Reuters Legal News

The non-existence of a trade secret asset: 'confidential' information

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MARCH 28, 2023

For years, there has been a debate whether "confidential" information is analogous to a "trade secret." It is not. Information is either protected as a "trade secret" or not protected as a "trade secret." Any other characterization of "confidential" information undermines the protection of trade secret assets and interferes with lawful and fair business competition.

There is no such thing as non-trade secret "confidential" information.

There is no such thing as "confidential" information that does not rise to the level of a trade secret.

There is no middle ground: Either the information is a "trade secret" (and protectable) or not a trade secret (and not protectable).

A "trade secret" is an intellectual property asset that requires reasonable measures to protect the information as a "trade secret" and proof that such information derives an actual or potential economic advantage from the secrecy of the information.

In 1939, when the American Law Institute reviewed the elements of a "trade secret" in Section 757 of the Restatement of Torts, the first proclamation about trade secrets in Comment a. was to make it clear that a trade secret was a narrow exception to the general rule that the privilege to compete with others includes a privilege to adopt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition.

Thus, recognition of a piece of information as a "trade secret" is a special exception to the general rule governing the right to compete — not the general rule. The general rule is the right to copy, disclose or use non-trade secret information obtained from competitors.

What is "IT" that is alleged to be a trade secret? This question is the starting point and ending point of all trade secrets law.

The shibboleth — "confidential" information — should mean nothing, without more, to a trade secrets lawyer. Marking a document with a "confidential" stamp should mean nothing, without more, to a trade secrets lawyer. Identifying broad categories of "confidential" information — such as "customer" information or "pricing" information — should mean nothing, without more, to a trade secrets lawyer.

The identification of an alleged trade secret is a critical task in trade secrets law. To establish a trade secret claim, the trade secret holder must identify the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons skilled in the trade, so the defendant and the court can ascertain the boundaries within which the alleged trade secret resides.

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Venn diagrams have been used to describe the overlap of trade secrets and confidential information.

A more helpful visual aid might be a funnel. You start with everything with the potential of classification as a trade secret at the top of the funnel and then sift out and identify the specific, particularized information that qualifies as a protectable trade secret at the tip of the funnel.

This sifting process requires a six-factor analysis:

(1) The extent to which the information is known outside the business.

(2) The extent to which the information is known by employees and others involved in the business.

(3) The extent of measures taken by the business to guard the secrecy of the information.

(4) The value of the information to the business and competitors.

(5) The amount of time, effort and money expended by the business 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 in virtually every state and federal court in the United States.

The attraction of the six-factor test is its ability to evaluate any potential trade secret under any set of factual circumstances. It is extraordinarily versatile and compatible with modern trade secret law.

The pre-filing investigation of an alleged trade secret misappropriation claim should include an evaluation of the alleged trade secret including the evidentiary proofs under the six-factor litmus test.

The attraction of the six-factor test is its ability to evaluate any potential trade secret under any set of factual circumstances.

Generalized business information well known in the trade and many other pieces of "confidential" information will shrivel away upon the scrutiny of the six-factor analysis.

There are other proofs required to file a trade secret misappropriation lawsuit: the EONA proofs, a coined term this author has used for years to ferret out trade secret assets from piles of "confidential" information. The EONA proofs stand for Existence, Ownership, Notice and Access.

The 'existence' proofs — evidence of the 'existence' of a trade secret

The identification of a trade secret is one of the most elusive and difficult concepts in the law to define. The key to identification is the rigorous application of the six-factor litmus test as discussed in this article.

The 'ownership' proofs — evidence that the trade secret holder is the owner or valid licensee of the alleged trade secret

The "ownership" proof requires the holder of the trade secret to show proof of ownership. The existence of a trade secret precedes ownership of a trade secret. If a piece of information is generally known in the trade, or is readily ascertainable by proper means, ownership becomes irrelevant because any one can disclose or use the piece of information. The world "owns" it.

The 'notice' proofs — evidence that the receiving party was placed on notice that the information was an alleged trade secret

The trade secret owner must show that the alleged misappropriator had actual, constructive, or implied notice of the alleged trade secret. Notice requires identification of the alleged trade secret with particularity. An alleged trade secret must be described with sufficient specificity so that when a description of what is generally known in the industry is placed side-by-side with the description of the alleged trade secret, a comparison can be made between the alleged trade secret and what is already generally known in the trade.

The 'access' proofs — evidence that the alleged misappropriator had 'access' to the alleged trade secret

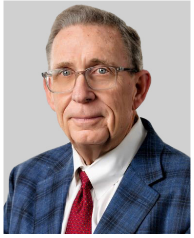
Acquisition of a trade secret by improper means is wrongful. Acquisition of a trade secret by proper means is lawful. Whether by "proper" means or "improper" means, there must be proof of the defendant's "access" to the trade secret. Otherwise, the trade secret owner cannot establish a prima facie cause of action for trade secret misappropriation. Unlike the holder of a patent, the owner of a trade secret has no claim against another who independently discovers the trade secret or otherwise lawfully acquires the trade secret by reverse engineering or other proper means.

As one can observe, the validation of information as a "trade secret" is an arduous task to prepare for litigation and there are many evidentiary considerations to be evaluated in a pre-filing investigation before a trade secret misappropriation lawsuit is filed.

The erroneous approach of identifying non-trade secret information as "confidential" information is an affront to the law of trade secrets. Information either qualifies as a trade secret or does not qualify as a trade secret. There is no middle ground protection for non-trade secret "confidential" information. Any other characterization of "confidential" information undermines the protection of trade secret assets and interferes with lawful and fair business competition.

R. Mark Halligan is a regular contributing columnist on trade secrets law for Reuters Legal News and Westlaw Today.

About the author



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This article was first published on Reuters Legal News and Westlaw Today on March 28, 2023.