

TRADE SECRETS

I. WHAT IS A TRADE SECRET?

A. **Trade Secret:** Any information that can be used in the operation of a business or other enterprise that is sufficiently valuable & secret to afford an actual or potential economic advantage

B. Types of Information Commonly Protected

1. Customer lists
2. Instructional methods
3. Manufacturing processes
4. Formulas for producing products (Kentucky Fried Chicken recipe)
5. Computer programs
6. Research & Development (protocols, resources, materials, notebooks, data, manuals, reports, etc.)
7. Quality Control Programs
8. Training Programs & Techniques
9. Marketing Information
10. Sales Information
11. Financial Information

C. **Factors for Determining Whether Information is a Trade Secret** (these factors are a guide, rather than absolutely required)

1. Extent to which the information is known outside of the business
2. Extent to which information is known by employees & others involved in the business
3. Extent of measures taken to maintain secrecy of the information
4. Value of the information to the business & its competitors

5. How much investment has been made in acquiring or developing the information
6. Degree of difficulty a competitor would face in duplicating the information

D. Trade Secrets v. Patents

1. Trade secrecy provides much broader potential for protection than patent although patent provides stronger protection
2. Inventions & processes not patentable might be protected by trade secret law
3. Exercise: Ask students what information their business wants to keep confidential, then whether the information could be protected & to what extent under copyright, patent, trade secret or trademark law

II. WHERE DOES TRADE SECRET LAW COME FROM?

A. State Law

1. Trade secrets are primarily protected under [state law](#) (rather than federal law) in U.S.
2. [Uniform Trade Secrets Act](#): A model law adopted by about 40 states although some variation exists between states

B. Federal Law

1. [Economic Espionage Act](#) (18 U.S.C. § 1831-1839): Makes misappropriation of trade secrets a federal crime
 - a. [18 U.S.C. §1831\(a\)](#) criminalizes theft of trade secrets to benefit foreign powers
 - b. [18 U.S.C. §1832](#) criminalizes theft of trade secrets for commercial or economic purposes

III. HOW DO YOU MAINTAIN TRADE SECRET PROTECTION?

A. Businesses should implement procedures to maintain secrecy of important information

1. Must take reasonable steps to protect trade secrets. See [E.I. duPont](#)

deNemours & Co. V. Christopher, 431 F.2d 1012, 1015 (5th Cir,1970).

2. The more valuable the secret, the further you should go to protect it.

B. What are reasonable steps?

1. According to Supreme Court, “Because of the intangible nature of a trade secret, the extent of the property right therein is defined by the extent to which the owner of the secret protects his interest from disclosure to others.” *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002, 104 S.Ct. 2862, 2872 (1984).
2. “Depends on a balancing of costs and benefits that will vary from case to case and so require estimation and measurement by persons knowledgeable in the particular field of endeavor involved.” *Rockwell Graphic Sys., Inc., v. DEV Indus., Inc.*, 925 F.2d 174, 179 (7th Cir. 1991).
3. Example: Coca-Cola formula; *See Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288 (D. Del. 1985). Court held formula protected (formula was disclosed in discovery, but kept confidential).
 - a. Written version of formula kept in security vault in Atlanta bank; Can only be opened by resolution from Board of Directors
 - b. Only 2 employees know the formula at a time & only those persons oversee preparation of formula
 - c. Identity of employees with access not disclosed
 - d. Employees with access not allowed to fly on same plane at same time

IV. HOW LONG DO TRADE SECRETS LAST?

- A. Indefinite duration - as long as kept secret
- B. Protection lost if owner fails to take reasonable steps to keep secret

V. WHAT DOES TRADE SECRET LAW PROTECT AGAINST?

- A. Trade secret law only protects against misappropriation
 1. Courts will not protect against purposeful or careless revelations of information; they only protect against people and businesses who steal or misappropriate information

2. Does not prevent discovery by legal means:
 - a. Independent invention
 - b. [Reverse engineering](#) - taking something apart to figure out how it works & duplicate it.
- B. Does not prohibit former employee from using general knowledge, skills & experience acquired during employment, even in direct competition with former employer
- C. [Inevitable Disclosure](#)
 1. Recognizes that a company's ex-employee will inevitably disclose trade secrets to a competitor that hires the employee.
 2. Allows [preliminary injunction](#) before actual proof of disclosure.
 3. Allows employer to obtain legal relief based on threat of trade secret misappropriation by ex-employees.
 4. Valuable legal tool which can be used by companies to fight the threat of misappropriation by former employees.
- D. **Remedies for Trade Secret Infringement**
 1. [Injunction](#): The disclosure or use of trade secret information may be enjoined
 2. [Damages](#): May be measured by:
 - a. Profits lost due to the trade secret infringement
 - b. Royalties for the use of the trade secret information
 - c. Profits the infringer made from the trade secret infringement.

VI. **TRADE SECRET EVALUATION & PROTECTION**

- A. Companies should have written trade secret policies which should be followed. Such policies should usually include the following:

B. Identity Trade Secret Information

1. Make list of all information & categorize by types of information (manufacturing processes, marketing plans, customer lists, etc.)
2. By keeping written record, you have evidence of efforts to main secrecy

C. Develop Trade Secret Protection Plan

1. Develop protection plan for each type of information
 - a. Specific procedures depend on type of information to be protected
 - b. Take appropriate steps to secure information against unauthorized use & use exceeding authorization
2. Mark information with confidential notice
 - a. Make sure marked information is treated seriously
3. Store information securely
 - a. Locked filing cabinet or safe
 - b. If removed, should be returned promptly after use
 - c. Make sure locked up at end of each day
4. Restrict access to employees that need to know
 - a. Inform employees with access that information is protected as trade secret
 - (1) If unaware, may not be any obligation to keep secret
5. Photocopying policies
 - a. Limit copying
 - b. Keep records of copies made
 - c. Mark copies as confidential
6. Avoid inadvertent publication (revealing at trade shows, seminars, company tours, etc.)

D. Protecting Trade Secret Information Stored on Computers

1. Use Passwords
 - a. Trade secret information should be accessible only by use of passwords
 - b. Passwords should be changed frequently on a regular schedule
 - c. Master lists of passwords should be stored in locked rooms or cabinets to which there is restricted access
2. Use encryption software
3. Mark information confidential & limit access
 - a. Disks, printouts, manuals containing trade secret information should be marked "confidential" & kept in locked cabinets with access limited
 - b. If they are removed, promptly returned, stored and locked in designated locations at end of each business day

E. Trade Secrets & the Internet

1. Do not make important confidential information available on Internet or Intranet (use only on separate non-networked computer).
2. Never post on Internet - makes information publicly known, resulting in loss of secrecy
 - a. Internet is a public forum, once trade secret is posted, can be used by innocent third party
 - b. If misappropriated and posted, only person not allowed to use is party who misappropriated
3. Inform everyone with access that information is not to be posted or transmitted via Internet
 - a. Warn employees not to disclose confidential information even to other employees via e-mail
 - b. Can be inadvertently sent to unauthorized people not bound by confidentiality

- F. [Non-Disclosure Agreements](#) (NDA)
1. Contract stating employee or independent contractor will not use trade secrets for own benefit or disclose to others
 2. May be part of general employment contract or separate
 3. Often signed by employees at time of hiring
 4. Employees generally under duty to protect confidential information of employer even w/o contract
 5. Well-drafted NDA may protect all confidential information, even non-trade secret information

VII. **INTERNATIONAL PROTECTION & ENFORCEMENT**

- A. Globalization of commerce requires even small companies to protect trade secrets on an international basis.
1. By failing to protect trade secrets, companies that do business abroad sacrifice competitive advantage
- B. Trade secrets are recognized by most countries although the degree of protection varies somewhat.
- C. **International Trade Secret Agreements**
1. [North American Free Trade Agreement](#) (NAFTA)
 - a. U.S., Mexico and Canada are members
 - b. NAFTA largely follows U.S. trade secret law
 - c. A trade secret under NAFTA is defined as commercially valuable information, which is not publicly known and the owner of which takes reasonable steps to maintain the information's secrecy.
 - d. Members agree to protect trade secrets & prevent unauthorized acquisition & use of trade secrets.
 - e. Injunctions as well as monetary remedies are required

2. General Agreement of Trade & Tariffs (GATT)

- a. All major industrialized countries are members
- b. GATT created the World Trade Organization (WTO) which is responsible for the development and administration of agreements and programs for improvement of world commerce.
- c. WTO established an administrative procedure for resolving trade secret disputes.

3. Trade Related Aspects of Intellectual Property (TRIPS)

- a. WTO implemented the TRIPS Agreement which is designed to protect intellectual property rights on a worldwide basis.
- b. TRIPS provides for international protection of trade secrets & other IP.
- c. Member countries must follow standard requirements for what constitutes trade secrets, infringements and remedies