



## When A (Trade) Secret Is Not A Secret

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One of the hallmarks of the US economy, the largest in the world by far, is the creativity of its businesses and residents. China by comparison, which has the second largest economy worldwide, is not known for its business creativity. In fact, despite averaging growth rates of 15% per year over the last 30 years, China's economy is still only one-half the size of the US economy. Knowledgeable commentators forecast that China's economy will never come close to that of the US because of this cultural difference: by nature and temperament, the Chinese tend to cling to the old ways of doing things, while businesses and individuals in the US are generally forward-looking and eager to invent a better mousetrap.

And, most importantly, laws in the US encourage creativity in the marketplace through Trade Secret statutes, which have been adopted in all fifty states. What constitutes a Trade Secret can involve a very technical analysis. In simple terms, any new product or process which gives the owner a competitive advantage in the marketplace, and cannot be easily replicated without copying, can qualify as a Trade Secret. However, no matter how advanced or unique the new product or process is, it will not be considered or protected as a Trade Secret ***unless the owner takes very careful steps to guard it as a secret.*** Yet guarding the secrecy of a Trade Secret is often not an easy task when the very purpose of creating the new product or process is to put it out into the marketplace for use by one's customers or the public generally.

The owner must take steps to let it be known that he or she considers the Trade Secret to be a secret, or it is not. One common measure is a requirement that employees sign confidentiality agreements. And the Employee Handbook should include a statement of the company's policy regarding Trade Secrets, the matters generally which the company considers to be its Trade Secrets, and the consequences of misusing or stealing Trade Secrets. It is also advisable to require each employee to sign a statement that he or she has received the Handbook.

For Trade Secrets which are available to employees via the computer, they should be available only on the company's computers and then only by means of a confidential password. If possible, drawings and schematics which include Trade Secrets should be marked Confidential. If customer lists are considered to be Trade Secrets, they should be shared with employees or others only on an "as needed" basis.

A common exception to protection under state Trade Secrets statutes is information known as "head knowledge." Employees are bound to learn confidential information about a business in the course of making use of trade secrets. Most states do not have protection for an employee's "head knowledge." To limit what the courts may consider to be non-protected head knowledge, it is advisable to have periodic meetings with employees, with appropriate documentation, to discuss what specific matters the company considers protected information that cannot be shared outside the company or with a subsequent employer. There are no "bright line" limits to what constitutes non-protected head knowledge. A court is more likely to afford protection if the employer has documentation that it has communicated to its employees that certain matters, which invariably will be learned by the employees in the course of their job functions, are considered to be confidential. Then, the employees are less likely to share

or use such learned information outside the business, especially if they are aware of the consequences. The consequences can be severe. Most state Trade Secret statutes award the owner reimbursement of its attorney fees and an award of punitive damages in the event of an intentional misuse of Trade Secret information.

In short, in order for a Trade Secret to be protected from misuse under Trade Secret statutes, the owner must take reasonable measures to let it be known that he or she considers the matter to be confidential. If you may ever wind up in court seeking Trade Secret protection, be sure you are able to prove that you have consistently treated the matter as a secret. If you cannot, don't expect Trade Secret protection.