COUNSELOR

Lathrop & Clark LLP's Newsletter ▪ Vol. 11, No. 1 ▪ Spring 2008

Protecting Trade Secrets

By Kenneth B. Axe

A trade secret consists of information that derives its commercial value from being confidential. A company may enjoy the competitive advantage of a trade secret indefinitely, so long as the information remains undisclosed. Moreover, unlike other forms of intellectual property, no application or registration is necessary. For example, the formula for Coca-Cola is a highly valuable trade secret, notwithstanding the passage of over 100 years since its creation.

Despite listing the ingredients on the label, the company has been able to maintain its formula's status for many possible reasons such as the unique manner in which those ingredients are combined, the portions involved and the omission from the label of certain ingredients.

The Wisconsin version of the Uniform Trade Secrets Act defines a trade secret as information, including a formula, pattern, compilation, program, device, method, technique or process to which all of the following apply:

1. The information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.
2. The information is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.

Trade secrets exist in a variety of forms, e.g., customer lists, particular methods of doing business, sources or vendors, recipes and formulas and means of manufacturing. Thus a secret can relate to how a product was manufactured or something within the product itself which causes the item to be superior. The matter need not be complicated or entirely unique; i.e., it may entail the combination of common, commercially available components assembled in a slightly different way. The only thing necessary is that the secret contain at least a modicum of originality, separating it from everyday knowledge, and providing the owner with a competitive advantage.

Generally speaking, a number of factors are typically considered when evaluating whether a matter constitutes a trade secret. These include the extent to which others know the information, both inside and outside of one's business, the value of the information (both to the owner and to competitors), the amount of money or effort spent

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in its development, the ease or difficulty with which the information could be duplicated, and the extent to which it is guarded from discovery.

Of all the factors listed above, the information's secrecy and the owner's safeguards are arguably the most critical, and those most frequently litigated. The effectiveness of such measures go to both whether the information will continue to be commercially valuable for the owner, and whether it constitutes a trade secret in the first place, thus qualifying it for appropriate protections under the law. (Remedies for improper use or theft of trade secrets include damages, injunctive relief, and even criminal penalties). Once the secret becomes known, the information loses its value and its status as a trade secret. This is true regardless of how the information is revealed or learned – even if the deficiency was not the cause of the disclosure. Even information which is reverse-engineered may lose its status as a trade secret. An owner who inadvertently discloses a secret, despite imposition of otherwise reasonable measures, may lose the protections of the law. A company may also fail to treat a trade secret as though worthy of protection and, with the benefit of hindsight, the measures employed may be deemed to be unsatisfactory and unreasonable. Once lost, trade secret protection cannot be reinstated.

A lack of caution may result in an unexpected loss down the line. For example, if a former employee misappropriates trade secrets, even in violation of an employment agreement, but the former employer cannot show that it took reasonable steps to guard those secrets, then a court may refuse to provide a remedy, despite the financial damage wrought by the disclosure. Enforcement of such agreements may be preempted by trade secret laws. The extent of the steps that a business imposes to guard its secrets generally should correlate with the value

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that it assigns to such information; i.e., the greater the value, the more heavily guarded the information should be. Taking proactive steps now may not only further insulate trade secrets from disclosure, but also bolster later claims should the information be misappropriated.

While it is clear that adequate precautions must be taken in order to maintain trade secret status, the exact nature of necessary precautions will vary with each case. Courts have yet to identify particular steps that a company must follow to ensure that its trade secrets will remain protected, i.e. a "safe harbor," the employment of which will automatically bestow trade secret status upon the information. Instead, such determinations are fact-intensive and made on a case-by-case basis, depending on the unique circumstances present. In an appropriate case, imposing an enforceable confidentiality or non-disclosure agreement upon employees and vendors may suffice. If the agreement is not sufficiently specific however, or the trade secrets are not clearly identified, then the agreement may be deemed insufficient to protect the information. Similarly, under Wisconsin statutes, an agreement which is not properly tailored to protect information, or too broad, may be deemed invalid and unenforceable.

Though well-tailored, specific non-disclosure agreements may be adequate, many other steps are available to businesses seeking to protect trade secrets. In addition to broadening the protection available and making it less likely that the information will be misappropriated in the first place, in general, the more steps taken, the greater the likelihood that a court will find trade secret status and impose the appropriate remedy. Such measures may include keeping information in a locked drawer or safe and only providing a limited number of employees with access, assuring limited distribution of information, and even using numbered copies whose distribution can be tracked. If the information cannot be physically isolated, then the information should at least be kept in an area separated from the general workspace where clients, other employees or the public may visit. Signs restricting access to a manufacturing area may also be helpful. Documents may be marked with the legend "CONFIDENTIAL" or similar wording, whether on hard copy or a computer. Similarly, access to computer databases may be restricted on a need-to-know basis, computers can be password protected, and access can be tracked. In addition, some businesses post notices warning employees of the confidential nature of procedures occurring in an area.

Other measures may include regular shredding of documents, fencing in and limiting access to dumpsters, use of closed-circuit television cameras to monitor access to confidential information, limiting access to a building, use of badges and security guards, visitor log books, accompanying visitors with employees to ensure they do not stray into confidential areas, breaking down secrets into separate documents which are not all given to the same employees, use of codes to identify ingredients, materials or vendors, prompt cease and desist letters and legal action when misappropriation has been found, exit interviews for employees, computer firewalls, and restrictions on use of portable hard drives and laptops which may exit a building.

In sum, businesses need to ensure that their employees know when confidential information exists, which information is considered confidential, that the information may not be shared, and that the company values the secrecy of that information enough that it is willing to take whatever steps are necessary to maintain its confidentiality.

The reality that there is no foolproof method to ensure confidentiality may at times be frustrating. Courts tend to address such issues on a case-by-case basis, recognizing that reasonable precautions for a small company may not be sufficient for a large company guarding secrets worth millions of dollars. Conversely, what may be reasonable for a large company could be incredibly burdensome for a small business. Ultimately, the question is whether a business' particular efforts are reasonable and appropriate under the circumstances, with particular attention paid to factors such as a) the size and nature of the business; b) the cost and burden of implementing measures; c) the value of the information; and d) the degree to which such measures would decrease the risk of disclosure balanced against the cost or imposition of the measure. Businesses must employ a cost-benefit analysis and common sense. The more precautions a company imposes, the more apparent it is the business wishes to guard and hold on to such secrets, and the more likely they will be deemed worthy of protection by a court. In the end the old saw may be right: an ounce of prevention could be worth a pound of cure. ■

Kenneth B. Axe is a partner with Lathrop & Clark LLP and concentrates his practice in commercial litigation, intellectual property litigation, business law, and bankruptcy. He received his B.A. *magna cum laude* from Drew University in 1976 and his J.D. *cum laude* from the University of Wisconsin in 1979.

Notes From The Chair

It is an appropriate time to recognize one of our own, Donald L. Heaney. Don joined the predecessor of this firm in 1959. At that time, our offices were located in what was then known as the Wisconsin Power & Light Building. Of course the firm was much smaller then and to say that much has changed in the interim is a major understatement.

As the years flew by, Don found a niche in litigation. For more years than I can remember, he has been a pivotal force on the firm's Litigation Team. He has conducted numerous jury trials, argued before our Wisconsin Supreme Court on many occasions and has of course been involved in and been lead counsel in more large and small cases than can be easily counted or remembered.

Don's horizons have always been expansive. He has been in Rotary for an eon and is active in the Catholic Church, having received recognition and many honors for his contributions to the church. The Diocese of Madison has been a long-time client of our firm and Don has been lead counsel in that representation for decades.

The activities of the State Bar of Wisconsin have long been a focus for Don. For five years he served on the Board of Governors. He was selected as Chairman of that Board his last year. He was subsequently elected as President of the State Bar and served in that capacity from 1985 - 86.

One of his many outstanding achievements has been the leadership role he played in the creation of Wisconsin Lawyers Mutual Insurance Company (WILMIC), which provides professional liability insurance to lawyers. He has served on its Board since its inception and continues to do so to this day.

All of this leads to his most recently bestowed honor and is the impetus for the thoughts I am sharing with you today. The Wisconsin Law Journal has awarded Don it's **Lifetime Achievement Award** for 2008 and this award was presented to him at a luncheon in Milwaukee held on May 16, 2008. To be given this award is a high honor, and well deserved. We are proud of him and proud to be a part of his life and achievements, both professionally and personally. ■

Jerry E. McAdow is a partner with Lathrop & Clark LLP. He is a "transactional" attorney and concentrates his practice in business and corporate law working with corporations, limited liability companies, partnerships, sole proprietors, banks, and other businesses, with a strong emphasis on real estate development and municipal law.

Ventures

Joanne Harmon Curry conducted an inservice training for CESA2's school district administrators and teachers regarding eligibility and education services for students with mental health problems on January 18, 2008. She also spoke on legal issues related to education at the University of Wisconsin Law School's Children's Justice Project "Faces of Advocacy" 2nd Annual conference, which took place on March 28, 2008. At the 2008 Wisconsin Indian Education Association Conference, held April 6-8, 2008, Joanne led a break-out session titled: "Frequently Asked Questions About the Rights of Students with Disabilities." She was also a presenter at the Wisconsin Charter Schools 2008 Annual Conference on April 21, 2008. Her session dealt with governance and organization issues related to charter schools.

Richard F. Verstegen completed Civitas in December 2007. Civitas is a year-long program, consisting of 10 forums, that is designed to enhance greater understanding of local goverment and stimulate greater public engagement in local government. Forums included discussions on local finance and public education services and featured presentations by local officials and academic experts.

Mike Julka and ***Shana R. Lewis*** served as guest lecturers for the Public Sector Labor Law course offered at the University of Wisconsin Law School during the spring semester.

Mike Julka presented "Bargaining Strategies" on March 26, 2008, at the Wisconsin Association of School Business Officials' (WASBO) Accounting Seminar in Wisconsin Dells. Mike has also presented "Let Me Handle This: The Permissible Scope of Unilateral Change" at the Wisconsin Employment Relations Commission's (WERC) Fourth Annual Wisconsin Public Sector Labor Relations Conference on May 1, 2008, at the Alliant Energy Center in Madison. In addition, Mike presented "Bargaining Strategies" at the Wisconsin Association of School Business Officials' (WASBO) Spring Conference on May 23, 2008.

Carrie M. Benedon was elected President of the Legal Association for Women (LAW) for the 2008 term. LAW is a voluntary association of lawyers and other legal professionals concerned about the law as it affects women. LAW also focuses on issues affecting women in legal and law-related professions. Through LAW, Carrie also created a mentoring program that pairs female law students at the University of Wisconsin Law School with female attorneys in the Madison area. So far the program has provided over 50 law students with mentors.

We are pleased to announce that ***Christopher J. Hussin*** has become a partner in the firm. Chris earned his B.S. in Civil Engineering from the University of Wisconsin and his J.D. from the University of Denver College of Law. Chris is an intellectual property attorney focusing on all aspects of trademark, copyright and patent law.

MARK YOUR CALENDARS NOW for the ***8th Annual Lathrop & Clark LLP School Law Seminar*** scheduled for Thursday, November 20, 2008, at the Alliant Energy Center. ■

New Faces

Scott R. Cleere joined Lathrop & Clark LLP in February 2008. While Scott has not yet been admitted to practice law in Wisconsin, he is currently licensed to practice law in Idaho and has been registered to practice before the U.S. Patent & Trademark Office since 2005.

Scott received his J.D. from the University of Idaho, his B.S. in Chemical Engineering from Brigham Young University and his LL.M. in Intellectual Property Law from the University of Washington. In addition, he previously practiced with intellectual property boutique firms in Washington and Texas, and served a two-year clerkship with the Idaho Court of Appeals.

Scott brings more than five years of experience in protecting and licensing intellectual property. He has been active in various bar associations and is a past Chair of the Intellectual Property and the Professionalism and Ethics Sections of the Idaho State Bar.

When Scott isn't working, he enjoys spending time with his wife and three young children. His hobbies include sports, computers, and home improvement projects.

Benjamin A. Campbell joined Lathrop & Clark LLP in September 2007 as a patent agent.

Ben received his B.S. in Electrical Engineering from the University of Notre Dame, and is admitted to practice before the U.S. Patent & Trademark Office.

Ben's work focuses on drafting and prosecuting patent applications in a variety of fields, including electrical and mechanical systems.

Before joining Lathrop & Clark LLP, Ben worked in the information services department at Beloit College as a computer support manager. He brings with him experience and expertise with current and future technology trends.

As an experienced ice hockey player, Ben volunteers much of his free time as a coach to youth hockey programs.

Matthew J. Wheeler joined Lathrop & Clark LLP in January 2008, as an associate with the firm.

Matt received his J.D. from the University of Wisconsin and his B.A. in Political Science and Spanish from Trinity University. Matt's practice focuses on school, municipal and labor and employment law. Matt's previous experience includes more than two years in the public sector representing management in collective bargaining negotiations, grievance and interest arbitration proceedings.

He is a member of the State Bar of Wisconsin, the Dane County Bar Association and the Wisconsin School Attorneys Association. He is also admitted to practice before the Wisconsin Supreme Court and the United States District Court for the Western District of Wisconsin.

In his spare time, Matt enjoys downhill skiing, backpacking and golf, as well as cheering on his beloved Badgers, Packers and Chicago Cubs. ■

Client Profile:
Francois Oil Company

By Bill Fahey and Carrie Benedon

Francois Oil Company, Inc. is a third generation family-owned business headquartered in Belleville, Wisconsin. Julian C. ("J.C.") Francois founded Francois Oil Company in 1939. Ownership and operation of the company later passed to J.C.'s three sons, Rich, Paul and David Francois. From there it passed to the current owners and operators of the business, J.C.'s grandsons, brothers Rick, Ed, and Julian ("Jay") Francois. A fourth generation family member, Ed's son Jonathan, also presently works for the company.

The business operations of Francois Oil Company include a retail convenience store division and a wholesale oil distribution division. The retail division is the larger portion of the business, operating convenience stores at 17 locations in Rock, Green, Dane, Iowa and Milwaukee Counties. The company's wholesale division distributes fuel products to dealers at an additional 20 locations throughout Southern Wisconsin. Francois Oil Company is a distributor and dealer of CITGO petroleum products, and markets such products through both of its divisions. The company has experienced rapid growth over the past ten years, and currently employs approximately 210 people.

In addition to Francois Oil Company, J.C. Francois was the founder and original operator of Francois Sales and Service. Initially selling and servicing tractors, and then Hudson automobiles, the business ultimately became a Ford automobile dealership in 1957. Ownership of Francois Sales and Service, Inc. has also passed through the family to Rick, Ed and Jay Francois. This business currently operates a full service Ford dealership and automobile service and repair center in Belleville, Wisconsin.

The Francois brothers have organized a third business entity, The French Group, LLC, which owns and leases real estate used by the other Francois business entities.

The Francois family has long been active in many civic and charitable causes, often with leadership roles. The family's impact on the Belleville community has been immeasurable. Lathrop & Clark LLP has been honored to represent and serve the family and its business entities over the span of three generations. ■

William L. Fahey is a partner with Lathrop & Clark LLP practicing in the areas of real estate, commercial transactions, business law, and estates and trusts. He received his undergraduate degree in business administration, with honors, in 1972 from the University of Wisconsin-Madison and his law degree in 1975 from UCLA.

Carrie M. Benedon, an associate with Lathrop & Clark LLP, graduated cum laude from the University of Wisconsin Law School in 2005. She received her B.S. in Psychology from the University of Wisconsin in 2002, where she graduated with high honors. Carrie practices in the area of civil litigation. Her litigation practice includes business law, real estate, intellectual property, and labor and employment.

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Designed by Tingalls Dzyn, LLC
Printed by Advertisers Press Inc.
Mailed by Accurate Response, Inc.

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