

# Trade Secrets Protection in the U.S.



Office of Policy and External Affairs  
United States Patent and Trademark Office



# Trade Secrets

## Topics:

- Purpose of TS law
- TS law in the U.S.
  - TRIPS agreement
  - State Law
  - Uniform Trade Secrets Act (UTSA)
- Comparison with patent protection
- Loss of TS
- Reasonable steps to protect TS
- Misappropriation of TS: civil and criminal enforcement
- Special issues:
  - Employment and TS
  - Licensing of TS
  - Litigation and TS
  - New challenges



# Trade Secret Law: Purpose

- To protect commercially valuable proprietary information
- That gives a competitive advantage
  - Formulae
  - Manufacturing processes or techniques
  - Business strategies
  - Business management information
  - Compilations (e.g. customer lists)
  - Design concepts, etc.



# Examples of Trade Secrets

- **Campari:** A blend of natural ingredients, mostly herbs, spices, bark, fruits and fruit peels. Reputed that only one person knows entire formula.
- **Coca Cola:** The exact formula of Coca-Cola's natural flavorings is a trade secret. Other ingredients are listed on the side of the bottle or can.
- **Google's PageRank:** A link analysis algorithm used to assign a numerical weighting to each element of a hyperlinked set of documents, to measure its relative importance. "PageRank" is a trademark of Google, the PageRank process is patented and PageRank manipulation tools are among Google's trade secrets.



# Trade Secret Law: TRIPS Agreement

## TRIPS Art. 39 Unfair Competition

All WTO members are required to protect against unfair competition by ensuring that:



## Trade Secrets Law: TRIPS Art. 39 (2) Undisclosed information

“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.”



# Trade Secret Law in the U.S.: State Law

- In the U.S. trade secrets are generally protected under State law which varies from state to state
- Every state recognizes some form of trade secret protection
- Most state legislatures have passed a trade secret law, although some states rely solely on common law principles
- Uniform Trade Secrets Act has helped create a more uniform body of law



# Trade Secret Law in the U.S.: UTSA

- Uniform Trade Secrets Act of 1985
- All but 3 states have adopted some form of UTSA as of January 2012
  - MA
  - TX
  - NY
- UTSA provides:
  - Definition of TS
  - Definition of TS misappropriation
  - Remedies for TS misappropriation:
    - Injunctive relief
    - Damages
    - Attorney's fees (in some instances)



# Trade Secret Law in the U.S.: UTSA

- Two fundamental concepts under the Uniform Trade Secrets Act:
  - 1) Trade Secret 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.
  - 2) Trade Secret is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.



# Trade Secret Protection

- Complementary to Patent, Trademark and Copyright protection.
- Business decision which protection to seek, based on, for example:
  - Ability to meet statutory requirements (patent eligibility, novelty, non-obviousness, etc.)
  - Desired level of protection
  - Time factors
  - Markets envisioned



# Comparison with Patent Protection

## Patent Protection:

- Must disclose invention sufficiently so others can make and use it
- Granted by PTO according to statutory requirements
  - Not all subject matter is patent-eligible (e.g. customer lists)
- Patent application may not result in any protection
- Patent applications publish after 18 months/when issued as a patent
- Costly in resources and time
- Limited term and territory
- Limited scope of protection (claims)



# Comparison with Patent Protection

- Trade Secret Advantages:
  - Any information that has value to the owner and is not know to others
  - Potentially unlimited duration
  - No territorial limits
  - Information remains undisclosed
  - Obtaining and maintaining depend on TS owner' s actions, not on governmental entity



# Comparison with Patent Protection

- What you have to be aware of:
  - Secrecy could be lost
  - Competitors may reverse engineer
  - Competitors may develop technology independently
    - **And patent it!**



# Patent and TS protection

- Is it possible to have both Patent and TS protection?
- Issues:
  - Disclosure requirement
  - Best mode requirement (at time of filing)



# Patent and TS protection

- Can maintain a trade secret on non-patented aspects of an invention, such as
  - Commercial embodiments if different from patented prototype
  - Non-patented details of manufacturing, production processes, know-how, data, etc.
  - Improvements to the patented invention
- Complimentary protection in many cases can be the best approach



# Loss of Trade Secret

## Ways in which TS protection can be lost:

- A single “unprotected” disclosure may result in loss of trade secret
  - Unprotected disclosure is when the TS owner discloses to the public, for example in a speech, technical paper, PR photograph, etc.
  
- Legal reverse engineering of a product to discover the trade secret
  
- Independent development by a competitor



## Reasonable Measures to Protect TS

- With respect to employees:
  - Informing employees of the TS policy
  - Requiring all persons with access to the trade secret to execute confidentiality agreements
  - Limiting number of employees that have access, need-to-know basis
  - Exit interviews
  - Permission for speeches, publishing papers; screening



## Reasonable Measures to Protect TS (cont'd)

- With respect to facilities:
  - Restricting public accessibility - fences, posted notices, restricted areas
  - Markings on documents, locked storage areas, secure disposal of documents and electronic files
  
- With respect to third parties:
  - Using non-disclosure agreements in dealing with 3<sup>rd</sup> parties



# Trade Secret Protection: Example

*Nationwide Mutual Insurance v. Mortensen, 606 F.3d 22 (2010)*

- Former Nationwide agents competed using lists of clients compiled by former employer
- Computer lists were stored in a secure computer system
- Paper lists were left with agents, not secured, no contractual requirement to protect paper lists.
- HELD: reasonable measures not taken => no TS



# Loss of TS: Misappropriation

- **MISAPPROPRIATION:** Use of improper means to acquire the trade secret
  - obtaining the information by theft, bribery, espionage, misrepresentation, breach of confidential relationship
- **WRONGFUL USE:** Non-owner of the TS is not permitted to legally use the information obtained by misappropriation.



# Misappropriation of TS: Civil Remedies

- TS owner can obtain the following remedies from a court:
  - Injunctive relief
    - For “actual or threatened misappropriation” under UTSA as adopted by states
    - Duration?
  - Monetary relief
    - Lost profits
    - Unjust enrichment
    - Reasonable royalty
    - Exemplary or punitive damages for willful or malicious conduct
    - Attorneys’ fees under certain circumstances



# Misappropriation of TS: Criminal Sanctions

- Federal government protects TS under the Economic Espionage Act of 1996 (“EEA”)
  - EEA makes theft or misappropriation of trade secrets a federal crime.
  - Conviction under the Economic Espionage Act can result in a fine of up to \$250,000 for an individual (up to \$5 million for corporations), imprisonment up to ten years, or both.
  - If the crime is committed for the benefit of any foreign government, instrumentality, or agent, the penalties increase to fines of \$500,000 (up to \$10 mil), imprisonment up to 15 years, or both.
- Civil and criminal sanctions for trade secret misappropriation are also available under state laws
  - Not uniform



# Criminal Enforcement: Example

## Coca-Cola case:

- Three individuals, including a Coca-Cola employee, were sentenced in May 2007 to federal prison terms for conspiring to steal TS from Coca-Cola and sell them to rival PepsiCo. The trade secrets included information and samples of a new product. PepsiCo management reported the attempt to the FBI.
- The individuals received up to 8 year prison terms for the theft of the trade secrets under EEA § 1832.
- They were also ordered to pay up to \$40,000 in restitution.



# SPECIAL ISSUES



# Employment and TS

- Employment agreements
  - Ownership of IP
  - Confidentiality clause
- Confidentiality agreements
- Non-compete clauses/covenants
  - Reasonable?
  - Unenforceable in some states for public policy reasons
- “Inevitable disclosure” doctrine
  - An employee who learns a TS on the job and then leaves to work for a competitor in the same position may “inevitably” disclose the TS – “threatened misappropriation”
  - Injunctions prohibiting working for competitors
    - Not available in some states



# Licensing of TS

- “Black box dilemma”:
  - TS owner – can’t disclose TS w/out risk of losing the secrecy
  - Potential licensee – wouldn’t want to acquire unseen
  - Solution = Non-disclosure/confidential disclosure/pre-negotiation agreements
    - In writing
    - Establish legal confidential relationship
    - Define technology/information
    - Define purpose
    - Exceptions to secrecy obligations
    - Duration of secrecy obligations



# Licensing of TS (cont'd)

- TS licenses and Hybrid patent/TS licenses
  - Similar provisions + royalty payments, warranties, indemnities, terms and termination conditions, etc.
  - Hybrid licenses are common in the US, but might be problematic
    - Can't require royalty payments after a patent ceases to be in force
    - But TS might still be valuable
    - Possible solutions:
      - Separate agreements
      - Differentiate between patent and TS rights
      - Allocate patent and TS royalties
      - Royalty-free patent license, etc.



# Litigation and TS

## What happens when trade secrets are litigated in court?

- The owner generally will have to disclose the trade secret, but must take reasonable measures to maintain the secrecy of the information
  - Throughout the course of litigation - before, during and after trial/hearing/settlement
  - TS owner must be vigilant
- Several ways to maintain secrecy in TS litigation:
  - Protective orders
    - To protect TS and other confidential information from public disclosure
    - Limit who may review material containing TS and restrict the use of this information to litigation only
  - Sealing orders
    - Post-hearing/trial request to place the hearing/trial record under seal
  - Court orders to restrict public access to courtrooms



# New challenges

- New challenges in protecting and enforcing TS due to:
  - Growth of international trade, globalization, increased mobility
  - Advancements in digital technology and rise of internet
- Easier to store, access, disseminate TS in digital environment => increased risk of disclosure or misappropriation
  - E.g. publication of TS on Internet even for a short time may result in loss of TS
- Need to re-evaluate adequate protection of TS in digital environment
  - Firewalls
  - Encryption
  - Anti-virus protection
  - Computer access
  - Restriction of storage on removable media, etc.



Any Questions?