

THE IMPORTANCE OF TRADE SECRET PROTECTION

By: Robert H. Thornburg

In the field of Intellectual Property, the law of trade secrets often takes a back seat to patent law. However, trade secret protection affords various advantages that patent protection fails to encompass including potentially infinite protection, yet it requires less of an initial capital investment to secure protectable rights. Often, it is a claim of trade secret misappropriation that yields the higher monetary damage award, rather than a patent infringement cause of action. Despite this, practitioners often look upon trade secret protection as a secondary consideration in counseling clients.

In the digital age, trade secret misappropriation has become rampant. With flash drives and CD burners, the ease of disseminating large amounts of electronic information in a small package has created new complexities and pitfalls in protecting trade secret rights. A customer or pricing list can walk out the door on someone's key chain, without anyone ever knowing – until it is simply too late. Once a trade secret is lost, it is lost forever. In today's digital world, losing one's trade secrets can happen at anytime, with little warning, and sometimes with no redress unless proactive steps are taken.

In patent protection, the U.S. Patent & Trademark Office evaluates a technology and then bestows a limited monopoly right, which can be later enforced. Once a patent is issued, it constitutes a public document that competitors can use to ascertain if they infringe. On the contrary, the trade secret right is the reverse. The information is maintained as a secret, and its bounds are defined only through litigation. In addition,

whether information constitutes a trade secret is determined in the litigation stage, rather than by a prior government review process.

Because of these unique characteristics, proactive measures must be maintained throughout the life of a trade secret. With the addition of automation and information technology, clients also need to adopt protocols that ensure that the rights are preserved and can be later enforced should misappropriation take place. In essence, client counseling in this digital age may be the difference in maintaining the value and enforceability of your client's most cherished information. This article seeks to outline the common law origins and statutory history of trade secret law. It also seeks to provide a general non-inclusive list of steps to suggest to clients which could help ward off misappropriation of electronic data.

WHAT IS A TRADE SECRET?

Trade secret law is largely a creature of the common law. Before 1979, only Chapter 757 of the Restatement (Second) of Torts provided guidance in defining what a trade secret is, and what constitutes a misappropriation. However, in 1979 the Uniform Trade Secret Act (USTA) was proposed by the National Conference of Commissioners on Uniform Laws. As of the writing of this article, 42 of 50 states have enacted the USTA or a modified version. Variations pervade state enactments of the USTA, and these differences make trade secret law very state specific. The most on-point federal statute that is directed to a federal cause of action lies in the Economic Espionage Act of 1996. The following provides a general overview of both the Restatement and USTA.

A. Restatement (Second) of Torts, Chapter 757

Under Chapter 757, a party is liable for trade secret theft if that person discloses or uses, without privilege to do so, any of the following:

- (a) the information is obtained by improper means;
- (b) disclosure or use constitutes a “breach of confidence;”
- (c) the secret is learned from a third party with notice that it was secret or discovered through improper means; or
- (d) the secret was disclosed with notice of facts that it was a secret and disclosure was made by mistake.

An inherent policy found in the Restatement (Second) is that there exists a “privilege to compete” with others by adopting their publicly known business methods, ideas, or processes. However, development of new ideas and information that bestow a competitive advantage can be protected, if kept reasonably secret. The Restatement centers on preventing acts of improper procurement and defining “improper means,” rather than identifying what is a trade secret. Unlike the federal patent grant, which is limited to a period of years, the Restatement asserts that trade secret protection can be both infinite and constitute a broader subject matter than what is defined under the Patent Act. For example, a trade secret need not possess novelty.

Under Comment B of Chapter 757, a trade secret is defined as “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.” Examples given of trade secrets under the Restatement include:

- (1) Chemical compounds;
- (2) Customer lists;
- (3) Manufacturing processes;
- (4) formula for a material; and
- (5) Pattern for a device.

Unlike the later adopted UTSA, the Restatement requires a trade secret be “used” and already provides “an advantage over competitors.” Another nuance, required is “continuous use” of the information “in the operation of the business.”

Apart from use, the underlying subject must be “secret.” Information generally known within the public or within a specific industry cannot give rise to a protectable trade secret right. Factors to be considered to ascertain if information is “secret” include:

- (1) extent to which the information is known outside of the business;
- (2) extent to which it is known by employees and others involved in the business;
- (3) extent of measures taken to guard the secrecy of the information;
- (4) amount of effort or money extended to developing the information; and
- (5) ease or difficulty with which the information could be properly acquired or duplicated.

Put simply, any information that can be “reverse engineered,” by taking apart a publicly sold product, machine, or process is not sufficiently secret to afford trademark protection.

B. Uniform Trade Secret Act (UTSA)

Much broader in definition and effect compared to the Second Restatement, the USTA provides more comprehensive view of trade secret law. Under the USTA, misappropriation is defined as:

- (i) 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
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who:

- (A) used improper means to acquire knowledge of the trade secret;
- (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (i) derived from or through a person who has utilized improper means to acquire it; (ii) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iii) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

While lengthy, the definition of what acts can constitute a misappropriation or actionable claim are much more expansive than found under Restatement.

Similarly, the UTSA provides a much broader definition of a trade secret to include information that not only has value to competitors, but also potential value. The USTA definition states that “a trade secret includes information including a formula, pattern, compilation, program, device, method, technique, or process that is (i) sufficiently secret to derive economic value, actual or potential, from not being generally known to others; and (ii) is the subject of reasonable efforts to maintain secrecy.” The term “reasonable efforts” has been a subject of much debate and is often a central issue in trade secret disputes.

One of the most valuable aspects of the UTSA is that it provides injunctive relief for both “active or threatened misappropriation.” Such an injunction can be not only to prevent the use of a trade secret, but may also be fashioned to require “affirmative acts to protect a trade secret” from disclosure or dissemination. However, the uniform act includes the caveat that these injunctions do not last forever. Upon application to the

court that issued such injunction, it can be terminated after a reasonable period of time upon a showing that the information is now known, or has been disclosed.

In addition to the right of injunction, the UTSA also includes provisions directed to monetary damages and awards of attorney fees. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. If willful and malicious misappropriation exists, the court may award exemplary damages in the amount not exceeding twice any damages award. Finally, if (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.