

U.S. Court of Appeals for the First Circuit Makes Important Ruling Regarding Trade Secret Misappropriation and Non-Disclosure Agreements

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In an important ruling regarding trade secrets and non-disclosure agreements ("NDA"), the U.S. Court of Appeals for the First Circuit recently ruled on the standard that will apply to actions for misappropriation of trade secrets and nondisclosure agreements (NDAs). In doing so, the Court further concluded that the same stringent requirements established under Puerto Rico law to determine the validity of non-compete agreements apply in the context of NDAs.

In *TLS Management and Marketing Services, LLC ("TLS"), v. Rodríguez-Toledo, et. al.*, the plaintiff, an accounting services firm, sought to enforce trade secrets and non-disclosure agreements and prevailed on both claims in the U.S. District Court for the District of Puerto Rico.

In reversing the District Court, the U.S. Court of Appeals for the First Circuit held that in a trade secret misappropriation action, plaintiff must prove the alleged trade secret was (1) distinct from general knowledge; (2) not readily ascertainable; (3) had independent value; and (4) was subject to reasonable security measures. The court held that generally identifying different "methods or techniques" that could be used for a particular function without a description of their purpose did not constitute trade secrets. "In short, [...] trade secrets [...] were not identifiable" because plaintiff did not "separate the [purported] trade secrets from the other information . . . [that was] known to the trade." IDX, 285 F.3d at 584.

On the issue of the overly broad NDAs, the U.S. Court of Appeals for the First Circuit held that their enforceability is governed by the same principles which limit non-compete clauses as they "raise the same policy concerns" under Puerto Rico law. NDAs are overly broad if the restriction is unnecessary to protect the employer's business, unreasonably restrictive of the employee's rights, and prejudicial to the public interest. NDAs that (1) prohibit the use of general knowledge acquired by the employee, (2) prevent the disclosure of public knowledge, and (3) extend to information properly provided to the defendant by third-party sources will be held invalid.



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After this landmark opinion, clients are strongly advised to review and revise any confidentiality and non-disclosure agreements in order to ensure their validity and effectiveness.

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