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Industrial Espionage—Nebraska’s New Felony

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INDUSTRIAL ESPIONAGE—NEBRASKA'S NEW FELONY¹

I. INTRODUCTION

Industrial research is the backbone of this country's advanced economy. Tomorrow's advancement in industrial strength depends directly upon the success of today's research. In the United States alone, industry will spend eighteen billion dollars on research this year.² Although the value of this research is unlimited, many companies will never realize the full benefit of their outlay of time, effort and capital because of industrial espionage. It is estimated that losses in industrial research through espionage will reach two billion dollars annually.³

¹ This bill was introduced as L.B. 867 and will be cited as NEB. REV. STAT. §§ 28-548.01-.03 (Supp. 1965).

Sec. 1. As used in this act, unless the context otherwise requires:

1. Article shall mean any object, material, device or substance or copy thereof, including any writing, record, recording, drawing, sample, specimen, phototype, model, photograph, micro-organism, blueprint or map;

2. Representing shall mean describing, depicting, containing, constituting, reflecting or recording;

3. Trade secret shall mean the whole or any portion or phrase 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; and

4. Copy shall mean any facsimile, replica, photograph or other reproduction of an article, and any note, drawing or sketch made of or from an article.

Sec. 2. Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his 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, shall be guilty of a felony and shall, upon conviction thereof, be punished by a fine of not less than one thousand dollars, nor more than five thousand dollars, or by imprisonment in the Nebraska Penal and Correctional Complex for not less than one year nor more than seven years, or by both such fine and imprisonment.

Sec. 3. In a prosecution for a violation of the provisions of this act it shall be no defense that the person so charged returned or intended to return the article so stolen, embezzled or copied.

² *Hearings before the Banking, Commerce and Insurance Committee on L.B. 867*, 75th Neb. Leg. Sess. 4-26 (1965) [hereinafter cited as 1965 *Hearings*.]

³ *Ibid.*

The theft of trade secrets⁴ is not a new problem in this country. One of the first American cases involving trade secrets was *Peabody v. Norfolk*,⁵ where the court held:

If he 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.⁶

That court went on to hold that injunctive relief would be granted where there was irreparable injury and an inadequate remedy at law. American courts have subsequently held that one who has rightful possession of a trade secret has a property interest in the subject of that secret.⁷ The property interest of the inventor or discoverer is good against all except those who come by the secret honestly or in good faith.⁸ Since the *Peabody* case, a body of civil remedies has been developed to redress the injured party. However, there has been very little development of criminal sanctions specifically directed at trade thefts.

Increasing expenditures for research by American industry⁹ will undoubtedly encourage industrial espionage. Because of this threat, legislators have become aware of the need for effective criminal sanctions. New York was the first state to pass legislation specifically imposing criminal penalties on those guilty of industrial espionage.¹⁰ In 1965, the New Jersey Legislature passed

⁴ The most frequently quoted and generally accepted definition of "trade secret" is set out in the RESTATEMENT, TORTS § 757, comment b at 5 (1939): "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." See also, *Macbeth-Evans Glass Co. v. Schnellbach*, 239 Pa. 76, 86 Atl. 688 (1913).

⁵ 98 Mass. 452 (1867).

⁶ *Id.* at 458.

⁷ *Stewart v. Hook*, 118 Ga. 445, 45 S.E. 369 (1903). See also *Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889); *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912 (7th Cir. 1953).

⁸ *Stewart v. Hook*, 118 Ga. 445, 45 S.E. 369 (1903).

⁹ 25 billion dollars by 1970. *Business Week*, Oct. 6, 1962, p. 65.

¹⁰ N.Y. PEN. LAW, § 1296(4). The amended section reads as follows: "A person is guilty of grand larceny in the second degree who, under circumstances not amounting to grand larceny in the first degree, in any manner specified in this article, steals or unlawfully obtains or appropriates:

4) "Property of any value consisting of a sample, culture, micro-

a bill setting out a detailed definition of "trade secret" and prescribing the penalty for trade theft.¹¹

In accordance with Nebraska's "open-door policy" toward industry, the Nebraska Legislature passed an act in 1965 which made the theft of a trade secret a felony.¹² The act is an amalgamation of the New York and New Jersey acts.¹³ The question toward which this article is directed is whether established civil remedies, coupled with the added criminal sanctions, afford adequate protection for industrial trade secrets in Nebraska. It is therefore necessary to briefly discuss the battery of common law civil remedies before considering the effects of the new legislative provisions.

II. SUMMARY OF CIVIL REMEDIES

One injured by the dispossession or the deprivation of the effective use of his trade secret may seek one or more civil remedies to redress his loss. These remedies include injunction,¹⁴ accounting for profits,¹⁵ return of the stolen materials,¹⁶ destruction of the products of the misappropriated secrets,¹⁷ and suit for damages.¹⁸ The injunction was one of the earliest remedies used to prevent wrongdoers from using illegally obtained trade secrets.¹⁹ In addition to injunctive relief, an injured party often

organism, specimen, record, recording, document, drawing or any other article, material, device or substance which constitutes, represents, evidences, reflects, or records a secret scientific or technical process, invention or formula or any phase or part thereof. A process, invention or formula is secret when it is not, and is not intended to be available to anyone other than the owner thereof or selected persons having access thereto for limited purposes with his consent, and when it accords or may accord the owner an advantage over competitors or other persons who do not have knowledge or the benefit thereof."

¹¹ N.J. REV. STAT. §§ 2A:119-5.1-.5 (Supp. 1965).

¹² NEB. REV. STAT. §§ 28-548.01-.03 (Supp. 1965).

¹³ 1965 *Hearings* 4-26.

¹⁴ *Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889).

¹⁵ *Vulcan Detinning Co. v. American Can Co.*, 75 N.J. Eq. 542, 73 Atl. 603 (1909).

¹⁶ *Pressed Steel Car Co. v. Standard Steel Car Co.*, 210 Pa. 464, 60 Atl. 4 (1904).

¹⁷ *American Bell Tel. Co. v. Kitsell*, 35 Fed. 521 (C.C.S.D.N.Y. 1888).

¹⁸ *Spiselman v. Rabinowitz*, 270 App. Div. 548, 61 N.Y.S.2d 138 (1st. Dep't 1946).

¹⁹ STORY, COMMENTARIES ON EQUITY, § 952 (2d ed. 1839); *Peabody v. Norfolk*, 98 Mass. 452 (1867).

would ask for damages,²⁰ the measure being not what the plaintiff lost because of the theft, but rather the benefit, profit or advantage gained by the defendant through the use of the trade secret.²¹ The advantage enjoyed by the defendant is measured by the standard comparison method.²² In a case involving wrongful use of an unpatented trade secret by a confidential discloser, or other person, the rightful possessor is entitled to an accounting and recovery of the profits.²³ One of the remedies that may be requested, but is seldom granted, is destruction of the encroaching property.²⁴ The main reason for the court's reluctance in granting such relief is because of the economic waste involved. The injured party not only has remedies against the person who took or disclosed his trade secret, but may also sue for damages or exercise other remedies against a third person who knowingly takes advantage of the misappropriation.²⁵ There are many complexities that arise from the employee-employer relationship and also from the employer-employee-third party relationship, which are outside the scope of this article.²⁶

²⁰ In *Seismograph Serv. Corp. v. Offshore Raydist, Inc.*, 135 F. Supp. 342 (E.D. La. 1955) the court said: "Even where it cannot be said that the parties stand in confidential relations, improper acquisition of another's business information or trade secrets subjects the perpetrator to liability in damages. And a court of equity will enjoin the use of the business information or trade secrets so obtained." *Id.* at 355. (Citations Omitted.)

²¹ *International Indus., Inc. v. Warren Petroleum Corp.*, 248 F.2d 696 (3d Cir. 1957).

²² This method contemplates the comparison of the cost advantage to the defendant as a result of the use of the trade secret and the method of accomplishing the same result which would have been open to the defendant had he not appropriated the trade secret. *Ibid.*

²³ *Becher v. Contoure Lab.*, 29 F.2d 31 (2d Cir. 1928), *aff'd*, 279 U.S. 388 (1929).

²⁴ *American Bell Tel. Co. v. Kitsell*, 35 Fed. 521 (C.C.S.D.N.Y. 1888). In discussing the possibility of destruction the court held: "Where the court has power to decree, necessarily it has power to carry its decree into effectual execution; and a court which does not hesitate to enforce its process by attachment and imprisonment of the person, and by sequestration of the property of parties, in order to compel obedience, would not hesitate from any consideration of want of power or propriety to order property to be destroyed which has been created in defiance of the rights of another, and is being used in further encroachment upon such rights, whenever it might be essential to the ends of justice that this should be done." *Id.* at 523.

²⁵ *Jerrold-Stephens Co. v. Gustaveson, Inc.*, 138 F. Supp. 11 (W.D. Mo. 1956); *Seismograph Serv. Corp. v. Offshore Raydist, Inc.*, 135 F. Supp. 342 (E.D. La. 1955); *Ferroline Corp. v. General Aniline & Film Corp.*, 207 F.2d 912 (7th Cir. 1953).

²⁶ The employer-employee relationship most generally involves either an

It therefore becomes clear that one who has been injured by the theft of his trade secret is not without remedies to compensate his loss. The problem, however, goes beyond mere compensation to whether a wrongdoer should be exonerated by merely apologizing or by returning goods or profits. This is the issue that the Nebraska Legislature was attempting to resolve when they enacted NEB. REV. STAT. §§ 28-548.01-.03 (Supp. 1965).

III. NEBRASKA LEGISLATION—CRIMINAL SANCTIONS

The prosecution in trade theft cases under the current larceny statutes is faced with two major problems. First, whether a property interest in a trade secret is the same as "property" defined in the larceny statutes.²⁷ Secondly, the necessity of placing a value on a piece of scrap paper, drawing, photostat, microfilm, or reproduced blueprint.

In an attempt to avoid prosecution, the accused will claim as a defense that what was taken was not property, but only a copy or photostat of the original. It is unclear whether a copy or photograph of an original is "property" in the same sense that "property" is defined in the Nebraska statutes.²⁸

The ascertainment of a monetary value is quite difficult in many instances. Generally, the only value, which is necessary to determine the degree of the crime, is the actual value of the paper itself.²⁹ The crime then falls within the purview of the petit lar-

expressed or implied contract of employment. This relationship remains unaffected by the Nebraska act; however, employees fall within the purview of the statute unrestricted by their status as an employee.

²⁷ NEB. REV. STAT. § 28-506 and § 28-512 (Reissue 1964).

²⁸ *Ibid.* The Nebraska Supreme Court has not to date been faced with this decision. This very likely could be due to the fact that most charges are for petit larceny and few if any are appealed. However, in a civil action for the recovery of profits, the court held that an author did not have a common law property interest in his composition. A property interest would vest in the author when he complied with the federal copyright laws. *State v. State Journal Co.*, 77 Neb. 752, 110 N.W. 763 (1906).

²⁹ Generally, the trade secret does not have a market value, because it was being developed for use by the researcher. Most theft statutes refer to the fair market value when setting value out as the criteria for classification. The Nebraska courts have not clearly stated the basis used in determining value; however, they appear to use the fair market value. *Spreitzer v. State*, 155 Neb. 70, 50 N.W. 2d 516 (1951); *Brooks v. State*, 28 Neb. 389, 44 N.W. 436 (1889); *Gettinger v. State*, 13 Neb. 308, 14 N.W. 403 (1882).

gency statute,³⁰ which imposes a maximum penalty of five hundred dollars or six months imprisonment or both. In order for the crime to fall within the grand larceny statute, the value of the article stolen must be worth one hundred dollars or more.³¹

The Nebraska act is directed toward resolving both of the aforementioned problems.³² The act sets out an extensive definition of trade secret and requires only that the article stolen be of value in order for the theft to be classified as a felony. The definition makes clear that a copy, photograph or even a scrap of paper, if representative of a trade secret, is sufficient to meet the requisite property requirement for conviction. Prior to its passage, theft of a trade secret in Nebraska would generally be classified as a petit larceny offense.³³ By requiring the article to be merely of value rather than a fixed or minimum sum, in order to determine degree, the theft of a trade secret is punishable as a felony.

The proponents of the Nebraska act felt that the penalty provision would act as a strong deterrent to future trade secret thefts.³⁴ Criminal convictions attract more attention than do civil judgments, as civil actions very seldom "make the front page" in our newspapers. Therefore, a conviction for a felony would attract more publicity and would serve as a warning to others contemplating the theft of trade secrets. The individuals involved in most trade secret cases are not typical mobsters, but are well-educated white collar workers and executives. United Press International reported a case in point:

Plump, balding Robert Sancier Aries led a comfortable life. Respected as a scientist, he was listed in *Who's Who*. But then a U.S. Drug firm realized that someone had stolen a \$6 million formula and peddled it around the world. Merck & Co. hurried to Europe. . . . Late last year, a federal district judge pondered the evidence and ruled that Aries, holder of two Ph.D. degrees, high honors graduate of Yale, former consultant to banks, corporations and the U.S. Government, member of the New York Academy of Science, the American Institute of Chemists and the Westchester, N.Y. Country Club, had stolen the formula for a poultry disease from Merck.³⁵

The potential monetary value of the secret to the thief is a key

³⁰ NEB. REV. STAT. § 28-512 (Reissue 1964).

³¹ NEB. REV. STAT. § 28-506 (Reissue 1964).

³² 1965 *Hearings* 1.

³³ *Ibid.*

³⁴ 1965 *Hearings*.

³⁵ The Sunday Oregonian, March 28, 1965, p. 16, col. 1.

factor in negating the deterrent effect, if any, in criminal sanctions. An individual in Dallas was not deterred by a possible ten-year sentence when he stole computer programs from Texas Instruments, Inc. The computer programs, which the company had difficulty establishing a fifty dollar value for prosecution purposes, were offered to Texaco, Inc. for five million dollars.³⁶

The Nebraska act does overcome the problem of determining value and property interest, but seemingly does not cover many acts of industrial espionage. It requires physical removal of an "article" in order to come within the statute's purview.³⁷ An industrial spy, who physically removes nothing but gains vast knowledge of the competitor's organization and operation, would be outside of the act. For example, a janitor who is actually a technical expert planted in a competitive firm, telephoning information out at night without physically removing property would be outside the scope of the act. There are other instances which present more difficult questions, such as the purchasing of waste paper from a company's custodial help or from garbage collectors and later fitting the scraps of information together like a puzzle. Problems are also raised when key employees are pirated away by competitive firms. A 1959 survey of 1,558 executives by the Harvard Business Review³⁸ revealed some alarming trends in business ethics. The report indicated that twelve percent of corporate executives reported that their respective companies received competitive information through the hiring of competitor's employees. Over seventy-eight percent of these executives felt their companies were entitled to all abilities and key knowledge possessed by the new employees. Companies avoid prosecuting employees who are discovered to be thieves, because the companies do not want bad publicity nor do they want to risk a damage suit if the alleged thief is not convicted. As a consequence, fear of prosecution is diminished because the employee is aware of the company's reluctance to prosecute.³⁹

This is a difficult area in which to legislatively protect the employer because there are equally important policy reasons for protecting the mobility of the labor force. Perhaps it is best to leave the problem of employee disclosure to the private contractual relationship of employee-employer.⁴⁰

³⁶ State v. Hancock, No. E-9167-IK, D. Tex., Sept. 3, 1965.

³⁷ *Supra* notes 30 and 31.

³⁸ Business Week, Nov. 21, 1959, p. 114.

³⁹ BRENTON, THE PRIVACY INVADERS, 97 (1964).

⁴⁰ This would be so, as long as the employee did not fall within the purview of the Nebraska act, i.e., physically removing "articles" rep-

IV. UNIFORM LEGISLATION

In recent years there have been attempts to draft uniform legislation in the trade secret field. The Committee on Trade-marks and Unfair Competition of the New York City Bar Association drafted a Federal Unfair Commercial Activities Act,⁴¹ which included theft of trade secrets under the general heading of unfair commercial activity. The act was introduced in Congress in 1959,⁴² but was never passed. The Judiciary Committee is presently considering a bill which would prohibit the interstate transportation of stolen trade secrets.⁴³ This provision would amend the Stolen Property Act.⁴⁴ The proposed draft is substantially similar to the Nebraska act.

V. CONCLUSION

The Nebraska act will not provide complete protection for an owner of a trade secret, but it certainly affords far greater protection than was previously available. The bill negates many of the hollow defenses formally used by industrial spys. No longer will an accused have the defense that what he took was only a copy or photograph and therefore was not property. Nor can a person charged assert as a defense that the "article" has been returned or that he intended to return it. Section three of the Nebraska act specifically voids this defense.⁴⁵ The prosecution is no longer burdened with the often impossible task of establishing fair market value of the article taken, as the act requires only that the article be "secret" and of "value". Although the act should greatly aid the prosecution in obtaining convictions in a majority of trade theft cases, more protection is needed. There is need for comprehensive legislation which would cover the individual who is placed in a competitive firm to remove nothing but "ideas". The intent to "steal" and the injury to the

resenting trade secrets. The acts of the employee with regard to disclosure could and generally are included either expressly or impliedly in contracts of employment. It is for the employer and employee to establish the necessary protection for those acts which would fall outside the scope of the statutes.

⁴¹ Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 Nw. U.L. Rev. 437 (1960).

⁴² H.R. 7833, 86th Cong., 1st Sess. (1959).

⁴³ H.R. 5578, 89th Cong., 1st Sess. (1965). No hearings have been held and none are scheduled. There appears to be no comparable proposal pending in the Senate.

⁴⁴ 18 U.S.C. §§ 2311-17 (1964).

⁴⁵ *Supra* note 1.

owner are equally as great under these circumstances as in the case where the article itself is removed. Both state and federal agencies are aware of the need for legislation in the trade theft area⁴⁶ and if the recent interest is indicative of public concern, the near future should experience more comprehensive legislation in this area.

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⁴⁶ Klein, *supra* note 41.