

The Evolution of U.S. Trade Secret Law

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Please Note:

We will not be discussing any takings of trade secrets by the US Government – invoking the 5th Amendment to the Constitution.

Additional Applicable Laws May Include:

Federal Tort Claims Act, 28 U.S.C. § § 1346(b), 2674

Tucker Act, 28 U.S.C. § 1491(a)(1)

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DEFEND TRADE SECRETS ACT OF 2016 (“DTSA”)



U.S. President Barack Obama signs the Defend Trade Secrets Act of 2016 (DTSA), in the Oval Office of the White House in Washington, Wednesday, May 11, 2016.

(L-R) Deputy US Trade Representative Ambassador Robert W. Holleyman, Commerce Undersecretary Michelle Lee, Rep. Bob Goodlatte, R-Va., Sen. Orrin Hatch, R-Utah, Sen. Chris Coons, D-Del., Rep. Doug Collins, R-Ga., Rep. Jerrold Nadler, D-NY., Rep. Hakeem Jeffries, D-NY., US Attorney General Loretta Lynch, and US Intellectual Property Enforcement Coordinator Danny Marti.

(AP Photo/Pablo Martinez Monsivais)

Overview: Federal and State Laws

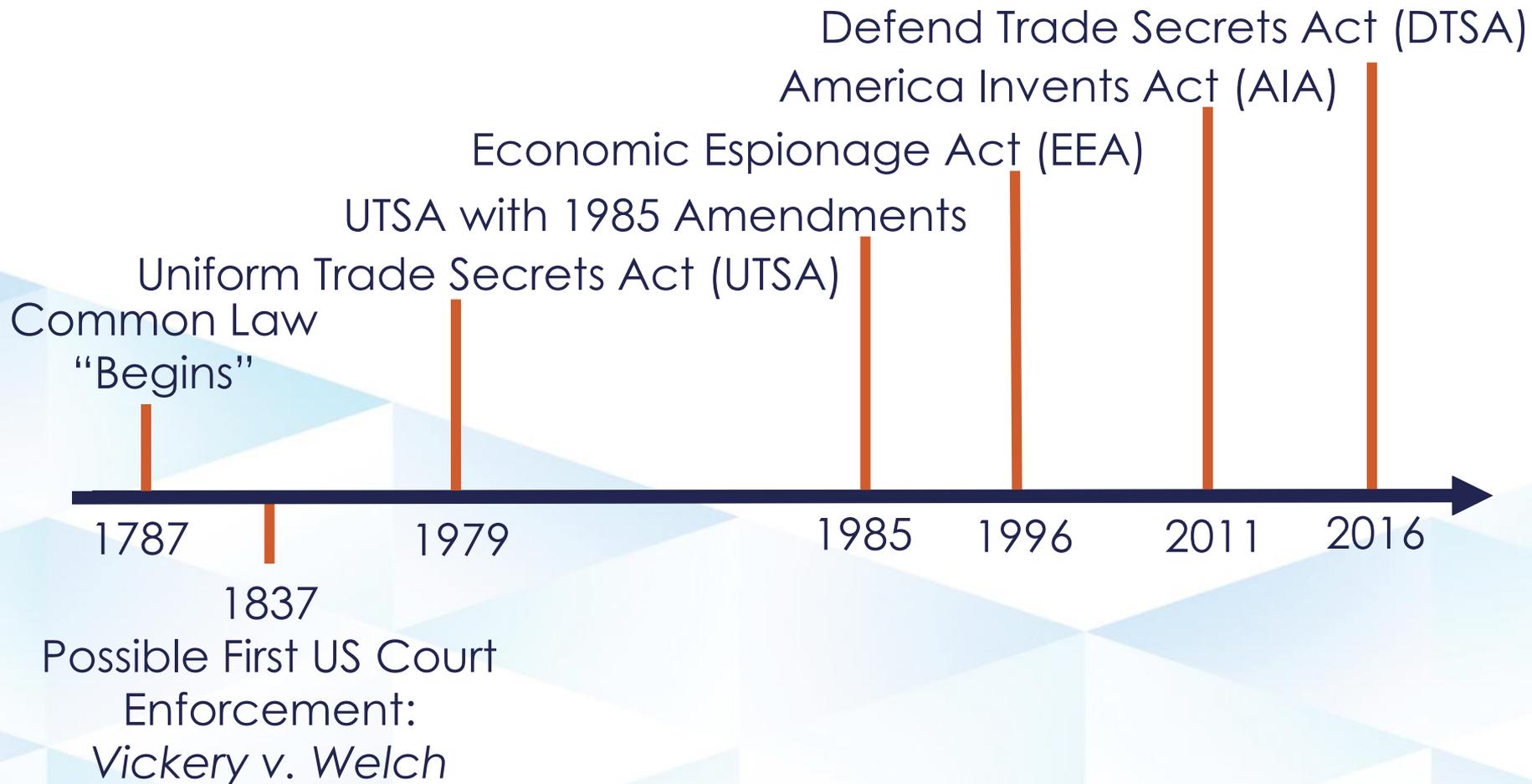
Traditionally, States Applied
Common law and/or State-Enacted Statutes

Thus, Litigation in State Court

In Effort to Align the States: Uniform Trade Secrets
Act (UTSA), USTA with 1985 Amendments

Most US States Have Now Enacted
Trade Secret Law Similar to UTSA, and
the US Federal Government has provided more
Enforcement Options with the EEA and DTSA.

AIPLA Trade Secret Laws in the US



Often, US practitioners will refer to “ § 757, Restatement of Torts” and the subsequent second edition, authored in late 1970s re trade secrets. Restatement of Torts Second, issued by American Law Institute, is a influential treatise summarizing general principles of common law tort law.

AIPLA 1787: Trade Secret Laws

U.S. Constitution – 1787 (when ratified by 9/13 states)



Article I, Section 8:

The Congress shall have Power...

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries....

AIPLA 1837: Trade Secret Laws

Vickery v. Welch, 36 Mass. 523 (1837)

- Sale of Chocolate Mill in Braintree, Massachusetts, by Jonas Welch to John Vickery
- Sales Agreement: mill, “**exclusive right and arts or secret manner of manufacturing chocolate**”, and a written assurance by seller that the secret would not be given to others
- Consideration: \$2000 upfront payment plus reportedly eight annual payments of \$7500
- Upon sale, the seller refused to provide the written promise not to give the secret to others, arguing unlawful restraint of trade.
- Massachusetts Court: Upheld the terms of the contract, ordering the seller to not disclose the secret to others. Court found that there was no restraint of trade because the secret was “**...of no consequence to the public whether the secret art be used by the plaintiff or defendant.**”

UTSA (1979)

- Uniform Law Commission (ULC) published the Uniform Trade Secrets Act (UTSA) in 1979
 - Purpose: to provide a legal framework to better protect trade secrets for US companies operating in multiple states

“Under technological and economic pressures, industry continues to rely on trade secret protection despite the doubtful and confused status of both common law and statutory remedies. Clear, uniform trade secret protection is urgently needed....”

Comment, “Theft of Trade Secrets: The need for a Statutory Solution,”
120 U.Pa.L.Rev 378, 380-81 (1971)

UTSA (1979) (Same Definition in UTSA (1985)):
(similar definition adopted in most US states)

“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.

Trade Related Aspects of Intellectual-Property Rights (TRIPS), Article 39, paras. 2 & 3

Article 39

1. In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:
 - (a) **is secret** in the sense that it is **not**, as a body or in the precise configuration and assembly of its components, **generally known among or readily accessible to persons** within the circles that normally deal with the kind of information in question;
 - (b) **has commercial value because it is secret**; and
 - (c) **has been subject to reasonable steps** under the circumstances, by the person lawfully in control of the information, **to keep it secret**.
3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

UTSA (1979) (Same Definition in UTSA (1985)): (similar definition adopted in most US states)

“Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means

“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 had utilized improper means to acquire it;
 - (II) acquired under circumstances giving rise to a duty to maintain in secrecy or limit its use; or
 - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (C) before a material change of his [or her] position, knew or had a reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

UTSA with 1985 Amendments (1985)

- **ULC published the UTSA with 1985 Amendments in 1985**
 - **Special Committee proposed amendments to Sections 2(b), 3(a), 7 and 11**
 - **2(b) – Injunctive Relief**
 - **3(a) – Damages**
 - **7 – Effect on Other Law**
 - **11 – Time of Taking Effect**
 - **In August 1985, these four clarifying amendments were approved and recommended for enactment in all US States**

AIPLA 1985: Trade Secret Laws

UTSA with 1985 Amendments (1985)

SECTION 2. 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) ~~If the court determines that it would be unreasonable to prohibit future use~~ In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time ~~the~~ 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.

UTSA with 1985 Amendments (1985)

SECTION 3. DAMAGES.

(a) ~~In addition to or in lieu of injunctive relief~~ 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 may is entitled to recover damages for the actual loss caused by misappropriation. A complainant also may recover for 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 damages for 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 disclosure or use of a trade secret.

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

UTSA with 1985 Amendments (1985)

SECTION 7. EFFECT ON OTHER LAW.

(a) ~~This~~ Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State pertaining to providing civil liability remedies for misappropriation of a trade secret.

(b) This [Act] does not affect:

(1) ~~contractual or other civil liability or relief that is~~ remedies, whether or not based upon misappropriation of a trade secret; or

(2) ~~criminal liability for~~ other civil remedies that are not based upon misappropriation of a trade secret; or

(3) criminal remedies, whether or not based upon misappropriation of a trade secret.

AIPLA 1985: Trade Secret Laws

UTSA with 1985 Amendments (1985)

SECTION 11. TIME OF TAKING EFFECT. This [Act] takes effect on

_____, and does not apply to misappropriation occurring prior to the effective date.

With respect to a continuing misappropriation that began prior to the effective date, the [Act]

also does not apply to the continuing misappropriation that occurs after the effective date.

AIPLA Trade Secret Laws in the US



Note
In 2016:
New York and
Massachusetts
introduced
measures to
adopt pseudo-
UTSA. North
Carolina has
not adopted
UTSA.

 = Enacted  = Introduced this Year

Uniform Law Commission
[http://www.uniformlaws.org/LegislativeMap.aspx?title=trade Secrets Act](http://www.uniformlaws.org/LegislativeMap.aspx?title=trade%20Secrets%20Act)

Economic Espionage Act (EEA) (1996 and later amendments)

18 USC § 1831 – Economic Espionage

- (a) In General.—Whoever, **intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly—**
- (1) **steals**, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception **obtains a trade secret**;
 - (2) **without authorization copies**, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret;
 - (3) **receives**, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
 - (4) **attempts to commit any offense** described in any of paragraphs (1) through (3); or
 - (5) **conspires with one or more other persons to commit any offense** described in any of paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,

shall, except as provided in subsection (b), be fined **not more than \$5,000,000 or imprisoned not more than 15 years, or both.**

(b) Organizations.— **Any organization** that commits any offense described in subsection (a) shall be fined **not more than the greater of \$10,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided.**

(Added [Pub. L. 104–294, title I, § 101\(a\)](#), Oct. 11, 1996, [110 Stat. 3488](#); amended [Pub. L. 112–269, § 2](#), Jan. 14, 2013, [126 Stat. 2442](#).)

Economic Espionage Act (EEA) (1996 and later amendments)

18 USC § 1832 – Theft of Trade Secrets

(a) Whoever, **with intent to convert a trade secret**, that is related to a product or service **used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly—**

(1) **steals**, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;

(2) **without authorization copies**, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;

(3) **receives**, buys, or possesses such information, **knowing the same to have been stolen** or appropriated, obtained, or converted without authorization;

(4) **attempts to commit** any offense described in paragraphs (1) through (3); or

(5) **conspires with one or more other persons to commit** any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy,

shall, except as provided in subsection (b), **be fined under this title or imprisoned not more than 10 years, or both.**

(b) **Any organization** that commits any offense described in subsection (a) **shall be fined not more than \$5,000,000.**

(Added [Pub. L. 104–294, title I, § 101\(a\)](#), Oct. 11, 1996, [110 Stat. 3489](#); amended [Pub. L. 112–236, § 2](#), Dec. 28, 2012, [126 Stat. 1627](#).)



Digital billboard image posted in various regions of the US having a concentration of high-tech research and development companies, laboratories, major industries, and national defense contractors.

https://www.fbi.gov/news/stories/2012/may/insider_051112/image/locked-doors/view

FBI – Statement Before the Senate Judiciary Committee, Subcommittee on Crime and Terrorism Washington, D.C., May 13, 2014

Randall C. Coleman, Assistant Director, Counterintelligence Division, Federal Bureau of Investigation, reported:

- In 2011, recommended that Congress increase the statutory maximum sentence for economic espionage from 15 to 20 years, and to direct the U.S. Sentencing Commission to consider increasing the guideline range based on aggravated offense conduct in theft of trade secret and economic espionage cases. See *Administration's White Paper on Intellectual Property Enforcement Legislative Recommendations, March 2011*, (http://www.whitehouse.gov/sites/default/files/ip_white_paper.pdf)
- In 2012, Congress responded to the growing threat of economic espionage by approving tougher penalties for those convicted of the crime with passage of the Foreign and Economic Espionage Penalty Enhancement Act of 2012.
 - For e.g., individuals responsible for economic espionage: maximum fine increased from \$500,000 to \$5 million. For organizations: maximum fine is \$10 million or up to 3x value of stolen trade secrets.
- Challenge in prosecuting economic espionage, as opposed to trade secret theft, is being able to prove that the theft was intended to benefit a foreign government or foreign instrumentality.
 - For e.g., the beneficiary of the stolen trade secrets may be traced to an overseas entity, but obtaining evidence that proves the accused's relationship with a foreign government can be difficult.
 - Accordingly, the decision to pursue cases under Section 1832 (theft of trade secrets) instead of Section 1831 (economic espionage) may depend upon the availability of foreign evidence and witnesses, diplomatic concerns, and the presence of classified or sensitive information required to prove the foreign nexus element.
 - Since EEA was passed in 1996, there have been 10 economic espionage convictions.
<https://www.fbi.gov/news/testimony/combating-economic-espionage-and-trade-secret-theft>

AIPLA 1999, 2011 – Trade Secret Laws

America Invents Act (AIA) (2011) Amended the Prior User Defense of the American Inventor Protection Act of 1999 (35 USC § 273)

- **Expanded Applicable Subject Matter**
 - Expanded from “Method of Doing or Conducting Business” to “Process, or Consisting of a Machine, Manufacture, or Composition of Matter Used in a Manufacturing or Other Commercial Process”
- **Broadened Personal Defense:**
 - 1999: “asserted only by the person who performed the acts necessary to establish the defense”
 - 2011: “asserted only by the person who performed or directed the performance of the commercial use... or by an entity that controls, is controlled by, or is under common control with such person”
 - Additional changes were made concerning transfer of the business and assignment of rights occurs, et al.
- **Restricted Commercial Requirement:**
 - 1999: “use is in connection with an internal commercial use or an actual arm’s-length sale or other arm’s-length commercial transfer of a useful end result, whether or not the subject matter at issue is accessible to or otherwise known to the public”
 - 2011: “commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm’s length sale or other arm’s length commercial transfer of a useful end result of such commercial use; and such commercial use occurred at least 1 year before the earlier of either... the effective filing date of the claimed invention or ... the date on which the claimed invention was disclosed to the public in a manner that qualified for the exception from prior art under section 102(b)”
- **Added University Exception:**
 - 1999: <none>
 - 2011: “may not assert a defense... if the claimed invention with respect to which the defense is asserted was, at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education... or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education” and this section does not apply if “any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal Government”

On the Road to the Defend Trade Secrets Act (DTSA) (2016)

- Among others, more than 30 US Law Professors unified to send a letter of protest to Congress regarding both the 2014 and 2015 versions of essentially what is now DTSA
- The Protest Letter Argues:
 - The DTSA's Ex Parte Seizure Provision May Harm Small Businesses, Startups and other Innovators
 - The DTSA Appears to Implicitly Recognize The Inevitable Disclosure Doctrine
 - The DTSA Likely Will Increase the Length and Cost of Trade Secret Litigation
 - The DTSA will Likely Result in Less Uniformity in Trade Secret Law

Defend Trade Secrets Act (DTSA) (2016)

- Early Introduction via the Protecting American Trade Secrets and Innovation Act of 2012 (Not Law)
- Expanded in Defend Trade Secrets Act of 2014 (Not Law)
- Reintroduced in Defend Trade Secrets Act of 2015 (Became Law)

*PRESIDENT OBAMA: "I want to thank the outstanding members of Congress who are standing behind me -- a **bipartisan** group, who, working with our **Trade Representative's Office**, as well as our **Patent Office**, have not only developed but actually passed for my signature the **legislation that for the first time will provide civil actions for companies or individuals that are stealing trade secrets from our American innovators.**"*

Defend Trade Secrets Act (DTSA) (2016)

- Broadens Definition of Trade Secret
- Eliminates need to satisfy General Diversity Jurisdiction
- Does not preempt currently available State Remedies
- Allows for double damages, reasonably attorney fees for willful and malicious violations, and attorney fees for actions brought in bad faith
- Provides additional protections for Whistleblowers
- Provides Ex Parte “Civil Seizure”

How Do US Trade Secret Laws Compare with Europe's Trade Secret Laws? For the Moment, Let's Just Observe the Definition of Trade Secrets:

In May 2016, the European Union's Directive on Trade Secrets was adopted by the European Union Council, and defines Trade Secrets in Article 2(1) as:

(1) 'trade secret' means information which meets all of the following requirements:

- (a) it is **secret** in the sense that it is **not**, as a body or in the precise configuration and assembly of its components, **generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question**;
- (b) it has **commercial value because it is secret**;
- (c) it has been **subject to reasonable steps** under the circumstances by the person lawfully in control of the information, **to keep it secret**.

Trade Secret Enforcement in US Federal Court (EEA, DTSA), US State Courts, and Arbitration/Mediation

Sampling of Trade Secret Cases Involving EEA(1831), EEA (1832), Inevitable Disclosure, etc....

- Vickery v. Welch, 36 Mass. 523 (1837)
- Kewanee Oil Co. v. Bicron, 416 US 470, 94 S.Ct. 1879 (1974) 
- Ruckelshaus v. Monsanto Co., 467 US 986, 104 S.Ct. 2862 (1984) 
- PepsiCo v. Redmond, 54 F.3d 1262, 1272 (7th Cir. 1995) 
- United States v. Williams, 526 F.3d 1312 (11th Cir. 2008) (per curiam)(NDGA) 
- United States v. Chung, 659 F.3d 815 (9th Cir. 2011), cert. denied, No. 11-1141, 2012 WL 929750 (US Apr. 16, 2012) 
- United States v. Agrawal, 726 F.3d 235 (2d Cir. 2013) 
- United States v. Christina Liew et al., CR-11-0573 JSW, NDCA (2014) 

What Should Companies DO?

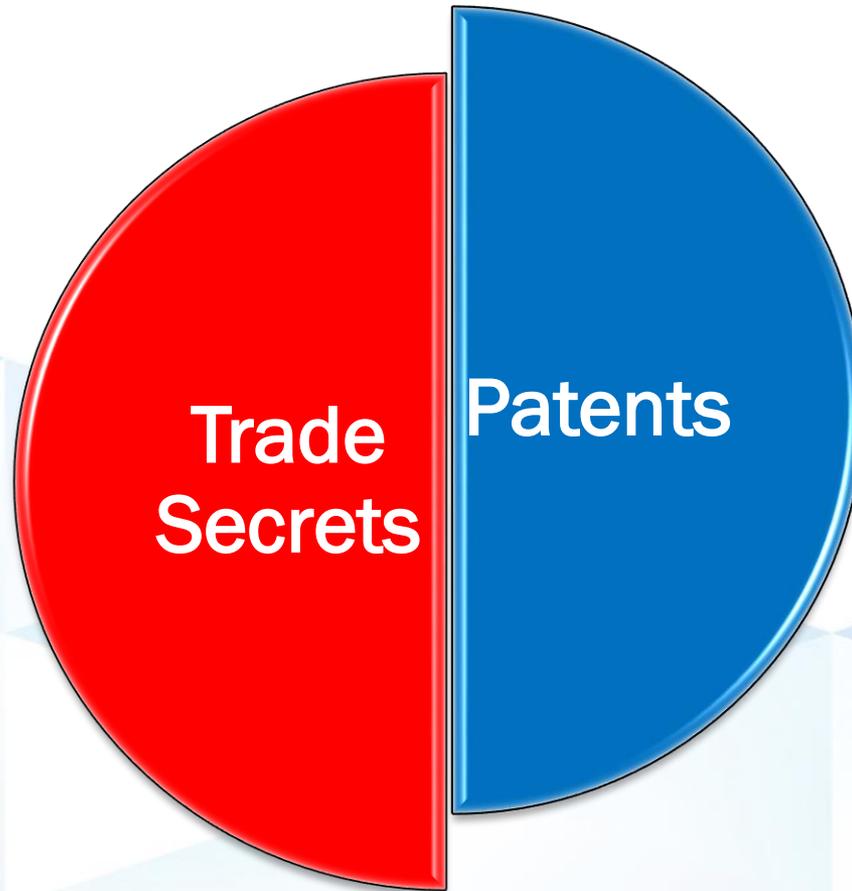
- IDENTIFY trade secrets in your Company
- DETERMINE which of those trade secrets are of value and need to be protected by trade secret law or by patents/copyrights law
- KEEP SECURE the trade secret, e.g., in a locked cabinet or safe
- LIMIT the number of persons having access to the trade secret
- PROVIDE only parts (not the whole) of the trade secret to persons
- AUDIT your trade secrets on a regular basis, e.g., yearly, to ensure the above

WHO should do this?

Person(s) in control of the relevant subject matter along with appropriate legal counsel.

Additional Notes:

Given DTSA whistleblower clauses et al., be sure your US employee contracts reflect the new law!



TRADE SECRETS VS. PATENTS

TRADE SECRETS

TERM: ∞

REMEDIES: State law (UTSA-Like or Common Law), Federal (EEA, DTSA)

CAUTION:

Need to Meet Specific Restrictions of What is a Trade Secret and Have Taken Measures Needed to Protect a Trade Secret

Re-engineering by Competitors is OK

No Right to Exclude Others from Making, Using, Offering for Sale, or Selling, or "Importing" the Invention into the US

PATENTS

TERM: 20 Years from Earliest Effective Filing Date (for those filed on or after June 8, 1995); 17 Years from U.S. Issue Date (for those filed before June 8, 1995)

REMEDIES: Federal Law

CAUTION:

Need to Meet 35 USC §101 Patentability Confines

If Published, and No Patent Granted, Then Public Domain

If Patented, and Term Ends, Then Public Domain

Patent Application Provides Roadmap for Pirates

Questions!

**Who is Patenting and
Who is Keeping Trade Secrets or Both?
Trends In Industries?**

Next Steps in Legislation!

**UTSA-like Rules Have Been Presented for
Enactment by New York and Massachusetts....**

Thank You For Your Consideration!

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