



**In Confidence**

**Putting in place a Trade Secret Protection Program**

**Port Morseby**

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**OPTEON**

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**Principal**

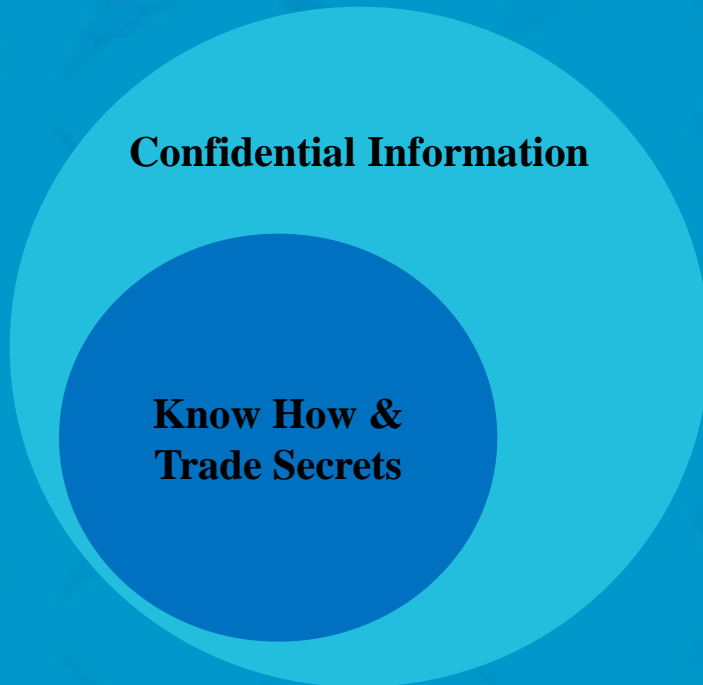
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# Trade secrets, Know How, and Confidential Information

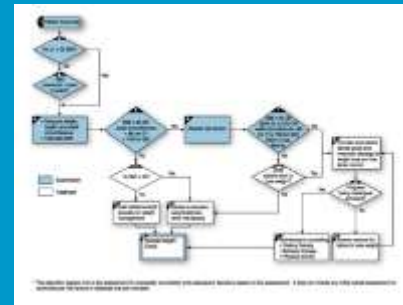
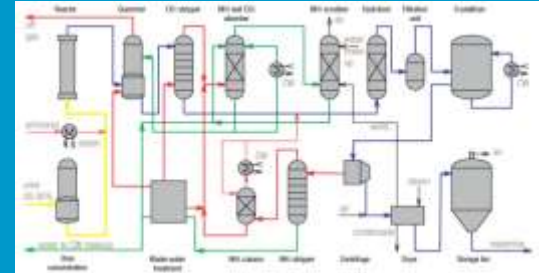
- Sometimes these terms are employed inter-changeably
- Is there a difference between them?
  - Know How and Trade Secrets
    - Secret knowledge of a technical or scientific nature
    - Both terms used interchangeably
  - Confidential Information
    - Includes Know How and Trade Secrets
    - Extends to non technical or scientific information, to include business, marketing, financial information, etc





# Examples Know How and Trade Secrets

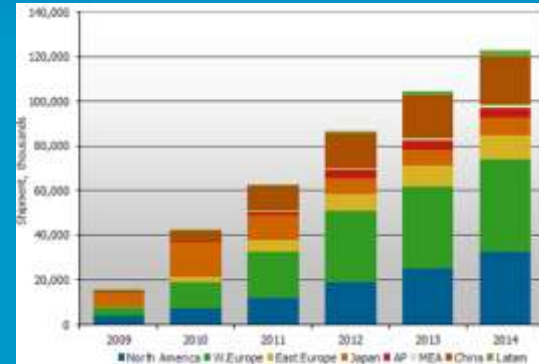
- Manufacturing know how or process
- Product formulation
- Software algorithms
- A business method
- Knowledge of the characteristics of a raw material the use of which gives a desirable result
- A tool that has been developed in house and is not generally available
- Anything that is patentable
  - Which is never patented
  - Which is in its pre-patent publication phase





# Examples Confidential Information

- Know How and Trade Secrets are technical or scientific Confidential Information
- Confidential Information which is not technical or scientific includes
  - Marketing Information and strategies
  - Financial Information
  - Customer Lists
  - Supplier Lists
  - Login codes
  - User names and passwords
  - etc



Expenses	June 30, 2012	June 30, 2011	CHANGE	%
<b>Program Services</b>				
Foster Care & Placement	11,154,087	11,286,006	(131,919)	-1.1%
Foster Care Medical Services	2,495,776	2,595,989	(100,213)	-4.3%
Group Home for Adolescents	1,799,791	1,837,026	(37,235)	-2.0%
Programs for Developmentally Disabled	6,756,142	6,151,907	604,235	9.8%
Early Childhood & Educational Programs	14,767,871	14,787,712	(19,841)	-0.1%
<b>Total Program Services</b>	<b>36,973,667</b>	<b>36,725,209</b>	<b>248,458</b>	<b>0.7%</b>
<b>Support Services</b>				
Management & General	3,515,392	3,347,644	167,748	5%
Foodservice and Public Relations	451,394	467,605	(16,211)	-3.5%
<b>Total Support Services</b>	<b>3,966,786</b>	<b>3,815,249</b>	<b>151,537</b>	<b>4%</b>
<b>Total Expenses</b>	<b>40,940,453</b>	<b>40,540,458</b>	<b>399,995</b>	<b>1%</b>
Results from Operating Activities	(44,496)	(468,431)	423,935	-91%
Results from Investment Activities	(290,940)	5,325,900	(5,616,840)	-105%

CUSTOMER CONTACT LIST			
Customer ID	Company Name	Contact Name	Billing Address
CU0001	A. Datum Corporation	Abercrombie, Kim	123 Main Street
CU0002	Adventure Works	Abolrous, Hazam	891 Cherry Lane
CU0003	Alpine Ski House	Abu Dayah, Ahmad	124 Alpine Lane
CU0004	Blue Yonder Airlines	Ackerman, Pilar	123 Main Street
CU0005	City Power & Light	Adalsteinsson, Gudmundur	891 Cherry Lane
CU0006	Coho Vineyard	Adams, Terry	124 Alpine Lane
CU0007	Coho Winery	Agarwal, Nupur	123 Main Street



# Characteristics of Trade Secrets

- Characteristics
  - Secret
  - Few people know it
  - Because few people know it, it has value or helps realise economic benefits
  - If everyone knew that information, then
    - it would lose its value
    - Or competitors could realise the same economic benefits
- Because it has value, those who know the information want to limit the number of people who know that information as well
- All the comments made about trade secrets apply equally to confidential information



# Characteristics of Trade Secrets

- Example 1:
- Source of a raw material
  - Company knows source, is able to obtain a supply of that material
  - Raw Material gives its product a superior quality
  - Its superior product is preferred in the market place
  - Has a competitive advantage against its competitors
- If its competitors
  - knew the source of the raw material
  - could access it as well,
  - Could produce the same superior product
  - then competitive advantage would be lost





# Characteristics of Trade Secrets

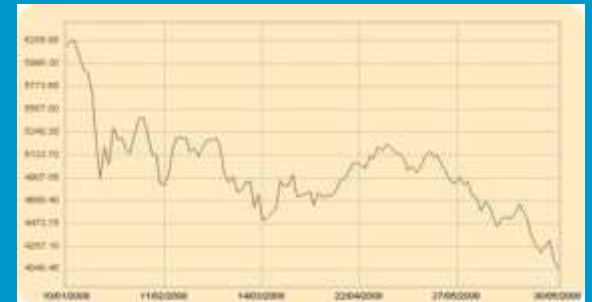
- Example 2:
  - Manufacturing process
  - Optimal temperature to manufacture item is 55°
  - Any less, or any more, there are greater energy costs, and greater overheads
- Company's competitors may or may not know that trade secret
- Company does not want its competitors to know that information, since if they did, their overheads would also be less, and competitive advantage may be lost





# Why protect Trade Secrets

- **Manufacturing know how**
- If the trade secret is manufacturing know how etc
- A company wants to ensure that its competitors do not learn of the manufacturing know how
- May result in loss of competitive advantage
  - Loss of competitive advantage may be so extreme as to put the company out of business







# Why protect Trade Secrets

- If the trade secret is a **Patentable inventions**:
- **Before filing the patent application**, the company will want to protect the trade secret so that there is no loss of novelty, which would disentitle the company from being granted its patent
- **After filing the patent application**, the company wants to protect the trade secret in case it allows the application to lapse and refiles a new application – it does not want to lose novelty
- After filing the patent application **and up to the publication of the patent** – it does not want its competitors forewarned about its patent
- After its patent application is filed, there may be **information that is not part of the patent application** that needs to be kept as a trade secret
- It may be a patentable invention that is decided **to maintain as a trade secret**, never to be patented.



# Why protect Trade Secrets

- Trade secret law
  - enables trade secrets and know how to be protected
  - Provides redress to an owner of a trade secret against a person that has misappropriated the trade secret
    - Damages for loss suffered
    - Injunction to prevent loss
- Trade secret law therefore
  - Provides incentive for trade secrets to be developed
  - Rewards the developer of trade secrets that expends resources and invests in the development of trade secrets
    - Especially when it cannot be protected by patents
- If there was no trade secret law, competitors could use the know developed, without having made the investment or incurred the cost



# How trade secrets are misappropriated

## Industrial Espionage

- Intense economic competition
- Competitors try to “steal” each other’s trade secrets
- Employ criminals
- Hacking computer systems
- Bribe – intimidate – threaten employees

## Employees

- Former employee that is disgruntled goes to a competitor
- Former employee goes to work for a competitor
- Former employee sets up a competing business



# How trade secrets are misappropriated

- Some countries have introduced specific laws to address this
  - United States:
    - Economic Espionage Act of 1996
    - [18 U.S.C. §§ 1831–1839](#)
    - **18 U.S. Code § 1832**
- (a) Whoever, with intent to convert a trade secret, that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly—
- (1) steals or by fraud, artifice, or deception obtains such information;
  - (2) copies, such information;
  - (3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated without authorization;
- shall, be fined or imprisoned not more than 10 years, or both.
- (b) Any organization that commits any offense described in subsection (a) shall be fined not more than \$5,000,000.



# Who do you protect trade secrets from?

- Broadly
  - Competitors
  - Anyone that may disclose to your competitors
- More specifically:
  - Competitors
  - Employees
    - Current
    - Former
  - Contractors
    - Current
    - Former
  - Customers
  - Visitors to your premises



# Limitations of trade secret law

- Another person can independently develop the trade secret / know how
- You may not know that
  - Even if you did, you cannot prevent another person independently developing the trade secret / know how themselves
- Each person that independently develops the trade secret / know is entitled to use it
  - There is no exclusivity in trade secrets and know how in the same way that there is with patents
- But although you cannot stop another person independently developing trade secrets
  - You do want to stop the unlawful misappropriation of your trade secrets



# Controversies in trade secret law

- What is the difference between
  - An employee's skills and experience that makes the employee employable
  - An employer's trade secrets that an employee cannot use?
- Where is the boundary between the two ?
  - The boundary is blurry.
- On the one hand an employee should be able to use skills and experiences
- On the other hand an employer legitimately expects the protection of its trade secrets
- No clear answer. Every occasion considered on its merits



# Trade Secret Protection Program

## Identify your Trade Secrets (and other IP)

- You cannot protect trade secrets unless they are recognised and identified
  - If they are not identified
    - Protection strategies cannot be put in place
    - Risk of loss of secrecy
- Have a policy that encourages, provide incentive for and rewards employees to
  - Recognise
  - Identify
  - Disclose to the employertrade secrets (and other IP) used in the workplace





# Trade Secret Protection Program

## Educate Staff about Trade Secrets (and other IP)

- Staff will be unable to recognise and identify trade secrets (and other IP) if they do not know what it is
- Risk of loss of secrecy and loss of IP, simply because it was not known or appreciated to be a trade secret (or other IP)
- Educate staff about trade secrets and IP
  - Make them aware of what it is
  - Enables them to recognise, identify and disclose to their employer



# Trade Secret Protection Program

## Educate staff about the employer's trade secret policy

- Make staff aware of
  - The employer's policy about trade secrets
  - What the policy states about
    - Protecting trade secrets
      - from disclosure to
        - Competitors
        - Contractors
      - By confidentiality agreements
    - Consequences of misuse or disclosure



# Trade Secret Protection Program

## **Have a trade secret (and other IP) audit and inventory**

- Undertake an audit of your trade secrets (and other IP)
- Purpose of the audit is to identify your trade secrets (and other IP)
- Methodically review all processes in the workplace
- Prepare an inventory of all trade secrets (and other IP)
- Now that trade secrets (and other IP) have been identified, and included in an inventory, protection strategies can be put in place



# Trade Secret Protection Program

## Record the trade secrets (and other IP)

- Very often trade secrets are lost because their knowledge resides solely in the mind of a particular employee
- That employee may have developed the trade secret by trial and error (eg an optimised manufacturing process)
- When that employee
  - Resigns, moves to another employer, or sets up competing business
  - Retires
  - Diesthat trade secret is lost forever
- Record trade secrets in a manual, so that changes in staff do not result in trade secret loss.



# Trade Secret Protection Program

## Confidentiality Agreements

- Ensure that confidential information is never disclosed to outsiders without there first being a confidentiality agreement
  
- Which outsiders may you want to disclose to:
  - Contractors that you are considering engaging
  - Persons with whom you may need to make disclosures
    - Possible business associates
    - Possible licensee
    - Possible investor
    - Possible collaborator
    - Possible joint venture partner



# Trade Secret Protection Program

## Confidentiality Agreements

- What should a Confidentiality Agreement say:
- Recipient must not disclose Confidential Information without Discloser's prior written consent
- Recipient may use Confidential Information for the specific stated Purpose
- Recipient must not use Confidential Information for any other purpose
- Obligations continue for
  - An agreed period (eg 5 years), or
  - Indefinitely, until Confidential Information enters the public domain



# Trade Secret Protection Program

- **Confidentiality Agreements**
- Other terms
  - Obligations of confidentiality cease / do not apply to Confidential Information
  - in the public domain
  - That the Recipient already knows
  - That the Recipient independent independently develops
  - To the extent there is a legal obligation to disclose
- Consider a term:
  - Parts of Confidential Information in public domain, but their combination is unique, so that those public domain parts, and their combination, remains confidential information



# Trade Secret Protection Program

## “Need to Know” criteria for what confidential disclosures to make

- When making disclosures under a Confidentiality Agreement, not necessary to disclose everything
  - Be judicious about what is disclosed
  - Not everything has to be disclosed
  - Decide what needs to be disclosed for the purpose of discussions with
    - Licensee
    - Investor
    - Contractor etc
- and limit disclosures to those that are needed only





# Trade Secret Protection Program

## Confidentiality Obligations upon Employees

- Ensure that
  - all employees are subject to a written employment agreement
  - Written employment agreement contains obligations of confidentiality
  - Employee
    - must maintain in confidence
    - Must not disclose other than in the course of the employer's business for
    - Must not use for purpose other than the employer's purposes
- Obligations
  - during employment
  - after employment ends



# Trade Secret Protection Program

## Confidentiality Obligations upon Contractors

- Similar obligations upon contractors
- Contractors need confidential information for the purpose of the engagement
  
- Same obligations upon contractors
  - Written agreement
  - Obligations of confidentiality and non disclosure
  - Obligations not to use other than for purpose of engagement
  
- Obligations
  - During the engagement
  - Continue after the engagement has ended



# Trade Secret Protection Program

## “Need to Know” criteria for employee access

- Not all employees need to know all confidential information
  - If all confidential information is freely available, there is a higher risk of leakage of confidential information
  
- Identify
  - Which employees
  - Need which Confidential information to be able to do their job
- Confine knowledge of specific trade secrets and confidential information to those that need to know that information to do their job.
  
- Same approach for contractors



# Trade Secret Protection Program

## Employment restraint provisions

- Difficulty of relying totally upon Confidentiality obligations is that an employer may not be able to detect whether a former employee is misusing the employer's trade secrets and confidential information
- Consider restraining employees from competing with the employer after they resign
- Under a restraint provision employee agrees
  - as an employee for another employer, or employee himself / herself, or through a company or other structure
  - In an agreed Territory
  - For an agreed Periodnot to be engaged in a competing business



# Trade Secret Protection Program

## Employment Exit Protocol

- Consider an Employee Exit Protocol
  - Exit Interview
    - Identify trade secrets known by the employee
    - Effectively undertake an audit of the trade secrets known by the employee
    - Reinforce the trade secrecy policy of the organisation
    - Reinforce provisions in employment contract about
      - Confidentiality
      - Non use
      - Restraints
  - Send an Exit Letter confirming trade secret policy and employment contract provisions



# Trade Secret Protection Program

## Mark documents as “Confidential”

- Important to do so when sharing documents under a Confidentiality Agreement
- The Recipient is immediately put on notice that the document is disclosed under the terms of the Confidentiality Agreement
- Important to label documents in the same way within the organisation
- So that staff are alerted to the confidentiality of the document
- Also helps to avoid documents from being carelessly lying around



# Trade Secret Protection Program

## Computer Security Policy

- Part of the implementation of the “Need to know” strategy
- Keep trade secrets and Confidential information in restricted parts of a server
  - Do not allow all employees to have access
  - Allow specific employees to have access with their own login codes
- Make sure that employees do not share their login codes
- Have a computer policy / privacy policy
  - That computer is owned by the employer
  - That all information accessed / stored on the computer is accessible to the employer



# Trade Secret Protection Program

## Physical security

- Some trade secrets and confidential information are not computer stored
- Or, it may be encompassed in equipment
  
- Keep physical locations secure if they contain trade secrets
  - Restrict access to those locations
  - Only those employees entitled to be there should be there
  
- Keep locations locked with secure electronic access
  - Record who has access in and out





# Trade Secret Protection Program

## Visitors

- Visitors to your premises may learn of trade secrets by observation and deduction
  
- Have a Visitors Policy
  - Restrict visitors to reception area and adjacent meeting rooms, with remaining part of premises not able to be accessed with a key
  - If visitors must go to other areas
  - Have visitors sign in and sign out
  - Have them accompanied at all times
  - Restrict where they go to eliminate leakage of trade secrets by observation and deduction