The Dirty Secret About Trade Secrets

by Brad Barger

The idea of a trade secret evokes thoughts of Coca-Cola's famous secret recipe with its very own dedicated vault or Colonel Sanders' secret recipe for fried chicken. Trade secrets are the oldest form of intellectual property available to business owners and inventors. The concept of a trade secret is simple – if you have a great idea and can monetize it without disclosing the idea then you can potentially have a permanent monopoly of that great idea. Unfortunately, like any interesting secret, trade secrets can be very hard to keep.

The Uniform Trade Secret Act defines a trade secret as being "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) 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 (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." In other words, once it is clear that a trade secret exists, reasonable efforts must be implemented in order to maintain the trade secret protection. It is not practical to follow the example of Coca-Cola and install a custom-made, dedicated vault to protect every trade secret. Instead, companies must purposefully identify valuable trade secrets and create reasonable procedures to ensure that the trade secrets remain protected.

While the circumstances surrounding each potential trade secret are unique and may require different reasonable efforts to protect the trade secret, there are several baseline protections that should be in place. First, every person with access to the trade secret should be under a non-disclosure agreement. Typically, these agreements can be incorporated into employment agreements, but care must be taken to ensure that independent contractors and other third-parties are also under agreement prior to them being given access to the trade secret. Second, as much as possible, access to the trade secret should be limited to those individuals who need to know the trade secret in order to carry out their work. Importantly, an "intent" to keep something a trade secret will not make up for a lack of "reasonable" efforts.

There are a number of common mistakes that business owners and inventors make that result in the loss of trade secret protections. A somewhat common error made by inventors or

the owners of trade secrets is to allow public access to a facility, source code, or device where the trade secret is being put to use. This is especially detrimental when the trade secret might be discoverable by observations made of the disclosed material. Commentary to the Uniform Trade Secret Act and the courts agree that reverse engineering is a permissible means to discover a trade secret. Consequently, if a product or service that utilizes a trade secret is provided to the public, the only remaining protection that the trade secret may have is the expense required to perform the reverse engineering.

Another mistake made by business owners and inventors is not establishing procedures around the disclosure and handling of the trade secret. Typically, as a greater number of individuals are given access to a trade secret, it becomes more important to properly limit access to the trade secret by consistently marking materials related to the trade secret as "confidential" and validating individuals who access the trade secret. As an example of a potentially required "reasonable" effort to protect a trade secret, at a large organization with thousands of employees, it may be necessary to require employees to wear identification badges so that non-employees can be easily identified and barred from accessing the trade secret. Alternatively, it may be reasonable to require that the trade secret only be accessed or used within a private, locked room or building that only approved individuals can access.

As a further step in limiting access to a trade secret, it is important to show that trade secret information that is no longer needed is destroyed. This may require regular audits of trade secret information to ensure that old plans, formulas, communications, etc. are properly destroyed. Many trade secret cases have arisen based upon information that was retrieved from the discarded trash of a competitor.

Companies and inventors often do not realize how hard it is to keep a secret. It is all too common that information is not properly protected, employees are not properly trained, or the trade secret itself is not even identified until it is too late. Without fully considering the implications, a client list may be shared with a customer or trade partner, a formula or algorithm may be described in an academic paper, a product ripe for reverse engineering may be sold, or a public tour may be given of a work site. In many cases, the trade secrets

are not even identified at the time they are lost. Instead, companies and inventors are left frantically trying to put the cat back in the bag after a competitor begins using information that the company or the inventor had not even considered trying to protect.

It is important to consider both the costs and benefits of protecting an idea as a trade secret. The first consideration that should be made regarding trade secret protection of an idea is whether it is feasible to protect the idea from public disclosure. For example, if the trade secret will be readily apparent to customers or susceptible to reverse engineering then trade secret protection is likely not a good choice. Similarly, if a competitor is likely to independently arrive at the trade secret then trade secret protection will not provide any market advantage over that competitor. Finally, a trade secret will have little value if a company or organization is unable to exert reasonable efforts to maintain the secrecy of the underlying idea.

As an additional consideration – oftentimes a patent can be used to protect the same idea as a trade secret. While a patent is limited to a roughly 20-year term (in comparison to the potentially unlimited term of a trade secret), a patent prevents anyone else from using the inventive concept regardless of whether they obtained the idea by proper or improper means. In this way, a patent provides greater protection than a trade secret and also allows the owner to publicly disclose the idea without fear of losing protection. As such, if an idea is only likely to provide economic value for 20 or fewer years, it may be best to pursue a patent application instead of trade secret protection.

While trade secrets certainly have an important place in any intellectual property portfolio, it is important to be proactive identifying trade secrets and establishing reasonable procedures to maintain their secrecy. In far too many cases, potential trade secrets are not identified until they have already been disclosed and lost. Even in circumstances when trade secrets are identified, reasonable efforts are often not put into place to protect the trade secret. The dirty secret about trade secrets is that inventors and companies often underestimate the difficulty of keeping a secret.