



Bay Oak Law Presents:

Bay Oak Bark

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When Your Valuables Are Available

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By **Andrew K. Jacobson**

When you visit a jewelry store, it is easy to see a lot of security – cameras, electronic access cards for employees, sturdy, locked cabinets that display the jewels behind solid plastic. There is even more security that is not visible, especially at night. The owners understand that a little prevention is much cheaper than efforts to recover what is lost.

But many businesses have assets as valuable as diamonds, which the businesses treat as if the assets were apples on a cart. The assets are often in plain sight and available to everyone working there without accountability, or disposed of in a way that begs dumpster divers to practice their craft. Is your company one of these businesses?

Jewels of a Company – Trade Secrets. In an age where an idea can be worth far more than the largest diamond, a company's most valuable assets are not their physical assets, but their intangible assets. Patents, trademarks, and copyrights are protected as government-granted monopolies, and require interaction with the government in order to obtain their particular advantages. However, trade secrets are also a form of a government-granted monopoly, which are by definition not disclosed to anyone – even the government.

Step One: Finding the Diamonds in the Rough.

Too many businesses fail to recognize their trade secrets until someone has already taken them. Every business should conduct a periodic assessment of the information that, in the hands of a competitor, would do the company great damage.

The first question is: what information, process, formula, recipe, method, etc.

brings the company an economic advantage by not being generally known in the industry? A special, unpatented method of making a product is an obvious example of a trade secret; so too is the secret recipe for cookies that has people getting in line down the street. However, there are many trade secrets that are not so obvious. Lists of regular customers can be gold – would you like a list of everyone who bought your product from a competitor? Even non-customer lists count – life is a whole lot easier for a competitor if she knew the 97% of the eligible population that could not use

your product. Focusing on the 3% that do use your product can be a huge economic advantage.

But other trade secrets may not be so obvious. Does your inventory system provide you with an advantage? For Walmart, its method of tracking every product from the time it is ordered to the time it is rung up at the checkout allows Walmart to take advantage of economies of scale, and to move quickly when the checkout allows Walmart to take

Cont. to pg. 3

Do You Have a Document Retention Policy?

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By **Kalina V. Laleva**

It has become increasingly easy to create documents. Fifty years ago, we had to type them on the typewriters. Now we have the dubious advantage of having a printer, computer and copier. Literally, tons of information circulate through any medium size office each year.

We do not want to end up like the guy from the office jokes, surrounded with mountains of paper on his desk and a little space for his coffee cup and laptop. We have the power to move this mountain from our lives by a carefully prepared document retention policy.

What Documents Do We Need to Keep?

Paper and electronic documents should be managed, archived or destroyed only pursuant to a **document retention policy (DRP)** that takes into consideration applicable laws and what is reasonable for your business. The policy should give clear instructions to the employees on:

1. What documents need to be saved or could be recycled;
2. What is the company's policy for storage; and
3. How long those documents should be kept.

Why Should a Business Have a Document Retention Policy?

Every business needs to spend the time to create a DRP based on its needs. When preparing the policy, the business should consider the legal requirements for the time periods for which certain types of documents should be retained. Several people can help in drafting a policy. You will have to consult with employees and consultants who perform maintenance on your business' computers. They will be able to adjust their own policies to ensure your electronic data is maintained as consistently as your hard data. Your outside counsel or CPA should also be involved.

Cont. to pg. 2

DRP *Cont. from pg. 1*

Once a DRP is created, it is important to follow it and enforce it consistently.

The eight most important reasons why an organization should implement a DRP are:

- 1) to comply with legal duties;
- 2) to avoid liability through "spoliation," the improper destruction or alteration of documents in a litigation situation;
- 3) to support or oppose a position in an investigation or litigation;
- 4) to save unnecessary expense and time during discovery;
- 5) to maintain control over discovery and e-discovery;
- 6) to keep documents confidential;
- 7) to save valuable computer and physical storage space; and
- 8) to reduce the volume of stored documents and data, making it easier to retrieve the needed document.

The Importance of Having A Document Retention Policy

While it is important to save computer and physical storage space, disposing of the wrong data can have disastrous consequences. Not having the right document can determine the outcome of a lawsuit. There are good reasons to keep business records, such as to refer back to verify what actions were taken. For example, if you sue a company because that company owes your business money, it may be impossible to win unless you have documentation of the debt.

However, intentionally destroying of documents relevant to pending or future litigation can undermine your business' position. If a litigant requests a document that you cannot provide because it has been recently destroyed, a judge or jury may be permitted to conclude that the document contained information detrimental to your position. The primary exception to this rule is if the destruction of the document was reasonable. Evidence of a clear and consistently enforced DRP is sometime the only way to convince the court.

Creating a DRP

There are three rules for creating a DRP:

- 1) If your business must follow applicable federal or state law or regulations and if federal and state requirements conflict, the more stringent requirements need to be followed.
- 2) If your business is governed by internal by-laws, other mandatory procedures, or industry standards, it needs to abide by them.
- 3) If neither of the above rules apply to your business, then you should assume that the documents in your possession could always be the subject of a lawsuit.

Every DRP must:

- Define how long, how and where to store both paper and electronic records.
- Consider all forms of electronic data in all devices, including e-mail and voicemail.
- Specify how records are to be destroyed upon their retention period expiration: automated or responsibility of the users.
- Detail the circumstances under which the policy should be suspended, such as when a lawsuit is anticipated or in progress, a subpoena has been served, or an investigation is known to be underway.
- Identify the individuals responsible for enforcing, monitoring and updating the policy.
- State penalties for non-compliance and impose them.
- Describe the manner in which to organize and catalog stored records to be recovered with relative ease.
- Make the DRP part of the employee manual, ensure that the employees sign the policy, and that the manual is updated when the policy is updated.
- Provide for a review of the policy on a regular basis, making the review deadlines a part of the DRP itself.
- Log the passwords and product version used at the time of encryption, if the documents are electronically encrypted.

A DRP does not have to be very long. It could be just a few paragraphs or several

pages, the longer DRP being more appropriate for larger companies.

There are regulations in different areas of business that a DRP may need to comply with. For example, health care providers, financial institutions, or brokerage houses, have Securities and Exchange Commission regulations, the Sarbanes-Oxley Act of 2002, Graham-Leach-Bliley Act of 1999, the Health Insurance Portability and Accountability Act (HIPAA) of 1996 and the Fair and Accurate Credit Transactions Act (FACTA) from 2003.

If you are not subject to such precise laws and regulations, then you need to deal with the more generic problems of DRPs. There are still Occupational Safety & Health Administration (OSHA) requirements and tax records requirements that apply to almost everyone, and statutes of limitation, but otherwise electronic documents are up to your discretion to keep or discard.

Court Attitudes to The Problem of Document Retention

Courts are aware of the overwhelming volume of a company's data and the need for data management. However, the mere implication of spoliation will generally lead to a judge's actions to find out whether a company has deliberately destroyed documents. Penalties for spoliation have been severe, including huge fines, prohibiting the testimony of the person responsible for the spoliation, altering legal presumptions to favor the other side and, in extreme cases, dismissal of claims.

Once there is a potential for litigation or a lawsuit has been filed, a business should ALWAYS ensure that the DRP is suspended as the subject matter of the litigation or investigation is concerned. The business should verify that all involved parties know what documents, back-up tapes, etc. must be preserved until the litigation or threat of litigation is resolved.

This article's purpose is not to give an answer to each question concerning the DRPs for every business. It should be regarded as **guidance** only.

If you need help with your DRP, please contact [Bay Oak Law](http://www.bayoaklaw.com) at 510-208-5500 or visit us at www.bayoaklaw.com.

Valuables *Cont. from pg. 1*

advantage of economies of scale, and to move quickly when unusual events happen. Other trade secrets can be:

- supplier lists,
- the way an order is taken,
- information on an intranet,
- employee pay rates, or even
- employee identities.

If a competitor can use it to your disadvantage, and it is not generally known in the industry, then it is likely to be a trade secret.

Step Two: Reasonable Efforts to Keep It Secret. The second requirement to qualify for trade secret protection is to use reasonable efforts to keep the information secret. This will depend upon the nature of the secret.

If you have a secret recipe, be sure the cook and her assistants have promised *in writing* to protect the secrecy *before* giving them the

recipe. Anyone not directly involved in the production of the actual product should not have access to the secrets.

Some secrets, however, need to be used more broadly. A customer list may not have much value if only one marketing or sales person has access to it – customer information also has to be shared with billing and shipping. In that case, all employees should sign a confidentiality agreement. The best way to do this is to try to be as specific as possible in a confidentiality agreement that is signed *before* the employee starts. If the prospective employee does not want to sign, then you do not want to hire him. The same is true for independent contractors, either hired directly or through a temp agency.

Current Employees. What should you do if a current employee has been exposed to a trade secret without any written agreement as to protecting the

company's trade secrets? This can be tricky. It would be best if the employee signs an acknowledgment that they have been orally warned about the need to protect the trade secret, but alert employees may figure out that the barn door is not closed from the attempt to close it. Consulting counsel experienced in this area, and well-versed in the practicalities of business, is invaluable.

Covenants Not to Compete? One solution common in other states is generally not available in California, where covenants not to compete are void except in a few instances. Cal. Bus. & Prof. Code §§ 17200 - 17203. California employees who sign them can ignore them when they leave employment, comfortable that California courts will not enforce them. In fact, covenants not to compete can give rise to actions for unfair competition against the company requiring their signature.

Andy's Ain'ts or How to Pay for Your Attorney's New Ferrari

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By Andrew K. Jacobson

Every attorney could use as clients those business owners who pay them hundreds of thousands of dollars a year. If you want to be one such client, here's how:

Ain't Ya Gonna Insult Your Employees?

Customers will leave immediately if you make derogatory comments about them, but employees live with it, at least until they find a new job and hire an attorney of their own to sue for discrimination or harassment. Telling employees that they were really hired only as eye candy or for certain services that are not compensable by law is a sure-fire way to ensure that your attorney will bill you a lot of money, while providing for the employee's future through emotional distress damages. Your future, however, may be a little rockier.

In the 1980s, I worked as a computer programmer, at a company where senior management literally chased the young secretary around the table, peppering her with degrading questions. Nowadays, such questions are virtually assured of financing

company counsel's next six-week vacation.

Ain't Ya Gonna Give Managers Free Rein?

Managers do not need training to prevent harassment, even if California law now requires it for companies with 50 or more employees. No, let them pick their own favorites, even if they are all the same race or sex as the manager, or let the manager base promotions on how attractive the employee may be. Only class action trial lawyers will notice – and the board of directors, when productivity plummets, good employees race out the door, and litigation costs skyrocket.

Ain't Ya Gonna Ignore Those Employee Complaints?

Another way of keeping an exotic sports car in your attorney's driveway is to let the employee complaints pile up without action. At hundreds of dollars per hour, attorneys are happy to dip into employee complaints, and sort out human resource problems in court. Of course, this could lead to disgruntled employees going "postal" before it gets to an attorney.

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Ain't Ya Gonna Keep the Barn Door Open?

Trade secret misappropriation cases earn attorneys hundreds of thousands of dollars, especially when the company takes no steps to protect its assets until someone has already swiped them. Taking preventive measures by properly protecting secrets dissuade thieves who make life so interesting for trial attorneys and business owners. Attorneys need their yachts to relax from such stressful situations.

Cont. to pg. 4

Ain'ts *Cont. from pg. 3*

Ain't Ya a Believer in Handshakes?

Written contracts are good but boring. Granting a jury or a judge the chance to decide who remembered what correctly on the witness stand, years after the oral agreement, when the original individuals are retired or dead, is the very spice of life. Taking oral agreements to trial is a great way for attorneys to afford alimony for ex-spouses.

Ain't Ya Gonna Pay the Withholdings?

A great way to keep counsel in clover is to 'forget' to pay the withholdings from employee paychecks to the taxing agencies. A little-known fact is that corporate officers can be *personally* liable for the failure to pay withholdings – plus, there is a penalty, sometimes up to one hundred percent! Not only do you pay for your law firm to buy naming rights to a sports stadium (Dewey Cheatham & Howe Park, anybody?), you can help government balance its books! A great deal all around.

Ain't Ya Got Insurance?

Attorneys hate insurance companies, who know all the little ways lawyers "creatively" bill. Attorneys much rather have companies pay their bills in full, without question, without assistance from insurance. Insurance only gets in the way of that direct parasitical relationship that attorneys crave.

All attorneys deserve the opportunity to drive around in Ferraris like Tom Selleck. Ain't ya gonna give your attorney the chance to overbill you?



Coming Up...

March 15, 2006 – Bay Oak Law's Andy Jacobson will talk about fair use and intellectual property at the California Lawyers for the Arts in Fort Mason. Contact Bay Oak Law or www.calawyersforthearts.org for more details.

April 10, 2006 – last day to pay second installment of property taxes without penalty.

April 15, 2006 – last day to file income taxes for businesses with December as their closing month.

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Inside:
When Your Valuables Are Available
Do You Have a Document Retention Policy?
Andy's Ain'ts

TO:

