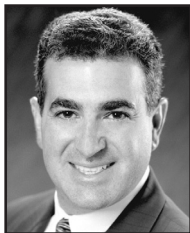


# PROTECTING YOUR TRADE SECRETS

## PART I



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No sensible businessperson would leave money lying around the office or keys to the company car in the ignition. But sometimes the most important assets of a company, its "trade secrets," are left completely unprotected. This article is the first in

a two part series. Because this month's edition is dedicated to manufacturing, we will discuss what trade secrets are and how to protect them from being misappropriated by competitors. In next month's edition, dedicated to human resources, we will discuss protecting trade secrets from being misappropriated by employees.

### What is a trade secret?

The term "trade secret" embodies a wide range of commercial and technical information and has no precise definition. A trade secret consists of any valuable formula, pattern, device, process or other information that is used in your business and gives you a competitive advantage over your competitors who do not know or use the information.

However, to be a "trade secret," the information must be a secret. Trade secrets do not include that information that is readily ascertainable or capable of being acquired by competitors or the general public without undue difficulty. Some things that are typically considered trade secrets are pricing formulas, customer lists, specialized software programs, devices, manufacturing methods or techniques, and testing processes. The

most famous example of a trade secret is the formula for Coca-Cola.

Trade secrets are very different from patents and trademarks. You cannot maintain both a patent and a trade secret on the same invention. They are mutually exclusive. Patents establish exclusive rights that prevent others from making, using or selling the patented subject matter. The trade off in getting a patent versus keeping a trade secret is that the patent, once issued, is published for the entire world to know. This means that nothing in an issued patent can be a trade secret by definition.

Trade secrets and trademarks are also exclusive of each other. A trademark is used to protect and increase the consumer's recognition of a particular company, whereas the purpose of maintaining a trade secret is to keep the underlying information away from the marketplace and competitors.

### Determining if something is a trade secret:

Whether the information is considered a trade secret depends upon:

- the extent to which the information is known outside your company
- the extent to which it is known to those inside your company, i.e., by the employees
- the precautions you take to guard the secrecy of the information
- the savings effected and the value derived by your company in having the information against your competitors
- the amount of effort or money expended in obtaining and developing the information
- the amount of time and expense it would take for others to acquire and duplicate the information

### Trade secret protection under the law:

Trade secret protection comes from common law dating back to the 1800's.

However, today almost every state has some form of trade secret protection law on its books. Most states use the Uniform Trade Secrets Act, which created a uniform body of law to protect trade secrets from unauthorized disclosure or misappropriation.

The Uniform Trade Secrets Act defines a trade secret as any "information, including a formula, pattern, compilation, program, device, method, technique, or process" that meets two requirements: (1) the information derives economic value (actual or potential) from not being generally known to the public or others who can obtain economic value from its disclosure or use, and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The law affords individuals a private right of action against those who misappropriate the trade secret and awards monetary damages and injunctive relief. However, these laws only protect those who take reasonable measures to protect themselves by safeguarding and keeping their trade secrets secret.

### How to protect your trade secret:

- Restrict access to the trade secret by preventing unauthorized entry into the facility where the trade secret is kept
- Get non-disclosure agreements from key employees who come in contact with the trade secret
- Get non-disclosure agreements for the trade secret from suppliers and other manufacturers, including sub-contractors, raw material suppliers and component manufacturers
- Get a confidentiality agreement from anyone that has direct or indirect contact with the trade secret
- Make only pertinent documents available to suppliers for the purpose of bidding or manufacturing

# PROTECTING YOUR TRADE SECRETS

## PART I CONT'D

• Mark all materials and drawings related to the trade secret with a proprietary legend, such as "Confidential," and restrict their use and disclosure.

Generally speaking, if you have to reveal a trade secret to a third party, you should have a qualified attorney prepare a confidentiality agreement which would typically include a statement as to what constitutes the trade secret and what the marking requirements are.

For trade secrets that are intangible and cannot be directly marked, such as a manufacturing or testing process, consider these steps: Define the trade secret in the confidentiality agreement, mark the physical area where the process is carried out with a restricted access sign, and institute measures for restricting access to the trade secret, such as a sign-in sheet and access verification check.

Simply telling someone that certain material or information is a trade secret may be enough to preserve the trade secret, depending on the extent and nature of the disclosure. But a written confidentiality agreement is far better since it is easier to enforce, and demonstrates a greater effort to protect the trade secret.

Whether you have a written confidentiality agreement or not, if you find that someone is misappropriating your trade secrets, you need to act quickly. While a lawsuit may not be necessary, your company should develop a reputation for swiftly and aggressively protecting its trade secrets. This reputation may help deter future misappropriation and save you money in the long run.

Most trade secret lawsuits involve at least one cause of action in equity. Litigating quickly avoids the equitable defense of laches. Laches is a legal defense based upon the idea that equity aids the vigilant and not those who sleep on their rights.

If you do not move quickly, the offending party can capitalize on any delay by asserting the laches defense and claiming they were unfairly hurt or prejudiced by the delay itself. If successful, this defense can bar an entire case.

Pick and choose your fights carefully, but do not be afraid to use the courts when necessary. Companies that aggressively protect their trade secrets develop a reputation, and competitors are less likely to challenge a seasoned fighter with a good record. Always consider

alternative dispute resolution as part of your enforcement strategy.

Negotiations, through mediation, non-binding arbitration, or other alternative dispute resolution methods, provide excellent opportunities to develop business solutions to business problems. For example, one of GM's chief executives left for Volkswagen and GM charged that he misappropriated valuable trade secrets. GM and Volkswagen settled their dispute by VW agreeing to pay GM \$100 million in cash and purchase \$1 billion of GM parts over three years. This is an excellent example of a business solution to a business problem that benefited both parties.

Properly designing and implementing a trade secret protection program can prevent your hard work and valuable assets from being snatched by your competitors.

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