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Trade Secret Precautions, Possession, and Notice

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To obtain trade secret protection, a firm must take reasonable secrecy precautions ("RSP") to guard the confidentiality of claimed information. The RSP requirement has long puzzled courts and scholars. In other areas of property and intellectual property law, such self-help is not a prerequisite for legal rights. Landowners, for example, do not have to fence their property as a condition of ownership. Requiring claimants to take secrecy precautions also seems to contradict trade secret law's underlying rationales of promoting innovation and information sharing. Existing scholarship fails to provide a convincing justification for the requirement or explain how it advances the policy concerns animating trade secret law.

This Article demonstrates that traditional property law's "possession" doctrine can provide a useful lens for understanding the RSP requirement. In property law, affirmative acts of possession lead to ownership because they notify a relevant audience about claims to property. Drawing insights from possession doctrine, this Article argues that the primary purpose of the RSP requirement should be to notify a relevant audience (employees and other business partners) about the existence and boundaries of claimed trade secrets and thus reduce information costs for that audience. Requiring trade secret owners to provide clearer ex ante notice promotes follow-on innovation and employee mobility, concerns that are important to trade secret law. Accordingly, this Article suggests areas of reform in courts' RSP analysis to enhance the requirement's notice function.

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INTRODUCTION

Companies routinely use trade secret law to protect technical innovations and business secrets.[1] After decades of being the overlooked

1. *See, e.g.*, James Pooley, *The Myth of The Trade Secret Troll: The Defend Trade Secrets Act improves the Protection of Commercial Information*, 23 GEO. MASON L. REV. 1045, 1067 (2016) (noting

stepsister of intellectual property doctrines, trade secret law is attracting newfound attention. Information technology advances have sharpened concerns about trade secret theft. Businesses store and share vast quantities of information with the click of a button. But these same technologies make confidential information vulnerable to theft.[2] Concerns over hacking and cyber-espionage—particularly by foreign governments and competitors—have received significant media coverage,[3] fueling calls to strengthen trade secret law.[4] Due in part to these concerns, Congress recently passed legislation to introduce a federal civil claim for trade secret misappropriation: the Defend Trade Secret Acts ("DTSA").[5] Until the DTSA, civil trade secret claims were the exclusive province of state laws.[6]

And yet, despite the widely publicized concerns over cyber-espionage, the vast majority of civil trade secret cases feature an alleged thief who is not a stranger or unknown entity, but an employee or former employee of the plaintiff.[7] In some cases, the employee-defendant helped create the very information that the employer considers a trade secret. Thus, in recent years, courts and commentators have expressed concerns

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that research and development intensive firms are increasingly shifting their focus toward trade secrets rather than patenting).

2. *See id.* at 1066–67 ("Never have information assets been so vulnerable to loss."); *see also* Elizabeth A. Rowe, *Contributory Negligence, Technology, and Trade Secrets*, 17 GEO. MASON L. REV. 1, 1 (2009) ("The very technological tools in use today that increase the efficiency with which companies do business also create challenges for trade secret protection."); David S. Levine, *School Boy's Tricks: Reasonable Cybersecurity and the Panic of Law Creation*, 72 WASH. & LEE L. REV. ONLINE 323, 323 (2015) ("Information technology has . . . . created an arms race between entities that want to keep secrets and those who want unauthorized access to them.").

3. *See, e.g.*, Sam Frizell, *Here's What Chinese Hackers Actually Stole from U.S. Companies*, TIME (May 20, 2014), http://time.com/106319/heres-what-chinese-hackers-actually-stole-from-u-s-companies/; David E. Sanger & Nicole Perlroth, *U.S. Said to Find North Korea Ordered Cyberattack on Sony*, N.Y. TIMES (Dec. 17, 2014), http://www.nytimes.com/2014/12/18/world/asia/us-links-north-korea-to-sony-hacking.html.

4. *See, e.g.*, Levine, *supra* note 2, at 324–25; Zoe Argento, *Killing the Golden Goose: The Dangers of Strengthening Domestic Trade Secret Rights in Response to Cyber-Misappropriation*, 16 YALE J.L. & TECH. 172, 181 (2014) ("The exploitation of internet access that has provoked the most public concern recently is the hacking of a trade secret holder's computer system by outsiders, especially foreign governments.").

5. The Defend Trade Secrets Act of 2015 ("DTSA") was signed into law by President Obama on May 11, 2016. The DTSA amends the Economic Espionage Act of 1996 to provide a federal cause of action for trade secret misappropriation. *See* 18 U.S.C. § 1836(b) (2015); *see also* Press Release, U.S. Congress, Senate, House Leaders Introduce Bipartisan, Bicameral Bill to Protect Trade Secrets (July 29, 2015), http://www.hatch.senate.gov/public/index.cfm/2015/7/senate-house-leaders-introduce-bipartisan-bicameral-bill-to-protect-trade-secrets ("In today's electronic age, trade secrets can be stolen with a few keystrokes, and increasingly, they are stolen at the direction of a foreign government or for the benefit of a foreign competitor.").

6. Federal criminal trade secret claims could, however, be brought under the Economic Espionage Act. *See* Economic Espionage Act of 1996, Pub. L. No. 104-294, 110 Stat. 3488 (codified as amended as 18 U.S.C. §§ 1831–1839 (2012)); Argento, *supra* note 4, at 178.

7. *See* David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57, 69 (2011) (conducting an empirical study of state appellate decisions between 1995 and 2009 and concluding that in seventy-seven percent of cases, the alleged misappropriator was an employee or former employee).

about trade secret law's impact on employee mobility and freedom. Trade secret law can profoundly impact employees' ability to move between jobs and take their knowledge and skills with them without fear of reprisal from former employers.[8]

In comparison to other intellectual property law doctrines, trade secret law has unusual features—its focus on secrecy, for example. As a result, commentators have debated how to theorize trade secret law and situate it within broader legal doctrine.[9] But in the midst of this broader debate, one thorny aspect of trade secret doctrine has received scant attention. To obtain trade secret protection, the putative owner must engage in reasonable efforts to maintain the secrecy of the information for which protection is sought—the reasonable secrecy precautions ("RSP") requirement. Like trade secret law in general, the RSP requirement is a puzzle. At first glance, it seems odd to require self-help as a condition of obtaining and enforcing legal rights. Landowners, for example, do not have to fence their land as a condition of ownership. If someone steals a car, the car owner does not have to prove she locked it or used an alarm system to obtain legal relief. But trade secret law asks just that of plaintiffs.

The RSP requirement is neither a new nor a marginal feature of trade secret law. Since the early nineteenth century courts have scrutinized the secrecy efforts of those claiming trade secret protection. In modern times, the Uniform Trade Secrets Act ("UTSA"), which the vast majority of states follow, makes proving reasonable secrecy precautions an essential element of obtaining trade secret protection.[10] The DTSA, modeled closely on the UTSA, includes the requirement.[11] Many a plaintiff has lost her case based on a failure to show adequate precautions.[12] And yet, the purpose of this requirement remains murky and contested, and courts and scholars disagree over the reasons for why this requirement is imposed.[13]

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8. *See, e.g.*, Orly Lobel, *The New Cognitive Property: Human Capital Law and the Reach of Intellectual Property*, 93 TEX. L. REV. 789, 790–91 (2015); Madhavi Sunder, *Trade Secret and Human Freedom*, *in* INTELLECTUAL PROPERTY AND THE COMMON LAW 335 (Shyamkrishna Balganesh ed., 2013).

9. *See, e.g.*, Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 312 (2008); Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIF. L. REV. 241, 244 (1998) [hereinafter *A New Look at Trade Secret Law*]; Robert G. Bone, *The (Still) Shaky Foundations of Trade Secret Law*, 92 TEX. L. REV. 1803, 1803 (2014) [hereinafter *The (Still) Shaky Foundations*].

10. *See* UNIF. TRADE SECRETS ACT §§ 1–12 (UNIF. LAW COMM'N, amended 1985), 14 U.L.A. 433 (2015).

11. *See infra* text accompanying note 34.

12. *See, e.g.*, Rowe, *supra* note 2, at 2–3 (observing that the assessment of reasonable secrecy precautions is "at the heart of every trade secret misappropriation case and often determines the outcome"); Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002 (1984) ("[T]he extent of the property right [in a trade secret] is defined by the extent to which the owner of the secret protects his interest from disclosure to others.").

13. *See infra* Part II.C.

At first blush, making trade secret owners engage in costly self-help efforts seems at odds with modern policy rationales for trade secret law, which include enhancing innovation and information sharing.[14] Existing scholarship fails to provide a convincing justification for the requirement or explain how it fits with the underlying purposes of trade secret law. To the contrary, a few scholars have suggested jettisoning the requirement.[15] At the other end of spectrum, some commentators advocate strengthening the RSP requirement. They argue that as new technologies make cyber-espionage and other forms of misappropriation easier, courts should require firms' protection efforts to keep up.[16] This Article enters the morass to help clarify the purpose and continued relevance of the RSP requirement. I argue that the RSP requirement can be justified as demonstrating the employer's "possession" of specific information—providing notice primarily to an audience of employees and other business collaborators.

"Possession" is the gateway to title in tangible property law. In assigning the ownership of un-owned tangible resources, common law has long applied the doctrine of possession.[17] To become a lawful owner, one must engage in affirmative acts that notify a relevant audience about one's claim to a previously un-owned resource. Despite the differences between tangible things and informational goods, property law's possession doctrine and scholarship can serve as a useful lens for trade secret law. Significantly, possession law and scholarship illuminates the importance of notice or signaling in any property acquisition regime. Clear signaling or notice about one's claim to property ex ante (that is, before litigation between two parties ensues) is important to avoid conflict, insecurity, and wasted labor by others. Possession law and scholarship also highlights the important relationship between notice, relevant audience, and information processing costs for that audience. These insights are useful for understanding the primary function and current deficiencies of the RSP requirement in trade secret law.

Notably, trade secret law differs from patent law, its closest cousin, in that it has no formal ex ante notice requirement. To obtain trade secret protection, putative owners do not have to claim the boundaries of specific trade secrets, as putative patent owners must do. In many cases, a trade secret defendant does not even learn of the existence or precise boundaries of a claimed trade secret until she becomes the subject of litigation. In the absence of other ex ante notice mechanisms, I argue that the RSP requirement can and should serve this important purpose. A

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14. *See infra* Part II.B.

15. *See* Lemley, *supra* note 9, at 348–49.

16. *See, e.g.*, Levine, *supra* note 2, at 338–39 (suggesting that courts adopt a "more robust and specific 'reasonable cybersecurity' standard" that is "tailor[ed] to particular types of threats"); Rowe, *supra* note 2, at 2–3.

17. *See* Carol M. Rose, *Possession as the Origin of Property*, 52 U. CHI. L. REV. 73, 77 (1985).

possession or notice-based rationale also aligns with the RSP requirement's historical origins as well as current policy concerns animating trade secret law. Drawing from the insights of possession literature, I suggest reforms to the RSP analysis in trade secret law to better serve this notice function.

Part I of this Article first reviews trade secret doctrine as well as the policy concerns animating trade secret law. Part II explores the RSP requirement and critically examines existing attempts to explain the requirement. Part III argues the RSP requirement is best understood as a mechanism for communicating possession of informational goods—that is, to provide ex ante notice to observers about a proprietary claim to specific information. Part III also explores notable differences between tangible property and informational goods. Because informational goods lack clear physical boundaries, a notice-oriented RSP requirement must confront the greater information costs associated with claiming and understanding trade secrets, as opposed to tangible property.

Part IV considers the doctrinal implications of a possession or notice-oriented RSP requirement. To this end, the Article proposes reforms to the RSP analysis. The overwhelming majority of civil trade secret cases involve defendants that are employees or other known collaborators. They are the most relevant audience for reasonable secrecy precautions. Consequently, courts should place less emphasis on "physical security measures" aimed at deterring unknown outsiders and more on "confidentiality procedures" aimed at notifying employees of the specific information claimed as trade secrets.[18] Moreover, courts should scrutinize broadly worded nondisclosure agreements to ensure that employees have adequate notice of the specific information an employer claims as trade secrets. Finally, while the UTSA eliminated "continuous use" as an independent trade secret requirement, the plaintiff's nonuse of information claimed as a trade secret should nonetheless factor into a notice-oriented RSP analysis.[19]

I. Trade Secret Doctrine and Underlying Policy Concerns

A. Overview of Trade Secret Law

Businesses use trade secret law to protect a wide array of information that is valuable and secret. This information can be "technical" in nature, like mechanical processes and chemical formulas. Or it can be non-technical "business" information, like customer lists,

18. *See infra* Part IV.B.
19. *See infra* Part IV.C.

pricing data, or marketing strategies.[20] While federal statutes protecting patent and copyright have been around more or less since the nation's birth,[21] trade secret protection originated in mid-nineteenth century common law.[22] Early trade secret cases emphasized the importance of protecting confidential relationships, as well as an inventor's property interest in secret inventions and discoveries.[23]

By the early twentieth century, courts' emphasis on confidential relationships led trade secrets to be categorized as a branch of tort law. The 1939 Restatement of Torts described the basic principles of trade secret, which most states then adopted.[24] The Restatement (Second) of Torts, however, omitted discussion of trade secret law.[25] In 1979, the National Conference of Commissioners on Uniform State Laws issued a model state statute, the UTSA, to introduce more uniformity into the law of trade secrets.[26] The UTSA has since been enacted by forty-seven states and the District of Columbia.[27] More recently, the 1995 Restatement (Third) of Unfair Competition describes the principles of

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20. *See* William Fisher, *Theories of Intellectual Property*, *in* NEW ESSAYS IN THE LEGAL AND POLITICAL THEORY OF PROPERTY 170 (Stephen R. Munzer ed., 2001); ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 24–31 (6th ed. 2012).

21. *See* U.S. CONST. art. 1, § 8, cl. 8 (providing that Congress shall have the power "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."); Copyright Act of 1790, 1 Stat. 124 (codified as amended at 17 U.S.C. §§ 101–1332 (2006)); Patent Act of 1790, 1 Stat. 109 (codified as amended at 35 U.S.C. §§ 1–376 (2006)).

22. *See, e.g.*, *The (Still) Shaky Foundations*, *supra* note 9, at 1805; Pooley, *supra* note 1, at 3. However, at least one scholar traces trade secret-like protection to the Roman Empire. *See* A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, 30 COLUM. L. REV. 837, 837–38 (1930). *See generally* Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493 (2010) (detailing the history of the evolution of trade secret law in the United States).

23. *See, e.g.*, Peabody v. Norfolk, 98 Mass. 452, 458 (1868) ("If [a man] invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, . . . he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons."). *Cf.* Lemley, *supra* note 9, at 324 (suggesting that in these early American trade secret cases, the label "property" likely "meant something rather different than it means to people today, and often little more than that the right was to be protected by the injunctive power of courts in equity.").

24. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (AM. LAW INST. 1939) (noting that trade secret law is different from patent and copyright because "[i]t is the employment of improper means to procure the secret, rather than mere copying or use, which is the basis of the liability under the rule stated in this Section.").

25. *See* RESTATEMENT (SECOND) OF TORTS §§ 1–2, Div. 9 Introductory Note (AM. LAW INST. 1979); *see also* MERGES ET AL., *supra* note 20, at 36 (explaining that the authors of the Restatement (Second) of Torts omitted discussion of trade secret law "on the grounds that the law of trade secrets had developed into an independent body of law that no longer relied on general principles of tort law[,]" however, the original Restatement of Torts continues to influence trade secret law, as a number of state courts relied upon it prior the Uniform Trade Secrets Act ("UTSA")).

26. UNIF. TRADE SECRETS ACT (UNIF. LAW COMM'N, amended 1985), 14 U.L.A. 433 (2015); *see* Sandeen, *supra* note 22, at 502–20 (describing various motivations for the UTSA).

27. Sandeen, *supra* note 22, at 540.

trade secret law;[28] it is largely consistent with the UTSA, though it has not gained as much acceptance.[29] Congress passed a federal criminal trade secret law in 1996—the Economic Espionage Act ("EEA")—largely out of concern for foreign state-sponsored trade secret theft.[30] And as previously noted, Congress enacted the DTSA in May 2016; the DTSA adds a federal civil trade secret claim to the EEA that closely tracks the UTSA.[31]

Despite some state-to-state variation, the basic features of civil trade secret law are fairly consistent.[32] Three elements are required for a successful trade secret claim. First, the plaintiff must show that information for which protection is claimed falls within the subject matter of trade secret law. Trade secret subject matter is broad, encompassing "virtually any useful information"[33] that has "independent economic value, actual or potential," so long as it is not "generally known" or "readily ascertainable" by those in the relevant industry.[34] Second, the plaintiff must have

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28. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION §§ 39–45 (AM. LAW INST. 1995).

29. *See, e.g.*, Pooley, *supra* note 1, at 6.

30. 18 U.S.C. §§ 1831–1839 (2012). *See generally* James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177, 191 (1997). In addition, the federal Computer Fraud and Abuse Act ("CFAA") makes it a federal crime to "access[] a computer without authorization or exceed[] authorized access." 18 U.S.C. § 1030(a)(1)–(2) (2012). This controversial law has, in certain cases, been invoked along with criminal trade secret law. *See, e.g.*, United States v. Aleynikov, 676 F.3d 71 (2d Cir. 2012), *rev'g* 785 F. Supp. 2d 46 (S.D.N.Y. 2011) (involving a Goldman Sachs programmer accused of misusing source code related to high frequency trading was initially charged with violation of the CFAA and EEA). For a useful discussion of the CFAA, see generally James Grimmelmann, *Consenting to Computer Use*, 84 GEO. WASH. L. REV. (forthcoming), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2710757; Orin S. Kerr, *Vagueness Challenges to the Computer Fraud and Abuse Act*, 94 MINN. L. REV. 1561, 1568 (2010).

31. *See* Defend Trade Secrets Act, 18 U.S.C. § 1836(b) (2016).

32. *Compare* Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 353 (2015) (arguing that the UTSA makes trade secret laws uniform), *with* Pooley, *supra* note 1, at 5 (arguing that the uniformity has been overstated).

33. JAMES POOLEY, TRADE SECRETS § 1.01 (2010).

34. Section 1(4) of the Uniform Trade Secrets Act defines "trade secret" as:

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

UNIF. TRADE SECRETS ACT (UNIF. LAW COMM'N, amended 1985), 14 U.L.A. 433 (2015). Similarly, under federal law, "trade secret" is defined as:

> [A]ll forms and types of financial, business, scientific, technical, economic, or engineering information . . . if—(A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public . . . .

18 U.S.C. § 1839(3). Information has potential economic value if, for example, it "makes a product easier or cheaper to make, if it makes the product more attractive to customers, or if it helps the producer target likely customers." Eric R. Claeys, *Private Law Theory and Corrective Justice in Trade*

subjected the information for which protection is sought to reasonable secrecy precautions under the circumstances to prevent its disclosure.[35]

The failure to satisfy either of these elements means the plaintiff does not have a protectable trade secret. Notably, a putative trade secret owner need not satisfy any formalities to obtain trade secret protection. Unlike patent law, for example, a putative trade secret owner does not have to apply for trade secret protection with any federal or state agency.[36] And unlike trademark and copyright laws, which provide incentives for registering trademarks and copyrighted works, there is no registry for trade secrets.[37]

If the plaintiff satisfies the subject matter and RSP requirements, the third element shifts focus to the defendant's behavior. The plaintiff must prove the defendant "misappropriated" the confidential information. That is, the defendant must have acquired, used, or disclosed the information by breaching a duty of confidence, or by using "improper means."[38] Most trade secret defendants fall into the first category, as the majority of trade secret cases involve departing employees. In addition to employees, other kinds of business associates—like vendors, subcontractors, and customers—may also be subject to a confidentiality duty, depending on the circumstances.[39]

The second category of misappropriation—through "improper means"—usually involves strangers. These strangers acquire secrets (often on behalf of competitors), using unlawful means like trespassing, hacking, and wiretapping.[40] Or they use means that are not independently unlawful,

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Secrecy (George Mason Univ. Law & Econ. Research Paper Series, Paper No. 11-14, 2011), 4 J. TORT. L. (forthcoming 2011). The "not generally known" requirement means to exclude from trade secret protection commonly known information within an industry. *See* MERGES ET AL., *supra* note 20, at 37.

35. *See* UNIF. TRADE SECRETS ACT § 1(4); 18 U.S.C. § 1839(3).

36. *See infra* text accompanying note 61.

37. 17 U.S.C. § 412 (describing registration with the Copyright Office as a prerequisite to certain remedies); 15 U.S.C. § 1065 (describing incontestability of certain trademarks registered on the principal registry).

38. UTSA section 1(2) defines "misappropriation" as:

> (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
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> (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

UNIF. TRADE SECRETS ACT § 1(2); s*ee also* 18 U.S.C. 1839 (defining misappropriation).

39. *See, e.g.*, MERGES ET AL., *supra* note 20, at 83; Almeling et al., *supra* note 7.

40. *See* Lemley, *supra* note 9, at 317–18.

but nevertheless fall beneath the rather nebulous threshold of "generally-accepted standards of commercial morality and reasonable conduct."[41] If, however, the defendant has discovered the information through independent research or reverse engineering, then no liability attaches. Reverse engineering and independent creation are lawful ways of obtaining trade secret information.[42] A successful trade secret plaintiff can obtain various remedies, including injunctive relief and monetary damages.[43]

B. Prominent Justifications for Trade Secret Protection

The theoretical justifications for protecting trade secrets have long puzzled courts and scholars.[44] Given trade secret law's unique characteristics—including the requirement of secrecy and concern with how the defendant obtains the information ("misappropriation")—it has proven difficult to elicit scholarly agreement on the theoretical justifications for trade secret law and its place within existing legal doctrine.[45] Courts have classified trade secrets at various points in time as a species of property, tort, and intellectual property.[46] Though, in modern times, courts and commentators increasingly characterize trade secrets as a form of property or intellectual property.[47] Along the way, trade secret law has picked up colorful nicknames, from "the Cinderella of IP doctrines,"[48] to a "chameleon,"[49] to a "real toad in a conceptual garden."[50]

Today the most commonly invoked justifications for protecting trade secrets fall into one of two broad camps: efficiency or morality-

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41. E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1014 (5th Cir. 1970) (quoting Restatement of Torts § 757, cmt. f (Am. Law Inst. 1939)).

42. Unif. Trade Secrets Act § 1 cmt. 2 (Unif. Law Comm'n, amended 1985), 14 U.L.A. 437 (2015).

43. *Id.* §§ 2–3; 18 U.S.C. § 1836(b).

44. Lemley, *supra* note 9, at 312.

45. *Id.*

46. Nineteenth century courts often described trade secrets as "property." *See, e.g.*, Peabody v. Norfolk, 98 Mass. 452, 459–60 (1868). In the early twentieth century, courts' classification of trade secrets shifted to tort-based concepts. *See* E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917) ("The word 'property' as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith.").

47. *See, e.g.*, Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002–03 (1984) (holding that trade secrets are "property" for Fifth Amendment takings purposes and explaining that "[t]rade secrets have many of the characteristics of more tangible forms of property[,]" like assignability and a "perception of trade secrets as property is consonant with a notion of 'property' that extends beyond land and tangible goods and includes the products of an individual's 'labour and invention.'"); 1 Roger M. Milgrim, Milgrim on Trade Secrets § 1.01[3], 1-73–1-98 (2006) (listing cases describing trade secrets as property); Lemley, *supra* note 9, at 313 (arguing that trade secrets are best conceptualized as intellectual property).

48. Sharon K. Sandeen, *The Cinderella of Intellectual Property Law: Trade Secrets*, *in* 2 Intellectual Property and Information Wealth: Issues and Practices in the Digital Age, Patent and Trade Secrets 399 (Peter K. Yu ed., 2007).

49. Vincent Chiappetta, *Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law*, 8 Geo. Mason L. Rev. 69, 70 (1999).

50. Todd M. Sloan, *Trade Secrets: Real Toads in a Conceptual Garden*, 1 W. St. L. Rev. 113, 113 (1973).

based arguments.[51] The main efficiency arguments are that trade secret law encourages innovation, promotes efficient disclosure of confidential information, and deters wasteful expenditures by those seeking to protect and steal confidential information.[52] The primary morality-based argument is that trade secret law helps maintain "standards of commercial morality."[53] Also influencing the development of trade secret law is the concern for employee mobility and liberty.[54] This concern does not counsel in favor of having trade secret law so much as reigning in its potential excesses. Each of these concerns is discussed in turn.

1. Incentive to Innovate

One commonly invoked justification for trade secret law is that it promotes innovation. Under this rationale, allowing the trade secret owner to control the use of confidential information helps encourage investment in the creation of that information.[55] This argument echoes the underlying justification for patent and copyright—i.e., that the grant of exclusivity helps combat the underproduction of information-based goods.[56] In *Kewanee Oil Co. v. Bicron Corp.*,[57] the Supreme Court emphasized this purpose of trade secret law. In *Kewanee,* the Court held

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51. For a helpful discussion of the various policy arguments that have been raised to justify trade secret law (and criticisms of those arguments), see Bone, *The Still (Shaky) Foundations*, *supra* note 9, at 1806–31. In this Part, I address the most prominent justifications for trade secret law in modern times. It is not an exhaustive account of all justifications offered for trade secret law since its inception. Notably, natural rights justifications played a more prominent role in early trade secret law, as it did in early intellectual property law more generally. *See infra* note 146.

52. *See The Still (Shaky) Foundations*, *supra* note 9, at 1806.

53. *See, e.g.*, E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1015 (5th Cir. 1970); Lemley, *supra* note 9, at 327.

54. *See infra* text accompanying notes 76–78.

55. *See, e.g.*, Richard A. Epstein, *The Constitutional Protection of Trade Secrets Under the Takings Clause*, 71 U. CHI. L. REV. 57, 57 (2004); Andrew A. Schwartz, *The Corporate Preference for Trade Secret*, 74 OHIO ST. L.J. 623, 632 (2013) ("There is essentially only one policy purpose behind trade secret law: the encouragement of innovation."); Aronson v. Quick Point Pencil Co., 440 U.S. 257, 266 (1979) (observing that trade secret law helps ensure that "the public is not deprived of the use of valuable, if not quite patentable, invention[s]."); Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 180 (7th Cir. 1991) (explaining trade secret law's role in providing "incentive[s] to invest resources in discovering more efficient methods of production"); DVD Copy Control Ass'n v. Bunner, 75 P.3d 1, 13 (Cal. 2003) ("By creating a limited property right in information, trade secret law 'acts as an incentive for investment in innovation.'"). *But see* Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 26 (2007) ("[C]reating incentives to innovate is a very minor justification of trade secret law.").

56. Information exhibits characteristics of public goods—it can be "copied freely and used by anyone who is aware of [it] without depriving others of [its] use." Mark A. Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 129 (2004). These characteristics are referred to as non-excludability and non-rivalrousness, respectively. The primary justification for patents (and copyrights) in the United States is to correct for this public goods problem by granting inventors and creators limited rights to exclude. For a general discussion of the public goods characteristics of intellectual property, see MERGES ET AL., *supra* note 20, at 12–13.

57. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 484 (1974).

that federal patent law did not preempt trade secret law, explaining: "[T]he patent policy of encouraging invention is not disturbed by the existence of another form of incentive to invention."[58] Echoing *Kewanee,* various commentators have argued that trade secret law provides additional innovation incentives beyond those provided by patent law.[59] These commentators highlight both the greater costs associated with obtaining and litigating patents, as well as trade secret law's broader subject matter.[60] Notably, trade secret law does not impose patent law's stringent requirements and thus covers a wider array of information, including confidential data from failed experimentation (so called "negative know-how") and business information such as customer lists, business plans, and marketing data.[61]

2. *Incentive to Disclose Information*

Another justification for trade secret law is that it encourages the sharing of confidential information in efficiency enhancing ways.[62] Along with promoting innovation, promoting information disclosure is an important purpose of intellectual property laws.[63] In *Kewanee*, the Supreme Court highlighted the information sharing benefits of trade secret law. The Court observed that absent trade secret protection, "[t]he holder of a trade secret would not likely share his secret with a manufacturer" and would "hoard rather than disseminate knowledge."[64]

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58. *Id.* at 484–85 ("Trade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with discovery and exploitation of his invention. Competition is fostered and the public is not deprived of the use of a valuable, if not quite patentable, invention.").

59. *See, e.g.*, Epstein, *supra* note 55, at 57; Lemley, *supra* note 9, at 330–31 (observing that secrets are significantly cheaper than the costly patent application process, which is why "some firms, particularly start-ups, rely heavily on the incentive to invent provided by trade secret law."); *Aronson*, 440 U.S. at 266; *Rockwell Graphic Sys. Inc.*, 925 F.2d at 180; *DVD Copy Control Ass'n*, 75 P.3d at 13.

60. *See, e.g.*, Lemley, *supra* note 9, at 331–33 (observing that the Patent and Trademark Office's ["PTO"] years-long delays in granting patents "renders patents unavailable . . . in fast-moving industries" and that patent litigation is three times as expensive as trade secret litigation). *But see The Still (Shaky) Foundations*, *supra* note 9, at 1808 ("As for nonpatentable inventions, the marginal impact of trade secret protection on incentives might not be as large as it seems at first glance . . . .").

61. To obtain a patent, an inventor must apply to the PTO demonstrating that her invention is patentable subject matter, useful, novel, nonobvious, and sufficiently described and enabled in the application so that others in the relevant art can understand, make, and use it. *See* 35 U.S.C. §§ 101–103, 112 (2012). For a discussion of the differences between patent and trade secret subject matter, see Deepa Varadarajan, *Trade Secret Fair Use*, 83 FORDHAM L. REV. 1401, 1409–11 (2014).

62. *See* Lemley, *supra* note 9, at 333–34.

63. *See id.* at 332. Patent law, for example, requires an applicant to describe her invention so that a person of ordinary skill in the field can make and use it, and requires that the information be published. 35 U.S.C. § 112 (2012).

64. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 486 (1974). The Court further observed:

More recently, Mark Lemley has elaborated on this disclosure promoting rationale, arguing that trade secret law can substitute for certain inefficient investments in secrecy[65] and promote the flow of information to potential business partners and collaborators.[66]

3. *Deterrence of Wasteful Arms Races*

A related efficiency justification for trade secret law is that it reduces wasteful "precautions-stealing arms races."[67] This rationale posits that absent trade secret law, firms will invest more in protecting secrets and misappropriators will respond by investing more in stealing secrets, prompting an escalating "arms race."[68] Trade secret law theoretically reduces incentives to engage in such socially wasteful arms races because owners can opt for litigation instead of more costly precautions. And this prospect of litigation should ideally deter misappropriators and direct their acquisition efforts toward less costly options like licensing.[69]

> Instead, then, of licensing others to use his invention and making the most efficient use of existing manufacturing and marketing structures within the industry, the trade secret holder would tend either to limit his utilization of the invention, thereby depriving the public of the maximum benefit of its use, or engage in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention. The detrimental misallocation of resources and economic waste that would thus take place if trade secret protection were abolished with respect to employees or licensees cannot be justified by reference to any policy that the federal patent law seeks to advance.

Id. at 486–87.

65. Lemley, *supra* note 9, at 335 (suggesting that over-investment in secrecy can take the form of increased physical restrictions like walls and fences, business decisions obstructing the flow of information to employees and other third parties who could use it more efficiently, as well as the hiring of employees based on perceived loyalty rather than ability); *see also* Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 177 (1991) ("[D]isclosure . . . is often necessary to the efficient exploitation of a trade secret . . . .").

66. Lemley argues that trade secret law can encourage disclosure by facilitating the sharing of confidential information during precontractual negotiations; by giving the seller of information certain protections, trade secret law increases the likelihood of efficient sales or licensing agreements that can lead to an invention's commercialization. Lemley, *supra* note 9, at 336–37. Bargaining over secret but valuable information can be problematic because the buyer will want to know the information before agreeing to any contract terms that limit her use of it. But the seller will be wary of disclosing the secret information to the buyer for fear that she will simply steal it. Trade secret law serves as a "partial solution" to this conundrum (called "Arrow's Information Paradox"). *Id.* at 336. *But see A New Look at Trade Secret Law*, *supra* note 9, at 273 ("[This justification] ignores enforcement costs and underestimates the transaction costs of licensing, both of which are likely to be especially high when secret information is involved.").

67. *See The (Still) Shaky Foundation*, *supra* note 9, at 1809; *see also* Douglas Lichtman, *How the Law Responds to Self-Help*, 1 J.L. ECON. & POL'Y. 215, 232 (2005).

68. *The (Still) Shaky Foundation*, *supra* note 9, at 1808.

69. *Id.* at 1808–09. Robert Bone has recently argued that this benefit of trade secret law is overstated, too, because detecting trade secret misappropriation is difficult. Thus, "recognizing a trade secret claim creates a new type of arms race: the trade secret owner invests in detection; the appropriator then invests in efforts to avoid detection; the owner responds by using more sophisticated detection methods, and so on." *Id.* at 1809. And given the costliness of litigation, some trade secret owners will continue to "rely on self-help despite the litigation alternative." *Id.*

4. *Commercial Morality*

An oft-invoked noneconomic justification for trade secret law is that it helps maintain "standards of commercial morality."[70] In *Kewanee,* for example, the Supreme Court observed that "[t]he maintenance of standards of commercial ethics" is a "broadly stated polic[y] behind trade secret law."[71] The Fifth Circuit famously raised this justification for trade secret law in *E.I. duPont deNemours & Co. v. Christopher.*[72] In *DuPont*, the court held that defendants misappropriated trade secrets when they took aerial photographs of the plaintiff's engineering plant while it was under construction. In embracing a broad interpretation of "improper means" that encompassed otherwise lawful acts, like aerial photography, the court observed: "[O]ur devotion to free wheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality expected in our commercial relations."[73]

5. *Balancing Concerns of Employee Mobility and Freedom*

The varied (and contested) justifications for trade secret law make it unique—at least compared to other intellectual property doctrines, which have a clearer focus.[74] Trade secret law is also notable for its effect on the freedom and mobility of employees.[75] While an employee cannot divulge protected trade secrets, she is free to take her "general skills and knowledge," as well as her industry-specific knowledge from one employer to another.[76] However, the line between these categories and an employer's

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70. E.I. duPont deNemours & Co. v. Christopher, 431 F.2d 1012, 1015 (5th Cir. 1970) ("[T]he undoubted tendency of [trade secret] law has been to recognize and enforce higher standards of commercial morality in the business world." (citing Hyde Corp. v. Huffines, 314 S.W.2d 763, 773 (Tex. 1958)); *see also* Jet Spray Cooler, Inc. v. Crampton, 385 N.E.2d 1349, 1355 (Mass. 1979) (citing Keewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974)) (stating that trade secret protection helps maintain "standards of commercial ethics").

71. *Keewanee Oil Co.*, 416 U.S. at 481–82 ("The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial world.").

72. *E.I. duPont deNemours & Co.*, 431 F.2d at 1015.

73. *Id.* at 1016. The commercial morality justification for trade secret law has also garnered criticism, as it requires courts to compare the defendant's behavior to some generally accepted norm of behavior (which can be near impossible to discern) or industry specific standards. Critics observe that such standards are vague, unpredictable, can change over time, and thus lead courts to condemn conduct without convincing evidence that the norm is in fact accepted by the relevant industry. *See, e.g.*, *A New Look at Trade Secret Law*, *supra* note 9, at 295–96 (noting that courts' "ability to gather and process information about industry practice is extremely limited, so the risk of error is potentially quite high."); Lemley, *supra* note 9, at 327–38 (observing that while flying over a chemical plant to discern secrets was immoral in 1970, "one might reasonably doubt that looking at satellite photos of the same plant on Google Earth would be illegal today.").

74. *See supra* text accompanying note 56.

75. *See* Sunder, *supra* note 8, at 335 (arguing that not only is trade secret law a tool for incentivizing innovative activity and disclosure of valuable information, it also "regulates social relations between employers and employees").

76. *See, e.g.*, AMP Inc. v. Fleischhacker, 823 F.2d 1199, 1205 (7th Cir. 1987).

protected trade secrets is notoriously blurry.[77] Courts police employers' efforts to use trade secret law as "a bludgeon with which to deter outgoing employees from using their general skill and experience for the benefit of themselves and consumers."[78]

This is not to say that employee mobility concerns are unrelated to efficiency concerns. Restrictions on employee mobility have been shown to reduce innovation and employee productivity, and vice versa.[79] But some commentators argue that trade secret law's normative concerns should be less fixated on efficiency concerns.[80] As Madhavi Sunder recently observed: "[T]rade secret must also take into account employees' *freedom* to move, to think, to innovate, and to compete, and also the question of what kind of *social relations* we want and demand in a free and democratic society."[81]

II. EFFORTS TO UNDERSTAND THE RSP REQUIREMENT

As Part I reflects, the policy arguments animating trade secret law are varied and debated. But few courts and commentators have analyzed how the RSP requirement fits within this broader discourse.[82] This under-examination is problematic given the RSP requirement's prominent—often, dispositive—role in trade secret cases. This Part explores current RSP analysis and the requirement's seeming conflict with many of trade secret law's underlying policy justifications. This Part also critically examines existing explanations for the RSP requirement.

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77. *See, e.g.*, Argento, *supra* note 4, at 187–88. This line is further blurred in cases where employees rely on memorized information rather than tangible records taken from their former employer. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (AM. LAW INST. 1995) ("When a former employer uses information from memory rather than from physical records taken from the former employer, courts may be more likely to regard the information as part of the employee's general knowledge and experience.").

78. *See* Claeys, *supra* note 34, at 596; s*ee also* KIM LANE SCHEPPELE, LEGAL SECRETS: EQUALITY AND EFFICIENCY IN THE COMMON LAW 244 (1988) (finding that courts followed the general rule that employers may not use trade secret law to "shackle" former employees).

79. *See, e.g.*, ORLY LOBEL, TALENT WANTS TO BE FREE: WHY WE SHOULD LEARN TO LOVE LEAKS, RAIDS, AND FREE RIDING (2013); *see also* Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 590–92 (1999) (describing high employee mobility as helping to explain Silicon Valley's innovation).

80. *See, e.g.*, Sunder, *supra* note 8, at 350 ("Incentives to invent and disclose are important, but they do not encompass the full range of values at stake in the law of trade secrets.").

81. *Id.* at 344; *see also* CATHERINE L. FISK, WORKING KNOWLEDGE: EMPLOYEE INNOVATION AND THE RISE OF CORPORATE INTELLECTUAL PROPERTY, 1800–1930 (2009) (describing significant changes in how American courts understood employers' rights over employee innovations and know-how).

82. *See, e.g.*, Robert G. Bone, *Trade Secrecy, Innovation and the Requirement of Reasonable Secrecy Precautions*, *in* THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH 46 (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011).

A. BASIC CONTOURS OF THE RSP REQUIREMENT

The UTSA makes RSP an independent requirement for trade secret protection. The plaintiff's secrecy efforts are part of the proof required for establishing a protectable trade secret.[83] The recently enacted DTSA, which establishes a federal civil claim for trade secret misappropriation, echoes the UTSA on this issue.[84] Interestingly, the Restatement (First) of Torts, which reflected common law, listed secrecy efforts as one of many factors to consider in determining whether the plaintiff had a protectable trade secret.[85] The UTSA's drafters departed from the common law when they established RSP as an independent trade secret requirement.[86] Since forty-seven states have adopted the UTSA (and the DTSA largely echoes the UTSA),[87] I focus on the UTSA's formulation.

Courts do not apply consistent standards or factors when determining if the RSP requirement is met. Whether the requirement is satisfied is a question of fact, based on the circumstances.[88] In general, courts do not require *absolute* secrecy when evaluating RSP.[89] If a putative trade secret owner exercises reasonable diligence to prevent unauthorized disclosure or use of the secret information, it can be shared with employees and other business partners to exploit the secret's commercial value. However, the mere intent to keep information secret

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83. Section 1(4) of the UTSA defines "trade secret" as: "including a formula, pattern, compilation, program, device, method, technique, or process, that: . . . (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." UNIF. TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM'N, amended 1985), 14 U.L.A. 433 (2015).

84. *See supra* notes 5 and 34.

85. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. LAW INST. 1939). Some factors to be considered in determining whether given information is one's trade secret are:

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

Id. (emphasis added). The Restatement (Third) of Unfair Competition takes a similar view to the Restatement (First) of Torts. The Restatement (Third) of Unfair Competition does not regard reasonable secrecy precautions as an independent requirement for trade secret protection—it states that while "[p]recautions taken to maintain the secrecy of information are relevant in determining whether the information qualifies for protection as a trade secret. . . . [I]f the value and secrecy of the information are clear, evidence of the specific precautions taken by the trade secret owner may be unnecessary. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g (AM. LAW INST. 1995).

86. *See, e.g.*, Rowe, *supra* note 2, at 8; Pooley, *supra* note 1, at 5; Bone, *supra* note 82, at 57 (describing this as a significant change from the Restatement (First) of Tort's multifactor approach).

87. *See supra* text accompanying notes 27 and 34.

88. *See, e.g.*, Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 176–77 (7th Cir. 1991).

89. *See* MERGES ET AL., *supra* note 20, at 36.

is not sufficient to establish RSP. The plaintiff must show affirmative acts were taken to keep information confidential.[90] Such affirmative acts often include some combination of measures, like imposing confidentiality agreements on employees and other business partners, using password protections, and limiting access to certain areas of the facility.[91] No single type of precautionary measure is dispositive—though in recent times, confidentiality agreements have become increasingly important.[92]

Commentators have criticized courts' inconsistent and unpredictable analysis of RSP.[93] At least one prominent scholar, Mark Lemley, has argued that reasonable secrecy efforts "don't make sense as a separate requirement" for establishing a trade secret.[94] The inconsistency in courts' RSP analysis can be attributed, at least in part, to the requirement's problematic relationship with the underlying rationales for trade secret law and the conflicting explanations for the RSP requirement.[95] These topics are addressed in the Subparts that follow.

B. Difficulties Reconciling the RSP Requirement with Trade Secret Law's Underlying Rationales

At first blush, requiring a claimant to engage in precautionary efforts as a condition of obtaining and enforcing a legal right seems odd. As Douglass Lichtman observes, "[p]roperty owners are not required to erect a fence in order to later sue an unwelcome visitor for trespass."[96] Edmund Kitch similarly opines, "[p]roperty rights are not usually lost because the owner has not expended sufficient resources to protect them."[97] Even in the context of intellectual property, the requirement is somewhat "unusual."[98] For example, a patent owner does not have to

90. *See, e.g.*, Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 901 (Minn. 1983) ("[M]ore than an 'intention' was required—the plaintiff was required to show that it had manifested that intention by making some effort to keep the information secret.").

91. Pooley, *supra* note 33, at 4–28 (listing cases).

92. *See infra* text accompanying note 210.

93. *See, e.g.*, Rowe, *supra* note 2; Levine, *supra* note 2.

94. Lemley, *supra* note 9, at 349; *see also* Bone, *supra* note 82, at 46 (suggesting that there is at best weak support for an RSP requirement).

95. A certain degree of inconsistency and unpredictability is inevitable given the context-specific nature of the inquiry. *See, e.g.*, Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991) ("[O]nly in an extreme case can what is a 'reasonable' precaution be determined on a motion for summary judgment, because the answer depends on a balancing of costs and benefits that will vary from case to case and so require estimation and measurement by persons knowledgeable in the particular field of endeavor involved.").

96. Lichtman, *supra* note 67, at 226.

97. Edmund W. Kitch, *The Law and Economics of Rights in Valuable Information*, 9 J. Legal Stud. 683, 697–98 (1980).

98. *See* Bone, *supra* note 82, at 47 (observing that patent and copyright laws do not impose analogous requirements).

show that she took reasonable precautions to prevent others from using her invention.[99]

More problematically, the RSP requirement appears to contradict the dominant economic and moral justifications for modern trade secret law, described in the previous Part. With respect to trade secret law's innovation justification,[100] Robert Bone argues, "requiring precautions dampens incentives to create by making innovation more costly and enforcement of trade secret rights more difficult."[101] The RSP requirement may also skew the kinds of innovations in which firms invest—for instance, toward "innovations that are easier to contain and control."[102] And to the extent trade secret law is meant to encourage efficient disclosure of information and serve as a substitute for wasteful self-help—such as higher walls, fences, and other precautionary measures[103]—it is not clear how an RSP requirement aligns with this goal. Instead, the RSP requirement can encourage "firms to invest more rather than less in self-help."[104]

Looking beyond efficiency justifications, if trade secret law is meant to police commercial morality and deter unethical behavior,[105] it is concerning that bad actors can evade liability simply because a plaintiff's precautions fall below an ambiguous threshold. Notably, when judges emphasize the commercial morality justification for trade secret law, they tend to fixate on the defendant's bad acts and gloss over the initial question of whether the plaintiff has demonstrated a protectable secret.[106] This *ad hoc* approach compounds the inconsistency problem and triggers criticism from those who emphasize the innovation and disclosure promoting rationales of trade secret law.[107]

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99. The closest analogy is perhaps in trademark law, where a trademark user's failure to police third-party uses of the mark may result in the loss of protection. 15 U.S.C. § 1127 (providing that a trademark will be deemed abandoned when "its use has been discontinued with intent not to resume such use" or when "any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark.").

100. *See supra* Part I.B.1.

101. *See* Bone, *supra* note 82, at 65.

102. *Id.* at 65 n.81.

103. *See supra* Part I.B.2–3.

104. Bone, *supra* note 82, at 65 (suggesting that absent an RSP requirement, trade secret law may encourage licensing "more effectively by encouraging licensing of all secret information and not just information protected by reasonable secrecy precautions"); *see also* Lemley, *supra* note 9, at 348–49 ("The benefit of trade secret law is that it *reduces* investment in secrecy compared to what would happen absent that law. So there is no reason we should want to establish a minimum investment level as an end in itself.").

105. *See supra* Part I.B.4.

106. *See, e.g.*, Franke v. Wiltschek, 209 F.2d 493, 495 (2d Cir. 1953) ("It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiff's publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiff's detriment.").

107. *See, e.g.*, Lemley, *supra* note 9, at 343 ("[Such an approach] risks turning trade secrets from a well-defined legal right that serves the broader purposes of IP law into a standardless, free-roaming

C. Existing Efforts to Explain the RSP Requirement

When evaluating the RSP requirement, many courts exhibit confusion or disinterest about the purpose of the requirement and its relationship to the underlying goals of trade secret law.[108] A few courts and commentators have, however, offered various explanations for the RSP requirement. What follows is a critical examination of existing explanations for the RSP requirement.

1. Evidence of Value and Secrecy

Some courts and commentators suggest that the RSP requirement exists because a plaintiff's secrecy precautions are circumstantial evidence of other elements of a trade secret claim—like the information's independent economic value. The assumption here is that a firm would not spend money to guard the secrecy of worthless information. As Judge Posner observed in *Rockwell Graphics System v. DEV Industries*, the "information . . . cannot have been worth much if [the plaintiff] did not think it worthwhile to make serious efforts to keep the information secret."[109] However, the plaintiff's willingness to bring suit and incur litigation costs would seem to serve this same evidentiary purpose.[110] And if a plaintiff's secrecy efforts are just circumstantial evidence of economic value, then why make RSP an independent requirement?

Similarly, some commentators suggest the RSP requirement exists because a plaintiff's secrecy efforts are circumstantial evidence of the information's secrecy—that the information is not generally known or readily ascertainable. The assumption here is that a firm would not expend resources to protect such publicly available information.[111] However, in practice, "companies regularly label as secret lots of things that clearly are not secret."[112] And where secrecy of the information is

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right to sue competitors for business conduct that courts or juries might be persuaded to deem objectionable."); *see* Sharon K. Sandeen, *Relative Privacy: What Privacy Advocates Can Learn from Trade Secret Law*, 2006 Mich. St. L. Rev. 667, 702 (2006) ("[T]rade secret law, prior to the UTSA, arguably overemphasized relationships . . . .").

108. *See* Bone, *supra* note 82, at 58–59 ("Most judges simply apply the RSP requirement without making any effort to justify it on general grounds.").

109. Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).

110. *See, e.g.*, Kitch, *supra* note 97, at 697–98 ("The problem with [the precautions-as-proxy-for value] argument is that the plaintiff apparently thinks the secret has value, for he is willing to invest in the litigation."); Chiappetta, *supra* note 49, at 120 (suggesting similarly that a plaintiff's filing of a trade secret claim is evidence of its value).

111. *See, e.g.*, Kitch, *supra* note 97, at 697 ("Perhaps what the courts require in trade secret cases is that the firm have made sufficient expenditure so that there is a reasonable probability that the secrets are in fact secret."); Merges et al., *supra* note 20, at 53 ("After all, if something is not a secret, there would not seem to be any point to protecting it. And the fact that an idea is well protected may be evidence that it is in fact a secret.").

112. Lemley, *supra* note 9, at 349.

provable in other ways, this explanation also fails to account for imposing an independent RSP requirement that applies in every case.[113]

2. Evidence of Misappropriation

Some commentators explain the RSP requirement as providing evidence of the defendant's wrongful acquisition of the information—the defendant's "misappropriation."[114] As Judge Posner observed in *Rockwell Graphics System*, "[t]he greater the precautions" the trade secret owner took, "the higher the probability that [the defendant] obtained [the information] through a wrongful act."[115] Again, the problem with this evidentiary explanation is that it fails to explain why RSP is an independent requirement that has to be satisfied in every case. For example, in some cases, the defendant's misappropriation is admitted or clear-cut. At most, this evidentiary explanation counsels that RSP should be a factor in establishing the misappropriation element.

Doug Lichtman offers a slight variation of this explanation. He observes that tangible property violations do not require this type of self-help evidence to indicate a defendant's misconduct because "there will typically be reliable, physical evidence" of a bad act.[116] For this reason, he suggests that the RSP requirement can help exclude from protection those misappropriation cases that are "prone to evidentiary complexity."[117] The problem with this argument is that the RSP inquiry is itself often quite complex. Rarely is it resolved on summary judgment.[118] Thus, far from reducing evidentiary complexity, the RSP requirement substitutes one kind of evidentiary complexity for another.

3. Analogizing to Contributory Negligence

A few scholars have pointed to the efficiency benefits of the RSP requirement, analogizing it to tort law's contributory negligence

113. *See, e.g.*, Bone, *supra* note 82, at 16 ("[T]he fact that a particular type of evidence helps prove a point is no reason to require that evidence when the point can be proved in other ways."); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g, at 435–46 (1995) (observing that while "[p]recautions taken to maintain the secrecy of information are relevant in determining whether the information qualifies for protection as a trade secret[,]" "if the value and secrecy of the information are clear, evidence of the specific precautions taken by the trade secret owner may be unnecessary.").

114. *See, e.g.*, MERGES ET AL., *supra* note 20, at 56–57; Lichtman, *supra* note 67, at 229–30.

115. Rockwell Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).

116. *See* Lichtman, *supra* note 67, at 227–28.

117. *Id.* ("[B]y requiring precautions, trade secret law removes from contention a category of cases where circumstantial evidence would not be available as a starting point for the analysis. The law might reasonably conclude that the costs of legal intervention in these precarious cases exceed any expected benefits."). This is part of a broader argument Lichtman also applies to copyright law, "that many legal doctrines can and should exclude from protection cases that are prone to evidentiary complexity[.]" *Id.* at 228 n.37 (citing Douglas Lichtman, *Copyright as a Rule of Evidence*, 52 DUKE L.J. 683 (2003)).

118. *See, e.g.*, *Rockwell Graphics Sys., Inc.*, 925 F.2d at 179 ("[O]nly in an extreme case can what is a 'reasonable' precaution be determined on a motion for summary judgment, ...").

doctrine.[119] Under contributory negligence principles, a tort plaintiff is barred from recovery where her own negligence has contributed to the harm.[120] The justification for such a rule in tort law is that accident victims might not take precautions, even when it is efficient to do so. In such cases, the law will "encourage self-help, as the private incentive to engage in self-help does not necessarily well reflect the social payoffs."[121]

However, this explanation has less force in the trade secret context, where many private parties might take precautions even if the law did not require it.[122] In general, "most legal rules do not require self-help as a precondition to formal legal process [because] . . . the private incentive to engage in self-help is in most cases already sufficiently strong."[123] Proponents of the contributory negligence explanation are unable to show that absent such a rule, firms would not take precautions to guard the confidentiality of information.

Moreover, the contributory negligence analogy seems particularly misplaced in competitive intelligence gathering cases, where strangers use improper means to steal secrets. Notably, there is no contributory negligence doctrine for intentional torts.[124] If someone steals my purse while I am bending down to tie my shoe, it is no defense that I was being inattentive to my purse. As Landes and Posner observe:

> In the case of the appropriation of a trade secret by theft . . . not only would self-protection by potential victims involve heavy expenditures, but the cost to the potential injurer of committing an intentional tort . . . is actually negative, since real resources are consumed in the measures taken to accomplish the theft.[125]

4. Notifying Potential Misappropriators

Perhaps the most compelling explanation put forward thus far to justify the RSP requirement is that it gives potential defendants ex ante notice that information is being claimed as a trade secret and thus helps

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119. *See, e.g.*, Rowe, *supra* note 2, at 26 (drawing on contributory negligence principles to argue that "where the trade secret plaintiff is in the best position to decide whether to risk being injured . . . it seems sensible to allocate the burden of that choice to the plaintiff."); Risch, *supra* note 55, at 47.

120. *See generally* RESTATEMENT (SECOND) OF TORTS § 463 (AM. LAW INST. 1965).

121. Lichtman, *supra* note 67, at 228 ("In tort law, for example, there is some question over whether accident victims would, if left to their own devices, take adequate precautions; and thus in many states rules of comparative and contributory negligence operate to reduce or eliminate damage awards in instances where the victim is himself at least partly to blame.").

122. *See id.* ("No sense in hiring a lawyer when a simple fence will do! Given that, it seems relatively unconvincing to say that trade secret law requires reasonable precautions as a way of encouraging parties to take them.").

123. *Id.* at 229.

124. WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 368 (2003).

125. *Id.* at 369.

prevent inadvertent misappropriation.[126] Since trade secrets are information and not a visible piece of tangible property, like a purse, third parties need some kind of notice that information is proprietary. Lots of information passes through firms, not all of which firms want to keep secret.[127]

This notice explanation has received fairly cursory treatment in the judicial and scholarly literature.[128] Commentators invoking the notice rationale have not examined it comprehensively or explained how it advances the policy goals animating trade secret law. Nor have they considered reforms to courts' RSP analysis that would further the goal of improving ex ante notice. As a result, the notice rationale has failed to gain traction or trigger needed reforms.[129] This Article aims to fill that substantial gap in the literature. Part III explores this notice justification for the RSP requirement within the broader context of acquisition requirements in tangible property and intellectual property.

III. UNDERSTANDING RSP THROUGH THE LENS OF "POSSESSION"

A. COMPARING TANGIBLE "THINGS" AND INTANGIBLE INFORMATION

For both tangible and intangible resources, the law must provide rules of acquisition.[130] That is, what steps must a person follow to acquire a previously un-owned resource, to obtain the legal right to exclude others from that resource? The choice of optimal acquisition rules will differ depending on the nature of the underlying resource.[131] Indeed, there are significant differences between the subject matter of traditional property law and intellectual property law. For the most part, traditional property law is concerned with tangible objects—"things" with physical dimensions, like land and chattels.

By contrast, intellectual property law is concerned with informational goods. Information may be embodied in tangible objects, such as a newly invented machine or a story contained within the pages of a tangible book. But the boundaries of an intellectual property

126. *See, e.g.*, BondPro Corp. v. Siemens Power Generation, Inc., 463 F.3d 702, 708 (7th Cir. 2006); Omega Optical, Inc. v. Chroma Tech. Corp., 800 A.2d 1064, 1066–68 (Vt. 2002); Chiappetta, *supra* note 49, at 101–02; Risch, *supra* note 55, at 44–47.

127. *See* LANDES & POSNER, *supra* note 124, at 368.

128. *See* sources cited *supra* note 126.

129. *See A New Look at Trade Secret Law*, *supra* note 9, at 19 (critiquing notice theory proponents for failing to "appreciate its relatively weak implications").

130. *See, e.g.*, Richard A. Epstein, Addison C. Harris Lecture, *Intellectual Property: Old Boundaries and New Frontiers*, 76 IND. L.J. 803, 806 (2001) (observing that "three kinds of rules form part of any kind of property system:" rules of acquisition, rules of exclusion (how strong is the right to exclude), and rules of duration).

131. *Id.* at 810–11 (observing that acquisition rules must "respond to the differences in the nature of the underlying property rights").

owner's right to exclude do not map onto a specific object.[132] The patent right, for example, covers more than the single, tangible thing made by the inventor. Instead, a patent owner's right to exclude corresponds to the patent's claims—highly stylized sentences that distill the invention's key inventive features.[133] The patent right prohibits others from making, using, or selling not just exact replicas of what the inventor actually built, but a range of embodiments that fall within the claim's parameters.[134]

Similarly, in copyright, the claimant creates a specific work such as a novel or painting. Copyright law not only prohibits others from reproducing this exact thing, but also works that are "substantially similar" to it.[135] In this way, a copyright protects an unknown set of works that are substantially similar to the original work. Likewise, the boundaries of a trade secret are fuzzy, as protection extends to "substantial derivations" from trade secret protected information. Somewhat akin to copyright's "substantial similarity" inquiry, trade secret law's "substantial derivation" test assesses whether "the contribution of the claimed trade secret to the [defendant's] end result is relatively trivial, such that the defendant can be said to have acted independently."[136]

Given the inherent differences between tangible property and information, some intellectual property scholars have criticized using property metaphors and doctrines in the intellectual property sphere.[137] Insofar as intellectual property scholars have looked to property law for comparison or guidance, it has usually been in the "post-grant" context—for example, how property law adjusts owners' rights to exclude after the initial grant of property has been made.[138] This Part,

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132. *See, e.g.*, ROBERT P. MERGES, JUSTIFYING INTELLECTUAL PROPERTY 59 (2011) ("The way IP law operates, the creator of the work will almost always be able to obtain a property right that extends beyond the original embodiment of the work.").

133. *See, e.g.*, Tun-Jen Chiang & Lawrence B. Solum, *The Interpretation-Construction Distinction in Patent Law*, 123 YALE L.J. 530, 539–40 (2013) (describing the outsized role of patent claims in delineating the boundaries of the patent right to exclude).

134. 35 U.S.C. § 271 (2012).

135. MERGES ET AL., *supra* note 20, at 537.

136. POOLEY, *supra* note 33, at 6–31; Varadarajan, *supra* note 61, at 1432–33 (describing and critiquing applications of the substantial derivation test).

137. *See, e.g.*, Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1031 (2005); *see also* Henry E. Smith, *Intellectual Property as Property: Delineating Entitlements in Information*, 116 YALE L.J. 1742, 1756–57 (2007) (describing, but not agreeing with, the sentiment).

138. *See, e.g.*, MERGES, *supra* note 132. Responding to critics of the intellectual property-property comparison, Robert Merges observes: "Attending to the crucial postgrant stage in the life of a typical property right reveals all sorts of ways that the supposedly exclusive right of property is actually bound up with various forms of inclusion." *Id.* at 295. Other intellectual property scholars have highlighted ways in which traditional property law balances the exclusionary rights of owners against competing equity and efficiency concerns in various contexts. Borrowing from the insights of traditional property law and scholarship, these scholars question the simplistic characterization of traditional property law as fixated on exclusion—a characterization that advocates of unfettered intellectual property rights to exclude, as well as many courts, have historically emphasized. *See, e.g.*, Deepa Varadarajan, *Improvement Doctrines*, 21 GEO. MASON L. REV. 657 (2014); Michael A. Carrier, *Cabining Intellectual Property Through*

however, demonstrates that traditional property law's "pre-grant" or acquisition context can also be a rich source of comparison. The property acquisition lens is particularly useful for trade secret law, which lacks a formal acquisition process akin to patent law.[139] In the Subparts that follow, I consider traditional property law's doctrine of possession, normative explanations of its significance, and its particular relevance for understanding and refining trade secret law's RSP requirement.

B. "Possession" as a Gateway to Property Ownership

In common law, "possession" has long been the "root" or origin of title to tangible resources.[140] Through acts of "possession," un-owned things come to be owned. In a first-year property law class, the doctrine of first possession is illustrated through colorful cases involving fugitive resources that can escape and move around—like wild animals, oil, gas, and groundwater. With the advent of title recordation and land registries, possession is less important to the land acquisition context than it once was—though its importance persists in cases of adverse possession.[141] For chattels, however, possession has played a more significant role in establishing ownership of un-owned things.

In perhaps the most famous first possession case, *Pierson v. Post*,[142] a New York court had to choose between two competing hunters, both claiming ownership rights in a wild fox. The court majority held that lawful possession of a wild animal ("animals *ferae naturae*") required both intent to possess and "certain control" over it, through affirmative acts like mortally wounding or ensnaring it or otherwise "render[ing] escape impossible."[143] Nineteenth century courts applied similar possession concepts of control and dominion to other kinds of fugitive resources, like oil, gas, and groundwater.[144]

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a Property Paradigm, 54 Duke L.J. 1, 47–48 (2004); Peter Lee, *The Accession Insight and Patent Infringement Remedies*, 110 Mich. L. Rev. 175, 193 (2011); Molly Shaffer Van Houweling, *The New Servitudes*, 96 Geo. L.J. 885 (2008).

139. *See supra* text accompanying note 61.

140. *See, e.g.*, Rose, *supra* note 17, at 74; Abraham Bell, *Title in the Shadow of Possession*, *in* Law and Economics of Possession 320 (Yun-chien Chang ed., 2015). Possession plays other important roles in property law. For example, property law recognizes certain "lesser" rights of possessors, even where there are formal title owners. Tenants, for example, can maintain suits to repel trespassers, and finders of chattels can recover possession from later finders. Possession also has important evidentiary functions, for example, in the context of gifts, where the failure to transfer possession of a chattel renders the gift invalid. In such cases, possession is "treated as more reliable evidence of the true state of title in the asset than an otherwise valid document attesting to ownership of a nonpossessor." *Id.* at 321–22.

141. *See* Thomas W. Merrill, *Ownership and Possession*, *in* Law and Economics of Possession, *supra* note 140, at 36.

142. Pierson v. Post, 3 Cai. R. 175, 176 (N.Y. 1805).

143. *Id.* at 178.

144. *See, e.g.*, Westmoreland & Cambria Nat. Gas Co. v. DeWitt, 18 A. 724, 725 (Pa. 1889) ("Water and oil, and . . . gas, may be classed . . . as minerals *feroe naturoe.* In common with animals, . . . they have

Interestingly, some nineteenth century courts applied similar possession concepts of control and dominion to trade secret cases.[145] For example, in *Bristol v. Equitable Life Assurance Society*, a New York court denied the plaintiff's claim to a trade secret in "a new system for soliciting life insurance," observing:

> Ideas of this sort, in their relation to property, may be likened to the interest which a person may obtain in bees and birds, and fish in running streams, which are conspicuous instances ferae naturae. If the claimant keeps them on his own premises, they become his qualified property, and absolutely his so long as they do not escape; but if he permits them to go he cannot follow them.[146]

To these courts, intangible information was another kind of fugitive resource, capable of escaping without an owner's volition. Trade secret plaintiffs were expected to engage in reasonable efforts to prevent the unwanted escape of valuable information—to demonstrate control or dominion over information claimed as protectable trade secrets.[147]

C. Understanding the Broader Lessons of Possession: Notice, Audience, and Information Costs

These nineteenth century applications of possession concepts to trade secret cases are illuminating as a descriptive matter. The real value of possession law and scholarship, however, is in understanding *why*

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the power and the tendency to escape . . . . They belong to the owner of the land, . . . so long as they are on or in it, and are subject to his control; but when they escape, and go into other land, or come under another's control, the title of the former owner is gone."). In the oil and gas contexts, the control rule of possession lasted in its pure form for a few decades, but then courts and legislatures began modifying it to prevent wasteful activities and means of capture that injured the common source of supply.

145. *See* Bone, *supra* note 82, at 50–52 (describing the importance of possession concepts to early trade secret cases).

146. Bristol v. Equitable Life Assur. Soc'y of the U.S., 5 N.Y.S. 131, 132–33 (1889). Late nineteenth century patent treatises also invoked possession concepts and exclusive control in the ownership of ideas. *See, e.g.*, 1 William C. Robinson, The Law of Patents for Useful Inventions 38 (1890) ("Whether we regard the knowledge, remaining for the present in the exclusive control of him whose intellectual production it is, as property, or as possession of ideas, to which some other term might be more appropriate, it is still a possession, of which the owner cannot by any rule of natural justice be deprived without his consent. In this view it may, as seems to me, justly be termed property."); *see* Timothy R. Holbrook, *Patent Anticipation and Obviousness as Possession*, 65 Emory L.J. 987, 989 (2016) ("Early patent treatises, taking a more natural rights perspective, specifically linked the invention and possession.").

147. *See, e.g.*, *Bristol*, 5 N.Y.S. at 132–33; Bristol v. The Equitable Life Assur. Soc'y, 30 N.E. 506, 507 (N.Y. 1892) ("Without denying that there may be property in an idea, or trade secret or system, it is obvious that its originator or proprietor must himself protect it from escape or disclosure."); Haskins v. Ryan, 64 A. 436, 438 (N.J. Super. Ct. Ch. Div. 1906) ("A right is defined to be that interest which a person actually has in any subject of property, entitling him to hold or convey it at pleasure. But that can hardly be styled 'property,' over which there is not some sort of dominium."); McClary v. Hubbard, 122 A. 469, 472 (Vt. 1923) ("[I]f a trade secret be claimed, it devolves upon the originator or owners himself to protect it from disclosure or publication."); *see also* Bone, *supra* note 82, at 7 (arguing that in the late nineteenth and early twentieth centuries, "property theory placed precautions at the core of trade secret law").

affirmative acts of possession play such a prominent role in assigning ownership over tangible resources.[148] To this end, Carol Rose's normative theory of possession has been particularly influential. She emphasizes the notice or signaling function of possession.[149] Possession is justified as the root of ownership because it "amount[s] to something like yelling loudly enough to all who may be interested" in making a claim.[150] Possession rewards the "useful labor . . . of speaking clearly and distinctly about one's claims to property."[151] And clear communication or notice about one's claim to property is important because it helps facilitate trade, minimizes conflict over resources, and prevents wasted labor by others.[152]

What acts suffice to demonstrate possession of tangible property? Intent alone will not do. Because of the notice or signaling function of possession, the claimant must engage in affirmative, observable acts with regard to the resource.[153] Some possession cases like *Pierson* emphasize certain physical control over a thing[154] or continuous exclusion of others from a thing. But other cases, like *Haslem v. Lockwood*,[155] suggest different signals may suffice.[156] In *Haslem*, for example, the plaintiff had scraped abandoned manure droppings (quite valuable to farmers at the time) off the road, arranged them into piles, and set the piles by the roadside to pick up later.[157] Before the plaintiff returned, the defendant

148. Robert Bone has argued that possession has little relevance to the RSP requirement in modern times because the classification of trade secrets decisively shifted from property to tort-based concepts in the early twentieth century. Bone, *supra* note 82, at 52–53. While the Supreme Court did endorse a "tort-view" of trade secret law in its early twentieth century decision, *E. I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917), its more recent decision in *Ruckelshaus v. Monsanto, Co.*, 467 U.S. 986, 1002–03 (1984), describes trade secrets as "property." Indeed, the property conception of trade secrets has significant force in modern times. *See, e.g.*, MILGRIM, *supra* note 47, at 1-73–1-98 (listing cases describing trade secrets as property); Adam Cohen, *Securing Trade Secrets in the Information Age: Upgrading the Economic Espionage Act After* United States v. Aleynikov, 30 YALE J. ON REG. 189, 195 (2013) (observing that the tort-based view of trade secrets "went into retreat and the law looped back toward a property-based theory"). Even if the conception of trade secrets has shifted at various points in time (from property to tort and back again), this Part demonstrates that possession scholarship can nonetheless illuminate our understanding of the RSP requirement.

149. *See* Rose, *supra* note 17; Bell, *supra* note 140, at 320 ("Carol Rose (1985), by contrast, argued that first possession serves as a proxy for the dissemination of information about property claims, and thereby plays a key role in ensuring that claims of title are well known and clear.").

150. Rose, *supra* note 17, at 81.

151. *Id.* at 82.

152. *Id.* at 81–82.

153. Carol M. Rose, *The Law Is Nine-Tenths of Possession: An Adage Turned on Its Head*, *in* LAW AND ECONOMICS OF POSSESSION, *supra* note 140, at 50 ("[L]egal possession consists of signals").

154. Merrill, *supra* note 141, at 27 ("In ascertaining whether some object is possessed, we rely on physical cues that tell us whether some person has brought the object under control and intends to maintain control to the exclusion of others.").

155. Haslem v. Lockwood, 37 Conn. 500 (1871).

156. *See* Rose, *supra* note 153, at 49–51; Henry E. Smith, *The Elements of Possession*, LAW AND ECONOMICS OF POSSESSION, *supra* note 140, at 73–74 (observing that "some forms of marking may happen without a high degree of control").

157. *Haslem*, 37 Conn. at 503.

had taken the piles of manure. The court found for the plaintiff, apparently viewing the piling of manure as a sufficient signal of ownership.[158]

In analyzing how courts gauge acts of possession, property scholars have emphasized the relationship between notice, a relevant audience, and that audience's ability to process the claimant's signals of possession. Since possession is an act of communication, the claimant's acts "must be in a language that is understood."[159] What is understood will "vary according to the audience."[160] Thus, in assessing possession, courts make judgments about the relevant audience—"which set of other people should be the target audience for the signal."[161]

For example, in the famous *Pierson* fox case, the majority and dissent implicitly disagreed about the target audience. Post had been pursuing a fox with a pack of hounds when Pierson suddenly appeared, killed the fox, and ran off with it.[162] In assessing which claimant's acts sufficed to establish possession of the wild animal, the *Pierson* majority adopted the "certain control" test over the dissent's favored "hot pursuit" test.[163] According to the majority, since Pierson established certain physical control over the fox before Post, he was the rightful owner. The majority and dissent were really arguing about the relevant audience for the possession rule. The dissenting judge viewed hunters as the relevant audience, for "they are the only ones who have regular contact with the subject matter."[164] To hunters, hot pursuit was the customary signal to keep off. The majority opted for a wider audience, however, encompassing non-hunters as well, who would not understand this custom and needed a clearer signal, like certain physical control over the animal.[165]

Henry Smith highlights this relationship between notice, audience, and information-processing costs in possession doctrine.[166] He observes that the "certain control" rule adopted in cases like *Pierson* makes sense for "a larger and more anonymous audience, whereas the hot-pursuit rule, with its greater detail, is more appropriate to a small group"—like a community of hunters.[167] Generally, the specialized group "has more at

158. *Id.* at 506.
159. Rose, *supra* note 17, at 82.
160. *Id.*
161. Rose, *supra* note 153, at 52.
162. Pierson v. Post, 3 Cai. R. 175 (N.Y. 1805).
163. *Id.* at 178, 182.
164. Rose, *supra* note 17, at 82.
165. *Id.*
166. Henry E. Smith, *The Language of Property: Form, Context, and Audience*, 55 STAN. L. REV. 1105, 1115–25 (2003); *see also* Thomas W. Merrill, *Accession and Original Ownership*, 1 J. LEGAL ANALYSIS 459, 476 (2009) (emphasizing information cost concerns in a system of establishing property rights).
167. Smith, *supra* note 166, at 1118.

stake, and processing more detail is both easier and more worthwhile for them than for the average member of a general audience."[168] In cases involving first possession of whales, for example, courts eschewed *Pierson*'s "certain control" rule and defined acts of possession with smaller, more specialized audiences in mind.[169] In those cases, courts often deferred to informal norms about the meaning of possession to that audience.[170] Thus, courts did not impose a certain control rule for possession in every resource context so long as the claimant's signals provided sufficient notice to the relevant audience.

Assessing possession cases in a variety of tangible property contexts, Rose has also emphasized the importance of both "marking" and "use" of a resource in signaling possession to a relevant audience. That is, possession requires "whatever set of acts people expect owners to take"—in other words, "*acting like an owner*."[171] Not only is a person claiming ownership through first possession "expected to mark out the object so that relevant others will know that he or she is claiming it as property,"[172] but the claimant "is expected to go forward by actually doing something with it."[173] Otherwise the claimant will not be recognized as having possessed the resource, for she is not behaving like a normal owner.[174]

To summarize, the notice or signalizing function of possession is paramount in common law's rule of tangible property acquisition.[175] Effective notice is necessarily audience specific and attuned to information cost concerns. And in many possession cases, sufficient notice requires both a recognizable marking and use of the resource.

D. Notice, Audience, and Information Costs in Trade Secret Law

Property law's possession doctrine provides a useful lens for evaluating modern trade secret law. The primary purpose of the RSP requirement—like that of possession more broadly—is to notify a relevant audience about a proprietary claim. However, a possession or notice-based theory for the RSP requirement must address important

168. *Id.*

169. *See, e.g.*, Ghen v. Rich, 8 F. 159, 159–60 (Mass. Dist. Ct. 1881).

170. Smith, *supra* note 166, at 1119–21; *see* Rose, *supra* note 17, at 82–83 ("[M]id-nineteenth-century California courts gave much deference to the mining-camp customs in adjudicating various Gold Rush claims; . . . . [C]ourts expended a considerable amount of mental energy in finding signs of 'possession' that were comprehensible to whalers from their own customs and that at the same time came early enough in the chase to allow the parties to avoid wasted efforts and the ensuing mutual recriminations.").

171. Rose, *supra* note 153, at 49.

172. *Id.* at 53.

173. *Id.*

174. *Id.* ("People will not realize that he or she is continuing to claim ownership and hence they cannot be blamed for failing to credit the claims, or for thinking that perhaps he or she did not mean to claim the property in the first place.").

175. *Cf.* Bell, *supra* note 140, at 320.

differences between tangible property and informational goods. Tangible property has observable dimensions and boundaries; informational goods often do not.[176] In *Pierson,* for example, we worry whether the claimant's acts sufficiently notify a relevant audience about his claim to the fox. We do not worry, however, about the audience's ability to comprehend the qualities and boundaries of the thing being claimed. The thing claimed is the fox; its qualities and boundaries are easily observed and comprehended. Most human beings have accumulated a lifetime of shared understandings about what a fox is.

Intellectual goods, however, often have not "accumulated a patina of social meaning that reduces information costs for observers."[177] In general, observers will have a harder time figuring out the boundaries and qualitative aspects of an intellectual good—like a mechanical process—than a fox. Thus, information costs play a more significant role in intellectual property than in tangible property law.[178] Because of this difference, notifying observers about the existence and boundaries of intellectual property rights is particularly important.[179] Here, as in tangible property law, ambiguous notice about property claims can invite conflict, insecurity, and wasted labor by others.

Notice concerns loom especially large in the intellectual property context, given the focus on innovation incentives.[180] Innovation is often cumulative—innovators build on existing inventions and creative works.[181] If observers cannot discern the boundaries of patented inventions, copyrighted works, and trade secret protected information, then they may be overly cautious in their inventive and creative endeavors for fear of inviting litigation. Thus, the extent to which intellectual property laws impose ex ante notice obligations on owners impacts observers' incentives to engage in follow-on innovation.[182] In trade secret law, these concerns take on an additional dimension because insufficient notice about the boundaries of trade secrets can impact employee mobility and freedom. If employees cannot discern the boundaries of trade secret-protected information ex ante, they may be

176. *See supra* Part III.A.

177. Clarisa Long, *Information Costs in Patent and Copyright*, 90 VA. L. REV. 465, 483 (2004).

178. Peter S. Menell & Michael J. Meurer, *Notice Failure and Notice Externalities*, 5 J. LEGAL ANALYSIS 1 (2013). *See* Long, *supra* note 177, at 483.

179. Jeanne C. Fromer, *Claiming Intellectual Property*, 76 U. CHI. L. REV. 719, 761 (2009) ("Clear content notice" about the "set of embodiments protected by the intellectual property right" is "valuable so that the public can avoid improper use of the set's members without permission and can, concomitantly, understand what is free for the taking, thereby furthering innovation.").

180. *See supra* Part I.B.1.

181. *See generally* Varadarajan, *supra* note 138, at 663–64 (describing the dynamics of cumulative innovation).

182. *See* Fromer, *supra* note 179, at 731 (describing the relationship between patent's ex ante claiming requirements and the goal of stimulating innovation).

overly cautious to move jobs and start new entrepreneurial endeavors, taking their existing skills and knowledge with them.[183]

Within intellectual property, patent's rigorous ex ante notice requirements are often compared to copyright's lack thereof.[184] To get a patent, an applicant must explicitly "claim" the boundaries of the invention and provide a detailed description of how to make and use the invention so others in the field can learn from it.[185] If a patent right is granted, the patent is published, and in many cases, the patent application itself is published within eighteen months.[186] Copyright law, by contrast, does not require an application, boundary "claiming," or publication as a condition of acquiring a copyright.[187] To get copyright protection, one need only create an "original [work] of authorship"—that is, not copy someone else's work—and fix that work in a "tangible medium of expression."[188] Courts determine the boundaries of that copyright—the set of "substantially similar" works—ex post, in case-by-case infringement litigation.

Clarisa Long has defended this stark difference between patent and copyright acquisition regimes in terms of information costs. She emphasizes the different audiences for patents and copyrights. The average observer of patented goods "has a greater knowledge of the field and a higher tolerance of information costs than the average observer of copyrighted goods."[189] By contrast, copyrighted goods are ubiquitous and impact many observers who "will not be interested in learning detailed information about the good most of the time."[190] Long also distinguishes patent's technical subject matter from copyright's creative subject matter. The attributes of copyrighted works are often subjective and cannot be easily reduced to "readily verifiable and objective attributes."[191] Thus, requiring putative copyright owners to define the boundaries and attributes of their works ex ante would be very costly and unlikely to

183. *See supra* text accompanying notes 75–81.

184. Long, *supra* note 177, at 500–01; *see, e.g.*, Fromer, *supra* note 179, at 749–50.

185. 35 U.S.C. § 112.

186. *Id.* § 122.

187. Fromer, *supra* note 179, at 719 (offering a useful typology for describing the different "claiming" systems of patent and copyright: "Patent law has principally adopted a system of peripheral claiming, requiring patentees to articulate by the time of the patent grant their invention's bounds, usually by listing its necessary and sufficient characteristics. And copyright law has implicitly adopted a system of central claiming by exemplar, requiring the articulation only of a prototypical member of the set of protected works—namely, the copyrightable work itself fixed in a tangible form. Copyright protection then extends beyond the exemplar to substantially similar works, a set of works to be enumerated only down the road in case-by-case infringement litigation.").

188. 17 U.S.C. § 102(a) (2016).

189. Long, *supra* note 177, at 503.

190. *Id.*

191. *Id.* at 509 ("It will often be difficult for creators to describe the creative expression contained in their intellectual good in terms less complex than those of the good itself.").

outweigh the information cost benefits to observers. By contrast, making putative patent owners disclose information about the boundaries and attributes of claimed goods ex ante is more likely to have net benefits.[192]

Jeanne Fromer has also analyzed the disparate claiming requirements of patent and copyright. She worries that copyright's anemic ex ante notice requirements lead "risk-averse third parties either to take licenses even as to works not protected by copyright or to avoid them completely, a situation that grants too heavy a copyright reward at the expense of generating further creativity."[193] Yet ultimately, Fromer too expresses doubt that copyright could move closer to patent's ex ante notice requirements without triggering First Amendment concerns and other concerns unique to copyright's creative subject matter.[194]

Intellectual property commentators have largely ignored trade secret law in this comparative exercise. Trade secret law imposes no ex ante notice or claiming requirements as a condition of acquiring the right to exclude. Thus, like copyright, trade secret forces observers to do most of the work in determining the boundaries and attributes of the protected subject matter. The ubiquity of copyrighted works, their subjective attributes, and the nature of copyright audiences caution against increasing copyright owners' ex ante notice obligations.[195] The same cannot be said of trade secrets, however. As discussed in the next Part, the relevant audience for trade secrets is more specialized and capable of absorbing greater detail about the boundaries and attributes or protected goods.[196] Moreover, unlike copyrightable works that are subjective and hard to describe, trade secret subject matter is largely technical and non-subjective. Thus, trade secret law lacks some of copyright's impediments to shifting information costs away from observers and onto trade secret owners.

Which brings us back to the question of *how*: How should trade secret law impose greater ex ante notice obligations on putative owners? Introducing a full-blown, peripheral claiming requirement for trade secrets

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192. *Id.* at 503 ("We would expect legal rules to force disclosure of greater and more detailed information, and correspondingly to increase duties of avoidance, when the class of goods is small (because the goods are hard to create), when the goods affect fewer observers, those observers have greater tolerance for incurring the costs of understanding the good, and when the disclosed information is objective and readily verifiable. This is indeed what we see with the patent form.").

193. Fromer, *supra* note 179, at 723.

194. *Id.* at 723–24 ("[I]t might seem far more productive to require or provide significant incentive to copyright claimants ex ante to claim their works centrally by characteristic. . . . On the other hand, aspects integral to the copyright system—including its fine line between protecting expression but not ideas, grounded in the First Amendment; societal views on describing the artistic works copyright protects; and the ease of creating copyrightable works—give significant pause to any notion of adopting central claiming by characteristic in copyright.").

195. In an earlier era, the U.S. copyright system did impose greater ex ante notice obligations on putative copyright owners. *See* MERGES ET AL., *supra* note 20.

196. *See infra* Part IV.A.

akin to patent would likely require legislative action and the creation of an expensive federal apparatus like the Patent and Trademark Office ("PTO").[197] Such a fundamental overhaul of our current trade secret system is unlikely—though it may merit additional study and cost-benefit analysis that is beyond the scope of this Article.[198] I would also note that patent law's peripheral claiming system has triggered various concerns—much discussed in the patent literature.[199] Thus, even beyond the practical constraints, there are reasons to be wary of importing patent claiming requirements wholesale into the trade secret context. But the ex ante notice obligations of putative trade secret owners can nonetheless be strengthened. This Article argues that the RSP requirement is best situated to serve this purpose—though in its present incarnation, it often falls short. In Part IV that follows, I suggest reforms to the RSP analysis that can be adopted by courts without legislative action.

IV. Evaluating Doctrinal Reforms to RSP Analysis

Understanding the RSP requirement through the lens of possession and information costs has several implications for policy. In the first place, articulating a strong theoretical basis for the RSP requirement helps placate criticisms of having the requirement at all. The primary purpose of the RSP requirement—like that of possession more broadly—is to notify a relevant audience about the existence and boundaries of a proprietary claim and thus reduce information costs for that audience. The Subparts that follow discuss how this possession or notice-view of the RSP requirement can inform practice.

A. Notice and Choice of Audience

The possession or notice-view of RSP highlights the issue of relevant audience. What is the relevant audience for a firm's reasonable

197. As many commentators have observed, the PTO is an overburdened and underfunded institution with a large backlog of patent applications. *See* Mark A. Lemley, Essay, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. Rev. 1495, 1495–97 (2001).

198. While one commentator has suggested the creation of a central trade secret registry, she argues it should not be a replacement method for acquiring trade secrets. *See* Chagai Vinizky, *Trade Secrets Registry*, 35 Pace L. Rev. 455, 491–92 (2014) ("[O]peration of the [proposed] registry should not change the process of creating the right as it exists at present. . . . the proposed registry does not operate as a registry of rights but strictly as a registry of transactions."). Moreover, industry fears regarding hacking and cyber-espionage would likely affect the willingness of parties to submit confidential information to a voluntary registry.

199. *See, e.g.*, James Bessen & Michael J. Meurer, Patent Failure: How Judges, Bureaucrats, and Lawyers Put Innovators at Risk 46 (2008); Dan L. Burk & Mark A. Lemley, *Fence Posts or Sign Posts? Rethinking Patent Claim Construction*, 157 U. Pa. L. Rev. 1743, 1744 (2009) (arguing that the modern claiming system is not working); Tun-Jen Chiang, *Forcing Patent Claims*, 113 Mich. L. Rev. 513, 515 (2015) (assessing the various critiques of claim ambiguity); Fromer, *supra* note 179, at 762 ("[D]espite the assertion that peripheral claims provide clear ex ante content notice to the public, there is a robust stream of criticism undermining this conclusion.").

secrecy precautions? The universe of potential trade secret observers boils down to two basic categories: (1) employees (and other kinds of business partners and collaborators), and (2) stranger/competitors. The two forms of misappropriation—breach of confidence and improper means—correspond to these two audiences.[200] These audiences have markedly different characteristics.

In most cases, the putative trade secret owner has intentionally shared at least some confidential information with an employee or business collaborator.[201] If an employee wants to leave that job and join a new firm or start their own business in a similar line of work, the question for that employee is: What information and knowledge can be taken and safely used in future endeavors? On the other hand, the employer has not intentionally shared any information with the second category of misappropriator: stranger/competitors. This is not to say the two categories are always unconnected, as employees may leave to work for competitors. But the possession literature counsels that the sufficiency of notice is audience specific. The affirmative acts that the law requires of putative owners will likely differ if the relevant audience is the big, wide universe of unknown strangers versus the smaller audience of known employees and collaborators.

Some trade secret cases acknowledge this audience dichotomy. In *Electro-Craft Corp. v. Controlled Motion, Inc.* ("*ECC*"),[202] for example, the court distinguished "physical security measures," like fences, guards, and vaults, designed to "protect[] [ ] information from discovery by outsiders[,]"[203] from "'confidentiality' . . . procedures by which the employer signals to its employees and to others that certain information is secret and should not be disclosed."[204] The court deemed the latter more important because industrial espionage was uncommon in that industry.[205] However, the *ECC* court's explicit recognition of a relevant audience seems more the exception than the rule. The confused and *ad hoc* nature of current RSP

200. *Cf.* Argento, *supra* note 4, at 181 ("The correlation of outsiders with misappropriation by improper means and insiders with misappropriation by breach of confidence is not perfect . . . . Insiders may use their existing access to improperly hack into trade secrets to which they were not granted access . . . .").

201. Of course, the specific information that later becomes the subject of litigation may not have been intentionally shared with the employee or collaborator. For example, an employee who has been informed of one part of a top-secret project may nose around in another. Or the putative trade secret owner may have shared the information for a specific purpose; for example, the trade secret owner may want another entity to manufacture their product. In that case, the owner would share design plans for that purpose and no other.

202. Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983).

203. *Id.* at 902.

204. *Id.* "[P]hysical security measures are one way of signalling to employees that certain information is secret." *Id.* at n.15.

205. *Id.* at 902.

analysis can be attributed in part to courts' failure to evaluate precautionary measures with a specific audience in mind.

The vast majority of civil trade secret cases involve employees and other collaborators. Recent empirical data suggests that close to ninety percent of state civil law cases feature defendants that are employees or other business partners.[206] Given this evidence, the audience of employees and collaborators seems the most relevant one for analyzing the RSP requirement. The sufficiency of an owner's acts should be evaluated with this audience in mind. Thus, contrary to commentators who say courts should ratchet up the RSP requirement to force putative owners to stay ahead of strangers' evolving threats,[207] a possession or notice theory of RSP counsels otherwise.[208]

B. Notice and Trade Secret Boundaries

Another consequence of understanding the RSP requirement as trade secret's possession or notice doctrine is to shift courts' attention away from physical precautions and security measures directed primarily at outsiders.[209] Instead, courts should focus on whether the plaintiff provided meaningful notice to employees and other business collaborators about the boundaries and attributes of the claimed trade secrets. To be sure, many courts already emphasize the owner's use of nondisclosure agreements ("NDAs"). Recent empirical work suggests that courts give NDAs significant weight in the RSP analysis.[210] But the mere existence of NDAs is not enough. For notice to be meaningful,

206. *See, e.g.*, Almeling et al., *supra* note 7, at 69 (finding that in approximately ninety percent of cases, the alleged misappropriator was an employee, former employee, or business partner).

207. *See supra* text accompanying note 16. A few commentators have suggested that fears of cyber-misappropriation in the trade secret context are overblown. *See, e.g.*, Argento, *supra* note 4, at 213 ("Despite the evidence of growing misappropriation of business information through cyber-hacking, cases involving cyber-misappropriation constitute only a small percentage of overall trade secret cases in the courts."). Trade secret owners may be less likely to sue cyber-misappropriators for various reasons, such as the inability to identify misappropriation or the perpetrator and concerns over company reputation. *Id.* at 214.

208. Even absent a heightened RSP requirement, firms may adapt security measures to address potential threats from strangers like hacking and cyber-espionage, out of economic self-interest or to comply with other regulations. For example, the Federal Trade Commission imposes certain obligations on firms to protect the security of consumer provided information and has brought enforcement actions against companies that fail to provide "reasonable" measures to protect the security of consumers' personal data. *See, e.g.*, Daniel J. Solove & Woodrow Hartzog, *The FTC and the New Common Law of Privacy*, 114 Colum. L. Rev. 583, 604 (2014); Fed. Trade Comm'n, Start with Security: A Guide for Business, Lessons Learned from FTC Cases (2015), https://www.ftc.gov/system/files/documents/plain-language/pdf0205-startwithsecurity.pdf.

209. *Cf.* Bone, *supra* note 82, at 63 (observing that "notice does not always require precautions").

210. Almeling et al., *supra* note 7, at 82–83 ("[B]oth the state and federal studies confirm that confidentiality agreements with employees and business partners are the most important factors in the courts' analysis of reasonable measures.").

NDAs should indicate the boundaries of claimed trade secrets, such as the specific subject matter that an employer deems confidential.

Trade secret law does not explicitly require ex ante notice, and many courts fail to scrutinize broad or vaguely worded NDAs in their RSP analysis.[211] In turn, many employers do not provide meaningful notice about trade secret boundaries and may, in fact, engage in purposeful obfuscation about the boundaries of trade secrets. Yuval Feldman observes, for example, that employers' "common wisdom . . . is to be ambiguous about the kinds of information that the departing employees are allowed to take with them."[212] Similarly, Orly Lobel critiques: "[I]t has become standard to include broad and open-ended lists of confidential information that goes beyond the statutory definition of trade secrets."[213] Public information is one such example. The tendency of employers to provide ambiguous or overbroad definitions of proprietary information makes it difficult for an "employee who plans to leave his firm to know ex ante whether a certain behavior is legal or not."[214]

By focusing the RSP inquiry on notice, courts should scrutinize broadly worded NDAs instead of giving them conclusive weight. *ECC* is once again illustrative.[215] In *ECC*, the court found a broadly worded NDA to provide insufficient ex ante notice to employees. Electro-Craft Corporation ("ECC") sued former employees that formed a new company, accusing them of improperly copying ECC's electric motors designs.[216] The Supreme Court of Minnesota held that ECC failed to take reasonable secrecy precautions. Although the four former employees of ECC had all "signed confidentiality agreements when hired by ECC,"[217] the court found those agreements "too vague to apprise the employees of

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211. *See, e.g.*, Loftness Specialized Farm Equip., Inc. v. Twiestmeyer, 742 F.3d 845, 849–51 (8th Cir. 2014).

212. Yuval Feldman, *Experimental Approach to the Study of Normative Failures: Divulging of Trade Secrets by Silicon Valley Employees*, 2003 U. ILL. J.L. TECH. & POL'Y 105, 131 (2003) ("[P]opular legal guides for employers suggest that it is in the best interest of the employer not to create a list of projects that the employee should avoid upon leaving the company"); *see* Charles Tait Graves & James A. DiBoise, *Do Strict Trade Secret and Non-Competition Laws Obstruct Innovation?*, 1 ENTREPRENEURIAL BUS. L.J. 323, 339 (2006) ("[C]ourts do not recognize that plaintiff's trade secret claims are too often created after the fact by attorneys to try to trap a former employee, and not so valuable that the plaintiff had previously recorded them as company intellectual property and guarded them as secret before the employee departed.").

213. Lobel, *supra* note 8, at 810. In some cases, employers strategically bring overlapping claims of trade secret misappropriation and breach of contract. *See, e.g.*, Alan J. Tracey, *The Contract in the Trade Secret Ballroom—A Forgotten Dance Partner*, 16 TEX. INTELL. PROP. L.J. 47, 67–70 (2007); Sharon K. Sandeen, *A Contract by Any Other Name Is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Databases*, 45 IDEA J. LAW & TECH 119, 144–45 (2005).

214. Feldman, *supra* note 212, at 130.

215. Electro-Craft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890 (Minn. 1983).

216. *Id.* at 893.

217. *Id.* at 895 (internal footnote omitted).

s*pecific* 'secrets.'"[218] Nor did ECC use other means to clarify the specific information claimed as trade secrets. As the court observed:

> ECC should have let its employees know in no uncertain terms that those features were secret. Instead, ECC treated its information as if it were not secret. None of its technical documents were marked "Confidential", [sic] and . . . . ECC never issued a policy statement outlining what it considered to be secret.[219]

The *ECC* case is notable for the court's careful scrutiny of whether ECC's measures provided meaningful ex ante notice to employees about the specific secrets the employer was claiming. However, *ECC* is unusual in this regard.[220] Focusing the RSP analysis on whether employers provide meaningful ex ante notice to employees and collaborators about claimed trade secrets "may help ensure that the plaintiff clearly defines what it claims to own" before actual litigation ensues, "rather than (as happens all too often in practice) falling back on vague hand waving."[221]

C. Notice and Use

One of the insights of possession doctrine is the relationship between "use" of the resource and notice. That is, possession generally means acting like a typical owner would, and in the tangible property context, that often means *using* the claimed property.[222] The UTSA does not impose any kind of use requirement as a condition of obtaining trade secret protection. Before the UTSA was promulgated, however, common law required the putative owner to make continuous commercial use of the trade secret as a condition of obtaining trade secret protection. The Restatement of Torts reflects this common law requirement: Section 757 requires that secrets be in "continuous use in the operation of the [claimant's] business."[223] That the drafters of the UTSA chose to exclude this use requirement was a significant change.[224]

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218. *Id.* at 903 (emphasis added).

219. *Id.* at 902–03.

220. Even in the context of litigation, many courts do not require plaintiffs to specifically identify the allegedly misappropriated secrets at the outset of a case. California is an outlier in that it imposes a statutory requirement that plaintiffs in trade secrets cases "shall identify the trade secret with reasonable particularity" before the discovery phase can begin. Cal. Code Civ. Proc. § 2019.210 (2005).

221. Lemley, *supra* note 9, at 344. *See* Kitch, *supra* note 97, at 698–99 ("Another explanation for the [RSP] requirement might be that the courts insist on sufficient investment so that the employees know that confidentiality is claimed for the information involved, and so that the employer is not free to claim later that some information acquired by the employee is secret even though he was not notified of it at the time.").

222. *See supra* text accompanying notes 191–193.

223. Restatement (First) of Torts § 757 (Am. Law Inst. 1939).

224. *See, e.g.*, Pooley, *supra* note 1, at 5; Unif. Trade Secrets Act § 1 cmt. (Unif. Law Comm'n, amended 1985) (describing the change as a "departure" from the common law). The more recent Restatement (Third) of Unfair Competition also omits the use requirement. *See* Restatement (Third) of Unfair Competition § 39 cmts. d–e (Am. Law Inst. 1995).

Since most states have adopted the UTSA, trade secret protection can be obtained over secret and valuable information, even if the plaintiff "has not yet had an opportunity or acquired the means to put a trade secret to use."[225] In part, this reflects the UTSA's broadening of trade secret subject matter to include "negative know-how" (the results of failed experiments) and information in pre-commercial development, which would not be put to commercial "use" in the conventional sense.[226] But as Eric Claeys observes, one negative consequence of this change is the "anti-innovative and anti-competitive error costs" in cases where the trade secret is "abandoned."[227] In these situations:

> The business . . . does not see significant competitive potential in the secret and either never deploys or discontinues application of the secret. If the business develops the idea in collaboration with an employee or licensee and the latter thinks the business errs in discontinuing research on the secret, ... [a]t common law, the use element imposes on claimants a "use it or lose it" requirement. The use requirement therefore stops claimants from sitting on otherwise-valuable secrets.[228]

Michael Risch similarly observes this dynamic of former employees using "offshoot" information that former employers did not see potential in using.[229]

Interestingly, the DTSA, enacted pursuant to Congress's Commerce Clause power, employs different language than the UTSA with respect to "use." The DTSA provides: "An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is *related to a product or service used in, or intended for use in,* interstate or foreign commerce."[230] The precise implications of this

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225. UNIF. TRADE SECRETS ACT § 1 cmt. The Act's commentary states:

> The definition of "trade secret" contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be "continuously used in one's business." The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor.

Id.

226. *Id.*; *see also* 2 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 9.05[4], 9-487.

227. Eric R. Claeys, *The Use Requirement at Common Law and Under the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 583, 584 (2010).

228. *Id.* at 585 (citing examples of such cases).

229. Commentary, *Economic Analysis of Labor and Employment Law in the New Economy: Proceedings of the 2008 Annual Meeting, Association of American Law Schools, Section on Law and Economics*, 12 EMP. RTS. & EMP. POL'Y J. 327, 341 (2008) ("[D]eparting employees rarely directly compete when they create a start-up company. Usually they are developing some offshoot idea, and they are exploiting something that is more akin to a corporate opportunity. It's something the old employer doesn't want to do, and therefore, the employee wants to spin-off." (quoting commentary given by Michael V. Risch on the topic of information transfer in the labor market)).

230. 18 U.S.C. § 1836(b)(1) (emphasis added).

language are yet unknown.[231] But a few scholars have cast doubt on whether the DTSA will protect information that is not being used in commerce, such as "negative know-how."[232]

Even under UTSA-based state laws, however, a firm's nonuse of information that is later claimed as a trade secret should factor into a notice-oriented RSP analysis. The possession literature highlights the relationship between notice and use—use of a claimed resource helps provide notice of a proprietary claim.[233] Notice concerns are particularly acute in cases involving negative know-how and other kinds of pre-commercial use contexts that, as a practical matter, are hard to distinguish from abandonment.[234] Thus, in situations where the information at issue is negative know-how or the claimant does not reduce a secret innovation to practice or commercialize it for many years, courts' RSP analysis should be especially scrutinizing of the other means taken to notify employees and collaborators about the existence and boundaries of the purported trade secret.[235]

CONCLUSION

In the wake of a new federal civil trade secret claim, it is useful to reassess one of trade secret law's key features: the RSP requirement. Existing scholarship has failed to develop a convincing justification for this longstanding but puzzling feature of trade secret law. This Article demonstrates that traditional property law's "possession" doctrine can provide a useful lens for evaluating the RSP requirement. Significantly, possession law and scholarship highlight the importance of notice in any property acquisition regime, as well as the relationship between notice, audience, and information costs. This Article applies these insights of possession doctrine to trade secret law, while recognizing important differences between tangible property and intellectual goods.

This Article argues that the primary purpose of the RSP requirement should be for employers to notify a relevant audience (employees and

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231. *See* Sharon K. Sandeen, *The DTSA: The Litigator's Full-Employment Act*, 72 WASH. & LEE L. REV. ONLINE 308, 317 (2015) ("[W]hat 'related to interstate commerce means' will be a highly litigated issue.").

232. *See id.* ("[The DTSA] does not apply to trade secrets that are not in use or intended for future use, such as the so-called 'negative information' .... [or] information concerning a company's research and development efforts that have not reached a point where a real (as opposed to a hypothetical) use has been determined."); *see also* Seaman, *supra* note 32, at 351 (arguing that cases involving "misappropriation of so-called 'negative know-how,' or information about what avenues of research and development have proven unfruitful" would be "situations in which a trade secret claim is potentially vulnerable to a constitutional challenge alleging that Congress exceeded its Commerce Clause power.").

233. *See supra* text accompanying notes 192–194.

234. Claeys, *supra* note 34, at 604 (noting the difficulties of making this distinction in practice).

235. *Cf. id.* at 613 ("In situations in which the claimant of a secret seems to be sitting on it without developing it, the use requirement provides a clean doctrinal way to free the information for active and productive use by someone else with access to it.").

other known collaborators) about the existence and boundaries of claimed trade secrets. Unlike patent law, trade secret law has no formal ex ante notice mechanisms. Requiring trade secret owners to provide clearer notice about the existence and boundaries of claimed information can promote follow-on innovation and employee mobility, concerns that are important to trade secret law. Accordingly, this Article suggests reforms to the RSP analysis to enhance this notice function.

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