

The acquisition of trade secrets

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A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

A trade secret can consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or any other form of embodiment of economically valuable information.

To qualify as a trade secret, the information must be secret.

Unless a trade secret has been acquired under circumstances giving rise to a duty of confidence, a person who obtains the trade secret by proper means is free to use or disclose the information.

However, a trade secret affords no protection against discovery by fair and honest means.

A successful trade secret misappropriation claim requires proof of “improper” means. If a trade secret is acquired through conduct that is itself a tortious or criminal invasion of the trade secret owner’s rights, the acquisition will be deemed to be an acquisition by improper means.

The Uniform Trade Secrets Act defines improper means to include theft, bribery, misrepresentation, breach or inducement of a breach to maintain secrecy, or espionage through electronic or other means.

A person who obtains a trade secret by inducing or knowingly accepting a disclosure from a third person who has acquired the trade secret by improper means, or who induces or knowingly accepts a disclosure from a third person in breach of a duty of confidence owed by the third person to the trade secret owner, it will be deemed to be acquisition by improper means.

It is impossible to formulate a comprehensive list of the conduct that constitutes “improper” means of acquiring a trade secret. The acquisition of a trade secret can be improper even if the means of acquisition are not independently wrongful. The propriety of the acquisition must be evaluated, given all the circumstances, including whether the means of acquisition contradict accepted principles of public policy and the extent to which the acquisition

was facilitated by the trade secret owner’s failure to take reasonable precautions against discovery of the trade secret.

Among the factors relevant to the reasonableness of the trade secret owner’s precautions are the foreseeability of the conduct through which the trade secret was acquired and the availability and cost of effective precautions against such an acquisition, evaluated, given the economic value of the trade secret.

A person is not subject to liability for misappropriation if the information is not a trade secret. Without proof of the existence of at least one trade secret, there is no cause of action for trade secret misappropriation. Information that is readily ascertainable by proper means is not protectable as a trade secret, and therefore cannot be misappropriated. Acquisition by proper or improper means is irrelevant if the information does not qualify as a trade secret.

Unless a trade secret has been acquired under circumstances giving rise to a duty of confidence, a person who obtains the trade secret by proper means is free to use or disclose the information. There can be multiple owners of the same trade secret. Unlike the holder of a patent, the holder of a trade secret has no claim against another who independently discovers the secret.

Trade secret misappropriation lawsuits revolve around factual issues relating to the proper or improper acquisition of trade secrets.

Information that is readily ascertainable by proper means cannot be protected as a trade secret.

The two main defenses in a trade secret misappropriation lawsuit are independent development and reverse engineering. The term “reverse engineering” refers to the intentional access to a competitor’s product for lawfully discerning what it is, how it has been made, how it works, and what are the advantages and disadvantages of the product.

Reverse engineering is a variant of independent development. It describes the process by which a finished product is broken down into its component parts to determine how the product was created.

The inherent problem with these defenses is the failure to prove independent acquisition of the trade secret. If a person has been

exposed to the alleged trade secrets, reliance on the claim of independent derivation or legitimate reverse engineering is vitiated. To succeed, the defenses of independent development and reverse engineering require proof that the alleged trade secret was acquired by lawful means by persons who had no access to the trade secrets.

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From the trade secret owner's vantage point, the key to success requires proof of the alleged trade secrets and evidence of misappropriation — improper acquisition, disclosure, or use of the trade secrets.

Proof of the existence of trade secrets requires a six-factor analysis of each alleged trade secret:

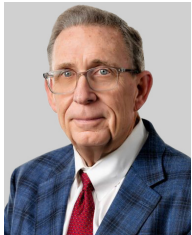
- (1) the extent to which the information is known outside the claimant's business;
- (2) the extent to which the information is known by employees and others involved in the claimant's business;

- (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.

From the alleged misappropriator's vantage point, the key to success requires the creation of an internal trade secret control committee charged with the responsibility to identify, classify, protect and value trade secret assets. This will optimize the defendant's ability to establish that there was no access to the plaintiff's alleged trade secrets, no wrongful misconduct, no improper means of acquisition, evidentiary proof of independent development and/or evidentiary proof of reverse engineering.

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

About the author



R. Mark Halligan is a partner at **FisherBroyles LLP** and is based in Chicago. He focuses his practice on intellectual property litigation and is recognized as a leading practitioner in the development of automated trade secret asset management blockchain systems. He teaches Advanced Trade Secrets Law in the LLM program at University of Illinois Chicago School of Law and is the lead author of the "Defend Trade Secrets Act Handbook," 3rd Edition, published by Wolters Kluwer. He can be reached at rmark.halligan@fisherbroyles.com.

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