AT THE BAR

Keeping Secrets

Securing the crown jewels in a down economy

BY **LUCY PRASHKER**

I got a panicked call last week from a client who had just laid off one of his senior managers. New to this heart-wrenching process, this CEO had spent weeks running the numbers and hammering out what he thought would be a fair severance package. He had drafted his announcement to the staff and mapped out a transition scenario. He had scripted, rehearsed, and re-rehearsed the termination interview. He had carefully timed the interview, which, while painful, had gone essentially according to plan.

Believing that he had handled the termination as well as he could, my client finally was able to get a full night's sleep. But while driving to work the following morning, my client realized that there was one very important thing that he had missed: he had done nothing to secure the highly confidential and valuable company information to which his former manager had had free access, information that could cause my client irreparable harm were it to fall into the wrong hands.

In the world of intellectual property law, confidential information that provides a company with an advantage over its competitors is protectable as a "trade secret." Trade secrets can take many different shapes and forms, from manufacturing know-how to coveted customer lists, favorable contract terms to yet-to-be launched marketing and branding strategies, sensitive financial information to acquisition or merger plans. A trade secret can be as sophisticated as a chemical formula for a new production catalyst or as simple as a recipe for a five-star restaurant's signature fruit salad. Indeed, while often considered the poor cousin of other intellectual property rights in trademarks, copyrights, and patents, a company's trade secrets can often be among its most valuable assets, representing the "crown jewels" of the enterprise.

Where there are jewels, there is temptation, and the more valuable the jewels, the greater the temptation. Add exiting employees to the mix, and temptation can quickly turn to information theft. Recent statistics are quite alarming. One survey published earlier this year revealed that 59 percent of workers laid off during the prior twelve months admitted to having left with corporate information, including e-mail lists, financial and non-financial business information, customer lists, and employee records. In a second recent survey, a whopping 88 percent of IT professionals, when asked, said that if fired tomorrow, they would take corporate information with them. Scary stuff.

What can be done? We advise our clients to follow a five-step plan. First, you've got to identify precisely what valuable confidential information you have. While that may seem obvious, it is the most critical, but often missed, part of the plan. Many trade-secret misappropriation claims have flopped because the first time the complaining company cataloged its trade secrets was after the claimed misappropriation occurred—like closing the proverbial door after the horse is out of the barn.

Once the information is cataloged, step two is securing the confidential information against unnecessary or improper access. Trade secrets are entitled to protection only if reasonable steps are taken to keep them confidential. You should not allow outsiders access to your confidential company information unless they have signed a written nondisclosure agreement. Even within your organization, access to highly confidential information should be strictly limited to those with a genuine "need to know."

Step three is educating your employees. Company policies should be explained on, or even before, an employee's first day of work; delivering that lecture for the first time on the day of the exit interview is not going to get you very far. Employees need to understand from the start that they

have a legal obligation to keep confidential information confidential, not only during their employment but even after that employment ends. Employees should also have a clear understanding of what type of information the company considers to be confidential. Protection of confidential company information needs to be an important and visible part of your company culture.

Step four is requiring key employees who will have access to company confidential information—including senior managers—to sign confidentiality agreements. A confidentiality agreement tailored to protect your company's trade secret assets hammers home to your critical employees how seriously you take protecting your company's trade secrets. In certain situations, you may also want to consider asking employees with access to the most critical of your trade secrets to sign a limited noncompete agreement.

Five-step plan to protecting your trade secrets

1. Catalog your company's valuable trade secret assets.
2. Secure those assets against improper use or disclosure.
3. Educate your employees on their obligation of secrecy.
4. Use written confidentiality agreements with key employees.
5. Use exit interviews to underscore continuing secrecy obligations.

Step five is conducting exit interviews with all employees who have had access to sensitive company information. During that interview, review the employee's continuing obligations to keep secret information secret. Listen for any resistance and take note. Ask the departing employee to confirm that he has returned all company confidential information. Immediately terminate the departing employee's access to electronic data, and take steps to preserve all electronic files of the departing employee. When information theft does occur, the electronic data path of the departing employee during the final days or weeks of employment is often critical to proving misappropriation.

Of course, even with the five-step plan, you must have reasonable expectations. When faced with the trauma of an involuntary termination, employees with access to confidential company information may feel entitled to take it, no matter what the law provides. While there is no plan that can eliminate the risk of information theft, steps can be taken to reduce it. Have your "aha" moment now, and take a shot at closing the door before the horses go a-galloping. You'll sleep better for it. BBQ

A COMPANY'S TRADE SECRETS CAN OFTEN BE AMONG ITS MOST VALUABLE ASSETS, REPRESENTING THE "CROWN JEWELS" OF THE ENTERPRISE. WHERE THERE ARE JEWELS, THERE IS TEMPTATION.

*Attorney **Lucy Prashker** is the managing partner of Cain Hibbard & Myers PC, with offices in Pittsfield and Great Barrington, Mass. She is a frequent lecturer and author in the areas of intellectual property and Internet law.*