

TRADE SECRET PROTECTION – A PRIMER

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TRADE SECRET DEFINITION

A trade secret is defined as: “Information, including a formula, pattern, compilation, program, device, method, technique, or process, that 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 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

DURATION OF A TRADE SECRET

The owner of a trade secret has the right to use the trade secret as long as it remains a secret. Consequently, trade secret protection can last forever.

Trade secret protection is only lost when another party independently discovers the secret by legitimate means (e.g., reverse engineering) or the secret somehow becomes public knowledge.

DETERMINING THE EXISTENCE OF A TRADE SECRET

With respect to any piece of information, there are three basic questions that help determine whether or not a trade secret exists: whether the subject sought to be protected is a secret (i.e., not generally known to other persons); whether the information is novel or otherwise deserving of protection; and, whether the information gives its owner a commercial advantage over those who do not know it.

SECRECY REQUIREMENT

Information cannot be considered a trade secret unless it is a secret known only by the owner or by those authorized by the owner to know it. The owner must keep the information secret both internally with respect to his or her



JACOB C. REINBOLT

employees and externally in his or her dealings with the public.

INTERNAL SECRECY

Factors that demonstrate the “internal secrecy” requirement has been satisfied include the following:

1. Having employees that handle confidential materials sign nondisclosure agreements;
2. Restricting disclosure or confidential material to those who need to know;
3. Physically securing computer equipment and other places where the secrets are kept;
4. Placing “confidential” and other similar proprietary notices on all important documents;
5. Keeping track of the number of copies that are made;
6. Properly destroying documents and magnetic media so they cannot be illicitly discovered by competitors.

The above list is not exhaustive. “Internal secrecy” is a relative concept.

EXTERNAL SECRECY

Trade secrecy law does not prohibit the examination of products obtained without restriction (i.e., without

restrictions in a purchase or license agreement) on the open market to discover any “secret” contained in them. Such “reverse engineering” is an accepted business practice. Reverse engineering is legal as long as no copyright, patent, or trademark law is violated, and no contractual restrictions for the protection of trade secrets are violated.

Because reverse engineering is legal, if a product is sold or leased without restriction it will contain very little trade secret protection since the trade secrets can be discovered by anyone who has the ability to disassemble the program. Consequently, if you want to retain trade secrets in a product that you distribute you must take steps to protect it. Examples of such protective steps include:

1. Use of a license agreement that grants the licensee only a limited right to use the product;
2. Contractually prohibiting the resale or distribution of the product;
3. For software, distribution of the object code only with a restriction that the licensee will not attempt to reverse engineer the software; and
4. Use of proprietary and other confidential notices on the packaging.

NOVELTY REQUIREMENT

To be entitled to trade secrecy protection, the information must be novel, original, or unique. This is because matters of public knowledge cannot be appropriated by one as his or her secret.

Discovery of the Trade Secret By Others

If a third party honestly discovers the trade secret through his or her own means, or if the trade secret owner negligently reveals the trade secret, trade secrecy protection is lost. Thus, if a trade secret owner alleges misappropriation, he or she must prove

that the third party obtained the trade secret wrongfully.

Jacob Reinbolt's practice emphasizes computer law, intellectual property (trademark, copyright, trade secret, and

patent), Internet law, licensing, entertainment, publishing, the arts, advertising, securities law, franchising, corporate law, and mergers and acquisitions. Mr. Reinbolt has particular ability in the needs of software, technology, and emerging and rapidly

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