

A BRIEF HISTORY OF U.S. TRADE SECRET LAW

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I. INTRODUCTION

The thing to remember about trade secret law is that it comes from the courts. Even with the Uniform Trade Secrets Act (“UTSA”) and the Defend Trade Secrets Act (“DTSA”), judges continue to sculpt this category of intellectual property. And it’s critical that they get it right, because for hyperconnected, data-driven businesses, secrecy is the primary method of protecting their most valuable and vulnerable assets.

That’s what makes it so hard today to imagine how, fifty years ago, we came close to losing it all. I still remember the day when, in my first full year of practice, I noticed one of the senior partners hunched over his desk reading from the advance sheets.¹ Because it was unusual for this partner to be reading cases at all, I asked him what had captured his attention. “Trade secrets,” he said. “The Supreme Court says they’re okay.”

The case was *Kewanee Oil Co. v. Bicron Corp.*, and indeed the Court held that state law on trade secrets survived a preemption challenge based on federal patent law.² Viewed from today’s perspective, the outcome may seem evident, the challenge even a bit absurd. But the decision wasn’t unanimous; Justices Douglas and Brennan dissented, observing that the patent system hinged on encouraging disclosure and that secrecy’s “conflict with the patent laws is obvious.”³

This article’s focus is on the past fifty years, the era of what we might call “modern trade secret law.” But before we examine the exciting developments of the current period, it’s important to understand how we managed to get to that day in 1974 when a whole body of law was on the line, and we could not be sure how it would turn out.

¹ Before the Internet arrived, we read new case opinions printed in flimsy pamphlets, while waiting for the bound volumes.

² See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474 (1974).

³ *Id.* at 496–97. As this Article helps to mark the fiftieth anniversary of the *AIPLA Quarterly Journal*, we should take note that the dissenters relied heavily on an article penned by Marty Adelman and published the year before in the first volume of this *Journal*. Martin J. Adelman, *Secrecy and Patenting: Some Proposals for Resolving the Conflict*, 1 *AIPLA Q.J.* 296, 298–99 (1973). Recognizing keen eyes will notice the “I” missing from AIPLA; but this publication was launched back in antediluvian times when the organization had not yet embraced the equal status of other forms of intellectual property.

II. EARLY COMMON LAW

Those of you with a fondness for *Willy Wonka and the Chocolate Factory* (where the only way Mr. Wonka could stop competitors from stealing his recipes was to employ the perfectly trustworthy Oompa-Loompas) will be pleased to know that the first reported trade secret case in the United States concerned the sale of a Massachusetts chocolate factory, and along with it the seller's secret manufacturing process.⁴ The seller refused to assure that he would not use the process himself, arguing that his contractual promise was to that extent unenforceable as a restraint of trade.⁵ Relying on English common law, the court rejected that argument and found that the defendant had breached an enforceable covenant.⁶ In 1868 the Massachusetts Supreme Court spoke again, addressing the industrial revolution's imperative to share secrets with factory employees.⁷ *Peabody v. Norfolk* dealt with secret machinery for the manufacture of gunny cloth.⁸ The claim was against a departed employee and his new employer, who argued that an injunction was impossible because it necessarily would destroy secrecy.⁹ In this seminal opinion Judge Gray took the opportunity to articulate many of the principles that form the backbone of modern trade secret law, connecting them with policies common to patents and trademarks.¹⁰ He referred to trade secrets as a form of property that could pass by inheritance and should be protected against

⁴ See *Vickery v. Welch*, 36 Mass. 523 (19 Pick.), 523 (1837).

⁵ *Id.* at 524–25.

⁶ *Id.* at 526–27 (“The defendant claims to operate by a secret art. The public are not prejudiced by the transfer of it to the plaintiff. If it were worth any thing, the defendant would use the art and keep it secret, and it is of no consequence to the public whether the secret art be used by the plaintiff or by the defendant.”).

⁷ See *Peabody v. Norfolk*, 98 Mass. 452, 456 (1868).

⁸ *Id.* at 452, 458. (“If [one] invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons.”).

⁹ See *id.* at 456.

¹⁰ See *id.* at 457–59.

a breach of trust by an unfaithful employee.¹¹ Secrecy would not be lost by confiding in another.¹² Protection could be perpetual.¹³ Courts should protect the confidentiality of claimed trade secrets by fashioning their orders appropriately.¹⁴ And liability could extend to one who received the benefit of misappropriated information.¹⁵

Tabor v. Hoffman involved a pump covered by an expired patent.¹⁶ The court upheld an injunction against a competitor who had stolen drawings that revealed tolerances, rejecting the competitor's argument that it could have obtained the same information by examining the publicly available product.¹⁷ *Tabor* thus stands for the principle that the theoretical availability of data through reverse engineering is not a defense to theft.¹⁸ *Pressed Steel Car Co. v. Standard Steel Car Co.* dealt with railroad car blueprints that had been sent to vendors without nondisclosure contracts.¹⁹ It established that secrecy does not have to be absolute and that an express contract is not a prerequisite for relief.²⁰ The subject matter of protectable secrets expanded to customer lists in *Empire Steam Laundry v. Lozier*, where the former employer's interest in secrecy was held sufficient to support an injunction, independent of a restrictive covenant that had been challenged as a restraint of trade.²¹

¹¹ *See id.* at 461.

¹² *See id.*

¹³ *See id.*

¹⁴ *See id.* at 458.

¹⁵ *See id.* at 461 (finding that plaintiff was entitled to an injunction against the recipient of his confidential information).

¹⁶ *Tabor v. Hoffman*, 23 N.E. 12, 13 (N.Y. 1889).

¹⁷ *Id.*

¹⁸ *See id.* (holding that the public availability of a pump did not excuse the theft and sale of the procedures used to create the pump).

¹⁹ *Pressed Steel Car Co. v. Standard Steel Car Co.*, 60 A. 4, 10 (Pa. 1904).

²⁰ *See id.* (holding that defendant's usage of blueprints was restricted to the purpose of carrying on their business, even though plaintiffs had supplied the blueprints voluntarily and without expressing any such restrictions).

²¹ *Empire Steam Laundry v. Lozier*, 130 P. 1180, 1182–83 (1913).

III. THE RESTATEMENT OF TORTS

All of these cases reflected a level of judicial contentment with the idea that an interest in confidential information, although intangible, was in the nature of property, and that this concept of property fit neatly with the notion of sharing it in a confidential relationship. Development of the common law likely would have continued in that way, but for interference from the American Law Institute, which in 1939 published the first Restatement of the Law of Torts, including Sections 757-759 addressing trade secrets.²² Instead of restating the case law that had developed to that point, the reporters reframed it, explicitly rejecting the idea that trade secrets could be a form of property.²³ This position was apparently justified by Justice Holmes' opinion in *E.I. Du Pont De Nemours Powder Co. v. Masland*, which approved of a trial court's order that claimed secrets could be revealed to the defendant's lawyer but not to a third-party expert.²⁴ Although the case had been argued to the Court as a conflict between "a right of property" in the information and "the right to make a full defense," Holmes chose a different logical path, where "the starting point . . . is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs;" and the defendant therefore "must take the burden with the good."²⁵ But along the way he slipped in a sentence that would become a bumper sticker for the "no property right" school: "The property may be denied, but the confidence cannot be."²⁶ Yanked from its narrow factual context, this dictum became the central reference point for those who sought to re-cast trade secret law more narrowly than the courts had applied it.

The *Restatement (First) of Torts* was later dubbed the "bedrock" of trade secrets.²⁷ If so, it provided a craggy and constricted surface for continued

²² See RESTATEMENT (FIRST) OF TORTS § 757-759 (AM. L. INST. 1939).

²³ *Id.* § 757 cmt. a ("The suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected. The theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests up on breach of this duty: that is, breach of contract, abuse of confidence or impropriety in the method of ascertaining the secret.").

²⁴ *E.I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 103 (1917).

²⁵ *Id.* at 102-03.

²⁶ *Id.* at 102.

²⁷ David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 307 n.77 (2010).

construction of the law. “Trade secrets” were strictly limited to “a process or device for continuous use in the operation of the business,” judged according to a non-exhaustive list of six abstract factors.²⁸ Explicitly excluded was “information as to single or ephemeral events in the conduct of the business” such as secret bids, unannounced policies or products, financial information, “plans for expansion or retrenchment,” and presumably the entire record of a company’s experimental research leading to a protectable process or product.²⁹ That kind of information, even if “confidential,” was protected only against deliberate espionage under Section 759.³⁰ Even information coming within the cramped definition of a trade secret would be unprotected against “innocent” possession by a third party who had purchased for value or changed its position before notice.³¹

Without apparent consideration of the contrary view expressed long before in *Peabody v. Norfolk*, the reporters deliberately distanced trade secret law from other forms of intellectual property by declaring that “protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another’s secret.”³²

The most consequential of these pronouncements was the shunting off into a separate category all “confidential” information that was not “in continuous use” in the business. This orphaned class, as the reader can appreciate from the vantage point of modern trade secret law, contains some of a company’s most valuable data assets. The reporters simply waved it away by observing that they were not dealing with it, unless it was the subject of espionage under Section 759.³³

²⁸ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. L. INST. 1939) (“An exact definition of a trade secret is not possible. Some factors to be considered . . . are (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”).

²⁹ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b.

³⁰ *Id.* §§ 759, 759 cmt. c.

³¹ *Id.* § 758.

³² *Id.*

³³ *Id.* § 757, cmt. b (“The rules relating to the liability for duties arising from confidential relationships generally are not within the scope of the

This maltreatment of “merely confidential” information naturally led courts to find other rubrics for its protection, and this is how we developed jurisprudence to protect information that doesn’t “rise to the level” of a trade secret.³⁴ Hold that concept in mind for our later look at the modern law of trade secrets.

IV. THE SUPREME COURT STEPS IN TO SAVE TRADE SECRET LAW

The Restatement of Torts’ artificial restriction to secret “processes and devices,” along with its foreswearing any policy rationale of encouraging innovation, made it inevitable that some would see this area of state law as in fundamental conflict with federal patent law and its underlying goal of public disclosure. The stage was set in 1964 with a pair of Supreme Court opinions holding that state unfair competition law could not be applied to prohibit the copying of an unpatented product sold on the open market. In *Sears, Roebuck & Co. v. Stiffel Co.*³⁵ and *Compco Corp. v. Day-Brite Lighting, Inc.*,³⁶ the Court held that the Constitution granted to Congress the exclusive power to legislate in the field of patents and copyrights, preempting any state law that “touches upon the area of these federal statutes.”³⁷

The Court explained that “[j]ust as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.”³⁸ Given that trade secret law was often treated as a species of unfair competition, these opinions raised concerns about its viability.³⁹ Those concerns were amplified by the result several years later in *Lear*,

Restatement of this Subject. As to the use of improper means to acquire information, see § 759.”).

³⁴ See, e.g., *Den-Tal-Ez, Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1231 (Pa. Super. Ct. 1989) (“As the comments to [Restatement § 759] indicate, the information that is procured under this section need not rise to the level of a trade secret. It only need be confidential business information.”).

³⁵ *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

³⁶ *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

³⁷ *Sears*, 376 U.S. at 229; *Compco*, 376 U.S. at 237–38 (discussing the Constitutional origins of patent law and stating that federal patent laws prevent a state from prohibiting the copying and selling of unpatented articles).

³⁸ *Sears*, 376 U.S. at 231.

³⁹ See, e.g., Gordon L. Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967) (discussing the

Inc. v. Adkins,⁴⁰ which although directed at contract law and the doctrine of licensee estoppel, gave the opportunity for Justice Black to share his views more broadly in a concurring and dissenting opinion:

One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled “inventors” do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the State.⁴¹

Although the majority of circuit courts had rejected the argument that state trade secret law was preempted, the Sixth Circuit embraced it in a 1973 decision, *Kewanee Oil Co. v. Bicron Corp.*,⁴² and based on this split in views among the circuit courts, certiorari was granted that same year.⁴³

The Supreme Court’s ruling put to rest all of the concerns that had been raised about conflict with the patent law. Finding no actual collision with the operation of the patent system, Justice Burger borrowed his reasoning in part from the Second Circuit’s opinion in *Painton & Co. v. Bourns, Inc.*, in which Judge Friendly had described three categories of trade secret inventions: those which were (1) validly patentable; (2) clearly not patentable; and (3) of dubious patentability.⁴⁴ The public has no interest in forcing applications to be filed in the second and third categories; indeed, trade secret law acts to “encourage invention

concerns raised in *Sears* and *Compco* about the compatibility of state regulatory measures of business practices and federal policies in patent and antitrust laws).

⁴⁰ *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

⁴¹ *Id.* at 677 (Black, J., dissenting).

⁴² *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973), *rev’d*, 416 U.S. 470 (1974).

⁴³ *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

⁴⁴ *Id.* at 484 (quoting *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 224 (2d Cir. 1971)).

in areas where patent law does not reach.”⁴⁵ In addition, putting an end to trade secret rights would negatively impact the public, leading to hoarding of information, diminished efficiency and higher costs for self-enforced security, particularly for small businesses, as well as “the inevitable cost to the basic decency of society when one firm steals from another.”⁴⁶

The only remaining question was whether providing trade secret protection for clearly patentable inventions would conflict with the federal system. On that point, the opinion declared confidently that there was “no reasonable risk” that an inventor with a clearly patentable invention would choose secrecy instead.⁴⁷ Why would someone risk independent discovery when they could enjoy exclusivity “against the world?” Trade secrets provide far weaker protection: “Where patent law acts as a barrier, trade secret law functions relatively as a sieve.”⁴⁸ As for the public interest in disclosure, the Court was satisfied that society would not have to wait long for it, because the “ripeness-in-time” concept predicts that others will soon conceive what the inventor holds as a secret.⁴⁹ Unfortunately, neither of these assumptions was firmly grounded in fact. Innovative process technology, even when clearly patentable, is classically protected by secrecy because reverse engineering is difficult, and so would be detection of patent infringement.⁵⁰ And the “ripeness-in-time” concept suffers from a lack of reliable empirical support.⁵¹ Despite the wobbly logic of this patentability analysis, the opinion ultimately landed on the simplest and most compelling reason to reject

⁴⁵ *Id.* at 485.

⁴⁶ *Id.* at 487.

⁴⁷ *Id.* at 489.

⁴⁸ *Id.* at 490.

⁴⁹ *Id.* at 490.

⁵⁰ For example, consider DuPont’s secret chloride process for producing titanium dioxide, for which I have a certain fondness, having grown up within a couple of miles of its Delaware plant, which frequently laid a light blanket of ash on our lawn. Dupont developed the technology in the 1940s and 1950s but kept it primarily as a secret, allowing it to realize billions in revenue for decades after a patent would have expired. Indeed, it was valuable enough to steal. *See United States v. Liew*, 856 F.3d 585, 589–90 (9th Cir. 2017).

⁵¹ The opinion offered only academic papers providing examples of near-simultaneous inventions, coupled with explanatory hypotheses such as common need, maturing genius, or foundational development. *See Kewanee*, 416 U.S. at 490.

preemption: trade secret law had co-existed with the patent system for more than a century without any objection from Congress.⁵²

In reaching its conclusion, the *Kewanee* majority gave nominal recognition to the *Restatement of Torts* formulation, but clearly did not embrace its most controversial aspects. Indeed, directly contrary to the Restatement, it observed that “[t]he maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law.”⁵³ And while the Court did not (yet) expressly refer to trade secrets as “property,” it invoked the “fundamental human right . . . of privacy” as justification for legislation against industrial espionage.⁵⁴

With *Kewanee*, the march of modern trade secret law had begun. Subsequent decisions of the Supreme Court confirmed the solid position of this intellectual property right. *Aronson v. Quick Point Pencil Co.* enforced a license agreement requiring the continued payment of royalties for an easily-copied product after rejection of a patent application, the Court reasoning that the defendant had bargained for early access to the invention when it was still a secret, thereby gaining a head start advantage.⁵⁵ *Ruckelshaus v. Monsanto Co.* expressly confirmed the status of trade secrets as property that is subject to the Taking Clause of the Fifth Amendment,⁵⁶ restoring context to Justice Holmes’ dictum in *Du Pont v. Masland*.⁵⁷ Three years later the Court applied the “property” label again in *Carpenter v. United States*, holding that federal mail and wire fraud statutes applied to the theft of “confidential information” held for later publication.⁵⁸ And *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.* clarified the importance to its ruling in *Kewanee* of the fact that freely available products can be reverse engineered,

⁵² *Id.* at 493. Justice Marshall, who did not accept the notion that inventors would always choose patenting for their patentable inventions, elaborated on this point in his concurrence, with reference to the 1948 Trade Secrets Act and the 1966 Freedom of Information Act. *Id.* at 493–94 (Marshall, J., concurring).

⁵³ *Id.* at 481 (emphasis added).

⁵⁴ *Id.* at 487.

⁵⁵ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 266 (1979).

⁵⁶ *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003–04 (1984).

⁵⁷ *Id.* at 1004 n.9 (“Justice Holmes did not deny the existence of a property interest; he simply deemed determination of the existence of that interest irrelevant to resolution of the case.”).

⁵⁸ *Carpenter v. United States*, 484 U.S. 19, 28 (1987).

striking down a state statute that prohibited the use of an original boat hull to create a mold.⁵⁹

V. INCONSISTENCY IN STATE COMMON LAW LEADS TO THE UTSA

Thanks to the ruling in *Kewanee*, trade secret law had survived. But it was not in good health. State decisional law was inconsistent, in part due to various attempts to deal with the need to develop alternative theories and doctrines to protect “confidential information” that was not “in continuous use” in a process or device. Perhaps recognizing what a mess they had made the first time around, the reporters of the *Restatement (Second) of Torts* decided to drop the subject entirely. Into this vacuum of resources for harmonization stepped the National Conference of Commissioners on Uniform State Laws. Observing that businesses were turning increasingly to trade secret protection due to a marked increase in judicial invalidation of patents (yes, this has happened before), and that there existed “undue uncertainty concerning the parameters of trade secret protection,” the Conference in 1979 (with amendments in 1985) proposed to the states a Uniform Trade Secrets Act, intended to “codif[y] the basic principles of common law trade secret protection, preserving its essential distinctions from patent law.”⁶⁰

Coming as it did relatively soon after the *Kewanee* opinion, the UTSA enjoyed early adoption in a number of states, and ultimately it has been enacted (with variations, as we will see) in every state but New York.⁶¹ It benefited from being brief and practical, organized into simple sections directed at definitions, relief (injunctions, damages and attorney’s fees), secrecy in court, limitations, and displacement of alternative claims.

Perhaps most importantly, the UTSA fixed the problem that had been created by the framers of the *Restatement (First) of Torts*, bringing back within the ambit of “trade secret” all information that has “actual or potential” value to a business, rather than just processes or devices “in continuous use.”⁶² Under the

⁵⁹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 159–60 (1989).

⁶⁰ UNIF. TRADE SECRETS ACT, *Prefatory Note* (UNIF. L. COMM’N 1985). Notably, the Conference in its prefatory note cited only one journal reference: *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378 (1971). That article had lamented that the common law “languishes in a deepening maze of conflict and confusion.” *Id.* at 378.

⁶¹ For a list of state statutes based on the UTSA, see JAMES POOLEY, TRADE SECRETS § 2.03(7)(a) (L.J. Press Lslf ed. 2022) (1997) [hereinafter TRADE SECRETS].

⁶² UNIF. TRADE SECRETS ACT § 1(4)(i).

UTSA, “ephemeral” information like bids and strategic plans, records of experimentation and other so-called “negative know-how” could be protected because of its potential value.⁶³ Indeed, with the scope of trade secrets no longer tethered to the vague “six factors” of the First Restatement, coverage would be more predictable. That said, one of the six factors—the extent of a company’s secrecy measures—became a required element of the claim, rather than just a suggestion.⁶⁴

Under the UTSA, trade secrets were guaranteed more robust protection. Not just misuse or disclosure, but improper acquisition could constitute misappropriation.⁶⁵ “Actual or threatened misappropriation” could be enjoined, including extensions to account for the defendant’s improper head start.⁶⁶ Affirmative acts (such as return of materials) could be ordered.⁶⁷ So-called “innocent” misappropriation would no longer be entirely excused if the recipient could show purchase for value or a change in position. Instead, injunctive relief would be available following notice, absent “exceptional circumstances” in which at least a compensating royalty would be ordered.⁶⁸ Attorney’s fees could be imposed for “willful and malicious” misappropriation.⁶⁹ And while the litigation was pending the courts were required to “preserve the secrecy of an alleged trade secret,” including through protective orders and in camera proceedings.⁷⁰

VI. THE NON-UNIFORM UTSA

That’s the good news. Unfortunately, the UTSA was not adopted in its original form in every state, and the variations are in some ways more extensive than under the common law. For example, California dropped the “readily ascertainable” language from its definition, and added a requirement that a plaintiff describe its trade secrets “with reasonable particularity” before beginning discovery;⁷¹ Illinois allows royalties in lieu of an injunction only when there is “an

⁶³ *Id.*

⁶⁴ *Id.* § 1(4)(ii).

⁶⁵ *Id.* § 1(2)(i).

⁶⁶ *Id.* § 2(a).

⁶⁷ *Id.* § 2(c).

⁶⁸ *Id.* § 2(b).

⁶⁹ *Id.* § 4(iii).

⁷⁰ *Id.* § 5.

⁷¹ CAL. CIV. CODE § 3426.1(d)(1) (West 2022); CAL. CIV. PROC. CODE § 2019.210 (West 2022); See James Pooley, *The Uniform Trade Secrets Act: California Civil*

overriding public interest”;⁷² Georgia limits protection of customer lists to physical embodiments;⁷³ and South Carolina reworked entire sections of its version of the UTSA with detailed procedural requirements.⁷⁴ Among all the states, limitations periods vary from two to six years; and there is disagreement on the extent to which the statute should be interpreted to “displace” other laws and theories.⁷⁵ Coupled with the challenge of different procedural regimes, these variations formed part of the impetus for the Defend Trade Secrets Act, discussed below.⁷⁶

Meanwhile, as the UTSA worked its way across the country after 1979, the drafters of the Second Restatement had closed up shop, and those engaged with the third edition decided to bring back the law of trade secrets, albeit within the rubric of unfair competition rather than torts. This time around they did a much better job. The *Restatement (Third) of Unfair Competition* was published in 1995.⁷⁷ Trade secret law is covered in Sections 39 through 45, as part of a chapter on “appropriation of trade values.”⁷⁸ The comments are extensive and well-written. In general, the law as expressed in the new Restatement is identical to that codified in the UTSA or the DTSA, with the exception that “reasonable efforts” to protect secrecy remains a factor to be considered rather than a requirement to establish the existence of a protectable secret.⁷⁹ In spite of its high quality and comprehensive treatment of the subject, and although some courts consider it as

Code § 3426, 1 SANTA CLARA HIGH TECH. L.J. 193, 197–99, 203 (1985)
(discussing differences between UTSA and California’s trade secret laws and their potential effects on protection).

⁷² Illinois Trade Secrets Act, 765 ILL. COMP. STAT. ANN. 1065/3(b) (West 2022).

⁷³ *Tronitec, Inc. v. Shealy*, 547 S.E.2d 749, 754 (Ga. Ct. App. 2001).

⁷⁴ See S.C. CODE ANN. §§ 39-8-10 to 39-8-130 (2022) (containing a myriad of procedural provisions).

⁷⁵ TRADE SECRETS, *supra* note 61, § 2.03[6] (discussing UTSA preemption of state laws).

⁷⁶ For an illuminating 2015 paper that was consulted by Congress in its consideration of the DTSA, see Sid Leach, *Anything but Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act*, SNELL & WILMER LLP 1 (Nov. 6, 2015), <https://www.swlaw.com/assets/pdf/news/2015/10/23/How%20Uniform%20Is%20the%20Uniform%20Trade%20Secrets%20Act%20-%20by%20Sid%20Leach.pdf> [<https://perma.cc/4XDT-EZKB>].

⁷⁷ RESTATEMENT (THIRD) OF UNFAIR COMPETITION (AM. L. INST. 1995).

⁷⁸ *Id.* §§ 39–45.

⁷⁹ *Id.* § 39 cmt. g.

having “supplanted” the 1939 Restatement,⁸⁰ the *Restatement (Third) of Unfair Competition* has not so far been as enthusiastically embraced by the judiciary.⁸¹

VII. CRIMINAL PENALTIES FOR MISAPPROPRIATION

By the 1990s over half the states had enacted criminal laws directed specifically at trade secret theft.⁸² These laws seem to have been prompted by frustration with the apparent inadequacy of a New Jersey larceny statute to deal with the 1960s theft of biological specimens and related data for export to Italy.⁸³ New York⁸⁴ and other states followed with laws specifically directed at theft of “scientific or technical” information, while others such as Ohio⁸⁵ have used a broader definition similar to that used for civil claims under the UTSA.

It may surprise some to learn that until 1996 with the enactment of the Economic Espionage Act (“EEA”),⁸⁶ the United States did not have a specific federal statute imposing criminal penalties for trade secret theft.⁸⁷ The Depression-

⁸⁰ See, e.g., *Briefing.com v. Jones*, 126 P.3d 928, 931–32 (Wyo. 2006) (“The common law tort has been supplanted by sections now found in the Restatement (Third) of Unfair Competition (1995).”).

⁸¹ See *Verizon N.Y. Inc. v. N.Y. State Pub. Serv. Comm’n*, 991 N.Y.S.2d 841, 853 (N.Y. Sup. Ct. 2014), *aff’d*, 23 N.Y.S.3d 446 (N.Y. App. Div. 2016) (“[C]ourts applying New York law generally follow Section 757 of the Restatement of Torts.”).

⁸² Eli Lederman, *Criminal Liability for Breach of Confidential Commercial Information*, 38 EMORY L.J. 921, 931 (1989).

⁸³ *Id.* at 931 n.41.

⁸⁴ N.Y. PENAL LAW §§ 155.00, 155.30, 165.07 (McKinney 2022).

⁸⁵ OHIO REV. CODE ANN. § 1333.51 (West 1996) (repealed 1996) (limiting application, however, to the taking of an “article representing a trade secret”). California and Pennsylvania, having originally opted for the “scientific and technical” limitation, broadened their statutes in 1996 to reach confidential business information. See CAL. PENAL CODE § 499c (West 2022) (defining “[t]rade secret” as something that “[d]erives independent economic value . . . from not being generally known to the public”); 18 PA. STAT. AND CONS. STAT. ANN. § 3930 (West 2022).

⁸⁶ 18 U.S.C. §§ 1831–1839.

⁸⁷ The only arguable exception is the Trade Secrets Act, enacted in 1948, which prohibits the disclosure of trade secrets by federal employees. 18 U.S.C. § 1905. But because of that narrow focus and its misdemeanor-level penalties, it has seldom been used to support a prosecution.

era Interstate Transportation of Stolen Property Act had been designed to apply to physical “goods, wares and merchandise” (most obviously automobiles) which could easily be taken across state lines, beyond the reach of state law enforcement.⁸⁸ Despite efforts to apply the statute to trade secret theft,⁸⁹ over time it became clear that it was a difficult fit for intangible trade secrets, which typically were stored on media of nominal value.⁹⁰ And although the wire fraud and mail fraud statutes were also applied,⁹¹ the inherent difficulties led to calls for federal criminal legislation.⁹²

Political support for the idea grew with appreciation for the risk that, following the end of the Cold War, the spying capabilities of foreign governments might be turned towards gathering U.S. industrial secrets.⁹³ Although early drafts were limited to trade secret theft for the benefit of a “foreign government, foreign instrumentality or foreign agent,” the legislation was amended to cover virtually all forms of misappropriation.⁹⁴ And although some suggested that while we were at it Congress should add a federal civil claim, there was not sufficient time in the legislative session, and that outcome would have to wait for thirty years.

VIII. THE DEFEND TRADE SECRETS ACT

During that time, it’s safe to say, the interest in, and perceived threat to, commercial secrets increased dramatically, largely due to advances in electronic data storage and transmission technology. Not only did the internet introduce

⁸⁸ National Stolen Property Act, 18 U.S.C. § 2314.

⁸⁹ See, e.g., *United States v. Riggs*, 739 F. Supp. 414, 420 (N.D. Ill. 1990) (applying § 2314 to the electronic transfer of a text file across state lines).

⁹⁰ See, e.g., *United States v. Aleynikov*, 676 F.3d 71, 76–79 (2d Cir. 2012) (holding that the Stolen Property Act is not applicable to intangible property such as source code and “declin[ing] to stretch or update statutory words of plain and ordinary meaning in order to better accommodate the digital age”).

⁹¹ See, e.g., *Carpenter v. United States*, 484 U.S. 19, 24 (1987) (applying the wire fraud and mail fraud statutes to the misappropriation of confidential information).

⁹² Peter J.G. Toren, *The Prosecution of Trade Secrets Theft Under Federal Law*, 22 PEPP. L. REV. 59, 96 (1994).

⁹³ TRADE SECRETS, *supra* note 61, § 1303[1].

⁹⁴ For a general review of the Economic Espionage Act at the time of its enactment, see James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INT. PROP. L.J. 177 (1997).

entirely new vulnerabilities, but a generation of workers got smartphones and were taught by social media to share information. The state law-based system for treating local cases of untrustworthy employees seemed ill-suited to address the globalized, digital nature of modern commerce. Federal court filing required either a closely related federal claim or complete diversity of citizenship (unlikely in a trade secret case). The EEA was not much help, with only a handful of cases being filed each year. Several bills were introduced in the 113th Congress, and a revised version was submitted simultaneously to the House and Senate in 2015 as the “Defend Trade Secrets Act.”⁹⁵ Following a somewhat contentious hearing before the Senate Judiciary Committee, an amended Senate version passed that chamber unanimously, the House vote was 410 to 2, and the President signed the bill on May 11, 2016.⁹⁶

The DTSA provides an option to claim original jurisdiction in federal court for any trade secret misappropriation claim that involves a modest level of interstate commerce.⁹⁷ Its codified provisions are interleaved with the pre-existing EEA, so that both laws can now be cited as appearing at 18 U.S.C. §§ 1831-1839.⁹⁸ Closely patterned on the UTSA, the DTSA uses very similar definitions and frameworks; for the most part, claims made under one can be made under the other, and indeed it has become common to see federal DTSA claims combined with assertions under the local state law. Some important differences deserve mention, however. First, the jurisdictional reach of the DTSA benefits from the extraterritoriality provisions of the EEA, making the law applicable to foreign acts of misappropriation where at least one act “in furtherance of the offense” occurred in the United States.⁹⁹ Second, the DTSA includes a specific process, adapted from the Lanham Act, for ex parte seizures of “property necessary to prevent the

⁹⁵ See James Pooley, *The Myth of the Trade Secret Troll: Why the Defend Trade Secrets Act Improves the Protection of Confidential Information*, 23 GEO. MASON L. REV. 1045 (2016).

⁹⁶ *Id.* at 1046.

⁹⁷ See *Yager v. Vignieri*, 2017 U.S. Dist. LEXIS 169241, at *4–5 (S.D.N.Y. Oct. 12, 2017) (finding federal subject matter jurisdiction existed under the DTSA where a plastic surgeon engaged interstate commerce because some of his patients traveled across state lines to receive his services).

⁹⁸ 18 U.S.C. §§ 1831–1839.

⁹⁹ 18 U.S.C. § 1837; *Motorola Sols. v. Hytera Commc’ns Corp.*, 436 F. Supp. 3d 1150, 1162–65 (N.D. Ill. 2020). Note that jurisdiction may also be based on whether an actor is a U.S. citizen or permanent resident.

propagation or dissemination of the trade secret.”¹⁰⁰ Third, in a nod to states like California that refuse to enforce noncompete agreements or otherwise embrace the so-called “inevitable disclosure doctrine,” the injunction provisions of the DTSA limit the ability of a court to constrain the scope of work of a departed employee to cases “based on evidence of threatened misappropriation and not merely on the information the person knows.”¹⁰¹ Fourth, the DTSA grants immunity from federal or state trade secret laws for whistleblowers who communicate confidential information only to the authorities or counsel for the purpose of reporting possibly wrongful activity.¹⁰² Finally, while the UTSA (in its official form) “displaces conflicting tort, restitutionary, and other law . . . providing civil remedies for misappropriation of a trade secret,” the DTSA does not preempt any state laws.¹⁰³

To no one’s surprise, the availability of original federal jurisdiction under the DTSA led to a substantial increase in federal court trade secret claims in the first full year following enactment. Although statistics from state court filings are notoriously difficult to obtain, most informed observers believe that those cases have not dropped off significantly, and so we are likely experiencing a modest increase in the overall instance of trade secret litigation. Indeed, based on my own review of the case law, I have the distinct impression that both state and federal courts are making regular reference to each other’s interpretations, such that we are on a path to achieving the sort of national harmonization of trade secret law that was envisioned by Congress as a goal of the DTSA.

IX. UNFINISHED BUSINESS

The progress of trade secret law in the past fifty years has been breathtaking. Industrial America has spoken out about the importance of robust protection for secret innovation, and the courts, Congress, and state legislatures have responded. It’s safe to say that the U.S. framework for trade secret protection is the gold standard against which other national systems might be measured. That said, work remains to be done in order to match the aspirations of this area of law to the system’s ability to deliver predictable and sensible results.

¹⁰⁰ 18 U.S.C. §§ 1836(b)(2)(A)(i), (b)(3)(A)(i). In practice, the *ex parte* seizure provisions are seldom invoked, as they require compliance with complex processes well beyond those common to FED. R. CIV. P. 65.

¹⁰¹ 18 U.S.C. § 1836(b)(3)(A)(i).

¹⁰² *Id.* § 1833(b).

¹⁰³ UNIF. TRADE SECRETS ACT § 7(a); 18 U.S.C. § 1838. The only exception is the immunity granted to individual whistleblowers, which extends to any “[s]tate trade secret law.” 18 U.S.C. § 1833(b)(1).

One issue to watch is the law's apparent inability to shake the anachronism of "confidential information" as a species independent of trade secrets. The courts, companies and employees would be better off with a unified approach to the protection of information assets, of the sort that the Commissioners envisioned would be produced by the UTSA. That calls for a recognition that the quantum of proof necessary to qualify information as eligible for trade secret protection is now so modest that the phrase "rise to the level of a trade secret" has lost all its meaning. We are not there yet, but I remain hopeful.

A related issue is the continued viability of the "six factors" identified in the 1939 Restatement of Torts as relevant to determining whether information may qualify as a trade secret. Back when those factors were first articulated they did not provide much guidance; they were just categories to consider, without direction about relative weighting. Now, when we actually have statutory definitions in place, these eighty-year-old suggestions haunt us like zombies, kept alive by uncritical repetition from one opinion to the next. How, for example, is a jury supposed to simultaneously apply the "reasonable efforts" standard as a requirement under the UTSA or DTSA and also consider the same point as a mere factor in the mix? It's past time to drop the "six factors."

I view the last fifty years as the "Restoration" period of trade secret law, arriving just in time to support the information-based economy. As we look to the next fifty years of jurisprudence, its deeply historical common law origins provide us with some comfort. This area of the law is uniquely sensitive to the balancing of competing interests, most notably those of employer and employee, but also including broader public concerns such as transparency of artificial intelligence tools. As we continue to develop ever more valuable information assets, along with the technological means to compromise them, we can expect that this field of intellectual property will continue to respond with flexibility, keeping its focus on its twin goals of "maintenance of standards of commercial ethics and the encouragement of invention."