

TRADE SECRET PROTECTION AND  
ENFORCEMENT TEAM

KEEPING SECRETS SAFE





## MANAGEMENT'S OBLIGATION TO PROTECT COMPETITIVELY-SENSITIVE INFORMATION

Trade secret laws provide a potent weapon for protecting the confidentiality of competitively-sensitive business information. This protection is easily lost, however, if a business fails to actively guard the information's secrecy. Now, increased attention and regulation is being focused on management's obligation to protect and preserve assets. As a result, the failure to appropriately protect trade secrets may not only result in significant business harm, but may also rise to the level of a breach of fiduciary duty on the part of management.



## **Framework for Protection**

State law protects trade secret information from use or disclosure outside the business, provided the business has taken reasonable steps to maintain the secrecy of that information.

Virtually any type of information can qualify as a trade secret as long as it is not generally known outside the business and is valuable because it is not generally known.

The courts have expressly recognized many types of information as trade secrets, such as business plans, financial data, customer lists, customer purchasing data, pricing information, supplier information, product design and development information, formulae, recipes, manufacturing processes, and marketing strategies. Even commercially available data and information may qualify as a trade secret if manipulated or catalogued in a way that makes it unique or otherwise not readily ascertainable. The key to taking advantage of this legal protection is the effort a business makes to maintain the confidential status of sensitive information.

## **Management's Obligation To Preserve**

Senior management has a legal obligation to protect and preserve the trade secrets of a company. For public companies, the Sarbanes-Oxley Act (SOX) of 2002 creates a statutory duty to identify, value, and control these assets, including “intangible assets.” Trade secrets are unquestionably within the scope of intangible assets. As a result, public companies are obligated to identify trade secrets, determine their value, and implement procedures to monitor and control these assets to ensure protection. Yet, many public companies have not focused on trade secret

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protection as part of SOX compliance procedures. This failure creates risk not only for the business, but also for the executives certifying the business' SOX compliance.

For non-public entities, the obligation to protect trade secrets may rise to the level of a fiduciary responsibility. Drawing in part from SOX, trade secrets clearly constitute an asset class. The senior management of any business that has not taken steps reasonably necessary to preserve assets runs the risk of a breach of fiduciary duty claim if material harm to the business results from such a failure.

### **Developing a Protection Plan**

To protect trade secrets, businesses must begin by identifying their competitively-sensitive information. An extensive audit of all departments is necessary to capture the array of information that may ultimately be worthy of trade secret protection. Once identified, the

business must determine who currently has access to the information and who actually needs access. Only then can the business make an informed and practical decision about what methods to implement to best protect the information. These methods of protection should be designed to:

1. Ensure, to the extent practical, that access to the information is limited to those having a business need to know.
2. Establish controls to prevent disclosure of the information beyond those having a need to know.
3. Apprise anyone working with the information that it is confidential and must be treated as such.
4. Create a reporting mechanism to ensure that management is made aware of any inappropriate or unauthorized use or disclosure of the information.



# TRADE SECRET PROTECTION AND ENFORCEMENT TEAM

## **Protecting Our Clients' Interests**

Benesch has created a Trade Secret Protection and Enforcement Team drawn from our Labor and Employment, Intellectual Property, and Trial Practice Groups. This interdisciplinary approach ensures that our clients' trade secret issues are thoroughly addressed from all perspectives, including whether seeking patent protection would be advisable. We assist clients in conducting audits to determine the type of information amenable to trade secret protection, in designing protection plans to secure the information, and, working in tandem with accounting professionals, in the valuation of trade secrets.

In many, if not most instances, protection of trade secrets involves the use of noncompete agreements. Our Trade Secret Protection and Enforcement Team regularly advises clients on the structuring, implementation and enforcement of these important agreements.

Protection of trade secrets also involves enforcing trade secret rights when necessary. Benesch's Trade Secret Protection and Enforcement Team has tried dozens of trade secret cases involving many different industries throughout the United States. A representative sample of these cases includes the following:

- Obtained temporary injunction relief on behalf of a polymer processing company prohibiting employment of a technical employee by a competitor under the theory of inevitable disclosure. We subsequently achieved a favorable settlement containing significant market restrictions on the competitor. (Ohio)
- Represented a publicly held aerospace manufacturing company against former plant managers and a former supplier who formed





a competing business using the client's manufacturing operations trade secrets. We obtained a preliminary injunction precluding the competitor from manufacturing competitive products that was extended via Consent Decree along with a substantial settlement. (Ohio)

- Obtained temporary and permanent injunctive relief on behalf of an industrial product distributor in an action against a competitor, which hired away the majority of an entire region's sales force having extensive trade secret information regarding customers. (Texas)
- Represented a pharmaceutical distributor against two former executives who started a competing business. The case was settled with extensive competitive restrictions and a significant monetary settlement in favor of our client. (New Jersey)
- Represented an Internet Service Provider whose former employee, together with a competitor, surreptitiously gained access to the client's information system and transferred a large volume of trade secret material. We successfully obtained preliminary injunctive relief and achieved a substantial monetary settlement. (Pennsylvania)





## **Helping You Protect Vital Information**

Trade secret protection is evolving from a sound and necessary business practice to a matter of regulatory and fiduciary compliance. Trade secrets are often among the most valuable assets a business possesses. Designing and implementing a comprehensive plan to identify, evaluate, and protect trade secrets is a complex undertaking. Benesch's Trade Secret Protection and Enforcement Team is ready to help your company achieve the level of compliance and protection it needs in today's ultra-competitive environment. Talk to us about getting started or about how to take your current protection efforts to the next level.

Benesch, Friedlander, Coplan & Aronoff LLP has been providing sophisticated legal and business advice to regional and national middle market and emerging companies, public companies, entrepreneurs, venture capitalists, and private equity funds and their portfolio companies since 1938. We are committed to building relationships with clients, and strive to be counselors, advocates, and partners in all aspects of a transaction or litigation issue. Playing an instrumental part in clients' successes is the goal of each member of the Benesch team. Today, we have offices in Cleveland and Columbus, and our subsidiary, Benesch Pacific LLC, has a representative office in Shanghai.

### **Principal Practice/Industry Areas**

- Business Reorganization
- China
- Compensation and Benefits
- Construction
- Corporate and Securities
- E-Document Discovery and Retention
- Estate Planning and Probate
- Franchising
- Health Care
- Insurance
- Intellectual Property
- Labor and Employment
- Litigation
- Loan Transactions
- Polymer, Plastics and Packaging
- Private Equity
- Public Law
- Real Estate and Environmental
- Tax
- Trade Secret Protection
- Transportation and Logistics
- White Collar Crime



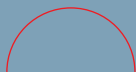
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