

# The six-factor test: combination and compilation trade secrets

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The modern definition of a trade secret is that it protects *any* information that can be used in the operation of a business or other enterprise and that is valuable and secret enough to afford an actual or potential economic advantage over others.

A trade secret is one of the most elusive and difficult concepts in the law to define. There is no exact definition of a trade secret because of the vast spectrum of information that can qualify as a trade secret. And the wide array of factual circumstances that could be determinative or fatal to a piece of information's possible classification as a trade secret contributes to the malleable definition of a trade secret.

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To qualify as a trade secret the information must be secret. The secrecy, however, need not be absolute. Trade secret law requires only secrecy sufficient to confer an actual or potential economic advantage on one who possesses the information. The requirement of secrecy is satisfied if it would be difficult or costly for others to acquire it without resort to wrongful conduct.

Whether an alleged piece of information qualifies as a trade secret is a question of fact to be determined by the trier of fact upon the greater weight of the evidence.

The starting point and ending point of trade secret law poses one question: What is "IT" that is alleged to be a trade secret?

The identification of an alleged trade secret requires an evaluation of these six factors:

- (1) the extent to which the information is known outside the claimant's business;
- (2) the extent to which the information is known by employees and others involved in the claimant's business;

- (3) the extent of the measures taken by the claimant to guard the secrecy of the information;
- (4) the value of the information to the claimant and to its competitors;
- (5) the amount of effort or money expended by the claimant in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

The six-factor test was promulgated by the American Law Institute in 1939 after an extensive review of over 100 years of case law in the 19th century. Today, almost another 100 years later, the six-factor test has become the litmus test for evaluating the existence of a trade secret. The attraction of the six-factor test is its ability to evaluate any type of potential trade secret under any set of factual circumstances.

Besides identification of itemized pieces of information, a trade secret audit must consider two special types of trade secrets: "combination" trade secrets and "compilation" trade secrets. Many trade secret cases have been lost because the plaintiff failed to identify and classify combination/compilation trade secrets using the six-factor test.

## Combination trade secrets

A trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process design and operation of which in unique combination affords a competitive or economic advantage and is a protectable trade secret.

The alleged "combination" must be identified as a combination of multiple components. Each component must be identified with particularity and integrated with the other alleged components. Just listing a string of components without integration is insufficient. The trade secret holder must establish the way various components fit together to create a combination trade secret.

That some components are in the public domain, or even if all the components are in the public domain, will not vitiate the existence of a combination trade secret if the resulting combination of components is a *unique* combination not generally known in the

trade and derives actual or potential economic value from the secrecy of the information.

Identification of a combination trade secret requires proof of a transformation. A combination does not constitute a trade secret unless it transforms the individual components into something that is itself a trade secret. The mere combination of basic, well-known steps, without more, will not create a unique combination.

The factual determination whether an alleged combination of components qualifies as a combination trade secret requires the fact finder to review the “whole” combination. It is reversible error to focus on the individual components of the combination trade secret.

The identification of an alleged combination trade secret requires an evaluation of the six factors:

- (1) the extent to which the “combination” is known outside the claimant’s business;
- (2) the extent to which the “combination” is known by employees and others involved in the claimant’s business;
- (3) the extent of the measures taken by the claimant to guard the secrecy of the “combination”;
- (4) the value of the “combination” to the claimant and to its competitors;
- (5) the amount of effort or money expended by the claimant in developing the “combination”;
- (6) the ease or difficulty with which the “combination” could be properly acquired or duplicated by others.

Just like specific trade secrets, the trade secret holder must describe the subject matter of the combination trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or special knowledge of those persons skilled in the trade.

### Compilation trade secrets

A compilation trade secret is a trade secret that consists of a unique compilation of data.

Data is the physical representation of information in a manner suitable for communication, interpretation, or processing by humans or by automatic means (artificial intelligence).

Data exists everywhere. There are now recognized layers of data. For example, a trade secret can be captured as a piece of information recorded in drawings and graphs (syntactic layer), on a piece of paper (physical layer), and understandable only by experts (semantic layer).

A compilation trade secret is a collection of underlying information or data not generally known in the trade and not readily ascertainable. Proof of a compilation trade secret rests on the time, effort, and expense used to create the compilation trade secret. When information can be readily duplicated without considerable time, effort, or expense, it cannot qualify as a compilation trade secret.

A compilation trade secret cannot be just an amorphous collection of disconnected information. Instead, the compilation of underlying data sources must be integrated to embody a definite methodology, process, technique, or strategy.

Customer lists often fall within the ambit of a compilation trade secret. The identification of customers will not be protected as a trade secret if this information is readily accessible by legitimate means. But *select* market data analysis based on *special* knowledge of *specific* customer needs and *specific* preferences can qualify as a compilation trade secret because this data compilation is not generally known in the trade and the trade secret holder derives an actual or potential competitive advantage from the collection and analysis of the underlying confidential customer data.

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The identification of an alleged compilation trade secret requires an evaluation of the six factors:

- (1) the extent to which the “compilation” is known outside the claimant’s business;
- (2) the extent to which the “compilation” is known by employees and others involved in the claimant’s business;
- (3) the extent of the measures taken by the claimant to guard the secrecy of the “compilation”;
- (4) the value of the “compilation” to the claimant and to its competitors;
- (5) the amount of effort or money expended by the claimant in developing the “compilation”; and
- (6) the ease or difficulty with which the “compilation” could be properly acquired or duplicated by others.

The identification of alleged trade secrets requires consideration of specific trade secrets, combination trade secrets and compilation trade secrets. All three categories of trade secrets must be evaluated under the American Law Institute six-factor test.

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### About the author



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