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DEFEND TRADE SECRETS ACT: USE IT FOR MAXIMUM ADVANTAGE

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Every Illinois manufacturer has hard-earned and valuable trade secrets. A strong human resource function is a key element in make sure that they are protected. Through employee non-disclosure agreements and various employment handbook provisions, manufacturers can attempt to keep their trade secrets for their own use and benefit. Beyond and in combination with those tools, the Federal Defend Trade Secrets Act can help to protect those trade secrets from being stolen. But, such protections do not come automatically. Rather, manufacturers need to understand what information constitutes a trade secret, what conduct by employees and third parties is unlawful, what advantages the Act gives to manufacturers, and what manufacturers can do to maximize the protections of the Act.

Not All Business Information is a Protectable Trade Secret

A trade secret is information that has its own actual or potential economic value because others do not know it and cannot properly get it and because, if they do, others can gain value from disclosing or using that information.

A trade secret does not have to be kept in

a particular form. Instead, the Act protects all kinds of financial, business, scientific, technical, economic, or engineering information that is stored including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.

When is a Trade Secret Wrongfully Misappropriated?

Every company has employees who come to know trade secrets as essential parts of their jobs. Yet, trusted employees can become adversaries as they become competitor's employees carrying trade secrets with them. Takers and receivers of trade secrets can violate the Act. Takers, like soon-to-be ex-employees, wrongfully use improper means like transferring electronic information onto thumb drives or CDs or simply steal documents, unlawfully misappropriate such trade secrets when they had duties not to do so. Receivers of such information, like new employers or other competitors, know that the takers have gotten the trade secrets improperly and then such

takers took it intentionally and for their own benefit.

What is So Good About the Act for Manufacturers?

The Act provides several key benefits to manufacturers beyond those under existing state law. First, the Act allows companies to sue takers and receivers of trade secrets in federal court under a single law without customary jurisdictional limitations such as citizenship of the parties or the specific limitations as to the amount at stake. The Act also allows companies to use existing state law as an additional basis for protection. That relief under the Act takes the form of several different procedural weapons including a court seizing stolen trade secrets, temporarily or permanently enjoining others from using those stolen trade secrets, and awarding victims compensatory, punitive damages, and attorneys' fees and costs.

Manufacturers Must Take Reasonable Actions to Maintain the Secrecy of Their Trade Secrets

Just because companies think that certain information is a trade secret does not make it so. The Act puts the burden on the company to make sure that it takes reasonable means to keep the information a secret. Yet,

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carrying this burden can be easier said than done if companies do not affirmatively protect it. Such protections exist in a number of forms including:

- (1) limiting access to the information to only those who need to know it;
- (2) making sure that those who do have access have executed confidentiality and non-disclosure agreements;
- (3) protecting unauthorized access to the information through password protections, encryption, and copying limitations of electronic information;
- (5) having clear electronic use policies;
- (6) providing physically locked barriers for hard copy information.

Employment handbooks should also have explicit provisions so that employees know what trade secrets are, what uses of those secrets are permissible, and to make improper receipt or disclosure of trade secrets conduct that subjects and employee to discipline and possibly termination. Companies should also make sure that third parties who have access to trade secrets while performing services have signed non-disclosure agreements and are only given access to information needed to provide such services.

Companies often believe that lists of

customers, pricing, and margins are confidential. Theft of customer lists and related information constitutes a substantial cause for trade secret disputes. However, Courts interpreting and applying the Act look closely at what companies do to keep the information in such lists a secret. That is, if a list is known by or accessible to anyone in a business simply because they work there, courts may not be inclined to find that the Act protects the list because the company failed to keep it secret. The same result can occur with formulas, designs, and financial data.

Confidentiality and Non-Disclosure Agreements Should Be Tailored to Protecting Secrets

To maintain the Act's protections, employee agreements must be tailored to focus on what is necessary to protect a company's trade secrets. Courts may not enforce overly broad or general agreements. More than that, the Act requires that all such agreements and internal policies must clearly note that employees and independent contractors are immune from liability if they take or use information as whistleblowers to report violations of law to governmental

officials or to discuss with their attorneys in relation to company disputes. Failing to provide such express provisions in key employment and contractor agreements can preclude a court from awarding punitive damages and attorneys' fees in potential litigation.

Protection Against Being a Wrongful "Taker"

No doubt, employees do move from one employer to another. In those situations, it is important for a new employer to make sure that a potential employee does not have trade secrets belonging to a third party or others. Similarly, the new employer should confirm that the potential employee does not have a non-disclosure agreement with a prior employer. Assuring this in a document that the potential employee signs and affirms these points is a key component to avoid being dragged into a lawsuit.

Protection of trade secrets is a team effort involving all members of a manufacturer's leadership and human resource teams. Regardless of the breadth and benefits of the Act, everyone in the company must take affirmative steps like those noted here to maintain the protection the Act affords. ♦