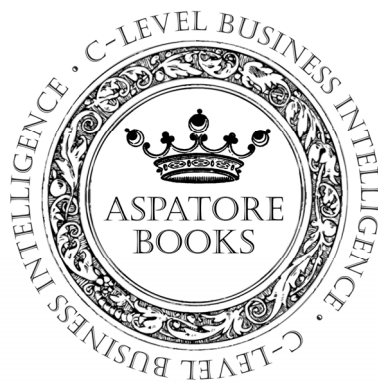


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Intellectual Property Law 2008

*Top Lawyers on Trends and Key Strategies
for the Upcoming Year*



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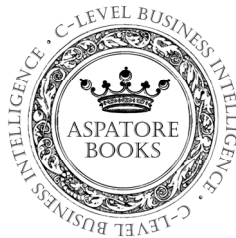
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Trade Secrets and Confidential Information: Protection and Management in 2008

James L. Forman

Member

Oberman Thompson & Segal LLC



Introduction

Just like other forms of intellectual property, trade secrets and confidential information are key business assets that need to be protected and managed appropriately. If protected and managed appropriately they can enhance a company's marketplace position, generate goodwill for the company, and increase the company's profits and value.

Trade secrets and confidential information come in a wide variety of "shapes and sizes" as they could be formulas, software code, plans, methods, processes, pricing information, sales information, or customer information. Businesses use trade secrets and confidential information to manufacture product, market and sell services or products, or license products and services. Lenders or equity providers will look to the businesses' trade secrets and confidential information in providing financing to businesses. Trade secrets and confidential information are assets that get addressed in the selling or buying of businesses or their assets. Issues related to trade secrets and confidential information often arise in the employer/employee and independent contractor contexts.

This chapter discusses some things that businesses should be sensitive to with regard to managing their trade secrets and confidential information in 2008.

Auditing the Businesses' Trade Secrets and Confidential Information

I would encourage businesses to take the time to conduct a thorough audit of the current status of the protection of their trade secrets and confidential information. These audits take time, labor, and financial resources. Businesses are coming to realize more and more that auditing in this context may reduce the amount of time it will take to respond to a potential loss or crisis and create a greater chance to enhance profitability and value.

One thing businesses should audit is the status of their contracts. For example, do the businesses know where the executed versions of the contracts are maintained? For that matter, do they know if the contracts have actually been executed by all parties? Second, do the contracts need to be modified or can they be modified? Third, what happens if the contracts are not adhered to by the other party? Are the businesses prepared to act

quickly because in these cases time is of the essence? Fourth, do the audits show that old documents need to be updated for going forward purposes?

In the auditing of contracts, businesses may ask certain questions, including: Do their employee agreements, handbooks, independent contractor agreements, license agreements, customer and vendor contracts, and/or non-disclosure agreements contain appropriate trade secrets and confidential information clauses, along with non-compete or non-solicitation and other protection types of clauses? If so, are the clauses consistent with the appropriate jurisdictional laws? Are there remedies provisions? If so, do they specifically provide for restraining order, preliminary and permanent injunctive relief, attorneys' fees and costs? Do they address irreparable harm and the lack of an adequate remedy at law? Do the agreements have a choice of law provision and a forum selection provision? If so, has restraining order and injunctive relief been thought about with regard to these provisions? Is there a survivability clause? Is there a clause that addresses what happens if the business does not enforce the clauses? Is there a modification clause? Is there a clause about providing the contracts to third parties for enforcement purposes? Is there a clause requiring the return of all business property?

Another part of the audit process is to look to see if the requisite steps are being taken to maintain the confidential nature of the trade secrets and confidential information. Are the businesses telling others that these assets are very important to their businesses and that they take seriously protecting and enforcing their rights? Do the businesses restrict access to trade secrets and confidential information to only those who need access to it? Are the trade secrets and confidential information stamped or labeled in bold print something like: “**Confidential/Proprietary/Trade Secret**”? Are the trade secrets and confidential information stored in a safe and locked up place? Do businesses use passwords with their technology (computers, etc.) for the purposes of access?

Certain Relationships

As noted above, businesses need to address trade secrets and confidential information in a number of contexts. Two contexts are addressed immediately below.

Employer/Employee Relationship

One area where trade secret and confidential information issues often arise is with the departure of key employees. Key employees leave their employers for many reasons; some go to work for or with competitors, some leave alone, others leave in a group. Some critical questions that relate to potential departures include Will they try to take the trade secrets and confidential information with them? If so, will they use the trade secrets and confidential information to compete? Is this inevitable if they go to a competitor? Have they already done so?

It is certainly important in these contexts to have the appropriately executed documents and protection procedures in place as discussed above. Any trade secret and confidentiality agreement should be bolstered with non-compete and non-solicitation type protections. However, businesses should consider other steps as well.

One step to consider is conducting an exit interview of the employee. In this interview, the businesses may learn the employee's plans for the future. The businesses can also request and hopefully, obtain all of their property before the employee actually departs.

Another important step to consider is managing the data contained in their employees' business computer. Businesses should have procedures in place to protect the information in their computers if a key employee departs and know what to do with departed employee's computer. These policies should consider forensics and privacy laws.

Independent Contractor Relationships

In 2007 there appeared to me to be an upsurge in the usage of independent contractors and consultant services as well as the outsourcing of services. To the extent that businesses are using these kinds of services and allowing these providers access to certain trade secret and confidential information, appropriate contractual protection language is needed and protection techniques should be implemented.

Restraining Orders, Preliminary Injunctions and Permanent Injunctions

Generally, restraining orders, preliminary injunctions and permanent injunctions are extraordinary equitable remedies. The courts have discretion as to whether or not to impose restraining orders, preliminary injunction and permanent injunction remedies, and because of their nature, courts are very cautious in doing so. Restraining order matters and sometimes preliminary injunction matters are by their nature time urgent.

In the patent context, until early 2006, many felt that once a party prevailed on the merits in a patent case that party was entitled to a permanent injunction. In 2006, the U.S. Supreme Court, in the case of *eBay v. MercExchange*, 126 S.Ct. 1837 (2006), dispelled that notion. Instead, the Court held that: “[a]ccording to well-established principles of equity” a party seeking to obtain permanent injunctive relief:

“...must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and the defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”

Since the issuance of the *eBay v. MercExchange* opinion some lower federal courts have applied the holding to copyright and trademark cases. Further, some lower federal courts have applied it to preliminary injunctions in various federal intellectual property cases. Additionally some lower federal courts have also said that in light of *eBay v. MercExchange* irreparable harm is not to be presumed.

In 2008 businesses should be evaluating the potential impact of the *eBay v. MercExchange* decision on their trade secret and confidential information practice. Does it apply to trade secret and confidential information claims, and if so, how? What effect, if any, will the decision have on how the businesses approach litigation with regard to things like, burden of proof, speed of obtaining the sought relief, or jurisdiction? Can language be drafted for documents to reduce the potential impact of *eBay v. MercExchange*? Should a heightened effort go into managing and protecting

the trade secrets? Will businesses be more inclined to provide trade secret protection to certain assets as opposed to patent protection?

Conclusion

Trade secrets and confidential information are critical assets of any business. In 2008, with assistance from counsel, businesses should take the time to appropriately audit, protect, enforce, and manage their trade secrets and confidential information.

James L. Forman is a member of the law firm Oberman, Thompson & Segal LLC. The firm focuses its practice on labor and employment law and business and commercial litigation. Mr. Forman concentrates his practice in the area of business and commercial litigation with an emphasis on cases involving non-compete agreements, trade secrets, confidential information, and various forms of extraordinary emergency equitable relief, such as temporary restraining orders and preliminary injunctions.

Mr. Forman has been recognized a number of times:

- *“Super Lawyer”—Minnesota Law & Politics (2001, 2003-2006)*
- *Donald G. Balmer Citation—Lewis & Clark College (2005)*
- *David Graven Public Service Award – Mr. Forman served on the MSBA’s Katarina Relief Fund Task Force, which received the 2006 David Graven Public Service Award*
- *“Forman Advocates for Children” –Lewis and Clark College Chronicle, Vol.11, No. 2 (Winter/Spring 2002)*
- *“Champions of the Children” – the Magazine of St. Paul Academy and Summit School (Summer 2001)*
- *“100 Who Made a Difference” – William Mitchell College of Law (2001)*
- *“Attorneys with a Heart” – Minnesota Lawyer (February 20, 1998)*

Mr. Forman devotes significant time and service to nonprofit organizations. Currently, he is trustee of Lewis & Clark College (Portland, Oregon), a director of the National Institute on Media and the Family (Minneapolis, Minnesota), a director of the Loan Repayment Assistance Program of Minnesota (Minneapolis, Minnesota), and a member of the St. Paul Chamber Orchestra’s Governing Member’s Program (St. Paul,

Minnesota). He is also a former trustee of the William Mitchell College of Law (St. Paul, Minnesota).

Mr. Forman has also been very active with the American Bar Association. He is a fellow of the American Bar Foundation, a fellow of the ABA's Young Lawyers Division, a past-chair of the ABA's Steering Committee on the Unmet Legal Needs of Children, a past member of the ABA's Commission on Homelessness and Poverty and a past member of the Editorial Board of the ABA Business Law Section's – Business Law Today.

Mr. Forman has written about or spoken on a number of topics, including noncompetition agreements, business valuation, preliminary injunctions, intellectual property audits, financial institution litigation, and the legal needs of children and the homeless. Additionally, he is currently a co-adjunct clinical professor in the Business Law Clinic of William Mitchell College of Law.

Mr. Forman was admitted to practice law in Minnesota in 1985. He is a member of the Hennepin County, Minnesota State, Federal, and American Bar Associations. He is a 1985 graduate, cum laude, from William Mitchell College of Law, 1981 Lewis & Clark College graduate (B.A. in political science) and 1977 of St. Paul Academy and Summit School.

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