

# Protecting “Built-In” Trade Secrets

Written on September 3, 2010 by Christopher G. Hill in [Business of Construction](#), [Construction](#), [Guest Post Friday](#)

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*For this week’s Guest Post Friday, Construction Law Musings welcomes Ron Coleman. Ron is a partner and head of the intellectual property practice at [Goei Fitzpatrick LLP](#), a leading construction firm with offices in New York and New Jersey. His practice is focused on commercial and IP litigation and he, as he says, he relishes trial work. Ron has published extensively and is the co-author of a chapter in the first edition of [Business and Commercial Litigation in the Federal Courts](#), published by West and the ABA Section of Litigation entitled “Responses to Complaints.”*

*Ron’s blog on trademark, copyright, Internet law and free expression, [LIKELIHOOD OF CONFUSION®](#), is one of the most popular and widely-read IP law blogs in the English language. A frequent and popular presenter at continuing legal education and other venues around the U.S., Ron is also an ardent—but “non-Kool-Aid-drinking”—user of social media. You can follow his tweets at [@roncoleman](#) or via his [LinkedIn profile](#). Ron is a graduate of Princeton University and Northwestern University School of Law, and lives in northern New Jersey with his wife and four sons.*

As the intellectual property specialist in a construction law firm, it’s not that often that I get the opportunity to work directly with my colleagues on construction law issues. But an interesting question walked into my office a few weeks ago, and it was a great opportunity for me to broaden my own horizons and work with our contracts team to apply the concept of trade secrets in a context I would never have considered. My partner walked into my office and asked if he could run this by me:

“Our client constructs, as a subcontractor, a certain kind of widget installation in certain kind of buildings that does important things for those buildings better than everyone else’s widget can. Thingamabobs can’t compare to it, and don’t even suggest saving money by just installing a bunch of standard whatsits.” Sounds good, I said. “It’s a proprietary technology?” I asked. “Right. But it’s not patented. It a combination of technology and methodologies and all sorts of know-how they’ve brought together better than anyone else.” I was beginning to see the problem.

“They’ve been chosen to install one of these widgets in a big project by a major developer that builds these kinds

of projects all over the country," he continued. "Great!" I said. "If our client's widget works out, they'll have the chance to install them all over the place! Good for the client, good for us!"

"Not so fast," my colleague continued. "Our client has some concerns. In the past, the client has constructed these widgets as a stand-alone project at a given facility. It's never been a problem. They're simply the best at delivering their solution to the building challenge which is their specialty, and each installation they've done in the past has been a one-off." He assured me that controls were in place in past projects so that our access to our client's know-how was not compromised.

"This is different," I interjected. "More opportunity, but more exposure."

"Right," he said. "Now our client's client is the general contractor. And they're worried that, yes, the developer will love how our client's widgets work their wonders, and will want one in each new project of this kind it puts up."

"But the developer doesn't know our guys from Adam, right?"

"Not now, at least," he agreed, nodding. "So right now the client has no relationship with the developer, only the GC, and no commitment from either one of them for us to build widgets in any future project. For that matter, we have no way of knowing if the GC will reverse engineer the facility they construct and build it out not only for this developer but begin to offer it to the whole world. Our client wants the work, and it's a great opportunity to be part of these projects, but what can we do to avoid this subcontract being the last one it ever enters into?"

The answer, to me, was obvious: This know-how is a trade secret. And there are ways to protect trade secrets.

The trade secret is the least sexy kind of intellectual property. Unlike its more popular siblings—copyright, trademark and patent—the homely old trade secret is mainly protected by private means, rather than a grant of exclusive rights by the government. I say "mainly" because the fundamental protection of a trade secret is encompassed in its name and its three-pronged definition: It's a secret. Its owner is diligent to keep it that way. And it's worth money. And in theory those are things the owner of a trade secret can see to on its own. Trade secrets are as good as the maintenance of their confidentiality, and for as long. Unlike patents, the closest comparable intellectual property right, there is no term to a trade secret. Properly controlled by private means, they can last "forever"—just ask the people at Coca-Cola.

But we lawyers know better. We are charged with putting teeth in "private means." Sometimes keeping something secret requires a little enforcement muscle. There are three ways civil law takes over where honesty, security and technology leave off: (1) The Uniform Trade Secrets Act, which is law in most states (though none of the ones in which I practice!) and which defines a civil tort and remedies for misappropriation of trade secrets; (2) enforcement of the general duty of loyalty that employees (the people most likely to be given access to a trade secret) have, at least while they are on the payroll, not to disclose their employers' proprietary information to others; and (3) enforcement of contracts, including confidentiality agreements, entered into by people and companies given access to trade secrets.

That's what we needed here. What we didn't need, of course, was to blow up this engagement for our client by ripping open the draft contract or making structural changes in any way. Instead, we merely added a clause incorporating the terms of a standard stand-alone confidentiality agreement into the construction contract. Such an agreement typically:

- Defines the relevant “confidential information” as well as what materials—plans, blueprints, specifications, drawings, etc.—are encompassed in the restrictions over it;
- Includes an acknowledgment by the party receiving these confidences that these materials meet the legal standard for proprietary trade secrets amenable to protection as such, thereby removing a potentially thorny issue from prospective litigation;
- Commits the receiving party to non-disclosure except to specified categories of persons under specified conditions;
- Identifies what persons or entities have access to confidential information, and under what conditions and circumstances;
- Provides for appropriate dispute resolution mechanisms, venue, forum and fee-shifting as may be negotiated – typically, but not necessarily, consistent with the like terms found in the master construction subcontract.

Under these circumstances, we added a couple of other provisions which seemed within the realm of both reasonableness and achievability considering our bargaining position. One was a non-solicitation clause to make sure the GC didn't hire one our people, and the trade secrets inside him, out from under our client in the medium-run future. The other was provision entitled “non-circumvention,” a title which essentially acted as a camel's nose through the flap of the tent so we could introduce the following broad, but necessary, language:

**Non Circumvention.** GC shall refrain from any independent commercial utilization of Confidential Information disclosed by KNOW-HOW CO. Without limiting the generality of the foregoing, GC agrees not to, or to attempt to, circumvent, frustrate, impede, or exclude KNOW-HOW CO. regarding, without limitation, any idea, product line, or method of construction proposed by KNOW-HOW CO. GC further agrees not to enter into any transaction with any third party whether identified to GC by KNOW-HOW CO. or otherwise introduced to GC in connection with the Confidential Information, or directly or indirectly negotiate, enter into, or attempt to negotiate or enter into, any agreement or understanding, written or oral, or to participate, for its own account or as a broker or finder, in any such transaction or arrangement.

There's a lot of punch in that paragraph, all right, but it was also pretty hard for the other side to argue with. What could they say these restrictions were preventing them from doing which would be reasonable, under the circumstances, to go ahead and do? The sentence about a “third party” was perhaps the most important part of this paragraph of all, because it was the closest we could come to extending these protections to activities by the developer, at least with respect to this construction company. Ideally, we would have liked to include a clause, typical in other contexts, which would have required third parties getting access to the know-how to agree explicitly to these terms as well.

That wasn't going to happen here, and we had no interest in undermining the relationship between the GC and the developer. To the contrary, we had every reason to anticipate that they'd make beautiful music together in the future—and, we hoped, our virtuoso client would be asked to join in for future performances as well. Why not? After all, even IP lawyers and construction lawyers can harmonize, even if the construction guys do get into the office a tad early for the likes of us!

*Ron and I welcome your comments below. Also, please [subscribe](#) to keep up with this and other [Guest Post Friday Musings](#).*

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I am a [construction lawyer](#) in Richmond, Virginia, a LEED AP, and a member of Virginia's Legal Elite in Construction Law. I specialize in mechanic's liens, contract review and consulting, occupational safety issues (VOSH and OSHA), and risk management for construction professionals. Please join the conversation!

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