

OVERVIEW OF NATIONAL AND REGIONAL TRADE SECRET SYSTEM

UNITED STATES OF AMERICA

1. Sources of Law

Common law, as summarized in Chapter 4 of the Restatement (Third) of Unfair Competition¹, statutory law as embodied in the various state enactments of the Uniform Trade Secrets Act (UTSA)² and the Federal Defend Trade Secrets Act (DTSA)³ providing a federal civil cause of action for trade secret misappropriation, build the primary sources of trade secret law in the United States of America (USA).⁴ Further, the Economic Espionage Act of 1996 as amended by the DTSA provides for federal criminal penalties for certain types of trade secret misappropriation codified at 18 U.S.C. §§ 1831-1839⁵.

2. Definition of a trade secret

According to 18 U.S.C. § 1839(3) the term "trade secret" means:

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 or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information

Section 1(4) UTSA defines a trade secret as:

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.

In 1995, the American Law Institute published the Restatement (Third) of Unfair Competition, summarizing the common law of trade secrets in §§ 39-45 and accompanying notes,

¹ Available at: <https://wipo.int/edocs/lexdocs/laws/en/us/us216en.pdf>.

² Available at: <https://www.wipo.int/edocs/lexdocs/laws/en/us/us034en.pdf>.

³ Available at: <https://www.wipo.int/wipolex/en/text/406004>.

⁴ This document aims to provide an overview (June 2024). It is not a complete review of the legal situation and case law. For further information, interested readers may consult: Williamson, John, Trade Secrets - United States (April 22, 2021). *les Nouvelles - Journal of the Licensing Executives Society*, Volume LVI No. 2, June 2021, Available at SSRN: <https://ssrn.com/abstract=3832213>, Trade Secrets – USA (April 22, 2021). *les Nouvelles - Journal of the Licensing Executives Society*, Volume LVI No. 2, June 2021, Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3832213; France Terrence F. MacLaren and Melvin F. Jager in: *Trade Secrets Throughout the World* (Jager *et al.*), 2023, Chapter 40: The United States.

⁵ 18 U.S.C. §§ 1831-1839, amended up to Public Law No. 114-153, available at: <https://www.wipo.int/wipolex/en/legislation/details/22359>.

whereby the Restatement (Third) definition of trade secrets and its treatment of remedies were intended to be consistent with the UTSA. According to § 39 of the Restatement (Third) of Unfair Competition, 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 to others.

3. Scope of trade secret protection

The basic statutory requirements set the limits of trade secret law. Specifically, if parties employ non-use and non-disclosure agreements to define “confidential information” broader than the statutory definition of “trade secrets”, rights, obligations, and remedies regarding such information will be governed by contract law and not trade secret law.⁶

Under the DTSA, misappropriation of trade secrets is defined as:

(A) 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

(B) disclosure or use of a trade secret of another without express or implied consent by a person who

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person, knew or had reason to know that the trade secret was a trade secret; and knowledge of the trade secret had been acquired by accident or mistake.⁷

18 U.S.C. § 1839(6) clarifies that the term “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; and does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

4. Exceptions

In certain limited contexts, statutory or regulatory grounds may authorize the disclosure and use of a trade secret in the public interest.⁸ Individuals enjoy special protections under the “whistle blower” provisions, such as 18 U.S.C. § 1833(b)(1), which provides immunity from civil or criminal trade secret liability for disclosing trade secrets confidentially to government officials or an attorney for the sole purpose of reporting a violation of law or in a document filed in a lawsuit or other proceedings if the filing is made under seal.

⁶ John Williamson, *loc. cit.*, p.148.

⁷ 18 U.S.C. § 1839(5).

⁸ John Williamson, *loc. cit.*, with further references.

5. Civil remedies

The DTSA provides for civil remedies in case of trade secret misappropriation. A Court may grant an injunction to prevent actual or threatened trade secret misappropriation on such terms that a court deems reasonable. The DTSA explicitly excludes injunctions that would prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows. Further, the DTSA explicitly excludes injunctions that would otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.⁹

Further, the DTSA establishes a civil seizure mechanism as a preventive *ex parte* measure used prior to a formal finding of a misappropriation. A trade secret holder can, in extraordinary circumstances, request the court to issue an order for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.¹⁰

The DTSA provides for damage claims for actual loss caused by the misappropriation of the trade secret and for unjust enrichment that is not addressed in computing damages for actual loss or in lieu of damages measured by any other methods or in lieu of damages measured by other methods, the damages caused by the misappropriation as measured by a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.¹¹ In case of willful and malicious misappropriation, exemplary damages may be awarded.¹² Furthermore, in case of bad faith or willful and malicious misappropriation, the prevailing party can claim reasonable attorney fees according to 18 U.S.C. § 1836(3)(D).

The UTSA provides for a similar regime of claims for injunctive relief¹³ and damages¹⁴ as the DTSA.

Injunctions generally apply only as long as the information remains secret. However, in certain circumstances, they may be in effect for an additional period to eliminate commercial advantage that otherwise would be derived from the misappropriation. Some court decisions even approve permanent injunctions against the use of trade secrets under certain circumstances.¹⁵

As the UTSA and the DTSA allow the granting of an injunction for “actual or threatened” misappropriation, there is a basis for seeking temporary restraining orders or a preliminary injunction to prevent the unauthorized disclosure of the trade secret by public disclosure.¹⁶

6. Criminal sanctions

Criminal Sanctions for, for example, economic espionage (18 U.S.C. § 1831) and theft of trade secrets (18 U.S.C. § 1832) whereby also actions outside the United States may be sanctioned according to 18 U.S.C. § 1837.

7. Trade secret protection in judicial proceedings

Under the DTSA, according to 18 U.S.C., § 1835, a court may not authorize or direct the disclosure of any information the trade secret owner claims to be a trade secret, unless the

⁹ See 18 U.S.C. § 1836(b)(3)(A)(i).

¹⁰ See 18 U.S.C. § 1836(b)(2).

¹¹ See 18 U.S.C. § 1836(b)(3)(B).

¹² See 18 U.S.C. § 1836(b)(3)(C).

¹³ See Section 2 UTSA.

¹⁴ Section 3 UTSA.

¹⁵ Terrence F. MacLaren and Melvin F. Jager, *loc. cit.* § 40:1 p.3; see also § 44:66 regarding further details on injunctions.

¹⁶ See Terrence F. MacLaren and Melvin F. Jager, *loc. cit.* § 40:4 p.2.

court allows the trade secret owner the opportunity to file a submission under seal that describes the holder's interest in keeping the information confidential. According to Section 5 UTSA, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding *in-camera* hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval for actions under the act.

8. Procedural provisions

Procedural rules related to trade secrets under federal and state statutes may differ.

Competent Courts

For example, 18 U.S.C. § 1836 (c) codifies original jurisdiction of the district courts of the United States for civil actions under this section.

Burden of Proof

In an action for trade secret misappropriation, the plaintiff has the burden of proof with respect to proving the existence of each of the elements of a trade secret cause of action. Further, generally there are no initial presumptions that work in the plaintiff's favor, which is exemplified by Fifth Circuit decision in *Cataphote Corp. v. Hudson*¹⁷:

“Trade secret processes are not passed upon officially, as are patented processes. Therefore, they are attended by no presumptions and the burden of proof is on the plaintiff to prove not only that the idea used by the defendant is his, but also that it involves some elements above ordinary mechanical commonality and is something not already known to the public and to the trade generally.”¹⁸

Depending on the State, courts may apply different approaches. For example, it has been held in some cases that the burden of proof with respect to the defendant's use of the trade secret is "admittedly slight because such evidence is ordinarily in the hands of the defendant"¹⁹

Statute of limitation

Section 6 UTSA and 18 U.S.C. §1836 state a three-year statute of limitations from the discovery of the misappropriation or from the moment when the misappropriation should have been discovered through reasonable diligence.

The limitation periods for claims under state laws vary from state to state from two years to six years (with most states setting the limitations period at three years).²⁰

¹⁷ *Cataphote Corp. v. Hudson*, 444 F.2d 1313, 170 U.S.P.Q. 437 (5th Cir. 1971).

¹⁸ *Cataphote Corp. v. Hudson*, 444 F.2d, 1316–1317.

¹⁹ Terrence F. MacLaren and Melvin F. Jager, *loc. cit.* § 40:27 p.1 with further details.

²⁰ John Williamson, *loc. cit.*, p.150.