Another form of intellectual property

Trade Secrets: Are Yours Protected?

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The impetus for this column came from a January 19 front page article in *USA Today*, "Does your company own what you know?" The article discusses employers' use of confidential information and non-compete agreements and the need to balance employers' rights with workers' rights to make a living. In reading the article, I realized that trade secrets are a form of intellectual property and that a column on the subject would complement my prior columns on patents, trademarks and copyrights. In fact, the books that I reviewed on patents include discussions of trade secrets.

What's a trade secret?

Trade secrets, or "know-how," are at the core of our business existence. The Uniform Trade Secrets Act defines trade secrets as "information, including a formula, pattern, compilation, program, device, method, technique or process that derives independent economic value from not being generally known and not being readily ascertainable and is subject to reasonable efforts to maintain secrecy." While intangible, they are nevertheless property with potentially significant value. The list includes the information needed to run a profitable business and may include customer and supplier lists, designs, product formulations and manufacturing processes.

However, the Act also stipulates that reasonable efforts be made to protect the secrecy of the information. Legal protection is generally lost when the owner fails to keep the information a secret.

Protecting your trade secrets

Until recently, trade secrets were protected by state law. The Uniform Trade Secrets Act has been adopted with minor modifications by 38 states and relies on common law principles. The Economic Espionage Act of 1996 makes stealing trade secrets a federal crime punishable by up to 15 years in prison and fines up to $5 million. By passing this legislation, Congress recognized the importance of know-how to our economy. Finally, in the international arena, trade secrets are protected under the provisions of the General Agreement on Tariffs and Trade (GATT), an agreement signed by most industrialized countries.

Prior to the Economic Espionage Act, courts had relied on provisions in the 1934 National Stolen Property Act when dealing with theft of know-how. Prosecution was often difficult since the Act pertained to "goods, wares, or merchandise" transported in "interstate or foreign commerce." Trade secrets often failed to meet the tangible property test.

At the corporate and individual levels, trade secrets are generally protected by employment contracts or non-compete agreements for key personnel, and with confidentiality agreements when disclosure of important know-how is necessary in the conduct of day-to-day business. To accord the protection, most agreements generally require trade secrets to be labeled as confidential.

Trade secrets are protected from the moment of conception as long as they are maintained secret. The protection lasts as long as they have economic value to their owner and continue to be kept secret. The protection can be lost through careless acts, such as demonstrating an idea or concept at a conference or requesting opinions from outside colleagues without executing proper confidentiality agreements.

It is very important to recognize that the only legal recourse that exists is for misappropriation of a trade secret. Nothing protects infringement of a secret if the know-how was obtained through legitimate means. Independent development of a process or formula by outsiders entitles them to use the results of their labor.

Trade secrets are intangible. They should be regarded as corporate assets, with a real value associated with the collective know-how of employees. Like patents, know-how can be licensed to others. In fact, since patents represent publication of processes or inventions, companies may elect not to patent an invention, but maintain it as a trade secret. Alternatively, know-how associated with an invention which has been patented may be licensed along with the patent, especially specifics of how to manufacture, special tooling requirements and special material requirements.

Protecting this special corporate asset

requires a conscious effort and should be part of a corporate intellectual property plan. All employees with access to corporate know-how should be required to sign non-disclosure agreements (NDA's). Key employees should also sign employment agreements which stipulate ownership of inventions or improvements to existing processes. Non-compete agreements, while often used, are difficult to enforce. In fact, they are not enforceable under some state codes. The *USA Today* article singled out California as not allowing non-compete clauses.

Distinguishing trade secrets

The major difference between trade secrets and the other forms of intellectual property is that the latter are registered with government agencies; infringement is protected by federal statute. As discussed above, trade secrets are only protected from theft or other misappropriation.

As an example, let us consider a novel dispensing nozzle. Features of the nozzle design may be protected by one or more patents. The shape of the nozzle, if it is unusual, may be protected by a design patent. If the shape is also used to identify the product, it may be protected by a trademark. User manuals for the nozzle should be copyrighted. Finally, the process of manufacturing the nozzle, development of special tools, and supplier and customer lists are all trade secrets.

Another interesting aspect of trade secrets is that there can be a disconnect between a company's developmental efforts and current market needs. For example, I recently worked on a patent case involving a product that had been developed a decade earlier. Detailed engineering drawings and product plans had been shelved because there was no market for the product. As environmental rules changed, a competitor brought a similar design to market. At that point, the original designs were unshelved and a new product introduced.

During my work on that case, I found a 1986 study report by the Industrial Research Institute on the prevalence of shelving good ideas, maintaining them as trade secrets and unshelving them as market trends or regulatory requirements change. The study found this to be common practice, but cautioned that shelved ideas need to be regularly reviewed to optimize commercialization success. My own experience indicates that this review must consider changing technologies in the areas of computers, electronics and instrumentation, because yesterday's good ideas may become today's great products when coupled with other advances.

Hedy Lamarr's patent

A short story in the April 2000 issue of *Popular Science* is an extreme illustration of what can happen when product development, trade secrets and patents are not strategically planned along with product marketing. According to the article, actress Hedy Lamarr and composer George Anthell developed a method of sending synchronized signals on different wavelengths as a way of defeating the jamming of Allied radio signals by Germany. The two received a 1942 patent on *spread spectrum technology*, which is used today in most cordless telephones—many years after the patent expired. While Lamarr's technical contributions were acknowledged, she received no profits from her invention.

Patents and copyrights are tangible corporate assets and are deliberately and carefully used to protect inventions and valuable works. The same sort of deliberate planning should be used when protecting trade secrets through non-disclosure agreements, employment contracts and periodic employee briefings on what aspects of the company's business are considered trade secrets.

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