



Question Q215

National Group: United States

Title: **Protection of trade secrets through IPR and unfair competition law**

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Questions

General

Groups are asked to give a description of legal developments and the current situation in their jurisdiction with regard to trade secret protection, answering the following questions:

1. Legal developments on trade secrets

How did trade secret protection evolve in your jurisdiction? For example, what kind of practical influence did the TRIPS agreement have on trade secret protection?

US Response: The protection of confidential business information dates back to Roman law. The modern law of trade secrets evolved in England in the early 19th century. In the United States, the protection of trade secrets was recognized at common law by the middle of the 19th century.

Trade secret protection has evolved in the United States largely from individual state statutes and common law, the law established by court decisions. The most widely accepted rules of trade secret law in the United States were set forth in the Restatement (First) of Torts, Section 757.

In 1973, the United States Supreme Court recognized the constitutionality of trade secret protection for all information, including patentable subject matter, in *Kewanee Oil Co. v Bicorn Corp.*, 416 U.S. 470 (1974).

In 1979, the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Trade Secrets Act. The original Act or its 1985 revision has now been adopted in 46 states and the District of Columbia, and has helped to increase uniformity among state trade secret laws.

In 1984, the United States Supreme Court held that a trade secret was a property right in *Ruckelshaus v Monsanto*, 467 U.S. 986 (1984).

In 1994, the American Law Institute adopted and promulgated the Restatement Third, Unfair Competition, Sections 39-49 [Trade Secrets]. Section 39 sets forth the following modern definition of trade secrets and includes "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." *Id.* at Section 39. This definition of a trade secret is consistent with the definition of a trade secret in Section 1(4) of the Uniform Trade Secrets Act.

In 1996, the United States enacted the Economic Espionage Act of 1996, 18 U.S.C. Section 1831 et seq. which makes the theft of a trade secret a federal criminal offense (Section 1832) as well as acts of economic espionage (Section 1831) committed by anyone for the benefit of a foreign government, foreign instrumentality or foreign agent.

The TRIPS agreement, which came into effect in 1995, provides minimal standards for undisclosed information protection, and did not have a significant impact on the development of trade secret law in the United States.

The United States has the strongest and most comprehensive protection for trade secrets of any country in the world.

2. Definition of trade secrets

What is the definition of a trade secret in your jurisdiction? This may not be an easy question to answer. Some jurisdictions may adopt different definitions for different fields of law – unfair competition law or others. In some jurisdictions, no statutory law provides a definition of trade secrets. It may be useful to focus on the definition that is believed to be most important for your jurisdiction for discussion purposes. Your definition can be based on the conditions required by Article 39.2 of TRIPS Agreement for the protection of undisclosed information as well as the WIPO proposal for the definition of secret information, and/or if it is the case, the definition can be complemented by features required in your jurisdiction, such as the degree of secrecy, novelty and originality that is considered reasonable for enforcement purposes.

US Response: Under the common law, a trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others (Restatement of Law Third, Unfair Competition, Section 39, 1995).

Under the UTSA, model trade secret legislation now adopted in most states and the District of Columbia, a trade secret is "'information' that derives independent economic value, actual or potential, from not being generally well known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use and which is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

3. Control of trade secrets

Also, who is entitled to control trade secrets should be discussed with respect to the employer-employee relationship. Can an employee who conceives an idea or invention may have primary control over it? Can the employer have control over information created by an employee under assignment from the employer even if personal knowledge and skills of the

employee are involved? Is co-ownership of trade secrets addressed by your legislation or case law?

US Response: Generally speaking in the US, trade secrets developed by an employee in the course of his or her employment belong to the employer and trade secrets developed by an employee on his or her own personal time using his or her own materials and resources belong to the employee. However, most employees would be obligated under an employee assignment agreement that the employer usually requires the employee to sign at the start of his or her employment to assign to the employer all trade secret works conceived or created by the employee falling within a defined scope (usually the scope of the employee's employment). Under the trade secret statutes enacted in the US by the various states, an employer would have a cause of action to prevent an employee from disclosing the employer's trade secrets to unauthorized third parties or from using the trade secret except for the benefit of the employer, even trade secrets generated for the employer by the employee himself or herself.

With respect to ownership or title to a trade secret, it is possible in the US for the employer to have control over information created by an employee under assignment from the employer [Question from US Group: is the word "employee" really meant here?] even if personal knowledge and skills of the employee are involved. However, in other cases the employee who conceives an idea or invention may have "primary control over it" in the sense that the employee may own title to a work or invention comprising the trade secret even though the employee may not be free to disclose or use it. This difference in result arises first because trade secrets can comprise business or technical information, which may or may not include patentable or copyrightable works. If the work is copyrightable or patentable, ownership or title to intellectual property rights in a work comprising a trade secret would follow different rules depending upon whether or not the work is patentable or copyrightable.

For works comprising trade secrets that rise to the level of being copyrightable or patentable, in the absence of a written agreement (which could avoid almost all IP ownership disputes between employer and employees), the rules governing the ownership of rights as between an employer and employee in any work made or created by the employee would differ depending on whether the work is a work of authorship protected by copyright law or an invention protected by a patent law.

In general under US copyright law, the author of a copyrightable work is the owner of the copyright in the work. However, if the author is an employee who prepared the work within the scope of his or her employment, the work is a "work for hire" and the employer is the owner. If the author of the work is an independent contractor and not an employee, the work does not belong to the employer but to the independent contractor and the employer has an implied license to use one copy of the work. For this reason, distinguishing between an employee and independent contractor is often a central issue in copyright ownership disputes between employers and employees or independent contractors.

In general under US patent law absent a contract, an invention is owned by the person who conceives the invention. However, if an employee was hired for the specific purpose of inventing a defined product or process, then the inventions of the employee would belong to the employer. In contrast, inventions which the employee was not specifically hired to invent and which were not made to the employer's specification, even if made at the employer's expense, might not be the property of the employer, but owned by the employee with the employer having only a "shop right" or non-exclusive license to make, use and sell the invention without owing any financial obligation or accounting to the employee/inventor. Inventions made by an employee on the employee's own time, not at the employer's expense

and not using the employer's facilities might be the property of the employee, even if the invention relates to the employer's business.

4. Source of law for trade secret protection

Are statutory provisions available for the protection of trade secrets? Is protection awarded by case law or court precedents or direct application of the relevant provisions in the TRIPS Agreement? Under your laws, do trade secrets belong to the category of property rights? Or is the protection derived from unfair competition law or other sources of law against misappropriation or dishonest commercial practices?

US Response: In the United States, statutory provisions as generally exemplified by the Revised Uniform Trade Secrets Act (as of August 8, 1985) have been adopted by 46 states, the District of Columbia, and the U.S. Virgin Islands. As such, the only states that do not have statutory provisions protecting trade secrets are Massachusetts, New Jersey, New York, and Texas, which instead protect trade secrets by common law. Under the Revised Uniform Trade Secrets Act, state statutes, and jurisdictions which apply common law, trade secrets are considered property rights in the U.S.

There are no federal statutes providing for the civil protection of trade secrets, but the Economic Espionage Act of 1996, 18 U.S.C. Sections 1831-39, makes the theft or misappropriation of a trade secret a crime in some instances. Theft of trade secrets is also a form of unfair competition. Trade secrets may be protected against misappropriation under the UTSA, state common law, and the federal Economic Espionage Act.

5. Available remedies

What would be an outline on remedies available against trade secret violations in your jurisdiction? First, types of prohibited acts should be discussed, followed by available relief such as preliminary injunction or temporary restraining orders. It is probably useful to highlight issues particular to trade secrets. Please comment on the list of acts violating trade secret protection provided in the Q115 Copenhagen Resolution. Pros and cons of criminal or administrative remedies should be discussed. Are these remedies also available against someone who obtains trade secrets in good faith?

US Response: The full panoply of damages is available to the trade secret owner in the United States.

The trade secret owner can recover damages for the actual loss caused by the misappropriation. The trade secret owner also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

Finally, in lieu of damages measured by any other methods, the damages caused by the misappropriation may be measured by the imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not to exceed twice any award for compensatory damages.

Under the UTSA, remedies for misappropriation of trade secrets include damages and injunctions. Actual or threatened misappropriation may be enjoined. In addition, recovery of attorney fees is possible when misappropriation claims are made in bad faith. Criminal penalties for violations of the Economic Espionage Act include prison time and fines.

Regarding remedies available against someone obtaining misappropriated trade secrets in

good faith, the UTSA states the following regarding injunctions: "In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable."

Regarding damages available against such a person, the UTSA states: "Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation."

Does your legislation distinguish trade secret violations committed when the undisclosed information was accessed by means of an employment or other contractual relationship from those practiced by means of fraud, "espionage" or other improper means? Are the same remedies available for the two cases?

US Response: Generally, state trade secret laws are applicable to protect against misappropriation arising from breach of a contractual relationship. In such cases, UTSA-conforming laws permit the civil remedies of injunctions and damages. Under the Economic Espionage Act of 1996, the federal crime of economic espionage involving trade secrets carries a penalty of prison time and/or fines.

How does your jurisdiction apply the concept of "grossly negligent" third parties referred to in footnote 10¹ of Article 39,2 of TRIPS?

US Response: Under the UTSA, "Misappropriation" means: (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 has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his 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. "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means.

Which options are available for damages? How are damages calculated? Is the violation of trade secrets at all subject to punitive damages? If so, under what conditions?

US Response: Under the UTSA:

a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized

¹ Footnote 10 states that: "For the purpose of this provision, 'a manner contrary to honest commercial practices' shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition."

disclosure or use of a trade secret.

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in the amount not exceeding twice any award made under subsection (a).

6. Protection of trade secrets before and during litigation

This question has two aspects: one is the protection of trade secrets during, say, patent infringement litigation, and the other the maintenance of secrecy of trade secrets so that the person lawfully in control can safely seek remedies before the court. How does your statutory law incorporate the rule contained in the last sentence of Article 42, TRIPS?² What specific measures or means are available for the effective protection of trade secrets before (in discovery and seizure proceedings) and during litigation?

US Response: If documents containing trade secret information must be disclosed during litigation to fairly adjudicate a matter, trade secret information may be redacted before disclosure. Courts may also issue protective orders and sealing orders to limit access to and use of trade secret information in litigation as necessary. In addition, as needed courts may close to the public, proceedings involving trade secret information in order to maintain confidentiality.

7. Licensing trade secrets

What are issues relevant or important for contractual aspects regarding trade secrets?

US Response: There are advantages and disadvantages to licensing trade secrets. From a licensor's perspective, licensing may provide access to markets, and/or manufacturing, distribution and sales channels that the licensor otherwise would not enjoy. A trade secret licensee may obtain valuable processes or products without incurring research and development expenses that otherwise would be required to develop the information or technology itself. In at least these ways, the benefits of licensing trade secrets are similar to the benefits of licensing patents. (Of course, there are numerous differences as well, in view of the differences between patents and trade secrets, generally.)

United States trade secret licensors may also take advantage of foreign markets in situations where exportation of domestically produced goods is impossible or impractical, or where there are foreign legal restrictions on direct ownership or investment by United States entities in manufacturing facilities in those foreign jurisdictions.

There are, however, particular disadvantages to trade secret licensing, especially to the licensor. The principal and most serious disadvantage is the licensor's loss of sole and exclusive control of secrecy of the trade secret information. Because secrecy is the sine qua non of a trade secret, there is a heightened risk on the part of the licensor that a poorly managed licensing relationship might destroy completely the value of the licensed trade secret information itself.

Using normal principles of state contract law (as there is no "federal" contract law in the United States legal system), it is possible to specify with great particularity the nature, terms and conditions of the relationship between a trade secret licensor and licensee. In fact, it is essential to do so in order to establish, maintain, monitor and guarantee, to the greatest extent reasonably practical to do so, the prerequisite secrecy that supports the continued existence of trade secrets as such.

² Article 42, entitled "Fair and Equitable Procedures", provides, at its last sentence, that: "The procedure shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements."

Accordingly, each of the underlying circumstances that establish certain information as trade secret information should typically be explicitly mandated by specific contractual provisions in any trade secret license. Examples of such circumstances include, but are not limited to, the following: (i) the licensee's extent of access to the trade secret information; (ii) preconditions and on-going conditions for access to the licensor's trade secret information; and (iii) detailed measures for maintaining confidentiality and secrecy of the trade secret information, including physical security measures.

It may be even more important to contractually specify the handling and sharing of trade secret information between United States parent corporations and their domestic and foreign subsidiaries, due to the oft-seen informality in the relationships between such legally separate entities. Failure to do so, or failure to observe and adhere to appropriate safeguards even if suitably provided for in contractual arrangements, likewise gives rise to the substantial risk of destroying the value of the trade secret information. In general, it is considered the better practice in the United States to create situation-specific contracts or agreements for each particular commercially significant trade secret sharing arrangement between a parent company and each of its subsidiaries.

On the other hand, it is also of substantial importance to licensees to know and understand exactly what is considered by the licensor to constitute the licensed trade secret information. Thus, contractual provisions specifying means for explicitly identifying the licensed trade secret information are essential for the licensee's own protection.

How important are anti-trust considerations in your jurisdiction?

US Response: Confidentiality is an important condition of trade secret licensing in order that protection can be maintained. A trade secret owner may choose to keep its trade secret information from its competitors indefinitely without violating any United States antitrust laws. Once the trade secret owner enters into a contract, i.e., a license agreement, with a trade secret licensee, applicability of United States and state antitrust law is triggered. Theoretically, at least, territorial restrictions, requirements that the licensee purchase certain goods or services from the licensor (e.g., "tying" arrangements), price and production restrictions or controls, "grant-back" provisions, and field of use restrictions all present potential antitrust issues in trade secret licensing situations.

In the United States, antitrust considerations are generally more important in the case of trade secret licensing than in patent licensing or "hybrid" licensing involving both patents and trade secrets. This is so because of the constitutional and statutory framework providing for a patent "monopoly" in consideration for the patentee's disclosure of the patented invention to the public, and the absence of any such quid pro quo in the trade secret realm.

United States antitrust laws also prohibit, as a general rule, international trade secret (and other technology) licensing agreements that unreasonably restrict or restrain importation of a competitor's goods or technology into the United States, or unreasonably restrain United States domestic competition or exports by United States domestic entities. In situations involving potentially significant federal antitrust issues, it is possible to request a business review letter from the United States Department of Justice, Antitrust Division, pursuant to Title 28, Code of Federal Regulations, Section 50.6.

Nonetheless, both governmental and private enforcement of antitrust laws are influenced by societal and economic trends and, thus, tend to vary in amount and effect over time. At least in recent times, antitrust enforcement is typically considered less rigorous or effective during Republican administrations and more rigorous and effective during Democratic administrations.

8. Effectiveness of non-disclosure and non-use agreements

What is the practical effectiveness of non-disclosure and non-use agreements in your jurisdiction? Are any important court precedents available? Which of contract law or unfair competition law prevail in this regard? Is unilateral imposition of non-disclosure after leaving the company or retirement possible in your jurisdiction? Does the US doctrine of inevitable disclosure exist under your laws?

US Response: Generally speaking, a person signing a nondisclosure agreement (NDA) promises not to disclose to others, trade secret information disclosed to him/her, without proper authorization. NDAs permit necessary disclosures of a business' trade secret information while maintaining the protected status of that information. A remedy for an NDA violation may be pursued under a theory of breach of contract and/or common law unfair competition if requirements for misappropriation are met.

Harmonization

9. Common and practical definition of trade secret

As discussed above, the TRIPS Agreement deals with “undisclosed information” which is basically the same as what we discussed as a “trade secret,” primarily because the term “trade secret” may have different meanings in different jurisdictions. Groups are asked to consider whether a common and practical definition of trade secret is viable or even desired. Are there any proposals for such a definition, or is the definition provided in the TRIPS Agreement sufficient for our purposes? Should there be a minimum standard for information to qualify as a trade secret? If so, what should the standard be?

US Response: "Trade secret" means 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.

10. What is desired in your jurisdiction?

What are perceived as current problems in your jurisdiction? What is desired or needed for effective protection of trade secrets? What kind of improvements in your own system for trade secret protection is sought? Also, are there any legal provisions or practices that you may consider to be advantageous in your jurisdiction compared to other countries?

US Response: More uniformity in trade secret law throughout the various states would be desirable in the United States. Even though adoption of the Uniform Trade Secrets Act by 46 states and the District of Columbia has helped to increase uniformity in the US among state trade secret laws, some differences in trade secret law among the various states continue to exist. Despite the lack of absolute uniformity in trade secret law among the various states, the US has the strongest and most comprehensive protection for trade secrets of any country in the world.

11. What is required for an improved global standard for trade secret protection?

As discussed above, collaboration among different entities in product development is becoming more important on a global scale. Groups are asked to entertain proposals for enhancement of international standards on remedies against trade secret violations. Groups are also asked to comment on what is necessary in practice for the protection of trade secrets during litigation and to discuss proposals for standard means available in court proceedings.

US Response: Injunctive Relief:

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

12. What would be a desirable and realistic way to proceed?

For future possibilities, we have a choice among another multilateral convention, bilateral agreements or agreements among certain countries that are regionally close to each other or in similar stages of industrial development. What would be, in your view, a realistic way for us to proceed?

US Response: None

13. Other comments?

US Response: None

Summary: Protection of Trade Secrets in the United States

The protection of trade secrets dates back to Roman law. In 1973, the United States Supreme Court recognized the constitutionality of trade secret protection in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). In 1984, the United States Supreme Court held that a trade secret was an intellectual property right in *Ruckelshaus v. Monsanto*, 467 U.S. 986 (1984).

In 1979, the National Conference of Commissioners on Uniform State Law promulgated the Uniform Trade Secrets Act which has now been adopted in 46 states and the District of Columbia.

In 1996, the United States enacted the Economic Espionage Act, 18 U.S.C. 1831 *et seq.* which makes the theft of trade secrets a federal criminal offense.

The United States has the strongest and most comprehensive protection for trade secrets of any country in the world.

Note: It will be helpful and appreciated if the Groups follow the order of the questions in their Reports and use the questions and numbers for each answer.

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