

Trade Secret Audits

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Trade Secret Audits

Depending on the type of business involved, a business should decide what types of information should be protected as trade secrets. Once this decision has been made, the relevant information must be located within the business. This audit is a helpful step in the process of identifying trade secrets.

One author¹ indicates, “another technique for identifying trade secrets is to send a memorandum to all department heads asking them to list potentially protectable trade secrets. The memorandum should contain an easily understandable definition of the type of information sought. For example, the memorandum might explain that:

“A trade secret can consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret can also relate to other aspects of business operations such as pricing and marketing techniques or the identity and requirements of customers.”²

¹ See 8 *Corporate Compliance Series, Designing An Effective Intellectual Property Compliance Program* (2002).

² See Restatement (Third) of Unfair Competition § 39 cmt d.

After the department head has completed the list, the compliance committee or in-house corporate counsel should review it.³ The department head should then be interviewed to determine which items on the list should be protected.

Along with the identification process, an attempt should be made to document the time, expense, and investment of the corporation in creating and developing the trade secret information.⁴ Such documentation can especially be important in litigation.⁵ Two of the six factors considered by the Restatement (First) of Torts in ascertaining whether information is entitled to trade secret status relate to value. In particular, the Restatement (First) of Torts considers the value of the information to the trade secret owner and to its competitors, and the amount of effort and money expended by the trade secret owner in developing the information.⁶

As a result, accurate records should be kept to reflect the amount of time and money invested by the corporation in the research and development work that results in the trade secrets. The records should document the difficulties encountered in developing the trade secrets including the failed work.⁷ Examples of documents to be included in this program include time sheets, diaries, notebooks, computer databases, and logs.⁸ The information in these materials should include the following:

1. dates and types of efforts;
2. persons involved with or knowledgeable about the project;
3. time and place of any disclosure; and
4. identity and position of all persons who have had access to the information to be protected.”⁹

³ Before this documentation is created, it is wise to consider whether it may be some day discovered in litigation. Therefore, it is suggested that this process occur under in-house corporate counsel’s supervision.

⁴ Jager, Trade Secrets Law § 5.05[2] [c][i] (1991).

⁵ *E.g., Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1269 (8th Cir. 1978) (“Andreadakis claims that he and the persons he was working with developed no confidential business information during his employment that he did not already know. He argues that he left Modern Controls with no more information than he possessed when he left Control Data. The affidavits submitted by Andreadakis do not support this contention. To the contrary, the unrefuted evidence shows that during the time of this employment, the device moved from an unmarketable state to a marketable one and that this transition was accomplished after Modern Controls invested over \$500,000 and utilized approximately one-half, or seventeen, of its employees over a sixteen-month period.” (footnote omitted)).

⁶ Restatement (First) of Torts § 757 cmt b (1939) (“(4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information;....”).

⁷ Jager, Trade Secrets Law § 5.05[2] [c][i] (1991).

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