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ARTICLES

Tips for Ensuring That Your Client's Trade Secret Security Measures Are Reasonable under the Circumstances

By Daniel Kaufmann – November 6, 2017

You are sitting at your desk on Friday afternoon when the telephone rings. It is one of your long-standing clients who develops cutting-edge software. The client mentions that it hired a software engineer from one of its competitors several months ago. According to the client, the new engineer brought with him some "creative" ideas from his old employer. Unfortunately, your client has just been visited by a process server. The client hastily mentions that the complaint references trade secrets and concepts like misappropriation. The client would like you to drop by on Monday to discuss the complaint and meet with the new software engineer.

This scenario is probably familiar to most commercial litigators. Several things likely cross your mind when you start to handle a case with allegations of misappropriation of trade secrets. One concept that that should be front and center in your early analysis is the security precautions employed by the company claiming to have a trade secret.

It is axiomatic that for something to qualify as a trade secret, it must be kept secret. And if those secrets are made public, restoring secrecy can be as difficult as closing Pandora's box. Security precautions that purport to guarantee absolute security are not only unattainable but are also not required by the law. Instead, courts typically only require that the owner of the trade secret take steps that are reasonable under the circumstances. Thus, the owner of a trade secret does not have to employ extreme or unduly expensive security precautions. With that being said, the owner will have to demonstrate that it has actively taken steps to implement procedures to guard the secrecy of the trade secret at issue. Trade secret protection may be lost in the absence of reasonable security precautions.

The difficulty for the practitioner, as well as for the courts, lies in determining whether the security measures are reasonable considering the circumstances. The practitioner will be well served to consider the following four categories of precautions when analyzing whether reasonable security measures have been implemented: physical security measures, the firm's culture of secrecy, the presence of nondisclosure agreements, and the use of warning signs or restrictive legends.

Physical Security Measures

An initial area of inquiry with your client needs to focus on the physical security measures used to protect the secret. Courts have historically analyzed whether the owner of the information implemented physical security measures during the reasonable precautions analysis. These courts have held that certain steps weigh in favor of a finding of reasonable precautions. For example, the erection of a fence around the perimeter of the property with access limited to certain gates is evidence of reasonable precautions. The use of security guards patrolling areas of the company where the secret information is safeguarded is additional evidence demonstrating reasonable

precautions. Another sound security precaution is the requirement that company personnel wear identification badges. Video monitoring of the areas where the secrets are located is another sensible precaution. Likewise, using buzzer locks on doors is a wise practice to control access to the company's crown jewels. No one particular measure is outcome-determinative for the courts when they decide whether the owner has employed reasonable precautions. However, the stronger the physical security measures, the more likely the court will conclude the owner has acted reasonably.

Culture of Secrecy

Another area of inquiry to explore with your client is its culture when it comes to secret information. Courts undertaking the reasonable precautions analysis have routinely looked at whether the owner has taken steps to educate its employees concerning the existence of the trade secrets and the required steps to maintain its secrecy. This education process should be ongoing. In fact, a crucial time to educate the employees is during the exit interview process. Courts look favorably upon owners of trade secrets who remind exiting employees of their obligations to maintain the secrecy of the company's information after their employment ends.

The owner of the information can further promote a culture of secrecy by appropriately limiting access to the trade secrets. An area to address with your client is whether it limits the secret information to those employees who have a need to know. In a similar vein, you should ask whether the client limits the secret information to certain areas of the facility. Also, you will want to learn whether the secret information is locked up when it is not being used by the employees who have a need to know. These factors weigh in favor of a finding that the owner is taking reasonable precautions. Some additional factors to consider are whether visitors are required to show identification and sign a visitor log when they arrive. The courts have also noted that an owner acts reasonably when it requires visitors to be escorted throughout the facility. A vibrant culture of secrecy goes a long way toward demonstrating that the owner of the trade secret has taken reasonable precautions to protect its secrecy.

Nondisclosure Agreements

The owner of the trade secret should require employees and vendors to sign nondisclosure agreements (NDAs) before accessing secret information. You should ask your client to provide you with a copy of any applicable NDA. One thing to confirm is whether the scope of the NDA is broad enough to cover the potential trade secret at issue. You should also ask your client if the terms of the NDA are covered during performance reviews. This would be a reasonable security measure on the part of your client. Courts have come to expect owners of secret information to require NDAs. The existence of an NDA, by itself, will likely not be enough evidence to support a conclusion that your client employed reasonable security precautions. However, the absence of an NDA could certainly be detrimental to your client's position that it has acted reasonably.

Warning Signs

One final area to explore with your client is its use of warning signs or restrictive legends. Courts have typically found that the use of warnings is a factor that weighs in favor of a finding that the owner of the information exercised reasonable precautions. You should determine whether your

client marks its secret information as "confidential." Also, you should investigate whether the warnings clearly restrict the use, disclosure, or unauthorized access of the secret information.

Practice Point
Whether the owner of the information has employed reasonable precautions under the circumstances is a fact-intensive inquiry. A field trip to your client's office is in order to mine these facts. For instance, you should observe the physical layout of the client's office. Does the facility have a fence? Do you have to enter the property through a guarded gate? Are you required to show identification and sign in when you arrive at the office? Does your client have to escort you around the building? Does the room containing the secret information have controlled access through keypads or buzzer locks? Are there video cameras recording the activities in the restricted areas? Has your client posted appropriate warning signs?

The list of reasonable precautions could go on and on. A stroll through your client's office as an interested observer could arm you with the facts you need to persuade the court that your client has taken reasonable precautions under the circumstances to protect the secrecy of its information.

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