

Trade Secret 2

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Recap: What is protected as a trade secret?

- Secret: Not generally known or readily ascertainable by proper means
- Derives independent economic value from secrecy
- Subject of “efforts that are reasonable under the circumstances” to keep secret

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How can one lose a secret?

- Assume you have a secret and derive economic value from its secrecy, how can others get access to it?
 - Legitimate:
 - Reverse engineering: examining a product that's been legitimately obtained
 - Contract or license agreement?
 - Independent discovery
 - Publication, even in a patent application
 - Widespread disclosure, even by a misappropriator
 - Mistaken disclosure
 - Illegitimate:
 - Misappropriation

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Misappropriation: UTSA

§1(2) “Misappropriation” means:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
 - (A) used improper means to acquire knowledge of the trade secret; or
 - (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was
 - (i) derived from or through a person who has utilized improper means to acquire it;
 - (ii) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (iii) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

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acquisition, disclosure, or use

by one who knew or had
reason to know

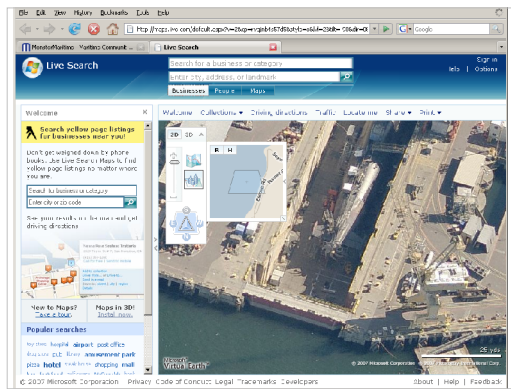
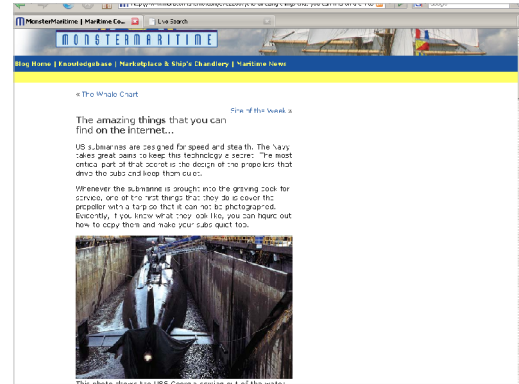
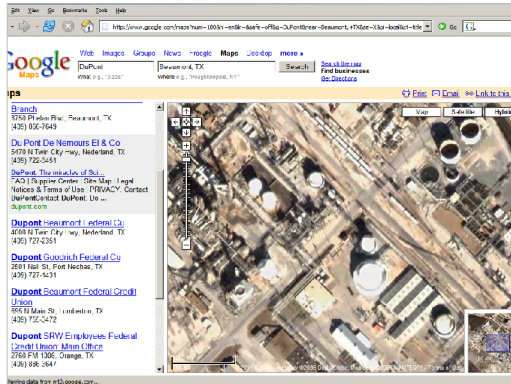
trade secret was acquired by
improper means

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Improper means

- Otherwise tortious or criminal conduct (e.g., trespass, theft, extortion, fraud)
- Breach of confidential relationship
- Means that “fall below generally accepted standards of commercial morality and reasonable conduct”
- *Aerial photography of a manufacturing plant under construction?*

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Is it a misappropriation?

- In a used book store, you find a worn notebook that claims to contain the KFC secret recipe. You test it out, and sure enough, it tastes the same, so you go straight to market with “Massachusetts Fried Chicken (better than Kentucky).”
- You buy a TiVo, open it up, download the GPL software, and eventually, build your own.

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Confidential Relationship

“Defendant obtained, through a confidential relationship, knowledge of plaintiffs’ secret designs, plans and prospective customers, and then wrongfully breached that confidence by using the information to its own advantage and plaintiffs’ detriment.”




Photo by melted_snowball, on flickr

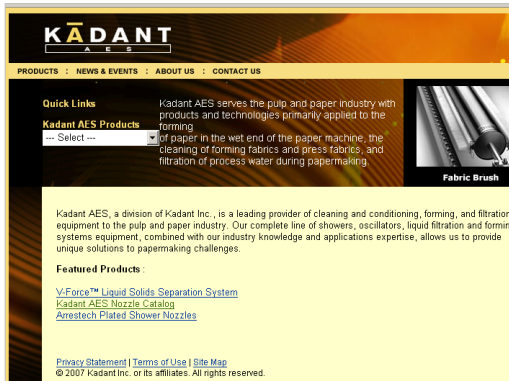
Smith v. Dravo Corp.

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Arrow’s information paradox

- A has trade secret information that derives its value from secrecy.
- B wants to buy the information or A’s business, but only if B can see it to assess its value.
- Without legal protection, A and B would be unable to carry out this useful transaction.

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gnireenignE (Reverse Engineering)

- Starting with a known product and working backward to find how it works or the method by which it was developed

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Employers' secrets

- Limits on the use of confidential information by employees
 - Trade secret
 - Enforceable agreement
 - Confidential relationship
 - Not trade secret, e.g., non-compete
 - States strike different balances between employee mobility and employer control

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employer v. (ex)employee: what's at stake

- Employer's control of trade secret
- Employees' right to work
- As an employer, do you want strong NDAs and non-competes?
 - Market forces might say no
 - State law might say no
 - Better to carefully craft an NDA than to write a broad non-compete (better damages available)

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Restatement: Confidential Relationship

- express promise of confidentiality prior to disclosure
- circumstances surrounding disclosure indicate
 - defendant knew or had reason to know disclosure was intended to be made in confidence *and*
 - plaintiff was reasonable in inferring consent to confidentiality obligation

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When is it reasonable to imply a confidential relationship?

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