

Safeguarding trade secrets

How to keep your company's intellectual property safe **Interviewed by Chelan David**

Ideas and closely held information, designs and processes are often a business's most valuable assets, and the law provides companies with tools to protect those assets.

Patent, trademark and copyright laws are the most widely known ways to protect new ideas, but while lesser known, the laws protecting trade secrets provide the better tool for companies to protect their confidential intellectual property.

"Protecting one's valuable trade secrets is not only a good business practice, it is also often necessary to maintain the protections afforded by trade secret law," says Donald Tarkington, the managing partner of Novack and Macey.

Smart Business spoke with Tarkington about how to protect trade secrets and how to make sure departing employees don't walk out with valuable information.

What information is covered by trade secret protection?

Trade secrets can include technical or non-technical data, compilations of information, marketing or financial data, manufacturing processes and lists of actual or potential customers. It covers virtually any information that is sufficiently secret that it derives economic value from the fact that it is not generally known and that the business makes a reasonable effort to keep confidential. Even information derived from public sources may be a trade secret if accumulating that information requires significant effort.

Courts look to six factors in evaluating whether information is a trade secret: the extent to which the information is known outside the employer's business; the extent to which it is known by employees and others involved in the business; the extent of measures taken by the employer to guard the secrecy of the information; the value of the information to the employer and to its competitors; the amount of effort or money expended in developing the information; and the ease or difficulty with which the information could be properly acquired or duplicated.

Do trade secrets need to be registered?

Trade secrets are not registered like a trademark or copyright. Nor are they applied for as with a patent. Unlike ideas that are patented, trademarked or copyrighted — which are protected even though they are publicly known — trade secrets are protected because they are secret and because their secrecy makes



Donald Tarkington
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the information valuable. As long as the information is secret, used in the business and valuable, it will be protected if the business takes reasonable steps to keep it confidential.

Why is it important for companies to protect their business practices, products, services or intellectual property?

Trade secrets are, by definition, confidential and valuable. They are an asset and should be protected. Businesses should be no more tolerant of someone taking their trade secrets than they would be of someone walking out the door with a valuable piece of equipment.

Protecting trade secrets is also important to preserving a business's legal rights. Under the Uniform Trade Secret Act, information is not a trade secret, regardless of how valuable it might be, if the business does not make reasonable efforts to protect its confidentiality. Businesses's efforts to protect confidentiality don't have to be perfect. What is reasonable will depend on the size and sophistication of the parties, as well as the relevant industry. But a business must take affirmative measures to protect the secrecy of its information.

How can businesses protect their trade secrets?

There are several measures a business can take, include marking information as confidential, keeping information in a secure

place, restricting access to those who need to use it, password-protecting electronically stored information, developing policies that require employees to keep the information secret and requiring anyone with access to sign a confidentiality agreement. For particularly sensitive information, businesses should work with their data processing professionals to restrict offsite access to electronically stored information and limit the ability to download or copy information.

How can businesses ensure departing employees won't take trade secrets with them?

As long as information qualifies as a trade secret, the law precludes employees from using that information after they leave. The best protection, however, is to require employees to sign confidentiality agreements in which they acknowledge that the information they were given is confidential and that they will not disclose it if they leave.

Confidentiality agreements can even protect information that does not meet the strict definition of a trade secret. When one employee with access to secret information leaves, disable his or her password and e-mail access and take back company issued laptops. It is also a good idea to review the usage logs on the employee's laptop and the company's computer network to see if there is any unusual copying or downloading activity.

If a nondisclosure agreement is violated, what steps should a company take?

If a business learns that someone is disclosing trade secrets to third parties, it should consider taking action against that individual and against the former employee's new employer. Possible actions include a suit for damages resulting from improper use of information and/or an injunction action against the former employee and new employer prohibiting the use or disclosure of the information.

Knowingly allowing trade secrets to be disclosed to third parties risks damaging a business's claim that the information is a trade secret. Deciding whether to take action against a former employee or a new employer should be considered on a case by case basis, but one thing that should be taken into account is that allowing the trade secret to be disclosed could destroy the value of the information and destroy the business's ability to seek protection of the information in the future. <<

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