

# Trade secrets: proper and improper means of acquisition

By R. Mark Halligan, Esq., FisherBroyles, LLP

JULY 18, 2022

The owner of a trade secret does not have an exclusive right to possess or use the secret information. Protection is available only against a wrongful acquisition, disclosure, or use of the trade secret by improper means.

The original 1939 Restatement of Torts clarifies that the privilege to compete with others includes a privilege to adopt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition.

Unless a trade secret is acquired under circumstances giving a rise to a duty of confidence, a person who obtains the trade secret by proper means is free to use or disclose the information without liability for trade secret misappropriation.

The proper means/improper means dichotomy is at the core of every trade secret misappropriation lawsuit. The plaintiff must establish the wrongful acquisition, disclosure or use of the trade secret by improper means, and the defendant has the burden to establish the acquisition, disclosure or use of the alleged trade secret by proper means.

The term “improper means” is a statutory definition under the Uniform Trade Secrets Act (UTSA) and the Defend Trade Secrets Act (DTSA) and it is *intertwined* with the UTSA and DTSA statutory definition of “misappropriation” (as illustrated in italics below).

“Misappropriation” means:

- a. Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by *improper means*; or
- b. Disclosure or use of a trade secret of another without express or implied consent by a person who:
  1. Used *improper means* to acquire knowledge of the trade secret; or
  2. At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
    - A. Derived from or through a person who had utilized *improper means* to acquire it;
    - B. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

- C. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.

“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.

It is noteworthy to recognize that every example of “improper means” involves a predicate offense except for the “breach or inducement of a breach of a duty to maintain secrecy” which has its roots in tort and contract law.

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The lone exception is the 5th U.S. Circuit Court of Appeals decision in *DuPont v Christopher* (1970) which, on appeal from a motion to dismiss, affirmed a finding of trade secret misappropriation even though there was no confidentiality agreement, and even though the aerial photography of DuPont’s exposed chemical plant (without a roof) was in lawful air space and in full compliance with federal aviation regulations.

There are two classic “proper means” defenses that will vitiate a trade secret misappropriation claim: discovery by independent invention or development or discovery by “reverse engineering.”

Unlike the holder of a patent, the owner of a trade secret has no claim against another who independently discovers the trade secret. Evidence of independent derivation (or independent development) can be based on a wide variety of lawful activities, including review of published articles, the collection and analysis of publicly available product literature; lawful competitive intelligence; independent simulations, experiments, evaluations, or even by proof of a “flash of genius.”

Reverse engineering involves the intentional access to another's product for lawfully discerning what it is, how it was made, how it works, and what are its advantages and limitations. Discovery by reverse engineering involves starting with the known product and working backwards to ascertain the alleged trade secrets.

As long as the defendant can show that only the finished product was used, and there is no evidence that the "reverse engineering" project was tainted by the participation of persons exposed to plaintiff's trade secret, reverse engineering does not violate the rights of the trade secret holder. However, if the reverse engineering has occurred through breach of a confidential relationship or if the item to be reverse engineered has been obtained by improper means, reverse engineering will not be a valid defense.

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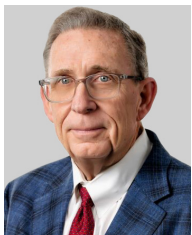
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The requirement of independent development is often left out of the "reverse engineering" defense. If a team is assembled to reverse engineer a competitor's product, then there must be a strict requirement that prohibits any participation by anyone who has been exposed to the plaintiff's trade secret by former employment or otherwise. This is the so-called "Clean Room."

If there is exposure to the plaintiff's trade secret by a former employee or otherwise, then the "Clean Room" is "tainted" and the entire "reverse engineering" defense fails.

### About the author



**R. Mark Halligan** is a partner at **FisherBroyles, LLP** and is based in Chicago. He focuses his practice on intellectual property litigation and is recognized as a leading practitioner in the development of automated trade secret asset management blockchain systems. He teaches Advanced Trade Secrets Law in the LLM program at University of Illinois Chicago School of Law and is the lead author of the "Defend Trade Secrets Act Handbook," 3rd Edition, published by Wolters Kluwer. He can be reached at [rmark.halligan@fisherbroyles.com](mailto:rmark.halligan@fisherbroyles.com).

The burden of proving independent derivation, and/or reverse engineering has always been a fact-intensive issue in trade secret litigation. Often the defendant rests upon the "could have" and "readily ascertainable" defenses to a trade secret misappropriation claim.

Once the plaintiff discloses the alleged trade secret under a protective order, the defendant often will argue that the alleged trade secret "could have" been "readily ascertainable" from publicly available sources even though the defendant obtained it without authorization from the trade secret owner. The "could have" defense has been overwhelmingly rejected by trial courts in trade secret misappropriation cases.

Another fact-intensive issue involves "access" and "substantial similarity." At one end of the spectrum, the defendant argues there is no trade secret misappropriation because there is no evidence that the defendant has access to the alleged trade secret. At the other end of the spectrum, the plaintiff argues there is overwhelming circumstantial evidence of trade secret misappropriation because the defendant's product or service is virtually identical (or substantially similar) to the plaintiff's product or service.

The modern trend appears to favor the plaintiff's position. If there is strong circumstantial evidence of trade secret misappropriation, the evidentiary burden will shift to the defendant to prove that the defendant's product or service was not obtained from the unauthorized acquisition, disclosure or use of plaintiff's trade secret.

*R. Mark Halligan is a regular contributing columnist on trade secrets law for Reuters Legal News and Westlaw Today.*

This article was first published on Reuters Legal News and Westlaw Today on July 18, 2022.