



## Massachusetts Courts Tie the Very Existence of ‘Trade Secrets’ to Your Business Practices

Companies value their trade secrets but must also take “reasonable measures” to keep that information secret in the event the company needs to protect it through the Massachusetts Court System. Failing to do so may render even the most valuable trade secrets *unprotectable*. Therefore, it is critical to create and implement a defensible, proprietary information protection plan – to identify, insulate and protect the assets that give your company an advantage over its competitors.

### What is a ‘Trade Secret’ Under Massachusetts Law?

There are two definitions of a “trade secret” under Massachusetts law – one that was developed through the court system as “common law” and the other defined by the Massachusetts legislature. Massachusetts common law defines a trade secret as information that (i) is secret, (ii) is used in an owner’s business, and (iii) gives the owner an opportunity to obtain an advantage over competitors who do not know or use the secret.

By statute, a trade secret is:

Anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records a secret scientific, technical, merchandising, production or management information, design, process, procedure, formula, invention or improvement.

Every company is well advised to periodically review what may be its most valuable asset – its trade secrets. Typical trade secrets include formulae, price lists, processes, source codes, product plans, and customer lists. The law protecting trade secrets is separate and quite distinct from and, in addition to the law protecting patents, copyrights, and trademarks; and, may offer a company an additional form of legal protection to stay competitive and guard its assets.

Whether information is a “trade secret” is a fact-intensive inquiry that focuses on the nature of the information itself, its owner’s conduct and the circumstances surrounding its misappropriation (often a

former employee). Massachusetts courts generally look at the following factors when assessing whether information is a trade secret:

1. the extent to which the information is known outside of the business;
2. the extent to which the information is known by employees and others involved in the business;
3. the extent to which measures have been taken by the employer to guard the secrecy of the information;
4. the value of the information to the employer and to its competitors;
5. the amount of effort or money expended by the employer in developing the information; and
6. the ease or difficulty with which the information can be properly acquired or duplicated by others.

In addition, courts protect trade secrets where their use or disclosure would breach a confidence or a contractual provision, as well as where the secret was acquired through improper means.

Courts, however, must deal with competing interests, such as lawful competition and innovation. As such, trade secret law generally does not protect information obtained through proper means, developed independently, discovered through reverse engineering, or disclosed without an obligation to maintain its confidence. Importantly, information that is not subject to “reasonable measures” to guard its secrecy will not be deemed a trade secret. Although a company may be entitled to seek relief from a court against those who take information that does not amount to a trade secret (e.g., confidential business information), the remedies for trade secret misappropriation under Massachusetts law are far more robust.

### **How does a Company Protect its Trade Secrets?**

As highlighted above, among other things, a company needs to take “reasonable measures” to protect the secrecy of the information it claims constitutes its trade secrets. Although a company need not take “heroic measures” to preserve secrecy, what is reasonable depends heavily on the type of information the company seeks to protect and how the company actually conducts its business.

Although protection plans are specific to each company, and must take into account many factors, some standard considerations are as follows:

1. Employees and others exposed to or with access to trade secrets should sign nondisclosure agreements that are crafted carefully to be enforceable. A nondisclosure agreement cannot transform information into a trade secret, but it can assist in supporting a claim that it was treated as such, and help protect the loss of trade secret status.
2. Employment and consulting agreements should address ownership of trade secrets created or developed by employees during the course of employment or consultation. Whether an employee/consultant or the employer owns the trade secret depends on the purpose for which the employee or consultant was hired and whether the creation or development of the trade secret was within the scope of employment/consultation, whether the employee/consultant used the employer's resources, etc. These factors – and who owns what – should be made clear at the outset of employment/consultation to avoid confusion and to manage expectations.

3. Employees/consultants should be educated concerning what the company deems are its trade secrets and that the company expects employees/consultants to maintain their secrecy during and after employment/consultation. Use of a company confidentiality policy is recommended.
4. A company should also consider having employees sign non-competition agreements, which may provide additional protection post-employment, if carefully drawn. Furthermore, if an employee is promoted or transferred to another business unit, or if an employee's duties or responsibilities materially change, new employment agreements, non-disclosure agreements, and non-competition agreements should be signed because the earlier agreements may not be enforceable. Note that this part of the process may be affected if current legislation is passed. Please see our previous *GT Alert* titled, [Governor of Massachusetts Proposed the Elimination of Non-Competition Agreements in Massachusetts](#), for more information on the proposed legislation.
5. A company should routinely remind employees of their obligations with regard to trade secrets and other confidential information during their employment and during exit interviews; and, create a record of these reminders. This is particularly true as more information is migrating to the cloud, or companies have "bring your own device" policies.
6. Policies concerning third-party access (physical and virtual) to trade secrets or development areas should be used, as well as appropriate information technology security protocols. This would include restrictions on an employee's disclosure of trade secrets within and outside of the working environment, e.g., in a presentation to investors or clients.
7. To the extent appropriate, a company should also avail itself of protections afforded by patent, trademark, and copyright law. Although separate from trade secret law, these steps have been relied on by courts to demonstrate the reasonableness of a company's protection program. At the same time, in cases where an invention may not be patentable, trade secret law may provide some protection.
8. Policies for investigating trade secret misappropriation and enforcing trade secret rights should be followed. It is important that a company act quickly when it learns that its trade secrets may have been misappropriated. The failure to take action to prevent further misappropriation and disclosure may be viewed by a court as a waiver of the right to seek injunctive relief and damages. Also, to the extent that a third party (e.g., a competitor) may have acquired a company's trade secrets through unlawful means, the company should immediately put that party on notice because third-party liability generally is based on what the third-party knew (or should have known) and when, as well as how the third-party conducted itself after such notice.

Ultimately, what may be *reasonable* under the circumstances in an inherently fact-intensive inquiry.

Many companies fail to secure relief from Massachusetts courts because their measures fall short – *despite their beliefs to the contrary*. That unwelcome surprise and result is unfortunate, considering the tremendous amount of money, time, and other resources a company usually expends when creating and developing its trade secrets. Notwithstanding the challenges of developing national level estimates of trade secret theft, a 2014 analysis that leverages multiple studies on illicit economic activity across the United States and advanced industrial nations as a proxy for the theft of trade secrets, resulted in an estimate of the economic impact of trade secret theft as 1 to 3 percent of U.S. GDP. As such, companies should take *proactive* measures to audit and understand their trade secret portfolios and implement a

protection program to make sure relief may be obtained through the court system to protect those secrets, when necessary.

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