

Protect yourself

How important are trade secrets to you? Interviewed by Chelan David

All businesses have trade secrets, including, but not limited to, proprietary research and development, strategic plans, and personnel practices. One of a company's most important assets, it is paramount to safeguard trade secrets.

"Senior management must recognize the critical nature of trade secrets and properly protect them as they would any other valuable asset," says Bruce Truex, senior partner at Secret Wardle.

Smart Business spoke with Truex about what elements of a business are eligible for trade secret protection, how long protection lasts and how confidentiality agreements can be crafted to protect trade secrets.

What elements of a business are eligible for trade secret protection?

Every business has information that it wants to keep secret. But not all information used by a business qualifies as a trade secret. A number of requirements must be met to qualify for that status. First, a trade secret must consist of information. Second, the information must derive economic value – actual or potential – from the fact that it is a secret. Third, the information cannot be generally known by the public or others in the industry. Fourth, the information must be treated as a secret and be subject to reasonable efforts to maintain its secrecy.

Trade secrets encompass both business and technical information. Trade secrets include unpatented inventions and processes, future products, non-public company documents, test data, formulas, patterns, compilations, programs, devices and techniques. The courts have recognized as trade secrets customer lists, customer information, marketing and business plans, strategic plans, surveys, data, pricing information, research, financial information, manuals and instructional methods. Even negative information concerning failed projects or programs has been treated as a trade secret.

How long does trade secret protection last?

The protection of trade secrets is very dif-



Bruce Truex
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ferent from the protection afforded to other forms of intellectual property. Unlike copyrights, patents and trademarks, there are no expiration dates for trade secrets. A business can maintain information as a trade secret simply by keeping it secret. There are no forms to fill out or applications to register. As long as the trade secret remains a secret, the law allows for a perpetual monopoly concerning the secret information. In contrast, most patents are valid for only 20 years.

Unfortunately, trade secret protection is reasonably easy to lose compared to other forms of intellectual property protection. A trade secret, under certain circumstances, can be legally reverse engineered; that is, by starting with a known product and working backward to find the method by which it was developed. Trade secrets offer no protection from individuals who develop the same secret independently. Trade secret status may also be lost over time. A new technology today, may, over a short period of time, become generally known and quite common.

How are trade secrets interpreted by the courts?

Simply not telling anyone about confi-

dential information is not enough to preserve its secrecy. Courts require active steps to ensure the secrecy of valuable information. Trade secret protection stems from the common law of the 1800s. Today, Michigan has adopted the Uniform Trade Secrets Act which defines trade secrets. The Act is fairly broad and protects almost any information that provides the owner of the secret with a competitive edge.

How should confidentiality agreements be crafted to protect trade secrets?

Confidentiality agreements, which have been approved by the Michigan courts for some time, are contracts between two parties not to disclose to others certain information which the parties have identified as confidential.

A confidentiality agreement should contain a description of the confidential information not to be disclosed. It should also describe the information that will be excluded from the definition. Every confidentiality agreement must detail how the information is to be handled by the recipient. The recipient must agree not to disclose the information to third parties. The agreement should also restrict the use to which the confidential information may be put. Typically, an employee is prohibited from using the confidential information for any matter other than the employer's business.

The most important remedy to include in a confidentiality agreement is a provision allowing the owner of the information to obtain injunctive relief if the agreement is breached. The provision should state that both parties agree that any breach of confidentiality would result in irreparable harm, thus avoiding the need to submit proof of harm in court before obtaining an injunction. The agreement should also provide that the party breaching the promise of confidentiality must pay the other party's costs and attorney fees incurred in enforcing its rights under the agreement. <<

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