Things You Can't Unsee…Such As Trade Secrets

Intellectual Property Alert

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A federal appeals court has ruled that "features and functions" of software programs are not trade secrets, particularly when those with access are not required to sign confidentiality agreements. This ruling reinforces the need to have confidentiality provisions in all agreements related to software.

In the case *Warehouse Solutions, Inc. v. Integrated Logistics, LLC*, No. 14-14943 (11th Cir., May 8, 2015), the software owner Warehouse Solutions Inc. ("WSI") developed UPS and FedEx package tracking software. It hired Integrated Logistics ("IL") to resell the software to customers. It did not require IL to sign a confidentiality agreement relating to the software.

IL hired a software developer to create its own version of the software based on its visible features and functions, without informing WSI that it was doing so. The software's source code was not alleged to have been accessed or directly copied. Once IL's software was complete, it terminated the relationship with WSI and began selling its own software. WS sued for misappropriation of trade secrets.

In affirming the District Court's finding in favor of IL, the 11th Circuit highlighted the difference between the underlying source code of the program, which could still have been a trade secret (as it was not shown to users), and the client-facing visible features and functionality of the program, which were "readily apparent to authorized users." It would be difficult for WSI to claim a trade secret in the visual aspects of the software because distributing the software "necessarily revealed the information WSI alleges to be secret." Due to inherent difficulty in it being a trade secret, and because IL had not signed a confidentiality agreement with WSI, the court found that WSI had not taken "reasonably available steps to preserve the…secrecy" of the visual content, and it was thus not a trade secret.

In addition, although not discussed in the case, IL was apparently not sued for violating a noncompete agreement. This suggests that no such agreement was in place.

This case highlights the importance of business hygiene in software licensing, development and distribution arrangements. If a provider wishes its software's nonpublic features to be considered confidential, it is critical to have written agreements to that effect with licensees, developers and distributors that have access to the software. Further, particularly in the case of distributors and developers, well-drafted noncompete agreements

can help prevent those business partners from reproducing and reselling a provider's software offering.

Lawyers at McCarter & English, LLP, routinely advise clients on nondisclosure and confidentiality agreements and best practice methodology for software licensing and copyright, and continue to monitor the space for updates in this rapidly evolving area of the law.

If you would like additional information on this topic, please contact a member of the Intellectual Property practice or your lawyer at McCarter & English, LLP.