

Guarding trade secrets

It's what the competition knows — and how its knows it. **Interviewed by Jerry Roche**

The term “trade secret” conjures up images of shadowy figures making clandestine deals in dark alleys as a clock somewhere in the background strikes midnight. But nowadays, trade secrets can be exposed and even passed around with one or two simple keystrokes on a home computer.

“You can't be too careful about guarding trade secrets, particularly now with telecommuters and hackers having access to company computers, and cell phones that can take photos of your business. Just because you're paranoid doesn't mean someone's not following you,” says Tom Newmeyer.

Smart Business spoke with Newmeyer, a founding partner of the law firm Newmeyer & Dillion LLP, about how to safeguard trade secrets.

What is a trade secret?

According to the Uniform Trade Secrets Act, it's defined as, “... information, including a formula, pattern, compilation or program that (1) derives independent economic value — actual or potential — from not being generally known to the public or to others who could 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.

Most businesses think of customer lists as something they want to protect. Another example of a trade secret is a formula, such as the one for Coca-Cola. The Coca-Cola formula hasn't ever been patented, but the company has kept it a secret for 100 years. Patents protect you, but once one runs out, everybody in the world can manufacture the product. Coke keeps its formula secret to protect its competitive advantage.

Why is it advisable for corporations to safeguard their trade secrets?

It all has to do with competition. You do not want somebody to take your trade secrets, your property, away from you and compete using that property.

Let's assume that I have a client list for all the department stores in my area. It's not a protectable trade secret because



Tom Newmeyer
Founding partner
Newmeyer & Dillion LLP

the information is public.

But if I am an insurance agency and spend years compiling a list of customers who purchase a particular insurance product, when their policies renew and what their premiums are, that is a trade secret I need to protect.

How do you safeguard your secrets?

First, you have to implement procedures to keep that information protected. Have all your employees sign an acknowledgment that certain information is confidential and belongs to the employer and that they will not disclose that information to anyone.

Next, restrict access within the company. For instance, restrict computer-accessed information with passwords that are given only to employees who need to know that information — and change the passwords frequently. You should also have policies denying visitors access to certain areas in the company unless they're chaperoned.

Unfortunately, as a result of today's technology, you can't be totally secure. A salesman may have his entire contact list on his cell phone. I don't know a way that you can actually protect informa-

tion on an employee's cell phone.

How does taking steps to protect your trade secrets make your company more secure?

Let's suppose a salesperson leaves the company and starts soliciting all those customers he serviced for you. If your customer list qualifies as a trade secret, under the law, you can get an injunction to keep that salesman from going after those customers.

You would need to file a lawsuit and seek a preliminary injunction. Nine times out of 10, the case is over if you get the injunction, because the person who's lost will not want to litigate whether they can contact the customers when the case is over. The case simply takes so long that all the value from the customer list to the competitor is gone.

Another problem is if you allow employees to access your computer from home. Someone can log into the computer, download all the contact info, print it out at home, and you'd never know about it. But if you have auditing software, you'll know immediately what they're up to. The software can be very valuable in getting an injunction, because it's proof that someone's violating the trade secrets.

What role does a law firm play in protecting trade secrets?

By advising the client how to protect its specific information. One of the big mistakes that a lot of lawyers make is that they don't tailor the language of “trade secret” to fit the particular customer. They make the definition of trade secret so broad that it almost means nothing at all.

At Newmeyer & Dillion, we try to find out what truly is important to the client and tailor the agreement so it stands a better chance of being enforceable.

We recommend that our clients protect the confidentiality of their trade secrets with employee policies and written agreements. And the policies and agreements should be written by knowledgeable counsel.

TOM NEWMAYER is a founding partner of Newmeyer & Dillion LLP. Reach him at tom.newmeyer@ndll.com or (949) 854-7000.