

Legal Brief



Confidential Proprietary Information: Is Yours Protected?

An employee tells you that he is leaving to pursue other opportunities. Two weeks later, you learn he is employed by a competitor and calling on your customers. Since he did not sign a covenant not to compete, you begin to mentally catalog the proprietary information he could provide his new employer, and wonder — is any of this protected? In many instances, the answer is no, because the employer did not take the necessary steps.

In today's workplace, it is more important than ever for employers to protect their proprietary information. The disclosure and use of such information is an issue that often arises when employment ends or when an independent contractor is retained. To attempt to prevent the misappropriation of your business' proprietary information, consider three steps: identify it; protect it; and, enforce it.

Identify It

Protectable proprietary information consists primarily of trade secrets, confidential information and pre-patent developments.

Pennsylvania law defines a "trade secret" as information which derives independent economic value from not being generally known or not being readily ascertainable by proper means, and which is the subject of efforts to maintain its secrecy. Trade secrets have four primary characteristics: novelty, commercial value, continuity of use and secrecy.

Examples of what the courts have found to constitute a trade secret include the manner and method by which a bio-services company priced its services, a computer system developed for a former employer, and the processes and formulations used in producing pipe covering. Examples of what the courts have found did not constitute a trade secret include an

educational business program that was marketed to the public and accessible through enrollment, financial data otherwise made public by a company, and pricing information that was already well known to third-party vendors. Customer or client lists have been found both to qualify and not to qualify as a trade secret, depending upon the particular facts.

"Confidential information" is information belonging to a business that is not publicly available in the form in which the business developed it or compiled it. While it may not enjoy the same protections as a trade secret, such confidential information still may be protected by contract and common law.

Protect It

Competition in business is jealously protected by the law. As a result, before protecting proprietary information, courts generally require that an employer demonstrate it took reasonable steps to ensure its confidentiality. Such measures can include the express labeling of confidential information; a printed prohibition against the copying of such information; the use of firewalls and password identification; the prominent display of copyright notices; and, the implementation of a document retention and destruction policy.

As a best practice, a formal, written confidentiality and non-disclosure agreement covering all employees and independent contractors should be adopted. This policy should be disseminated and signed by all current employees, and included as a matter of course in all new employee orientation materials. In addition, a covenant not to compete should be put in place for all key employees, keeping in mind that courts will closely scrutinize such covenants to ensure that they are "reasonable" and that valid

consideration for the agreement not to compete exists.

Enforce It

Action may be warranted under common law, federal law and/or state law. The Pennsylvania Uniform Trade Secrets Act provides for injunctive relief and monetary damages for the actual or threatened misappropriation of trade secrets — meaning, acquisition by improper means. Keep in mind that a business is free to attempt to learn the trade secrets of its competitors via lawful means, including reverse engineering.

With respect to enforcement, time is of the essence. Don't wait until misappropriation happens — take action now to prevent it by identifying and protecting your trade secrets and other confidential information. Then, if and when you become concerned that a former employee has misappropriated protected proprietary information, investigate the matter immediately and contact your lawyer. By taking these steps, you will have placed yourself in the best position possible. ☆

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