Can You Keep A Trade Secret?

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Intellectual Property

- Copyrights
- Patents
- Trademarks
- Trade secrets
Trade Secrets

• A trade secret is secret information that gives its owner a competitive advantage

• The owner of a trade secret must take reasonable steps to maintain secrecy
Candidates For Trade Secret Protection

Examples include:

- Designs and chemical formulas
- Manufacturing processes
- Computer programs
- Customer and vendor lists
- Pricing and financial information
- Business plans and forecasts
Advantages Of Trade Secrets

- Indefinite in duration
- Do not have to be patentable
- No requirement for public disclosure
- Can be relatively inexpensive
Disadvantages Of Trade Secrets

- Terminated by inadvertent public disclosure
- Must maintain a trade secret policy
- Governed by state law
Disadvantages Of Trade Secrets (cont.)

- No protection against independent developers
- Others may extinguish trade secret
- Others who develop may patent
Contrast With Patents

Attributes of a patent

- Grants exclusive rights
- Provides defined licensing vehicle
- Protects against reverse engineering
- Allows early publication
- Provides federal court remedy
How To Establish A Trade Secret

Take *active* measures to maintain secrecy: measures taken must be reasonable under the circumstances and normally include certain enforced procedures

- Mark and control confidential documents
  - e.g., “Confidential and Proprietary Information of XYZ Inc.”
- Inform employees (and other recipients) exactly what information is to be treated by them as confidential
  - Do not designate general categories - specific and periodically-updated identification is required
- Log in and escort visitors
- Limit access to people who have:
  - need to know sensitive information
  - need to access facilities housing research, process and other proprietary activities
  - have signed a non-disclosure agreement or “NDA”
When Is The Protection Lost?

- Public disclosure
  - Deliberate
  - Inadvertent
  - Through misappropriation
- Independent discovery
- Reverse Engineering
  - Actual product
  - Purchasing records
Non-Disclosure Agreements

- A trade secret is legally protectable for as long as it remains secret
- A trade secret owner may take legal action against a person who knowingly misappropriates the trade secret
- Use an NDA when confidential information is disclosed or accessible
Confidentiality Agreements

- Acknowledgement of access to trade secret
  - Company policy
  - Identify the access
  - Procedures
- Update agreements as necessary
- Reminders/training
- Exit interview for employees
Trade Secrets Of Others

• Avoid even the appearance of impropriety
• Review confidentiality agreements between employee and former employer
• Employee should sign agreement acknowledging policy
An Example

TRADE SECRETS AND DISCLOSURE TO THE GOVERNMENT
How Disclosures To The Government Occur

- Mandatory disclosure
  - Regulatory agencies

- Voluntary disclosure
  - Efforts to obtain a government contract
  - In performing under a government contract
The Dilemma: Disclosure May Eliminate The “Secrecy” Of The Trade Secret

- The government may disclose the information to other government agencies or contractors
- Required release to third parties
  - Freedom of Information Act ("FOIA")
  - California Public Records Act
- Subpoenaed records
- Improperly disclosed to third parties
Freedom Of Information Act

• Disclosure - not secrecy - is the dominant objective of the Act

• Two possible statutory exemptions for trade secret material
  – Exemption 3 (5 U.S.C. § 552(b)(3))
  – Exemption 4 (5 U.S.C § 552(b)(4))

• Exemptions are permissive - not mandatory
Exemption 3

- Prohibits an agency from disclosing information specifically exempt from disclosure by statute

- Test:
  - Statute being invoked must qualify as an exemption statute and
  - The information requested must fall within the statute

- The Federal Trade Secret Act does not qualify as an exemption statute
Exemption 4

- FOIA does not apply to either (1) trade secrets or (2) commercial or financial information obtained from a person and that is privileged or confidential.

- Test of what is a trade secret may vary by Circuit
  - Definition in Restatement of Torts
  - Definitions in Code of Federal Regulations
  - Common law definitions

- Information contained in mandatory disclosure may qualify as confidential.
California Public Records Act ("CPRA")

- Public records are open to inspection unless exempted by law
- Records are exempted from disclosure if they are exempted from disclosure by state or federal law
- CPRA specifically exempts 35 categories of documents
- Disclosure is the rule and exemptions the exception
- Exemptions narrowly construed
CPRA And Trade Secrets

• Two possible exemptions:
  – Government Code § 6254(k): Exempts records exempted or prohibited pursuant to state or federal law, including provisions of the Evidence Code and those relating to privilege
    ● Uniform Trade Secret Act
    ● Evidence Code § 1060
    ● California Constitution Art. 1, § 1 (Constitutional Right to Privacy)
    ● Common law
    ● Restatement
  – Government Code § 6255(a): Records exempt if public interest not served by disclosing record clearly outweighs public interest served by disclosure
  – May be narrowly construed
Notification Of Potential Disclosure Under FOIA Or CPRA: What Can You Do?

- You might not always get notice
- FOIA
  - Objection
  - Reverse FOIA action – the Administrative Procedure Act
- CPRA
  - Make your case to the agency
  - Litigation to enjoin improper disclosure
Guidelines To Consider In Voluntarily Disclosing Information To The Government

• Remove from all submissions any information the Company would be absolutely prohibited from disclosing to the public (i.e., patient information such as names, addresses, Social Security numbers, medical or information)
  – Assume that anything provided to a government agency may be shared with the public pursuant to a FOIA or CPRA request

• Do not disclose trade secret information to a governmental entity unless required to do so, or you have determined that the value of disclosing the trade secret is outweighed by the benefit of contracting with the entity
Guidelines To Consider In Voluntarily Disclosing Information To The Government (Cont.)

- See if the governmental entity will agree to a written confidentiality agreement before the submission is made.
- Comply with the entity’s instructions on how to identify confidential or trade secret information.
- Clearly mark all confidential and trade secret information with the appropriate legend, such as “CONFIDENTIAL--TRADE SECRET INFORMATION”; if possible also state at the end of each confidential section something to the effect: “Note: This Confidential section must be deleted if releasing this information to the public.”
- Disclose only the minimum amount of confidential information necessary.
• When making the submission, consider providing a duplicate submission with all of the confidential trade secret information redacted. In the cover letter with the submission state something to the effect:

“Enclosed please find two copies of the Company’s submission to RFP XX. The second copy of the submission has been redacted to eliminate any reference to confidential trade secret information. This submission is made with the understanding that if the Company’s submission is to be released to any other person for any reason, the redacted submission will be the version provided.”
So…Can You Keep A Trade Secret?

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