

5 Tips For Running A Trade Secrets Audit

By **Bill Donahue**

Law360, New York (May 07, 2014, 5:50 PM ET) -- Audits are full trade secrets diagnostics, identifying what company information is valuable and then determining what can be done to protect it.

Think of it as a patent registration. Just like patentable ideas need to be filed with the U.S. Patent and Trademark Office, a company's protectable information needs to be identified and protected. But with trade secrets, that legally means implementing "reasonable measures" to keep it secret.

"With many other kinds of intellectual property, the details of what is protected are dealt with in a registration process. That can't be done with trade secrets," said Victoria A. Cundiff, the chair of Paul Hastings LLP's global trade secrets practice. "If you don't take reasonable measures, the secrets are gone, both as a practical matter and as a legal matter."

Running an audit will make sure those requirements are met before the issue ever gets near a courtroom.

"There's going to be an audit at the end of the day in court," Cundiff said. "So you better be doing your own ahead of time."

It's an expansive process that should incorporate a top-to-bottom look at the client, but to get started, here are five tips that experts say attorneys should keep in mind when launching an audit.

Have a Point Person

Whether it's a point person, a point team or a point department, clients should establish some unit at the company to "own" trade secrets, take charge of interacting with outside counsel, continually update security policies, and periodically identify new secrets or discard others. It's a full-time job, but not all companies know to make it one.

"Without having somebody in the company that owns that as a role, you can be very hard pressed in having a well-thought-out strategy in place," said Robert B. Milligan, a Seyfarth Shaw LLP partner and the co-chair of the firm's trade secrets practice.

One big issue when nobody is steering the ship is a lack of coordination between departments, especially with large, multinational corporations. If human resources handles exit interviews and information technology handles device security and legal handles litigation, who makes sure they're all

talking to each other?

"One of the most important things that's done with an audit is making sure all the key stakeholders are involved in the discussion," said Audra A. Dial, a trade secrets attorney and the managing partner of Kilpatrick Townsend & Stockton LLP's Atlanta office. "There can be a siloed thinking [among departments] about important assets ... and audits help create a dialogue by bringing everyone to the table."

Create a Culture of Trade Secrets

An audit won't prove too useful if it only produces some updated lists of secrets and a bunch of new written policies. Attorneys performing an audit should also counsel clients that they need to make sure employees are on board with the task of protecting the company's valuable secrets.

"You want to create internally a culture of intellectual property protection," said Kurt G. Calia, a partner at Covington & Burling LLP's Silicon Valley office. "You want it to be part of your DNA."

Of course, written policies, nondisclosure agreements, technical barriers and various other measures are hugely important, but a web of well-educated and cooperative employees goes a long way, and can easily be overlooked in favor of more explicit changes.

"It sounds really simple, but one of the keys to this is getting an educated workforce who understand how it makes sense for them," Milligan said. "They understand why it impacts their stock options, why it impacts their compensation, how it's going to hurt the company. If you have more of a win-win policy, you're 10 steps ahead."

Sweat the Small Stuff

One common error for companies is to focus on protecting their big secrets — a proprietary recipe, for example, or an algorithm — at the expense of more mundane data, processes and other pieces of information that contribute to the functioning of the company.

Those less dramatic secrets can add up to some big value, and attorneys should help companies realize trade secrets come in all shapes and sizes.

"Studies that show an enormous percentage of IP value is actually derived from trade secrets," Calia said. "A lot of people think that's just things like the formula of Coca-Cola, and don't think about things like customers lists."

Don't Forget Inbound Trade Secrets

It could be easy to forget during an audit that trade secrets are a two-way street. A company that locks down its own proprietary information can still expose itself to millions of dollars' worth of liability if one of its employees steals secrets from a competitor, or if the company hires someone packing stolen info.

Cundiff called those "inbound trade secrets," and said policies to avoid them need to be included in any auditing process.

"You have to be worried about inbound trade secrets," Cundiff said. "You've got to be making sure

you're not getting your hands on somebody else's information and, in discussions around that, you can often further both goals."

In other words, craft policies that have company employees avoid committing theft, and it will help show them how to avoid being victims, too.

Look Beyond Your Own Borders

It's important that clients take stock of their own vulnerabilities, but a company is only as good as its weakest link. If a long-term supplier, possible merger partner or consulting firm have access to company secrets, their vulnerabilities are also important, and that needs to be addressed.

"How well does the other company protect their secrets?" Cundiff asked. "If they've got a slapdash system and you've got a really good one, that's a still a big problem."

--Editing by Katherine Rautenberg and Sarah Golin.