

## AN OVERVIEW OF CONFIDENTIAL INFORMATION/TRADE SECRET PROTECTION FOR EMPLOYERS

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### Establish A Confidential Information/Trade Secret Protection Program

Give your business a competitive advantage and reduce the opportunity for others to benefit from the time, effort, and money you spend to develop information, for your research, and in connection with other action you take to produce your products and/or provide your services. You can do this by establishing a confidential information/ trade secret protection program that may include an invention acquisition policy for what your employees create.

This type of program should include the following action and elements.

1. Prepare and adopt a written policy that covers confidential information/trade secret protection.
2. Establish procedures to maintain information confidential and secret.
3. Require permanent and temporary employees to sign a *Non-Disclosure Agreement*.
4. Require a separate non-competition agreement, when appropriate.
5. Do not disclose your information to consultants, suppliers, customers, or other non-employees until they sign a *Non-Disclosure Agreement*.
6. Take steps to avoid improperly obtaining confidential information that belongs to someone else.
7. Conduct an exit interview with each departing employee upon employment

termination and have him/her sign a *Confidential Information Reminder/ Document Return Acknowledgement*.

8. Let subsequent employers know about your former employee's non-disclosure obligations to you.

9. Acquire rights to your employees' inventions.

### What You Can Protect As Confidential/Trade Secret

Confidential/trade secret information can be: customer and supplier names, addresses, and telephone numbers; the whole or any portion or phase of any scientific or technical information, design, process, procedure and/or formula; business and financial information; product specifications; equipment you use including, among other things, computer software and hardware; market studies; drawings; flow charts; pricing information; know-how; and, research you conduct.

Although many concepts and ideas may be public knowledge, courts have upheld confidential/trade secret information protection for (i) specific ways to implement ideas and, (ii) combinations of known concepts and ideas. Novelty and invention are not required.

### Disclose Only After Your Non-Disclosure Agreement Is Signed

Before disclosing your information to other persons (including employees), you should have them sign a *Non-Disclosure Agreement*, which limits the right to use and tell other people about your information. This kind of document is often referred to as a *Confidential Disclosure Agreement*, *Trade Secret Agreement*, *Confidentiality Agreement*, or by other wording.

A *Non-Disclosure Agreement* is a contract between you and the person you want to talk with about or

show your information, whether it is in the form of documents, your office or plant layout, processes, equipment, or otherwise. Like other kinds of contracts, it will be necessary to enforce your rights under this type agreement if the information-recipient fails to fully comply with its terms and conditions and you want compliance.

Enforcing your rights can involve filing a lawsuit to obtain injunctive relief. However, you should understand that injunctive relief may be applicable only to the information-recipient. Thus, if he/she discloses your information to other persons without your permission, you may be unable to prevent its use by them unless you can show a contractual relationship between you and them or some legal obligation on their part not to use it without your permission. Therefore, you should not think of this kind of agreement as a guaranteed way to protect your information.

### **Take Other Measures To Keep Information Confidential/Secret**

In addition to using a *Non-Disclosure Agreement* to protect your information, there are some things you should do to prevent it from becoming available to persons other than those you want to know about it. For instance, you can put into effect the following measures, which you should communicate to your employees through a *Confidential Information/Trade Secret Protection Policy*.

- Keep all material that discloses your information in a location where you keep valuable documents.
- Limit and control access to your information by letting only those people who sign a Non-Disclosure Agreement know about it.
- Do whatever else you can that is reasonable to prevent the information from becoming known to persons who do not sign your agreement.

### **Consider Requiring a Separate Non-Competition Agreement**

By requiring a separate Non-Competition Agreement in addition to your *Non-Disclosure Agreement*, you may be able to limit the right of persons who sign it to compete with you. This depends upon the law of the state where you want to enforce this kind of agreement and the extent to which this may be necessary to protect your information. Some states say non-compete obligations are unenforceable as a matter of public policy because they are considered unlawful restraints on trade. Other states have specific statutes that void non-compete arrangements except in certain limited situations. In instances when a court determines information is not confidential, a non-compete obligation applicable to it may be unenforceable.

If you use a Non-Competition Agreement, be sure it is for a reasonable time period and applies to an appropriate geographic area. Otherwise, a court may be unwilling to enforce it even though its remaining provisions are enforceable. For instance, a provision that prohibits competition nationwide for 10 years may be unenforceable as unreasonable. On the other hand, a non-compete provision limited to Colorado for one to two years may be acceptable.

Often parties include a non-compete provision in their *Non-Disclosure Agreement*. Because courts often refuse to enforce a non-compete provision, it is advisable to have two agreements (one Non-Disclosure Agreement and a separate Non-Competition Agreement), so that if a court refuses to enforce the non-compete provision, such refusal will not have any effect on the non-disclosure provisions. Nevertheless, if a non-compete provision is included in the *Non-Disclosure Agreement*, a strong segregation clause should be included. A segregation clause is a clause that provides that the unenforceability of one provision (e.g., non-compete provision) in an agreement should not affect the enforceability of the other provisions (e.g., non-compete provision).

### **Scope of Protection**

Unless your information, techniques, or ideas are in the form of a patentable invention or can be comprehensively protected by copyright, trademark, trade dress, or other kind of legal protection, your

ability to protect them depends upon the terms of your *Non-Disclosure Agreement*.

Generally, a *Non-Disclosure Agreement* says the information-recipient has no right to use or tell other people about your information without your permission. Furthermore, it can say you are entitled to injunctive relief prohibiting unauthorized use and disclosure plus a money payment to you and attorney fees you incur to enforce the agreement, if the information-recipient breaches. Often, this kind of agreement will also entitle you to a temporary restraining order and preliminary injunction without need to post a bond with the court.

You may be able to prevent the unauthorized use of your information by a person who obtains it without signing a *Non-Disclosure Agreement*. Relief may be possible under state statutes or rules of law pertaining to trade secrets; such as, the Uniform Trade Secrets Act. A *Non-Disclosure Agreement* may provide more or less protection than is offered by the statutes and rules of law.

Misappropriation occurs when someone obtains confidential information with knowledge, or who has reason to know, it was obtained improperly. Improper acquisition includes theft, bribery, misrepresentation, inducing the breach of a duty to maintain secrecy, or espionage through electronic or other means.

Misappropriation also means disclosure or use of confidential information without consent by a person who used improper means to obtain it or, at the time of disclosure, knew or had reason to know it was derived from or through someone who used improper means to get it.

Similarly, misappropriation can occur when a person acquires information under circumstances giving rise to a duty to maintain its confidentiality or limit its use, or when it is derived from or through someone who was under a duty not to disclose.

Some statutes say you can recover the misappropriator's unjust enrichment resulting from use of your information, in addition to injunctive relief and your actual losses. It is possible a court may also award punitive damages.

### **Reasons You May Be Unable to Protect Your Information**

Persons who independently develop or learn about information like yours without getting it from you or someone who has no obligation to keep it confidential can use it without violating your rights. Persons who learn about your information through fair and proper means (e.g., reverse engineering, decompiling, analyzing) can use it without violating your rights.

A statute of limitations defense may prevent you from stopping another person's unauthorized use or misappropriation. This may be the case if you do not file a lawsuit concerning the use or misappropriation within the time period the applicable statute specifies. This period varies from state to state and can range from one to six years or more.

Finally, if you have not maintained or do not keep your information confidential, or it is generally known publicly, it is arguable you are not entitled to legally limit its use by other persons.

### **Inventions and Discoveries**

In performing their duties, employees will often conceive or develop new inventions or processes or make new discoveries or improvements or enhancements thereto. Your *Non-Disclosure Agreement* should provide that employees are required to disclose to you any such discoveries, inventions and processes, and that the employees will assign them and all rights therein (including all intellectual property rights) to you. You should also consider including a provision whereby the employee discloses to you all of the employee's existing discoveries, inventions and processes so that disputes as to when a discovery, invention or process is made, conceived or developed may be alleviated.

**The Intellectual Property Practice Group of Holme Roberts & Owen LLP has published this overview. This overview is intended only as a generalized introduction to a very complex and rapidly evolving area of the law. A qualified attorney should always be consulted for advice in specific factual situations.**

**For more information about intellectual property, including trade secrets, trademarks, copyrights and patents, contact any attorney in the HRO Intellectual Property Practice Group.**

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