

## The Increasingly High Stakes in Trade Secrets

by Thomas T. Chan

**H**ave you encountered any of the following scenarios?

- A foreign company pays the employee of an United States company for information on a special drug formula.
- A former bank employee solicits the bank's most valuable customer using the bank's customer profile.
- A software executive provides information on his former employer's software program to a prospective employer.

These are all actual occurrences which may be encountered by business executives on both sides of the equation. Each incident can be supported by legal claims under federal and/or state law. It is crucial that the executive recognizes a potential problem and seeks expert advice from his or her attorney.

Beginning in the 1980's, with the decline in the U.S.'s manufacturing base, came a increasing emphasis on intellectual property. More than 41 states have now adopted the Uniform Trade Secret Act covering misappropriation of trade secrets. Many of these states have also enacted criminal sanctions for misappropriation of trade secrets.

Federal law has always severely punished the disclosure of military technology under treason laws. Federal laws also cover dual use technology (technology which has both military and civilian applications) under the Export Administration Act and encryption technology under the International Traffic in Arms Regulations. With the passage of the Economic Espionage Act of 1966 (EEA), the federal law has now been extended to misuse of mainstream civilian information such as trade secret formula and financial information. Violation of the EEA, particularly by a foreigner, can result in severe criminal sanctions.

In California, trade secret law can be the principal legal tool to prevent employees from leaving to compete. In some states, trade secret protection has recently been expanded to cover potential misuse of trade secrets under the "Inevitable Disclosure Doctrine." In this way, trade secret law serves the same function as non-compete agreements. All of this makes it doubly important to know how to protect your trade secrets and avoid misappropriating those secrets of your competitors.

### Trade Secret Protection Plan

For your trade secrets to be protectible, you must take steps to treat them as confidential. Some measures that trade secret owners should consider in protecting their trade secrets are:

**1. Identifying Trade Secrets.** You need to identify trade secrets important to your business. Determine who generates the secrets and where they are located. You should be aware that the problem can arise when consultants and part-time

employees are involved or when the secrets are stored on laptop computers or at employees' homes. You should also evaluate whether any information could be better protected under copyright and patent law.

**2. Proper Notice.** Provide notice to people with access to your secrets that the secrets are confidential and cannot be disclosed without authorization. An example would be stamping trade secret documents with a "TRADE SECRET" legend.

**3. Restrict Access.** Limit access to secrets to minimize chances for misuse. Use passwords for files containing trade secrets. Shred drafts or outdated versions of secret documents.

**4. Confidentiality Agreements.** Require employees, suppliers, consultants and anyone who has access to your trade secrets to sign confidentiality agreements. These agreements create a claim of breach of contract in addition to misappropriation of trade secrets.

**5. Security Measures.** Adopt policies to give you the right to search employees' belongings and work areas, to monitor employees by camera, and to monitor telephone calls and e-mail. Be sure that none of these measures violate state or federal law.

**6. Exit Interview.** Caution departing employees of their obligation to keep your trade secrets confidential, as part of the exit interview.

A trade secret plan is the key to protecting your valuable secrets. Consult with your attorney to tailor the plan to the law and your company's needs. Through creative thinking, you can make great strides to preserve the value you work so hard to create.

### Avoiding Trade Secret Violations

In addition to implementing a plan to protect your own trade secrets, you should have a plan to avoid infringing others' trade secrets. It is important to take affirmative steps to avoid trade secret infractions and to know when to consult with your attorney about a potential problem. This is particularly crucial for a foreign company. The following steps should be considered:

**1. Policy.** Go on the record with your employees that disclosure, use or misappropriation of any other company's trade secrets will not be tolerated.

**2. Document independent development.** When you create trade secrets, preserve documents establishing the method of development used. This can assure you can prove they did not come from your competitor's trade secrets.

**3. Avoid hiring traps.** Before you hire a competitor's employee, assess the trade secret violation exposure the employee presents and implement appropriate avoidance. Evaluate the potential for misuse by the new employee and ways to avoid misuse.

**4. Nondisclosure Agreement.** Carefully review and limit the scope of nondisclosure agreement presented to you by suppliers and customers.