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Start-Up Companies' Corporate Practice

Trade Secret Laws

An Inexpensive and Effective Way to Protect Your Business' Competitive Edge

Most business owners are not aware that trade secret laws give broad protection to their confidential business information. Along with forty-two other states, Florida has adopted the Uniform Trade Secrets Act. (Chapter 688, Florida Statutes.) This law provides effective civil remedies against theft of trade secrets — often referred to as "corporate espionage" or "trade secret piracy". Florida also has adopted a criminal statute that makes the misappropriation of trade secrets a third-degree felony. (Section 812.081, Florida Statutes.) Additionally, the United States government has enacted the Economic Espionage Act of 1996, which provides federal protection against wrongly copied or controlled trade secrets. (18 U.S.C. Section 670.)

Unlike patents, it costs nothing to gain the protection of the trade secret laws. While the protection provided by a patent is for a limited period of time, if appropriate procedures are followed, trade-secret protection is forever.

While the term "trade secret" conjures up the image of something complex and exotic, the opposite is true. Trade secrets can be quite mundane and common. Confidential business information is protected by the trade secret laws, "irrespective of novelty, invention, patentability, the state of the prior art, and the level of skill in the business, art, or field to which the subject matter pertains" (Section 812.081(1)(c), Florida Statutes.) In fact, almost every business will have some trade secrets that it will want to protect from discovery or use by its competitors. For example, a customer list or a vendor list can be considered a trade secret. The Florida trade secret criminal statute specifically defines "trade secret" to include "any scientific, technical, or *commercial* information, including any design, process, procedure, list of suppliers, list of customers, business code or improvement thereof." *Id.*

To be considered a "trade secret", in general, the information must have independent economic value, either actual or potential, must not be generally known to or readily discoverable, through proper means, by other persons who might obtain economic

value from the disclosure or use of the information. **In addition**, the owner of the trade secret must have taken reasonable and active measures to protect the trade secret from becoming known by unauthorized persons.

To obtain the protection of the state and federal trade secret laws, it is critical for the owner of a trade secret to take visible, affirmative steps to protect the confidential business information. If the owner of the purported trade secrets does nothing to protect them, the trade secrets will not be protected under the state and federal trade secret laws.

A number of simple and inexpensive procedures are available to any business seeking to protect its trade secrets. For example, important information, like a customer list, should be kept in safe-keeping and should be available only to those individuals in the business with a need to know. Confidential business information should be clearly labeled as that. An employee manual should include statements to the effect that all information of the business, including its customer lists and persons doing business with it, are confidential and that employees are prohibited from disclosing the confidential information to unauthorized outsiders. The manual should warn employees that the business is entitled to injunctive relief, and possibly other relief, against the employee if this policy is violated. In addition to the employee manual, employees should be required to sign an agreement stating that confidential business information is the sole property of the company. This agreement should bind the employee to keep all business information in confidence and alert the employee that, upon leaving the employment of the company, the confidential information remains the property of the company.

Prior to disclosing trade secrets to an outsider, business owners should require the outsider to sign a nondisclosure agreement. As a standard procedure, when a company enters into a contract with a third party, strong confidential provisions should be included in the contract. Thus, "work-for-hire" contracts, sales agreements, dealer agreements and distribution agreements, to name but a few, should all contain a section prohibiting the third party from disclosing confidential information about the company learned through its dealings with the company. All of this may seem excessive and a touch of "over-lawyering". It is, however, relatively simple to make it "standard operating procedure" to insert these provisions in all appropriate contracts. In doing so, the company will be creating convincing documentation, at virtually no cost and ensuring that it has taken reasonable and active steps to protect its trade secrets.

Florida law provides two legal tracks, civil and criminal, for relief if a person should wrongly steal, copy or misappropriate a trade secret. The Uniform Trade Secrets Act, which is a civil statute, affords injunctive relief and, if the circumstances are appropriate, future royalty payments. The Uniform Trade Secrets Act also authorizes the awarding of damages, including both damages equal to the actual loss caused by the misappropriation of the trade secret and damages equal to the amount of any unjust enrichment gained by the wrongdoer through the misappropriation. If the misappropriation is willful and malicious, the court may award exemplary damages in

an amount not to exceed *twice* the amount of both the actual damages and the unjust enrichment award. The statute requires that an action be brought within three years after the misappropriation is discovered. The statute also provides methods for preserving the secrecy of the trade secret during the court proceedings.

Pursuing civil remedies against a wrongdoer under Florida law does not preclude also seeking criminal sanctions against the same wrongdoer. The Florida criminal statute provides for civil remedies as well as criminal penalties. The circuit court may enjoin violations of the trade secret laws, it may order the wrongdoer to give up the trade secrets wrongly acquired and, as an extraordinary remedy, the court can order the forfeiture of the wrongdoer's corporate charter if the wrongdoer is a corporation. The criminal statute allows, in addition to the state attorney and other government prosecutors, "any aggrieved person" to seek civil remedies under the criminal statute. The statute of limitations under the criminal statute is five years. (Section 812.035, Florida Statutes.)

When the wrongdoer is located outside of the State of Florida, the federal Economic Espionage Act of 1996, which is a criminal statute, may be of particular use. This Act grants exclusive jurisdiction to the federal courts and is designed to facilitate national law enforcement efforts against the stealing or wrongfully copying or controlling of trade secrets. Although this federal Act contains many of the same provisions and definitions found in the Florida statutes, there is an additional requirement that the wrongdoer intended to benefit from the wrongful copying or control of the trade secret. The federal Act is intended to punish misconduct occurring in the United States or outside the United States if the wrongdoer is a United States citizen or permanent alien.

Because of the significant protections afforded confidential business information under the various trade secret statutes, each business should carefully review its procedures to confirm that it has taken active and reasonable measures to protect its confidential business information against disclosure to, or discovery by, unauthorized outsiders.