The Relationship Between Employment Agreements and Trade Secret Litigation in Minnesota: The Evolution of Trade Secret Law from Cherne to Electro-Craft

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THE RELATIONSHIP BETWEEN EMPLOYMENT AGREEMENTS AND TRADE SECRET LITIGATION IN MINNESOTA: THE EVOLUTION OF TRADE SECRET LAW FROM CHERNE TO ELECTRO-CRAFT

PATRICK GARRY†

Employment agreements have a significant impact on trade secret litigation. Minnesota common law provides two causes of action for employers seeking to protect trade secrets: breach of contract and tort misappropriation. The Uniform Trade Secrets Act, enacted in Minnesota in 1980, now provides employers with an independent tort cause of action for trade secret misappropriation. This Article examines the evolution of trade secret case law in Minnesota, the effect of the Uniform Act, and the recent decision of the Minnesota Supreme Court in Electro-Craft Corp. v. Controlled Motion, Inc. It concludes that properly drafted employment agreements are essential for an employer to protect confidential information.

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I. INTRODUCTION

Protection of trade secrets has become increasingly important to employers, especially those involved in high technology manufacturing. To prevent disclosure of trade secrets, employers often require their employees to sign restrictive employment agreements. These agreements frequently contain non-competition clauses, confidentiality clauses, or both. Generally, Minnesota courts look

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with disfavor on restrictive covenants in employment contracts because such covenants operate as a restraint of trade. To be enforceable, the agreements must be reasonable in time and geographic area and must protect a legitimate interest of the employer. The protection of trade secrets or confidential information constitutes one such legitimate interest. If an employee breaks a restrictive employment agreement protecting trade secrets, the employer can sue the employee on the contract.

The employer, however, does not need a signed agreement in order to protect trade secrets. A common law tort remedy formerly was available in Minnesota, and the Uniform Trade Secrets Act (Uniform Act) now provides employers with an independent action in tort for trade secret misappropriation. Given the substantial number of patents that are invalidated by the courts, many businesses now elect to protect commercially valuable information by relying on the state laws protecting trade

1. Minnesota Mining & Mfg. Co. v. Kirkevold, 87 F.R.D. 324, 332 (Minn. 1980). In discussing both covenants not to compete and covenants not to use or disclose confidential information, the Kirkevold court stated that "generally, as these covenants not to compete tend to operate as a restraint of trade and have substantial harmful effects, they are to be carefully scrutinized . . . ." Id.; see also Roth v. Gamble-Skogmo, Inc., 532 F. Supp. 1029, 1031 (D. Minn. 1982) ("Minnesota courts look with disfavor on restrictive covenants in employment contracts because they operate as a restraint of trade"). See generally Note, Employment Contracts: Covenants Not to Compete in Minnesota, 9 WM. MITCHELL L. REV. 388 (1984).

2. Kirkevold, 87 F.R.D. at 332. The Kirkevold court set forth the following test for upholding restrictive covenants not to compete: "The test applied is whether or not the restraint is necessary for the protection of the business or good will of the employer, and if so, whether the stipulation has imposed upon the employee any greater restraint than is reasonably necessary to protect the employer's business . . . ." Id. (quoting Bennett v. Storz Broadcasting Co., 270 Minn. 525, 534, 134 N.W.2d 892, 899 (1965)); see also Medtronic, Inc. v. Gibbons, 527 F. Supp. 1085 (D. Minn. 1981) (restrictive covenant narrowly construed); Walker Employment Serv., Inc. v. Parkhurst, 300 Minn. 264, 219 N.W.2d 437 (1974) (restrictive covenant enforceable if not unreasonable in terms of area or time).

3. See Modern Controls, Inc. v. Andreadakis, 578 F.2d 1264 (8th Cir. 1978). The Modern Controls court recognized that protection of trade secrets is a legitimate interest underlying restrictive employment agreements. The court further reasoned that even "confidential business information which does not rise to the level of a trade secret can be protected by a properly drawn covenant not to compete." Id. at 1268.

4. In Cherne Indus., Inc. v. Grounds & Assoc., Inc., 278 N.W.2d 81 (Minn. 1979), the Minnesota Supreme Court defined the common law cause of action for trade secret misappropriation. Id. at 90. Cherne was decided prior to Minnesota's adoption of the Uniform Trade Secrets Act. See infra notes 16-27 and accompanying text.


TRADE SECRETS

In *Electro-Craft Corp. v. Controlled Motion, Inc.*, the Minnesota Supreme Court decided its first case under the Uniform Act. The court considered the issue of whether employment agreements allow an employer to bring a tort cause of action for misappropriation under the Uniform Act. A crucial issue was whether a signed employment agreement could impose a special duty of confidentiality and non-competition upon a former employee, and whether that agreement created a trade secret where none had previously existed. In several cases preceding *Electro-Craft*, Minnesota courts have granted injunctions to prevent former employees from competing with their employers. Each case involved employment agreements. In *Electro-Craft*, however, the court denied injunctive relief to the plaintiff/employer even though the employer had obtained a signed employment agreement from the defendant, a former employee. *Electro-Craft* is an important decision not only because it is the first Minnesota Supreme Court interpretation of the Uniform Act, but also because it sheds additional light on the role of employment agreements in trade secret litigation.

This Article reviews the role that employment agreements play in trade secret litigation. It examines the effect of those agreements on an employer's cause of action for trade secret misappropriation against a former employee. Recent developments in Minnesota trade secret law suggest that employment agreements, especially those containing non-competition clauses, provide more effective protection for an employer's "confidential information" than does reliance solely upon the state trade secret protection laws. After an examination of recent case law dealing with em-

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7. *See* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974). *Kewanee Oil* establishes that neither the patent clause of the United States Constitution nor the federal patent laws preempt state trade secret protection for patentable or unpatentable information. See *id.* This case may well have increased the extent of employers' reliance on state law.

8. 332 N.W.2d 890 (Minn. 1983).

9. MINN. STAT. §§ 325C.01-.08 (1982). For a discussion of the Uniform Trade Secrets Act, see infra notes 60-70 and accompanying text.

10. 332 N.W.2d at 901.

11. *Id.* at 903.

12. *See* Modern Controls, 578 F.2d at 1270; Kirkevold, 87 F.R.D. at 339; Cherne, 278 N.W.2d at 93.

13. The employment agreements typically contained agreements not to disclose confidential information and covenants not to compete. *See* 578 F.2d at 1266; 87 F.R.D. at 328; 278 N.W.2d at 86.

14. 332 N.W.2d at 904. The employment agreement, however, did not contain a covenant not to compete. *Id.* at 895.
ployment agreements in trade secret litigation, this author concludes that, even if unenforceable in a breach of contract action, employment agreements may still create a cause of action for trade secret misappropriation.

II. THE COMMON LAW OF TRADE SECRETS IN MINNESOTA

The *Electro-Craft* case and the Uniform Act are not a sharp departure from past common law.\(^{15}\) They reflect the latest steps in the evolution of trade secret law in Minnesota. Prior to the Act, a handful of cases constituted the common law of trade secret misappropriation in Minnesota. Those cases reveal the close interplay between employment agreements and trade secret litigation in Minnesota.

The recent evolution of trade secret law in Minnesota began with the case of *Cherne Industrial, Inc. v. Grounds & Associates.*\(^{16}\) In *Cherne*, the Minnesota Supreme Court held that an employer's list of customers is confidential information and prohibited some former employees from using such lists.\(^{17}\) The employer, Cherne Industrial, developed and marketed operations and maintenance manuals for newly constructed sewage treatment plants. Cherne policy required key employees to sign an employment agreement prohibiting the use or disclosure of any confidential information and restricting their right to compete with Cherne for two years following termination of employment.\(^{18}\) Each of the defendants signed such an agreement. When the defendants left Cherne's employ they took certain information used in Cherne's operations and maintenance manual business. Cherne brought an action to enjoin the defendants from using the information and from competing with the company in the marketing and production of operations and maintenance manuals.\(^{19}\)

\(^{15}\) *Unif. Trade Secrets Act*, Commissioner's Prefatory Note, 14 U.L.A. 538 (1979) [hereinafter cited as Commissioner's Prefatory Note]. The Uniform Act codifies the basic rules of the common law of trade secrets. *Id.*

\(^{16}\) 278 N.W.2d 81.

\(^{17}\) See *Modern Controls*, 578 F.2d at 1264; *Kirkwood*, 87 F.R.D. at 324. These cases rest upon a breach of contract theory rather than on a tort cause of action for trade secret misappropriation. In these cases, the plaintiff/employer sued former employees to enforce a restrictive employment covenant signed by the employees. 578 F.2d at 1266; 87 F.R.D. at 326.

\(^{18}\) See *Jostens, Inc. v. National Computer Sys., Inc.*, 318 N.W.2d 691 (Minn. 1982); *Electro-Craft*, 332 N.W.2d 890.

\(^{19}\) *Cherne*, 278 N.W.2d at 91, 93. Over a number of years, Cherne had compiled a list of consulting engineers who were customers or prospective customers for Cherne's product.
The Minnesota Supreme Court upheld the injunction granted to Cherne by the trial court. While the trial court had granted its injunction for the defendants' violation of the covenant not to compete, the Minnesota Supreme Court analyzed the propriety of the injunction in terms of whether the defendants had violated their duty not to use or disclose confidential information obtained from their employer. To determine whether the defendants had wrongfully used Cherne's confidential information, the court first decided whether the customer lists amounted to a trade secret or confidential information. The court established a four-part test for determining whether information constitutes a trade secret or confidential information: (1) the protected matter is not generally known or readily ascertainable; (2) the information provides a demonstrable competitive advantage; (3) the information was gained at the expense of the employer; and (4) the information is such that the employer intended to keep it confidential.

When employees of Cherne left to start their own business and took the customer list with them, Cherne sued to enjoin them from using that information. The employment agreement signed by the individual defendants provided in part:

FOR a period of two years after termination of my employment by 'C',

a) If I have been or am employed by 'C' in a sales capacity, I will not render services, directly or indirectly, to any CONFLICTING ORGANIZATION in connection with sale, merchandising or promotion of CONFLICTING PRODUCTS to any customer of 'C' upon whom I called, or whose account I supervised on behalf of 'C' at any time during the last two years of my employment by 'C'.

b) If I have been or am employed by 'C' in a non-sales capacity, I will not render services to any manufacturer or merchandiser of a product which competes in the sales market with a 'C' product.

In addition to this covenant not to compete, Cherne also had its employees sign an agreement prohibiting them from using or disclosing any confidential information and from taking such information from Cherne upon termination of employment. The contract defined "confidential information" as: "Information not generally known, about 'C' processes and products, including information relating to research, development, manufacture, purchasing, accounting, engineering, marketing, merchandising and selling." 

Cherne's claim asserted two theories of relief against the defendants. First, Cherne contended that the defendants had breached the covenant not to compete contained in the employment agreement. Second, the company argued that the defendants had taken and used confidential data and trade secrets belonging to Cherne.

The trial court's injunction was based on its finding that the defendants had breached their employment agreements with Cherne by taking and using confidential information belonging to Cherne. For a more extensive discussion of a former employee's duty not to use or disclose customer lists, see Annot., 28 A.L.R. 3d 7 (1969). The court recognized that a trial court could grant an injunction against a defendant who, in violation of either an express agreement or a common law duty,
The *Cherne* court found that the information taken by the defendants constituted confidential information and that the defendants had breached their employment agreements by wrongfully taking and using the information.\(^{24}\) The court also recognized that an injunction may be granted against a party who has wrongfully used confidential information or trade secrets obtained from his employer, even in the absence of a confidentiality agreement.\(^{25}\) Thus, the court implied that information which fits the *Cherne* definition of trade secrets or confidential information can be protected either by a tort action for disclosure of confidential information or by a breach of contract action if a valid employment agreement exists.

*Cherne* gave rise to two branches of trade secret cases. One uses the *Cherne* definition of trade secrets to determine whether an employer's restrictive employment agreement is justified by a legitimate interest in trade secret protection.\(^{26}\) This group of cases uses the definition of a trade secret in the context of breach of contract actions. The second branch of cases uses the *Cherne* trade secrets definition to determine whether the employer has established a tort cause of action for trade secret misappropriation in the absence of an employment agreement.\(^{27}\) While the remedy in both

\(^{24}\) The court found it necessary to first define two central concepts: confidential information and trade secret. While confidential information was defined in the employment agreement, the term "trade secret," according to the court, has "no universally recognized definition." 278 N.W.2d at 89.

\(^{25}\) Id. at 90. The court referred to previous judicial definitions of confidential information and quoted the Restatement (Second) of Torts definition of trade secrets. The court stated that "certain common elements can be distilled from these definitions and fashioned into a workable test encompassing both concepts." Id. (quoting *Restatement (Second) of Torts* § 757 (1977)).

\(^{26}\) 278 N.W.2d at 90-91. The court issued the injunction on the basis of breach of the covenant not to disclose confidential information, not on the basis of a breach of the covenant not to compete. Accordingly, the court stated: "Since we have determined that the injunction in this case could be issued as a remedy for a breach of the duty not to use confidential information, we need not decide whether this injunction could be issued as a remedy for the breach of the covenant not to compete." Id. at 93.

\(^{27}\) Id. at 92. The court also stated that an injunction may be granted against a party who, in violation of either an explicit agreement or a common law duty, wrongfully used confidential information or trade secrets. Id. Both trade secrets and confidential
lines of cases is the same—the issuance of an injunction—the burden of proving the existence of a trade secret is greater in cases involving misappropriation.

A. The Breach of Employment Agreement Analysis

*Minnesota Mining & Manufacturing Co. v. Kirkevold* provides the framework for analyzing breach of employment agreement cases in Minnesota. In *Kirkevold*, the United States District Court for Minnesota granted an injunction restraining a former employee from competing with his former employer, Minnesota Mining and Manufacturing Company (3M). The court found that 3M had

For a discussion of cases considering an employee's duty, in the absence of an express contract, not to use or disclose trade secrets or confidential information belonging to a former employer, see Annot., 30 A.L.R.3d 631 (1970). Restatement (Second) of Agency § 396 (1977) states that after termination of the agency the agent has a duty not to use or disclose trade secrets or confidential information given to the agent only for the principal's use. Restatement (Second) of Agency § 396 (1977).

28. 87 F.R.D. at 324. The plaintiff, Minnesota Mining and Manufacturing Co. (3M), was engaged in the manufacturing and worldwide marketing of magnetic media. This included various forms of information storage devices used in the operation of computers. Id. at 326-27. The various categories of magnetic media products manufactured by 3M are comprised of magnetic tape, flexible discs, and rigid discs. These products can store information after the information is magnetically recorded. Id. The court recognized that the magnetic media industry is a competitive and rapidly changing technological field. Id.

29. Id. at 339. In its decision, the court applied Minnesota law. Minnesota law was used to determine whether the plaintiff had established a probability of success on the merits so as to justify the issuance of an injunction. Id. at 330-32.

Defendant Kirkevold was a chemist employed by 3M in its manufacturing and marketing of magnetic media. See id. at 327-28. When he was hired by 3M, Kirkevold signed an employment agreement containing a covenant not to disclose confidential information and a covenant not to compete. Id. at 328. The pertinent provisions of the 3M-Kirkevold employment agreement provided as follows:

B. EXCEPT as required in my duties to 3M, I will never use or disclose any CONFIDENTIAL INFORMATION.

E. For a period of two years after termination of my employment by 3M:

b. If I have been or am employed by 3M in a non-sales capacity, I will not render services, directly or indirectly, to any CONFLICTING ORGANIZATION except that I may accept employment with a CONFLICTING ORGANIZATION whose business is diversified, and which as to part of its business is not a CONFLICTING ORGANIZATION, provided 3M, prior to my accepting such employment, shall receive separate written assurances satisfactory to 3M from such CONFLICTING ORGANIZATION and from me, that I will not render services directly or indirectly in connection with any CONFLICTING PRODUCT.

If I am unable to obtain employment consistent with my training and education, solely because of provisions of this paragraph E, such provisions shall bind me only as long as 3M shall make payments to me equal to my monthly base pay at
established, with a probability of success, that the employment agreement was reasonable and hence enforceable.\textsuperscript{30} This reasonableness determination was based upon the \textit{Cherne} test for confidential information, since a reasonable restrictive agreement must serve a legitimate interest of the employer, such as the protection of trade secrets.\textsuperscript{31}

The \textit{Kirkevold} court first analyzed the enforceability of the covenant not to compete.\textsuperscript{32} The test for such agreements is whether the agreement is reasonable and necessary for the protection of a legitimate business interest of the employer.\textsuperscript{33} In upholding the covenant not to compete, the court found that the covenant was necessary to protect confidential information, that the information was confidential under the \textit{Cherne} test, and that the employee had access to the confidential information.\textsuperscript{34}

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termination (exclusive of extra compensation or employee benefits) for each month of such unemployment.  
\textit{Id.} at 328-29.

The covenant not to render services to any competing organization for a two-year period after leaving the employment of 3M was the critical provision at issue and the one which 3M sought to enforce against Kirkevold. \textit{Id.} at 329.

When Kirkevold went to work for a competing company, 3M sought a preliminary injunction against him. \textit{Id.} at 326. After Kirkevold left his employment at 3M, he began working for Verbatim Corporation as a senior staff chemist. \textit{Id.} at 327. Verbatim was a competitor of 3M in the manufacturing and marketing of magnetic media. \textit{Id.} at 327. At the time of suit, Verbatim was a leader in the flexible disc area of the industry. Verbatim and 3M were both in the process of developing a rigid disc product. \textit{Id.} at 328. Verbatim hired Kirkevold to assist in the development of its rigid disc. \textit{Id.} at 327. After Kirkevold went to work for Verbatim, 3M sought to enforce the covenant not to compete against Kirkevold. \textit{Id.} at 329.

\textsuperscript{30} The employment agreement referred to by the court had been signed by defendant Kirkevold when he began working for 3M. The agreement contained both a covenant not to disclose confidential information and a covenant not to compete. \textit{Id.} at 328.

\textsuperscript{31} In Bennett v. Storz Broadcasting Co., 270 Minn. 525, 534, 134 N.W.2d 892, 899 (1965), the court established the rule that covenants not to compete must be reasonably necessary to protect the business or goodwill of an employer. Since the protection of trade secrets is necessary for the protection of the employer's business, the reasonableness of a covenant not to compete depends on whether trade secrets actually existed. \textit{Modern Controls}, 578 F.2d at 1268. To determine the existence of trade secrets, the \textit{Kirkevold} court used the \textit{Cherne} four-part test. \textit{87 F.R.D.} at 334.

\textsuperscript{32} \textit{87 F.R.D.} at 332-34. Since the plaintiff did not establish a breach of the covenant not to disclose confidential information, the court focused only on the enforceability of the covenant not to compete. \textit{Id.} at 332 n.2.

\textsuperscript{33} \textit{Id.} at 332. Such covenants tend to restrain trade and have substantial harmful side effects, so the courts carefully scrutinize them. \textit{Id.; see, e.g., Cherne}, 278 N.W.2d 81; \textit{Walker Employment Serv.}, 300 Minn. 264, 219 N.W.2d 437; Eutectic Welding Alloys Corp. v. West, 281 Minn. 13, 160 N.W.2d 566 (1968); \textit{Storz Broadcasting Co.}, 270 Minn. 525, 134 N.W.2d 892.

\textsuperscript{34} \textit{87 F.R.D.} at 335. The first step the \textit{Kirkevold} court used in determining the enforceability of the non-competition covenant was to assess whether the employee had ac-
Applying the Cherne test, the Kirkevold court found that the information 3M sought to protect by the employment agreement was indeed confidential and protectable. The court's examination of the information's trade secret status, however, was aimed at determining whether the employment agreement was reasonable. The court did not examine whether 3M had a probability of success on the merits of a trade secret misappropriation cause of action. In effect, this case emphasized the distinction implied in Cherne between the tort action and the breach of contract action.

Additionally, the Kirkevold court set a lower standard of proof for what constitutes a trade secret in the context of employment agreements. "An employer need only show that an employee had access to confidential information and a court will then determine the overall reasonableness of the covenant in light of the interest sought to be protected." This standard is lower than the burden of proof necessary to prove the existence of a trade secret in a misappropriation cause of action. Consequently, employment access to confidential information. Id. at 333; see also Modern Controls, 578 F.2d at 1268. The court then used the Cherne test to determine whether the information concerned was indeed confidential, triggering a restrictive covenant. 87 F.R.D. at 334.

35. 87 F.R.D. at 335. The court noted that protectability is dependent on the first two Cherne elements: "(1) the protected matter is not generally known or readily ascertainable, [and] (2) it provides a demonstrable competitive advantage." Id. at 334. The court found that 3M's material satisfied both elements. Id. at 334-35.

36. The court's determination of the probability of success on the merits focused on the reasonableness of the covenant not to compete. See id. at 334-37.

37. Id. at 333 (quoting Modern Controls, 578 F.2d at 1268). In finding that the covenant not to compete was aimed at protecting trade secrets, the court first had to determine that a trade secret existed. The court used the Cherne test for making such a determination. In so doing, however, the court recognized that "[t]o require an employer to prove the existence of trade secrets prior to enforcement of a covenant not to compete may defeat the only purpose for which the covenant exists." Id. Thus, the court did not require that the plaintiff, before obtaining an injunction, strictly prove the existence of a trade secret.

38. This differential standard reflects a prior holding by the Eighth Circuit, interpreting Minnesota law, that "confidential business information which does not rise to the level of a trade secret can be protected by a properly drawn covenant not to compete." Modern Controls, 578 F.2d at 1268.

The Kirkevold court, after quoting at length from Modern Controls, stated, "In the present context, as in Modern Controls, the reasonableness of the covenant not to compete contained in the 3M-Kirkevold employment agreement is premised on 3M's need to protect against the possible disclosure of its trade secrets or confidential information." 87 F.R.D. at 334. The Kirkevold court also held that given Kirkevold's knowledge of and access to 3M's confidential information, the decision in Modern Controls mandated a finding that the 3M-Kirkevold covenant not to compete is reasonable for the protection of 3M's confidential information. Id. at 335.

Modern Controls involved a covenant not to compete similar to the one in Kirkevold. 578 F.2d at 1266. The covenant specified that Andreadakis would not work for a competitor
agreements can be used to protect an employer’s confidential in-

of Modern Controls for a two-year period following his termination of employment with Modern Controls. Id. The court of appeals granted a preliminary injunction after finding that Modern Controls had established the reasonableness and enforceability of its covenant not to compete. Id. at 1270-71. The court premised its issuance of an injunction on its findings that Modern Controls had shown with a probability of success on the merits that the covenant was reasonable and enforceable. Id. at 1267-70. According to the Eighth Circuit test, an injunction will be granted only if the moving party shows a probability of success on the merits and if irreparable injury will be suffered if the injunction is denied. Id. at 1267 (quoting Fennell v. Butler, 570 F.2d 263, 264 (8th Cir. 1978)).

In holding that Modern Controls had established the existence of its confidential information, the court recognized that confidential business information which does not rise to trade secret status can nonetheless be protected by a covenant not to compete. Id. at 1268. An employer need only show that an employee had access to confidential information. The court will then determine the overall reasonableness of the covenant in light of the employer’s interest sought to be protected. Id. (citing Eutectic Welding Alloys Corp., 281 Minn. at 18-20, 160 N.W.2d at 570-71). The court recognized that “[t]o require an employer to prove the existence of trade secrets prior to enforcement of a covenant not to compete may defeat the only purpose for which the covenant exists.” Id. Modern Controls proved by affidavit that Andreadakis had access to confidential information. Id. at 1269. See generally Blake, Employee Agreements Not to Compete, 73 HARV. L. REV. 625, 667-74 (1960) (discussing interchangeably “trade secret” and “confidential business information” as related to covenants not to compete).

In Kirkevold, as in Modern Controls, the court upheld the reasonableness of the covenant not to compete. The court found that the covenant was premised on the employer’s legitimate need to prevent possible disclosure of its trade secrets or confidential information. This finding was based upon the court’s use of the Cherne four-part test to determine that the information to which defendant had access probably constituted trade secrets or confidential information. Kirkevold, 87 F.R.D. at 338. According to the court in Modern Controls, a lower burden of proof applies to information which is subject to an employment agreement than to information which must be proved to be a trade secret in a plaintiff’s cause of action for trade secret misappropriation. 578 F.2d at 1268. Thus, a covenant not to compete can protect information which does not rise to the level of trade secret, whereas a cause of action for trade secret misappropriation requires first that the plaintiff strictly prove the existence of a trade secret. See infra notes 43-49 and accompanying text.

In Roth v. Gamble-Skogmo, Inc., 532 F. Supp. 1029 (D. Minn. 1982), the court upheld the enforceability of a non-competition clause contained in an employment contract. Id. at 1032. The employment agreement included the following provisions:

The Employee agrees that . . . he will not become an officer, director or stockholder of a corporation, nor a member of a partnership, nor a trustee of a business trust, nor a participant in joint venture which conducts a Competing Business, nor the proprietor of a Competing Business, nor an employee of such a corporation, partnership, trust, joint venture or Competing Business.

Id. at 1031.

The Roth court’s decision rested on the reasonableness of the restrictive covenant. Reasonableness depends on whether the covenant upholds a legitimate interest of the employer. Id. at 1032. The court stated that the employer has a legitimate business interest in protecting confidential business information from disclosure. According to the court, an employer may protect two types of legitimate interests through a restrictive covenant. The first interest is trade secrets or confidential information; the second is the employer’s goodwill. Id. at 1031. In holding that the covenant was reasonable, the court applied the Modern Controls and Kirkevold test. First, the court found that the covenant did serve the employer’s interest in protecting certain confidential information from disclosure. Id. at
formation which does not rise to the level of a trade secret under the definition in the Uniform Act. Though the information sought to be protected must constitute confidential information, it need not meet the strict test of trade secrets.

B. The Tort Cause of Action for Trade Secret Misappropriation Analysis

The second line of post-Cherne cases involves the availability of a misappropriation cause of action for protection of an employer's trade secrets. Jostens, Inc. v. National Computer Systems dealt exclusively with a trade secret misappropriation cause of action. Plaintiff Jostens, a manufacturer of school products, sued several former employees and their current employer for misappropriation of trade secrets used in the design and manufacture of class ring molds. Jostens claimed that its three computer subsystems, which comprised its computerized mold-making manufacturing system, constituted trade secrets. The Jostens court adopted a

1032. Second, the court found that the defendant had access to the confidential information. Id. The court found that Roth, as chief executive officer, had access to confidential company information and policies. The court noted that enforcing the restrictive covenant against Roth, an employee "at the highest levels of the company," would not lead to the "form of industrial peonage" criticized in other previous cases. Id.

39. 318 N.W.2d 691 (Minn. 1982).

40. jostens was not decided under the Minnesota Uniform Trade Secrets Act, MINN. STAT. §§ 325C.01-.08 (1982), because the Act was enacted after the cause of action arose.

Although Cherne recognized a common law duty not to disclose confidential information, the case was decided on a breach of contract theory. See supra notes 25-26 and accompanying text. In Jostens, the court decided the case solely on a misappropriation theory. 318 N.W.2d at 701-04. Such a result was necessary because the court had declared the employment agreement invalid. Id. at 703.

Jostens involved the application of the trade secret doctrine of Cherne to the rapidly expanding and highly complex field of computer technology. Id. at 698-701. For a discussion of cases analyzing the circumstances under which the use or disclosure of computer application software constitutes the misappropriation of a trade secret, see Annot., 30 A.L.R.4th 1250 (1984).

41. 318 N.W.2d at 694.

42. Id. at 697. The former employees had signed a confidentiality agreement when hired by Jostens acknowledging that all papers prepared by the employees were the property of Jostens and that the employees would not disclose any information concerning Jostens' business. Id. at 695. The defendant-employees each signed the following agreement:

All papers and apparatus relating to Jostens' business, including those prepared or made by me, shall be the property of Jostens and except as required by my work, I will not reveal them to others nor will I reveal any information concerning Jostens' business including its inventions, shop practices, processes and methods of manufacturing and merchandising.

Id. at 703. The court, however, declared this agreement unenforceable for lack of consideration. Id. at 703-04. The court found that the defendants signed the agreements after
three-prong test for determining a cause of action for trade secret misappropriation. 43 First, a trade secret must exist. In making this determination, the court used the Cherne four-part test. 44 Second, the defendant must have acquired the trade secret as a result of a confidential relationship. 45 Third, the defendant must have used and disclosed the trade secret. 46 The second and third elements outlined in Jostens revolve around the misappropriation element. 47 According to the court, the misappropriation element focuses on the breach of a confidential relationship, rather than the existence of a trade secret. 48 The Jostens court stated that the various elements "should not be artificially separated for purposes of analysis since, in the significant sense, they are interdependent." 49

The issue of whether the defendants had acquired the trade secret as a result of a confidential relationship was fundamental in assigning liability. The Jostens court recognized that such a confidential relationship may be imposed either contractually or by a

beginning employment with Jostens, and that they neither gained wages nor a promotion as a result of their signing. 43 Id. at 703. The court held that the mere continuation of employment was not sufficient consideration for the employment agreements. 44 Id. at 703-04; cf. Davies & Davies Agency, Inc. v. Davies, 298 N.W.2d 127, 130 (Minn. 1980) (non-competition contract provided employee with real advantages).

43. 318 N.W.2d at 701. This three-prong test was first set out in Eutectic, 281 Minn. at 18, 160 N.W.2d at 570. See also 1 R. Milgrim, TRADE SECRETS § 7.07(1) (1967) (use or disclosure must also cause detriment).

44. 318 N.W.2d at 698. The court recognized that the Cherne test has been given statutory recognition under the Uniform Trade Secrets Act, Minnesota Statutes § 325C.01, subd. 5. Id. at 698. The court also noted, however, that the statutory definition of trade secret apparently "does not require Cherne’s third element, that the information was gained at expense to the owner." Id. at 698 n.4.

45. Id. at 701.

46. Id.

47. Id.

48. Id. The protection given to trade secrets does not aim to reward secret information, but rather seeks to protect against breaches of faith and the use of improper methods to obtain information. Id. Trade secret law attempts to maintain standards of loyalty and trust in the business community. Id.; see also R. Milgrim, supra note 43, at § 12.01.

In Jostens, the Minnesota Supreme Court followed several previous cases when it used the three-part test for trade secret misappropriation. See 318 N.W.2d at 701; see also Eaton Corp. v. Appliance Valves Corp., 526 F. Supp. 1172 (N.D. Ind. 1979); Eutectic, 281 Minn. at 18, 160 N.W.2d at 570. In Eaton, the court held that Minnesota law required a plaintiff alleging a misappropriation cause of action to show: (1) the existence and ownership of a trade secret; (2) the acquisition of the trade secret as a result of a confidential relationship; and (3) the unauthorized use of the trade secret. Id. at 1178.

49. 318 N.W.2d at 701 (citing R. Milgrim, supra note 43, at § 7.07(1)). The issue whether a confidential relationship exists involves consideration of the same factors as does the issue whether a trade secret exists and whether the plaintiff has proved the fourth Cherne element: the plaintiff’s intent to keep the information confidential.
common law duty not to wrongfully use confidential information. Since no valid confidentiality agreement existed, the court focused on whether the defendants had breached their common law duty to refrain from wrongfully using confidential information obtained from their employer. The court looked to the information which the defendant acquired in his employment and determined whether that information was confidential. The test used by the court was whether the information was such that "an employee knew or should have known [that it] was confidential." The test applied in *Jostens* is very similar to the fourth element in the *Cherne* test for trade secret status. Applying this test to the facts in *Jostens*, the court found that the information was not confidential.

Although the *Jostens* court decided the confidentiality issue based on common law duty instead of contractual duty, the court discussed the possible effects of a valid confidentiality agreement. According to the court, even confidentiality agreements

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50. *Id.* at 701, 703. One author has given some practical pointers regarding an employer's reliance on trade secret protection. Annot., 30 A.L.R.4th 1250 (1980). To get the protection of the trade secret laws, an employer should design office procedures to protect the confidentiality of the information. The employer should have employment contracts for employees working in a confidential area which emphasize the secret nature of the information. *Id.* at 1253-54.

51. 318 N.W.2d at 701-02.

52. *Id.* at 702. This test requires that an employee receive adequate notice of the secret nature of the information and which information is to remain confidential. *Id.*; see also R. Ellis, *Trade Secrets* 79 (1953).

53. The fourth element of the *Cherne* test for trade secret status is whether the owner or employer intended to keep the information confidential. *Cherne*, 278 N.W.2d at 90.

54. 318 N.W.2d at 702. The court reached this holding after making the following factual findings. First, Jostens did not really know what information it wanted to keep secret. *Id.* at 702. Second, some of the information was identical to information which Jostens had treated as public. *Id.* Third, Jostens had developed no policy of secrecy. *Id.* at 700. Fourth, Jostens was lax about protecting the information from disclosure to customers. *Id.* Fifth, Jostens approved publication of an article by the defendant explaining the information. *Id.* Sixth, none of the information was marked "confidential." *Id.* at 701. Finally, some of the employees working with the information were never asked to sign confidentiality agreements even though Jostens had used such agreements elsewhere. *Id.*

55. *Id.* at 703. The court held that the employment agreement lacked consideration, since the defendants had signed the agreements after beginning their employment with Jostens. The defendants had received no raises, promotions, or increased job security which might have constituted valid consideration for the agreement. *Id.*; see also Davies & Davies Agency, 298 N.W.2d at 130 (holding that adequacy of consideration for non-competition agreement depends on facts of individual case). In Davies & Davies Agency, the court noted that the contract provided the employee with tangible advantages. *Id.* at 131.

56. 318 N.W.2d at 700. First, such agreements can help establish the existence of a trade secret by proving an employer's attempt to keep the information secret. Second, the
cannot keep an employee from taking his or her experience and skills to another employer. The court concluded that Jostens' employment agreement did not give the employee fair notice of the confidential nature of the relationship and of what material was to be kept confidential.

The question remains as to whether Jostens would have succeeded on a breach of contract claim had a valid employment agreement existed. Two factors indicate that the existence of such an agreement could have made the difference. First, in Cherne and Kirkevold the court did not require that the plaintiffs prove that a confidentiality agreement can show the misappropriation element by evidencing a confidential relationship between the employer and employee. Id.

57. Id. at 701-02. A confidentiality agreement will not protect the experience and skills acquired by an employee to the extent that such skills are derived from generally known sources. Id.

58. Id. at 701.

Jostens illustrates the impact of an employment agreement on the issue of whether a trade secret exists. The court first analyzed plaintiff's claim that Jostens' computer graphics subsystem constituted a trade secret. Id. at 698-701. Applying the Cherne four-part test, the court found that the plaintiff failed to prove the first and fourth requirements. Id. The court discussed only the first and fourth Cherne requirements. Since the court found that Jostens had failed to show that its computer system was not generally known and that Jostens had not intended to keep the information secret, it did not discuss the second and third Cherne requirements for trade secret status. Id. at 700. The court's discussion of the fourth requirement, the plaintiff/owners' intent to keep the information confidential, illustrates the potential importance of employment agreements in connection with this element. Id.

A plaintiff/employer can meet the fourth Cherne requirement only if it takes reasonable steps to maintain the secrecy of the information. Id. This requirement is now codified in Minnesota Statutes § 325C.01, subd. 5 (1982). Employees must understand that the information is intended to remain "secret." Id. The Jostens court cited decisions from other jurisdictions holding that signed employment agreements fulfill an employer's duty to apprise its employees of the confidential nature of the information. Id. The court cited Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp., 401 F. Supp. 1102 (E.D. Mich. 1975), and Pressure Science, Inc. v. Kramer, 413 F. Supp. 618 (D. Conn. 1976). Id. In Structural Dynamics Research Corp., the plaintiff/employer emphasized the confidential nature of the work in the individual confidential disclosure agreements that each employee signed. 401 F. Supp. at 1112-14. In contrast, the court in Pressure Science, Inc., found that the employer's failure to require all employees with access to allegedly confidential information to sign a nondisclosure agreement demonstrated a lack of concern for confidentiality. 413 F. Supp. at 627-28. The Jostens court also cited Kubik, Inc. v. Hull, 56 Mich. App. 335, 358, 224 N.W.2d 80, 92 (1974), which held that employees must understand that information not readily available to the public is to be kept confidential. 318 N.W.2d at 700.

Jostens' confidentiality agreement, however, did not sufficiently notify its employees as to what information should remain secret. Id. at 702. The court found that the plaintiff had not taken "reasonable steps" to guard against misappropriation of its alleged trade secrets. Id. at 701. This finding hinged in part on the fact that some of the employees working with the computer system were never asked to sign a confidentiality agreement, even though Jostens had required employees in other areas to sign such agreements. Id.
trade secret did indeed exist, only that a trade secret probably existed.\textsuperscript{59} Thus, with a valid agreement Jostens may have been able to ease its burden of proving all four \textit{Cherne} elements. The court did not rule out a finding that, had there been consideration, the employees might have breached the employment agreement even though they had not committed any trade secret misappropriation. An enforceable employment agreement may protect certain information that would not be protected under the law of trade secret misappropriation.

Second, even if a confidential agreement is not supported by consideration, the agreement still may help to establish either the secrecy element of trade secret status or the common law duty of confidentiality. After \textit{Jostens}, both these elements require that an employee have fair notice of the confidentiality. An agreement could, therefore, provide such notice even though the agreement is unenforceable for lack of consideration. The courts have never ruled out this possibility.

III. THE UNIFORM TRADE SECRETS ACT IN MINNESOTA

A. The Uniform Act

Minnesota was the first state to enact the Uniform Trade Secrets Act.\textsuperscript{60} Minnesota's version is essentially identical to the Uniform Act.\textsuperscript{61} The Uniform Act was drafted and adopted to address the increasing reliance on trade secret protection despite the doubtful and confusing status of both the common law and statutory remedies for trade secret misappropriation.\textsuperscript{62} The Uniform

\textsuperscript{59} See \textit{supra} notes 37-38 and accompanying text.


\textsuperscript{61} Minnesota's Act differs slightly from the Uniform Act in dealing with injunctive relief. \textit{Compare MINN. STAT.} § 325C.02(b) (future use of trade secret is conditional upon payment of a royalty for no longer than the period of time the use could have been prohibited by employment contract or upon payment of other compensation) \textit{with UNIF. TRADE SECRETS ACT} § 1(4) (future use of trade secret is conditional upon payment of a royalty for no longer than the period of time the use could have been prohibited by employment contract). The two acts also differ with respect to the amount of punitive damages recovery. \textit{Compare MINN. STAT.} § 325C.03(b) (the court may determine the amount of punitive damages) \textit{with UNIF. TRADE SECRETS ACT} § 3(b) (the punitive damages award may not exceed twice any award made under § 3(a)).

\textsuperscript{62} Commissioner's Prefatory Note, \textit{supra} note 15, at 537. The Uniform Act was ap-
Act codified the basic principles of common law trade secret protection.\(^63\) The Act imposes liability only if a trade secret exists and the defendant’s acquisition or disclosure of that trade secret is improper.\(^64\) According to the drafters, a significant contribution of the Act was the creation of “a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.”\(^65\) The Uniform Act also contains a comprehensive definition of a “trade secret”:\(^66\)

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 disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.\(^67\)

In addition, the Uniform Act provides for an array of relief, including money damages, injunctive relief, punitive damages,\(^68\) and attorneys’ fees in certain cases.\(^69\) It displaces all other conflicting

\(^63\) Id. at 538. “Under both the [Uniform] Act and common law principles, for example, more than one person can be entitled to trade secret protection with respect to the same information. . . .” Id. at 538. One of the broadly stated policies behind trade secret law is the maintenance of standards of commercial ethics. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974).

\(^64\) Commissioner’s Prefatory Note, supra note 15, at 538; see MINN. STAT. § 325C.01. These two elements were contained in the three-part test of Eutectic and Jostens.

\(^65\) Commissioner’s Prefatory Note, supra note 15, at 538. The three-year limitation period is contained in Minnesota Statutes § 325C.06.

\(^66\) UNIF. TRADE SECRETS ACT § 1(4). The Act’s definition of trade secret departs slightly from the first Restatement of Torts definition which required that the trade secret be continuously used in one’s business. RESTATEMENT OF TORTS § 757 (1939). The Uniform Act’s broader definition extends protection to a plaintiff who has not yet used the trade secret. UNIF. TRADE SECRETS ACT § 1, Commissioners’ Comment, 14 U.L.A. 543 (1979) [hereinafter cited as Commissioners’ Comment].

\(^67\) UNIF. TRADE SECRETS ACT § 1(4).

\(^68\) Id. §§ 2, 3. The corresponding sections in the Minnesota Act are found in Minnesota Statutes §§ 325C.02-.03. For a general discussion of damages, see Annot., 11 A.L.R.4th 13 (1982).

\(^69\) UNIF. TRADE SECRETS ACT § 4. Minnesota Statutes § 325C.04 provides: “[i]f (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney’s fees to the prevailing party.” MINN. STAT. § 325C.04.
laws of the enacting state pertaining to civil liability for misappropriation of a trade secret.⁷⁰

**B. Electro-Craft Corp. v. Controlled Motion, Inc.**

Like *Jostens, Electro-Craft Corp. v. Controlled Motion, Inc.*⁷¹ involved a cause of action for trade secret misappropriation.⁷² Electro-Craft Corporation (ECC) sought injunctive relief against Controlled Motion, Incorporated (CMI) and ECC’s former sales manager for misappropriation of trade secrets relating to designs on electric motors.⁷³ ECC’s former employee had signed an employment agreement when hired by ECC.⁷⁴ This agreement included a con-
fidentiality provision but not a non-competition agreement.\textsuperscript{75} The trial court granted a temporary injunction, finding that CMI and ECC's former employee had misappropriated ECC's trade secrets regarding the electric motor.\textsuperscript{76} The supreme court reversed.

The court held that the existence of a signed confidentiality agreement was not enough to establish a cause of action for trade secret misappropriation.\textsuperscript{77} Electro-Craft provided the Minnesota Supreme Court with its first opportunity to interpret the Uniform Act.\textsuperscript{78} Therefore, the case sheds light on the connection between the earlier common law of trade secrets and the current law under the Act. Electro-Craft also contains important implications for the role of employment agreements in trade secret litigation.

The Electro-Craft court used a two-prong test for determining whether the plaintiffs had established a claim for trade secret misappropriation.\textsuperscript{79} The court stated that the plaintiff must first

\begin{itemize}
\item\textsuperscript{75} Id. at 895; see supra note 74 for the text of the confidentiality agreement.
\item Confidentiality agreements seem to have less weight in favor of trade secret status than non-competition agreements, but the former can be bolstered by specific notifications of information which the employer seeks to keep confidential. See 332 N.W.2d at 903. The Electro-Craft court defined "confidentiality" as "the procedures by which the employer signals to its employees and to others that certain information is secret and should not be disclosed." Id.
\item Additionally, for the confidentiality agreement to support a misappropriation cause of action it must be accompanied by other reasonable actions of the employer geared to maintain secrecy. Id. Based on the following findings, the court held that Electro-Craft did not make reasonable efforts to maintain secrecy: (1) Electro-Craft did not limit employee or customer access to certain parts of the plant; (2) documents were not kept in a central or locked location; (3) discarded documents were not destroyed; (4) the public was often invited on informal tours and "open houses" at the plant; and (5) the exit interviews of departing employees did not constitute reasonable efforts to maintain secrecy. Id. at 902-03.
\item The court also recognized that an employer could protect information more effectively through employment contracts containing a non-competition clause. Such a contract requires only a single act by the employer. Id. at 901. Compare this with an employer's duties under trade secret law. To obtain trade secret protection, the employer must maintain a "continuing course of conduct . . . which creates a confidential relationship." Id.
\item Id. at 896. The trial court found that the defendant had misappropriated ECC's trade secrets and enjoined defendants from producing or selling any electric motors which resembled ECC's motors. Id.
\item Id. at 903. The court held that the employee agreements did not support their claim because ECC never treated the information as secret. Id.
\item MN. STAT. §§ 325C.01-.08; see 332 N.W.2d at 898. The court stated that the Act "carries forward, explains, and clarifies many of the rules of the common law of trade secrets." Where the Act modifies the common law, however, the statutory language controls. Id.
\item 332 N.W.2d at 897. The court required the plaintiff to prove the existence of a trade secret and the misappropriation of that trade secret. Id. This holding reflected the
\end{itemize}
prove the existence of a trade secret and second, must prove that the trade secret was misappropriated.\textsuperscript{80}

In addressing the issue of whether ECC had proved the first element of its cause of action for misappropriation—the existence of a trade secret—the court turned to the Uniform Act.\textsuperscript{81} Electro-Craft recognizes three elements for proving trade secret status under the Act. First, the information must not be generally known or readily ascertainable.\textsuperscript{82} Second, the employer must gain independent economic value from the secret information.\textsuperscript{83} Third, the employer must have expended reasonable efforts to maintain secrecy.\textsuperscript{84} The court discussed each of these statutory elements in determining whether ECC had proven the existence of a trade secret.\textsuperscript{85} The requirements of Minnesota's Uniform Trade Secret Act, Minn. Stat. § 325C.01. For liability to exist under the Act, a trade secret must exist and a person's acquisition, use, or disclosure of that trade secret must be improper. Commissioner's Prefatory Note, supra note 15, at 538.

\textsuperscript{80} 332 N.W.2d at 897. These elements were based not only on prior case law but also on the language of the Act. The Uniform Trade Secrets Act only protects certain types of information (trade secrets) through an action for misappropriation. Misappropriation is then defined as the improper acquisition, disclosure, or use of a "trade secret." Minn. Stat. § 325C.01, subd. 3.

\textsuperscript{81} 332 N.W.2d at 898. The Act has, in part, embodied the test for trade secret status used in both Cherne and Jostens. Id. at 899. The court also stated that the Act carries forward and clarifies the common law of trade secrets. Id. at 898; see also Commissioner's Prefatory Note, supra note 15, at 538. The court warned, however, that where the Act modifies the common law, courts will look to the statutory language. 332 N.W.2d at 898.

The Uniform Act's definition has modified the Cherne and Jostens trade secret status test in two ways. First, it has significantly reduced the third Cherne element. The court noted that the third common law element of trade secret status was not completely eliminated by the Act, as had been suggested in Jostens. Id.; see 318 N.W.2d at 698 n.4. Under the Act the issue is whether information that is gained at the owner's expense provides a competitive advantage in the marketplace. 332 N.W.2d at 901 n.12. The third common law element of trade secret status, information developed at plaintiff's expense, "becomes a possible element of proof that the information provides a competitive advantage." Id.

Second, the fourth element of the Cherne test, the employer's intent to keep the information confidential, is no longer dispositive. After Electro-Craft, the employer is required to take reasonable, affirmative steps to insure that the information remain secret. Id. at 901. The Cherne court said that the fourth element of trade secret status was that the owner intended to keep the information secret. 278 N.W.2d at 90. The Electro-Craft court rejected the trial court's finding that a mere intention to keep the information secret was sufficient under either the Act or the common law. 332 N.W.2d at 901. According to the court, even the common law required more than an intention; instead, the plaintiff was required to show that "it had manifested that intention by making some effort to keep the information secret." Id. The court also quoted the Act's requirements that the owner make "reasonable efforts to maintain secrecy." Id.

\textsuperscript{82} 332 N.W.2d at 899; see supra notes 66-67 and accompanying text.

\textsuperscript{83} 332 N.W.2d at 900; see supra notes 66-67 and accompanying text.

\textsuperscript{84} 332 N.W.2d at 901; see supra notes 66-67 and accompanying text.

\textsuperscript{85} 332 N.W.2d at 899.
court's analysis of these elements also reflects the impact that employment agreements may have on the issue of trade secret status. According to the court, the first statutory element of trade secret status is whether the information is not generally known or readily ascertainable. The court upheld the lower court's finding that the exact combination of features of ECC's electric motor was unique and, hence, "not generally known." The court characterized the particular combination of features of the motor as a unique solution to the needs of one customer in the industry even though none of the individual features were unique.

86. Id. at 900. The supreme court stated that the trier of fact should have discretion in determining whether information is generally known or ascertainable. Any resulting danger to legitimate competition, however, will be mitigated by the following factors: (1) plaintiff's burden of proof on the elements of trade secret status; (2) plaintiff's inability to protect information with respect to which plaintiff did not make reasonable efforts to maintain secrecy; and (3) the courts' duty to fashion a remedy which will balance employers' rights to protect secrets with employees' rights to compete using "state of the art" knowledge. Id. at 900 n.11 (citing E.W. Bliss Co. v. Struthers-Dunn, Inc., 408 F.2d 1108, 1112-13 (8th Cir. 1969)).

87. 332 N.W.2d at 899. The trial court had found that the exact combination of features of the electric motor was unique, even though none of the processes or features are unique in the industry and even though the electric motor is not the only way to achieve the required performance. Id. The Minnesota Supreme Court upheld this ruling and found that the exact combination of features constituted a unique solution to the needs of one customer in the industry. Id. The court recognized that novelty is not required for trade secrets to the same extent as for patentability. Id. Nevertheless, the court said that its decision did not suggest that ECC could claim trade secret status for the entire class of its moving coil motors. Id. at 900. ECC could not object if a new customer devised an application for ECC's motor and CMI modified its motor to meet those new specifications. Id. In that instance, ECC would be attempting to protect a design process of trial and error by which the features of its motor are adapted to a given use, not a specific combination of features. Id. According to the court, trade secret law will not protect talent or expertise. Id.

The Electro-Craft court also indicated that the uniqueness issue might have turned out differently had a non-competition agreement existed. The court recognized that, by allowing possible trade secret protection for the electric motor, it risked stifling the ability of employees to "compete with their former employers (in the absence of a valid non-competition agreement) using 'state of the art' knowledge." Id. at 900 n.11. This risk to legitimate competition would be mitigated, however, by the employer's burden of proof on the elements of trade secret status under the Act and the employer's inability to protect information that it had not reasonably maintained as "secret" during defendant's employment. Id. Furthermore, the court recognized that an employer's burden of proof in a cause of action for trade secret misappropriation is higher than its burden of proving the reasonableness of a non-competition agreement protecting the employer's trade secrets. On the other hand, the Electro-Craft court also indicated ways in which even a valid employment agreement may not benefit an employer in its action for trade secret misappropriation. The court stated that the law of trade secrets will only protect secret information. Id. at 900. Consequently, even though an employee may breach an employment agreement, that employee may not be liable for trade secret misappropriation if he merely used his or her talent or expertise for another employer. See Eaton Corp. v. Appliance Valves Corp.
The second statutory element for trade secret status, the realization of independent economic value because of secrecy, codifies the common law requirement of competitive advantage. The element does not require that the owner of the trade secret be the only one in the market. The Electro-Craft court denied ECC's claim that certain information yields independent economic value from secrecy solely because the employer spent money developing that information. The Electro-Craft court explained that the independent economic value must arise from information which, if obtained by an outsider, would yield a valuable share of the market to that outsider. According to the court, the expense factor supports a finding of competitive advantage only if, under the present state of the art, "a prospective competitor could not produce a comparable motor without a similar expenditure of time and money."

The court held that ECC's motor did provide the plaintiff with economic value from its secrecy. The court reasoned that the value of the information was such that ECC would lose if any prospective competitor could enter the market without a substantial developmental expense, thus cutting into ECC's market share. This holding seems to establish two components of the economic value element of a trade secret: (1) an employer must show a causal link between the secrecy of the information and the employer's market share, and (2) the secret information must be of a nature that a competitor could obtain it only at great expense.

Employment agreements have their greatest effect on the third statutory element of trade secret status, the proof of an employer's

526 F. Supp. 1172 (N.D. Ind. 1981). According to the court, "It is well settled that an employee, upon leaving his employment, may take with him and utilize the skill and general knowledge obtained by him during his employment." Id. at 1180. The employee, however, may still be liable for breach of a non-competition agreement.

88. 332 N.W.2d at 900.
89. Id. The court denied CMI's argument that ECC was required to show a competitive advantage over all competitors. Id. The court specifically stated that several developers of the information may have trade secret rights in that information. Id.; see also Commissioners' Comment, supra note 66, at 542-43.
90. 332 N.W.2d at 901.
91. Id. at 900.
92. Id. at 901.
93. Id. The court's holding was supported by the trial court's finding that an expenditure of time and money similar to that expended by ECC would be required of a prospective competitor now. Id.
94. Id.
reasonable efforts to maintain secrecy.\footnote{The Act requires an employer to make reasonable efforts to maintain the secrecy of the information. 
\textit{Minn. Stat.} § 325C.01, subd. 5(ii). A mere intention to keep the information secret is insufficient. \textit{Electro-Craft}, 332 N.W.2d at 901. This requirement precludes employee liability unless the employer can prove that its treatment of the information “has been adequate to indicate a breach of the confidential relationship.” \textit{Sloan, Trade Secrets: Real Toads in a Conceptual Garden}, 1 W. St. L. Rev. 113, 145 (1973).}

It is this element on which the plaintiff’s claim in \textit{Electro-Craft} failed, even though a signed confidentiality agreement existed.\footnote{332 N.W.2d at 903. ECC had met its burden of proof on the first two statutory elements. A trade secret exists, however, only when a plaintiff proves all three of the elements. \textit{Id.}} To obtain trade secret status for certain information, an employer must notify the employee of the secrecy of the information and must also treat the information as if it were secret.\footnote{Id. at 901-03. The court stated that “the employer cannot complain of the employee’s use of information if the employer has never treated the information as secret.” \textit{Id.}} The court held that ECC had not taken reasonable efforts to maintain the secrecy of the information.\footnote{332 N.W.2d at 901. The court so held even while acknowledging that ECC took minimal precautions in screening its publications for confidential information and in requiring some of its employees to sign confidentiality agreements. \textit{Id.} at 901-02. According to the court, these precautions were not enough. \textit{Id.} at 902.}

Moreover, the court’s explanation emphasized that trade secret protection depends upon a continuing course of conduct by the employer which creates a confidential relationship.\footnote{The court made this determination despite a specific finding by the trial court that ECC had met the fourth element of intent in the \textit{Cherne} test. \textit{Id.} at 901. The intention language used by the trial court, however, came from the common law test for trade secret status as established in \textit{Cherne}. \textit{Id.} The Minnesota Supreme Court stated that even the common law required more than an intention. \textit{Id.}}

The court noted that ECC’s confidentiality procedures were lax and that employee mobility within the industry was common.\footnote{Id. at 902.}

The court also noted that ECC had not marked any of the documents as “confidential,” that employees had easy access to the documents, and that the confidentiality agreements were too vague.\footnote{Id. at 903. The court found that “the confidentiality agreements signed by the employees were too vague to apprise the employees of specific ‘secrets.’” \textit{Id.}}

The third statutory element of trade secret status is closely related to the second prong of a cause of action for trade secret mis-
appropriation: an actual misappropriation. The Electro-Craft court held that since no trade secret existed, it did not need to address the issue of whether a misappropriation had occurred. Nevertheless, it discussed the misappropriation element after noting that the concepts of trade secret status and misappropriation should not be artificially separated. Citing the Uniform Act's definition of misappropriation, the court stated that ECC was required to show some duty on the part of its employee not to disclose the information. ECC claimed that the employee’s duty arose from the employment agreement and from a confidential employer-employee relationship. Citing Jostens, the court stated that a common law duty of confidentiality arises only as to information which the employer has treated as secret and has so notified the employees. The Electro-Craft court found that ECC’s failure to make reasonable efforts to maintain secrecy was.

102. See id.; see also Jostens, 318 N.W.2d at 701. Both trade secret status and the misappropriation element depend on the existence of a confidential relationship. See id. at 698, 701. The Act 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
(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 had 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 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.

103. 332 N.W.2d at 903.

104. Id. Because the concepts of trade secret status and misappropriation are so closely interrelated, the court felt "compelled to discuss the tort of misappropriation." Id.; see also Jostens, 318 N.W.2d at 701 (misappropriation and trade secret approaches overlap).

105. 332 N.W.2d at 903. According to Minnesota Statutes § 325C.01, subd. 3, misappropriation involves the acquisition, disclosure, or use of a trade secret through improper means. MINN. STAT. § 325C.01, subd. 3. In addition, Minnesota Statutes § 325C.01, subd. 2, defines improper means as: “theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy or espionage through electronic or other means.” Id., subd. 2.

106. 332 N.W.2d at 903.

107. Id.

108. Id. The Jostens court held that "the employee is entitled to fair notice of the confi-
fatal to its claim that a confidential relationship existed. The employee had never been put on notice of a duty of confidentiality, so a trade secret could not have been misappropriated.

Essentially, the Electro-Craft court incorporated the last two elements of the Jostens test as its standard to prove the misappropriation element. The misappropriation element depends largely on whether a confidential relationship was established. The establishment of such relationship in turn depends on whether the employee was notified of such a confidential relationship and of the confidentiality of the information. Thus, the same consideration seems to apply to establishing misappropriation as to establishing the existence of a trade secret: namely, whether the employer has taken reasonable steps to maintain secrecy.

Electro-Craft did not specifically overrule the three-part Jostens test and it did not eliminate the confidentiality element of a trade secret misappropriation cause of action. The Electro-Craft test differs somewhat from the test used in Jostens, however. The court’s implication is that the Electro-Craft test actually encompasses the three-part test of Jostens. Instead of emphasizing confidentiality as a separate element of a misappropriation cause of action as the court did in Jostens, the Electro-Craft court simply incorporated that element into the other two elements. Under

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109. 332 N.W.2d at 903.
110. Id. The court held that the vague language in the employment agreements did not create a duty of confidentiality. Id.
111. See supra notes 45-49 and accompanying text.
112. See Jostens, 318 N.W.2d at 701. The Electro-Craft court stated that in the employer-employee context of that case, ECC had to show “some duty on the part of the employee not to disclose the information.” Electro-Craft, 332 N.W.2d at 903.
113. 332 N.W.2d at 903. A common law duty of confidentiality arises only as to information which the employer has treated as secret. Id.
114. See supra notes 95-101 and accompanying text.
115. The Eutectic test was applied by the United States District Court for the District of Minnesota one month before Electro-Craft was decided. In Span-Deck, Inc. v. Falcon, Inc., 570 F. Supp. 81 (D. Minn. 1983), the court, citing Jostens, held that a plaintiff asserting a claim of trade secret misappropriation must prove: (1) the existence of a trade secret; (2) that it was acquired as a result of a confidential relationship; and (3) that the defendant has used and disclosed the trade secret. Id. at 87.
116. 318 N.W.2d at 701. The Jostens court used the Eutectic three-element test for trade secret misappropriation. Id. In an action for trade secret misappropriation, the Eutectic court required proof of the following elements: (1) a trade secret; (2) that the trade secret had been acquired by defendant as a result of a confidential relationship; and (3) that defendant had used and disclosed the trade secret. 160 N.W.2d at 570.
117. 332 N.W.2d at 897. The court recognized that a confidential relationship is a
Electro-Craft, the confidentiality of the relationship is now an element of proof in both the trade secret and misappropriation elements of a cause of action for trade secret misappropriation. Therefore, although at first glance Electro-Craft apparently modified the test for trade secret misappropriation, this modification is only illusory.

The Electro-Craft court also stated that the employment agreement had not helped the plaintiff's claim because the agreement was too vague and because the plaintiff had never treated specific information as secret. Therefore, if the confidentiality agreement had been more specific in Electro-Craft, the court may have found that a trade secret existed and that a misappropriation had occurred. By requiring strict proof of both the existence and misappropriation of a trade secret, Electro-Craft reaffirmed the theory that plaintiffs asserting a cause of action for trade secret misappropriation have a higher burden of proof than plaintiffs seeking to protect information through an action for breach of a non-competition agreement. As discussed earlier, "confidential business information which does not rise to the level of a trade secret can be protected by a properly drawn covenant not to compete." In essence, Electro-Craft held that the existence of a valid employment agreement may not only change the cause of action that an employer may sue upon, but may also change the amount of proof that the employer must offer.

IV. CONCLUSION

The Minnesota Supreme Court’s decision in Electro-Craft indicates that the Uniform Trade Secrets Act does not significantly vary the former case law on trade secrets. The decision does reflect, however, an important counterpoint to earlier case law which was somewhat deferential to employment agreements geared to protect trade secrets. The court's denial of the employer's misappropriation claim in Electro-Craft indicates that non-prerequisite to an action for misappropriation and that the elements of trade secret status and the confidentiality of the relationship are largely interdependent. Id. The Electro-Craft court rejected the notion that only a breach of a confidential relationship is required for a defendant to be liable for trade secret misappropriation. Id. at 897 n.5.

118. Id. at 903.
119. See supra notes 37-38 and accompanying text.
120. 578 F.2d at 1268 (citing Walker Employment Serv., Inc. v. Park-Hurst, 300 Minn. 264, 219 N.W.2d 437 (1974); Bennett v. Storz Broadcasting Co., 270 Minn. 525, 134 N.W.2d 892 (1965)).
competition agreements constitute an employer's surest and most effective tool for protecting trade secrets. Employment agreements require only a single act by the employer: making the contract. Trade secret protection demands a continuous course of conduct by the employer. In addition, while the employment agreement is necessary for the protection of the employer's trade secrets, the burden of proving the reasonableness of the agreement is far easier than the burden of proving the existence of a trade secret in a cause of action for misappropriation.

The existence of a valid employment agreement will enable the employer to sue for a breach of that agreement. Such an agreement, even if invalid, can also help establish an employer's cause of action for trade secret misappropriation. The existence of an agreement constitutes evidence that the information is a trade secret and that a confidential relationship has been created. Therefore, in light of Electro-Craft, an employer's best course of action is to require its employees to sign a non-competition agreement. That agreement will undoubtedly prove invaluable whether the employer sues on a breach of contract or on a misappropriation theory.