Lecture 3: Trade Secrets and Duties of Confidentiality

• Introduction
  – What is Intellectual Property?
    • Patents
    • Trademarks
    • Copyrights
    • Trade Secrets

Why Trade Secrets?

• Why use/not use trade secret protection over other forms of Intellectual Property Protection?
  – Consolation prize?
  – Coca-cola
  – Unlimited duration
  – Patents let the cat out of the bag
  – Generally legal rights not as strong as patents

What is a trade secret?

• Historical Background
  – Trade Secrets governed by state law not federal law
  – 50 different paradigms of trade secret law
    • state statutes and common law
    • Restatement of Torts
  • Uniform Trade Secret Act
**Definition of Trade Secret**

According to Restatement of Torts

“A trade secret is any formula, pattern, device or compilation of information which is used in one’s business, and which gives him/her an opportunity to obtain an advantage over competitors who do not know or use it.”

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**Six factors to be considered in determining whether given information is a person’s trade secret – Restatement of Torts**

1. The extent to which the information is known outside of his/her business
2. The extent to which it is know by employees and others involved in his business
3. The extent of measures taken by him/her to guard the secrecy of the information
4. The value of the information
5. The amount of efforts and financial resources expended in developing the information
6. The ease or difficulty with which the information could be properly acquired or duplicated by others.

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**Uniform Trade Secret Act (UTSA)**

- Adopted by 41 states (including Florida) and counting
- Has served to mitigate the problems and complexities caused by having 50 different state trade secret statutes
Definition of Trade Secret under the UTSA

“Trade Secret” means information, including a formula, pattern, compilation, program, devise, a method, technique, or process, that:
1) derives independent economic value, actual or potential from:
   (a) not being generally known [to persons who can use and obtain economic value from its disclosure or use]; and
   (b) not being readily ascertainable by proper means by other persons who can use and obtain economic value from its disclosure or use; and
2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

A. Concreteness/Specificity Requirement

- Under the Restatement of Torts there is a traditional requirement that a trade secret be more concrete than an idea, theory, possibility or emotion, and relatively specific in its intended implementation. The UTSA does not mention a requirement of concreteness/specificity leaving the option to apply to the individual state courts
  – see ECT International Inc. Wisc. Ct. App., No. 98-2041, 5/19/1999
  – Always a good idea to have a written form of trade secrets intended to be protected

Non-exhaustive list of examples of eligible trade secrets

- an idea for a new type of product or a new website
- diagrams or source code disclosing how a new software program works
- a company's plans to launch a new product line
  - “negative know-how” – information learned during the course of research and development on what not to do or what does not work optimally – for example, research revealing that a new type of drug is ineffective
- a list of customers ranked by how profitable their business is
  - A source of much litigation yielding differing results
B. “…not generally known…”

Does not mean generally known to the public, but rather, if the persons who can obtain economic benefit from the information are aware of it, there is no trade secret. See UTSA comment to section 1.


C. “…not readily ascertainable by proper means…”

UTSA defines improper means to include theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electron or other means.

*DuPont case* (E.I DuPont v. Christopher 167 U.S.P.Q. 1 (5th Cir. 1970)

C. (cont.)

• Is reverse engineering or independent discovery improper means?

D. “…reasonable efforts to maintain secrecy.”

- Precautions to preserve secrecy are typically categorized as procedures for
  - (1) security, to prevent intrusion by outsiders, and
  - (2) confidentiality, to identify secret information to, and secure obligations of confidentiality from, insiders and business contacts.

D. (cont.)

(1) Security: what precautions are reasonable?
  - *DuPont* case revisited
    - “Reasonable precautions against predatory eyes we may require, but an impenetrable fortress is an unreasonable requirement”
  (2) Confidentiality...

Practical precautionary steps:
- Coca Cola revisited
- Marking documents containing trade secrets “Confidential”
- Locking trade secret information away after business hours,
- maintaining computer security and limiting access to secrets to people with a reasonable need to know.
- Non-disclosure agreements
Duties of Confidentiality:
Use of Disclosure by Employees and Former Employees

A. In the absence of an express agreement:
   – Even in the absence of an express agreement to retain trade secrets in confidence, and employee has a duty not to use or disclose his/her employer’s trade secrets
   1. Pre-existing trade secrets disclosed to the employee: If the employer discloses a pre-existing trade secret to the employee within the scope of his/her employment, an implied agreement will be found on the employee’s part not to use or disclose the trade secret without the employer’s permission

A. (cont.)

2. Trade Secrets created by the employee:
   – Property of the employer or the employee?
     – A trade secret created by an employee will nonetheless be the property of the employer if the employee was hired especially to do research of the type that lead to the creation of the trade secret and the employer put substantial time and resources toward the development of trade secret.
     – If not especially hired to research or develop subject matter in the field of the trade secret and no substantial financial resources expended by the employer to develop trade secret, the trade secret belongs to the employee and he/she will have no duty to refrain from disclosing or using the trade secret

A. (cont.)

Shop rights: If the employee was not specifically hired to do research or development of trade secrets, but nonetheless created a trade secret related to the employer’s business during working hours or with the employer’s equipment or materials, the employee will be the owner of the trade secret, and will no duty to refrain from using or disclosing it, but the employer will have a “shop right” in the trade secret. A shop right is an irrevocable, non-exclusive, non-assignable right or license, to use the trade secret in the employer’s business without paying a royalty.
B. Express Agreements

- Commonly employers require that employees expressly agree not to use or disclose any trade secrets belonging to the employer. The employer may also require an employee to sign an agreement assigning in advance all trade secrets that the employee may develop during his or her employment to the employer. Thus, even though a trade secret would belong to the employer under common law, the assignment will give title to the employer and the employee will have a duty to refrain from using or disclosing it without permission.

Misappropriation of Trade Secrets

- Use or Disclosure of Trade secrets obtained by improper means.
- USTA defines improper means to include theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electron or other means.
  - Consider the following example…3H

Remedies for Misappropriation

- Injunctions—court order to cease use
- Damages—what is the extent of damage caused by misappropriation—bring in the accountants.
  - Lost profits
  - reasonable royalty
  - defendant’s profit
- Criminal prosecution—jail time: in Florida and other states stealing trade secrets is a criminal offense