Trade secret treachery

What constitutes a trade secret, and when is an employee liable for betraying one? Those questions were the focus of a speech about employer-employee relationships given by Charles M. Carter at the 1968 National Electronics Conference in Chicago. Carter was an electrical engineer and patent attorney employed as general patent counsel at Warwick Electronics Inc. (also in Chicago), and his speech was later the basis for an IEEE Spectrum article, “Trade secrets and the technical man” [February 1969, pp. 51–55]. After noting that the rapid growth and advancing complexity of the scientific and technical world had necessitated greater familiarity with patent laws, Carter argued that there remained “an overall lack of understanding regarding the rights, obligations, and liabilities arising from the laws as applied to trade secrets.”

He defined a trade secret as any set of business methods, manufacturing processes, formulas, or devices that, by remaining outside the public domain, provide a competitive advantage. Although patents bar others for a time from freely exploiting an idea or invention, anything receiving patent protection must be disclosed. Accordingly, after the initial period of protection during which the U.S. Constitution guarantees authors and inventors “exclusive right to their respective writings and discoveries,” the idea or invention becomes a part of the public domain (and ceases to be of advantage to the inventor).

Constitutional law also states that if a third party independently discovers a trade secret, he or she is free to use or disclose it. This guideline seems simple enough, but, as Carter pointed out, advances in technology and greater fluidity in the job market had made it harder than ever to define what constituted a fair “breakage” of another’s trade secret. At best, attempts to balance the conflicting concerns of employers (or the owners of information) and employees were difficult, he contended. Employers’ outlay of time and money sets the stage for inventions while employees’ skills bring new technology to fruition. The challenge was to protect the owners of information without circumscribing the employees’ use of general skills learned during a particular term of employment to benefit themselves and society.

As Carter saw it, the issue was far from clear. Available case law had determined that employees could use all the general skill, knowledge, and experience acquired at a previous job to complete a task assigned by their current employer. Nonetheless, the employees were bound by a confidential-relationship obligation (similar to the attorney-client privilege) prohibiting the use or disclosure of a former employer’s trade secrets.

Maintaining confidentiality would, on the surface, seem fairly straightforward. But Carter recognized that the line between what constitutes a trade secret and what is simply the general skill, knowledge, and experience of the employee had been the subject of much discussion and costly litigation. To maintain the balance between corporate and personal interests, courts have ruled that although
an injunction may be obtained to stop the misappropriation of trade secrets and a monetary judgment may be awarded to the injured party, the burden of proof remains on the employer. The latter must establish not only that a trade secret exists and that the employee was responsible for its breach, but also that the company had actively attempted to prevent such a breach.

A key problem facing technologists (and jurists) was that the laws on trade secrets had not been codified. By 1968, Carter reported, only 11 states had enacted criminal statutes or amended existing ones to include the taking of property of the type in which trade secrets are included. What’s more, a large-scale attempt to include penalties for theft of trade secrets in Federal legislation had been defeated in the U.S. House of Representatives. An addition to the National Stolen Property Act of 1934, it would have made interstate or international trafficking of misappropriated trade secrets a crime. Surprisingly, Federal guidelines regarding trade secrets were not revisited until 1996, when the Economic Espionage Act was signed into law.

Carter decried the ineffectiveness of these laws, citing a case in which the defendant was convicted of conspiring to steal trade secrets from a pharmaceutical company and sell them to companies in countries with little or no pharmaceutical patent protection. He noted that obtaining a judgement for the plaintiff was difficult because existing Federal and state property laws “covered only the theft of tangible goods and...the act under which the indictments were granted was primarily aimed at cattle rustling.”

Corporations did not sit idly by when court decisions weakened their protection based on common law and guaranteed under the implicitly confidential employer-employee relationship. Instead, they adopted new methods to delineate their trade secrets and their employees’ skill—and to prove they actively sought to prevent secrets from being divulged. According to Carter, methods frequently used included conducting security checks on new employees, controlling visitors’ access to certain facilities, requiring clearance for speeches and papers, and limiting access to confidential material. All confidential documents had to be clearly labeled and destroyed after their period of usefulness, and employees, during exit interviews, were reminded of their obligations with regard to the company’s trade secrets. In some cases corporations took the further step of including a clause in the employment agreement that barred the employee from accepting a position with a direct competitor for a specified period of time.

So, on proving that an employee was liable for a breach of a confidential relationship, what could the injured party expect to recover? Carter noted that such a matter was “quite similar to the scope of recovery in patent-infringement actions.” The article, though, lacked any discussion on how to prove that something was a trade secret without telling the world what the secret was or how the effect of a breach on the injured and offending parties’ bottom lines was to be ascertained.

For Carter, caution was the order of the day. His advice to technical professionals and their employers (past and present) was clear: get a good lawyer who “is in a position to...guide them away from the pitfalls of knowing or inadvertent misappropriation.”