

WHAT SORT OF IMPROPER CONDUCT CONSTITUTES MISAPPROPRIATION OF A TRADE SECRET

William E. Hilton [n.a]

I. INTRODUCTION

The law of trade secrets has developed sporadically and with little coherence. Words and terms have taken on different meanings at different times, causing ambiguous interpretations and little predictability.

This paper exposes some problems with trade secret law by examining one aspect of it. This aspect is the conduct which will be considered improper and constitute misappropriation of a trade secret. The American Heritage Dictionary defines "improper" as: "not suited for circumstances or needs." [n.1] As will be discussed later in this paper, courts have turned this definition upside down. [n.2] Judicial and legislative developments in trade secret law have confused an understanding of what sort of improper conduct constitutes misappropriation of a trade secret.

The law of trade secrets is a creature of state common law. Unlike other laws of unfair competition such as patent, copyright and trademark laws, there is no federal law governing trade secrets. In 1939 the authors of the Restatement of Torts stated and attempted to clarify the common law of trade secrets in the United States. The chapter on trade secret law, however, was left out of the Second Restatement of Torts in order *288 to allow individual states to better interpret the law. States were then slow in adopting trade secret laws and it was not until the American Bar Association approved the Uniform Trade Secrets Act [n.3] in 1979 as a model for states to follow, that more states began adopting trade secrets acts.

A thorough review [n.4] of the present status of trade secrets acts in each of the fifty states, as set forth in Appendix B, reveals that many states have adopted the definition of "improper means" from the Uniform Trade Secrets Act. However, a review of trade secret cases reveals that few courts [n.5] rely on the statutes for authority and most prefer to cite the Restatement of Torts from 1939. This omission and diversion indicates that the law of trade secrets is neither well settled nor has been well handled legislatively or judicially.

II. BACKGROUND OF TRADE SECRETS AND IMPROPER CONDUCT

The definition of trade secret adopted by the Supreme Court of the United States [n.6] is set forth in section 757 of the Restatement of Torts as follows:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. [n.7]

For information to qualify as a trade secret, this definition requires that the information must (1) be used in one's business, (2) provide a *289 competitive advantage, and (3) be secret. [n.8] The requirement of secrecy is by far the most important. [n.9]

It is well-settled that conduct which results in obtaining trade secret information by improper means constitutes misappropriation. [n.10] This conduct, herein referred to as improper conduct, hinges on a definition of improper means. Section 757 of the Restatement of Torts generally defined improper means of discovery as "means which fall below the generally accepted standards of commercial morality and reasonable conduct." [n.11]

The Restatement went on to make a distinction which has been lost [n.12] in today's interpretation of improper means:

Liability under the rule stated in this Section is based not on the actor's purpose to discover another's trade secret but on the nature of the conduct by which the discovery is made. The actor is free to engage in any proper conduct for the very purpose of discovering the secret. So long as his conduct is proper, his purpose does not subject him to liability. Conversely, if his conduct is improper, he is subject to liability even though he engaged in the conduct for a purpose other than that of discovering the trade secret. [n.13] (emphasis added)

The authors of the Restatement in preparing "an orderly statement of the general common law of the United States," [n.14] recognized that courts were looking objectively at an actor's actions rather than his or her intentions in determining whether actions constituted an improper means of discovery, i.e., improper conduct. The authors of the Second Restatement of Torts, however, left this chapter out of the Second Restatement to make way for more prudent state statutes. [n.15]

States were slow in enacting trade secret acts. After the Second Restatement of Torts was published without any mention of trade secrets, state courts continued to rely most heavily on the Restatement of Torts for authority. Furthermore, fears that state trade secret acts would be preempted by the federal patent laws began to grow, and *290 heightened in 1964 when the Supreme Court decided *Sears Roebuck & Co. v. Stiffel Co.*, [n.16] and *Compco Corp. v. Day-Brite Lighting, Inc.* [n.17] The Sears-Compco doctrine, as the companion cases came to be known, held that a state may not, under an unfair competition law, give protection of a kind that clashes with the objectives of the federal patent laws. In light of these events, clear and uniform trade secret protection was urged. [n.18]

III. LEGISLATIVE DETERMINATION OF IMPROPER MEANS

In 1979 the American Bar Association approved the Uniform Trade Secrets Act as a model for the states to follow. The Uniform Act defines "improper means" as follows:

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. [n.19]

Today, there are only eleven states, that have not adopted a specific trade secrets act. [n.20] Many of these states, however, summarily define "trade secret," or a similar term, in their larceny statutes. [n.21] For example, *291 New York includes "secret scientific material" in its larceny statute. Because these larceny statutes do not attempt to define "improper conduct," a further discussion of them is not included in this paper.

Of the remaining thirty-nine states which have a trade secrets act, only twenty-seven states have adopted the Uniform Trade Secrets Act's definition of "improper means" in their trade secrets act's definition of "improper means." [n.22]

Five states either changed or added to the Uniform Trade Secrets Act's definition of "improper means" in their definition of "improper means." [n.23] Three of these five added to the Uniform Act's definition, one reworded it, and one, Maine, changed the Uniform Act from:

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means

to the much more limiting,

"Improper means" means theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. (emphasis added)

This curious limitation was most likely, however, an oversight. The District of Columbia's Trade Secret Act coincidentally has the same limitation. [n.24]

Of the remaining seven states which have a trade secrets act, five protect trade secrets strictly through criminal trade secret statutes different from the larceny statutes mentioned above, [n.25] and two have civil trade secret protection statutes different from the Uniform Act. [n.26] It is interesting to note that New York, one of the most active states in trade secret litigation, does not have a trade secrets act. New York courts must rely on the larceny statute, the Restatement of Torts and common law.

*292 IV. JUDICIAL DETERMINATION OF IMPROPER MEANS

While The Supreme Court of the United States has stated that a trade secret owner can prevent any person from utilizing or disclosing their trade secret if the second party learned of the trade secret through "improper means," [n.27] the court has never expressly defined "improper means." [n.28] The Uniform Trade Secrets Act, while stating that a complete catalog of improper means is not possible, the commissioner's comments do provide a partial listing of "proper means." [n.29] As mentioned in these comments, the two most common defenses to an allegation of misappropriation are discovery by independent invention and discovery by reverse engineering. [n.30]

a) The defense of independent development

If a competitor independently develops information that constitutes another's trade secret, there is no misappropriation. The owner of the trade secret has no cause of action against an independent developer. Thus independent development is a "absolute defense" and if proven will result in dismissal of the complaint. [n.32]

There is an open question in trade secrets law related to independent development which is not discussed in this paper but is also in need of attention as it has never been judicially resolved. This question is: what are the rights of a trade secret owner to continue to practice his or her secret when a subsequent independent developer receives a patent on the process? No appellate opinion has ever addressed this issue. [n.33]

*293 b) The defense of reverse engineering

As discussed above, if a competitor independently develops another's trade secret, the trade secret owner has no right to enjoin the competitor from using the information. In independently developing such information, the competitor may examine and disassemble anything legitimately purchased in the public domain. If the competitor publicly purchases a product made via the trade secret owner's process and is able to determine the secret information by examining the product, the trade secret owner can not enjoin the competitor from using the information. [n.34] This is the essence of reverse engineering.

State courts vary, however, in their determinations of whether the possibility of reverse engineering is a defense. The Restatement declares that the ease or difficulty with which information could be obtained is one of six factors [n.35] to be considered in determining whether information constitutes a trade secret. [n.36] Most state courts hold that if the information could have been obtained through proper means, no matter how long it would have taken and expensive it would have been, then even though the defendant used improper means to obtain the information, proper means existed and no action may be brought. [n.37] This is in contrast to the earlier given American Heritage Dictionary definition of improper as: "not suited for circumstances or needs." [n.38] The conduct of the defendant is no longer as much at issue as the proper means which existed at the time of appropriation.

The lesson here seems to be that if the secret can be independently developed or reverse engineered, then a competitor can use any means *294 he or she wishes of gaining the information. As this determination fails to focus on the defendant's actual conduct, should it be a defense to an allegation of improper conduct? It appears that independent development and reverse engineering questions ought to be entertained in a determination of proper trade secret subject matter and shed no light on a determination of whether a defendant's conduct was improper.

c) "Criminal" conduct constitutes improper means

There are two broad standards that have been expressed in judicial opinions as to what constitutes improper conduct. [n.39] These are when a person obtaining another's trade secret does so 1) through illegal activities or fraud, or 2) by utilizing extraordinary measures to overcome precautions designed and implemented to protect the secrecy of the trade secret. The first is quite clear but the second is anything but clear. Illegal activities is taken up in this and the following sections and extraordinary measures is discussed in the last section.

A person who acquires another's trade secret by theft, [n.40] fraud, [n.41] breaking and entering a building, committing a trespass, bribing, swindling, or committing any illegal activity in obtaining another's trade secret, will be found to have procured the trade secret through improper means. However, the fact that criminal conduct constitutes improper means, does not indicate that the misappropriation is a crime. Similarly, the fact that misappropriation is a crime (in a particular state) does not mean that a defendant's conduct was necessarily improper. [n.42]

d) Breach of contract constitutes improper means

If a trade secret owner has a contracts cause of action against a potential trade secret misappropriator arising out of the alleged misappropriator's conduct, then the second party's conduct will be held improper if the cause of action prevails in court. [n.43] In other words, if the *295 alleged misappropriator breaches a contract in using or obtaining the trade secret, then the alleged misappropriator's conduct will be deemed improper resulting in a finding of misappropriation. All of state contracts law is herein incorporated; for example, California law allows for recovery for the breach of an implied-in-fact contract when the recipient of a valuable idea accepts the information knowing that compensation is expected, and subsequently uses the idea. [n.44] Employee obligations with past and present employers is also based in contract law and a breach of an employment agreement will constitute improper means. [n.45] A breach of a contract implied in law will also be recognized in some jurisdictions as constituting improper means when unjust enrichment would otherwise result. [n.46] The difficult area in determining what conduct is improper occurs when the illegal action committed is a tort.

e) Tortious conduct: the need for analytical standards

Misappropriation of a trade secret is founded in tort law. However, this does not mean that if an alleged misappropriator commits a tort, that the alleged misappropriator's conduct will be found improper. While certain tort causes of action will be recognized such as fraud and interference with contractual obligations, [n.47] all of tort law will not. [n.48] And most importantly, the tort of misappropriation of a trade secret can not be the cause of action on which the improper conduct allegations are based. As obvious as this seems, it appears to be the area which is creating the most confusion surrounding the meaning of improper conduct.

It was stated above that improper means will be found where one acquires another's trade secret information by utilizing extraordinary measures to overcome precautions designed and implemented to protect the secrecy of the trade secret. The landmark (or blemish) case *296 deciding this was E.I. duPont de Nemours & Co. v. Christopher. [n.49] The court held that aerial photography of a partially constructed manufacturing plant would be, under Texas law, an "improper means" of obtaining another's trade secret for which there would be a cause of action. The court reasoned as follows:

Perhaps ordinary fences and roofs must be built to shut out incursive eyes, but we need not require the discoverer of a trade secret to guard against the unanticipated, the undetectable, or the unpreventable methods of espionage now available. . . . "Improper" will always be a word of many nuances, determined by time, place, and circumstance. We therefore need not proclaim a catalog of commercial improprieties. Clearly, however, one of its commandments does say "thou shall not appropriate a trade secret through deviousness under circumstance in which countervailing defenses are not reasonably available." [n.50] (emphasis added)

Here it seems that the tort of misappropriation of the trade secret was assumed and subsequently became the cause of action on which the improper conduct allegations were based. Is it not a commandment of legal reasoning that thou shalt not assume one's own conclusion?

The Christopher case has opened the door for pursuing trade secret cases where a plaintiff believes a defendant's conduct was devious and should come under a nuance of the meaning of improper. This result also seems to suggest the existence of some corporate right to privacy, the invasion of which is actionable. Common law invasion of privacy in tort law, however, suggests that disclosure of a private fact to only one or just a few persons does not amount to an invasion of privacy. [n.51]

The confusion created by Christopher stands, although the case appears to be cited much more in treatises and casebooks than in subsequent judicial opinions.

V. CONCLUSION

Misappropriation of a trade secret is a tort and in some states it is even a crime. But these are conclusions with respect to the question of what sort of improper conduct constitutes misappropriation. These conclusions not only fail to aid in analyzing whether

conduct is improper, but also seem to be misused as premises for presuming the existence of improper conduct.

*297 Trade secrets law exists for the purpose of maintaining clean and fair competition between businesses. There is no likelihood of consumer confusion at issue such as in trademark law, and there is no disclosure benefitting the public such as in the copyright and patent laws. Rather the goal of trade secrets law is to keep competition clean.

How is competition to be kept clean when a competitor can not be sure what means are available to him or her to determine another's trade secret? Is listening in on a conversation improper? Is taking photographs while in a public place improper? Is telephoning a competitor's service department under the guise of being a customer improper? And what if the appropriator did not intend to learn the information but happened upon it? What can such a person do with the information?

The law of trade secrets has received so little analytical attention that its predictability has suffered tremendously. If trade secrets law is to serve as more than a random tort for penalizing some of society's more aggressive businesses, then the current trade secrets law is in dire need of critical attention.

[n.a] B.S. Electrical Engineering, B.A. Computer Science, 1986, Tufts University; William E. Hilton is a Juris Doctor candidate 1991, at Franklin Pierce Law Center. Copyright (c) 1990 William E. Hilton.

[n.1] Improper (Im-prop'er) adj. 1. Not suited to circumstances or needs; unsuitable: received improper care. 2. Not in keeping with conventional mores; indecorous. 3. Not consistent with truth, fact, or rule; incorrect. 4. Irregular or abnormal, as in form. The American Heritage Dictionary, Houghton Mifflin Co., 1985.

[n.2] See the discussion of availability of proper means as a valid defense to improper conduct.

[n.3] The Uniform Trade Secrets Act was drafted by the National Conference of Commissioners on Uniform State Laws. The Act was approved and recommended for enactment in all states on August 9, 1979. The Uniform Act's definition section includes definitions of "improper means," "misappropriation," and "trade secret." These definitions are reprinted in Appendix A.

[n.4] Going hand in hand with the lack of uniformity and clarity in trade secret law, is the lack of attention it has received. Because the information does not appear in the literature (to the best of the author's knowledge), Appendix B lists the current status of trade secret

law with respect to improper conduct in each of the fifty states and other American jurisdictions.

[n.5] Many state trade secret acts have been only recently enacted. However, even in these states the Restatement is more often cited in trade secret cases. See *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 9 U.S.P.Q.2d 1913 (1989).

[n.6] See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 94 S.Ct. 1879, 40 L.Ed.2d 315 (1974).

[n.7] See Restatement of Torts § 757 comment b, (1939).

[n.8] See supra note 6.

[n.9] The Restatement of Torts § 757 comment b (1939) specifically states "The subject matter of a trade secret must be secret."

[n.10] See *Forro Precision, Inc. v. International Business Machines Corp.*, 673 F.2d 1045, 215 U.S.P.Q. 299 (9th Cir. 1982); *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F.Supp. 1102 (E.D. Mich. 1975).

[n.11] See Restatement of Torts § 757 comment on clause (a) f, (1939).

[n.12] See the discussion of *E.I. duPont de Nemours & Co. v. Christopher*, note 50.

[n.13] See Restatement of Torts § 757 comment on clause (a) f, (1939).

[n.14] See Restatement of Torts § 757 Introductory clause, pg. x, (1939).

[n.15] See Restatement of Torts (Second), Division Nine, (1971).

[n.16] 376 U.S. 225 84 S.Ct. 784, 11 L.Ed.2d 661, 140 U.S.P.Q. 524 (1964).

[n.17] 376 U.S. 234 84 S.Ct. 779, 11 L.Ed.2d 669, 140 U.S.P.Q. 531 (1964).

[n.18] "Thus one must grant that the Restatement has provided one admirable service: it has opened the door previously hinged on the property concept and bolted with the special-relationship rules. The question now to be faced is whether at this time in history, in light of the multiplication of trade secrets and expansion of sophisticated industry on a nationwide scale, recited at the beginning of this comment, we can afford the costs inherent in leaving the contours of trade secret law to the leisurely development of the common law of the states. Guidance is needed." *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U.Pa.L.Rev. 378, (1971).

[n.19] See Uniform Trade Secrets Act, § 1(1). (1979).

[n.20] Arizona, Iowa, Kentucky, Michigan, Mississippi, Missouri, New Jersey, New York, South Carolina, Vermont, and Wyoming. See Appendix B.

[n.21] Ark. Stat. § § 41-3949 et seq.; Cal. Penal Code Ann. § 499c; Colo. Rev. Stat. cc.40-5-33 et seq.; Ga. Crim. Code § 26-1809; Ill. Ann. Stat. c.38, § § 15 et seq. (Smith-Hurd); Ind. Code Ann., tit 35, § § 17-3-1 et seq. (Burns); Me. Rev. Stat. Ann. § 2113.; Mass. Ann. Laws ch. 266, § 30; Mich. Comp. Laws Ann. § § 762.771 et seq.; Minn. Stat. Ann., tit. 40, § 609.52.; Neb. Rev. Stat. § § 28-548-01 et seq.; N.H. Rev. Stat. Ann., cc. 637:1 et seq.; N.J. Stat. Ann. § § 2A:119-5.3 et seq.; N.M. Stat. c. 40A- 16-23.; N.Y. Penal Law Ann. § § 155.00, 155.30, 165.07.; Ohio Rev. Code Ann., tit. 13, § § 1333.51 et seq.; Okla. Stat. Ann., tit. 21, § 1732.; Pa. Stat. Ann., tit. 18, § 4899.2.; Tenn. Code Ann. § § 39-4238 et seq.; Wis. Stat. Ann. Crim. Code § 943.205. See Peter D. Rosenburg, *PATENT LAW FUNDAMENTALS*, (1989).

[n.22] Alaska, Arkansas, Colorado, Connecticut, Delaware, Florida, Hawaii, Idaho, Illinois, Indiana, Kansas, Louisiana, Maryland, Minnesota, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Oklahoma, Rhode Island, South Dakota, Utah, Virginia, Washington, and West Virginia. See Appendix B.

[n.23] Alabama, California, Maine, Oregon, and Wisconsin. See Appendix B.

[n.24] See Appendix B.

[n.25] Georgia, Massachusetts, Pennsylvania, Tennessee, and Texas. See Appendix B.

[n.26] North Carolina and Ohio. See Appendix B.

[n.27] "The protection accorded the trade secret holder is against the disclosure or unauthorized use of the trade secret by those to whom the secret has been confided under the express or implied restriction of nondisclosure or nonuse. The law also protects the holder of a trade secret against disclosure or use when the knowledge is gained, not by the owner's volition, but by some 'improper means'. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475-76 (1974)."

[n.28] See Michael A. Epstein, *MODERN INTELLECTUAL PROPERTY*, (1989).

[n.29] The partial listing is in the Commissioner's Comment on "improper means" in the Uniform Trade Secrets Act. See Appendix A.

[n.30] See *Abraham Zion Corp. v. Lebow*, 593 F.Supp. 551, 225 U.S.P.Q. 173 (S.D.N.Y. 1984) (suit patterns which could be reverse engineered by tracing are not trade secrets); *Standard Oil Co. v. Landmark Farm Bureau Coop.*, 52 Ohio App. 2d 225, 369 N.E.2d 785 (1976) (reverse engineering is lawful means); *SI Handling Systems v. Heisley*, 753 F.2d 1244, 225 U.S.P.Q. 441 (3d Cir. 1985) (reverse engineering permitted).

[n.31] See *Unital, Ltd. v. Sleep Co. Mfg. Ltd.*, 627 F.Supp. 285, 229 U.S.P.Q. 795 (W.D. Wash. 1985).

[n.32] See *Downey v. General Foods Corp.*, 37 A.D.2d 250, 323 N.Y.S.2d 578, 171 U.S.P.Q. 421 (N.Y. Sup. Ct. App. Div. 1971).

[n.33] This is true to the best of the author's knowledge.

[n.34] See Melvin F. Jagar, *TRADE SECRETS LAW*, (1989).

[n.35] The six factors are: (1) the extent to which the information is known outside of the owner's business; (2) the extent to which it is known by employees and others involved in the owner's business; (3) the extent of measures taken by the owner to guard the secrecy of the information; (4) the value of the information to the owner and to his competitors; (5) the amount of effort or money expended by the owner in developing the information;

and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. Restatement of Torts § 757 comment b (1939).

[n.36] The Restatement § 757, Comment (b) also declares on this point that "a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information."

[n.37] See *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953); *Van Products Co. v. General Welding and Fabricating Co.*, 419 Pa. 248, 213 A.2d 769, 147 U.S.P.Q. 221 (1965).

[n.38] See *supra* note 1.

[n.39] See Michael A. Epstein, *MODERN INTELLECTUAL PROPERTY*, (1989).

[n.40] See *Solo Cup Co. v. Paper Mach. Corp.*, 240 F.Supp. 126, 144 U.S.P.Q. 729 (E.D. Wis. 1965), "the actual theft of plaintiff's production drawings by defendants, would, patently, be an improper means."

[n.41] See *Franke v. Wiltschek*, 209 F.2d 493 (2d Cir. 1953), (defendants acted improperly when they pretended to desire to become salesmen for the plaintiff in order to appropriate a trade secret).

[n.42] We must be careful to distinguish whether it is the conduct that we are calling a crime, or whether it is the misappropriation of a trade secret that we are calling a crime.

[n.43] See, Peter D. Rosenburg, *PATENT LAW FUNDAMENTALS*, (1989).

[n.44] See *Landsberg v. Scrabble Crossword Game Players, Inc.*, 802 F.2d 1193, 231 U.S.P.Q. 658, (9th Cir. 1986).

[n.45] See *American Chain & Cable Co., Inc. v. Avery*, 143 U.S.P.Q. 126 (1964); *Hahn & Clay v. A.O. Smith Corp.*, 212 F.Supp. 22, 136 U.S.P.Q. 33 (1962); *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, *supra* note 10.

[n.46] See *Thermo Trim, Inc. v. Mobil Oil Corp.*, 194 U.S.P.Q. 450 (W.D.N.Y. 1977).

[n.47] See *American Can Co. v. Mansukhani*, 216 U.S.P.Q. 1094 (E.D. Wis. 1982).

[n.48] No cause of action resides against one who has induced the owner of a trade secret to divulge the secret, *Filmways Pictures, Inc. v. Marks Polarized Corp.*, 552 F.Supp. 863, 220 U.S.P.Q. 870 (S.D.N.Y. 1982).

[n.49] 431 F.2d 1012, 166 U.S.P.Q. 421 (5th Cir. 1970), cert. denied, 400 U.S. 1024, rehearing denied, 401 U.S. 967 (1971).

[n.50] See *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d at 1016.

[n.51] See *Household Finance Corp. v. Bridge*, 252 Md. 531, 250 A.2d 878 (1969); *Timperly v. Chase Collection Service*, 272 Cal. App.2d 697, 77 Cal.Rptr. 782 (1969).

APPENDIX A

The following are three definitions from the Uniform Trade Secrets Act and a relevant portion of the commissioner's comment.

The Uniform Trade Secrets Act

§ 1(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) "Misappropriation" means:

(i) acquisition of a trade secret of another 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 had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

*298 (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.

(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Commissioner's Comment

One of the broadly stated policies behind trade secret law is "the maintenance of standards of commercial ethics." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). The Restatement of Torts, section 757, Comment (f), notes: "A complete catalogue of improper means is not possible," but Section 1(1) includes a partial listing.

Proper means include:

1. Discovery by independent invention;

2. Discovery by "reverse engineering," that is, by starting with the known product and working backward to find the method by which it was developed. The acquisition of the known product must of course, also be by fair and honest means, such as purchase of the item on the open market for reverse engineering to be lawful;

3. Discovery under a license from the owner of the trade secret;

4. Observation of the item in public use or on public display;

5. Obtaining the trade secret from published literature.

Appendix B

The following is a compilation of the relevant portions of state trade secrets acts in defining "improper means."

The United States

Alabama

Alabama Trade Secrets Act

Ala. Code § 8-27-1 (Supp. 1989)

§ 8-27-2(2) IMPROPER MEANS. "Improper means" are means such as:

*299 a. Theft;

b. Bribery;

c. Misrepresentation;

d. Inducement of a breach of confidence;

e. Trespass; or

f. Other deliberate acts taken for the specific purpose of gaining access to the information of another by means such as electronic, photographic, telescopic or other aids to enhance normal human perception, where the trade secret owner reasonably should be able to expect privacy.

Alaska

Alaska Uniform Trade Secrets Act

Alaska Stat. § 45.50.910 (Supp. 1989)

§ 45.50.940(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Arizona

Arizona does not have a trade secrets act.

Arkansas

Theft of Trade Secrets

Ark. Stat. Ann. § 4-75-601 (1987)

§ 4-75-601(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

California

Uniform Trade Secrets Act

Cal. Civ. Code § 3426.1 (West Supp. 1989)

§ 3426.1(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.

Colorado

Uniform Trade Secrets Act

Colo. Rev. Stat. § 7-74-101 (1986)

§ 7-74-102(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

*300 Connecticut

Uniform Trade Secrets Act

Conn. Gen. Stat. Ann. § 35-50 (West 1987)

§ 35-51(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Delaware

Uniform Trade Secrets Act

Del. Code Ann. tit.6, § 2001 (Supp. 1989)

tit.6, § 2001(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Florida

Uniform Trade Secrets Act

Fla. Stat. Ann. § 688.001 (West Supp. 1989)

§ 688.002(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Georgia

Theft of a Trade Secret

Ga. Code. Ann. § 26-1809 (Harrison 1988)

The act does not define "improper conduct" or "improper means."

§ 26-1809(a)(4) "Trade secret" means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, or improvement which is secret and of value; and a trade secret shall be presumed to be secret when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.

§ 26-1809(b) Any person who steals or embezzles an article representing a trade secret or without authority makes or causes to be made a copy of an article representing a trade secret with intent to deprive or withhold from the owner thereof the control of a trade secret or with intent to appropriate a trade secret to his own use or to the use of another, commits the offense of theft of a trade secret and, upon conviction thereof, shall be punished by imprisonment for not less than one nor more than five years, provided that, if the value of the article stolen, embezzled or copied, including the value of the trade secret represented thereby, is not more than \$100.00 he shall be punished as for a misdemeanor.

*301 Hawaii

Trade Secrets

Haw. Rev. Stat. § 482B-1 (Supp. 1989)

§ 482B-2 "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Idaho

Idaho Trade Secrets Act

Idaho Code § 48-801 (Supp. 1989)

§ 48-801(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Illinois

Illinois Trade Secrets Act

Ill. Ann. Stat. ch. 140, para. 351 (Smith-Hurd Supp. 1989)

ch. 140, para. 352(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Indiana

Uniform Trade Secrets Act

Ind. Code. Ann. § 24-2-3-1 (West Supp. 1989)

§ 24-2-3-2 "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Iowa

Iowa does not have a trade secrets act.

Kansas

Uniform Trade Secrets Act

Kan. Stat. Ann. § 60-3320 (1989)

§ 60-3320(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Kentucky

Kentucky does not have a trade secrets act.

*302 Louisiana

Uniform Trade Secrets Act

La. Rev. Stat. Ann. § 51:1431 (West Supp. 1989)

§ 51:1431(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Maine

Uniform Trade Secrets Act

Me. Rev. Stat. Ann. tit. 10 § 1541 (Supp. 1988)

tit. 10 § 1542(1) "Improper means" means theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Maryland

Maryland Uniform Trade Secrets Act

Md. Com. Law Code Ann. § 11-1201 (Supp. 1989)

§ 11-1201(b) Improper means -- "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Massachusetts

Taking of Trade Secrets

Mass. Gen. L. ch. 93, § 42 (1988)

The act does not define "improper conduct" or "improper means." ch. 93, § 42 Whoever embezzles, steals or unlawfully takes, carries away, conceals, or copies, or by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use,

any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting therefrom.

Michigan

Michigan does not have a trade secrets act.

Minnesota

Uniform Trade Secrets Act

Minn. Stat. Ann. § 325C.01 (Supp. 1989)

§ 325C.01 Subd. 2. "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Mississippi

Mississippi does not have a trade secrets act.

*303 Missouri

Missouri does not have a trade secrets act.

Montana

Uniform Trade Secrets Act

Mont. Code Ann. § 30-14-401 (1985)

§ 30-14-402(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Nebraska

Trade Secrets Act

Neb. Rev. Stat. § 87-501 (1989)

§ 87-502(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Nevada

Uniform Trade Secrets Act

Nev. Rev. Stat. Ann. § 600A.010 (Supp. 1989)

§ 600A.030(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

New Hampshire

Uniform Trade Secrets Act

N.H. Rev. Stat. Ann. § 350-B (1989)

§ 350-B: 1(I) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

New Jersey

New Jersey does not have a trade secrets act.

New Mexico

Uniform Trade Secrets Act

N.M. Stat. Ann. § 57-3A-1 (Supp. 1989)

§ 57-3A-2(A) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

New York

New York does not have a trade secrets act.

*304 North Carolina

Trade Secrets Protection Act

N.C. Gen. Stat. § 66-152 (1985)

The act does not define "improper conduct" or "improper means."

§ 66-152(1) "Misappropriation" means acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.

North Dakota

Uniform Trade Secrets Act

N.D. Cent. Code § 47-25.1-01 (Supp. 1989)

§ 47-25.1-01(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Ohio

Conversion of trade secrets; prohibition; definitions.

Ohio Rev. Code Ann. § 1333.51 (Anderson 1979)

The act does not define "improper conduct" or "improper means."

§ 1333.51

(B) No person shall, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with the intent to convert a trade secret to his own use or the use of another, obtain possession of or access to an article representing a trade secret.

(C) No person having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another.

(D) No person shall, by force, violence, threat, bribe, reward, or offer of anything of value on or to another person or member of his family, obtain or attempt to obtain from such other person an article representing a trade secret.

(E) No person shall, without authorization enter upon the premises of another with intent to obtain possession of or access to an article representing a trade secret.

*305 Oklahoma

Uniform Trade Secrets Act

Okla. Stat. Ann. tit. 78, § 85 (West 1987)

tit. 78, § 86(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Oregon

Trade Secrets, definitions

Or. Rev. Stat. § 646.461 (1988)

§ 646.461(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering and independent development alone shall not be considered improper means.

Pennsylvania

Theft of Trade Secrets

Pa. Stat. Ann. tit. 18, § 3930 (Purdon 1983)

tit. 18, § 3930

(a) Felony of the third degree. -- A person is guilty of the third degree if he:

(1) by force or violence or by putting him in fear takes from the person of another any article representing a trade secret; or

(2) willfully and maliciously enters any building or any structure with intent to obtain unlawful possession of, or access to, an article representing a trade secret.

(b) Misdemeanor of the first degree. -- A person is guilty of a misdemeanor of the first degree if he, with intent to wrongfully deprive of, or withhold from the owner, the control of a trade secret, or with intent to wrongfully appropriate a trade secret for his use, or for the use of another:

(1) unlawfully obtains possession of, or access to, an article representing a trade secret; or

(2) having lawfully obtained possession of an article representing a trade secret, or access thereto, converts such article to his own use or that of another person, while having possession thereof or access thereto makes, or causes to be made, a copy of such article, or exhibits such article to another.

*306 Rhode Island

Uniform Trade Secrets Act

R.I. Gen. Laws § 6-41-1 (Supp. 1989)

§ 6-41-1(A) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

South Carolina

South Carolina does not have a trade secrets act.

South Dakota

Uniform Trade Secrets Act

S.D. Codified Laws Ann. § 37-29-1 (Supp. 1989)

§ 37-29-1(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Tennessee

Theft of Trade Secrets

Tenn. Code Ann. § 39-14-138 (1989)

The act does not define "improper conduct" or "improper means."

§ 39-14-138(4)

(b) Any person who with intent to deprive or withhold from the owner thereof the control of the trade secret, or with intent to appropriate a trade secret to the person's own use or to the use of another:

(1) Steals or embezzles an article representing a trade secret; or

(2) Without authority makes or causes to be made a copy of an article representing a trade secret.

Texas

Theft of Trade Secrets

Tex. Penal Code Ann. § 31.05 (Vernon 1989)

The act does not define "improper conduct" or "improper means."

§ 31.05

(b) Any person commits an offense if, without the owner's effective consent, he knowingly:

- (1) steals a trade secret;
- (2) makes a copy of an article representing a trade secret; or
- (3) communicates or transmits a trade secret.

(c) An offense under this section is a felony of the third degree.

*307 Utah

Uniform Trade Secrets Act

Utah Code Ann. § 13-24-1 (Supp. 1989)

§ 13-24-2(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, Lfooter espionage through electronic or other means.

Vermont

Vermont does not have a trade secrets act.

Virginia

Uniform Trade Secrets Act

Va. Code Ann. § 59.1-336 (1987)

§ 59.1-336 "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Washington

Uniform Trade Secrets Act

Wash. Rev. Code Ann. § 19.108.010 (1989)

§ 19.108.010(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

West Virginia

Uniform Trade Secrets Act

W. Va. Code § 47-22-1 (1986)

§ 47-22-1(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

Wisconsin

Uniform Trade Secrets Act

Wis. Stat. Ann. § 134.90 (West 1989)

§ 134.90(1)(a) "Improper means" includes espionage, theft, bribery, misrepresentation and breach or inducement of a breach of a duty to maintain secrecy.

Wyoming

Wyoming does not have a trade secrets act.

*308 Other American Jurisdictions

The District of Colombia

Trade Secrets

D.C. Code Ann. § 48-501 (Supp. 1989)

§ 48-501(1) "Improper means" means theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

None of the following jurisdictions have a trade secrets act: American Samoa, Guam, Puerto Rico, or the Virgin Islands.