

ATTENTION BUSINESS OWNERS:

ARE YOU KEEPING YOUR BUSINESS SECRETS TO YOURSELF?

By: Joseph S. Heino, Davis & Kuelthau, s.c.

So, you have some company secrets. What business doesn't? You may have a confidential marketing strategy that your most aggressive competitor would covet, if only it knew that your strategy has been reduced to a private inter-office memo. Perhaps you have a closely veiled manufacturing method that an up-and-coming entrepreneur would salivate over, if only he or she could gain access to your facility and videotape the process. Or it could be the existence of a secret formula that one of your managers could steal, potentially turning him or her into your newest and biggest competitor, if only he or she could figure out how to smuggle it out of your laboratory.

While all of this sounds very clandestine, it is the stuff that gives you a leg up on your competition. You most certainly want to keep this type of confidential information to yourself and out of the "wrong" hands. There may, however, be situations where you need to place that same information in the "right" hands. But you should make those disclosures only under conditions that you dictate and that will not cause you to lose the confidential "standing" of that information. Here's how.

Regarding any "internal" confidential information, i.e. the type of information that some of your employees need in order to perform their jobs, you should have each one of your new employees sign a confidentiality agreement, also known as a non-disclosure agreement (or "NDA"). We'll discuss later what the typical NDA would include. You should also consider limiting circulation of all confidential materials and information and providing safeguards against unfettered distribution of that information. For example, you may want to consider

- centralizing confidential materials and information
- requiring that all confidential materials are accounted for and locked away at the end of the day
- restricting access to photocopy machines, keeping them away from or out of "secure" areas
- establishing a system for tracking the number of copies made

- restricting access to certain computer software and source code
- establishing a system for the destruction of confidential documents and media
- placing proprietary notices on all confidential materials and documents
- letting your employees know that what they are working on is to be treated as confidential

Keep in mind, however, that internal security is relative. Some measures will work with your business, while others will not, and each depends upon the size of your facility, the number of employees you have and the nature of your business.

As to third parties who may visit your business and who really shouldn't be anywhere near this type of information, you can secure that information by taking the simple step of limiting access to it. For example, you may want to consider

- distributing photograph identification badges to all employees
- requiring visitors to wait in a central area until personally escorted to the intended area
- prohibiting cameras or video equipment within your facility

There are other occasions where you will need to provide access to your confidential information to outsiders. For example, you may need to disclose sensitive financial information to a potential investor. Similarly, you may need to disclose confidential business method information to an interested and much sought-after venture capitalist. Or, you may need to disclose the details of a pending patent application to the vendor of a component part of your latest novel product. In these types of situations, you should have the recipient of such information sign a NDA as well.

But what is included in a well-drafted NDA? The parties to the NDA should be properly identified, who would be the "discloser" and the "recipient" of the confidential information. In the case of corporate recipients, you may want to specifically reference any subsidiaries of that corporate recipient that may reasonably be expected to become privy to this information. The confidential relationship should also be identified, as should the nature of the confidential materials or information. There are two schools of thought on this. One thought is that the material should be set forth with great detail, identifying documents by title, number of pages, and so on. But what happens if an unintended, but still confidential, disclosure occurs? That is, the stack of confidential blueprints that you just provided to your vendor also includes a page of critical production and marketing projections that was not intended to be shared but is confidential nonetheless. The other school of thought would protect such inadvertence

since it supports the notion that all provided information is to be treated as confidential, with some limited exceptions for information that is obviously already in the public domain, and so on.

The NDA should also identify the term of the agreement, and consider continuation of the obligation of continued secrecy for a period of time following termination of the agreement. Another area to consider is what remedy is available to you under the NDA for the recipient's disclosure to a third party, which disclosure is not authorized by you. The NDA could provide injunctive relief and thus lower the showing that you will need to convince the court that irreparable harm will be done without the issuance of an injunction to stop further disclosure. The NDA could also include the usual choice of law, non-assignability, and other provisions that are typically provided in other binding agreements.

Finally, you should keep in mind that each state regulates the validity of the NDA differently. It is advisable to seek legal counsel in the preparation of any NDA. Additionally, the NDA is only one part of an overall strategy to maintain the trade secrets of your business.

If you have any questions about such agreements, trade secrets, or business confidentiality in general, please contact Joseph S. Heino at (414) 225-1452 or jheino@dkattorneys.com.

©2008 Davis & Kuelthau, s.c. All rights reserved.