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Trade Secret Licensing

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No Trade Secret in Visual Aspects of Software: The Need for Non-Compete Agreements

A federal appeals court recently ruled that “features and functions” of software programs are not trade secrets, particularly when those with access are not required to sign confidentiality agreements. Because trade secret information cannot be “unseen,” this ruling reinforces the need for owners to have confidentiality provisions in all agreements related to proprietary software.

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

Integrated Logistics hired a software developer to create its own version of the software based on its visible features and functions, without informing Warehouse Solutions that it was doing so. The

software’s source code was not alleged to have been accessed or directly copied. Once Integrated Logistics’ software was complete, it terminated the relationship with Warehouse Solutions and began selling its own software. Warehouse Solutions sued for misappropriation of trade secrets.

In affirming the District Court’s finding in favor of Integrated Logistics, the Eleventh 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 Warehouse Solutions to claim a trade secret in the visual aspects of the software because distributing the software “necessarily revealed the information Warehouse Solutions alleges to be secret.” Due to inherent difficulty in it being a trade secret, and because Integrated Logistics had not signed a confidentiality agreement with Warehouse Solutions, the court found that Warehouse Solutions 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, Integrated

Logistics was apparently not sued for violating a non-compete agreement. This suggests that no such agreement between the parties 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 non-public 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 non-compete agreements can help prevent those business partners from reproducing and reselling a provider’s software offering.

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