

TRADE SECRETS OVERVIEW



LEGAL AUTHORITY FOR TRADE SECRETS

Protection of trade secrets in the United States is largely a matter of state law, enforceable in state and federal courts. Every state recognizes some form of trade secrets. All states, except Massachusetts and New York, as well as the District of Columbia and the United States Virgin Islands, have adopted a version of the Uniform Trade Secrets Act (“UTSA”). In most instances, states have adopted this model legislation with little or no changes.

Federal statutes protect trade secrets only in limited circumstances and there is no federal regulation of trade secrets.



TRADE SECRET SUBJECT MATTER

Trade secret protections apply broadly to business, financial, and technical information (such as client lists, marketing plans, pricing and discount structures, production processes, chemical formulas, and software source code) that generally meets the following criteria:

- The information is not generally known or ascertainable outside of the owner's organization and control.
- The owner derives economic value or business advantage from the information not being generally known.
- The owner makes reasonable efforts to preserve its secrecy.

Certain trade secrets may have independent protection under copyright laws or can be the subject matter of patent applications. For example, computer source code, which can be protected as a trade secret, may also be protected by copyright and can embody a patentable invention. However, trade secret protection may be lost if the copyright in the source code is registered (that is, at least some portion of the literal source code has been deposited in the Library of Congress as a condition for registration) and will be lost if a patent is issued on the software program (or if the patent application is published).

HOW TRADE SECRET RIGHTS ARE SECURED AND MAINTAINED

No official registration procedure for trade secrets exists. Rights are secured and maintained solely by the owner making reasonable efforts to preserve the secrecy of the information:

- Within the owner's organization (including employees and independent contractors).
- Among selected third parties that have a need to use or review the information, such as customers, suppliers, lenders, joint venture and merger partners, and prospective acquirers.

This is typically accomplished by applying appropriate security measures at the owner's facilities and computer networks, and through the use of written confidentiality agreements. No legal notice must be attached to trade secrets. However, it is advisable to mark documents as "secret" or "confidential," both to demonstrate the owner's efforts to preserve secrecy and to discourage misappropriation by giving actual notice.

TRANSFER OF TRADE SECRET OWNERSHIP

Title in trade secrets can be transferred for value. An assignment takes the form of an agreement (preferably written) that obligates the assignor to disclose the trade secrets to the assignee, and to not use the trade secrets or disclose them to any other party after the transfer of ownership to the assignee.

SCOPE OF TRADE SECRET RIGHTS

Owners of a trade secret can bring claims for misappropriation of the trade secret, other than as the result of some action or inaction by the owner. Such misappropriation can occur, for example, by: a current or former employee's misuse or improper disclosure of the information; physical or electronic theft of documents; or breach of a valid confidentiality agreement. Trade secret protection generally lasts until the subject matter of the trade secret becomes publicly available or until its owner no longer derives economic value from its secrecy.

TRADE SECRET ENFORCEMENT

The owner of a trade secret has a state law cause of action for misappropriation based on either of the following grounds: the defendant acquired the trade secret by improper means or with knowledge or reason to know that it was acquired improperly; and, the defendant disclosed the trade secret without the owner's consent.

The following defenses can be asserted in an action for misappropriation: the information was in the public domain (that is, not secret); the information was not communicated in confidence or the plaintiff neglected to take reasonable efforts to keep the information confidential; and the information was obtained from a third party without the defendant knowing or having reason to know that the information was confidential.

The following remedies typically are available for misappropriation of trade secrets: preliminary and permanent injunctions against further use or disclosure; direct damages or an accounting of the defendant's profits; and, attorneys' fees.