Question B: The Protection of Trade Secrets and Know-How—Are States Providing Enough or Too Much Protection?

I. EXECUTIVE SUMMARY

The U.S. Group is pleased to submit this response to Question B for the Stockholm Congress: The Protection of Trade Secrets and Know-How—Are States Providing Enough or Too Much Protection? Trade secrets involve business assets whose value rests in being kept confidential: they can range from customer lists, to software code, to chemical, engineering, or other manufacturing processes, or to databases.\(^1\) Famous examples in the United States include Coca-Cola’s secret recipe, Google’s search algorithm, the method for generating the New York Times’ Best Sellers list, and Kentucky Fried Chicken’s 11 herbs and spices on their fried chicken, to name just a few.

Trade secrets are often developed at great cost and involve years of research and development.\(^2\) As long as reasonable efforts are made to keep such assets confidential, trade secrets may be protected in the United States via civil and criminal processes against disclosure by employees, ex-employees, licensed parties that violate the term of the license (civilly), and theft. In effect, so long as confidentiality can be safeguarded, trade secret protection can last forever, a noted contrast with patent law in the United States.

Because safeguarding trade secrets are an important component in protecting innovation in the United States as well as maintaining standards of commercial ethics in the marketplace,\(^3\) the U.S. Group strongly supports continuing both civil and criminal protection of trade secrets within reasonable bounds. Trade secret theft—according to just one estimate—costs U.S. companies between 1-3% of U.S. GDP each year, i.e., between $160 million and $460 million annually.\(^4\) Indeed, the United States Supreme Court has highlighted how trade secret law has “an important part to play in the technological and scientific advancement of our Nation”\(^5\) and, without it, “organized scientific and technological research could become fragmented, and society, as a whole, would suffer.”\(^6\)

\(^1\) E.g., Altavion v. Konica Minolta Systems Laboratory, Inc., 171 Cal.Rptr.3d 714, 719 (Cal. App. 1 Dist. 2014) (opinion of intermediate state appellate court for San Francisco) [digital stamping technology allowing for self-authentication of documents can be protected as trade secret].
\(^3\) Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481-82 (1974). Given that a significant number of patents are being invalidated, meaning a company obtains no benefit from the public disclosure of its ideas concomitant with the patent application, more and more companies are tuning to trade secrets as an alternate form of protection. Altavion, 171 Cal.Rptr.3d at 737.
\(^5\) Kewanee Oil Co., 416 U.S. at 493.
\(^6\) Id. at 486.
There are important limitations on trade secret protection that do not exist for patents. Many of those limitations are needed to ensure that trade secret protection does not go too far—either in squelching the public disclosures of inventions as such disclosures can further economic progress or in being used as an anti-competitive weapon to conduct discovery into rivals’ business secrets or otherwise hinder them from competing in the market. Other limitations need reform as they hinder effective protection of trade secrets.

In the latter category is the need for enactment of a uniform federal civil statute. Civilly speaking, trade secrets are protected under state law, rather than federal law, creating potential problems both in protecting trade secrets in the international arena because of jurisdictional issues and in leading to state-by-state divergences in the protection of trade secrets. This has led to efforts in Congress, which the U.S. Group supports, to enact a federal civil statute for trade secrets to complement (and not replace) state statutes.

In the former category, trade secrets lose their status if they are reverse engineered. The U.S. Group supports this key limitation as a means of preventing trade secrets from supplanting the role of patents (and also copyright) in balancing the need to foster innovation against the need to facilitate disclosure of information (e.g., manufacturing processes or application programming interfaces) so as to facilitate economic development and progress. Similarly, the U.S. Group supports the bad faith limitation on civil trade secrets actions to prevent abuse of this otherwise important and necessary tool to chill business competition.

Also, in this former category, if the trade secret is widely disseminated, e.g., on the Internet, it loses its trade secret status. That is a necessary limitation lest trade secrets law supplant patent law and overprotect intellectual property to the detriment of the public interest. But that necessary limitation further puts a premium on ensuring that criminal, as well as civil, remedies are available for the improper disclosure of trade secrets so as to discourage theft of those secrets. Trade secrets are property like other forms of intellectual property. For those reasons, the U.S. Group supports the continued prosecution of trade secret theft under criminal statutes.

Moreover, in some states such as California, the remedies of trade secret holders against employees or ex-employees who wish to switch employment to work for a competitor are limited by bans on covenants not to compete. Though the members of the U.S. Group hail from different states with different positions on such limitations as expressed by statute or case law, they note the existence of the position taken by the State of California, based on its laws and an economic study, finding that bans on covenants not to compete in those states have facilitated employee mobility and thus innovation in Silicon Valley. To prevent trade secrets protection from venturing too far in chilling employee mobility, the Stockholm Congress may wish to consider resolving that limitations of some kind should be explored in the future as to the court enforcement of covenants not to compete.

In addition, the protection of trade secrets through covenants not to compete may raise antitrust issues, at least if the holder of the trade secrets has market power. Because the U.S. Group does not believe that intellectual property protection should become an excuse for violating the antitrust laws via exclusionary conduct that goes beyond the bounds of the government grant
whether it be patents, copyrights, or trade secrets, the U.S. Group urges the Stockholm Congress to avoid any categorical exemptions for trade secrets from antitrust laws. As to national security reviews of proposed acquisitions of trade secrets that can convey a perception (warranted or not) of the overprotection of trade secrets, such a perception can be addressed through dialog between countries leading to investment undertakings (or treaties). Those investment undertakings can diminish any sense of overprotection, and thereby support needed foreign direct investment, even as they can strengthen the international protection (at an appropriate level) of trade secrets and thereby help to ensure they retain their liquidity and value.

Finally, the question has been raised as to whether there are non-trade secrets that nonetheless constitute know-how and as such should receive protection. At the onset, the U.S. Group notes that the most common definition of know-how views it as being synonymous with trade secrets with the issue then being the level of protection that should be afforded to trade secrets.7

That being said, there is, as the U.S. Group reports below, the notion in some states that their law may afford protection to business assets that go beyond the bounds of the protection afforded to trade secrets as defined under the principal civil trade secrets law in effect in almost all states. However, such state protection may risk preemption by federal patent law as, in contrast to trade secrets law, they may subvert the careful balancing of interests (e.g., exclusivity of use for a substantial period of time in exchange for public disclosure in the case of patents) involved with those federal laws. The U.S. Supreme Court has recently (and strongly) counseled against even judicially-made rules that subvert the balancing of interests as set out in Congressional enactments pertaining to patents. The U.S. Group accordingly recommends against the extension of protection to know-how beyond that provided by trade secret law.

II. LEGAL PROTECTION FOR TRADE SECRETS: SUBSTANTIVE AND PROCEDURAL ASPECTS

Under U.S. law (both state and federal), trade secrets generally are viewed as commercially valuable information that is not generally known to the public and is subject to reasonable measures to maintain its confidentiality.8 Typical examples include confidential formulas, manufacturing techniques, and customer lists.9 Source code is also a protectable trade secret.10

Not every business asset constitutes a trade secret; for example, a list of a manufacturer’s employees that can be compiled from public sources is not a trade secret.11 But the scope of what

9 Ibid. The California Supreme Court re-affirmed that customer lists can be a trade secret such that their use by ex-employees (as opposed to ex-employees’ using public information) to solicit business away from their former employers constitutes misappropriation. Reeves v. Hanlon, 95 P.3d 513, 522 (Cal. 2004); see, e.g., Wanke Indus., Comm., Resid., Inc. v. Sup. Ct., 147 Cal.Rptr.3d 651, 672-73 (Cal. App. 4 Dist. 2012).
10 Altavis, 171 Cal.Rptr.3d at 740 (citing cases).
11 Cypress Semiconductor v. Maxim Integrated Products, 186 Cal.Rptr.3d 486, 493, 496 (Cal. App. 6 Dist. 2015). The Sixth Appellate District of the State of California is an intermediate state appellate court that covers Silicon Valley.
constitutes trade secrets can be extraordinarily broad so long as reasonable measures have been taken to ensure their confidentiality,12 even design concepts or ideas, for example, can be protected as trade secrets.13 Ultimately, trade secrets are a form of property under U.S. law albeit one whose value flows from their being private.14

Trade secrets are protected by state civil laws and by state and federal criminal laws.15 The substantive and procedural aspects of those laws are set forth below.

A. State Civil Trade Secrets Law

Forty-eight of the 50 American states have enacted legislation consisting of versions of the Uniform Trade Secrets Act (“UTSA”), which originated as a statement of tort principles and became a statement of unfair competition principles16 ultimately as a suggested model law for states to adopt pursuant to a meeting of the National Commissioners on Uniform State Laws in 197917, so as to provide state civil protection for trade secrets.18 Under the UTSA, a trade secret is broadly “defined as “information, including a formula, pattern, compilation, program, device, method, technique, or process, that: [¶] (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.””19 A trade secret is protectable as such even if

12 U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, Annex C, Office of the National Counterintelligence Executive, Foreign Spaces Stealing U.S. Economic Secrets in Cyberspace, October 2011, p. iii (“In this context, trade secrets are all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether stored or unstored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing, if the owner (the person or entity in whom or in which rightful legal or equitable title to, or license in, is reposed) has taken reasonable measures to keep such information secret and the information derives independent economic value, actual, or potential from not being generally known to, and not being readily ascertainable through, proper means by the public.”] (document in possession of the U.S. Group).

17 Altavion, 171 Cal.Rptr.3d at 735-38 [holding such and extending holding to ideas that could be patented].

14 DVD Copy Control Ass’n v. Bunner, 75 P.3d 1, 14 (Cal. 2003) (opinion of the California Supreme Court); Cadence Design Sys. v. AvantA Corp., 57 P.3d 647, 652-53 (Cal. 2002) (decision of the California Supreme Court). Indeed, like any other form of property, an owner of a trade secret can recover for damages from its misappropriation even if those secrets are post-misappropriation sold to a third party, Jasmine Networks, Inc. v. Sup. Ct., 103 Cal.Rptr.3d 426, 435-38 (Cal. App. 6 Dist. 2009) (decision of state intermediate appellate court for Silicon Valley)—thus providing additional support for the notion that trade secrets are property. The Jasmine decision cited for the above proposition also supports, albeit indirectly, the need for trade secrets as property to be as liquid as possible consistent with its characteristics, an issue discussed in more detail post in this report.

15 U.S. Office of the President, Annex A, p. 19 [“In the United States, civil private enforcement of trade secret protection is primarily a state matter.”].

16 U.S. Office of the President, Annex A, p. 19 [describing how the principles that became the Uniform Trade Secrets Act descended from common law, were gathered in the 1939 Restatement (First) of Torts and then in 1995 in the Restatement (Third) of Unfair Competition].

17 Cadence Design Sys., 57 P.3d at 650. California adopted the UTSA without change in 1984. Id.; accord Bunner, 75 P.3d at 9. Based on this fact, and on the fact that California is the home of Silicon Valley as well as being the eighth largest economy in the world—Center for Continuing Study of the California Economy, Numbers in the News, California Once Again the World’s Eighth Largest Economy (July 2014), this section of the report will often use California as a proxy for other states’ enactment and application of the UTSA.


19 Cadence Design Sys., 57 P.3d at 650 (internal citation omitted); accord, Bunner, 75 P.3d at 9.
the underlying secret could have been patented, even if aspects of the trade secret were in the public domain (but not the particular combination of those aspects), and even if the concept behind the trial secret was in the public domain (but not the particular process involved in the secret itself).\textsuperscript{20}

The requirement of showing substantial economic value means that a court must determine whether the information has value because it is unknown to others; if it is generally known or is readily ascertainable by a competitor, it has no economic value.\textsuperscript{21} That value need not be great but must not be trivial.\textsuperscript{22} And proponents of a trade secret can meet their burden of showing this element of a trade secrets claim either by direct evidence relating to the content of the secret and how it impacts their business operations or by circumstantial evidence as to the amount of resources invested in developing the secret, the precautions taken to protect its secrecy, and the willingness of others to pay for access to the secret.\textsuperscript{23}

In turn, “‘misappropriation’ is defined as ‘(1) 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 [¶] (2) 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 or her 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 or her 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.’”\textsuperscript{24}

And “improper means” is defined to “‘include[ ] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.’”\textsuperscript{25} The ability to reverse engineer, and then freely use, a trade secret distinguishes a trade secret from a patent. The patent constitutes a grant of exclusive control for a limited time in exchange for public disclosure such that any practice of the patent by anyone other than the patent holder and his or her licensees infringes the patent.\textsuperscript{26}

Whether a trade secret can still in fact be deemed a secret under the UTSA, or conversely must be deemed to have passed into the public domain such that at least a court order barring further dissemination may no longer be appropriate, is a fact-intensive analysis in which it must be determined how wide-spread is publication of the secret and whether it may retain at least some

\textsuperscript{20} Altavion, 171 Cal.Rptr.3d at 731.
\textsuperscript{21} Id. at 742-43.
\textsuperscript{22} Id. at 743.
\textsuperscript{23} Id. The fact that a misappropriator of a trade secret then files patent applications based on that trade secret is evidence that it has substantial economic value. Id. at 743-44.
\textsuperscript{24} Cadence Design Sys., 57 P.3d at 650 (internal citation omitted); accord, Bunner, 75 P.3d at 9.
\textsuperscript{25} Cadence Design Sys., 57 P.3d at 650 (internal citation omitted); accord, Bunner, 75 P.3d at 9.
\textsuperscript{26} Cadence Design Sys., 57 P.3d at 650-51 (internal citations omitted).
economic value from not being widely-known (yet).\textsuperscript{27} On the one hand, even publication of the trade secret on the Internet may not nullify its status as a trade secret if the publication is “obscure,” “transient,” or “otherwise limited” such that “it does not become generally known to the relevant people, i.e., potential competitors or other persons to whom the information would have some economic value.”\textsuperscript{28} Moreover, widespread disclosure of the general concept of the secret (as opposed to its underlying mechanics) to potential investors and licensees without the execution of a non-disclosure agreement still does not operate to defeat the trade secret’s status as a trade secret.\textsuperscript{29} On the other hand, quick and widespread publication of a trade secret on the Internet to an eager audience will destroy the status of a trade secret as such, making inappropriate a court order against republishing that secret as such an order goes beyond the objectives of trade secrets law.\textsuperscript{30}

The statute of limitations of the UTSA is three years.\textsuperscript{31} While a misappropriation may occur each time a trade secret is misused or wrongfully disclosed, a claim under the UTSA arises the first time the misappropriation occurs with each subsequent misappropriation being part of a continuing wrong.\textsuperscript{32}

To obtain a court order, e.g., against a current or former employee with access to trade secrets so that the employee does not divulge those trade secrets to a competitor or to the world, there must be an actual or threatened misappropriation or theft of that trade secret—\textsuperscript{33} with threatened misappropriation being present if there was a threat of misuse as conveyed by words or conduct plus the imminent prospect of misuse.\textsuperscript{34} If it is not clear that the appropriation occurred via improper means, e.g., the facts suggest that the alleged misappropriation may have occurred via reverse engineering, a court may find that an insufficient basis exists to grant an injunction.\textsuperscript{35} Moreover, the trade secret must be described with reasonable particularity in that court order for the order itself to be valid.\textsuperscript{36} And the injunction ceases when the trade secret is no longer a trade secret and when any commercial advantage that the one misappropriating trade secret gained by virtue of the illicit “head start” has ended.\textsuperscript{37}

The issuance of such an injunction does not violate the First Amendment to the U.S. Constitution guaranteeing freedom of speech, even if the underlying material such as computer code constitutes speech, because trade secrets constitute property such that a court order protecting

\textsuperscript{27} DVD Copy Control Ass’n v. Bunner, 10 Cal.Rptr.3d185, 192 (Cal. App; 6 Dist. 2004) (case was decided on remand to intermediate state appellate court in Silicon Valley from California Supreme Court).

\textsuperscript{28} Id. at 192-93.

\textsuperscript{29} Altavion, 171 Cal.Rptr.3d at 738-39.

\textsuperscript{30} Id. at 194.

\textsuperscript{31} Cadence Design Sys., 57 P.3d at 651.

\textsuperscript{32} Id. at 651-52.

\textsuperscript{33} See Bunner, 75 P.3d at 9.

\textsuperscript{34} FLIR Systems, Inc. v. Parrish, 95 Cal.Rptr.3d 307, 313 (Cal. App. 2 Dist. 2009) [discussing California’s version of the Uniform Trade Secrets Act]. (The Second Appellate District of the State of California is also an intermediate state appellate court that covers Los Angeles.) The standard of actual or threatened misappropriation is generally the standard under the Uniform Trade Secrets Act. U.S. Office of the President, Annex A, p. 19.

\textsuperscript{35} Bunner, 10 Cal.Rptr.3d at 194.

\textsuperscript{36} FLIR Systems, 95 Cal.Rptr.3d at 317-18.

\textsuperscript{37} U.S. Office of the President, Annex A, p. 19.
its status as such constitutes permissible content-neutral regulation.\(^ {38} \) In addition, the UTSA requires a court in an action filed under it to issue an order protecting the confidentiality of the trade secrets that are determined to exist such that the public is not entitled to discover those secrets and the public’s constitutional right to attend a civil trial may be overridden.\(^ {39} \)

Some states allow for an injunction to be issued that bars an employee of a corporation with access to the corporation’s trade secrets from working for that corporation’s competitors under a doctrine known as inevitable disclosure—even if there has been no showing that the employee actually misappropriated those trade secrets or will do so.\(^ {40} \) However, other states such as California, i.e., those that do not allow employer restrictions (known as covenants not to compete) on their employees’ freedom to pursue employment elsewhere so as to favor employee mobility,\(^ {41} \) do not allow for such an injunction.\(^ {42} \)

There are limits on civil trade secret actions embedded in the UTSA as interpreted by courts such as those in California in addition to the covenant not to compete limitation. For example, prior to the commencement of discovery, a plaintiff must identify the trade secret in question with enough particularity that the defendant can understand “the boundaries within which the secrets lie” and so that it can be separated “from matters of general knowledge in the trade or of special knowledge by persons skilled in the trade.”\(^ {43} \) This discourages the filing of meritless claims and the use of a trade secrets lawsuit to conduct discovery into a defendant’s trade secrets as well as assists defendants to develop the best defenses possible to these claims.\(^ {44} \) However, how specific a trial court itself needs to be in its statement of decision as to its description of the trade secrets in question depends on the facts of each case.\(^ {45} \)

Additionally, a trade secret action brought in bad faith by a plaintiff exposes that plaintiff to sanctions in the form of payment of a defendant’s attorneys’ fees and costs.\(^ {46} \) Bad faith requires a finding of “objective speciousness” (i.e., where there is a complete lack of evidence to support the claim) and “subjective bad faith in bringing or maintaining the action” (i.e., that the case was filed as a preemptive strike for an anti-competitive purpose).\(^ {47} \) Given that state courts have, in

\(^ {38} \text{Bunner, 75 P.3d at 10-19.} \)

\(^ {39} \text{See NBC Subsidiary (KNBC, Inc.) v. Sup. Ct., 980 P.2d 337, 368-69 & n.46 (Cal. 1999) (decision of California Supreme Court); In re Providian Credit Card Cases, 116 Cal.Rptr.2d 833, 838 (Cal.App.1 Dist. 2002) (decision of state intermediate appellate court for San Francisco).} \)

\(^ {40} \text{FLIR Systems, 95 Cal.Rptr.3d at 314 n.3 (citing federal cases); U.S. Office of the President, Appendix A, p. 19.} \)

\(^ {41} \text{Cal. Bus. & Prof. Code § 16600; Cypress Semiconductor, 186 Cal.Rptr.3d at 505; FLIR Systems, 95 Cal.Rptr.3d at 314-15.} \)

\(^ {42} \text{Cypress Semiconductor, 186 Cal.Rptr.3d at 504; FLIR Systems, 95 Cal.Rptr.3d at 314 & n.3; id. at 318; Whyte v. Schlage Lock Co., 125 Cal.Rptr.2d 277 (Cal. App. 6 Dist. 2006); U.S. Office of the President, Appendix A, p. 19.} \)

\(^ {43} \text{Altavion, 171 Cal.Rptr.3d at 727-28.} \)

\(^ {44} \text{Id.} \)

\(^ {45} \text{Id. at 734-35 [finding such disclosure by the trial court to be adequate where the court identified the secret by a reference to the secret as a whole used by the parties as well as by the patent applications filed by the defendant who used the trade secrets gained from plaintiffs to file patent applications].} \)

\(^ {46} \text{Cypress Semiconductor, 186 Cal.Rptr.3d at 495-96; FLIR Systems, 95 Cal.Rptr.3d at 313; H.R. Report No. 113-65, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA].} \)

\(^ {47} \text{Cypress Semiconductor, 186 Cal.Rptr.3d at 500-510; FLIR Systems, 95 Cal.Rptr.3d at 313-19.} \)
fact, been willing to find bad faith, this represents a real additional limitation against the abuse of trade secrets litigation.

A “willful and malicious misappropriation,” however, can allow plaintiffs to recover attorneys’ fees and costs as well as two times actual damages (referred to under the UTSA as exemplary damages). Plaintiffs can otherwise recover single damages (i.e., actual loss to plaintiffs and unjust enrichment to a defendant to the extent unjust enrichment is not covered by an award for actual loss) and can calculate those damages either by determining lost profits or by estimating a reasonable royalty that they could have charged for licensing use of those trade secrets if their lost profits cannot be determined. State law may even (as in the case of the State of California) provide for the award of prejudgment interest, i.e., per annum interest calculated from the time of the civil wrong, which can be applied in a trade secrets action.

It should be noted that the adoption of the UTSA has not been uniform among the 48 states (e.g., some states may have longer or shorter statute of limitations than what the UTSA sets out) that have adopted the UTSA. Nonetheless, the U.S. Group supports the UTSA, including the careful balancing of issues and needs reflected in its terms as interpreted by courts such as those in California, as being an appropriate basis for civil trade secret legislation.

B. Federal Criminal Trade Secrets Law

The federal government (and various states) also have laws that allow for criminal prosecutions of those who misappropriate trade secrets, including employees and ex-employees. Under the federal Economic Espionage Act of 1996, 18 U.S.C §§ 1831-39, the federal government has brought criminal cases such as the following: a former employee of Ford Motor Company who resigned to go work for Beijing Automotive Company while stealing 4,000 documents with trade

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48 Cypress Semiconductor, 186 Cal.Rptr.3d at 500-510; FLIR Systems, 95 Cal.Rptr.3d at 313-19.
49 U.S. Office of the President, Annex A, p. 19; H.R. Report No. 113-657, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA except that damages would be three times, and not two times, actual damages as the proponents of this legislation chose to follow the federal patent statute and not the UTSA on this point]; Orca Communications Unlimited, LLC v. Ann J. Noder et al. (No. CV 13-0351 PR) ___ P.3d ___, slip. op. at 5 (Az. Nov. 19, 2014) (opinion of the Arizona Supreme Court in the possession of the U.S. Group) [discussing the UTSA].
51 See Altavis, 171 Cal.Rptr.3d at 746-47; U.S. Office of the President, Annex C, p. 4; H.R. Report No. 113-657, p. 12 [proposing a similar requirement for the federal civil equivalent of the UTSA]. Reasonable royalties may also be obtained if enjoining future use of a trade secret is not feasible. Ajaxo Inc. v. E*Trade Financial Corp., 115 Cal.Rptr.3d 168, 179 (Cal. App. 6 Dist. 2010).
52 Altavis, 171 Cal.Rptr.3d at 748-49.
54 One example of a state criminal statute is Cal. Pen. Code § 499c. Because these statutes are designed to ensure that the theft of trade secrets can be treated the same as the theft of any other property, and because federal criminal prosecutions may be more salient for the delegates to the Stockholm Congress, the national rapporteurs of the U.S. Group will refrain from further addressing those state statutes here except to note that they serve as further evidence of the importance that the United States places on trade secret protection—an importance that the U.S. Group strongly believes to be appropriate.
secrets valued at $50 million;\textsuperscript{55} a research chemist of Du Pont who was involved in developing a chemical process for Organic Light Emitting Diodes ("OLED") and whom passed on to a Chinese university trade secrets involving that OLED process worth $400 million;\textsuperscript{56} a former GM employee and her husband who tried to pass on GM trade secrets involving the manufacture of hybrid cars worth $40 million to Chinese auto maker Cherry Automotive Corp;\textsuperscript{57} a former employee of Cargill and Dow Chemical who passed-on trade secrets involving the manufacture of pesticides worth $7 million to a Chinese university working on organic pesticides for the Chinese government;\textsuperscript{58} and a former software engineer of Motorola who attempted to leave the United States with a one-way ticket to China to turn over stolen information—7,000 documents—regarding telecommunication technology to a Chinese company and the Chinese military.\textsuperscript{59}

Section 1831 of the Economic Espionage Act provides that it is a felony under U.S. criminal law for an individual knowingly to steal or misappropriate trade secrets “for the benefit of a foreign government, a foreign instrumentality, or a foreign agent.”\textsuperscript{60} Section 1832 of that Act addresses theft of trade secrets that are “related to or included in a product that is produced for or placed in interstate or foreign commerce”\textsuperscript{61} and makes it a crime knowingly to steal or misappropriate a trade secret “to the economic benefit of anyone other than the owner thereof” if the defendant “intend[s] or know[s] that the offense will . . . injure any owner of that trade secret.”\textsuperscript{62}

The federal government recently strengthened the Economic Espionage Act, passing one law in 2012 to ensure that the theft of computer source code could be treated as the theft of trade secrets under this statute, and another law that same year to increase criminal penalties for the theft of trade secrets as well as to direct the U.S. Sentencing Commission, responsible for setting criminal sentencing guidelines in the United States, to consider increasing prison time for those

\textsuperscript{55} U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, p. 4, available at https://www.whitehouse.gov/blog/2013/02/19/launch-administration-s-strategy-mitigate-theft-us-trade-secrets [sentenced to 70 months in prison].
\textsuperscript{56} Ibid., p. 5 [sentenced to 14 months in prison].
\textsuperscript{57} Ibid., p. 7.
\textsuperscript{58} Ibid., p. 7 [sentenced to 87 months in prison].
\textsuperscript{59} Ibid., p. 10. A list and description of all of the criminal trade secret prosecutions brought by the U.S. government between 2009 and January 2013 can be found at U.S. Office of the President, Administration Strategy of Mitigating the Theft of Trade Secrets, February 2013, Annex B (document in the possession of the U.S. Group).
\textsuperscript{60} U.S. Office of the President, Annex A, p. 19. To be more exact, economic espionage occurs under the statute when someone “knowing or intending that his or her actions will benefit any foreign government, instrumentality or agent, knowingly: (1) steals, or without authorization appropriates, carries away, conceals, or obtains by deception or fraud a trade secret; (2) copies, duplicates, reproduces, destroys, uploads, downloads, or transmits that trade secret without authorization; or (3) receives a trade secret knowing that the trade secret had been stolen, appropriated, obtained or converted without authorization.” U.S. Office of the President, Annex C, p. iii.
\textsuperscript{61} U.S. Office of the President, Annex A, p. 19. What the statute terms industrial espionage occurs when someone “intending or knowing that his or her offense will injure the owner of a trade secret of a product produced for or placed in interstate or foreign commerce, acts with the intent to convert that trade secret to the economic benefit of anyone other than the owner by: (1) stealing, or without authorization appropriating, carrying away, concealing, or obtaining by deception or fraud information related to that secret; (2) copying, duplicating, reproducing, destroying, uploading, downloading, or otherwise transmitting that information without authorization; or (3) receiving that information knowing that that information had been stolen, appropriated, obtained or converted without authorization.”
found guilty under the Act. The Act also allows for civil suits to be brought, but only by the U.S. Attorney General and only for a civil court order.

Notwithstanding the limited scope of the civil actions allowed by the Economic Espionage Act, the U.S. Group strongly supports the criminal prosecution of trade secret theft and espionage provided by the Act subject to the same due process restraints as any criminal prosecution. Trade secrets are property—and theft of property should be punished, including theft of intangible assets whose protection is critical to incentivizing innovation and developing new ideas. Indeed, because it is thought inappropriate under civil law to issue an injunction barring republication of a trade secret by an individual as a means of punishment or deterrence once a trade secret has become widely known on the Internet, the use of criminal law against the original wrongful disseminator of those trade secrets may provide one of the only deterrents against such conduct in the first instance.

C. The Interface with and Constitutionality of Trade Secrets Law Vis-à-vis Patent Law

As the United States Supreme Court held in the seminal *Kewanee Oil Co. v. Bicron Corp.*, case, civil laws that protect trade secrets do not constitute an end-run around the careful balancing of policies that govern the conferral of exclusivity via patents for a limited period of time. Protection of trade secrets can often involve items that would never be eligible for a patent such as customer lists; protection of trade secrets serves the same goal as patent law in the sense of stimulating invention and does not undermine patent’s other goal of information in the public domain remaining there as trade secrets are, by definition, not in the public domain to begin with; and, insofar as trade secrets that could be easily patentable may be concerned (such that the policies animating patent laws may be at their acme), the answer is that trade secrets law is “weaker” than patent law and unlikely to serve as a counter-incentive to filing for patents. On that latter point, the Supreme Court particularly referenced the fact that, while a trade secret’s status as such could be overcome via reverse engineering or independent creation, a patent “operates ‘against the world’ forbidding any use of the invention for whatever purpose for a significant period of time.”

The Supreme Court observed that the failure to allow for trade secret protection under state law would have perverse consequences: it would encourage the submission of patent applications,
and the grant of patents of dubious quality;\textsuperscript{74} and it would encourage companies to “hoard knowledge” rather than license out those secrets to others such as manufacturers and distributors, thus either “depriving the public of the maximum benefit of [the secrets’] use, or engag[ing] in the time-consuming and economically wasteful enterprise of constructing duplicative manufacturing and marketing mechanisms for the exploitation of the invention.”\textsuperscript{75} The Kewanee Oil Co. decision thus further supports the recommendation of the U.S. Group, endorsing trade secret protection under the UTSA as interpreted in cases such as those from California courts.

III. THE INTERFACE OF TRADE SECRETS LAW AND COMPETITION PRINCIPLES

Intellectual property law, including trade secrets law, cannot be used as a cloak to shield or immunize violations of antitrust law, i.e., conduct that has an anti-competitive effect with no countervailing redeeming benefit for consumer welfare.\textsuperscript{76} It follows that a firm with market power may not, under the antitrust laws, impose covenants not to compete on its employees that would freeze the mobility of those employees \textit{in an entire relevant market}, even based on the assumption that its trade secrets will be disclosed (referenced above in this report as the “inevitable disclosure” theory).\textsuperscript{77} Thus, at the very least, trade secrets law should not provide for a categorical exemption to the application of competition law.\textsuperscript{78}

Members of the U.S. Group are from different states, some of which accept covenants not to compete between employers and employees (e.g., on the assumption that employees will inevitably learn trade secrets and cannot wipe their minds clean) and others like California where bars on covenants not to compete have been an integral part of their state competition laws.\textsuperscript{79} The State of California holds the view that the success of Silicon Valley is due in large part to California’s long-standing bar on covenants not to compete fostering employee mobility. Specifically, in a study that compared Silicon Valley to Route 128 (the State of Massachusetts’ attempt to foster a geographic zone for innovation similar to Silicon Valley), it was determined that this bar, which exists in California but not in Massachusetts, facilitated effective “knowledge spillover”—i.e., the transfer of ideas and processes from one organization to another by employees jumping ship including from large organizations to small businesses and start-ups—in Silicon Valley so as to foster new ideas and products, enabling Silicon Valley to pull ahead.\textsuperscript{80} Should the Stockholm Congress decide to address this topic at all, e.g., in the context of the inevitable disclosure doctrine, the U.S. Group respectfully submits that the Congress may want to state as

\textsuperscript{74} Id. at 488-89.
\textsuperscript{75} Id. at 486-87.
\textsuperscript{76} \textit{See United States v. Microsoft}, 253 F.3d 34, 63 (D.C. Cir. 2001); \textit{see also Federal Trade Commission v. Actavis}, 133 S.Ct. 2223, 2238 (2013) (dis. op. of Roberts, C.J.) (The point of the antitrust laws is “to promote consumer welfare.”); accord id. at 2233-34 (maj. op.).
\textsuperscript{77} \textit{See Emilio Varanini, Monopoly Rights and Monopoly Leveraging}, in 3 E-COMMERCE AND INTERNET LAW, § 34.05[4] (2014-15 Update) [citations omitted].
\textsuperscript{78} \textit{Cf. Actavis}, 133 S.Ct. at 2232-33 [refusing to carve out a special exception for patents and patent-related settlements to the application of the antitrust laws].
\textsuperscript{79} CAL. BUS. & PROF. CODE §16600.
\textsuperscript{80} \textit{See Ronald J. Gibson, The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete}, 74 N.Y.U. L. REV. 575 (1999).
part of its resolution on Question B that, at the very least, limitations should be explored in the future on the court enforcement of covenants not to compete.

Finally, the question of whether the acquisition of trade secrets should be permitted has arisen in national security reviews that are adjacent to the customary antitrust review of those acquisitions.\(^81\) These reviews can involve balancing concerns about the transfer of trade secrets abroad\(^82\) against the need for the market for trade secrets to have sufficient global liquidity so that trade secrets not only may be properly valued but also may be put to their best use for the benefit of the public both domestically and abroad.\(^83\)

Though this issue is highly fact-dependent, there is a perception, whether substantiated or not (e.g., whether foreign acquisitions of trade secrets are, in fact, blocked in national security reviews), that the prospect of such reviews may deter foreign direct investment and thus overprotect trade secrets.\(^84\) The U.S. Group believes that this issue can be addressed in the context of country-to-country dialogs on investment, which can not only lead to investment undertakings (or treaties) allowing for a freer acquisition of trade secrets as part of the investment climate but also can ensure that trade secrets in fact receive the protection they deserve, no matter where the holder of the trade secrets does business, so that their monetary value remains liquid and protected as well.\(^85\) Such investment undertakings (or treaties) could diminish to a great extent the need for national security review and thus diminish the perception of overprotection of trade secrets vis-à-vis foreign direct investment.

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\(^{81}\) See, e.g., Kevin B. Goldstein, Reviewing Cross-Border Mergers and Acquisitions for Competition and National Security, 3 TSINGHUA CHINA L. REV. 215 (Summer 2011) (document in possession of U.S. Group) [reviewing the national security review process adjacent to, but separate from, merger review in Europe, the United States, and China].

\(^{82}\) See id. [noting that the law amending the national review statutory process in the United States allows for consideration of national economic security criteria]; see also https://en.wikipedia.org/wiki/Committee_on_Foreign_Investment_in_the_United_States (accessed on July 9, 2015).

\(^{83}\) See, e.g., New A123 Systems LLC Emerges, GREEN CAR CONGRESS (January 30, 2013), http://www.greencarcongress.com/2013/01/a123-20130130.html (accessed July 9, 2015) [discussing acquisition of assets of bankrupt car battery maker by Chinese company following approval of sale in national security review process]; see generally e.g., Kewanee Oil, 416 U.S. at 486, 493 [addressing importance of trade secrets to national competitiveness]; id. at 486-87 [by allowing for licensing of trade secrets while safeguarding their confidentiality, trade secrets law prevented knowledge hoarding and allowed for best use of resources for benefit of public].

\(^{84}\) The importance of foreign direct investment, and the harm that such a perception can do to the flow of direct investment are discussed in https://en.wikipedia.org/wiki/Committee_on_Foreign_Investment_in_the_United_States (accessed on July 9, 2015) and Rabul Prabhakar, Deal-Breaker: FDI, CFIUS, and Congressional Response to State Ownership of Foreign Firms (unpublished manuscript May 13, 2009) (document in possession of U.S. Group).

\(^{85}\) See, e.g., U.S. Treasury, United States-China Joint Fact Sheet Sixth Meeting of the Strategic and Economic Dialogue (July 11, 2014), http://www.treasury.gov/press-center/press-releases/Pages/jl2561.aspx (accessed on July 9, 2015); see also, e.g., Bunner, 75 P.3d at 13 [“Trade secrets . . . offer no protection against independent invention. Rather, [t]he basic logic of the common law of trade secrets recognizes that private parties invest extensive sums of money in certain information that loses its value when published to the world at large. Based on this logic, trade secret law creates a property right defined by the extent to which the owner of the secret protects his interest from disclosure to others. In doing so, it allows the trade secret owner to reap the fruits of its labor and protects the owner's moral entitlement to these fruits.” (Internal citations and quotation marks omitted.).]
IV. VENTURING BEYOND THE CONVENTIONAL BOUNDS OF TRADE SECRET LAW AND THE CONSTITUTIONAL/PRAGMATIC ISSUES RAISED

Some states have found that civil trade secrets protection under the common law can go beyond the metes and bounds of the UTSA—though it is not clear how far in fact such protection may extend beyond the UTSA if such protection were to accomplish more than simply make available different remedies than those under the UTSA, i.e., if such protection did more than just make tort or contract remedies available. In Bonito Boats, Inc. v. Thundercraft Boats, Inc., the United States Supreme Court addressed the question of whether the State of Florida could bar a design process that allowed for the easy duplication of unpatented boat hulls. The Supreme Court found that Florida’s law violated the U.S. Constitution because the Constitution itself allowed for the grant of exclusivity by patent for only a limited time before any invention so protected passed into the public domain for public usage as a means of balancing “the need to promote innovation and the recognition that imitation and refinement are both necessary to invention itself and the very lifeblood of a competitive economy.”

In reaching this conclusion, the Supreme Court carefully distinguished the protection of trade secrets from this law barring duplication of boat hull designs in the public domain, noting that the reasons why protecting trade secrets did not affect this balancing of policies (that underlay the constitutional provision on patents) were because public awareness of trade secrets was limited as they were inherently not in the public domain and because the public could freely discover those secrets via reverse engineering or independent creation. Accordingly, the more that protection of trade secrets (or know-how if a distinction can be drawn between know-how and trade secrets) departs from the metes and bounds of the UTSA beyond providing for a different set of remedies, the more it threatens, in a pragmatic way, the careful balancing of interests embedded in the patent law as well as the incentives to engage in the first place in the rigorous process required for an invention to acquire exclusive status via the patent grant.

The United States Supreme Court reiterated just this year the need to adhere closely to this careful balancing of interests in patent law, in the absence of action by the U.S. Congress, in refusing to overrule its judicially created rule barring the collection of royalties on the licensing of a patent based on use of that patent after its expiration or termination. Consequently, though

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86 E.g., Orca Communications Unlimited, LLC, slip. op. at 2; see id. at 8 [noting split among states in interpreting the scope of the UTSA as to whether it precludes common law actions]. In Angelica Textile Services v. Park, 163 Cal.Rptr.3d 192 (Cal. App. 4 Dist. 2013) (decision of state intermediate appellate court for Orange County), the court noted that while UTSA did not displace the ability to get remedies under other causes of action such as breach of contract or conversion, the UTSA did preclude liability based on a broader protection of information than that contained in the UTSA. Id. at 201-02.
88 Id. at 144.
89 Id. at 146-49, 152-53, 156.
90 Id. at 155-56.
91 See id. at 160-63.
the U.S. Group does not take a position as to whether an individual state law on trade secrets beyond the UTSA may violate *Bonito Boats*, it respectfully submits that *Bonito Boats* may serve as a useful guide for the Stockholm Congress in considering what limits should exist on trade secret protection to avoid such protection undermining the careful balancing of interests embedded in patent laws.

**V. MOVEMENT TOWARDS ENACTMENT OF A FEDERAL CIVIL TRADE SECRETS STATUTE**

Legislation has been proposed in the U.S. Congress to enact a federal civil trade secrets statute.\(^93\) If enacted in its current form, the proposed statute would allow owners of trade secrets to file a federal action for misappropriation of those trade secrets in federal court just as they can file an action for infringement of their patents or copyrights in federal court.\(^94\) Modeling its definition of misappropriation after that of the UTSA, this proposed legislation also provides for the ability to obtain damages and court orders barring the actual or threatened misappropriation of trade secrets in the same manner as provided under the UTSA\(^95\) and in almost all respects otherwise follows verbatim the UTSA.\(^96\) However, this proposed legislation does provide for an ex parte seizure process of trade secrets from a person accused of theft of those secrets, with strict process and standards, including as minimal disruption as possible for businesses, a hearing to be set as early as possible on the ex parte seizure, and sanctions on a party that initiates an erroneous seizure.\(^97\)

Proponents of this legislation view the UTSA enactments in the different states as being inadequate for the following reasons:

While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways and contain built-in limitations that make them not wholly effective in a national and global economy. First, they require companies to tailor costly compliance plans to meet each individual state’s law. Second, trade secret theft today is often not confined to a single state. The theft increasingly involves the movement of secrets across state lines, making it difficult for state courts to efficiently order discovery and service of process. Finally, trade secret cases often require swift action by courts across state lines to preserve evidence and keep a trade secret thief from boarding a plane and taking the secret beyond the reach of American law. In a globalized and national economy, Federal courts are better situated to address these concerns.\(^98\)

Proponents further believe that criminal prosecutions under the Economic Espionage Act, while important, is insufficient both because the federal government does not have enough

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\(^93\) H.R. Report No. 113-657.
\(^94\) *Ibid.*., p.p.5, 10 [statute creates a civil counterpart to the Economic Espionage Act with an interstate jurisdictional nexus requirement similar to that Act].
\(^95\) *Ibid.*., pp. 5, 9-11-12.
\(^96\) *Ibid.*., pp. 11-12.
\(^97\) *Ibid.*., pp. 5, 9, 10-11 [describing the particular and extremely detailed requirements for an ex parte order].
resources to pursue every case and also because this statute is not designed to make victims of trade secret theft whole.\textsuperscript{99} The proponents of this legislation stress the importance of protecting trade secrets, finding that trade secrets are some of a company’s “most valuable property,” are “an integral part of a company’s competitive advantage in a global economy,” and are “highly susceptible to theft” with “the increased digitization of critical data and increased global trade.”\textsuperscript{100}

At present, it does not appear that this legislation has been voted on though it and a companion bill introduced in the U.S. Senate (which has some slight differences from the House bill discussed above) have strong bipartisan support.\textsuperscript{101} Nonetheless, the U.S. Group strongly supports the idea of national legislation that is at the very least similar to a federal UTSA for the reasons detailed above so long as state law is not preempted thereby.

RESPECTFULLY SUBMITTED ON BEHALF OF THE U.S. GROUP

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PRESIDENT-ELECT
LIDC, U.S. GROUP

\textsuperscript{99} Ibid.
\textsuperscript{100} Ibid., p. 6.