



## Stop, Thief: Protecting Your Confidential Information and Trade Secrets In the Portable Information Age

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This presentation is intended for general information purposes only and does not constitute legal advice. Specific questions and requests for legal advice should be addressed to legal counsel.



## The Big Picture

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- Employees are free to move unless a contract or a law says otherwise
- Contract overview
- Legal overview – multiple laws cover disloyal activity and theft of data
  - Trade secret laws
  - State and federal computer laws
  - Tort laws
  - Criminal laws
- Mistakes at time of employee moves can result in a bar to competition and/or damages

## Duty of Loyalty

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- Time, equipment and facilities
- Contacting customers
- Issues in recruiting incoming employees
- Issues for incoming and departing employees

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## Legal Mechanisms for Protecting Proprietary Assets

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- Trade Secrets – secret information
- Copyrights – works of authorship (software, content, compilations of data)
- Patents – inventions and technology (eventually becomes public)
- Trademarks – brands (identifiers of source)
- Contracts – restrictions agreed to in exchange for consideration

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## Trade Secrets Defined

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- “Technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique or process that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use.”
- Must actually be a secret or subject to “reasonable efforts” to be kept a secret.

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## What are “Reasonable Efforts?”

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- Must be reasonable under the circumstances
  - Appropriately tailored to the day-to-day business of a particular enterprise.
  - Reasonable efforts do not mean all conceivable efforts.
- Some courts look for active steps in keeping it a secret.
- Some factors used in deciding reasonableness:
  - Use of confidentiality/non-disclosure agreements
  - Security precautions (locks, passwords, badges, etc.)
  - Circumstances of disclosure to employees
  - Electronic communications, social networking policies
  - Passwords
  - “Need to know”
- Can disclose to employees or third-party agents if their assistance is vital to making the secret of value.

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## Some Factors in Determining Trade Secrets

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- Extent to which information is known outside of the business.
- Extent to which information is known by employees and others involved in the business.
- Extent of measures taken by the owner to guard the secrecy of the information.
- Value of the information to company and competitors.
- Amount of effort or money expended in developing the trade secret.
- Ease or difficulty with which the information could be properly acquired or duplicated by others.

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## Examples of Some Common Trade Secrets

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- Customer information (price, cost, margin, purchasing history)
- Formulas and methods for making products
- Codes for determining discounts, rebates or other concessions in a price list or catalogue
- Ingredients
  - Illustration: If the ingredients for a drink or food product are trade secrets, have them reboxed and coded with a number so that employees don't know what the ingredient is.
  - Illustration: When a drink is mixed outside the sight of the customers and only a limited number of people knows what goes in it, those are reasonable efforts to keep it a secret.  
*Mason v. Jack Daniel Distillery*, 518 So. 2d 130

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## Uniform Trade Secrets Act (UTSA)

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- Provides remedies for misappropriation and threatened misappropriation of a company's trade secrets by a former employee (or third party) with or without a non-disclosure agreement.
- Not enough to assert that a former employee is taking his skills to a competitor.
- 48 states have adopted it
  - Massachusetts and New York have not.

## Enforcing a Non-Compete or Trade Secret Claim

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- Temporary Injunctive Relief
- Permanent Injunctions
- Declaratory Relief
- Damages
- The finances of litigation and their impact on strategy

## Best Practices For Trade Secret Protection

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- Inventory of Confidential Information (necessary first step)
- “Need to Know” balancing (running the business vs. IP protection)

## Best Practices For Trade Secret Protection

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- Assessment/Revision of secrecy protection mechanism
  - Confidentiality Agreements for employees and vendors (in-house and third party)
  - Company policies, including “BYOD – Bring Your Own Device”
  - Log-in screens/passwords
  - Splash screens for computer networks
  - Information accessible on “need to know” basis
  - Discuss at annual meetings and training seminars
  - Physical security: locks, etc.
  - Remote access policies
  - Handbooks, computer use, electronic communication policies

## Best Practices For Trade Secret Protection

- Consultants and independent contractors
- Vendor and business partner contract issues
- Contingent labor issues
- IT and cleaning vendors
- Job site sign-ins
- Customer contracts

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## Best Practices For Exiting Employees

- Exit Interview Checklist
- Data Preservation
  - E-Mail and Data Servers
  - Remote access, print, and other logs
  - Laptop/Desktop gating issues – when and how to image? To store?
  - What to look for?
    - 3<sup>rd</sup> party device connections
    - Deletions (especially intentional)
    - Transfers
    - Printing activities
    - Remote access activities

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## Best Practices For Incoming Employees

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- Mirror of outgoing employees
- Written warning/agreement not to bring anything
- It is impossible to be too blunt
- Communications with supervisors about importance of not receiving information
- Special considerations for personal electronic devices
- Special considerations for third party devices

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## Ensuring Ownership of Proprietary Assets

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- Generally, authors and inventors own what they create
- Employment does not change this
  - Works made for hire
    - Work of authorship created within the employee's scope of employment or one of defined group of works commissioned under a written contract
    - Work of authorship applies only to copyrights
  - Fiduciary obligations
  - Hired to invent
  - Shop rights

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## Employee Documents

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- Employees should sign trade secret, copyright, and invention agreements
  - Special provisions in certain states - for example, MA, IL, CA, and UT
- Employees should be encouraged to memorialize creations (written trade secret record, invention record, etc.)