Secrecy: the anatomy of a trade secret

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Secrecy is the hallmark of trade secret protection. To establish the existence of a trade secret the trade secret holder must establish independent economic value *derived from* the "secrecy" of the information.

Six-factor analysis

Proof of the existence of a trade secret requires an analysis of the following six factors:

Factor 1: The extent to which information is known outside the company (the more extensively the information is known outside the company, the less likely that it is a protectable trade secret).

Factor 2: The extent to which the information is known by employees and others involved in the company (the greater the number of employees who know the information, the less likely that it is a protectable trade secret).

Factor 3: The extent of measures taken by the company to guard the secrecy of the information (the greater the security measures, the more likely that it is a protectable trade secret).

Factor 4: The value of the information to the company and competitors (the greater the value of the information to the company and its competitors, the more likely that it is a protectable trade secret).

Factor 5: The amount of time, effort and money expended by the company in developing the information (the more time, effort and money expended in developing the information, the more likely that it is a protectable trade secret).

Factor 6: The ease of difficulty with which the information could be properly acquired or duplicated by others (the easier it is to duplicate the information, the less likely that it is a protectable trade secret).

See Restatement (First) of Torts Section 757 cmt. b (Am. Law. Inst. 1939); Uniform Trade Secrets Act, 14 U.L.A. Section 1(4); Defend Trade Secrets Act, 18 U.S.C. Section 1839(3).

The six-factor analysis has become the litmus test for ascertaining whether an alleged piece of information qualifies as a trade secret. This is a fact-intensive analysis. No one factor is dispositive; all six factors need to be examined to determine the "secrecy" of the information and the economic or competitive value of the information derived from the "secrecy" of the information.

See *Learning Curve Toys, Inc. v. Playwood Toys*, 342 F.3d 714 (7th Cir. 2003).

Combination analysis

A trade secret can exist in a "combination" or "compilation" of information. It is well established that 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 an actual or potential economic or competitive advantage.

The anatomy of a trade secret rests upon "secrecy." It is secrecy that provides an economic and competitive advantage in trade secrets law.

See *Rivendell Forest Products v. Georgia Pacific*, 28 F.3d 1042 (10th Cir. 1994); *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664 (N.D. Ill. 1997).

Once again, the key inquiry in ascertaining whether a combination/compilation constitutes a trade secret is on the secrecy of the information sought to be protected.

The six-factor test applies to both individual trade secrets and combination/compilation trade secrets.

Obsolete or stale trade secrets

Most trade secrets have a short shelf-life. A financial document may be a trade secret today but be obsolete or stale tomorrow. Other trade secrets, like the Coca Cola formula, may continue indefinitely.

Information that becomes stale or obsolete can no longer be protected as a trade secret. The trade secret holder no longer derives any economic value from the secrecy of the information, and the misappropriator no longer obtains any competitive advantage from the theft of such information.

Novelty is not required

Novelty in the patent law sense is not required for a trade secret. A trade secret may be a simple engineering detail, a mechanical improvement, or a process or device clearly anticipated in the prior

art. The inquiry for a trade secret is whether the information derives an actual or potential economic advantage from not being generally known in the trade and not readily ascertainable by proper means. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474-475 (1974).

Circumstantial evidence

Circumstantial evidence is admissible to establish that information is not readily ascertainable through proper means satisfying the "secrecy" requirement in trade secrets law. The precautions taken by the claimant to preserve the secrecy of the information, the willingness of licensees to pay for the disclosure of the alleged trade secret, unsuccessful attempts by the defendant or others to duplicate the information by proper means, and the use of improper means to acquire the trade secrets all point to an inference that the information has economic value derived from the secrecy of the information. See Restatement (Third) Unfair Competition Section 39 comment f (1995).

The measuring stick for secrecy is the economic value of the information. The information must be sufficiently valuable and secret to confer an actual or potential economic advantage derived from the secrecy of the information.

The requirement of secrecy can be satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resorting to improper means to obtain the information.

Trade secret asset management

The management of "secrecy" to protect trade secret assets is now a 24/7 requirement. There are four stages of trade secret asset management: identification, classification, protection and valuation. The four stages cannot be juggled around. Identification precedes classification; identification and classification precede protection; identification, classification, and protection precede valuation.

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The problem with trade secret security lies in the starting point for trade secret asset management. Everyone starts at the third stage—protection—with policies, practices, and procedures, and a labyrinth of physical, contractual, and technical requirements for "protecting" trade secret assets. But what happens? Trade secret asset management that starts at the third stage is doomed to fail. The starting point must be the first stage—identification—what is ***it*** that is alleged to be a trade secret? One cannot take reasonable measures to protect ***it*** of you do not know what ***it*** is.

Conclusion

The anatomy of a trade secret rests upon "secrecy." It is secrecy that provides an economic and competitive advantage in trade secrets law. The failure to identify and protect trade secret assets will inevitably result in the forfeiture of those assets. A trade secret once lost is lost forever.

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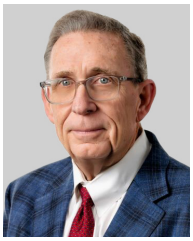
About the author



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