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Trade Secrets: Protecting Competitive Advantage

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Patents and copyrights are often the focus in protecting innovations and creations. After all, the foundation for these intellectual property rights is in the United States Constitution. Yet, the most valuable intellectual property rights in most industries might well reside in confidential information or trade secrets established and maintained by companies. Companies value their trade secrets in their technological advances, manufacturing process, software functionality, chemical compositions and customer

lists. These non-registrable rubrics of intellectual property constitute enormous value within our economy.

In today's world, trade secret theft and corporate espionage by individuals and nation states put at risk valuable non-patented information, including formulas, devices, techniques, patterns, processes, data compilations, customer lists, business methodologies, supplier information, etc. Overlooking the opportunity for protection can be fatal.

Recognizing the commercial value within our economy, there has been much attention at the State and Federal levels to provide a myriad of legal tools for enforcing trade secrets. Thus, in addition to case law, there are statutory schemes, including: The Uniform Trade Secrets Act (1979); The Economic Espionage Act (EEA) of 1996, 18 U.S.C. Sections 1831-1839 (1996); and The New Jersey Trade Secrets Act, N.J.S.A. 56:15-1 et. seq. (2012).

Trade secrets find protection in secrecy which can be imposed by circumstances and/or by express agreement. Companies impose obligations on employees, independent contractors and third parties such as customers and co-developers. Yet, in practice, relying upon the existence of an agreement, there is often a fuller disclosure of the trade secret than is needed under the circumstances. And instead of using form agreements, provisions should be tailored to the circumstances with an understanding of the purposes and how much information is needed.

Significantly, there is no per se expiration of this intellectual property right as there are with other registrable forms of intellectual property. As expounded upon below, protection can be lost in several ways, including of course the secret becoming generally known in the public. But even if stolen and used by a competitor, a trade secret can remain of value to the original owner as long as the competitor also maintains its secrecy, and this is often the case following theft because the competitor also wishes to enjoy the competitive advantage of the trade secret.

Trade secret protection may be lost in several ways, including the following:

- Unprotected disclosure terminates the trade secret;
- Independent discovery;
- Reverse engineering; and
- Sale or display of goods embodying the trade secret – but there are exceptions: labels listing ingredients might not reveal the secret formula; imposing a prohibition against disassembly; and reproduction can only be made with considerable effort and cost.

Finally, among the most critical decisions in protecting technology is whether to file a patent application and the scope of the filing. The value lies not only in solid research and creative approaches, but a learned view into the future of the industry. There is

often a dichotomy in protection and enforcement, whereby pursuing patent protection would not yield easily policed protection, yet there would be a disclosure in the patent of valuable confidential information. Quite often this is the case with manufacturing processes. Moreover, an innovation may not rise to meet the non-obviousness standard for patentability, yet that innovation may be quite valuable if kept secret. Alternatively, an innovation may only meet the non-obviousness standard by accepting a narrow patent claim that does not have sufficient commercial value to justify the disclosure of the confidential information.