1.04.

34. See *Bonito Boats, Inc.*, 9 U.S.P.Q.2d 1847 (1989); 1 JAGER, *supra* note 1, § 1.05.

35. See *supra* note 3 and accompanying text.

36. See *supra* note 18.

overall legal aim, achievable by prohibition of varied unethical acts irrespective of whether they infringe upon rights which can be defined as intellectual property. The relevant question is whether the ethical aim ought to be complemented by the aim of encouraging invention and commercial initiatives for public welfare. As will be demonstrated below, an affirmative answer should be given to this question.

Regarding the element of privacy, it should be noted that the central concern of privacy laws differs from that of trade secrets. In the privacy context, the prevention of others' access to information is the essence of the law.³⁷ In the context of trade secrets, the major concern is prevention of the commercial use of information by the defendants and others.³⁸

How does an approach recognizing the in rem nature of the right in a trade secret cope with the general justifications for classification of in rem rights? Recognition of intellectual property is primarily based upon the desire to reward the creator or inventor, in order to provide an incentive for people to create and invent, thereby promoting the interests of society as a whole.³⁹ Priority is given to the public interest, while reward for the individual serves as a means for realizing that interest.⁴⁰ This is an aspect of the economic-utilitarian approach.⁴¹ Public interest, for example, dictates the imposition of substantive restrictions on the scope of protection afforded for intellec-

37. See ALAN F. WESTIN, *PRIVACY AND FREEDOM* 7 (1967).

38. Notwithstanding the abovementioned, for the view that the protection of trade secrets is an aspect of the protection of personality, see Weinrib, *supra* note 17, at 126.

39. This is eminent in the American Constitution. It enables Congress to enact in the field of intellectual property only in order to advance science and useful arts. See U.S. CONST., art. 1, § 8, cl. 8.

40. See 1 LIPSCOMB'S WALKER ON PATENTS § 2:1, at 70 (3d ed. 1984).

41. For analysis of intellectual property laws from an economic point of view, emphasizing the aim of patent laws to enlarge public welfare, see *Graham v. John Deere Co.*, 383 U.S. 1 (1966); *Mazer v. Stein*, 347 U.S. 201, 219 (1954); *Hilton Davis Chem. Co. v. Warner-Jenkinson Co.*, 62 F.3d 1512 (F. Cir. 1995); *Roche Prod. v. Bolar Pharm. Co.*, 733 F.2d 858 (F. Cir. 1984); *Hassle v. Apotex, Inc.*, 44 D.L.R.4th 755 (1987) (Can.); Stanley M. Besen & Leo J. Raskind, *An Introduction to the Law and Economics of Intellectual Property*, 5 J. ECON. PERSP. 3 (1991); Edmund W. Kitch, *The Nature and Function of the Patent System*; 20 J.L. & ECON. 265 (1977); Robert P. Merges & Richard R. Nelson, *On the Complex Economics of Patent Scope*, 90 COL. L. REV. 839 (1990); see also ROBERT M. SHERWOOD, *INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT* (1990).

tual property and upon its duration, in addition to the possibility of dictating compulsory licenses or blocking owner's claims when the owner does not utilize the right.⁴²

Is the provision of in rem protection for trade secrets consistent with the abovementioned justification for protecting intellectual property? An affirmative answer should be given when dealing with a trade secret of a "know how" kind. The exploitation of "know how" is also of benefit to society, even if significantly less than the contribution of a registered patent within which the information is disclosed to the public. This basic difference regarding the respective contribution of the two rights to society influences the scope of the defense, but society is also interested in encouraging new unregistered inventions. The contribution to society is less remarkable, although not negligible, when the commercial information does not involve any "know how." Legal protection provided to trade advantages, even if not included in the category of "know how," promotes commercial initiative and development of competitive capacity.

One of the general theoretical justifications for recognition of in rem rights is the "labor theory," according to which recognition ought to be given to the interest of a person in the fruits of his labor. This is not only due to the public interest in production of assets, but also to considerations of justice.⁴³ The "labor theory" is easily applied to trade secrets belonging to the category of "know how," but seems less appropriate for other types of protected secrets like lists of clients. Yet, numerous precedents have required some investment of effort, time or moneyholding for protection of secrets not classified as "know how."⁴⁴ According to this approach, the labor theory may pro-

42. For compulsory licenses in England, see, for example, in the realm of registered designs, The Registered Designs Act, 1949, § 10(1) (Eng.); in the field of patents, see The Patents Act, 1977, § 48-54 (Eng.); RICHARDS BUTLER ON COPYRIGHT, DESIGNS AND PATENTS: THE NEW LAW 346-47 (Robert Merkin ed., 1989) [hereinafter BUTLER ON COPYRIGHT]. In American law, a compulsory license may be enforced only in favor of government, in appropriate cases. However, the claim of the owner of a patent may be blocked if there is "misuse." See, with respect to trademarks, 1 PETER D. ROSENBERG, PATENT LAW FUNDAMENTALS 4-56-1 (2d ed. 1986).

43. Regarding patents, see 2 GOLDSTEIN, *supra* note 9, § 17.06, at 17-43. For the "labour theory" as justifying property rights, see Edward Andrew, *Inalienable Right Alienable Property and Freedom of Choice: Locke, Nozick and Marx on the Alienability of Labour*, 18 CAN. J. POL. SCI. 529 (1985); LAWRENCE C. BECKER, PROPERTY RIGHTS: PHILOSOPHIC FOUNDATIONS 65 (1977).

44. For the English system, see *Exchange Telegraph Co. Ltd. v. Central News*

vide an appropriate justification for granting in rem protection for all types of secrets.

This analysis indicates only that the aims of the protection of the rights in a trade secret are generally in harmony with the aims of the laws regarding intellectual property. The details of the right in trade secrets must still be examined through the prism of the detailed in rem model. This model dictates two levels of analysis, the first being the level of legal policy. The determination of whether a given right warrants an in rem defense is first and foremost a value judgment. The central consideration would be the intensity which the legal system wishes to attach to the expectations of the entitled party.⁴⁵ The second level of analysis examines the structural characteristics of the right. For any particular right to be classified as an in rem right, its substantive characteristics must be commensurate with the inherent features of the in rem model in general. While initially dealing with the second level, the analysis below will be conducted on both levels.

V. THE COMPATIBILITY OF THE RIGHT IN A TRADE SECRET WITH THE IN REM MODEL

A. *Publicity of the Right*

A basic characteristic of the in rem right is its publicized nature.⁴⁶ As the in rem right largely affects third parties, even those who are not actually aware of its existence, there is no

Ltd., 2 ch. 48, 53 (1987). For New Zealand, see *Interfirm Comparison (Australia) Pty Ltd. v. Law Society of N.S.W.*, 2 N.S.W.L.R. 104, 117 (1975); DEAN, *supra* note 3, at 115-17.

Various American authorities suggest that the purpose of trade secrets law is to promote inventions. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979); *Fowle v. Park*, 131 U.S. 88 (1889); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 9 U.S.P.Q.2d 1847 (1989); Davidson, *supra* note 6; 1 JAGER, *supra* note 1, § 1.04.

45. See Cheryl I. Harris, *Whiteness as Property*, 106 HARV. L. REV. 1709 (1993). See also *Agins v. Tiburon*, 447 U.S. 255, 262 (1980); Laura S. Underkuffler, *On Property: An Essay*, 100 YALE L.J. 127 (1990). For the legal policy factor as to the in rem qualification of rights, see Weinrib, *supra* note 17, at 122.

46. See Vera Bolgar, *Why No Trusts in the Civil Law?*, 2 AM. J. COMP. L. 204, 214 (1953); Bernard Rudden, *Economic Theory v. Property Law: The Numerous Clausus Problem*, in OXFORD ESSAYS IN JURISPRUDENCE 239, 249 (John Eekelaar & John Bell eds., 1987).

justification for this result unless the third parties had potential notice thereof by way of its publicity.

Does the requirement for publicity equally apply in the area of intellectual property? The status of one of the rights in this context, namely that of copyright, is quite complex and particularly relevant for our purposes. Undoubtedly, copyright is an in rem right which provides the owner with protection against all third parties.⁴⁷ The English law of 1988 expressly declares the in rem nature of copyright.⁴⁸ The question arises whether in light of the publicity principle, there is any justification for providing in rem protection to copyright, in the English or American system. The English system does not enable registration of copyright at all, and the American system does not allow registration to constitute a condition for protection of the right, notwithstanding the existence of provisions which encourage publicity.⁴⁹ The answer to this question bears important analogical implications for the assessment of the in rem character of the right in trade secrets.

Infringement of copyright requires that there be an act of "copying," whereby the work of the defendant is based upon the work of the plaintiff.⁵⁰ This being so, can it be said that the publicity of the work itself (or the defendant's actual knowledge of the work) fulfills the requirement of publicity with respect to copyright? The answer is that the work itself does not necessarily attest to the existence of rights in it, and certainly not to the identity of its owners. It should be noted that copyright is vested not only in works published by publishers under the name of the author, but also in other kinds of works. The law demands copying in order to establish a cause of action because the existence of copying is essential in order to establish misappropriation of the owner's rights, as opposed to a case in which the defendant merely created an independent work occasionally similar to the plaintiff's work.⁵¹ Copyright law thus provides in

47. See, e.g., 1 HUGH LADDIE ET AL., *THE MODERN LAW OF COPYRIGHT AND DESIGNS* 1 (2d ed. 1995).

48. See Copyright, Designs and Patents Act, 1988, ch. 48, § 1(1) (Eng.); see also MICHAEL F. FLINT ET AL., *INTELLECTUAL PROPERTY: THE NEW LAW* 5 (1989).

49. See *infra* text accompanying notes 57-61.

50. See, e.g., COPINGER & JAMES, *supra* note 9, at 166; 2 GOLDSTEIN, *supra* note 9, § 7.2.

51. See 2 GOLDSTEIN, *supra* note 9, § 7.2; DAVID I. BAINBRIDGE, *INTELLECTUAL*

rem protection to works, without demanding publicity of the right.

Indeed, copyright law alleviates to some extent the difficulty created by the provision of in rem attributes to copyright in a manner contrary to the principle requiring publicity of in rem rights. In English law, in cases of secondary infringement in which the defendant deals with infringing copies,⁵² the cause of action is conditioned upon the defendant being aware of the prior rights.⁵³ In cases of primary infringement, as when the defendant publishes the plaintiff's work without authorization, the English system adopts a hybrid approach. It differentiates between the remedies of injunction and damages. Damages, as opposed to an injunction, will not be awarded if the defendant did not know, and was not required to know, about the existence of another's copyright over the work.⁵⁴ The law thus applies the general in rem concept to the injunction remedy by granting partial immunity to the innocent defendant in light of the publicity problem. Yet it should be noted that this immunity is rather limited and frequently impractical. The defendant has to show that he was neither aware, nor required to know, of the existence of *any copyright* over the work.⁵⁵ It does not suffice that the defendant assumed he was not performing any infringement.⁵⁶ If, for example, a person purports to sell to a publisher the copyright over a work of which he is not the owner, thereby misleading the publisher, the publisher will not be immune from the damages remedy because he was aware of the copyright over the work, despite being misled about the identity of the owner.

In American copyright law the basic rule is that "innocent intent should no more constitute a defense in an infringement action than in the case of . . . tangible personalty."⁵⁷ Even so, a more lenient approach is adopted regarding damages where the

PROPERTY 99 (2d ed. 1994).

52. For the distinction between primary and secondary infringements, see COPINGER & JAMES, *supra* note 9, at 161.

53. *See id.*

54. *See* Copyright, Designs and Patents Act, 1988, ch. 48, § 97(1) (Eng.).

55. *See* COPINGER & JAMES, *supra* note 9, at 315-17.

56. *See* BUTLER ON COPYRIGHT, *supra* note 42, at 98-99.

57. 3 MELVILLE B. NIMMER & DAVID NIMMER ON COPYRIGHT § 13.08 (1995).

infringing party was acting in good faith. Hence, for works distributed prior to the effect of the Bern Convention Implementation Amendments Act,⁵⁸ section 405(b) of the Copyright Act,⁵⁹ stipulates that a third party's reliance upon the omission of copyright notice, in an authorized copy, exempts him from damages for any infringing acts committed before he received actual notice, even though the Court still has a discretionary power to award remedies in such situations.⁶⁰ For works distributed after that date the good faith defense serves only to somewhat decrease the damages awardable as statutory damages (as opposed to actual damages), provided that the "infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright"⁶¹ In this context, whether overt public acts were done that publicized the rights is highly relevant.

It may therefore be concluded that, notwithstanding the absence of publicity, the law of copyright provides an in rem defense to the right while only an extremely qualified immunity is granted to the defendant in respect of damages. Hence, the requirement of publicity is not a *conditio sine qua non* for conferring in rem rights in this area.

At this point it will be useful to turn to the issue of publicity within the context of trade secrets law. It first should be noted that the issue is not whether the trade secret itself has been publicized, but rather whether the rights attaching to the secret have been publicized. In other words, our concern is with the publicity of the right and not publicity of the subject of the right. The publicity of the trade secret itself, as opposed to the publicity of the rights attaching thereto, is antithetic regarding the existence of the right in a trade secret since publication of the information results in the expiration of the right.⁶² The issue therefore relates to publicity concerning the identity of the owner of the trade secret.

58. Pub. L. No. 100-568, 102 Stat. 2853 (1988).

59. 17 U.S.C. § 101 (1994).

60. See 2 GOLDSTEIN, *supra* note 9, § 9.4.1.

61. 17 U.S.C. § 504(c)(2) (1994).

62. See, e.g., DEAN, *supra* note 3, at 123; 1 JAGER, *supra* note 1, § 6.03; KATE BREARLY & SELWYN BLOCH, *EMPLOYMENT COVENANTS AND CONFIDENTIAL INFORMATION: LAW, PRACTICE AND TECHNIQUE*, 83-88 (1993).

The implications of the analogy between copyright and trade secrets on the in rem issue will be analyzed further in this article.⁶³ As to the analogy between the publicity of the right in a trade secret and the right in a patent, it should be noted that the publicity of the right in a trade secret is inferior to the publicity in a registered patent.⁶⁴ Yet the substantive content of the right in a trade secret is obviously different from that of a claim based upon a patent. In contrast to a patent, the owner of a trade secret does not require a monopoly on the information and no rule prevents a defendant from obtaining the information from independent sources.⁶⁵ The owner of the secret only requires protection against the use and transfer of the information which has been unfairly removed from his control. It is in this sense that the right in a trade secret is more analogous to copyright than to other intellectual assets that are statutorily registered and which confer a monopoly. It may therefore be argued that just as the problems posed by the lack of publicity do not nullify the in rem protection for copyright, similar problems do not necessarily serve as an obstacle in the area of trade secrecy.

At this stage it would be helpful to examine the system's approach to the question of publicity in relation to another kind of asset: chattel. Possession constitutes a central factor of publicity, particularly in the area of chattels, in view of the concept that possession creates a representation of ownership.⁶⁶ Yet, unconsented removal of the asset from the owner's control does not negate the owner's prior right of ownership.⁶⁷ The initial

63. See *infra* notes 193-94 and accompanying text.

64. Registration of a patent establishes a maximal and clear claim of right, open to public for inspection. In the context of trade secrecy, the publicity factor which might be identified is control over the information, which is necessarily a weaker indication to the existence of rights on behalf of the person in control. See *infra* text following note 70.

65. See 1 JAGER, *supra* note 1, § 3.03[3][a]. "Unlike a patent owner, a person who possesses a trade secret does not have an exclusive right to the information. A trade secrets claim is always subject to the defenses of independent development or reverse engineering." *Id.*

66. See generally, with respect to the conceptual basis for viewing possession as indicating and justifying rights, Richard A. Epstein, *Possession as the Root of Title*, 13 GA. L. REV. 1221 (1979). See also, DIAS, *supra* note 2, at 295; 1 MILGRIM, *supra* note 5, § 2.02[1]. Clearly, in a system regulating registration concerning rights in land the possession factor in this field is less significant.

67. RAY ANDREWS BROWN, *PERSONAL PROPERTY* § 9.3 (Walter B. Raushenbush ed.,

publicity creating the original right suffices. For example, if a thief transfers an asset to a third party through the black market, the absence of publicity in favor of the owner at the time of the sale to the third party (at which stage the thief has possession) does not nullify the owner's right to it. Once the right has crystallized the absence of publicity in later stages does not detract from its validity.

By definition a trade secret cannot be "possessed," possession being a feature unique to tangible assets. Even so, effective control may be exercised over the information, and it is arguable that such control is equivalent to possession.⁶⁸ Control over a secret is equivalent to control over the exclusivity of knowledge or utilization of the information.⁶⁹ The existence of such control is a condition for the very existence of the right in trade secrets according to the "internal" rules governing the laws of trade secrecy. The owner of the trade secret must adopt measures to prevent its publication beyond the limited circle of persons bound by obligations of confidentiality, and must give appropriate warnings regarding confidentiality to all others who come into contact with the information.⁷⁰ An onus is therefore imposed upon him, to create a "protected zone" for the information, that zone being metaphorically marked with an ownership sign. It may thus be argued that whenever a person has protected rights under the substantive rules of trade secrets there exists a dimension of publicity with respect to the identity of the owner of the right, prior to the misappropriation of the secret from the owner's control. For example, where the owner of the trade secret guards the relevant documentation in a safe or other means of safekeeping, third parties know, or should know, at that stage that the owner has control and a claim to ownership over any information so kept. Indeed, in such a case, the manifestation of control is not totally unequivocal and the defendant is not necessarily aware of the adoption of measures for controlling the information. Even so, with respect to chat-

1975); CHARLES DONAHUE, JR., ET AL., PROPERTY—AN INTRODUCTION TO THE CONCEPT AND THE INSTITUTION 44 (3d ed. 1993).

68. Control is actually the essence of possession. See SALMOND, *supra* note 22, at 270-74.

69. The factor of exclusion of others is central to the notion of possession. See SALMOND, *supra* note 22, at 272.

70. See *infra* Part V.B.

tels, while the publicity of rights by way of possession is not as strong as it is in comparison with a case where statutory registration applies, it nonetheless suffices.⁷¹ Indeed, if the trade secret was misappropriated from the owner and thereafter transferred to a third party, the latter is frequently unaware of the owner's original rights over the secret. This is also the situation when chattels come to third parties. The risk with respect to the ownership of the rights therein is imposed upon the third party. As stated, publicity of the right at the stage of its crystallization suffices without the owner being deprived of his rights in a chattel following involuntary loss of possession. It is not contended that the same legal policy of allocating risks must necessarily apply to the area of chattels and the area of trade secrets. Rather, the discussion above demonstrates that the requirement of publicity of in rem rights does not necessarily pose a preliminary barrier to the in rem concept in the context of trade secrets.⁷²

B. *The Onus of Taking Measures to Preserve Secrecy*

As mentioned above, it is a well-settled rule of American trade secrets law that the owner of a trade secret is not entitled to protection unless he has adopted reasonable measures to protect the secrecy of the information.⁷³ This rule is of special relevance in a case in which the information's secrecy was actually preserved prior to the misappropriation, while protective measures were not adopted by the owner or were not reasonable according to the aforementioned rule. Thus, assume that those coming into contact with the information are aware of the plaintiff's ownership, and, notwithstanding the non-adoption of reasonable protective measures, the information is still unpublished. Further assume that the defendant received the information from an employee of the plaintiff knowing that the information has not yet been published. The aforementioned

71. See *supra* text accompanying notes 66-67.

72. Dean holds a different opinion, according to which the absence of registration is a critical element in the negation of the in rem status of the right in a trade secret. "It would be absurd to expect a recipient to trace the origins of information on each occasion." DEAN, *supra* note 3, at 84. Dean's argument will be analyzed later in this article.

73. See 1 MILGRIM, *supra* note 5, § 1.04.

rule, imposing an onus of taking protective means as a precondition for protecting the right, would be applicable in such a situation and would prevent the protection of the owner's rights according to trade secrets law, although unfair means have been applied.

The rule imposing an onus of taking protective measures contributes to the in rem concept regarding trade secrets, as such onus promotes the publicity of the right.⁷⁴ However, the conclusiveness of the rule and its applicability as a necessary pre-condition even in situations as described above, in which the requirement of publicity has been fulfilled notwithstanding the owner's failure to discharge his duty of taking measures to preserve secrecy, is not strictly commensurate with the general context of the in rem model that an owner's title to a tangible asset cannot be denied due to his failure to adopt appropriate safeguarding measures.⁷⁵ A thief is not heard to claim to the owner that he, the owner, did not properly guard his property, thereby justifying an act of conversion. It should be noted that the onus of taking protective measures in the context of trade secrecy is not limited to situations in which the defendant acted while not being aware of the owner's rights in the secret. It applies on a larger scope than that of an estoppel argument.⁷⁶ The legal system thereby declares that it will not provide the trade secret's owner with a protection more solid than he himself provided to his asset.⁷⁷ This is not the law's approach to owners of other assets in general.

Nevertheless, this onus may be justified on other grounds which do not detract from the potential in rem nature of the right in trade secrets. It may be founded upon the nature of secrecy itself, which is a *conditio sine qua non* for the crystallization of the "asset" under discussion, i.e. the right in a trade secret.⁷⁸ It may be argued that the "secrecy" concept involves

74. See *supra* text accompanying note 70.

75. Protection of in rem rights is unconditional, and only concepts like purchase in good faith for value and "market overt" may sometimes restrict it. See *infra* notes 143-46 and accompanying text.

76. No rule has been developed under American law. See the general description at 1 MILGRIM, *supra* note 5, § 1.04 (conditioning the application of this onus to the mental state of the defendant, and thus no rule demanding reliance on a representation—as in estoppel—applies).

77. See *id.*

78. For the "secrecy" requirement, see RESTATEMENT (THIRD) OF UNFAIR COMPE-

subjective elements in addition to its objective components. Thus, the fact that there was no actual publication of the information is insufficient for considering it as secret. Where there is no intention by the owner to maintain secrecy, there can be no trade secret in legal terms, even if the information has not become public knowledge. Indeed, English jurisprudence supports this concept. It does not establish a separate independent rule imposing the onus of taking protective measures, but rather arrives at a similar requirement that the subjective intent of the owner to keep the information secret be proven.⁷⁹ The recently published Restatement (Third) of Unfair Competition reflects a similar concept as to the significance of the requirement that the owner take precautions.⁸⁰

C. *Exclusivity*

It may be argued that the right in a trade secret is not in rem, due to the absence of exclusivity which generally characterizes an in rem right.⁸¹ Control over tangible assets cannot be simultaneously applied between disputing parties. A trade secret, however, may be duplicated and thus simultaneously controlled by many. As has been contended, information cannot be "taken", but rather "shared." With the duplication of the trade secret, the owner loses his exclusivity and advantage but

TITION § 39 cmt. f; RESTATEMENT (FIRST) OF TORTS, § 707 cmt. b; 1 JAGER, *supra* note 1, § 50.5[1].

79. See *Marshall v. Guinle*, 3 W.L.R. 116 (1987); COLEMAN, *supra* note 3, at 7-8. In American jurisprudence, the rule has in some cases been formulated as requiring proof that the owner intended to keep the information secret (instead of determining a rule establishing the onus of the owner to obtain secrets). See, e.g., *Cherne Indus., Inc. v. Grounds & Assoc., Inc.*, 278 N.W.2d 81 (Minn. 1979).

80. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g states that: [w]hether viewed as an independent requirement or as an element to be considered with other factors relevant to the existence of a trade secret, the owner's precautions should be evaluated in light of the other available evidence relating to the information's value and secrecy. Thus, if the value and secrecy of the information are clear, independent evidence of specific precautions by the trade secret owner may not be required.

See also 1 JAGER, *supra* note 1, § 5.05[2][a]. "A strong element of probative proof of secrecy is created when the trade secret owner has taken steps to ensure the secrecy of the information." *Id.* at 131-32.

81. See, e.g., Felix Cohen, *Dialogue on Private Property*, 9 RUT. L. REV. 357 (1954).

not his "possession."⁸² It also may be claimed that since the owner may continue using the secret contemporaneously with the misappropriator's use, there is no justification for conferring the right in trade secrets with protection as vigorous as that conferred to in rem rights.

This view should be rejected as inaccurate. For in fact, in the case of a trade secret, no joint control over the same "asset" is exercised by the owner and the misappropriator. No duplication of the asset occurs when the trade secret is misappropriated, rather the trade secret is divided into "parts." Every additional competitor availing himself of the secret effectively reduces the value and modifies the characterization of the asset remaining in the hands of the prior competitor. Prior to misappropriation only the owner of the trade secret could exploit the information, while thereafter he is left with a different asset; the information being also exploited by competitors. Thus, the argument that the same asset is simultaneously controlled by disputing parties in the context of a trade secret is inaccurate.⁸³ Furthermore, this argument ignores adjustments to the concepts prevailing in the field of tangible property, which ought to be made with regard to the specific and unique features of intellectual property. Even if simultaneous control over the same asset is applied, this result derives from the abstract nature of intellectual property which allows that phenomena, without indicating the absence of the in rem character of the right.

D. *Disappearance of the Asset*

In American jurisprudence it has been argued that the right in a trade secret is not an in rem right, as in rem rights cannot just evaporate. Yet, upon the publication of a trade secret the owner's right expires. "It is indeed a strange form of 'property' that disappears when the information it embraces becomes public or others independently make the same discovery."⁸⁴

82. For discussion on this argument, see Weinrib, *supra* note 17, at 123-24.

83. The idea of "division" of a trade secret into parts can be found in American jurisprudence. See COLEMAN, *supra* note 3, at 48; F.W. Dodge Co. v. Construction Info. Co., 66 N.E. 204 (Mass. 1903).

84. John C. Stedman, *Trade Secrets*, 23 OHIO ST. L.J. 4, 21 (1962).

This argument is clearly unfounded. First, all intellectual property rights are, by definition, of fixed duration which is one of the features unique to intellectual property. This feature represents the attempt to strike a balance between the individual's interest in attaining reward for his investments and the public interest demanding that the public be able to benefit from the advancement achieved after a specified period of time.⁸⁵ Once again, this is an argument that denies the special character of intellectual property.

Second, even with respect to tangible assets, there is always the possibility that the asset may be destroyed and the rights therein may expire. Although, this is not a predetermined inherent feature, but rather a possible incidental development. Indeed, the argument that the possible "expiry" of the trade secret negates its in rem character has been sharply criticized in the legal literature.⁸⁶

E. *Immediacy and Independence of Control*

One of the most important features of the in rem right is its independence and immediacy. There is no need to adopt legal proceedings in order to establish the benefit and control granted by the right. The situation is different with respect to an obligatory right concerning an asset which, being more remote in its character, lacks the feature of immediacy.⁸⁷ The obligatory right applies primarily against a specific person (the debtor) and the creditor is required to initiate legal proceedings in order to realize his right.⁸⁸

It would appear that in American law the right in trade secrets is one in which both the features of immediacy and independence of control are present. The holder of the information enjoys the right to control and he benefits immediately from the trade secret without having to rely upon any specific legal connection with another person.⁸⁹ The owner's connection

85. See 1 MILGRIM, *supra* note 5, § 2.01[2].

86. See *id.*; Weinrib, *supra* note 17, at 127.

87. This difference between in rem and obligatory rights is well explained by the notion that an obligatory right to reserve an asset is only a "right to a right." See SALMOND, *supra* note 22, at 42.

88. For discussion of this characterization see Cohen, *supra* note 81, at 369-71.

89. In the American law, the right to trade secrecy is protected against un-

to the trade secret is thus independent; it is unrelated to any prior legal relationship. This conclusion is clearer in American jurisprudence than in English jurisprudence, in which the existence of a relationship based on confidentiality or contract is usually regarded as an essential precondition for establishing protection.⁹⁰

F. "Ownership" of the Secret

In legal literature it has been contended that the use of the term "owner" to describe the holder of a trade secret is inaccurate because the right in a trade secret is not an in rem right: "although one might loosely describe the person who knows, and is entitled to use information as the 'owner of the information,' it is arguable that the use of that term is not strictly correct."⁹¹ The assumption underlying this argument is incorrect. Reference to "ownership" of the trade secret does not indicate per se that the rights therein are in rem. It serves only to indicate the proprietary nature of the right. Although trade secrets can be "owned," an obligatory right can also be owned and yet obligatory rights are not in rem.⁹² Consequently, the existence of ownership in the context of trade secrets does not constitute any specific kind of right, and it does not advance the discussion concerning the in rem nature of the right.

G. Negotiability of the Right in a Trade Secret

Case law and literature frequently assert that the right in a trade secret is a property right due to the fact that it functions as an asset. It is negotiable and serves as a subject for other kinds of dispositions, its sale is subject to capital appreciation tax, and it may also be bequeathed.⁹³

It has already been stated that the abovementioned description does not lead to a conclusion that the right in a trade se-

specified parties, by means of the legal cause of unfair misappropriation, which does not require any contractual or fiduciary relations. See *infra* Part V.I.1.a.i.

90. See Cohen, *supra* note 81, at 369-71.

91. See COLEMAN, *supra* note 3, at 30.

92. See DIAS, *supra* note 2, at 297.

93. See *supra* Part III.

cret is an in rem right. It does no more than invite the conclusion that the right in a trade secret is a proprietary right. As stated above, there is no identity between proprietary rights and in rem rights.⁹⁴ Obligatory rights, too, are assets which are the subject of dispositions.

H. *Considerations Relating to Legal Coherence*

The right in a trade secret must be coherently incorporated within the general scheme of intellectual property. No justification exists for judicially developing a legal institution that extirpates existing laws that are well entrenched in legislation. For the purposes of this article, the question arises whether in rem protection (as opposed to weaker forms of protection) for trade secrecy might lead to the circumvention and uprooting of patent law.

Granting a right in a patent requires the owner to adopt registration procedures which involve complete disclosure of the details of the invention. The period of protection is limited to a predetermined fixed period. The inventor "pays" the public by way of disclosing the information, and public use of this information is permitted upon the expiration of the protection period of the patent.⁹⁵ The argument which should be examined is that providing in rem protection for the right in a trade secret obviates both the need and interest of the owner in protecting the given information by way of registering a patent. According to this argument, the holder of the information can benefit from a parallel, or even preferable, protection to that offered by patent laws by relying on the law of trade secrets without contributing to the public as required by patent law.⁹⁶

94. See *supra* Part III.

95. Trade secrecy laws will not protect the information after the expiration of the patent, as the trade secret is deemed disclosed and published, to the extent described in the patent. See 1 MILGRIM, *supra* note 5, § 1.06[1].

96. The granting of a patent involves a "quid pro quo" concept; the inventor receives a monopoly for a fixed period, and he contributes to the public by prompt disclosure of the information, which enables the system "to catalyze other investors into activity and make possible additional advances in the art." ROSENBERG, *supra* note 42, § 1.02.

Two separate questions may be posed in this context. The first question, mentioned previously, is whether recognition of the in rem status of the right in a trade secret obviates the law of patents. The second question is whether, as a matter of legal policy, the system should encourage and strengthen the motivation to register a patent, as opposed to alternate methods of protection, even if the alternatives do not necessarily obviate patent law.

1. Possible Uprooting of Patent Law

As to the first question, the argument that the law of patents is liable to become redundant if in rem status is conferred upon trade secrets has been addressed in the American and English systems.⁹⁷ However, closer examination indicates the argument's fallacy. Providing in rem status to the right in a trade secret does not amount to the granting of a monopolistic protection. The meaning of in rem protection is that any party misappropriating the secret from the plaintiff or receiving it following such misappropriation is subject to the tracing right of the owner even if he acted innocently.⁹⁸ It would still be necessary to prove that the secret reaching the defendant originated with the plaintiff.⁹⁹ There is, therefore, a basic distinction between the protection granted to the right in a trade secret, even if determined that the right is in rem, and the scope of protection granted to a patent. Within the trade secrets law, independent disclosure, as well as disclosure by reverse engineering, does not impose liability, whereas independent discovery by the defendant in patent law is prohibited as well.¹⁰⁰ Thus, even if in rem protection is to be conferred upon trade secrets, the added advantage attained by the registration of the patent remains. There is still a sharp difference between having "only" an in rem protection, which requires proof of the misappropriation of the information from the plaintiff, and the

97. For the English law, see DEAN, *supra* note 3, at 83 (wondering whether trade secrets being property will affect the Patents Act of 1958). For the American law, see 1 JAGER, *supra* note 1, § 1.04.

98. See *infra* note 111 and accompanying text.

99. See *supra* note 65 and accompanying text. This, as independent discovery is not prohibited by trade secrecy laws.

100. See 1 ROSENBERG, *supra* note 42, § 1.03.

monopolistic patent defense, which would lead to the total "blocking" of that knowledge. Where the owner of the information is prepared to pay the aforementioned "price" of disclosing the information, in order to gain a monopolistic defense, he would prefer the registration of a patent.

The situation changes when the owner of the information expects that the secrecy will be maintained for a period exceeding the period of a patent,¹⁰¹ and further assumes that the chances of independent discovery by another person are low. Under these circumstances he should assume the risk of the secret's disclosure and choose the protection offered by the law of trade secrets. From here it is clear that granting in rem protection does not render the patent law redundant.¹⁰² It should be noted that, in any event, the "redundancy" claim does not apply to unpatentable information.

A related issue is the issue of preemption. The question is whether the federal legislation regarding patent law precludes applicability of trade secrets rules applied by virtue of the common law in the states. The rules of preemption derive from the principle that when a given right is recognized both in the federal law and common law, has common foundations in both systems, as well as common purposes, then the federal arrangement will be the exclusive and binding arrangement.¹⁰³

When the relationship between the patent laws and trade secrets laws was first examined, the solution offered to this problem was initially vague, and there were even rulings to the effect that applicability of the principle of preemption should be recognized with respect to information relating to inventions.¹⁰⁴ Subsequently, in view of the substantial differences in the respective purposes of the two laws, it was ruled that the preemption principle does not prevent parallel common-law development of protection for trade secrets.¹⁰⁵ This indicates that

101. The principal example of a successful anticipation of the future duration of secrecy is the case of the Coca Cola formula whose secrecy has been preserved for so many years. See *Coca Cola Bottling Co. v. Coca Cola Co.*, 227 U.S.P.Q. 18 (D. Del. 1985); 1 JAGER, *supra* note 1, § 5.05 [2][a].

102. See 1 JAGER, *supra* note 1, § 1.05; Weinrib, *supra* note 17, at 148-49.

103. See 2 JAGER, *supra* note 1, at ch. 10.

104. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

105. See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 9 U.S.P.Q.2d 1847 (1989)

there is a "surfeit" of protection afforded by the patent law in comparison with those of trade secret laws.

2. Encouraging the Registration of Patents

A second question still remains, namely that of the appropriate legal policy. Should the institution of patents be fortified through negation of *in rem* status to inventions within the trade secrets law? Public interest definitely encourages the owner of an invention to register a patent, as opposed to situations in which the invention is only protected as a trade secret, without the public being remunerated by the disclosure of the information.¹⁰⁶ Decreased legal protection for trade secrets increases the incentive for owners of information to patent their knowledge. It may be contended, then, that due to this consideration, *in rem* protection to the right in a trade secret should be denied.

We have already noted that resolution of the question of the *in rem* nature of a right does not lend itself to purely logical and structural considerations, but also involves a significant measure of legal policy.¹⁰⁷ Considerations regarding the encouragement of the institution of patents are therefore of relevance.

Yet, the abovementioned contention should be rejected. First, trade secrets are not comprised exclusively of inventions, they also include the whole gamut of non-patentable information.¹⁰⁸ Thus, even assuming the validity of this argument, it would only apply to part of the trade secrets, and the question remains open with respect to other types of information.

Second, it seems that sufficient incentive still remains for the holder of the secret information to register a patent, even if trade secrets were to acquire *in rem* status. As stated above,

(emphasizing the approach that trade secrets, as opposed to patent law, also involve an element of protection of privacy). *See also* *Kewanee Oil Co. v. Bicron Co.*, 416 U.S. 470 (1973) (in which the difference between the two legal institutions has been founded upon a wider grounding, describing the different incentives that each of the rights confers upon the entitled party); 2 JAGER, *supra* note 1, § 10.01[1].

106. *See supra* text accompanying notes 95-96.

107. *See supra* Part IV.

108. *See supra* note 65.

the holder of a secret who has not registered a patent exposes himself to serious danger of losing his rights should the secret become public. Publication of the secret is an eminent danger in the typical situation in which the holder is forced to share his secret with other people, such as employees, in the process of using the information. Nor is the holder protected from independent discovery, and the granting of in rem protection to the right does not affect that reality. Furthermore, in the absence of a patent, the petitioner faces considerable difficulties of proof, both with respect to the actual act of the misappropriation of the secret, and also with respect to the definition of the protected elements of the information.¹⁰⁹

Finally, society also has an interest, although more limited in scope, in encouraging development of unpatented "know how." Such development contributes as well to the social and economic welfare of the public at large.¹¹⁰ Assuming that a sufficiently large gap still exists between in rem protection of secret information and the monopolistic protection of patents, the policy aimed at encouraging registration of patents should not negate an in rem defense to trade secrets if the features of the right in a trade secret do in fact warrant the granting of such protection.

I. Absoluteness of the Protection Against Third Parties

1. The Mental State of Third Parties

a. The Position of American Law

i. Primary infringements

This issue is the kernel of the in rem question. Clearly the difference between in rem protection and the protection granted to obligatory rights lies in the "risk factor."¹¹¹ Any party com-

109. The patent claim issued within the registration process clearly identifies the boundaries of the protected information. A similar degree of certainty does not exist concerning the right of trade secrecy, since the establishment of this right lacks any formalities.

110. See *Bonito Boats, Inc.*, 9 U.S.P.Q.2d at 1853-54; see also 1 JAGER, *supra* note 1, § 1.04.

111. The basic feature of an in rem right is its being protected against the world

ing into contact with in rem rights of another is in danger because if he intrudes on the rights of the true owner he shall become liable for infringement, albeit without any fault on his part.¹¹² With regard to trade secrets, a distinction must be made between two categories of parties committing infringements. One category is the primary infringement by way of direct misappropriation of the secret from the holder. The other is that of a third party who received the secret as a result of misappropriation, by acquiring the trade secret from the initial or any subsequent misappropriator. American jurisprudence recognizes three causes of action concerning initial infringement of trade secrecy; a contractual cause, a cause based on confidential relations, and cases of unfair misappropriation.¹¹³ Our concern in this context is with the third cause. The in rem character of a right comes into expression with respect to third parties who are not initially bound by any specific duties such as contractual or fiduciary ones.

The Restatement (First) of Torts did not clearly address the question of whether unfair misappropriation requires a defendant's knowledge (or the possibility of having knowledge) as to the protected nature of the information. It was clear that the motivation for the action of the defendant is irrelevant,¹¹⁴ the emphasis being on the nature of the act itself. Thus, it has been mentioned that if a person breaks into another person's drawer in order to steal love letters and it eventuates that the document also includes a trade secret, the fact that he was not motivated by the desire to misappropriate the trade secret does not detract from the unfairness of his act.¹¹⁵ Yet, it must be noted that the above example does not indicate the absence of a legal requirement of fault in order to constitute a cause of action, for there is fault in such a case, even if upon another object which is not the secret itself. The Restatement (Third) of

at large. See, e.g., SALMOND, *supra* note 22, at 235; see also *Fowler v. Hollins*, 7 Q.B. 616, 639 (1872). "Persons deal with the property in chattels or exercise acts of ownership over them at their peril." *Id.*

112. See DEAN, *supra* note 3, at 71.

113. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38-43 (1995); UNIF. TRADE SECRETS ACT, § 1 (amended 1985), 14 U.L.A. 437 (1990); 1 MILGRIM, *supra* note 5, § 3.01.

114. See RESTATEMENT (FIRST) OF TORTS, § 757 cmt. g (1934).

115. See *id.*

Unfair Competition now clarifies that a mental element is indeed required, stating that the improper means should be applied in relation to information that the actor knows or has reason to know is another person's trade secret.¹¹⁶ The Uniform Trade Secrets Act (UTSA), in contrast, does not necessarily require an element of "mens rea" in all cases. Thus, "misappropriation" includes disclosure or use of a trade secret by a person who used improper means to acquire knowledge.¹¹⁷ "Improper means" include, *inter alia*, cases in which a person reached the information by breaching a duty to maintain secrecy.¹¹⁸ Such a breach might also occur in cases in which the defendant is not aware of the fact that the given information is subject to the general duty of confidence which is imposed upon him towards the owner of the information.¹¹⁹

The cause of action due to misappropriation also exists in favor of the owner of the secret against a third party who applies improper means to obtain the information, not from the owner himself, but from any subsequent party who has been acquainted with the secret.¹²⁰

116. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(a) (1995).

117. See UNIF. TRADE SECRETS ACT § 1(2)(ii)(A) (amended 1985), 14 U.L.A. 438 (1990).

118. See *id.* § 1(1) (amended 1985), 14 U.L.A. 437 (1990).

119. Yet, the arrangement in the UTSA is not entirely satisfactory in relation to another aspect. Take a case in which the defendant has not reached the information through breach of confidence, but the owner of the trade secret voluntarily deposited it in the defendant's hands. The defendant discloses the secret to another person, without being aware of the fact that he is breaching his obligation. The relevant "misappropriation" alternative in the UTSA in such case is section 1(2)(ii)(B)(II). This section requires that at the time of disclosure or use the defendant should know or have reason to know that the secret was acquired under circumstances giving rise to a duty to maintain secrets. An awareness of the breach is not required, yet the demand that the defendant shall be aware of the fact that he is under obligation of confidence in relation to the specific information, is quite problematic. If according to the "internal" laws of confidence, such awareness is not required, misappropriation of the secret should establish a cause of action in this case, even if the defendant lacked awareness of the breach.

120. Thus, section 1(2)(ii)(A) defines as "misappropriation" cases in which a person "used improper means to acquire knowledge of the trade secret." This definition does not relate any importance to the question *from whom* did he acquire the knowledge. See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(a) (1995).

ii. Secondary Infringements

A second category of cases are those in which the third party himself did not perform an unlawful act of misappropriation, but received the secret from a person responsible for the initial breach or from any subsequent party. The question is whether the receipt, use, or transfer of such information constitutes a cause of action against such party, and upon what terms.

In American jurisprudence, the well established rule is that a right of tracing arises in favor of the owner of the secret, against a third party who knew or ought to have known that the secret came into his knowledge as a result of a misappropriating act.¹²¹ The expansion of the tracing right against those parties that ought to have known of the misappropriation, and not only to those who actually knew, is of particular importance. In most of the cases the owner of the trade secret is not in a position to prove the existence of actual knowledge and without such expansion of the tracing right the protection offered by trade secrets law would be frustrated. Quite frequently the dispute arises when the secret is transferred by a previous employee of the owner of the secret to his new employer who naturally is aware of the identity of the previous employer and his area of activity. Thus, he should often be aware of the possibility that the knowledge in the possession of the employee originated with the previous employer, even though he had no actual knowledge of it.

Despite the abovementioned expansion of the tracing right, if tracing is limited to cases in which third parties had actual or constructive knowledge, the right in trade secrets ought not to be classified as an in rem right because in rem rights are fully operational against third parties.¹²² Thus, even good faith of a third party, both objective and subjective, will be of no avail against the owner of an in rem right.

121. UNIF. TRADE SECRETS ACT § 1(2) (amended 1985), 14 U.L.A. 438 (1990) (Definition of "misappropriation"); see also *Lamb-Weston, Inc. v. McCain Foods Ltd.*, 941 F.2d 970, 972-73 (9th Cir. 1991); *Wright v. Palmer*, 464 P.2d 363, 366 (Ariz. Ct. App. 1970); 1 JAGER, *supra* note 1, § 3.04 [8].

122. See *supra* notes 111-12.

A closer examination of the tracing rule with respect to trade secrets, as developed by American jurisprudence, indicates the existence of two trends which initially differed sharply, but have tended to converge over recent years. In the past, the case law tended to prescribe that the good faith purchase of a trade secret for value or any significant change in the situation of the third party while still acting in good faith, relying upon the trade secret, will normally release him from being subject to the rights of the owner, even if the owner later notifies him about his rights.¹²³ Originally, the Restatement stated that it is "fairer and more consistent with the general principles underlying the protection of the interests in trade secrets to permit him (the innocent third party) to enjoy the expectancies of his investment."¹²⁴ Yet, the Restatement (Third) of the Law of Unfair Competition, adopts a harder line towards an innocent purchaser, and it also subjects an innocent purchaser to liability.¹²⁵ Misappropriation occurs even when a third party only becomes aware of the infringement of trade secrecy at the time of the use.¹²⁶ Yet, the innocent third party may find relief within the remedial framework. As to injunctions, section 44(2) states that while applying its discretionary power concerning injunctive relief, the court shall consider, *inter alia*, "the relative harm likely to result to the legitimate interests of the defendant if an injunction is granted."¹²⁷ Undoubtedly, innocent acquisition by the defendant constitutes a "legitimate interest" to be considered.¹²⁸ As far as monetary relief is concerned, its appropriateness and measure is described as discretionary, while the court should take into consideration "the intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor."¹²⁹

123. See *id.* § 758; 2 MILGRIM, *supra* note 5, § 702[2][d].

124. RESTATEMENT (FIRST) OF TORTS § 758 cmt. e (1934).

125. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 1.01(4) (1995). Milgrim suggests a careful approach to this Restatement in describing the case law.

126. See *id.* § 40(b).

127. *Id.* § 44(2)(d).

128. 1 MILGRIM, *supra* note 5, § 1.01[4] n.69. Milgrim wonders whether a willful misappropriator might be viewed as having "legitimate interests." *Id.* An innocent one certainly does.

129. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45(2)(d) (1995).

It can be concluded, then, that the current Restatement rejects the granting of total immunity to the innocent purchaser, but courts are still provided with wide discretion to assist the innocent purchaser while considering the remedy issue. Clearly, both the UTSA and the case law following its publication significantly influenced the formulation of the current Restatement on this key issue.

The position adopted in the UTSA sharply differs from the position that prevailed in the Restatement (First) of Torts. According to the UTSA, the innocent third party is not privileged with any *a priori* immunity, as a result of the change in his situation. In principle, a tracing right against the third party who received the secret is established even when he did not know, nor should he have known, of the conflicting rights when he acquired the secret. It is sufficient that the third party continued to use the secret in awareness of the existence of previous rights in the secret in order for him to be subject to the right of tracing.¹³⁰ A different interpretation which has been offered in respect of this provision should be rejected.¹³¹

130. See UNIF. TRADE SECRETS ACT § 1(2)(ii)(B) (amended 1985), 14 U.L.A. 438 (1990) (stating that the defendant is liable if he knew, or could have known, about the existence of the competing rights at the time of disclosure or use, meaning also after he had acquired the trade secret). The 1985 revised version did not amend section 1. See also the Commissioners' Comments to section 2(b):

This notice suffices to make the third party a misappropriator thereafter under section 1(2)(ii) B(I) With respect to innocent acquirers of misappropriated trade secrets, section 2(b) is consistent with the principle of 4 Restatement Torts (First) § 758(b) (1939), but rejects the Restatement's literal conferral of absolute immunity upon all third parties who have paid value in good faith for a trade secret misappropriated by another.

131. See COLEMAN, *supra* note 3, at 50. "It would seem from section 1(2)(c) of the Uniform Trade Secrets Act that a material change of position by an innocent third party may amount to a defence under that Act, but there is no specific mention of *bona fide* purchase." *Id.* Yet, section 1(2)(ii)(c) is an independent alternative of "misappropriation" which is relevant in a situation in which there is no other alternative. It therefore deals with a situation in which initially there was no illegal misappropriation or transfer of the secret, but rather it mistakenly came into the defendant's control (for example, where the owner of the secret mistakenly transferred a secret to an incorrect fax number). But in a case in which the secret has originally been taken from the control of the owner of the information without his consent, it is sufficient under the provisions of section 1(2)(ii)(B) of the UTSA, that awareness of the competing rights was present while using it, and not at the time of receiving the information.

In the remedial arena, an important development occurred in 1985. According to the original version of the UTSA published in 1979, the court had discretion to deny injunctive relief "if the court determines that it would be unreasonable to prohibit future use," conditioning future use upon payment of "reasonable royalty."¹³² The Commissioner mentioned the case of an innocent purchaser as a typical case in which denial of injunctive relief might be appropriate, further stating that in such situations "the same considerations that render a prohibitory injunction against future use inappropriate also render a royalty order injunction inappropriate."¹³³ The 1895 version of section 2 states that injunctive relief may be denied, substituting injunction with payment of a reasonable royalty in "exceptional circumstances."¹³⁴ It further prescribes that "exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable."¹³⁵

In general terms one may conclude that there are no meaningful modifications in the revised version regarding the status of an innocent purchaser. Yet, some nuances should not be overlooked. On the one hand, the innocent purchaser is now explicitly mentioned in section 2.¹³⁶ On the other hand, the revised version refers now only to exceptional circumstances.¹³⁷ A material and prejudicial change of position is required, indicating that a substantial preliminary onus is now imposed upon the innocent third party. Obviously, such change of position does not suffice per se, serving only to trigger the consideration of the situation as a whole and the equities of the case. Although the referred change of position is included under "exceptional circumstances," according to section 2, the use of such wording may be interpreted as an indication that a court should apply its discretion to deny injunctive relief only in a limited manner, even in cases of innocent change of position.

132. UNIF. TRADE SECRETS ACT, § 2(b) (1979), 14 U.L.A. 449 (1990).

133. *Id.* § 2 cmt. (amended 1985), 14 U.L.A. 451 (1990).

134. *Id.* § 2(b) (amended 1985), 14 U.L.A. 449 (1990).

135. *Id.*

136. *See id.*

137. *See id.*

Indeed, the difference between "exceptional circumstances" in the 1985 version and "unreasonableness" in the 1979 version is not a dramatic one, but it should be considered carefully. Thus, the question of whether or not the revised version should be viewed as taking a harder line towards the interests of innocent third parties concerning injunctive relief is quite ambiguous.

Concerning monetary relief, the 1985 version of the UTSA alleviates the risks imposed on the innocent purchaser.¹³⁸ It prescribes that "[e]xcept to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation."¹³⁹ The 1979 version did not include any provision to this effect. Although section 3 of the 1979 version mentioned that the plaintiff "may" recover damages, and although the Commissioner has mentioned the case of an innocent third party relying on the information, as a case in which monetary relief may be denied under this provision,¹⁴⁰ this interpretation is doubtful. In general, the remedy of damages is not a discretionary one, and the right of an injured party to recover the greater of his damages or the misappropriator's profit is obligatory.¹⁴¹ As to the future, when the court decides to substitute the injunctive relief with the payment of a royalty according to section 2(b) of the UTSA, the very use in the future becomes lawful, and no right to damages emerges in relation to this period. Yet, being limited only to the use made after the judicial decree, this discretion does not relate to the use in the past.

It may be concluded, then, that the 1985 version of the UTSA provides a discretionary mechanism which increases the protection granted to innocent third parties concerning monetary relief. While case law has over the years developed a harsher approach toward innocent third parties, the UTSA became more lenient in this respect, both patterns now implementing a discretionary model. The questions still remain,

138. See *id.* § 3 (amended 1985), 14 U.L.A. 455 (1990).

139. *Id.*

140. See *id.* § 3 cmt. (amended 1985), 14 U.L.A. 456 (1990).

141. See 1 MILGRIM, *supra* note 5, § 1.03[2][a] n.26.

whether this model is desirable, and how the court should apply its discretion.

The relevance of the above mentioned issue is far reaching. Usually, the third party will not receive the secret without paying consideration for it, or without some other kind of reliance on his part, in order to adjust his business to the advantages of the information that he has acquired. If it is sufficient that the third party becomes aware of the contrary rights at any later stage, the upshot would be that the third party is being exposed to risks close to those which are imposed by in rem rights. Reliance in good faith would not necessarily be protected.

It should be remembered that the claim of good faith purchase for value does not normally serve as a good defense for a third party in those situations where he is confronted with an in rem right.¹⁴² In American law, good faith purchase for value usually only prevails over obligatory rights.¹⁴³ While, with respect to prior in rem rights, this system rejects the institution of "market overt"¹⁴⁴ that applies in English law.¹⁴⁵ Yet, the market overt institution applies in the English law only with respect to tangible assets and it does not protect the purchaser of an abstract asset, such as a trade secret.¹⁴⁶

From this it emerges that, notwithstanding a mistaken opinion that has been mentioned in this respect,¹⁴⁷ the fact that a given system limits its protection to third parties "only" to cases in which the third party has purchased the secret bona fide and for value does not indicate the existence of an in rem nature. Rather, the opposite is the case. In order to overcome the in rem right in English law, good faith purchase for value does not suffice. The purchaser must establish the application of "market overt" elements.¹⁴⁸

142. This general rule is subject to some exceptions. See DONAHUE, JR., ET AL., *supra* note 67, at 44.

143. See Menachem Mautner, "The Eternal Triangles of the Law": Toward a Theory of Priorities in Conflicts Involving Remote Parties, 90 MICH. L. REV. 95 (1991).

144. *Id.* at 150; see also DONAHUE, JR., ET AL., *supra* note 67, at 44.

145. Sale of Goods Act, 1979, ch.54, § 22 (Eng.).

146. DEAN, *supra* note 3, at 84.

147. F. GURRY, BREACH OF CONFIDENCE 265-66 (1984).

148. See Sale of Goods Act, 1979, ch. 54, § 22 (Eng.).

It should be noted that, in relation to the remedy of damages as opposed to an injunction order, significant importance attaches to the rule that liability imposed on the third party is on the basis of knowledge. The interim period between the receiving of the secret by the defendant and the discovery of the illegality may be a long period, and during this period the defendant is immune from damages. During this period no substantial liability is imposed in the absence of knowledge, and thus no remedy emerges.¹⁴⁹ Thus, liability for the breach of the right in a trade secret deviates from the regular in rem rule which also imposes an obligation for damages upon innocent third parties.¹⁵⁰

In summation, the defense of the right in trade secrets under American law is hybrid in nature. On the one hand, the protection of trade secrets is more vigorous than that granted to obligatory rights, in as much as parties acting in good faith and acquiring the information for value are liable to be affected in appropriate circumstances.¹⁵¹ On the other hand, the features of the right in a trade secret do not fully amount to those characterizing in rem rights. As stated earlier, in rem rights are characterized by the absence of any consideration being given to the mental state of the misappropriator.¹⁵² It may, therefore, be concluded that to the extent that the discussion relates to the mental state of third parties, the view of the American law is that the right in a trade secret should be placed in an intermediate category located somewhere between in rem rights and obligatory rights. The nature of this intermediate category shall be examined below.

b. The Position of English and Australian Law

An examination of Australian and English law regarding the status of bona fide purchasers of a trade secret reveals contra-

149. See *supra* text accompanying notes 121 & 130.

150. See SALMOND & HEUSTON ON THE LAW OF TORTS 106 (R.F.V. Heuston & R.A. Buckley eds., 21st ed. 1996).

151. Namely, in circumstances where such party became aware of the misappropriation after acquiring the information, and the court does not apply its discretion in his favor.

152. See *supra* notes 111-12 and accompanying text.

dictory decisions. This article will avoid the re-examination of the case law in view of Dean's instructive analysis.¹⁵³ This author endorses Dean's opinion that the abovementioned systems allow the tracing of the right in a trade secret even against bona fide third parties according to equitable considerations. Dean does not view this conclusion as supporting the in rem thesis concerning trade secrets, but rather as a consequence of the general flexibility of the equitable remedy which enables granting of appropriate remedies against third parties whose rights derive from a party committing breach of confidence.¹⁵⁴

The rules developed in the English and Australian law are as follows: (1) A third party who knew or ought to have known at the time of his receiving the information that the transferor is under breach of confidence becomes liable to the owner of the secret;¹⁵⁵ (2) a third party who neither knew nor should have known of the breach of confidence at the time of receiving the trade secret, but did not change his situation in reliance upon the secret, will be subject to the tracing right of the owner of the secret;¹⁵⁶ and (3) a third party who had no actual or constructive knowledge at the time of receiving the trade secret and changed his situation in reliance thereupon would be liable to the owner of the information as a matter of discretion, according to the circumstances in general, taking into consideration the losses to be incurred by either side and other equitable considerations.¹⁵⁷ Thus, the very fact that the defendant is a bona fide purchaser will not necessarily be sufficient to excuse him from liability.¹⁵⁸

153. See DEAN, *supra* note 3, at ch. 5.

154. See *id.* at 256-57.

155. See *Schering Chem. Ltd. v. Falkman Ltd.*, 2 W.L.R. 848 (1981); *Ansell Rubber Co. Pty Ltd. v. Allied Rubber Indus. Pty Ltd.*, R.P.C. 811 (1972); GURRY, *supra* note 147, at 274; COLEMAN, *supra* note 3, at 49; DEAN, *supra* note 3, at 258-62.

156. See *Fraser v. Evans*, 1 Q.B. 349, 361 (1969); *Talbot v. General Television Co. Pty Ltd.*, V.R. 224, 240 (1980).

157. See DEAN, *supra* note 3, at 267-72. It seems that Dean would assume that knowledge attained at a later stage would still not necessarily impose liability on the third party even in the absence of detrimental reliance. Rather, this would be one of the considerations within the equitable framework. *Id.* at 267. Yet, the case law and Dean's discussion mentioning the balance of prejudice between the parties as the central test, make it clear that in the absence of detrimental reliance (which would obviously also include cases where consideration was given), the defendant would at least usually be prevented from continued use of the information since reliance, serves as the central equitable consideration.

158. See DEAN, at 268-70. Nevertheless, the opinion has been raised that a bona

When comparing the English and American systems concerning the status of a an innocent third party who has changed his position in reliance on the trade secret, an important difference emerges. The American system seems to adopt a more rigid approach in relation to the third party. The considerations affecting the third party's liability are quite similar in both systems. Even so, the conceptual basis is different and this affects the results. In American law, the right of tracing is the rule, even if there was reliance in good faith. Liability itself emerges notwithstanding innocence, while consideration of the third party's interests is shifted to the remedial phase. According to the English equitable approach, on the other hand, the very liability of the third party depends upon equitable considerations, the tendency being to frequently provide absolute protection to the bona fide purchaser.

As to the extent to which a court should apply its discretion in favor of the innocent third party in the American system, the answer is derived from the appropriate concept to be elaborated in relation to the in rem character of the right in a trade secret.

2. Acts Constituting Misappropriation

The in rem right is characterized not only by its absolute applicability in terms of the identity and the mental state of the parties subject to the right, but also by its absoluteness in terms of the acts which constitute misappropriation.¹⁵⁹ In the in rem context, no importance attaches to the specific manner in which the asset was misappropriated.

fide purchasing would suffice. See GURRY, *supra* note 147, at 283-84. See also *Attorney General v. Guardian Newspapers Ltd.* (No. 2), 3 ALL E.R. 545, 596 (1988); BREARLY & BLOCH, *supra* note 62, at 76. Yet, the exhaustive and precise analysis by Dean indicates that no sweeping protection is provided for the bona fide purchaser. For a discussion of the complexity of this issue, see also COLEMAN, *supra* note 3, at 49-50.

159. This is subject to special defenses which may be available in a given system when the third party had purchased a conflicting right in good faith, according to the "market overt" rule. See *supra* notes 143-46 and accompanying text.

In the field of torts, the acts which may be seen as conversion include a wide range of cases. See SALMOND & HEUSTON ON THE LAW OF TORTS, *supra* note 150, at 98-103; W. PAGE PROSSER ET AL., PROSSER & KEETON ON THE LAW OF TORTS § 15 (5th ed. 1984).

Yet, in relation to the right in a trade secret, the undisputed rule in both the English and American systems is that if the defendant becomes aware of the secret by way of reverse engineering he has not breached the right to secrecy.¹⁶⁰ The holder of the secret must base his claim on an unfair misappropriation of the secret.¹⁶¹ There may indeed be cases in which the third party, having purchased the secret from another person, will be liable to the owner even if there was no direct unfair misappropriation on his part. However, in such cases there would have to be a situation in which, at least at the primary appropriation, unfair means have been applied and the defendant knew or ought to have known of them. Thus, the question arises as to whether or not the absence of absoluteness with respect to the manner of the primary appropriation does in fact negate the in rem nature of the right. It is, therefore, of initial importance to examine the situations in which appropriation ought to be considered "unfair."

According to the UTSA, "misappropriation" includes a variety of unfair conduct which is not necessarily illegal, including, for example, electronic spying.¹⁶² Also included are situations in which the secret was mistakenly lost by the owner and came into the possession of another person who knew or had reason to know of the mistake, but used the secret without the express or implied consent of the owner.¹⁶³

In fact, primary unconsented appropriation of the trade secret would usually occur while an element of fault is present. In order to overcome the owner's precautions, the defendant would have to take measures such as bribery, misrepresentation or espionage, which necessarily involve an element of fault. Thus, in such cases, the requirement for fault does not actually add a meaningful legal requirement. Indeed, it is possible that primary infringement would occur as a result of a breach of duty of

160. For the American law, see *Chicago Lock Co. v. Fanberg*, 676 F.2d 400 (9th Cir. 1982); RESTATEMENT (FIRST) OF TORTS § 757 cmt. a. See also 1 MILGRAM, *supra* note 5, § 1.05[F]; 1 JAGER, *supra* note 1, § 5.04[3][a][i]. For the English law see COLEMAN, *supra* note 3, at 40-41.

161. In the American law this rule is explicitly prescribed by section 1 of the UTSA and section 757 of the RESTATEMENT (FIRST) OF TORTS. See also 1 JAGER, *supra* note 1, § 5.04 [3][a].

162. UNIF. TRADE SECRETS ACT § 1(1) (amended 1985), 14 U.L.A. 437 (1990).

163. See *id.* § 1(2)(ii)(C) (amended 1985), 14 U.L.A. 438 (1990).

confidence, while the defendant is not aware of the fact that the duty of confidence applies to the given information. But in such cases, the existence of a mental element should not necessarily serve as a prerequisite to imposing liability upon the defendant.¹⁶⁴

The Commissioner specified five situations of discovery of the secret by a third party that would fall into the category of "fair means."¹⁶⁵ They include (1) independent discovery; (2) reverse engineering; (3) discovery with the consent of the owner; (4) discovery by means of a publically sold product; and (5) discovery through professionally published literature.¹⁶⁶

Among the situations specified above, the only one relevant to the analysis of the *in rem* issue is that of reverse engineering. The first situation is one in which there was no appropriation of information from the plaintiff, and thus, by definition no claim can be established even if the *in rem* nature of the right in trade secrets should be recognized. The third situation, dealing with consent on the part of the owner, is self-explanatory. Even if the right to secrecy is an *in rem* right, there is nothing to prevent the owner of an *in rem* right from giving an effective consent which would justify the defendant's action. With regards to the fourth situation, it is not substantially different from that of reverse engineering. The fifth situation is one in which there is, in effect, no secret because according to the given assumption, there was publication and publication abrogates the right in a trade secret.¹⁶⁷ It thus emerges that the principal situation legitimating appropriation is reverse engineering. The question is whether this legitimation is commensurate with an *in rem* conception of the right in a trade secret.

164. Thus, lack of fault does not *per se* free a trustee from liability under the English law, although the court has discretionary power to relieve a trustee of liability if he has acted honestly and reasonably. See S.G. RIDDAL, *THE LAW OF TRUSTS* 345 (3d ed. 1987). In American law, no actual fault is required and a trustee might become liable in some cases even if he has not been negligent. See 3 WILLIAM F. FRATCHER, *SCOTT ON TRUSTS* 220 (4th ed. 1988).

165. See UNIF. TRADE SECRETS ACT § 1 cmt. (amended 1985), 14 U.L.A. 438 (1990).

166. See *id.*

167. See *supra* note 62.

Indeed, this general limitation to the protection of the owner of the trade secret poses a serious difficulty for the acceptance of the *in rem* approach. It would, nonetheless, seem that the difficulty is not insurmountable and can be reconciled with the *in rem* concept in the following manner.

The *in rem* right is likely to conflict with other basic rights, and in such case a balance must be struck between these competing rights. It may be claimed that reverse engineering is one of those cases in which the *in rem* right of the owner of the secret is in conflict with the freedom of occupation of the party performing reverse engineering and with his *in rem* right in the tangible article from which he derived the information. Economic liberty is also a constitutionally recognized basic right.¹⁶⁸ When an *in rem* right retreats in the face of a conflicting basic right, this does not *per se* expunge its *in rem* nature. What we have in effect is a "normal" process of balancing between conflicting values according to their respective importance.

This argument, however, is not entirely satisfactory. A distinction should be made between a case in which the right being claimed as *in rem* retreats only in a limited manner in the face of a conflicting value, and a case in which the retreat is total to the extent that it empties the *in rem* right of its basic content. Does the principle allowing reverse engineering severely impinge upon the absolute nature of the right in a trade secret, to the extent of uprooting its *in rem* nature? I submit that it does not.

The absence of absoluteness of protection of the right in a trade secret, in terms of the modes of prohibited behavior, is the result of a clear distinction that emerges between intellectual property, and tangible property. Intellectual property is less absolute, by nature, than tangible property. Consideration for public interest lies at the heart of the laws of intellectual property, and it imposes limitations on the absoluteness of the defense.¹⁶⁹ In the first place, the right of intellectual property is granted for the public benefit, a concept which has gained ex-

168. See, e.g., DANIEL A. FARBER ET AL., CONSTITUTIONAL LAW 407 (1993); OTIS M. STEPHENSON, JR., ET AL., AMERICAN CONSTITUTIONAL LAW ch. 10 (1993).

169. See *supra* text accompanying notes 39-42.

plicit recognition in the American Constitution.¹⁷⁰ Conflicting public interest in encouraging competition, freedom of speech and freedom of occupation vigorously apply against the interest of the owner of the trade secret. These interests do not enjoy the same intensity in the confrontation with tangible property.

The influence of the opposing public interest is particularly apparent in certain areas. It has already been noted that the failure to utilize intellectual property may lead to compulsory licenses or to the blocking of the owner's claims.¹⁷¹ A monopoly which is naturally prone to be detrimental to the public interest should not be granted unless use is made of the intellectual property. Intellectual property rights are not granted only in order to block others. An additional example of competing public interest is the limited duration of intellectual property, a limitation which does not exist in the area of tangible property.¹⁷² The intense influence of public interest considerations is particularly evident in the field of copyright.¹⁷³ Public interest is at the heart of the matter, namely in relation to the basic distinction between an idea, which is not protected, and the manner of its expression, which is protected. It has already been correctly stated that the delicate distinction between idea and expression is not just a logical-structural one, but rather touches upon the proper demarcation between the interests of the individual and the public.¹⁷⁴ Furthermore, varied defenses are provided to the infringer, particularly the defense of "fair use," which attempts to balance the interests of the owner and those of the public.¹⁷⁵ Despite all of the above, no dispute exists as to the in rem nature of copyright.

From this discussion it can be inferred that, when taking into account the special features characterizing intellectual property, which are not identical to those of tangible property, the legitimacy conferred upon the appropriation of a trade se-

170. See U.S. CONST. art. 1, § 8, cl. 8.

171. See *supra* note 42.

172. For the limited duration of patents, see *supra* note 8. For the duration of Copyright, see 1 GOLDSTEIN, *supra* note 9, § 1.15. Ownership in tangible property is unlimited in period. See SALMOND, *supra* note 22, at 247.

173. See, for example, the defense of "fair use" in the American law. 2 GOLDSTEIN, *supra* note 9, at ch. 10.

174. See 1 GOLDSTEIN, *supra* note 9, § 2:3.

175. See COPINGER & JAMES, *supra* note 9, at ch. 10.

cret by way of reverse engineering does not necessarily divest the right in a trade secret of its in rem nature. Admittedly, it does weaken the intensity of the right, but the same applies to other forms of intellectual property which enjoy varying degrees of protection while still retaining their in rem characterization.¹⁷⁶

At this juncture it is important to add that, notwithstanding the unassailed rule permitting reverse engineering within the laws of trade secrets, the question remains as to the desirability of this rule to the extent that it allows the commercial use of the secret by the defendant as opposed to the discovery of the information and the personal use thereof. In this context, the possibility of exposing information by way of reverse engineering does not necessarily lead to the expiry of the right in a trade secret. This is so because information attained by way of heavy investment of time and money is not regarded as information that has been published.¹⁷⁷ Thus, information may be deemed as secret, although it may have been exposed by reverse engineering. From the moment that a person sells a product containing the elements of the trade secret, the freedom of property of the purchaser dictates that the purchaser be allowed to examine the asset as he sees fit and use the information contained therein for his personal use. But a distinction can be made between personal use and commercial use. Why

176. Thus, for example, it is undisputed that copyright is an in rem right notwithstanding the broad defense of "fair use."

177. See RESTATEMENT (FIRST) OF TORTS § 757 cmt. b. The case law prescribes that secrecy exists when the information "is not generally known or readily ascertainable." See *Cherne Indus., Inc. v. Grounds & Assoc., Inc.*, 278 N.W.2d 81 (Minn. 1979); *Vekamaf Holland B.V. v. Pipe Benders, Inc.*, 211 U.S.P.Q. 955 (1981); 1 JAGER, *supra* note 1, § 3.04.

See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. f.

The rule stated in this Section requires only secrecy sufficient to confer an actual or potential economic advantage on one who possesses the information. Thus, the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to the wrongful conduct prescribed under section 40.

Id.

In the English law "relative secrecy" is sufficient. See COLEMAN, *supra* note 3, at 5-6. A number of variations are applied in the English law regarding the degree of knowledge, or possibility of attaining knowledge by others, which would be sufficient in order to remove the protection from the information. See DEAN, *supra* note 3, at 129.

should commercial use be permitted to the extent that it involves the appropriation of the fruits of the labor of the owner of the secret? Does this really constitute fair competition? As mentioned above, one of the justifications for the protection of secret commercial information is the prevention of unfair competition.¹⁷⁸

The answer to this issue requires examination of the precise justification for the rule allowing reverse engineering. One opinion is that it is intended to encourage the owner of the information to choose the option of registration of a patent.¹⁷⁹ This view is subject to the abovementioned criticism that even without reverse engineering, there would still be a substantial incentive for preferring the patent option since the right to patent also prevents the independent discovery of the information. Another argument is that reverse engineering must be permitted to allow competitors to be aware of the current state of knowledge, and to be able to develop other competing products. This argument is also not convincing. Its implication is only that disclosure of the information by the competitor must be permitted for the sake of additional development, and not that the commercial use of the information should be permitted in a way imitating the information without subjecting it to further development. Within the positive law, the undisputed legal reality is that reverse engineering is largely permitted. Yet, from a conceptual point of view, which is of relevance for the purpose of this article, it indicates that reverse engineering is not so readily understandable as it would first seem and as it has indeed been understood. Thus, the freedom of appropriation of a trade secret through fair means indeed weakens the *in rem* concept of trade secrets, but it does not necessarily negate such a concept if it is to be inferred according to the features analyzed above.

178. See *supra* Part IV.

179. See 1 JAGER, *supra* note 1, § 5.04[3][a][i].

VI. CONCLUSION: IS THE RIGHT IN A TRADE SECRET AN IN REM RIGHT?

So far the variety of features normally typifying in rem rights, and their application to the right in a trade secret, have been examined. Many of the features analyzed above may be commensurate with the in rem concept, yet, these features are not exclusive to the in rem right but are common to proprietary rights in general. This applies mainly to the negotiability of the right to a trade secret, and its functioning as an asset. Regarding the onus imposed upon the owner to take precautions to preserve confidentiality, this feature is problematic in the in rem context even though it may be explained as part of the notion of secrecy. Moreover, this onus serves as a means for establishing the publicity of the right in a trade secret, which is essential to the in rem concept.¹⁸⁰ The right in a trade secret also fills the important condition for an in rem right, that of the immediacy of the control over the right. Yet, the most important question concerns the absoluteness of the right, in terms of the mental state of third parties and the kind of actions that would breach the right to secrecy. We have concluded that even though the kinds of actions that may breach the right, thereby imposing liability, are not exactly parallel in their scope to the actions enjoined by the regular rules protecting in rem rights in general, this scope fits the concept of intellectual property. The main thrust of the question relates to the weight to be ascribed to the mental element which is required in order to establish a breach of the right in a trade secret.

With respect to the American law, to the extent that a primary misappropriation of the secret is concerned, the nature of the mental state required to constitute a breach is not totally clear. It appears that it is not necessary that the defendant have knowledge that he is infringing upon the right in a trade secret.¹⁸¹ With respect to a third party who received the secret

180. *See supra* Part V.B.

181. The RESTATEMENT (THIRD) OF UNFAIR COMPETITION indeed demands a mental element. Yet, it relates to the knowledge that the information is a trade secret, and not to the knowledge about the infringement of rights. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(a) (1995). The UTSA does not necessarily require any ele-

from another, the approach of the American law is close to the in rem position. Although it requires either actual or constructive knowledge on behalf of the third party with regard to injunctions, this requirement does not per se detract from the in rem concept. In any case an injunction order relates to the future, and the defendant becomes aware of the order, as he is a party to the proceedings. The main point is that, according to the American system, it is sufficient that there is knowledge after the act of appropriation, even if there was a change of situation in good faith, in order to subject the third party to the remedy. In this respect, the American system provides wide protection to the right in a trade secret. Yet, the remedy is subject to the court's discretion. It is this element that distances the nature of the protection from that granted to the typical in rem right.

Furthermore, with respect to damages, the requirement of knowledge of the third party as a condition for his being subject to this remedy prima facie may prejudice acceptance of the in rem concept to a greater degree than stated above. In effect, this requirement grants the third party total immunity until such time as he becomes aware of the misappropriation, in addition to the discretionary immunity for the period thereafter. From here it may be argued that prima facie, the model of protection is not commensurate in this important respect with the in rem model.

It must be noted, however, that the issue of damages is less critical for the in rem concept than would first appear from the discussion above. First, the desirability of the no-fault rule for proprietary torts is questionable. Although this is still the rule, there are those who maintain that it should be limited in scope.¹⁸² Second, with respect to the intellectual property of copyright, the Anglo-American law provides some consideration, although extremely limited, of good faith as a factor weighing in the purchaser's favor in the assessment of damages where

ment of mens rea at all. See UNIF. TRADE SECRETS ACT § 1(2)(ii)(A) (amended 1985), 14 U.L.A. 438 (1990).

182. See CLERK & LINSSELL ON TORTS 669-70 (17th ed. 1995). For exceptions to the strict liability in British law, see CLERK & LINSSELL, at 671. For rejection of strict liability regarding proprietary torts in American law, see FLEMING JAMES, JR. & OSCAR S. GRAY, THE LAW OF TORTS § 1.41 (3d ed. 1996).

there is a lack of sufficient publicity of the right. Still, this consideration does not detract from the *in rem* characterization of copyright. A problem as to the element of publicity also exists with respect to trade secrets, as no registration is possible concerning such information, although, as mentioned above, other elements of publicity do exist. While the immunity granted to innocent parties regarding damages does indeed weaken the *in rem* concept concerning trade secrets, a central element characterizing *in rem* rights remains intact regarding the right in a trade secret. Purchasing in good faith for value does not necessarily confer the purchaser with immunity from the time of his becoming aware of the prior rights. This is not the case with a third party whose rights are confronting a purely obligatory right. It is in this sense that the right in a trade secret can be said to be an *in rem* right.

In summary, it can be concluded that in American law the features of the right in trade secrets are rather close, yet not identical to those characterizing *in rem* rights. The English law, however, generally denies the *in rem* nature of the right in a trade secret, and provides a cause of action against innocent third parties on an equitable basis.¹⁸³ Care must be taken to avoid the "vicious circle" mentioned by Dean.¹⁸⁴ The issue of the scope of the tracing right against third parties in the context of trade secrets has yet to be definitively resolved in the Anglo-American system. There is also no solid consensus on this issue, although the approaches of the UTSA and the case law have become more coherent. The intensity with which the court should apply its discretion in favor of the innocent third party should be governed by general jurisprudential considerations. Legal literature, as noted above, is not unanimous in regard to this question. In a way, the tracing issue still "awaits" the resolution of the *in rem* question. The viewpoint adopted on the question of the desirable approach to the classification of the right in a trade secret will also resolve the tracing question, and we cannot put the horse before the cart. Until this occurs, the provisional conclusion of the analysis of the features currently attributed to the right in a trade secret indicates that

183. See *supra* text accompanying note 154.

184. See *supra* text accompanying note 20.

the possibility of seeing it as an in rem right cannot be negated. Structurally speaking, there is a possible suitability of the features of the right in a trade secret with the features normally associated with an in rem right. This conclusion is important, as it constitutes a necessary, but not sufficient condition to any conclusion that the right in a trade secret is an in rem right. Yet, the very possibility of classification as in rem does not mean that such a classification is desirable. The question is basically one of legal policy. The desirable strength of the right in a trade secret must be assessed against other conflicting interests.

Clearly, trade secrets are business assets of the first degree, and as such, warrant appropriate legal protection. The trade secret is an asset in which the business makes major investments. Damages of immense magnitude are sustained by owners of trade secrets whose rights have been infringed.¹⁸⁵

The purchaser of a tangible asset exposes himself to the risk that he has infringed the in rem rights of another person, and he is subject to the rights of his predecessor. Is there any reason why the situation should differ with respect to information? Dean notes that "[t]here is no market place (overt) for information, no registration system possible, and it would be absurd to expect a recipient to trace the origin of information on each occasion . . ."¹⁸⁶ Prior thereto, he stated more sharply that

[p]ublic policy is against creating property in trade secrets. To confer property status to initially confidential information without the need to publish would lock up the information and undermine the Patents Act. To do so would be like burning books—everybody loses, because information pervades everything we do. If for information to remain status of property it must remain confidential, there is little advantage to be gained.¹⁸⁷

It would be proper to analyze both of these important statements which touch upon the heart of the in rem issue. Regarding the first statement, obliging the third party to trace the

185. See, e.g., DEAN, *supra* note 3, at 84.

186. DEAN, *supra* note 3, at 84.

187. DEAN, *supra* note 3, at 83-84.

source of information is not as absurd as is claimed. Needless to say, it is not always possible for the third party to discharge this onus. But this problem is endemic to all chattels purchased by a person without the possibility of establishing its source. Nonetheless, the receiver still assumes a risk with respect to the nature of the rights he has acquired. Thus, the absence of registration of the rights does not detract from the possible justification for the in rem theory. The publicity required according to the jurisprudential principles relates to the moment at which the right crystallizes. From then on, despite possible unconsented transfers of the asset, the rights of the original owner are protected. While it is correct that the English law for movables occasionally allows third parties to claim "market overt," nonetheless, if as a matter of principle, in rem protection for trade secrets is desirable, then the correct solution would be not to reject the in rem status of trade secrets because of the lack of an acknowledged institution of "market overt." Rather, the correct solution is to accept it, and develop within the English system a special "market overt" mechanism for protection of a party who has purchased the information from a person trading in the information.

With respect to Dean's second statement, rejection of the in rem status of a trade secret rests upon two tenets. The first relates to the circumvention of patent law. This article referred to that argument above, and refuted it.¹⁸⁸ The second tenet is central to the issue under discussion. Does the in rem view of the right in a trade secret subject the infringing party to an unlimited and exaggerated risk, in as much as any use made of information will be fraught with risk? Using information attained from another is a widespread practice, and granting in rem protection to trade secrets may well lead to undesirable risks.

In response, one must again mention the structure of the right in a trade secret. There can be no right in a trade secret unless the information is unpublished, within the meaning of the term "publication" in the law of trade secrets. Thus, if the information is not public knowledge, the receiver of the information has a "warning sign." He is aware, or at least should

188. See *supra* Part V.H.1.

be, that if the information is not public knowledge he is confronted with an asset in which someone may have rights, even if at the time he neither knows nor is expected to know the identity of the owner of rights. In a similar situation, the laws of copyright impose the main burden of that risk upon the person acting against the privilege of the right holder, while the protection given to a good faith third party is considerably restricted.¹⁸⁹

Indeed, it may be argued that granting in rem protection to trade secrets may inhibit business activity, for those involved in it will refrain from using information derived from another person due to the risk of it being "tainted" with prior rights. Two possible responses may be suggested. First, it should be remembered that economic considerations of this nature also have a "flip side." The absence of suitable compensation provides a disincentive for the owner of the information to create and invent, and as noted above, registration of a patent is not always a satisfactory option.¹⁹⁰ Secondly, the above mentioned risk should not be exaggerated. Information is not attained *ex nihilo* by those dealing in it. Either the defendant develops it himself (in which case there is no liability because the right in a trade secret does not confer the owner with monopoly privileges, even if the right is in rem), or he acquires the knowledge from another person. In the latter case, there is invariably a risk that a person transferring an asset obtained it illegally. We may therefore expect the defendant to demand suitable guarantees from the transferrer. Failing to do so, the risks should be imposed upon him. It must also be remembered that legally the owner of the information confronts considerable difficulties in establishing his case. He has to prove the similarity between the information owned by him and the information currently in the defendant's use. He also must persuade the court that the information being used by the defendant has been derived from the plaintiff. As far as damages are concerned, the plaintiff must also prove the extent of his damages, which is normally a problematic task. These elements diminish the actual risks being imposed upon the defendant. It should

189. See *supra* text accompanying notes 52-61.

190. See *supra* text accompanying notes 4-7.

also be remembered that similar risks exist with regard to publishers who purchase copyright from a person purporting to be the owner of the right,¹⁹¹ and yet there has been no inhibition of publishers' activities.

The system should therefore strike a balance between the rights of the owner of information who invested in its development, and the purchaser's rights. It is desirable to maintain a certain measure of judicial discretion in balancing the parties' interests in order to allow a satisfactory solution in each case. The factors which should be considered when exercising discretion include the kind of activity, the scope of investments required for the development of the information, and the expenses involved in revealing the identity of the true owner. While conceding that we are dealing with a proprietary interest in which some initial publicity of the identity of the owner has existed, discretion should not easily be exercised in the defendant's favor. Even in cases in which such discretion is exercised, it would seem appropriate to suffice with the protection of the reliance interest of the defendant without protecting his expectation interest.

Should the defendant be granted complete immunity against liability for damages during the period before either his knowing or being obliged to know of the prior rights, as is the case in the American law? It has already been noted that such immunity is not commensurate with the approach currently adopted in the area of tangible property.¹⁹² If this thesis is accepted, assuming the existence of reasonable publicity of the right in a trade secret, imposition of liability for damages should not *ab initio* be denied during the interim period. During this time, the general law is that a party performing a conversion of movables, even in good faith, is liable for a claim in damages, and during this time, the law of copyright exposes innocent third parties to a high level of risk. Nevertheless, policy considerations attempting to maximize the free flow of information essential for a dynamic market justify the approach of the American law which avoids imposition of such liability. Partial immunity from damages, combined with judicial discretion to

191. See *supra* text accompanying notes 52-61.

192. See *supra* text accompanying notes 181-82.

condition the granting of an injunction against an innocent third party with the reimbursement of the third party for his reliance losses, ensures that the risk assumed by the third party would be a limited one. Consequently, even though his expectation interest would not regularly be protected unless an injunction order is denied there is still the possibility of restoring the defendant to his original position with neither a loss nor a gain. Such a solution guarantees a reasonable balance between the proprietary interest of the owner of the information and the need to facilitate the free flow of information.

Is there a justification for distinguishing the rigid solution, in the area of copyright from the more flexible solution for the third party in the area of trade secrets? A distinction may be made between the risk regarding rights in movables, as opposed to the risks regarding rights in trade secrets, in view of the interest in preserving a dynamic flow of information. Yet, the question remains whether there should be a more lenient, flexible approach in the third parties' favor within the trade secret law, while a more rigid approach should be adopted regarding third parties' risks in the area of copyright. If the two areas should be analogous in terms of the extent of the risk imposed upon third parties, then the conclusion would seem to demand the adoption of a more rigid approach in the area of trade secrets law.

The question is whether a distinction should be drawn between the weight attached to the constitutional interests confronting copyright and those confronting the right in a trade secret. The right in a trade secret competes with interests similar to those competing with copyright. Both rights limit society's capacity to use intellectual advances. Both are rights that restrict freedom of occupation, as copyright applies also to works dealing with commercial issues, like commercial catalogues.¹⁹³ Both of these rights limit freedom of expression by preventing publication of knowledge (in the area of trade secrets) or expressions (in the area of copyright) similar with those for which protection is sought.¹⁹⁴

193. See CORNISH, *supra* note 18, at 269; 1 GOLDSTEIN, *supra* note 9, § 2.14.2.

194. For the similarity test in the field of Copyright, see 2 GOLDSTEIN, *supra* note 9, § 7.1.1.

Yet, it would seem that society's interest in the free flow of information is greater than its interest in the free flow of a specific mode of expression. As mentioned above, only the mode of expression is being protected by copyright law. Thus, with respect to information, there ought to be greater leeway for third parties. An idea is usually open to a variety of modes of expression. Blocking the possibility of free usage of one of the modes of expression is less damaging to society and its development than is the negation of the possibility of using the "fountain" from which many "rivers" of expression flow. This distinction does effect the intensity of the right, so that the intensity of the right in a trade secret should be somewhat less than that of copyright, and not be conferred with total in rem protection. The above multidimensional analysis now calls for its resolution. How are we to classify the right in a trade secret in light of all of the above?

An approach leading to unqualified negation of rights acquired by third parties in good faith is unacceptable. An approach conferring absolute immunity to such third parties is equally inappropriate. Thus, a flexible approach is required. Three possible legal models may provide a flexible solution. One option is to adopt an arrangement that totally negates the in rem status of the right in a trade secret, relying instead on the protection offered by general tort law. The flexibility of the tort of negligence is particularly advantageous in the context discussed.

Yet, the main difficulty of this approach is that for a claim to succeed in negligence, an element of fault must be proved. In cases of good faith purchase, when the defendant should not be aware of the owner's rights, there is no fault on behalf of the third party even if he continues using the secret after having become aware of the rights of the plaintiff. Thus, there would not be grounds for a claim against him. There is no fault in continuing to use information which has been innocently acquired and relied upon. While no cause of action in negligence arises in such circumstances, the defendant would also be totally immune from any kind of mandatory order. There would consequently be no possibility of providing wider protection for the owner of a secret against good faith purchasers, not even by way of discretionary power in appropriate cases. Therefore, even

though protection through tort law is flexible and has many advantages over the *in rem* claim, this flexibility has its limits. Assuming that at least in certain cases it is desirable to grant an injunction against a good faith purchaser, the tort of negligence does not provide an appropriate solution.

A second version is to view the right in a trade secret as a quasi *in rem* right. Yet, the quasi *in rem* concept is problematic in this context, both in terms of its results and the positive law. In terms of the results, a quasi *in rem* right would be totally powerless against a good faith purchaser for value. In the case of a trade secret, increased effect should be related to owner's rights, exposing innocent third parties to the owner's rights at least in some cases. This is due to the right in a trade secret consisting of features that normally characterize an *in rem* right and as a matter of policy. As noted above, the analogy with copyright invites the possibility of detracting from third party rights in certain circumstances, even though not with the full intensity of copyright law. Viewing the right in trade secrets as being "quasi *in rem*" is therefore insufficient.

The third and most preferred approach, is to view the right in trade secrets as a right with particular features that may be categorized as a "cognate *in rem* right." The intention here is not a quasi *in rem* right as recognized in Anglo-American jurisprudence, but rather a right with special characteristics, which on an intensity scale is placed somewhere above the quasi *in rem* right, but below the classic *in rem* right.

We must now address the legitimacy of acknowledging a new classification within the proprietary rights, a right which is neither obligatory, nor *in rem*, nor quasi *in rem*. I submit that nothing prevents such classification. Classification of rights should not take place according to rigid categories. Rights have a fluid quality. Just as the law is dynamic, so are its categories. When confronted with a legal phenomenon bearing special characteristics, the specificity should be recognized and rigid classification avoided in cases where rigidity leads to a distortion of the features of the right under discussion. In this sense, the law of trade secrets makes its contribution to general jurisprudence, creating a new "status": a proprietary right conferring limited immunity to innocent third parties with respect to damages and also allowing a degree of judicial discretion un-

available for infringements of in rem rights. Application of this discretion is not limited to denying the right to an injunction against third parties. It also applies to the possibility of permitting continued use of the information by the defendant, without being subject to liability for damages. Yet, this status is characterized by the assumption that, as a general rule, even the good faith purchaser for value will be subject to the rights of the originally entitled party, while application of a court's discretion in favor of such purchaser is not taken for granted. Weighty reasons must exist for its application, the general tendency being to protect at the utmost only the reliance interest of the innocent party, and not his expectation interest. In this sense, the abovementioned classification would confer upon the owner of the trade secret protection more effective than that generally provided by way of equitable remedies preventing breach of confidence in English law, under which the basic assumption is one of wide protection to the good faith purchaser for value.

The "cognate in rem" model for trade secrets is the model that has in fact been adopted by the American system. The analysis in this article demonstrates that this is indeed the desired approach and that for principles of jurisprudence, this is the best of the various possible models. The law created a new status in the classification of rights. Awareness to this classification of the right is important not only from the theoretical point of view, but also for the positive interpretation of the law. It indicates that the judicial discretion according to the UTSA and the case law in favor of the good faith purchaser for value should be applied only selectively. The basic assumption is that, as a matter of rule, trade secrets should be attributed with in rem protection. Judicial discretion must also avoid conferring protection to the expectation interest of the purchaser for value. The intensity of the cognate in rem right of the owner of the secret requires that the third party be, at the utmost, granted protection only for his reliance interest.

