

SPECIAL REPORT: EMPLOYMENT LAW

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TAKE IT
WITH YOU

LAW: Trade Secret Agreements Are a Must to Protect Assets

BY EMMET PIERCE



Stephen Whalen

Ned Israelsen, managing partner of San Diego law firm of Knobbe, Martens, Olson & Bear LLP, said to keep trade secrets safe from competitors, companies should make sure their workers know they can be held financially liable for revealing confidential information.

When it comes to protecting trade secrets, the biggest obstacle businesses often face is overcoming their employees' inability to keep their work confidential.

It's human nature to share information, especially when you've learned something new and exciting, said Ned Israelsen, managing partner of the San Diego law firm of Knobbe, Martens, Olson & Bear LLP.

"It is amazing how often when I am sitting in a strategy meeting with a client and the people know what their competitors are doing," he said. "I will say, 'Is anyone else working in this field and what is the direction of their research?' More often than not, the people in the room will have the answer to what the competitors are doing."

To keep trade secrets safe from other businesses, companies should ensure their workers know they can be held financially liable for revealing confidential information, said Israelsen, whose law specialties include intellectual property and trade secrets.

A trade secret "can be any kind of information that is valuable because most people don't know it," he said.

Protecting Your Secrets

Protecting trade secrets is becoming increasingly important in the competitive business world, said Charles Hoge,

managing partner for San Diego law firm Kirby, Noonan, Lance and Hoge LLP.

"You should have your employees sign some sort of confidentiality agreement



Charles Hoge

that they will honor trade secrets and share them with no one," he said. "Get that in writing. Keep it in personnel files. Take steps to make sure no one who hasn't signed

a confidentiality agreement sees those trade secrets."

You also should limit access to trade secrets to only those workers who truly need to know about them, he added. If you don't take these steps and you have to go to court to protect your secrets, you may not be able to demonstrate that you took reasonable precautions.

Trade secrets can be a company's most valuable assets, said Jennifer Barry, a partner in the litigation department of Latham & Watkins LLP's San Diego office who represents clients in general commercial litigation, with a focus on intellectual property.

"Anytime a company creates processes



Jennifer Barry

that create economic value, they potentially can be trade secrets," she said. "It really can affect almost any company."

Breach of Contract Violation

An employee who violates a trade secret agreement can be sued for damages, although it is rare for anyone to go to jail, Israelsen said.

Violating a confidentiality agreement, meanwhile, is a breach of contract, he said. And a person who does so could be sued in civil court.

Each state has its own laws regarding trade secrets. If you convince the court you have lost sales because of a stolen secret, "you can collect your damages," Barry said. "If the misappropriation is found to be willful, you can also potentially get punitive damages and recover your attorney fees."

Israelsen said monetary damages in such cases can add up to millions of dollars.

"Most cases involve employees leaving and going to a competitor, or starting their own competitive company," he said.

And when there is criminal theft of trade secrets or industrial espionage, the case may be pursued by state or federal prosecutors, he said.

Economic Espionage Act of 1996 gives the U.S. Attorney General the ability to prosecute any person or company involved in trade secret theft. A defendant convicted for violating the act to benefit

a foreign government can be imprisoned for up to 15 years and fined \$500,000. Corporations and other organizations can be fined up to \$10 million.

Taking Secrets By Mistake

Not all trade secret thefts are intentional, Barry said. Many employees place personal information on the same computers they use for their jobs. When these workers resign to work for other companies, they may download personal music or photos onto a portable USB flash drive without realizing that someone at the company suspects them of stealing confidential information.

"What the company sees is that two or four days before you left, you connected a device and copied files," Barry said. "That is when you see forensic experts coming in. Sometimes there can be an inadvertent taking of files. There was not intent to use those files with their new employer."

So how do you prove that your trade secrets were stolen when the employee says the taking was accidental? It may come down to the credibility of the witnesses involved, Barry said.

She recommends that businesses conduct exit interviews before employees leave to remind them of what is confidential. If workers need to remove personal information from computers, it should be done under company supervision.

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