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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1)	<p>Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?</p> <p>no If not please comment.:</p> <p>Trade-secret protection is mainly a matter of state law, with a majority of states^[1] having largely enacted variations of the Uniform Trade Secrets Act (UTSA).^[2]</p> <p>Whether trade-secret protection constitutes a restraint of trade is very fact specific and depends on the totality of the circumstances. Different states have different rules on whether the various secrecy measures used for trade-secret protection constitute restraints on trade. Some of those measures include covenants not to compete, nonsolicitation agreements, nonhire/raiding agreements, and confidentiality/nondisclosure agreements.</p> <p>a.Covenants not to compete</p> <p>Where trade-secret protection is achieved through covenants not to compete, the treatment of such covenants varies by state. Many states apply a common-law “rule of reason” to determine whether covenants not to compete are enforceable.^[3] Under the “rule of reason” analysis, courts generally</p>
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determine enforceability by examining factors including: (1) whether the covenant furthers an employer's legitimate interest; (2) whether the covenant is reasonably necessary to protect the employer; (3) whether the covenant is reasonable in time and place; (4) whether the covenant is supported by adequate consideration; (5) whether the covenant is in the public interest; and (6) whether the covenant poses no undue hardship on the employee.^[4]

In determining whether a legitimate business interest exists, courts focus on the totality of the circumstances including whether employee acquired confidential information during the course of employment, near-permanence of relationships with customers, and duration and territorial restrictions.^[5]

Protectable interests include trade secrets, trade information, other confidential information, goodwill or special influence over customers, contacts or customer relationships developed during former employee's employment, protection from detrimental competition, and knowledge of operation methods.^[6] Protection from ordinary business competition, however, is not considered a legitimate business interest.^[7]

Most states enforce noncompetition covenants in employment agreements where the restraint on trade is reasonable.^[8] In determining whether time restrictions are reasonable, some courts consider potential injury to employer, scope of geographical limitations, and rate of technological development in the employer's field.^[9]

Covenants without limitations on time, scope of activity, or geography may be found unreasonable.^[10] But some courts will enforce agreements containing territorial limitations but no time limitations.^[11] Other courts enforce covenants with time and place limitations only if the restriction imposes no undue hardship on the employee.^[12]

But some states generally disfavor these covenants and have strict public policies against their enforcement. For instance, California strongly encourages employee mobility by protecting an individual's right to pursue the profession or trade of their choosing and by promoting open competition through protection of an employer's right to compete for skilled workers.^[13] Unless a clear statutory exception exists, covenants not to compete in employment contracts in California are considered per se illegal^[14] under section 16600 of the California Business and Professional Code.^[15] California has a statutory exception that allows enforcement of covenants not to compete that prevent disclosure or use of an entity's trade secrets.^[16] The trade-secret exception is limited to protecting the entity's property right to the trade secret and does not extend to preventing an employee from working for the entity's competitors.^[17] California's trade-secret exception does not include the doctrine of inevitable disclosure under which courts may enforce a covenant not to compete where it is reasonable to believe that the trade secret will be used or disclosed in the course of employment.^[18]

b. Nonsolicitation agreements

There is no general consensus about the enforceability of nonsolicitation agreements.

Many courts enforce them where they constitute enforceable contracts and protect the employer's legitimate interests, such as protecting the employer from competition from an employee with special knowledge of business relationships and clients' internal operations.^[19]

Some courts treat nonsolicitation agreements in the same way as covenants not to compete.^[20] In such cases, some courts allow customer restrictions in place of territorial restrictions.^[21] Other courts consider these agreements unenforceable as unlawful restraints on trade except where enforcement is necessary to protect trade secrets.^[22]

Overly broad agreements are generally not enforced. For instance, an agreement requiring an employee not to "directly or indirectly perform any act or make any statement that would tend to divert ... any trade or business with any customer" was found too ambiguous.^[23] Other courts tend to find

nonsolicitation agreements that cover employer's entire customer base as too broad unless the employee gained significant knowledge of the customer base as part of the employment.^[24]

Courts may consider how closely the employee worked with the client, the length of time over which the working relationship existed, and the significance of the employee's services to the customer.^[25] Some courts may grant relief limiting the use of knowledge of customers where the employee has special influence.^[26] For instance, courts may limit enforcement both to clients the former employee solicited, dealt or had material personal contact with, or specifically conducted business with, and to the geographical area to which the employee was assigned or had client contact.^[27] Other courts enforce the agreements covering current or active prospective customers, but refuse to enforce those covering past customers, prospective customers, or customers of customers.^[28] Courts may also allow former employees to respond to customers whom the employee did not solicit but who, instead, solicited the employee.^[29] Other courts refuse to apply such agreements to small or insignificant client accounts.^[30]

c. Nonhire/raiding agreements

There is no general consensus about the enforceability of nonhire agreements. Some states consider them restraints of trade.^[31] Courts may find them unenforceable where the employee did not enter into the agreement freely.^[32]

Some courts may enforce nonhire agreements only if they are reasonable in scope.^[33] Courts consider the totality of the circumstances in determining reasonableness of duration limitations, including the nature of the business, the necessity of the restriction for the protection of employer's interests, the character of employment, and the employee's right to work and earn a living.^[34]

In the context of nonhire agreements, a protectable interest may include the expense of training employees (especially where it is considerable or where "extraordinary or specialized training" is required), and the interest in maintaining a stable workforce.^[35] For instance, investing considerable time, effort, and money in training inexperienced salespeople on the employer's sales methods has been found to be a protectable interest.^[36]

But nonhire agreements are likely to be voided if unreasonable or against public policy.^[37] For instance, agreements that are ambiguous about which employees the hiring limitation would cover are likely to be found unreasonable.^[38]

Some courts consider nonhire agreements enforceable as long as they are reasonable in scope, for instance, by including territorial restrictions, time limitation, and/or a limitation on the employees covered.^[39] In the absence of a contract, some courts refuse to enforce nonhire agreements where the targeted workers are at-will employees or where the inducement or solicitation is not accompanied by unlawful action.^[40] Other courts allow plaintiffs to show intentional interference with the expectation of continued long-term relationship with at-will employees.^[41]

Footnotes

1. [^] See David S. Almeling, *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 *Gonz. L. Rev.* 291 (2009-10).
2. [^] See *Uniform Trade Secret Act*, §1 (1985).
3. [^] See Brian M. Malsberger, *Covenants Not To Compete: A State-by-State Survey* (5th ed. 2006).
4. [^] See, e.g., *Restatement (Second) of Contracts* §§186-188 (1981); *Varney Bus. Servs., Inc. v. Pottroff*, 59 P. 3d 1003, 1015 (Kan. 2002); *Puritan-Bennett Corp. v. Richter*, 657 P.2d 589 (1983); *Norlund v. Faust*, 675 N.E.2d 1142, 1154 (Ind. Ct. App. 1997), decision clarified on denial of reh'g, 678 N.E.2d 421 (Ind. Ct. App. 1997); *GEI, Inc. v. Weston*, No. 79D01-0404-PL-00024, 2004 WL 1662187 (Ind. Super. June 23, 2004); *Valley Med. Specialists v. Farber*, 982 P.2d 1277 (Ariz. 1999); *Bryceland v. Northey*, 160 Ariz. 213 (Ct. App. 1989); *Highway Technologies, Inc. v. Porter*, No. CV-

- 09-1305-PHX-DGC, 2009 WL 1835114 (D. Ariz. June 26, 2009); *Faw, Casson & Co. v. Cranston*, 375 A.2d 463 (Del. Ch. 1977) on reargument, No. CIV. A. 551 K.C., 1977 WL 23817 (Del. Ch. July 1, 1977); *Am. Homepatient, Inc. v. Collier*, No. CIV.A. 274-N, 2006 WL 1134170 (Del. Ch. Apr. 19, 2006); *Wellspan Healthy v. Bayliss*, 869 A.2d 990, 997 (Pa. Super Ct. 2005).
5. [^](#) *Reliable Fire Equip. Co. v. Arredondo*, 965 N.E.2d 393 (Ill. 2011).
 6. [^](#) See, e.g., *ACAS Acquisitions (Precitech) Inc. v. Hobert*, 923 A.2d 1076 (N.H. 2007); *Sheffield v. Stoudenmire*, 553 So.2d 125 (Ala. 1989); *UARCO, Inc. v. Lam*, 18 F. Supp. 2d 1116 (D. Haw. 1998); *New England Canteen Serv., Inc. v. Ashley*, 372 Mass. 671, 674 (1977); *Concord Orthopaedics Prof'l Ass'n v. Forbes*, 142 N. H. 440, 444 (1997).
 7. [^](#) See, e.g., *Chapman & Drake v. Harrington*, 545 A. 2d 645, 646-647 (Me. 1988); *Marine Contractors Co., Inc. v. Hurley*, 365 Mass. 280, 287-88 (1974).
 8. [^](#) See, e.g., *Swartz Invs., LLC v. Vion Pharms., Inc.*, 252 Ga. App. 365, 367 (2001)
 9. [^](#) *Universal Engraving v. Duarte*, 519 F. Supp. 2d 1140, 1154 (D. Kan. 2007).
 10. [^](#) See, e.g., *Freiburger v. JUB Eng'rs Inc.*, 141 Idaho 415 (2005); *Lamp v. American Prosthetics*, 379 N.W.2d 909, 910 (Iowa 1986); *Pro Edge v. Gue*, 374 F. Supp. 2d 711, 740 (N.D. Iowa 2005) modified, 411 F. Supp. 2d 1080 (N.D. Iowa 2006); *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 791 (W.D. Ky. 2001).
 11. [^](#) *Calhoun v. Everman*, 242 S.W.2d 100, 102 (Ky. 1951).
 12. [^](#) See, e.g., *Clark v. Liberty Nat'l Life Ins., Co.*, 592 So. 2d 564 (Ala 1992); *Eastis v. Veterans Oil, Inc.*, 65 So. 3d 443 (Ala. Civ. App. 2010).
 13. [^](#) See, e.g., *Hill Medical Corp. v. Wycoff*, 103 Cal. Rptr. 2d 779, 783-84 (Cal. Ct. App. 2001); *Kolani v. Gluska*, 75 Cal. Rptr. 2d 257, 259-60 (Cal. Ct. App. 1998); *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 27 Cal. Rptr. 2d 573, 577 (Cal. Ct. App. 1994); *Jason S. Wood, A Comparison of the Enforceability of Covenants Not to Compete and Recent Economic Histories of Four High Technology Regions*, 5 Va. J.L. & Tech. 14 (2000).
 14. [^](#) See, e.g., *Edwards v. Arthur Andersen LLP*, 189 P.3d 285, 296 (Cal. 2008).
 15. [^](#) See Cal. Bus. & Prof. Code § 16600 (West Supp. 2008).
 16. [^](#) Cal. Civ. Code §§ 3426-3426.11 (West 1997) (codifying the Uniform Trade Secrets Act §§1-11(1985)).
 17. [^](#) See, e.g., *Gordon v. Landau*, 321 P.2d 456, 459 (Cal. 1958); *Metro Traffic Control, Inc. v. Shadow Traffic Network*, 27 Cal. Rptr. 2d 573, 577 (Cal. Ct. App. 1994)
 18. [^](#) See *Whyte v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 293-94 (Cal. Ct. App. 2002).
 19. [^](#) See, e.g., *Pac. Aerospace & Electronics, Inc. v. Taylor*, 295 F. Supp. 2d 1205, 1216-17 (E.D. Wash. 2003); *Hough Assocs., Inc. v. Hill*, No. CIV.A. 2385-N, 2007 WL 148751(Del. Ch. Jan. 17, 2007) judgment entered, (Del. Ch. Jan. 23, 2007).
 20. [^](#) *Phoenix Capital, Inc. v. Dowell*, 176 P.3d 835 (Colo. App. 2007).
 21. [^](#) *Farm Credit Servs. of N. Cent. Wis., ACA v. Wysocki*, 627 N.W. 2d 444 (Wis. App. 2001).
 22. [^](#) See, e.g., *ReadyLink Healthcare v. Cotton*, 126 Cal. App. 4th 1006, 1021-22 (2005); *Kovesdy v. Kovesdy*, No. C 10-02012 SBA, 2010 WL 3619826 (N.D. Cal. Sept. 13, 2010).
 23. [^](#) *Kennedy v. Metro. Life Ins. Co.*, 759 So. 2d 362, 367 (Miss. 2000).
 24. [^](#) See, e.g., *ACAS Acquisitions*, 923 A.2d at 1076; *Syncom Indus., Inc. v. Wood*, 155 N.H. 73, 80 (2007).
 25. [^](#) *BDO Seidman v. Hirshberg*, 712 N.E.2d 1220, 1226 (N.Y. 1999)
 26. [^](#) *Ridley v. Krout*, 180 P.2d 124 (Wyo. 1947).
 27. [^](#) See, e.g., *Dain Bosworth, Inc. v. Brandhorst*, 356 N.W.2d 590, 593 (Iowa Ct. App. 1984); *Occusafe, Inc. v. EG&G Rocky Flats, Inc.*, 54 F.3d 618, 623 (10th Cir. 1995); *Harris Grp., Inc. v. Robinson*, 209 P.3d 1188 (Colo. App. 2009); *Lawrence & Allen, Inc. v. Cambridge Human Res. Grp., Inc.*, 292 Ill. App. 3d 131 (1997); *Research & Trading Corp., v. Pfuhl*, No. CIV. A. 12527, 1992 WL 345465, at *1 (Del. Ch. Nov. 18, 1992).
 28. [^](#) See, e.g., *Concord Orthopaedics Prof'l Ass'n. v. Forbes*, 142 N. H. 440, 443 (1997); *Duneland Emergency Physician's Medical Grp., P.C. v. Brunk*, 723 N.E.2d 963 (Ind. Ct. App. 2000); *Hahn v. Drees, Peugini & Co.*, 581 N.E.2d 457 (Ind. Ct. App. 1991) holding modified by *Dicen v. New SESCO, Inc.*, 806 N.E.2d 833 (Ind. Ct. App. 2004); *Ellis v. James V. Hurson Assocs.*, 565 A.2d 615 (D.C. 1989).
 29. [^](#) *Mona Elec. Grp., Inc. v. Truland Serv. Corp.*, 193 F. Supp. 2d 874 (E.D. Va. 2002) *aff'd*, 56 F. App'x

108 (4th Cir. 2003).

30. [^ Moore Bus. Forms, Inc. v. Wilson](#), 953 F. Supp. 1056 (N.D. Iowa 1996) *aff'd*, 105 F.3d 663 (8th Cir. 1996).
31. [^ Mont. Code Ann. § 28-2-703](#).
32. [^ See, e.g., Hosp. Consultants v. Potyka](#), 531 S.W.2d 657 (Tex. Civ. App. 1975), writ refused NRE (July 14, 1976); [Blasé Indus. Corp. v. Anorad Co.](#), 442 F.3d 235 (5th Cir. Tex. 2006).
33. [^ See, e.g., Eichorn v. AT&T Corp.](#), 248 F.3d 131, 145 (3d Cir. 2001); *Ex parte Howell Eng'g & Surveying, Inc.*, 981 So. 2d 413 (Ala. 2006); [Loral Corp. v. Moyes](#), 174 Cal. App. 3d 268, 280 (Cal. Ct. App. 1985); [Thomas Weisel Partners, LLC v. BNP Paribas](#), No. C 07-6198 MHP, 2010 WL 546497 (N.D. Cal. Feb. 10, 2010).
34. [^ Bowne of Boston, Inc. v. Levine](#), No. CIV.A. 97-5789A, 1997 WL 781444 (Mass. Super. Nov. 25, 1997).
35. [^ See, e.g., Arpac Corp. v. Murray](#), 226 Ill. App. 3d 65 (1st Dist. 1992); [Unisource Worldwide Inc. v. Carrara](#), 244 F. Supp. 2d 977, 986 (C.D. Ill. 2003); [Nouveau Riche Corp. v. Tree](#), No. CV08-1627-P-X-JAT, 2008 WL 5381513 (D. Ariz. Dec. 23, 2008); [Borg-Warner Protective Servs., Corp. v. Guardsmark, Inc.](#), 946 F. Supp. 495, 501-502 (E.D. Ky. 1996) *aff'd*, 156 F.3d 1228 (6th Cir. 1998).
36. [^ Balasco v. Gulf Auto Holding, Inc.](#), 707 So. 2d 858, 860 (Fla. Dist. Ct. App. 1998).
37. [^ Therapy Servs., Inc. v. Crystal City Nursing Ctr., Inc.](#), 389 S.E.2d 710 (Va. 1990).
38. [^ Cain v. Cain](#), 967 So.2d 654 (Miss. Ct. App. 2007).
39. [^ See, e.g., Wright v. Power Indus. Consultants, Inc.](#), 234 Ga. App. 833, 839 (Ga. Ct. App. 1998) *overruled on other grounds by Advance Tech. Consultants, Inc. v. Roadtrac, LLC*, 250 Ga. App. 317, 321 (Ga. Ct. App. 2001); [Lane Co. v. Taylor](#), 174 Ga. App. 356, 360 (Ga. Ct. App. 1985) , *abrogated on other grounds by Physician Specialists in Anesthesia, P.C. v. Wildmon*, 238 Ga. App. 730, 735 n.1 (Ga. Ct. App. 1999).
40. [^ See, e.g., Sun Life Assur. Co. of Canada v. Coury](#), 838 F. Supp. 586 (S.D. Fla. 1993) *aff'd in part, rev'd in part sub nom. Sun Life Assur. Co. v. Coury*, 85 F.3d 642 (11th Cir. 1996); [Diodes, Inc. v. Franzen](#), 260 Cal. App. 2d 244, 255 (Cal. Ct. App. 1968); [Reeves v. Hanlon](#), 33 Cal. 4th 1140, 1152-53 (Cal. 2004).
41. [^ See, e.g., Vigoro Indus., Inc. v. Cleveland Chem. Co. of Ark.](#), 866 F. Supp. 1150, 1166 (E.D. Ark. 1994), *rev'd on other grounds*, 82 F.3d 785 (8th Cir. 1996).

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

While there is no consensus on the distinctions between general skills or knowledge acquired during the course of employment, or between confidential information and trade secrets, there are some general similarities in how different states draw the distinctions.

a.General skills or knowledge

Matters of general or public knowledge or information that can be readily ascertained from public sources are generally not considered trade secrets or confidential information.^[1] Generally, an employer may not prevent a former employee from using “the general skill or knowledge acquired during the course of the employment.”^[2] Further, covenants covering knowledge that is merely a product of the employment and is well known in the industry are generally held unenforceable.^[3] For instance, some courts may refuse to enforce nonsolicitation agreements where the solicitation is not based on the use of former employer’s trade secrets or confidential information.^[4]

b.Trade Secrets

Substantively, the UTSA defines trade secrets as any information that derives independent economic value from the opportunity to attain a competitive advantage over others who do not know or use the

information. Procedurally, the UTSA requires the plaintiff to show that the information was the subject of efforts reasonable under the circumstances to maintain its secrecy. Whether information qualifies as a trade secret is a question of fact, with courts occasionally using a six-factor test based on an early restatement of the law including: (1) the extent to which the information is known outside the claimant's corporation; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of secrecy measures taken by the claimant's corporation; (4) the value of the information to the claimant's corporation and competitors; (5) the amount of monetary investment or effort used to develop the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.^[5] It is important to note, however, that more often this six-factor test has been replaced by the USTA and the Restatement of Unfair Competition.

Trade secrets are protected from misappropriation, which may occur when the trade secret is acquired by improper means (such as theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage), used or disclosed through a breach of confidence, or used or disclosed with knowledge that the trade secret had been acquired improperly or through mistake.^[6] The claimant may receive injunctive relief, compensatory and/or punitive damages.^[7]

Under the UTSA's majority rule, an injunction terminates once a trade secret becomes public knowledge (for instance, through lawful discovery by reverse engineering),^[8] with the duration of the injunction being extended, in some cases, for an additional period to eliminate any competitive advantage gained from misappropriation. Under the minority rule, defendant may be permanently enjoined from using the trade secret, although the injunction will be allowed to terminate once the trade secret ceases to exist.^[9]

A plaintiff may also recover damages, including actual loss and recovery for any unjust enrichment resulting from misappropriation. Willful or malicious misappropriation may also result in additional damages and sometimes an award of attorney's fees.^[10]

Footnotes

1. [Richdale Dev. Co. v. McNeil Co. Inc](#), 244 Neb. 694 (1993) opinion modified on denial of reh'g, 244 Neb. 936 (1994).
2. [Junker v. Plummer](#), 320 Mass. 76, 79 (1946).
3. [Victoria's Secret Stores, Inc. v May Dep't Stores Co.](#), 157 S.W. 3d 256, 261-262 (Mo. Ct. App. 2004).
4. [See, e.g., J. T. Miller Co. v. Madel](#), 176 Mont. 49, 55 (1978); [First Am. Ins. Agency v. Gould](#), 203 Mont. 217, 223 (1983).
5. [Restatement \(First\) of Torts §757, comment b.](#)
6. [Restatement \(Third\) of Unfair Competition §40 \(1994\).](#)
7. [Restatement \(Third\) of Unfair Competition §§44, 45 \(1994\).](#)
8. [K-2 Ski Co. v. Head Ski Co., Inc.](#), 506 F.2d 471 (9th Cir. 1974).
9. [Conmar Prods. Corp. v. Universal Slide Fastener Co.](#), 172 F.2d 150 (2d. Cir. 1949).
10. [See, e.g., Winston Research Corp. v. Minnesota Min. & Mfg. Co.](#), 350 F.2d 134 (9th Cir. 1965).

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

As discussed above, many courts tend to void overly broad covenants or confidentiality clauses. In

particular, information not qualifying as a trade secret in the U.S. under the modern law is typically not protectable by contract. In other words, the information typically either qualifies as a trade secret under the modern, very low, threshold, or it cannot be protected under the law.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

Generally under U.S. law, an employee’s duty of confidence is presumed to be permanent. In the context of nondisclosure agreements, some jurisdictions have held that such agreements can be unlimited in duration and can last until the trade secret becomes public knowledge or ceases to exist.¹

Footnotes

1. [^] See, e.g., *Illinois Trade Secrets Act (ITSA) (765 Ill. Comp. Stat. Ann. 1065/1-9 (2010))* (providing, in section 8 (b) (1), that the ITSA does not affect “contractual remedies, whether or not based upon misappropriation of a trade secret, provided however, that a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty”).

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes

If yes, is there any distinction between the types of knowledge they can use?:

Every employee has an obligation during his or her employment and thereafter not to disclose or use the employer's trade secrets for his or her own benefit or the benefit of others. However, a former employee cannot be restrained from disclosing or using his or her "general knowledge, skills and experience."

5) Are certain employees subject to a higher obligation of confidentiality / non-use?
no

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

Federal Rule of Civil Procedure 26(c)(1)(G) provides protection for confidential information exchanged by the parties in trade secret cases brought in federal courts. The rule, in relevant part, provides as follows:

Protective Orders. (1) In General. A party or any person from whom discovery is sought may move for a protective order in the court where the action is pending—or as an alternative on matters relating to a deposition, in the court for the district where the deposition will be taken. The motion must include a certification that the movant has in good faith conferred or attempted to confer with other affected parties in an effort to resolve the dispute without court action. The court may, for good cause, issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following:

...

(G) requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way

The number of trade secret cases brought in federal district courts is lower than the number brought in state courts; however, pending legislation may help increase this number. The express reference to trade secrets in Rule 26 demonstrates how important trade secrets are in federal court actions, whether they are part of a claim or, e.g., requested/produced in discovery.

In state court, where most trade secrets actions are brought, the precise mechanisms available for preserving confidentiality of a trade secret during litigation will vary from state to state in the U.S., some general comments as to the available mechanisms are as follows:

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

Generally, it is possible to request restricted access to the hearing and/or evidence (including discovery materials) in the U.S. during litigation to preserve a trade secret. This would typically be done by formal request to the court, for example by requesting a protective order limiting the availability of the information by requiring the secrets to be submitted under seal. A protective order may limit those who can review material containing the trade secrets at issue, as well as restrict the use of such information to purposes solely related to the underlying lawsuit. For example, a protective order can provide that only counsel, the parties, and their respective experts may review the trade secrets information during discovery. Protective orders may condition access to trade secrets upon a person's written agreement to keep the information confidential. In addition, a protective order can govern how documents containing trade secrets are maintained during litigation and disposed of at the conclusion of the litigation. In fact, various federal courts as well as the International Trade Commission (ITC) have adopted proposed protective orders that include varying levels of protection for confidential trade secret information.¹⁴ It is important to note, the party seeking to place an action or document under seal, regardless of the grounds, must overcome the presumption of public access to the courts: "[g]ood cause is the standard by which a court may issue an order to protect a party in a civil case with regard to disclosing or revealing trade secrets or other confidential development or commercial information." *United States v. Roberts*, Case No. 3:08-CR-175, United States District Court for the Eastern District of Tennessee (March 17, 2010).

While it depends on the state, § 5 of the UTSA, for example, expressly requires that courts:

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.

This can be contrasted with the rule in Texas, for example, where Rule of Civil Procedure 192.6 and Rule of Evidence 507 authorize Texas trial courts to issue protective orders specifically designed to protect trade secrets. Texas Rule of Evidence 507, which sets forth the Texas trade secrets privilege, provides:

A person has a privilege ... to refuse to disclose and to prevent other persons from disclosing a trade secret owned by a person, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice. When disclosure is directed, the judge shall take such protective measure as the interests of the holder of the privilege and of the parties and the furtherance of justice may

require.

(emphasis added).

Litigants can also specifically request that courts close courtrooms to the public when appropriate, and courts should grant such requests when circumstances would involve the revelation of trade secrets in otherwise presumptively open courtrooms. The U.S. Supreme Court has recognized that the public’s right to attend trials can be restricted to preserve trade secrets. In fact, lower federal courts have closed courtrooms to prevent the disclosure of trade secrets, while other courts have posited closure as a viable option.

Footnotes

1. ¹ *The ITC is relatively progressive in its enforcement of confidentiality restrictions. For example, the ITC is fairly liberal in allowing parties to an investigation to designate confidential information, including information that would be typically considered to be trade secret, as “Confidential Business Information,” thereby limiting access to that information. Litigants may then file confidential versions of documents in the ITC separately from public versions, in which the confidential information is redacted (i.e., removed). The ITC also allows for the division of its hearings (the ITC refers to its trials as “hearings”) into confidential and non-confidential sessions and publishes confidential and non-confidential versions of its determinations and orders, where applicable.*

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

Again, depending on the court of jurisdiction, the grant of a protective order can limit disclosure of evidence only to certain designated legal representatives of the opponent, preventing distribution throughout the opponent and all of its counsel.

c) non-confidential versions of documents being provided to all except authorised individuals;

It is similarly, generally possible in the U.S. to redact confidential information from documents before distribution to non-authorized parties upon making a suitable request to the court with a showing of good cause for the same.

d) only non-confidential parts of any judgment / decision publicly available?

As noted above, the answer will again depend on the state. Under § 5 of the UTSA, presented above, it may be possible to seal the records of any action, such as a final judgment or decision, upon a showing of good cause to the court.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

As described above, there exists a presumption of public access to the courts in the U.S.; as such the default position is to disclose any and all relevant information to the case at hand. It will be necessary for the trade secret holder to specifically request the court restrict access to the trade secret information, and provide sufficient evidence to show good cause for the same.

8)	Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?
	As described above, it may be possible to seal the records of any action, such as a final judgment or decision, upon a showing of good cause to the court. The availability to use sensitive information after the proceedings have terminated will by and large be governed by the limitations and rulings set forth by the court, which may vary from case to case.

Aspect (iii) - Valuation of loss

9)	Are damages available as a remedy for trade secret violation?
	yes
	If so please answer the following sub-questions::

a)	how (if at all) is that value diluted by publication?
	<p>If a trade secret is published through no fault of the misappropriator, then the trade secret likely would cease to exist and damages against the misappropriator, as opposed to the publishing party, likely would no longer accumulate. That conclusion assumes that publication of the trade secret cannot be promptly undone and that sufficiently limiting the availability of the trade secret because of the publication is not reasonably possible.</p> <p>If a trade secret is published by the misappropriator, then the trade secret likely would cease to exist and damages against the misappropriator likely would continue to accumulate. That conclusion assumes that publication of the trade secret cannot be promptly undone and that sufficiently limiting the availability of the trade secret because of the publication is not reasonably possible. Of course, even if the availability could be sufficiently limited, the misappropriator likely would still be responsible for any additional damages caused by the publication, i.e., unauthorized disclosure.</p>

b)	how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?
	<p>the trade secret.</p> <p>i. Specifically, is allowance made for loss of profits;</p> <p>RESPONSE: Yes, the trade secret owner's loss of profits caused by the misappropriation can be accounted for in calculating the trade secret owner's actual loss caused by the misappropriation.</p> <p>ii. unjust enrichment;</p> <p>RESPONSE: Yes, as noted above.</p> <p>iii. and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?</p> <p>RESPONSE: Yes, as noted above.</p>

c)	can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral
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prejudice defined, and how are such damages quantified?
no If not please comment.:
No comment.

d) If so, how is moral prejudice defined and how are such damages quantified?
Not applicable.

Aspect (iv) - Proving infringement

10)	What elements must be proved to establish violation of a trade secret?
	<p>In the U.S., trade secrets are typically protected against misappropriation as long as they are not publicly known or available, reverse engineered or independently developed. To prevail on a trade secrets claim under the Uniform Trade Secrets Act (UTSA), a plaintiff must prove that: (1) it has information qualifying as a trade secret; and (2) that its trade secret(s) has been misappropriated. Misappropriation can be shown through unauthorized acquisition, disclosure or use. UTSA, § 1(2). The need to prove use of the trade secret by the defendant is typically required only where damages are sought. If only injunctive relief is sought, it is typically sufficient to prove misappropriation based on unauthorized possession (through unauthorized acquisition or disclosure).</p> <p>Sometimes, “improper means” (e.g., acquisition of the trade secret through improper means) is an element of a misappropriation cause of action. Determining whether improper means were used to misappropriate a trade secret is highly factual and engulfs a wide range of scenarios.</p> <p>“Improper means” ranges from an employee copying his employer’s confidential information knowing he is leaving the employer, to a person renting an airplane to photograph a competitor’s under-construction factory.</p> <p>“Misappropriation” means: (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.</p> <p>The Uniform Trade Secrets Act §2 states that 'actual or threatened misappropriation may be enjoined'. Misappropriation may be deemed 'threatened' by circumstances that demonstrate an extraordinary danger to the integrity of trade secret information, as when a high-level employee with access to critical data leaves to take a very similar position with a competitor. See, e.g., <i>PepsiCo. Inc. v. Redmond</i>, 53 F.3d 1262 (7th Cir. 1995). Of course, under the UTSA, actual or constructive knowledge of the misappropriation must be shown as well to enable recovery.</p>

11)	What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

The requirements of proving a trade secret violation in the U.S. are as explained above. The Uniform Trade Secrets Act displaces conflicting causes of action and this includes the common law cause of action for "breach of confidence."

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

In the U.S., even if employers do not actually know of an employee's misappropriation of a former employer's trade secret, the current employer may be held liable. Under the UTSA, liability is based on constructive knowledge, not actual knowledge. (Civil Code § 3426.1(b)(2)(B)(ii)(iii)) This standard may implicate an employer in situations where an employer should have known of the misappropriation, as shown in one case where an employer repeatedly used proprietary information which had been previously protected as a trade secret by an employee's former employer. See *Cadence Design Systems, Inc. v. Avant! Corp.*, 29 Cal. 4th 215 (2002). While the current employer did not actually know of the misappropriation, the Court stated that the employer's repeated use of such proprietary information was one factor which it relied on to impute constructive knowledge of the misappropriation to the current employer. Of course, the standard of constructive knowledge is fact-specific.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

As for any U.S. litigation, discovery is available in trade secret litigation once an action has been filed, including discovery as against relevant third parties.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

An example of how the burden of proof is treated in the U.S. can be found by referring to the case of *Moore v. Kulicke & Soffa Industries, Inc.*, 318 F. 3d 561 (3rd Cir. 2003). The defense in this case was the common defense of independent development of the allegedly misappropriated technique.

The Third Circuit held that the ultimate burden of persuasion remains on the plaintiff to prove that the defendant did not arrive at a technique similar to the trade secret through its own independent development. Instead, a defendant accused of trade secret misappropriation bears only the burden of producing some evidence of independent development. If the defendant meets that burden, then the burden shifts to the plaintiff to persuade the court that there was no independent development.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

There are currently no U.S. laws that specifically permit the seizure of evidence in trade secret litigation.

Such measures, however, have been proposed in connection with two previously introduced, but not enacted, federal bills: the U.S. Trade Secrets Protection Act of 2014 in the U.S. House of Representatives and the Defend Trade Secrets Act of 2014 in the U.S. Senate.

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

This is not applicable in the U.S. as per the above.

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

yes

If so, what limits? :

: Limits on trade-secret protection should be tailored to reflect the balance between an employer's right "to enjoy the use of secret processes and devices which were developed through the employer's own initiative and investment" and the employees' right "to earn a livelihood by utilizing their personal skill, knowledge, and experience."^[1] Courts need to weigh the need to prevent "unfair competition" or "free riding" against the need to reduce "uncertainty around business behavior that is likely to discourage robust competition by companies who fear that competition may later be deemed unfair."^[2]

Footnotes

1. [^] *Garment Hangers, ITC Inv. No. 337-TA-255, at 95 (June 17, 1987) (Initial Determination)*.
2. [^] *Lemley, Mark A., supra at 311*.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Whether different obligations of confidence or nonuse should be applied to different employees will depend on the totality of the circumstances, taking into account commercial reality.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

This will typically depend on the actions the trade secret owner took to maintain the secret during the litigation. For example, in *Gates Rubber Co. v. Bando Chemical Industries, Ltd.*, the Tenth Circuit held that secrecy was not lost as a result of disclosure during an injunction hearing because the plaintiff took reasonable safeguards, such as monitoring the presence of observers in the courtroom during the hearing. In addition, the plaintiff filed a post-hearing request to place the injunction hearing record under seal. Several other courts have likewise ruled that trade secrets are not automatically destroyed by disclosure as long as the owner takes reasonable measures to maintain the secrecy of the information.

20)	Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?
	Typically under U.S. law, information obtained or developed independently of a court proceeding or without direct access to the trade secret will not be considered confidential and can be used freely.

Aspect (iii) - Valuation of loss

21)	Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?
	no If not please comment.:
	Damages should be available as a remedy in any trade secret misappropriation action for at least two reasons. First, damages and injunctive relief generally serve distinct purposes. Damages can make the trade secret owner whole financially and damages account for past wrongdoing. On the other hand, initial injunctive relief (<i>i.e.</i> , a temporary restraining order or preliminary injunction) can maintain the <i>status quo</i> and final injunctive relief (<i>i.e.</i> , a permanent injunction) can prevent further, future injury to the trade secret owner. Second, if damages are not available in a trade secret misappropriation action, then trade secret protection may become a less attractive form of intellectual property protection and discourage innovation. Importantly, the availability of damages does not mean that damages automatically are awarded where misappropriation is proven. The trade secret owner still has to prove the propriety of the type of damages (actual loss, unjust enrichment or a reasonable royalty), the amount of those damages and that the damages have been caused by the misappropriation.

Aspect (iv) - Proving infringement

22)	Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?
	yes If yes, in what circumstances? :
	As stated above, in the U.S., even if employers do not actually know of an employee's misappropriation of a former employer's trade secret, the current employer may be held liable. Under the UTSA, liability is based on constructive knowledge, not actual knowledge. (Civil Code § 3426.1(b)(2)(B)(ii)(iii)) This standard may implicate an employer in situations where an employer should have known of the misappropriation, as shown in one case where an employer repeatedly used proprietary information which had been previously protected as a trade secret by an employee's former employer. See <i>Cadence Design Systems, Inc. v. Avant! Corp.</i> , 29 Cal. 4 th 215 (2002). While the current employer did not actually know of the misappropriation, the Court stated that the employer's repeated use of such proprietary information was one factor which it relied on to impute constructive knowledge of the misappropriation to the current employer. Of course, the standard of constructive knowledge is fact-specific.

23)	Availability of pre-action evidence orders and seizure orders.
a)	Should pre-action evidence preservation orders be available?
	yes If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

As stated above, there are currently no specific provisions under U.S. law permitting seizures for securing evidence in trade secret litigation. However, such measures have been considered as a part of the U.S. Trade Secrets Protection Act of 2014 in the U.S. House of Representatives and the Defend Trade Secrets Act of 2014 in the U.S. Senate, which has yet to pass in the U.S. However, it is our opinion that pre-action preservation orders and seizure orders should be available.

That being said, it is appropriate to handle these issues ex parte when the evidence provided to the court indicates a clear and present danger of spoliation or divestment of jurisdiction (for example, by a fleeing defendant).

b) Should pre-action evidence seizure orders be available?

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

This is not currently applicable in the U.S. as per the above. However, seizure procedures should be fashioned so that, at a minimum, any exposure to the plaintiff of information belonging to the defendant should be strictly controlled by the court, in order to prevent its misappropriation, in the same way that protective orders apply to discovery more generally. If practical, however, courts should manage the seizure process to prevent such exposure entirely.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

Because, unlike patents, trade secret protection is non-exclusive (independent development and reverse engineering are always acceptable), there is limited scope for concern about competition law in this area in general. Specifically, legal actions to enforce trade secret rights should ordinarily not provoke competition law concerns, because there are provisions within trade secret law to punish the assertion of groundless claims. However, it should also be possible in the abstract to refer to such behavior as a part of a claim of violation of competition law.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

Such actions should not ever be barred as a restraint of trade, although the groundless assertion of such claims may become evidence of anti-competitive behavior in another action.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

As a general rule, the same obligations of confidentiality should apply to all employees who as part of their job have been exposed to legitimate trade secrets. However, it does make sense to apply special standards on managers or officers who have a fiduciary duty to their employers.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

The current state of the law in the U.S. as summarized in question 6 above should be preserved.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

If the defendant independently developed the secret information and did not misappropriate it, no types of confidentiality or non-use obligation should apply to this information. However, as to other information to which the parties were exposed during the enforcement action, and with respect to which there has been no judicial determination that the information fails as a trade secret, the confidentiality of such information should continue to be respected, in accordance with whatever protective orders have been entered by the court.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

Damages for trade secret misappropriation should be quantified as (1) the trade secret owner's actual loss, including its lost profits, caused by the misappropriation, (2) the misappropriator's unjust enrichment caused by the misappropriation or (3) a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

The current state of the law in the U.S. as summarized above should be preserved. In addition, pre-litigation seizure procedures would be desirable.

34) What restrictions should apply to the use of seized evidence by the claimant?

Where possible, the seizure process should be managed so that the claimant is not exposed to the

confidential information of the defendant. Where the claimant's participation in the seizure is deemed necessary, then appropriate restrictions should be ordered by the court to ensure that the exposure is no greater than necessary and that those who have been exposed are prohibited from any further disclosure or misuse.

Summary

Limits on trade-secret protection should balance an employer's right to benefit from its investment and the employees' right to use their personal skill, knowledge, and experience to earn a living. To encourage healthy competition, trade secret owners must be able to enforce their rights while having the tools to secure evidence of misappropriation, protect their information during litigation, and obtain just compensation.

There are currently no U.S. laws that specifically permit the seizure of evidence in trade secret litigation, but such laws may be desirable to preserve evidence. Where possible, seizures should be managed to keep trade secret owners from being exposed to alleged misappropriator's confidential information.

The use of protective orders and other mechanisms available in U.S. state courts to protect confidential information should continue and be tailored to provide protection commensurate with the confidentiality of the information being handled. As more trade secret cases are brought in U.S. federal courts, similar tools may be available.

Damages should be available as a remedy for trade secret misappropriation. While injunctive relief can maintain the status quo, damages account for past wrongdoing and can make the trade secret owner whole financially. Damages for trade secret misappropriation should be quantified as (1) the trade secret owner's actual loss, including its lost profits, caused by the misappropriation, (2) the misappropriator's unjust enrichment from the misappropriation, or (3) a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret. Courts should not award moral damages in trade secret misappropriation actions.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.