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A gem for Tiffany in Arizona payment limitation decision

In a decision having potentially widespread significance, the United States District Court for the District of Arizona has granted summary judgment in favor of three cotton producers who had been combined as one "person" for 1987 and 1988 payment limitation purposes by DASCO of the ASCS. The court found that the agency's actions had been arbitrary, capricious and an abuse of discretion, and entered a declaratory judgment that each producer is entitled to be treated as a separate "person" for the 1987 and 1988 crop years. *Golightly v. Yeutter*, No. CIV 90-1272 PHX RCB (D. Ariz., August 23, 1991, Broomfield, J.).

Plaintiffs Dolores and Julie Golightly, mother and daughter, were the general partners of Tiffany Farms. Dolores also held a fifty percent interest in Plaintiff Regis Land Corporation, d/b/a Tonopah Ginning Company. The other fifty percent interest in Regis was held by J.L. Golightly, Julie's father, and Dolores' ex-husband. Dolores leased land during 1987 and 1988 to Tiffany Farms. Those same years, J.L.leased land to three other farming entities: Salome Road Farms, in which J.L. was one of three general partners in 1987 and one of two general partners in 1988; Reed Farms, comprised of two unrelated individuals; and Vicky Ann Olson, another daughter of Dolores and J.L.

Regis offered financing to cotton producers who ginned their cotton at the Tonopah Gin. Producers who financed through Regis executed promissory notes to Regis, with their crops as collateral. Regis borrowed the funds it used to finance the producers from United Bank, in return for a promissory note and a pledge of Regis' assets, including the producers' promissory notes. During 1987 and 1988, Regis provided financing to a number of producers, including Tiffany Farms, Salome Road Farms, Reed Farms, and Vicky Ann.

The County ASC Committee initially found that Regis, Tiffany Farms, Salome Road Farms, Reed Farms and Vicky Ann were nine separate "persons" for the 1987 crop year and eight separate "persons" for the 1988 crop year. In 1989, however, an Office of Inspector General (OIG) audit concluded that the financing arrangements between Regis and these entities violated the so-called "financing" rules set forth in 7 C.F.R. §§ 795.3 and 795.7, and recommended that all nine members of those entities in 1987 and all eight members in 1988 be combined as one "person" for each of the two crop years.

Although the County Committee accepted the OIG recommendations and notified the producers in June 1989 that they would have to repay over $525,000, the County Committee subsequently recommended to the State ASC Committee that relief be

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New good faith exemption from swampbuster ineligibility ruled retroactive

The Eighth Circuit has ruled that the good faith exemption in the 1990 Farm Bill amendments to the swampbuster statute applies retroactively. *National Wildlife Federation v. Agricultural Stabilization and Conservation Service*, No. 90-5483, 1991 Westlaw 149261, filed August 8, 1991. The case began in early 1985 when farmers in Yellow Medicine County, Minnesota applied to the local watershed district for a permit to drain eighty-five acres of prairie wetlands. Under the Food Security Act of 1985, enacted on December 23, 1985, farmers were prohibited from producing an agricultural commodity on drained wetlands, on penalty of losing certain farm program benefits, unless the drainage was exempted under the Act. Pub. L. No. 99-198, title XII, § 1221 (as codified at 16 U.S.C. § 3821).

The farmers applied to the county ASCS committee for a "commenced conversion," which would exempt the farmers from swampbuster penalties if the drainage project was commenced before enactment of the swampbuster provisions. Pub. L. No. 99-

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granted because all of the producers had acted in good faith in preparing their farm operating plans and because the County Committee itself was partially responsible for not correctly applying the financing rules. The State Committee agreed and forwarded the case to DASCO urging that relief be granted.

Following an administrative hearing held in Washington, D.C., DASCO upheld the OIG's conclusions that all the producers constituted one "person" for payment limitation purposes in 1987 and that all except Salome Road Farms (which obtained its financing directly from United Bank in 1988) were one "person" for 1988 payment limitation purposes.

DASCO ruled that financing arrangements between Regis and the farm entities violated requirements in 7 C.F.R. § 795.3 that producers maintain a separate and distinct interest in the crop or land, separate responsibility for such interest, and separate responsibility for the payment of the cost of farming from a fund or account separate from that of any other individual or entity. DASCO based its ruling on the fact that Dolores and J.L., as individual landowners, as owners of Regis, and as partnership members, had an interest in the crops and the land, and provided financing to the farm entities through Regis.

Further, DASCO found that all capital and operating funds for the partnerships were obtained through the loans from Regis using the partnerships' crops as security, rather than through contributions by individual members as required by 7 C.F.R. § 795.7. Nonetheless, DASCO granted full relief to Reed Farms, Salome Road Farms and Vicky Ann for each crop year on the ground that their respective farm operating plans disclosed that financing would be provided by Tonopah Ginning Company. DASCO denied any relief to Tiffany Farms or Regis, however, on the ground that Tiffany Farms' 1987 and 1988 farm operating plans stated only that it would obtain "bank financing" (rather than financing from Regis d/b/a Tonopah Ginning Company) and on the further ground that only Julie, and not Dolores, executed Tiffany Farms' financing documents, which DASCO interpreted as indicating that Tiffany Farms was actually a sole proprietorship.

Following DASCO's determination, Dolores and Julie (the two partners of Tiffany Farms) and Regis filed a complaint in federal district court in Phoenix under the provisions of the Administrative Procedure Act.

In their complaint and subsequent summary judgment papers, plaintiffs alleged, first, that the so-called "financing" rules are nowhere found in 7 C.F.R. § 795.3 and that, in any event, under the Claims Court's decision in *Steagall v. United States*, 19 Cl.Ct. 765, 771 (1990), 7 C.F.R. § 795.7 specifically renders § 795.3 inapplicable to partnerships such as Tiffany Farms. Second, the plaintiffs contended that even if Regis provided financing to Tiffany Farms, Regis had no interest in the land that its two equal shareholders, Dolores and J.L., leased to the producers. Third, the plaintiffs argued that even if Regis had an individual interest in the land through its shareholders, Regis was exempt from the "financing" rules under ASCS Handbook 5-CM (Rev. 1), Exhibit 2, which provided an exception from the financing proscriptions with respect to loans made by "institutions established to provide commercial credit to individuals or entities." This argument was based on the fact that the provision of financing to producers was an integral part of the business of Regis and other Arizona cotton gins. Alternatively, plaintiffs argued that if the *shareholders* of Regis (i.e., Dolores and J.L.), rather than Regis itself, were found to have provided the financing, the exemption for financing by family members in 7 C.F.R. § 795.4 and the ASCS Handbook should apply. Finally, plaintiffs alleged that DASCO abused its discretion by granting equitable relief to the other producers but not to plaintiffs, since there was no rational basis for drawing such distinctions.

After acknowledging the traditional rule of judicial deference to an agency's determination and its interpretation of the statute and its own regulations where Congress has granted the agency broad discretion in interpreting the applicable statute, Judge Broomfield ruled first that the exemption for partnerships in 7 C.F.R. § 795.7 from the financing prohibitions in § 795.3 is not applicable in this case because DASCO found that the partnerships, including Tiffany, were funded entirely by the loans from Regis and not by individual members' contributions, and that DASCO's finding in this regard must be given conclusive effect under 7 U.S.C. § 1385.

The court, however, rejected the government's argument that Regis did not qualify for the exemption from the financing prohibitions as an institution established to provide commercial credit to individuals or entities. The government contended that ASCS had a "bright line rule" that limits the application of this exemption to "lenders in the business of banking." Finding no evidence of a "bright line rule" in any written interpretation or even any intra-agency guideline, the court concluded that the "bright line rule" was a post-hoc rationalization of the financing prohibition in this case.

Moreover, the court rejected the government's argument that the producer financing in this case was really provided by Regis' shareholders, who also had an interest in the land as landlords. Absent an action to pierce the corporate view, "the corporate form under which Regis provided financing must be honored," and the leasing activities of its shareholders are irrelevant, particularly since, as unrelated individuals during the years in question, neither shareholder held a controlling interest in Regis. Thus Regis and the partners of Tiffany Farms cannot be combined as one "person" for payment limitation purposes.

Finally, the court concluded that DASCO abused its discretion in granting full relief to all of the other producers under the equitable relief provisions in 7 C.F.R. §§ 790.2 and 791.2, but not to the partners of Tiffany Farms. The court rejected the government's argument that DASCO's exercise of discretion in granting or denying equitable relief is beyond judicial review. Citing *Hilo Coast Processing Co. v. U.S.*, 816 F.2d 629, 634 (Fed. Cir. 1987), the court held that "where an agency discriminates among similarly situated producers under these provisions, the agency's discretion is circumscribed by the requirement that some reasonable basis be shown for such dis-

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crimination." Here the fact that only Julie executed financing documents for Tiffany Farms is insufficient to deny relief to Julie and her mother because one partner's execution of such documents was sufficient to bind the partnership, and because only one partner of Reed Farms executed the financing documents for that partnership, yet DASCO granted full relief to the partners of Reed Farms.

Nor was the fact that the farm operating plans of Tiffany Farms stated only that its financing would be obtained through "bank financing," rather than specifying Tonopah Ginning Company as was done by the other producers, a sufficient basis for granting relief to the other producers but not to the partners of Tiffany Farms. First, DASCO overlooked or ignored the County Committee's opinion that all the producers answered the questions on the farm operating plan to the best of their abilities and that they were not trying to circumvent the financing rules. Second, the failure to list Tonopah Ginning Company on Tiffany Farms' operating plans was of no import, since all the producers who did list Tonopah Ginning Company as the source of their financing were granted full relief in any event. For each of these reasons, DASCO's refusal to grant equitable relief to the partners of Tiffany Farms while granting such relief to the other producers was an abuse of discretion.

While Judge Broomfield's rulings on the "financing" issues in the case are likely to have limited application given the elimination of the financing prohibitions in the ASCS regulations applicable to 1989 and subsequent crop years, the court's explicit rejection of the government's contention that DASCO's exercise of discretion in applying the equitable relief provisions in 7 C.F.R. §§ 790.2 and 791.2 is beyond judicial review provides an important precedent for producers whose claims for relief under those provisions are denied in circumstances where similarly situated producers have been granted relief. Thus, farmers and their attorneys should carefully examine prior and future DASCO decisions to determine if the agency's grant of equitable relief in any of those decisions provides a basis upon which to mount a judicial challenge based on a claim of abuse of discretion.

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NEW GOOD FAITH EXEMPTION/CONTINUED FROM PAGE1

198, title IX, § 1222 (as codified at 16 U.S.C. § 3822). The county ASCS committee found that only preliminary engineering work had been done on the drainage project before December 23, 1985 and that this preliminary work was not sufficient to support a finding that the drainage project had "commenced" for purposes of the swampbuster regulations. On appeal, the Minnesota State ASCS Committee reversed the county committee's decision. Although the state committee decision was subject to appeal to DASCO, the farmers proceeded with the project, which was completed on September 1, 1988.

DASCO, on appeal of the state ASCS committee determination, reversed the state committee decision and denied the commenced conversion exemption. DASCO also decided, however, to grant relief from ineligibility for farm program benefits to farmers who took action to drain the wetlands in reliance on the state ASCS committee's commenced conversion determination.

The National Wildlife Federation (NWF) filed an action in federal district court, challenging the authority of the ASCS to grant relief from the ineligibility provisions. The NWF argued that the only permissible exemptions were those found in the statutory provisions for swampbuster. The district court noted that the ASCS had not cited any specific authority in its decision to grant the relief and concluded that the ASCS was relying on a general good faith performance exemption provided in the price support program. 7 C.F.R. § 790.2. The district court held that the administrative record demonstrated a substantial basis to support DASCO's findings, and therefore, the ASCS decision to grant relief was not arbitrary, capricious, or an abuse of discretion.

The NWF appealed the district court's decision on the grounds that the only permissible exemptions to the ineligibility provisions of swampbuster are the statutory exemptions provided by swampbuster statute, 16 U.S.C. § 3822, and that therefore the ASCS exceeded its statutory authority in granting relief based on another statute. The ASCS contended that its authority to grant relief was found at 7 U.S.C. § 1339a. This section provides that the Secretary of Agriculture may accept a farmer's activities as meeting the performance requirements of the price support programs, if the farmer relied on the actions or advice of an authorized representative of the Secretary of Agriculture.

The Eighth Circuit declined to decide the case based on these statutory provisions. After the district court's decision in the case, Congress enacted the Food, Agriculture, Conservation, and Trade Act of 1990, Pub. L. No. 101-624, which substantially amended the swampbuster provisions. The amendments included a new statutory good faith exemption. Pub. L. No. 101-624, title XIV, § 1422 (as codified at 16 U.S.C. § 3822(h)). Under this exemption, violators of swampbuster are subject to graduated penalties, rather than complete ineligibility for farm program benefits, if the violators can meet the specific requirements for the good faith exemption.

The Eighth Circuit, on its own initiative, examined U.S. Supreme Court rulings on the issue of retroactivity of a law adopted after a district court decision but before resolution of an issue on appeal. After discussing contradictory rulings on the issue, the court relied on the holding of *Kaiser Aluminum & Chemical Corp v. Bonjorno*, 110 S.Ct. 1570 (1990), which provides that a clear congressional intent on retroactivity will govern.

Upon examination of the language and legislative history of the new swampbuster provisions, the court determined that the new swampbuster good faith exemption applies retroactively to the case. The good faith exemption provides that a person's ineligibility for farm program benefits may be modified by a less severe sanction, if the ineligibility is the result of "the conversion of a wetland subsequent to the date of enactment of this subsection [November 28, 1990], or the production of an agricultural commodity on a converted wetland subsequent to December 23, 1985." 16 U.S.C. § 3822(h)(1). The court found that this use of alternative dates, referring to activity that occurred before enactment of the 1990 amendments, clearly indicated a congressional intent to apply the new exemption retroactively. The court found additional support for this conclusion in the provision that the relief provided to a violator who meets the exemption requirements includes restoration of benefits withheld for violations that occurred prior to the date of enactment of the 1990 amendments. 16 U.S.C. § 3822(h)(3). The court also found a clear statement of retroactive effect in the House Conference Report accompanying the amendments.

The Eighth Circuit vacated the judgment of the district court and remanded the case to the Secretary of Agriculture for application of the new good faith exemption from a penalty of complete ineligibiltiy. Under the new provisions, a swampbuster violator may qualify for a graduated reduction in farm program benefits of not less thatn $750.00 nor more than $10,000.00, depending on the seriousness of the violation. 16 U.S.C. § 3822(h)(2). Before granting this reduction, the Secretary of Agriculture must

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Reverse engineering threats to trade secrets in biotech products

By Joseph Q. Kaufman

Introduction

Trade secret protection is growing more popular in areas involving new technologies and in areas of science where research outpaces development. Biotechnology research is one of these areas.

Some trade secrets in biotechnology innovations are susceptible to appropriation by improper means. Some states allow the "Misappropriation of Trade Secret" cause of action[1] while others have extended criminal liability to defendants who misappropriate trade secrets. However, it is well established that no action lies against someone who acquires another's trade secret properly.[2] The permissible ways to acquire a trade secret are independent discovery, accidental disclosure, and reverse engineering.[3]

What is a trade secret?

Trade secret law is state law. It has developed in a relatively uniform manner, which can be attributed to a common focus of state courts on the definition of trade secret provided by Restatement of Torts § 757, comment (b)(1939)[4] and later on the definition provided by the Uniform Trade Secrets Act.[5] Despite these two standards, development of state common law has continued. While there are numerous reported cases in states which are commercial centers, there are few, if any, cases in the less populous and more agricultural states. Some differences have been accentuated by state statutes intended to create greater protection for local holders of trade secrets.[6]

Restatement of Torts § 757, comment (b)

In 1939, the Committee on Torts of the American Law Institute set out in the Restatement of Torts an oft-followed definition of trade secret, which states in pertinent part:

> b. Definition of Trade Secret. 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 of or use it.[7]

The committee's non-exhaustive list of items that might be considered a trade secret included formulas of chemical compounds; processes of manufacture, treatment, or preserving materials; and such non-technical information as customer lists. These items must exhibit the same characteristic of being something used continuously in the business as opposed to being used for a single event. Under this definition, in order to establish a trade secret it must be shown that:

> (1) the information claimed to be a trade secret is subject matter that will be protected as a trade secret;
> (2) the information claimed to be a trade secret is not matter of common knowledge in the trade;
> (3) reasonable precautions have been taken to maintain secrecy;
> (4) it is of some value;
> (5) it has some definiteness, concreteness in reality.[8]

The Uniform Trade Secrets Act

In 1979, the Uniform Trade Secrets Act was approved by the National Conference of Commissioners on Uniform State Laws after deliberations over a ten-year period. The definition of trade secret set out in the Act 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.[9]

It has been noted that this definition applies more generally to information having the following attributes:

> (1) it derives independent economic value, actual or potential;
> (2) it is not generally known and is not readily ascertainable;
> (3) it can obtain economic value from its disclosure to other persons; and
> (4) it is subject of efforts that are reasonable under the circumstances to maintain secrecy.[10]

Despite differences between Restatement of Torts and the Uniform Act, most states, even those that have adopted the Uniform Act, apply the familiar elements of the Restatement of Torts.

The necessity of secrecy

No matter which definition a state chooses for trade secret, one element— secrecy— remains the same. Without secrecy, an innovation will not qualify or will lose trade secret protection. Without secrecy, the innovation's value disappears as a licensable technology. Under the diversity of state laws, the degree of ease with which a trade secret can be cracked has significance on two levels. The first level is on the threshold question of whether the innovation can be a trade secret. Some states determine that if the alleged secret is perceptible by observation, or may be obtained through reverse engineering, no matter how difficult, it will not qualify as protectable subject matter.[11] Another gradation of this rule is to allow trade secret protection despite the ability to reverse engineer the product so long as the analysis entails time, effort, and expense.[12] If one holds a trade secret in biotechnology innovations likely to be reverse engineered with some ease, it is advisable to seek other protection if the technology's application is expected to be long term.

The second level where secrecy is critical is the point when an existing trade secret is undermined by reverse engineering.[13] This has significance because it identifies for courts the appropriate amount of time to set for an injunction against misappropriators of similar technology. It is reasoned that the holder of a trade secret may be equitably protected for only the length of time it would take a competitors, after disclosure of the innovation, to develop a competitive product. This rule has been incorporated into the Uniform Act.

As noted, another requirement of trade secret status is for the holder to undertake reasonable precautions to maintain secrecy. If a trade secret may be reverse engineered or is the subject of a plethora of scientific research, the holder may be protecting the unprotectable. Although misappropriation of a trade secret is actionable, and even criminal in some cases, acquisition by proper means has been condoned from time immemorial.

What is proper appropriation of a trade secret?

Trade secret law does not protect against discovery by "fair and honest means," such as independent discovery, invention, accidental disclosure, and reverse engineering.[14]

Proper appropriation principles

Trade secret law attempts to maintain standards of commercial ethics and encourage invention.[15] It is easier to describe proper conduct by citing what it is not. To that end, the following are actionable wrongs identified by the cases and commentary:

> (1) breach of a confidential relationship;
> (2) breach of a contract resulting in unauthorized disclosure or use;
> (3) tortious interference with contractual relations; and,
> (4) misappropriation through theft or passing off a product as another's.[16]

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Under misappropriation theory, liability depends on the manner in which the defendant undermines the holder's trade secret and not the fact that it was undermined.[17] The courts have embraced a good sport principle when acknowledging proper appropriations. If a person engages in efforts to invent technology from scratch, courts chalk mimicked innovations up to scientific inquiry and fair competition. If a person comes onto a product and has the ingenuity to figure out its valuable secret, courts will not step in the way. Again, the reasoning is that to create a barrier to inquiry would chill development and potentially new technologies that may spring therefrom. Finally, if a person discovers a trade secret because the holder accidentally discloses it, the holder is given no relief. Before going too far afield with this good sport principle, it is important to recognize that the sky may be the limit. Courts have been persuaded by ethical arguments when holders have cried foul.[18]

Misappropriation does not necessarily involve criminal or even traditionally tortious conduct. In cases not involving a relationship or interference, conduct may be deemed wrongful because the court believes it is unethical; conduct that is so difficult and costly to protect against that the court holds it to be against public policy in this setting. The case most often cited to illustrate this point is the *E.I.duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971). DuPont was constructing a new plant to produce methanol using a secret process. During construction, the Christophers flew over the construction site to take pictures for some unnamed party. Because the plant was under construction, parts of duPont's secret process were exposed to view from directly overhead. According to duPont, if the pictures were examined by someone knowledgeable, their secret process would be discovered. The court decided that the pictures and the trade secret were acquired improperly, calling the flyover so improper as to amount to piracy. The court reasoned that "[c]learly... one of [the] commandments [of what is commercially improper] does say thou shalt not appropriate a trade secret through deviousness under circumstances in which countervailing defenses are not reasonably available.[19]

While the ethical limits apply, they seem to be cited more often in commentary than enforced in cases. It can also be observed that the ethical limits seem to apply only to accidental disclosures. Ethicists would like to see this fairness rule applied more evenly and have argued its applicability to reverse engineering.

Doubtful reverse engineering limits

Reverse engineering is the permissible duplication of a product by analyzing its component parts to determine how they are made. To qualify for protection initially, a trade secret is presumably not readily disclosed by the product itself. Rather, the products should be the fruits of the use of the trade secret. The law permits reverse engineering to peel away a secret so long as no improper means are used. The means by which to reverse engineer biotechnology products seem to be unlimited and developing quickly.

However, recall the *duPont* case. That court said it was unfair for a competitor to seek to appropriate a trade secret in a way in which a holder could not reasonably guard against. Ethicists argue that "as a short-cut to innovation, reverse engineering appears unattractive when raising fairness issues."[20]

> Remember, many of the technological and scientific secrets are gained after great expenditure of time, money, and effort. Courts relate to this language [that in *duPont*] such as "reverse engineering" is but one facet of the calculus of reasonableness.... In conformity with our emphasis on commercial morality... defendants should not be permitted a competitive advantage from their normal costs of invention and duplication.[21]

The *duPont* case element of fairness seems lost in a later case where a defendant obtained a list of key codes to a lock by advertising in trade journals and then making the list available to the public.[22] The court ruled that in the absence of a confidential relationship, this sort of commercial behavior was proper. Ethicists argue that this sort of judgment blurs the "rational underpinnings" of proper appropriation that have traditionally guided the court, fair play, and scientific advancement.[23]

At present it appears that fairness will not constrain reverse engineering of biotechnology innovations. Recognizing that such innovations may be subject to discovery it is important to note that products are easily reverse engineered, while processes are quite difficult to identify.

Biotechnology products held as trade secrets

Biotechnology innovations are popularly held as trade secrets due to uncertainty about treatment under patent and copyright statutes and even the extension of these protections to these innovations. Another element for deciding to hold the product as a trade secret is its marketable lifespan. In the immediately preceding section, a distinction was made between the ease of reverse engineering a product versus discovery of a process. This may be the most important factor and is illustrated in the following examples.

Examples of biotechnology products' immunity to reverse engineering

Because so many biotechnology products are held as trade secrets, a catalog of examples is not available. A few examples that have been commented on or over which legal battles have been fought follow:

1. Hybridoma technology

> Hybridoma technology permits the lab scientist to fuse a valuable but short-lived antibody-producing B-cell with an infamously immortal cancer cell to produce a hybrid cell that is something of a perpetually producing antibody factory. The objective is to produce large quantities of antibodies. The possibility exists of creating "magic bullets" of antibodies immunizing individuals against specific diseases....
>
> The purchaser of an antibody cannot without expense and trouble work back to the shape and genetic character of the hybridoma itself.... The purchaser of the antibody product has virtually no way of inferring that the factor of production used to extract the antibody was in the "shape" of a colony of hybridomas. It may just as well have been a colony of rabbits from whose organs selected antibodies have been repackaged and sold for human purposes.[24]

2. Inbred seed corn technology

Likewise the old but continuing technology of breeding seed seems unlikely to be subject to reverse engineering in the immediate future. In a recent case, the genetic message of an inbred line of seed cord was held to be a trade secret.[25] In the case the defendant posed the defense of reverse engineering to thwart plaintiff's allegations that he stole or induced a third party to breach a contractual agreement. After studying literally hundreds of technical documents, the court concluded that the defendant must have obtained the inbred lines by improper means. The court relied on electrophoresis and chromatography. Overall, the scientific data indicated that the defendant's claims that he reverse engineered plaintiff's hybrid seed to obtain

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his inbred varieties had very low probability. More important, the case stands as an example that reverse engineering of this particular biotechnology process is seemingly impossible at this point.

3. Recombinant DNA technology

Unlike earlier examples, recombinant DNA (R-DNA) technology is said to be so easily reverse engineered.[26] "Assume a trade secret process allows the [trade secret] owner to create two genetically novel microorganisms, A and B.... A and B probably cannot be protected as trade secrets themselves, since the use of DNA sequencing and DNA hybridization may well disclose their DNA code."[27] "The use of DNA sequencing or DNA-DNA hybridization is directly analogous to other forms of "reverse engineering," such as chemically analyzing a product to determine its ingredients...."[28]

Legal barriers

Despite appearances that trade secret protection seems uniquely suited for selected biotechnology innovations, science continues to advance rapidly. Is there any reason to believe that what seems impossible today will remain so in the future? Although it may be that only R-DNA technology and similar innovations are subject to reverse engineering today, future processes may unlock the secret of inbred seed and hybridoma processes.

Thus the perception that trade secrets in biotechnology innovations are threatened may become real. Several states have adopted legislation to specifically bar the practice of reverse engineering. These actions might also have been pressed by the technology industry in recognition that disclosure to government agencies may make their innovations easy to obtain under the FOIA given the narrow definition of "trade secret" in the District of Columbia circuit.[29]

Three potential legal barriers have been tested by states to encroaching reverse engineering technologies.

Removing reverse engineering as a proper means of appropriating biotechnology innovations.

The California Trade Secrets Act became law January 1, 1985 and is codified at Cal. Civ. Code §§ 3426-3426.10. Interestingly, the code omits the requirement of the Uniform Act that the trade secret "not be readily ascertainable." Commentators surmised that this may have indicated that reverse engineering was being taken off the list of proper means by which to uncover trade secrets.[30] However, a recent reverse engineering case does not support this prediction.[31] The California court explained that other statutory language, "not being generally known to the public or to other persons," does not require that the information be generally known to the public for the trade secret to be lost. The court commented, "there is no trade secret if someone who can obtain economic benefit from the information can procure it lawfully."[32]

Removing the bad faith element from trade secret misappropriation

The North Carolina Trade Secrets Act grants protection against good faith appropriators of trade secrets.[33] This approach may be viewed with enthusiasm by ethicists who would view it as applying the fairness doctrine. This form of protection can be challenged on grounds that it conflicts with the long-standing "open access once in the public domain" principle. This restriction also comes at the expense of innocent users of information.[34] "This will not improve commercial ethics or promote innovation, the state purposes of trade secret law. Rather, it may chill the utilization of information obtained legitimately."[35]

Label licensing

Label licensing is a contract technique now being applied to some unpatented biological materials. It is akin to the "shrink-wrap" licensing of computer software. Some biological materials are sold in sealed packages accompanied by a license that becomes effective when the buyer opens the pacakge. Terms of these licenses prohibit the use of the material commercially in specified areas, resale of the material, or modification or incorporation of the material for resale. Often terms provide the buyer with a mere right to use the material for limited purposes outined in the license agreement while the seller retains title to the material.[36]

Critics have also argued that this license applied to biological materials interferes with and is therefore preempted by federal patent and copyright law.[37] But the U.S. Supreme Court has recognized "all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* preempted by the federal patent laws."[38] Among the laws the court previously held were not preempted was state trade secret law,[39] and enforcement of remedies under state contract law to enforce licensing agreements.[40]

Thus, the label license on biotechnology innovations appears to be a successful method to curb reverse engineering. Only the future will reveal whether such licensing can stop reverse engineering in fact.

Conclusion

This article queried if biotechnology innovations were threatened by reverse engineering. It would appear that authorities worry about the potential as licensing agreements and state laws proposing to prevent this outcome have evolved and been upheld. It still may be argued that perceptions of a threat have leaped ahead of scientific abilities. Currently trade secrets in most biotechnology innovations appear secure. Trade secret law appears to be an adequate barrier against today's threats.

1 *The "Genetic Message" From the Cornfields of Iowa: Expanding the Law of Trade Secrets*, 38 Drake L.J. 631, 637-40 (1988-89)

2 *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974)

3 *Id.*

4 The Restatement was the basis for the common law of trade secrets in nearly every state until 1980, when Minnesota became the first state to adopt the Uniform Trade Secrets Act. The American Law Institute eliminated the trade secret provision from the 1979 edition of the Restatement after finding that trade secret law had developed into a separate body of law no longer wholly dependent on tort law. Restatement (Second) of Torts 1-2, introductory note (1979)

5 Unif. Trade Secrets Act, 14 U.L.A. 537 (Prefatory Note).

6 Borgman, *The Adoption of the Uniform Trade Secrets Act: How Uniform is Uniform?*, 27 Idea 73 (1986) (discussing the various forms in which states have adopted the Uniform Act)

7 Restatement of Torts, § 757, Comment (b) (1939).

8 For an exhaustive collection of cases, see Annotation, *What is a Trade Secret?*, 59 A.L.R. 4th 629 (1988).

9 *Supra* note 5

10 Hutter, *Legal Theories and Recent Developments, Protecting Trade Secrets*, 43, 52, P.L.I. Course Handbook Series No. 224, New York, N.Y. (1986)

11 Md. Ann. Code art. 56 § 157F (1988)(This statute expressly makes the feasibility of reverse engineering a primary factor for determining whether a trade secret interest exists in a chemical), Md Com. Law Code Ann. § 11-1201(e)(2). (The absolute secrecy rule). 12 Business Organizations, Milgram on Trade Secrets § 2.07[2](1983).

12 *General Business Sers. Inc. v. Ronse*, 495 F. Supp. 526, 530-31 (E.D. Pa. 1980), *Greenberg v. Croydon Plastics Co., Inc.*, 378 F. Supp. 806, 812 (E.D. Pa., *vacated*, 18 U.S.P.Q. (BNA) 27 (1974)

13 *Winston Research Corp. v. Minnesota Mining & Manufacturing Co.*, 350 F.2d 134 (9th Cir. 1965), *K-2 Ski Co. v. Head Ski Co.*, 506 F.2d 471 (9th Cir. 1974), *Brunswick Corp. v. Outboard Marine Corp.*, 79 Ill.2d 475, 404 N.E.2d 205 (1980); *Carboline Co. v. Jarboe*, 454 S.W.2d 540 (Mo. 1970)

14 *Supra*, note 2

15 *Id.*

16 Sadler, *Federal Copyright Protection and State Trade Secret Protection: The Case for Partial Preemption*, 33 Am. U.L. Rev. 667, 686-692 (1984)

17 *Id.* at 691

18 Weisner & Cava, *Stealing Trade Secrets Ethically*, 47 Md. L. Rev. 1076, 1119 (1988)

19 Although reasonable precautions against predators may be required, "an impenetrable fortress" is an unreasonable requirement which industrial inventors should not be burdened with in order to protect "the fruits of their efforts." *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016-17 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971)

20 Weisner & Cava, *supra*, note 18, at 1123

21 *Id.*, at 1222

22 *Chicago Lock Co. v. Fanberg*, 676 F.2d 400 (9th Cir. 1982)

23 *Supra*, note 18

24 Casey & Moss, *Intellectual Property Rights and Biotechnology*, 27 Idea 251, 255-256 (1987)

25 *Pioneer Hi-Bred Int'l., Inc. v. Holden Found. Seeds, Inc.*, No. 81-60-E, Slip op. (S.D. Iowa October 29, 1987)

26 Kayton, *Copyright in Living Genetically Engineered Works*, 50 Geo. Wash. L. Rev. 191, 194 (1982)

27 *Id.* at 193-94.

28 *Id.* at 194, n. 20.

29 *Public Citizen Health Research Group v. FDA*, 704 F.2d 1280 (D.C. Cir. 1983). In the District of Columbia, for purposes of FOIA actions, a trade secret is an "unpatented commercially valuable plan, appliance, formula or process which is used for making, preparing, compounding, treating or processing of articles or materials which are trade commodities."

30 Wylie, *Legal Theories and Developments in Trade Secret Law, Protecting Trade Secrets*, 45, 52-53, P.L.I. Course Handbook Series No. 254, New York, N.Y. (1986)

31 *American Paper & Packaging Products, Inc. v. Kiegen*, 183 Cal.3d 1318, 228 Cal. Rptr. 713 (Cal. App. 2 Dist. 1986)

32 *Id.* at 1326-27, 228 Cal. Rptr. at 718

33 N.C. Gen. Stat. §§ 66-152—66-158, *see* Root, *Abandonment of Common Law Principles. The North Carolina Trade Secret Protection Act*, 18 Wake Forest L. Rev. 823 (1982).

34 Korn, *Patent and Trade Secret Protection in University-Industry Research Relationships in Biotechnology*, 24 Harv. J. on Legis. 191, 236 (1987)

35 *Id.*

36 Breyner, *Protecting Trade Secrets in Biotechnology, Protecting Trade Secrets*, 495, 518 P.L.I. Course Handbook Series No. 269, New York, N.Y. (1989)

37 *Id.*, *see*, Kayton, *Copyright in Living Genetic Engineered Works*, 50 Geo. Wash. L. Rev. 191 (1982) (To the extent to which some biotechnology product may contain elements considered expression state trade secret law would be preempted by federal copyright law. However, for what gain? Copyright merely protects the expression, not the idea.)

38 *Bonito Boats, Inc. v. Thundercraft Boats, Inc.*, 489 U.S. 141 (1989)

39 *Supra*, note 2

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

NEW GOOD FAITH EXEMPTION/
CONTINUED FROM PAGE 3

determine that (a) the person seeking relief is actively restoring the wetland under an agreement entered into with the Secretary to fully restore the characteristics of the converted wetland to its prior wetland state as determined by the Secretary; (b) the person has not otherwise violated the swampbuster provisions in a previous ten-year period on a farm; and (c) the person converted the wetland, or produced an agricultural commodity on a converted w4etland in good faith and without the intent to violate the swampbuster law. 16 U.S.C. § 3822(h)(1).

Note that this opinion addresses only one of several challenges by the NWF to the ASCS administration of the swampbuster provisions. In another case pending before the Eighth Circuit, NWF is contending that the National Environmental Policy Act applies to ASCS decisions to grant swampbuster exemptions and that the ASCS must prepare an environmental impact statement before granting the exemption at issue, which involves drainage of some 1800 acres of prairie wetlands. *See* Appellents' Brief, *National Wildlife Federation v. Agricultural Stabilization and Conservation Service*, No. 91-2073 (8th Cir. filed Apr. 22, 1991); *see also National Wildlife Federation v. Agricultural Stabilization and Conservation Service*, 901 F.2d 673 (8th Cir. 1990)(previous decision in this case holding that NWF has standing to challenge ASCS actions under the swampbuster law).

—*Martha L. Noble, Staff Attorney, NCALRI, Fayetteville, AR*

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Federal Register *in brief*

The following is a selection of matters that were published in the *Federal Register* during the month of August, 1991. Unfortunately the issues for July never were reshelved in the library where I do the research for Federal Register in brief.

1. CCC; Food Agriculture, Conservation and Trade Act; implementation; proposed rule. 56 Fed. Reg. 40272.

2. APHIS; Animal welfare; violations; stipulation agreements. 56 Fed. Reg. 36128.

—*Linda Grim McCormick*

State Roundup

OKLAHOMA. *Corporate Farming Statute.* During the 1991 Oklahoma legislative session, the legislature adopted two amendments to the Oklahoma Corporate Farming statutes.

1. The legislature amended 18 Okla. Stat. section 951 to allow Oklahoma domestic farm corporations incorporated for the purpose of breeding horses to have up to twenty-five shareholders. Prior to the amendment, farm corporations could have no more than ten shareholders.

2. 18 Okla. Stat. section 954 sets forth activities that are exempt from the restrictions on corporate farming. The legislature amended section 954 to add as exempt engaging in poultry and/or swine operations such as operating hatcheries, and providing supervisory, technical, and other assistance to any other persons performing poultry or swine services for the corporation.

As a result of these two amendments (effective April 3, 1991), corporations and the corporate form can be used more widely in Oklahoma agriculture.

—*Drew L. Kershen, University of Oklahoma School of Law, Norman, OK*

IOWA. *Cooperative deferred patronage dividends not subject to set-off.* In *Mitchellville Coop vs. Indian Creek Corporation*, 469 N.W.2d 285 (Iowa App. 1991) the Mitchellville Cooperative (Coop) brought an action against Indian Creek Corporation (Indian Creek) , a family farm corporation, seeking an amount due on Indian Creek's open account. Indian Creek contended that the account should be set-off against the amount of Indian Creek's deferred patronage dividend, which was being held in the form of preferred stock.

Indian Creek contended that corporate members were disadvantaged because of the coop's preferential redemption policy wherein priority of payment of patronage dividends was first given to deceased natural members, then retired members over 65, then all other members. This policy reflected the statutory scheme of Iowa Code § 499.33 which provides that priority be given to deceased natural persons. Indian Creek contended that the failure of the Coop to provide a similar redemption policy for corporate members constituted a breach of fiduciary duty. (It should be noted that Indiana Creek was not defunct.) Indian Creek asserted an additional claim for breach of fiduciary duty for the Coop's alleged failure to disclose a conflict of interest growing out of the Coop's business dealings with a competing cooperative. As a remedy for this breach, Indian Creek claimed a right to an equitable set-off of Indian Creek's preferred stock against the open account.

The Court of Appeals affirmed an entry of judgment in favor of the Coop and held that cooperative patronage dividends represent an interest to be paid at some future date to be determined by the board of directors and do not represent an indebtedness of the cooperative which is due and payable or subject to being set-off against a sum due and owing from a member's open account. The court found support for the ruling in similar case from Kansas, Georgia, Illinois, Mississippi and California.

In response to the claim of preferential treatment, the court noted corporations are not natural persons within the meaning of the statute (IC SS499.33). Thus, in the absence of a by-law, or statute to the contrary a cooperative is not prohibited from prioritizing the payment of patronage credits among deceased natural members, retirees, and cooperations.

In a special concurrence, Judge Habhab expressed concern over the effect this holding would have on family farm corporations. He opined that since Indian Creek was not a "dead" corporation, it was unnecessary to rule on the question of the coop's right to prefer natural persons over corporations in the prioritizing of payment of patronage credits.

—*Keith D. Haroldson, Grefe and Sidney, Des Moines, IA*

AG LAW CONFERENCE CALENDAR

Farm, Ranch, and Agri-Business Bankruptcy Institute
October 17-19, 1991, Lubbock, TX
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October 18, 1991, University of Colorado School of Law, Boulder, CO
Topics include: The UN International Law Commission Draft Rules on the Non-Navigational Uses of International Watercourses.
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Penn State Income Tax Preparation Workshops
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