

## BERNIER V. MERRILL AIR ENGINEERS

By C. Rachal Pugh

Confidential proprietary information can afford tremendous competitive advantages to businesses.<sup>1</sup> As Sir Francis Bacon stated in 1597, “knowledge itself is power.”<sup>2</sup> Courts recognize the value of confidential proprietary information and frequently prevent its disclosure.<sup>3</sup> Importantly, they often protect confidential proprietary information even when it does not rise to the level of a trade secret.<sup>4</sup>

Courts rely on a variety of rationales to protect information that does not qualify for trade secret protection (such as breach of fiduciary duty, unfair competition, unjust enrichment, and conspiracy).<sup>5</sup> The judicial enforcement of contractual nondisclosure agreements (“NDAs”) provides an alternative approach.<sup>6</sup> This Note will argue that NDAs are preferable to the other methods listed above because they allow parties to define confidential information, thereby providing certainty in an otherwise murky and fact-specific area of the law.<sup>7</sup> The appellate court in *Bernier v. Merrill Air*

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1. Robert Unikel, *Bridging the “Trade Secret” Gap: Protecting “Confidential Information” Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841, 841 (1998).

2. FRANCIS BACON, *MEDITATIONES SACRAE* (1597), REPRINTED IN XIV THE WORKS OF FRANCIS BACON 95 (James Spedding et al. eds., Scholarly Press 1969). Unikel, *supra* note 1, at 841.

3. Unikel, *supra* note 1, at 843.

4. *Id.*

5. *Id.* at 858-66.

6. See Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CAL. L. REV. 241, 246 (1998).

7. See Robert T. Neufeld, Note, *Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 883, 918 (1997) (“Reliance on the Restatement and common law in New York has created ambiguous trade secret law, leaving trade secret owners uncertain of the protection available.”); Miles J. Feldman, Comment, *Toward a Clearer Standard of Protectable Information: Trade Secrets and the Employment Relationship*, 9 HIGH TECH. L.J. 151, 170-71 (1994) (highlighting uncertainty of trade secret law by describing different outcomes based on similar fact patterns); Linda B. Samuels & Bryan K. Johnson, *The Uniform Trade Secrets Act: The States’ Response*, 24 CREIGHTON L. REV. 49, 50-52 (1990) (noting that trade secret protection varies widely from state to state); Stephen J. Davidson & Robert L. DeMay, *Application of Trade Secret Law to New Technology - Unwinding the Tangled Web*, 12 WM. MITCHELL L. REV. 579, 600 (1986) (describing how this area of law is “clouded”).

*Engineers*<sup>8</sup> adopted this approach, holding a former employee liable for breaching an NDA that protected “confidential or secret” information, despite the fact that the information at issue did not qualify for trade secret protection.<sup>9</sup> Before turning to the details of the *Bernier* decision, however, it is important to review the history and doctrine of trade secret law.

## I. LEGAL BACKGROUND

### A. Trade Secret Law

#### 1. Purpose of Trade Secret Law

The purpose of trade secret law is to encourage invention and foster the sharing of information in business settings.<sup>10</sup> Trade secret protection serves as a catalyst in the business world by allowing companies to share information without fear of losing their proprietary information and its corresponding advantages. Trade secret law protects such information in part so that companies may share information more freely with their employees, thereby maximizing internal efficiency.<sup>11</sup> Without such protection, companies might be compelled to guard their proprietary information too closely, thus making business operations less efficient.<sup>12</sup> By upholding standards of commercial ethics, trade secret law attempts to ensure that companies do not unjustly forfeit time and money spent invested in the development of valuable information through misappropriation of their proprietary information.

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8. *Bernier v. Merrill Air Engineers*, 770 A.2d 97, 100 (Me. 2001).

9. *Id.* at 100. *See also* *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1224 (Pa. Super. Ct. 1989) (discussing how certain information protected by agreement may be protected only by agreement, since it will not necessarily qualify as a “trade secret,” noting that “the terms ‘confidential information’ and ‘trade secrets’ ‘do not equate,’ and may in fact refer to entirely different bodies of information”); *Revere Transducers, Inc. v. Deere & Co.*, 595 N.W.2d 751, 765 (Iowa 1999) (holding that former employer did not have to prove that confidential information qualified as a trade secret in the presence of a reasonable NDA).

10. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974). *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1995) (facilitating disclosure to employee); Davidson & DeMay, *supra* note 8, at 583-84. *See generally* ROBERT MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE*, 36-37 Ch. 2 (2d ed. 2000).

11. *Kewanee Oil*, 416 U.S. at 485-87. *See* *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 223 (1971) (“the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms lends against the owner hoarding them.”).

12. *Kewanee Oil*, 416 U.S. at 485-87.

## 2. *Development of Trade Secret Law*

### a) Common Law

Trade secret law developed from state common law.<sup>13</sup> The Massachusetts Supreme Judicial Court crystallized the law of trade secrets in 1868.<sup>14</sup> The court specifically held:

It is the policy of the law, for the advantage of the public, to encourage and protect invention and commercial enterprise. If a man establishes a business and makes it valuable by his skill and attention, *the good will of that business is recognized by the law as property.*<sup>15</sup>

Decisions such as this based trade secret law and the protection of secret information on pre-existing property doctrines. Due to its intangible nature, however, secret information did not fit easily into established property doctrines regarding tangible property.<sup>16</sup>

Courts ultimately succeeded in carving out a niche in property law for secret information by focusing on the property doctrine of exclusive control.<sup>17</sup> Intangible information could be considered property so long as the information remained in the owner's exclusive control.<sup>18</sup> The only way an owner could retain exclusive control of information was to keep it secret.<sup>19</sup> Therefore, once secrecy was destroyed, the information was no longer under the owner's exclusive control and could no longer be considered property. As a result, any protection afforded by trade secret law necessarily ended when information lost its secrecy.

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13. Bone, *supra* note 6, at 247.

14. *Id.* at 252.

15. Peabody v. Norfolk, 98 Mass. 452, 457 (1868) (emphasis added).

16. See Bone, *supra* note 6, at 254. For a classic discussion of property law's emphasis on exclusive control, see Pierson v. Post, 2 Am. Dec. 264 (N.Y. 1805).

17. Bone, *supra* note 6, at 254.

18. See Haskins v. Ryan, 64 A. 436, 438 (N.J. Ch. 1906), *aff'd*, 75 N.J. Eq. 623 (1909) (noting undeveloped ideas cannot be treated as property because the originator cannot control it as a secret and use it for his own good without involving others in its development); Bristol v. Equitable Life Assurance Soc'y of New York, 30 N.E. 506, 507 (N.Y. 1892) (holding undeveloped ideas unprotectable because exclusive ownership cannot be easily preserved).

19. See Stewart v. Hook, 45 S.E. 369, 370 (Ga. 1903) (stating that the information holder must maintain the secrecy and control of information to retain protection); Eastman Co. v. Reichenbach, 20 N.Y.S. 110, 116 (1892) ("The whole world is at liberty to discover [secret information], . . . and, when discovery is thus made, . . . the inventor's or manufacturer's property . . . is gone").

The doctrine underlying trade secret law evolved as later decisions dismissed property-based theories of the law and instead focused on the wrongfulness of the defendant's conduct as the true basis for liability.<sup>20</sup> Justice Holmes articulated this shift in the justification for trade secret law:

Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. *The property may be denied* but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs. . . .<sup>21</sup>

By focusing on the relationship between the parties, twentieth century courts associated trade secret law more closely with contract and tort law than with property law.<sup>22</sup>

#### b) Unified Doctrine of Trade Secret Law

The First Restatement of Torts ("First Restatement") extracted the first unified definition of a trade secret from the common law.<sup>23</sup> It defined a trade secret as "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."<sup>24</sup> The Uniform Trade Secrets Act ("UTSA") provides the most accepted current definition of a trade secret.<sup>25</sup> The UTSA defines a trade secret as

information, 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

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20. Bone, *supra* note 6, at 258. See *Vulcan Detinning Co. v. Am. Can Co.*, 67 A. 339, 343 (1907) (finding too much emphasis placed on secrecy of information and not enough emphasis placed on the wrongfulness of defendant's conduct); Note, *Equity - Trade Secrets - Duty of Non-Disclosure by Fiduciary Relation*, 37 YALE L.J. 1154, 1155 (1927) ("Many courts grant relief . . . on the basis of the 'property right' theory. More modern decisions, however, in the absence of an express contract, place the protection afforded on the basis of a contract implied in law.").

21. *E. I. duPont deNemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917) (emphasis added).

22. Bone, *supra* note 6, at 260.

23. See *id.* at 247.

24. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

25. See MERGES, *supra* note 10, at 34 (noting the UTSA's importance).

disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>26</sup>

Forty-three jurisdictions (42 states and the District of Columbia) have enacted statutes codifying the law of trade secrets based on the UTSA.<sup>27</sup>

The UTSA definition of a trade secret differs from the First Restatement definition in that the UTSA omits the requirement that the information be “used in one’s business.”<sup>28</sup> The UTSA also adds the requirement that reasonable efforts be taken to maintain the secrecy of the information.<sup>29</sup> These differences allow for the protection of a broader class of information as long as the information is adequately protected.<sup>30</sup>

To establish liability for trade secret misappropriation under the UTSA, a plaintiff must show that (1) the information qualifies as a trade secret,<sup>31</sup> and (2) the defendant acquired, used, or disclosed the information in breach of confidence or by other improper means.<sup>32</sup> The UTSA’s two-prong analysis therefore retains a property analysis under the first prong, and a contract or tort analysis under the second prong.<sup>33</sup> Under the first property prong of the analysis, the information must qualify as a trade secret to justify the extension of property rights to such information. Under

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26. UNIF. TRADE SECRETS ACT § 1(4) (1985).

27. Benjamin A. Emmert, Comment, *Keeping Confidence with Former Employees: California Courts Apply the Inevitable Disclosure Doctrine to California Trade Secret Law*, 40 SANTA CLARA L. REV. 1171, 1177 (2000).

28. Compare RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) with UNIF. TRADE SECRETS ACT § 1(4) (1985).

29. UNIF. TRADE SECRETS ACT § 1(4) (1985). Some states, including California, do not include the “readily ascertainable” language in the definition of a trade secret. CAL. CIVIL CODE § 3426.1 (1997). MERGES, *supra* note 10, at 35 n. 7.

30. See *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1362, 1368-69 (E.D. Va. 1995) (holding religious materials protectable as a trade secret).

31. UNIF. TRADE SECRETS ACT § 1(4) (1985).

32. *Id.* § 1(1) (1985); MERGES, *supra* note 10, at 35-36. Improper means include theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. UTSA § 1(1) (1985).

33. Complete secrecy is no longer required, but the requirement that the information be not generally known remains. Further, THE RESTATEMENT (THIRD) OF UNFAIR COMPETITION (1995) provides the most recent effort to organize trade secret law. Importantly, THE RESTATEMENT (THIRD) ON UNFAIR COMPETITION §§ 39-45 rejects the wrongfulness of the defendant’s conduct as the true basis for liability and focuses instead on an initial determination of whether the information merits protection as a trade secret. This Restatement, therefore, rejects the contractual and tortious aspects of trade secret law in favor of its property justifications. However, legislatures and jurisdictions have not yet adopted or applied this Restatement. It nonetheless remains important to consider in an analysis of whether or not the supplementation of trade secret law through contractual NDAs is appropriate.

the second contract or tort prong, a defendant must improperly acquire the information to be liable for its disclosure. Importantly, the presence of an NDA expressly provides for the existence of a confidential relationship thereby ensuring that the second prong of the UTSA analysis is met if an employee wrongfully discloses proprietary information.

## B. Contractual Nondisclosure Agreements (NDAs)

When an employee's duties center on the use of secret or confidential information, the presence of an NDA can restrict that employee's ability to seek alternative employment.<sup>34</sup> Traditionally, courts viewed any type of contractual, post-employment restraint as an unacceptable restraint on trade.<sup>35</sup> However, as courts realized the importance of specialized knowledge to economic development, and recognized workplace knowledge as a firm asset, they began to accept reasonable post-employment restraint agreements.<sup>36</sup> As a result, the *per se* invalidity of post-employment restraint agreements gave way to a reasonableness inquiry.<sup>37</sup>

Currently, the law disfavors post-employment restraint agreements, including NDAs, and courts routinely subject such agreements to "strict reasonableness inquiries."<sup>38</sup> Under this inquiry, courts enforce NDAs only when the agreement is reasonable and necessary to protect an employer's interests.<sup>39</sup> Further, the NDA must balance the interests of the employer

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34. See, e.g., *American Broadcasting Cos. v. Wolf*, 420 N.E.2d 363, 368 (N.Y. 1981) (underlying the strict treatment of post-employment restraints are "the general public policy favoring . . . the powerful considerations of public policy which militate against sanctioning the loss of a man's livelihood") (quoting *Purchasing Assocs. v. Weitz*, 196 N.E.2d 245, 247 (1963)). See also Maureen B. Callahan, *Post-Employment Restraint Agreements: A Reassessment*, 52 U. CHI. L. REV. 703, 712 (1985)

35. *Dyer's Case*, Y.B. 2 Hen. 5, pl. 26 (1414); *Colgate v. Bachelier*, 78 Eng. Rep. 1097 (Q.B. 1602). See Callahan, *supra* note 34, at 707.

36. Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441, 442 (2001).

37. See, e.g., *Mitchel v. Reynolds*, 24 Eng. Rep. 347, 352 (Ch. 1711) ("To conclude: In all restraints of trade, where nothing more appears, the law presumes them bad; but if the circumstances are set forth, that presumption is excluded, and the Court is to judge of those circumstances, and determine accordingly; and if upon them it appears to be a just and honest contract, it ought to be maintained."); Callahan, *supra* note 34, at 709.

38. See *Orkin Exterminating Co. v. Dewberry*, 51 S.E.2d 669, 675 (1949) ("While it is the general rule that a contract in general restraint of trade is void, a contract only in partial restraint may be upheld, 'provided the restraint be reasonable . . .'" quoting *Kutash v. Gluckman*, 20 S.E.2d 128, 130 (Ga. 1942); *Kadis v. Britt*, 29 S.E.2d 543, 545 (1944) (post-employment restraints are void unless shown to be reasonable).

39. See *Orkin Exterminating Co.*, 307 S.E.2d at 916 ("Covenants against competition which are contained in employment contracts . . . will be upheld only if they are

with the interests of the departing employee.<sup>40</sup> While the departing employee or her new employer should not be unjustly enriched through the use of confidential information, the employee must be permitted to use the general skill and knowledge gained during her previous employment.<sup>41</sup> Thus, courts disregard NDAs if the employee's interest in pursuing her profession outweighs the employer's interest in restricting disclosure.

States have not applied this balancing approach to NDAs uniformly.<sup>42</sup> While the vast majority of states require that an NDA be reasonable, the definition of "reasonable" varies.<sup>43</sup> For example, in Michigan, an NDA is considered reasonable if it does not go beyond what is reasonably necessary to protect confidential information.<sup>44</sup> Likewise, courts in Georgia consider an NDA reasonable if it is written so that confidentiality is reasonably related to the protection of information.<sup>45</sup> Illinois, however, finds an NDA reasonable if it is not injurious to the public, will not cause undue hardship to the employee, and is not broader than necessary to protect the *interests* of the employer.<sup>46</sup> Therefore, while Illinois adds an injury to the public inquiry suggesting a stricter approach to reasonableness, it also potentially protects a broader range of the employer's interests.<sup>47</sup>

Confidentiality agreements should simultaneously strive to protect the employer's interests and limit employee disclosures while maintaining the employee's ability to earn a living. The most common test used to evaluate the reasonableness of an NDA requires that the NDA (1) not impose undue hardship upon the employee; and (2) be no wider in scope than is reasonably necessary to protect the employer.<sup>48</sup> Another common test asks whether the restriction is (1) necessary to protect the employer's business; (2) unreasonably restrictive of the employee's rights; and (3) prejudicial to

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strictly limited in time and territorial effect, and are otherwise reasonable considering the business interest of the employer sought to be protected and the effect on the employee.").

40. *Id.* See also *Harwell Enters., Inc. v. Heim*, 173 S.E.2d 316, 318-19 (1970) (applying balancing-of-interests analysis).

41. Gary Van Zeeland Talent, Inc. v. Sandas, 267 N.W.2d 242, 248 (Wis. 1978); Carol M. Bast, *At What Price Silence: Are Confidentiality Agreements Enforceable?*, 25 WM. MITCHELL L. REV. 627, 635-36 (1999).

42. Bast, *supra* note 41, at 639.

43. *Id.*

44. See *Follmer, Rudzewicz & Co. v. Kosco*, 362 N.W.2d 676, 683 (Mich. 1984).

45. See *Durham v. Stand-By Labor, Inc.*, 198 S.E.2d 145, 150 (Ga. 1973).

46. See *Tower Oil & Tech. Co. v. Buckley*, 425 N.E.2d 1060, 1065 (Ill. App. Ct. 1981).

47. For a more thorough review of state's inquiries into the reasonableness of NDAs, see Bast, *supra* note 41, at 639-42.

48. See *Bernier v. Merrill Air Engineers*, 770 A.2d 97, 103 (Me. 2001).

the public interest.<sup>49</sup> Yet a third test suggests that courts should consider (1) the parties' reasonable expectations; (2) the potential loss to the employer if the agreement is not enforced; (3) the protectability of the information as a trade secret or as proprietary information; (4) the substantial adverse effects on third parties; (5) the exacerbation of the adverse effects if the confidentiality agreement is not enforced; and (6) the possibility for limited disclosure when determining whether an NDA is reasonable.<sup>50</sup> These similar approaches outlined in the three tests above reflect the modern emphasis of balancing employer and employee interests. This balancing was addressed by the court in *Bernier v. Merrill Air Engineers*, as discussed in the next Section.

## II. CASE SUMMARY

### A. Facts

Plaintiff Robert Bernier provided engineering services for defendant, Merrill Air Engineers ("Merrill"). During his employment with Merrill, Bernier constantly worked with highly proprietary and confidential information.<sup>51</sup> Because Bernier worked with such confidential information, Merrill required that he sign an NDA. The NDA specifically stated that:

The Employee agrees that he or she shall not, during the term of employment . . . or at anytime thereafter, divulge, use, furnish, disclose or make accessible to anyone other than Tristar [Merrill's holding company] or other than in Tristar's usual course of business, any knowledge or information with respect to (i) confidential or secret processes, plans, formulae, programs, devices or material relating to the business, services or activities of Tristar, (ii) any confidential or secret development or other original work of Tristar, (iii) any other confidential or secret aspect of the business, products, or activities of Tristar . . . . All records, materials, and information obtained by the Employee in the course of his or her employment are confidential and shall remain the exclusive property of Tristar.<sup>52</sup>

While employed at Merrill, Bernier managed the engineering and design aspects of a proposal to build a dryer for Henry Molded Products

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49. See *Revere Transducers, Inc. v. Deere & Co.*, 595 N.W.2d 751, 762 (Iowa 1999).

50. Bast, *supra* note 41, at 709.

51. *Bernier*, 770 A.2d at 102.

52. *Id.*

("HMP"). This proposal contained highly proprietary design information, and was classified as a confidential document.<sup>53</sup> After HMP made a preliminary commitment to purchase the dryer, Bernier resigned from Merrill and contacted HMP about potential job openings. Thereafter, Bernier accepted a job with HMP, and HMP cancelled the dryer order they had placed with Merrill.<sup>54</sup> Within one year, HMP completed the design and manufacture of its own dryer under Bernier's supervision.<sup>55</sup>

After leaving Merrill, Bernier brought an action against it to recover commissions earned for the sale of products he engineered during the course of his employment.<sup>56</sup> Merrill, in turn, counterclaimed that Bernier breached the NDA of his employment contract and misappropriated trade secrets by providing dryer design engineering services for HMP.<sup>57</sup>

## B. Decision And Procedural History

### 1. Trial Court's Findings

The trial court held that Merrill owed Bernier commissions earned during the course of his employment.<sup>58</sup> Finding Merrill's argument unreasonable, the court rejected its contention that the payment of commissions to engineers was contingent on cash availability. The trial court further found that Bernier did not misappropriate trade secrets because Merrill failed to prove that the information at issue qualified for trade secret protection.<sup>59</sup> While Bernier did not misappropriate trade secrets, he did breach his contractual obligation not to disclose proprietary information.<sup>60</sup> Finding it more likely than not that HMP would have ordered the dryer from Merrill had Bernier not breached his contract, the court awarded Merrill damages equaling the profits it would have made from the design, construction and sale of the dryer.<sup>61</sup>

### 2. Trial Court's Analysis

The trial court concluded that Merrill's information did not qualify for trade secret protection based on its application and analysis of five factors

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53. *Id.*

54. *Id.*

55. *Id.*

56. *Id.* at 100. At Merrill, engineers earned a three percent commission on the sale of products that they engineered. *Id.*

57. *Id.* at 103.

58. *Id.* at 100.

59. *Id.* at 103.

60. *Id.*

61. *Id.*

outlined in *Spottiswoode v. Levine*.<sup>62</sup> These factors include (1) the value of the information to the plaintiff and to its competitors; (2) the amount of effort or money the plaintiff expended in developing the information; (3) the extent of measures the plaintiff took to guard the secrecy of the information; (4) the ease or difficulty with which others could properly acquire or duplicate the information; and (5) the degree to which third parties have placed the information in the public domain or rendered the information "readily ascertainable" through patent applications or unrestricted product marketing.<sup>63</sup>

The court addressed each factor in turn.<sup>64</sup> In its analysis, the court found that the first factor did not weigh in favor of trade secret protection.<sup>65</sup> Merrill's information was not valuable enough to warrant protection because its designs were not inherently superior to the designs of its competitors.<sup>66</sup> Similarly, the court found that the second factor did not weigh in favor of trade secret protection.<sup>67</sup> Although Merrill had expended some effort and money in developing the information, the evidence supporting such expenditures was not sufficient to support trade secret protection.<sup>68</sup> The court also found that the fourth and fifth factors did not favor trade secret protection.<sup>69</sup> Once on the market, interested parties could easily reverse engineer a Merrill dryer.<sup>70</sup> Further, because the parts of the dryer could be purchased from distributors, the information was readily ascertainable to those who might be interested in it.<sup>71</sup> The court's analysis of the third factor, however, favored trade secret protection because Merrill undertook sufficient measures to guard the secrecy of its information.<sup>72</sup> On balance, therefore, the court held that the disputed information did not qualify for trade secret protection.<sup>73</sup>

Although Merrill's information did not qualify for trade secret protection, the trial court nonetheless awarded the company damages based on Bernier's breach of the nondisclosure clause of his employment contract.<sup>74</sup>

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62. *Id.* at 106 (citing *Spottiswoode v. Levine*, 730 A.2d 166, 174 n.6 (1999)).

63. *Id.* (citing *Spottiswoode*, 730 A.2d at 174).

64. *Id.* at 107-108.

65. *Id.* at 107.

66. *Id.*

67. *Id.*

68. *Id.*

69. *Id.* at 108.

70. *Id.*

71. *Id.* See *supra* note 29 and accompanying text.

72. *Bernier v. Merrill Air Engineers*, 770 A.2d 97, 108 (Me. 2001).

73. *Id.* at 108-09.

74. *Id.* at 103.

The trial court found the NDA reasonable because of its limited scope; it only prohibited Bernier from using “particularized, highly specialized proprietary protected original work that was custom designed for a particular prospect.”<sup>75</sup> Further, the agreement did not impose undue hardship on Bernier because it did not prohibit him from using the general skills or knowledge he obtained while working at Merrill.<sup>76</sup>

### 3. Appellate Court Review

The appellate court agreed with the trial court’s determination that the information was not a trade secret.<sup>77</sup> It disagreed, however, with the trial court’s application of the fourth *Spottiswoode* factor.<sup>78</sup> In its analysis of factor four, the trial court held that “[o]nce a Merrill dryer is on the scene, it doesn’t take a great deal of effort” to understand the design of the dryer.<sup>79</sup> The appellate court agreed with Merrill that Bernier could not “properly” reverse engineer the dryer because he did not acquire the information to do so through proper means; Bernier “acquired” the information at issue when he breached the nondisclosure clause of his contract.<sup>80</sup> Therefore, the appellate court held that the trial court misperceived the importance of acquiring the dryer design by “proper” means.<sup>81</sup> Although it found that the trial court misapplied the fourth *Spottiswoode* factor, the appellate court ultimately upheld the lower court’s decision that Merrill’s proprietary information did not rise to the level of a trade secret.<sup>82</sup>

The appellate court also affirmed the trial court’s holding that the NDA of Bernier’s employment contract was reasonable.<sup>83</sup> Rejecting Bernier’s contention that Merrill could not contractually protect information outside the UTSA definition of a trade secret, the appellate court unequivocally stated that “confidential knowledge or information protected by a restrictive covenant need not be limited to information that is protected as a trade secret by the UTSA.”<sup>84</sup> Therefore, a reasonable NDA can prevent a former employee from using confidential knowledge and infor-

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75. *Id.*

76. *Id.* at 104.

77. *Id.* at 108.

78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.*

82. *See id.* at 109.

83. *Id.* at 103.

84. *Id.*

mation gained in the course of employment despite the fact that the information does not qualify for trade secret protection under the UTSA.<sup>85</sup>

### III. INFORMATION THAT DOES NOT QUALIFY FOR TRADE SECRET PROTECTION MAY BE PROTECTED CONTRACTUALLY

The supplementation of trade secret law with NDAs is appropriate for numerous reasons. First, parties use contractual NDAs to avoid the uncertainty associated with trade secret law. Second, in contrast to other areas of intellectual property law, trade secret law is amenable to broader supplementation by contract due to the scope and strength of protection that it offers. Third, contractually protecting information through NDAs does not unjustly impede the flow of information. Finally, the current development and underlying rationales of trade secret law suggest that contract law is a natural complement to the trade secret doctrine.

#### A. Use of Contractual Agreements to Avoid Uncertainty

The main goal of trade secret law is to encourage invention and promote the sharing of information.<sup>86</sup> If a company can rely on trade secret law to protect its proprietary information, it will likely share that information with its employees, thus increasing efficiency and innovation.<sup>87</sup> However, a company with proprietary information does not know with certainty whether its information is protectable as a trade secret until that information is litigated and judicially declared a trade secret. As seen in *Bernier*, judicial determination of this question is a highly fact-specific inquiry.<sup>88</sup> As a result of the uncertainty associated with trade secret litigation, companies are less likely to share their proprietary information internally if there is a significant risk that a judge may not grant the informa-

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85. *Id.* (citing *Ingersoll-Rand Co. v. Ciavatta*, 542 A.2d 879, 894 (N.J. 1988)). See also *Structural Dynamics Research Corp. v. Eng'g Mechs. Research Corp.*, 401 F. Supp. 1102 (E.D. Mich. 1975) (holding NDAs applicable not only to trade secrets but also to privileged, proprietary and confidential information). See *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1224 (Pa. Super. Ct. 1989).

86. See *supra* note 10 and accompanying text.

87. *Unikel*, *supra* note 1, at 871 (noting that forced reliance on "self-help" measures increases the level of investment required for profitable innovation thereby decreasing the incentive and resources available for product and process development).

88. *Bernier v. Merrill Air Engineers*, 770 A.2d 97, 107-08 (Me. 2001). See *Sarkes Tarzian Inc. v. Audio Devices, Inc.*, 166 F. Supp 250, 257 (S.D. Cal 1958) (stating that "[w]hat is a trade secret is difficult to define.").

tion trade secret protection.<sup>89</sup> This failure to share information thwarts the goals of trade secret law.

Allowing parties to contractually define protected information helps alleviate the uncertainty associated with trade secret law. By creating NDAs, employers and employees are able to provide unambiguous declarations of what they view as confidential.<sup>90</sup> Thus, employers and employees can define what information is protected and what information is viewed as general at the outset of their relationship.<sup>91</sup> This certainty is likely to decrease the amount of information unfairly lost due to employee misuse or inadvertent disclosure.<sup>92</sup> It also helps prevent expensive and time-consuming trade secret litigation, as no such declaration is needed in the presence of an enforceable NDA. Thus, by putting employees on notice, contractual agreements allow parties to structure their relationships and reduce subsequent costs related to enforcement and litigation.<sup>93</sup> The certainty of protection brought about by contractual agreements also helps to achieve one of the major goals of trade secret law—the efficient sharing of information. Based on these considerations, the supplementation of trade secret law with contract law is not only appropriate, but also beneficial, efficient and desirable.

## B. Broad Freedom to Contract in Trade Secret Law

Contract law may protect proprietary information that falls outside the realm of trade secret law. Inventors and authors who seek to contractually expand patent or copyright protection are generally not allowed to do so.

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89. See Unikel, *supra* note 1, at 847-48 (“In the absence of legal protection for valuable, independently developed information, businesses would be less likely to commit their finite resources to the creation of new technology because there is no guarantee that they will benefit from that development. Moreover, without legal protection against corporate theft, those businesses that continued to invest in innovation would be forced to expend a disproportionate amount of money on ‘self-help’ measures designed to protect their innovations from piracy.”).

90. Collins J. Seitz, Jr., *Protection of Trade Secrets Through Employment Agreements*, 7 DEL. LAW. J. 46, 46 (1989).

91. See *Ultra-Life Labs., Inc. v. Eames*, 221 S.W.2d 224, 232 (Mo. Ct. App. 1949) (noting that the existence of contract not to divulge processes was an admission that such materials were secret). See also Terry Morehead Dworkin & Elletta Sangrey Callahan, *Buying Silence*, 36 AM. BUS. L.J. 151, 157 (1998).

92. See Dworkin & Callahan, *supra* note 91, at 157.

93. See *Kaunagraph Co. v. Stampagraph Co.*, 138 N.E. 485, 486 (N.Y. 1923) (post-employment contracts “merely express the implied contract of one who enters into such an employment not to carry elsewhere into competition with his employer confidential knowledge obtained from him”). Robert Bone goes one step further to argue that when dealing with employer/employee relationships, proprietary information should be protected by contract principles only. See Bone, *supra* note 6, at 246-47.

This difference between trade secret law and other areas of intellectual property law is reasonable given the amount and type of protection offered by trade secret law on the one hand and patent and copyright law on the other.

Patent and copyright laws provide protection and property rights against the world—including those with no prior relationship.<sup>94</sup> This protection is strong and lasts for a statutorily defined period.<sup>95</sup> Further, especially in relation to patent law, protected information is rigidly defined with notice given to the public that such information is protected as of a given date. Reverse engineering or independent discovery by other persons does not alter the patent holder's rights to the patented invention. In contrast, trade secret law only protects information against those who acquire it through improper means (such as theft or the breach of a confidential relationship).<sup>96</sup> The public at large is free to reverse engineer or independently discover the information. Further, protection lasts only as long as the information remains secret, and it is the responsibility of the owner of the information to maintain its secrecy.<sup>97</sup> Thus, in contrast to patent holders, trade secret owners must adopt effective strategies to protect the secrecy of their information.

Courts have granted broader rights to contract in the realm of trade secret law than in other areas of intellectual property law in part because trade secret law affords information owners weak protection. The *Listerine* case<sup>98</sup> provides a classic example of this principle. In *Listerine*, after the formula for the mouthwash became widely known, the plaintiff sued for a judgment declaring that it was no longer required to pay royalties based on the manufacture and sale of Listerine.<sup>99</sup> The agreement between the parties stipulated that the plaintiff would make royalty payments for the use of the

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94. Bone, *supra* note 6, at 243. See generally MERGES, *supra* note 10, at 137.

95. See 35 U.S.C. § 154(a)(2) (1994) (defining patent protection term as 20 years from the filing date of the application); 17 U.S.C. § 302-05 (1998) (defining copyright protection term as the life of the author plus 70 years, or in the case of entity authors, 95 years from first publication or, if not published, 120 years from the year of creation).

96. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475-76 (1974). See also 1 MELVIN F. JAGER, TRADE SECRETS LAW § 3.03[3][a], 3-47 (1996) ("Unlike a patent owner, a person who possesses a trade secret does not have an exclusive right to the information."); David D. Friedman et al., *Some Economics of Trade Secret Law*, 5 J. ECON. PERSP. 61, 62 (1991) (noting that most of trade secret law is based on independent common law wrongs, such as breach of contract and theft, rather than on infringement of rights in the information itself).

97. See *supra* note 32 and accompanying text.

98. *Warner-Lambert Pharm. Co. v. Reynolds*, 178 F. Supp. 655 (S.D.N.Y. 1959).

99. *Id.* at 657.

secret formula for Listerine as long as it continued to manufacture and sell the product.<sup>100</sup> The formula for Listerine was made public after the agreement was executed, and was no longer receiving trade secret protection at the time of the litigation.<sup>101</sup> The court nonetheless held that one cannot escape a contractual obligation to pay royalties simply because a trade secret no longer receives legal protection.<sup>102</sup> The court reasoned that if the plaintiff wanted to pay royalties only while the formula remained secret, it could have included this provision in the contract.<sup>103</sup> This holding is in stark contrast to the established patent and copyright principle that once legal protection ends, royalty payments must cease.<sup>104</sup> Thus, trade secret law allows more freedom to contract than other areas of intellectual property law.

Because trade secret law allows broad freedom to contract, and information owners must adopt effective “self-help” strategies to protect their information, many such information owners turn to contractual NDAs to protect their proprietary information. This use of contractual NDAs is an effective means to protect the secrecy of information and comports with the broader right to contract uniquely available in trade secret law.

### C. Failure to Impede Information Flow

Some argue that allowing protection of proprietary information through NDAs leads to information being unjustly retained in the hands of a few, resulting in anti-competitive effects.<sup>105</sup> Others believe that this outcome is not necessarily the case.<sup>106</sup> Unacceptable anti-competitive effects caused by NDAs are unlikely because courts continue to subject such agreements to strict reasonableness inquiries.<sup>107</sup> Based on this strict court review, unreasonable NDAs that could result in anti-competitive effects are not enforced.<sup>108</sup> Therefore, if a court chooses to uphold an NDA, it is likely that the NDA is both reasonable in scope and does not unjustly limit

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100. *Id.* at 658-59.

101. *Id.*

102. *Id.* at 660-61.

103. *Id.* at 666.

104. *Id.* at 664-65. *See supra* note 96 and accompanying text. *Compare with* Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1979) (noting that if parties include provisions for continuing royalty payments in the event a patent does not issue, this provision is enforceable).

105. *See, e.g.,* 1st Am. Sys., Inc. v. Rezatto, 311 N.W.2d 51, 57 (S.D. 1981) (enforcement of NDAs may vest information owners with monopoly power); Callahan, *supra* note 34, at 706.

106. *See generally* Bone, *supra* note 6.

107. *See supra* note 39 and accompanying text.

108. *Id.*

information flow or the departing employee's career opportunities.<sup>109</sup> Further, irrespective of whether there is a contract, other areas of law (such as agency law), protect an employer's proprietary information.<sup>110</sup> Because proprietary information is already protected, contractual protection does not expand protected information; it simply defines such information under already-established fiduciary duties of confidentiality.

### 1. *Strict Reasonableness Inquiries*

The presence of an NDA in an employment contract will not unduly restrict the flow of information because courts do not favor NDAs and continue to subject such agreements to strict reasonableness inquiries.<sup>111</sup> Courts will not enforce an NDA unless it legitimately balances the employer's interests in protecting proprietary information with the employee's interests in mobility.<sup>112</sup> This judicial review prevents employers from unreasonably protecting information.<sup>113</sup>

For example, in *American Family Life Assurance Co. v. Tazelaar*,<sup>114</sup> the court held an NDA that prevented employees from making "available any information or materials acquired from American Family to any competitor or potential competitor" invalid and unenforceable because it was overly broad.<sup>115</sup> The court in *Nasco Inc. v. Gimbert* also held an NDA invalid because it unnecessarily prohibited the disclosure of information.<sup>116</sup> As these cases demonstrate, unreasonable NDAs that could lead to unacceptable anti-competitive effects are not enforced. Thus, strict court review of NDAs protects the flow of information.

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109. *Id.*

110. See RESTATEMENT (SECOND) OF AGENCY §§ 395-96 (1957). "Unless otherwise agreed, an agent is subject to a duty to the principal not to use or to communicate information confidentially given him by the principal or acquired by him during the course of or on account of his agency or in violation of his duties as agent, in competition with or to the injury of the principal, on his account or on behalf of another, although such information does not relate to the transaction in which he is then employed, unless the information is a matter of general knowledge." RESTATEMENT (SECOND) OF AGENCY § 395 (1957). Section § 396(d) implies that the duty of nondisclosure continues after termination of the employment relationship. RESTATEMENT (SECOND) OF AGENCY § 396(d) (1957).

111. See *supra* note 38 and accompanying text.

112. See *supra* notes 39-40 and accompanying text.

113. See generally *American Family Life Assurance Co. v. Tazelaar*, 482 N.E.2d 1072 (1985).

114. 482 N.E.2d 1072 (1985).

115. *Id.* at 1071.

116. 238 S.E.2d 368, 370 (Ga. 1997).

## 2. *Protection of Nontrade Secret Information In Other Areas of Law*

Allowing the contractual protection of proprietary information does not expand the realm of protected information. NDAs do not expand the realm of protected information because a company's confidential information is already protected through other areas of the law regardless of its status as a trade secret.<sup>117</sup> For example, under the Restatement Second of Agency ("Second Restatement"), employees have a duty of confidentiality.<sup>118</sup> Employees are under an implied common law legal obligation not to disclose valuable business information regardless of whether the information qualifies for trade secret protection.<sup>119</sup> This obligation exists so long as the information is proprietary to the employer, revealed in confidence, and not of general knowledge.<sup>120</sup> Because Nontrade secret information is already protected by the common law, the presence of an NDA does not impermissibly expand the realm of protected information; it simply serves to provide a definition of what information the employer and employee view as confidential under the Second Restatement's duty of confidentiality.<sup>121</sup>

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117. *See Nucor Corp. v. Tennessee Forging Steel Serv., Inc.*, 476 F.2d 386, 392 (8th Cir. 1973) ("[E]mployees have a high duty not to disclose confidential information received by them as employees to competitors regardless of the fact that the information disclosed might not technically be considered a trade secret. This view is consistent with that expressed in the Restatement (Second) of Agency, §§ 395 and 396 (1958). We think it is the correct view."); *Coulter Corp. v. Leinert*, 869 F. Supp. 732, 735 (E.D. Mo. 1994) ("[T]he scope of an agent's duty of confidentiality and loyalty is not limited to protecting a principal against the disclosure of trade secrets. . . [T]he state's UTSA did not bar an action for breach of confidentiality. . ."). *See also* HENRY H. PERRITT, JR., *TRADE SECRETS: A PRACTITIONER'S GUIDE* 163-64 (1994) ("A confidential relationship may exist between employers and employees with respect to certain information, even in the absence of a restrictive covenant agreement, during employment as well as after termination.").

118. *See supra* note 114.

119. *Structural Dynamics Research Corp. v. Eng'g Mechs. Research Corp.*, 401 F. Supp. 1102, 1144 (E.D. Mich. 1975) (noting that an employee has an obligation not to disclose confidential information revealed to him or her in the course of employment and it is immaterial that such information might not technically qualify as a trade secret).

120. *See Jet Spray Cooler, Inc. v. Crampton*, 282 N.E.2d 921, 926-27 (Mass. 1972) (holding that former employees breached duty of confidentiality by using confidential reports prepared for their former employer in their own competing business); *By-Buk Co. v. Printed Cellophane Tape Co.*, 329 P.2d 147, 151 (Ca. 1958) (noting that employees are under implied obligations not to use confidential information acquired by reason of their employment).

121. *See Neufeld, supra* note 7.

#### D. Trade Secret Law Rationales Suggest Contract Supplementation is Appropriate

In analyzing whether it is appropriate to supplement trade secret law with contract law, it is useful to examine the underlying theories of trade secret law.<sup>122</sup> Recall that nineteenth century courts rooted the original justifications for trade secret law firmly in property law.<sup>123</sup> The original property justification for trade secret doctrine centered on the idea of exclusive control of secret and valuable information.<sup>124</sup> If the secrecy of the information was lost, there was nothing left to protect.<sup>125</sup> These original property justifications kept trade secret law distinct from contract law because the legal protection of information depended solely on the secret nature of the information.<sup>126</sup> Courts generally did not examine how the information at issue lost its secrecy.<sup>127</sup> Because trade secret law was so firmly rooted in property law with no contract principles evident, it might have been inappropriate to supplement trade secret law with contract law in the nineteenth century.<sup>128</sup>

When Justice Holmes stated, "the property may be denied," in *E. I. duPont de Nemours Powder Co. v. Masland*,<sup>129</sup> trade secret law lost its strict grounding in property law.<sup>130</sup> Over time, the breach of a confidential relationship became the new justification for trade secret law.<sup>131</sup> Because the confidential relationship could not be denied under the new formulation of the rule, courts began to focus misappropriation analyses not only on the characteristics of the information, but also on the expectations and relationship between the parties.<sup>132</sup> As a result of this addition to the trade secret analysis, trade secret law became more closely aligned with contract

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122. The following analysis of modern trade secret law is based on an analysis of the UTSA.

123. See *supra* note 15 and accompanying note.

124. *Id.*

125. See *supra* note 18 and accompanying text.

126. Bone, *supra* note 6, at 259-60.

127. *Id.* at 255 ("Secrecy required constant vigilance . . . since ideas, like wild animals, had a tendency to escape. Once gone, they returned to the commons as public property.") (citing *Werckmeister v. American Lithographic Co.*, 134 Fed. 321, 324 (2d Cir. 1904)).

128. See *id.* at 260.

129. See *supra* note 21 and accompanying text.

130. Bone, *supra* note 6, at 260.

131. See *supra* note 20 and accompanying text.

132. *Id.*

law.<sup>133</sup> It therefore became more appropriate to supplement trade secret law with contract law than it had been in the nineteenth century.

As stated, this analysis of the evolution of modern trade secret law is based on an analysis of the UTSA. It is noteworthy that not all states have adopted the UTSA, and some retain the property justification of the trade secrets doctrine under certain circumstances.<sup>134</sup> For example, although Missouri adopted the UTSA in 1995, if an instance of trade secret misappropriation began prior to the UTSA adoption, Missouri common law applies.<sup>135</sup> In *Group One Ltd. v. Hallmark Cards*<sup>136</sup> the court suggested that Missouri common law would adopt the property theory rather than the breach of a confidential relationship theory of trade secret law.<sup>137</sup> Further, the 1995 Restatement on Unfair Competition rejects the “bad behavior” element of the trade secret analysis and returns to the more basic property approach.<sup>138</sup> Therefore, in evaluating whether the supplementation of trade secret law with contract law is appropriate, it is important to consider the theories of specific jurisdictions. Nevertheless, the vast majority of states and jurisdictions have adopted the UTSA, thus rendering the strict property-based approach the exception to modern trade secret analyses.

#### IV. CONCLUSION

Supplementing trade secret law with NDAs is a valid mechanism for protecting information that does not qualify as a trade secret. Because the application of trade secret law is often ambiguous prior to litigation, allowing parties to contractually define protected information provides certainty. Further, the protection afforded by trade secret law (as compared to other areas of intellectual property law) suggests that supplementation of protection through contract is appropriate. It is also unlikely that NDAs will severely impede the flow of information that should not be protected. Agreements that restrict former employees are not favored in the law, and courts will not enforce any agreement that appears unreasonable based on the scope of the restraint. Importantly, proprietary information that does not qualify as a trade secret is protected independently of contract elsewhere in the law. Therefore, allowing contractual protection of such information does not expand protected information. It simply allows parties

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133. Bone, *supra* note 6, at 244.

134. *Group One v. Hallmark Cards, Inc.*, 254 F.3d 1041, 1049-50 (Fed. Cir. 2001).

135. *Id.*

136. *Id.*

137. *Id.* at 1051-52.

138. *See supra* note 33 and accompanying text.

to define protected information in an otherwise murky area of the law. Finally, the modern justifications underlying trade secret law suggest a role for contract law within the doctrine. Therefore, there is little danger in allowing parties in employment relationships to clarify and define *ex ante* protected proprietary information.