

From the Attorneys of Strauss & Troy, Cincinnati, Ohio, and Northern Kentucky

Summer 1999

## Protecting Your Trade Secrets: The Basics

By Charles H. Melville

Most companies — no matter how big or small — have business information or processes that they consider crucial to their success. Handled correctly, much of this information could be entitled to protection as a trade secret. Do you know how to make sure that your important business information is protected? Let's take a brief look at the basic law of trade secrets and what you need to do to protect yours.



### What Is a Trade Secret?

Trade secrets can be anything from a customer list to a manufacturing process to a magic trick. But generally, they're defined as secret information that is sufficiently valuable to afford you an actual or potential economic advantage over your competitors.

Courts have generally considered the following factors in determining whether information is a trade secret:

- The extent to which the information is known outside your company
- The extent to which it is known within your company
- The amount of effort or money you have expended in developing the information
- The value of the information to your company and its competitors
- The measures you have taken to guard the secrecy of the information
- The ease with which the information could be legally acquired or duplicated by others

If you don't take reasonable efforts to keep information secret, it's not a trade secret at all. So one of the most important factors is whether you have reasonable security in place to maintain secrecy. This is discussed in more detail below.

### What Laws Provide Trade Secret Protection?

Originally, trade secret protection was provided only under the common law of each state (laws created by the courts as opposed to the legislature). But in the

1980s, state legislatures started adopting the Uniform Trade Secrets Act (UTSA). Over 40 states (including Ohio and Kentucky) have now adopted the UTSA or a similar statute. State laws generally allow you to sue to prevent those who improperly obtained your trade secrets from using them and also to recover any damages you sustain as a result.

Although many states provide separate criminal penalties for trade secret theft, most only make it a misdemeanor. In 1996, Congress passed the Economic Espionage Act (EEA), which makes the theft of trade secrets a federal crime. This is the first federal law to protect trade secrets — and it's a doozy. Individuals who steal trade secrets may be fined up to \$500,000 and imprisoned for ten years. Corporations can be fined up to \$5,000,000. And the penalties are even higher if the theft benefits a foreign government. But unlike the UTSA, you are not allowed to sue for damages under the EEA. Its sole purpose is to criminalize trade secret theft — not to help you recover from it.

### How Can You Protect Your Trade Secrets?

This is almost stating the obvious, but if you ever expect a court to protect your trade secrets, you must be able to show the court (1) what it is that you consider "secret" and (2) that you and your company have taken appropriate steps to maintain its secrecy.

**Identify all trade secrets.** Obviously, you won't be able to protect your trade secrets unless you know what they are, where they are located, who has access to them, and so on. To determine this information, you can either hire an outside auditor to examine your business or simply appoint a committee of key personnel to tackle the task. The effort must be comprehensive and detailed, because by definition, anything not identified by this process is NOT a trade secret!

Once you have clearly identified all of your company's trade secrets, the process of taking appropriate (i.e., reasonable) steps to maintain secrecy becomes a multi-faceted project.

**Disclosures to outsiders.** Confidentiality agreements are essential any time you reveal trade secrets to individuals or companies with whom you have an employment or business relationship. This could include consultants, vendors, customers, or potential buyers of

## IN THIS ISSUE



Protecting Your Trade Secrets: The Basics



Estate Planning for Your Family Business: The Ins and Outs of Family LPs



Inheriting Contaminated Property: A Blessing or a Curse?

your company, just to name a few. To be at all effective, confidentiality agreements must specifically identify the information that you consider to be a trade secret, and if possible, detail the uses for which the recipient is receiving the information. It must also obligate the recipient to maintain the information in confidence AND to take reasonable steps to maintain its secrecy.

**Employees.** By far the most common threat to the secrecy of trade secrets is disclosure by current and former employees — whether that disclosure is inadvertent or intentional. You should consider confidentiality agreements and/or non-compete agreements, which can restrict them from working for competitors for a certain period of time after leaving your company. As a general rule, courts do not like broadly drafted covenants not to compete. Therefore, the non-compete agreements must be carefully crafted if you want them to be enforceable.

**Implement reasonable security.** Finally, you should put into place other security measures to ensure that your trade secrets are kept secret. Remember that security measures have two goals: preventing competitors from getting hold of your trade secrets, and proving that the information is entitled to protection as a trade secret at all.

What kinds of security measures are required? Whatever is reasonable in light of the circumstances. Some common precautions include:

- **Physical security** — This can range from locked drawers to computer passwords, alarms, and security cameras.
- **Document control procedures** — Such procedures include marking documents “confidential,” restricting the number of copies made and to whom they are distributed, requiring that sensitive documents be signed in and out, and having a document destruction policy for extra or outdated copies.
- **Exit interviews with departing employees** — These allow you to try to retrieve all confidential information an employee may have in her possession and remind her that she is legally required to keep such information secret.
- **Notice to subsequent employers** — If a departing employee had access to trade secrets, you should notify her new employer of that fact and that she can’t legally reveal that information to the new employer (if the employee discloses trade secrets to her new employer, the new employer may be liable for the trade secret theft).

Of course, what security measures are considered “reasonable” will differ from case to case. No one expects a small company to go broke installing a state of the art laser security system to protect its customer lists. On the other hand, a multi-million dollar corporation might have to do just that.

The Ohio Supreme Court recently addressed a trade secret claim involving a client list, and confirmed:

“... listings of names, addresses, or telephone numbers that have not been published or disseminated, or otherwise become a matter of general public knowledge, constitute a trade secret if the owner of the list has taken reasonable precautions to protect the secrecy of the listing to prevent it from being made available to persons other than those selected by the owner to have access to it in furtherance of the owner’s purposes.” *Fred Siegel Co. v. Arter & Hadden*, 85 Ohio St. 3d 171 (1999).

The court went on to hold that the fact that the client list was maintained on a computer protected by a password was sufficient evidence to preclude summary judgment that the owner had not taken any steps to protect its trade secrets.

*Trade secret protection is becoming more complicated and difficult — and more important — as the global market expands. If you have any questions about*

*how best to protect your trade secrets, or what to do if you suspect trade secret theft, please feel free to contact Charlie Melville at Strauss & Troy.*

## Estate Planning for Your Family Business: The Ins and Outs of Family LPs

By Thomas C. Rink

As a family business owner, you must concern yourself not only with business matters, but also family issues. Do you want your children or other family members to continue the business after you are gone? If so, how will you go about transferring the business to them without incurring huge amounts in gift or estate taxes?



Since 1993, when the IRS changed its position regarding the availability of certain discounts in valuing transfers to family members, one technique that has become quite popular is the use of the family limited partnership (FLP) as an estate planning tool. (In some instances, a family limited liability company (FLLC) may be substituted for the FLP.)

Despite its popularity, this tool can prove to be a trap for the unwary taxpayer if used inappropriately or not structured to comply with federal tax rules. The purpose of this article is to introduce you to the basics of this estate planning technique and to alert you of potential pitfalls to avoid. Of course, before you make any decisions concerning your estate, you should consult with an estate planning attorney.

### ***FLPs and FLLCs: What Are They?***

An FLP is simply an ordinary limited partnership (LP) — with one distinction: most of the partners are related to each other. Similarly, an FLLC is simply a limited liability company (LLC) in which the members are in the same family. Here’s a brief rundown of the primary differences between these two entities.

- **Management.** An LP has general partners, who run the business, and limited partners, who are merely passive investors (the law does not permit them to participate in managing the business). An LLC has members, who may choose to manage the company themselves or hire managers to do it for them. Unlike an LP, all members of an LLC may participate in managing the business.
- **Liability.** In an LP, general partners are personally liable for partnership debts; limited partners are not. In an LLC, none of the members are personally liable for company debts. Limited liability for *all* owners, without sacrificing the ability to participate in management, is the chief advantage of an LLC over an LP.

### ***Death and Taxes: A Few Estate Planning Basics***

An important component of estate planning is minimizing the taxes your estate will have to pay when you die. Generally speaking, all gifts of property, during life or at death, are subject to taxation under a unified federal gift and estate tax system. Under that system, large estates can be subject to a tax rate as high as 55 percent. However, as with all tax systems, a variety of exceptions are available for certain transfers. That’s where good estate planning comes in. For example:

**The \$10,000 annual exclusion.** Under the tax code, an individual may give away up to \$10,000 per year per recipient. If the gift qualifies under tax code rules, it will not be subject to gift tax. Nor will it be considered

part of the donor's estate when the donor dies (and, thus, it will not be subject to estate tax).

**The lifetime exemption.** The tax code also allows an individual to cumulatively transfer a certain amount of property, either during life or at death, without paying gift or estate taxes on that amount. For transfers made during 1999, the exemption amount is \$650,000, but it will gradually increase until it reaches \$1 million in 2006.

### **Using FLPs and FLLCs in Estate Planning**

Parents or grandparents who wish to pass on the family business to their children or grandchildren without incurring huge gift or estate taxes may seek to accomplish that goal by using an FLP or FLLC. Here's how it often works (for the sake of simplicity, we'll refer only to the FLP in this example, but the process would be similar for an FLLC):

Parents create an FLP to operate the family business, with 100 ownership units of one percent each — two general partner (GP) units and 98 limited partner (LP) units. The parents (or a corporation that they form) initially own all of the units. Over time, they give many of the LP units to their three children. These gifts may be limited to \$20,000 in value per year per child (\$10,000 from each parent) to take advantage of the \$10,000 annual exclusion or they may be larger gifts, with the excess protected from tax by the lifetime exemption.

By keeping the GP units, the parents (individually or through a corporation) retain full control of the business. And by giving LP units (along with any future appreciation in the value of those units) to their children free of gift tax, they gradually reduce the amount of their estate that will be subject to estate tax. But wait — there's more: because the LP units are not readily marketable and do not come with management rights, their value for gift tax purposes may be discounted (yet the value of the underlying assets remains intact). This discounting reflects the reality of the marketplace that a limited partnership interest has a limited value to a third party purchaser. It provides a method to "leverage" the annual exclusion and the lifetime exemption. For example, an interest in a FLP in the form of a 1% Unit with a pre-discount value of \$15,000 may only be valued at \$10,000 for gift tax purposes after the application of a 33% discount for lack of marketability and lack of control.

Too good to be true? Maybe, maybe not. A detailed analysis of the many intricacies of this estate planning technique are beyond the scope of this article, but here are a few basic do's and don'ts to keep in mind:

- > *Don't use this technique purely as an estate planning tool.* The IRS has been on the warpath of late, attacking FLPs from more than one direction, particularly if the taxpayers are hard pressed to show a "substantial business purpose" for creating the FLP. Your chances for surviving a run-in with Uncle Sam are better if your purpose is to operate a bona fide family business rather than simply to shield family assets from taxation.
- > *Don't try to cut corners when it comes to valuation.* Consult a qualified appraiser with experience in valuing family-owned entities to help you value the entity as a whole and to advise you on the nature and amount of any valuation discounts that may apply to gifts of LP interests.
- > *Do consult with an estate planning attorney* to be sure this and other aspects of your estate plan are structured to achieve the best possible tax outcome should an IRS auditor come knocking.

*If you are a family business owner, the FLP or FLLC may be one way to pass on your business to future generations without incurring huge tax liabilities in the process. For more information about forming one of these entities, or other*

*estate planning techniques for you or your business, please feel free to contact Tom Rink.*

## **Inheriting Contaminated Property: A Blessing or a Curse?**

By John G. Parnell

When told they've just inherited property from a distant relative, few people would find cause for alarm. In fact, most would be elated. But what if the land has previously been used for commercial or industrial purposes? For example, what if it used to be a car mechanic's shop? A dry cleaner? A manufacturing plant?



Too often, even seemingly "clean" commercial properties have some environmental concerns. And because environmental laws have only been around for a few decades, the longer ago the property was being used for commercial purposes, the more likely it may be that it is contaminated.

What would you do if you inherited such a piece of property? This article will explain the potential liabilities associated with inheriting contaminated property — and discuss your options on how to minimize or avoid that liability altogether.

### **Liability Under Federal Law**

First, let's take a look at the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). This federal law looms over all other laws when it comes to imposing liability for environmental damage on the ignorant and unsuspecting. In general, CERCLA provides a scheme for making as many people liable as possible to ensure that sufficient funds are available to clean up severely contaminated sites.

Potentially responsible parties (or PRPs) under CERCLA include anyone who:

- (1) generated hazardous waste found on the property,
- (2) transported hazardous waste to the property,
- (3) disposed of or arranged for the disposal of hazardous waste on the property, or
- (4) ever owned or operated the property.

PRPs who inherit contaminated property fall under the category of "owner" PRPs.

All PRPs are "jointly and severally liable" for the cost of cleaning up the property. This means that a single PRP could be required to pay for the entire cleanup in spite of the fact that other PRPs caused most of the contamination. And the current owner of the property is usually the first PRP to be targeted.

**The innocent landowner defense.** Fortunately, CERCLA provides a limited exception to liability known as the "innocent landowner" defense. The defense does not apply to PRPs who owned the property when the contamination occurred — *even if they knew nothing about the contamination*. It only protects PRPs who acquire the property later — including those who inherit it.

To be protected by the innocent landowner defense, owners of inherited property must show that they acquired the property by inheritance or bequest *after* it was contaminated. That certainly sounds simple enough, but nothing is ever simple under CERCLA. For example, what if you used to be in business with the relative you inherited the property from?

Depending on your exact involvement, you could be liable as a former operator of the property. In other words, just because you inherit property doesn't mean you're magically relieved of liability for contamination that you contributed to in the past. Similarly, once you own it, you must take reasonable measures to avoid making the contamination worse.

### ***Liability Under State Law***

Most states have their own environmental statutes. Some have liability schemes that are practically identical to CERCLA; others may be more or less strict than CERCLA. For example, a state law could be *more strict* than CERCLA if it doesn't recognize the innocent landowner exception or *less strict* if it expands the exception to PRPs who owned the property when the contamination occurred but didn't know anything about it.

In addition to environmental statutes, most states recognize the common law claim of "nuisance." Generally, a "nuisance" is any condition of *your* property that prevents a neighboring property owner from using *his* property. For example, if contamination from your property is spreading to an adjoining property, a neighbor could sue you for damages or to force you to fix the problem. The fact that you did nothing to create the problem is not usually a defense.

### ***How Can You Protect Yourself?***

One of the first steps you should take upon learning that you are inheriting contaminated property is to evaluate whether correcting the contamination will cost you more than the property is worth. The assistance of an experienced environmental lawyer may be useful at this point. If you decide that the cost outweighs the benefit of keeping the property, you should consider contacting a probate lawyer to help you disclaim the inheritance.

If you decide to keep the property, the most important step to protect yourself is to avoid being classified as a PRP in the first place. An experienced environmental lawyer should be able to help you accomplish this. One way is to take title in the name of a corporation rather than individually. Better to pay an attorney's fees up front than to wait until after your name is placed on the list of PRPs — at which point you can count on spending a lot more trying to get it removed.

Finally, once you have established that you are in fact an innocent landowner, you may want to consider suing previous owners and operators and other PRPs who caused the contamination to clean up the property to a usable condition. Again, an experienced environmental lawyer can help you in this regard.

---

Certain states, including KY, do not certify specialties of legal practice. Certain states, including OH, do not provide for recognition as a specialist in any area or field of law, except for patent, trademark or admiralty. IMPACT is published quarterly to provide information of general interest and not to provide legal advice concerning any specific situation. If you wish additional or more specific information, please contact one of the attorneys at Strauss & Troy.

---

**Strauss & Troy**  
The Federal Reserve Building  
150 East Fourth Street  
Cincinnati, Ohio 45202-4018  
(513) 621-2120 • Fax: (513) 241-8259

50 East RiverCenter Blvd.  
Suite 1400  
Covington, KY 41011  
(513) 621-8900 • (513) 629-9444

BULK RATE U.S. POSTAGE <b>PAID</b> PERMIT NO. 989 NASHVILLE, TN
---

# NEWS OF THE FIRM

## ATTORNEYS ON THE MOVE

**Marshall Dosker** recently spoke to the Ohio Society of Certified Public Accountants during a continuing professional education (CPE) seminar. The presentation dealt with current developments and practical planning tips for real estate transactions and the tax implications of such transactions.



Marshall Dosker

**William Strauss** will be a guest speaker at the August meeting of the Greater Cincinnati Chapter of Commercial Real Estate Women (CREW), a national organization of over 5,000 women. The organization is dedicated to the promotion of women in the real estate industry. Bill's topic will be "How to Use a Lawyer in a Real Estate Transaction."



William Strauss

**Leon Wolf** was elected for a three-year term to the Board of Trustees of the Institute of Learning in Retirement at the University of Cincinnati. Leon also served as the Master of Ceremonies at the 55-year reunion of his Walnut Hills High School graduating class.



Leon Wolf

**Timothy Theissen** was re-elected Chairman of the Kenton County and Municipal Planning and Zoning Commission, the zoning commission that serves Kenton County, Kentucky.



**Steven Stuhlberg** spoke on the issues of sovereign immunity and judicial immunity at a Cincinnati Bar Association seminar on Civil Rights Legislation. Steve also made a presentation on attorney professionalism to the 1998-1999 class of the Cincinnati Bar Association's Cincinnati Academy of Leadership for Lawyers ("CALL"). Steve was a graduate of CALL's inaugural class two years ago. Additionally, as Chairman of the Education Work Group of Cincinnati's Jewish Community Relations Council, Steve helped put together and served as the moderator for an educational program entitled "Community Schools: The Changing Face of Public Education."



Steven Stuhlberg

**James Heldman** is serving as Chairman of the Executive Committee of the Cincinnati Associates for Hebrew Union College-Jewish Institute of Religion ("HUC-JIR"). The purpose of the executive committee is to create an awareness of the HUC-JIR as one of the premier educational assets in our city. Jim is also serving as co-chair of the 17th Annual Cincinnati Associates Tribute Dinner to be held on November 7 in honor of Richard Weiland. The Dinner has already raised over \$1 million and is certain to be the largest fundraising event in Cincinnati history. The guest speaker for the dinner will be Nobel Peace Prize winner, Elie Weisel, the president-emeritus of Boston University.



James Heldman

**Stuart Brinn** spoke at a luncheon of the Cincinnati Association of Life Underwriters. His topic covered the professional relationships between lawyers and insurance and financial professionals.



Stuart Brinn

## Frank Klaine Joins Strauss & Troy

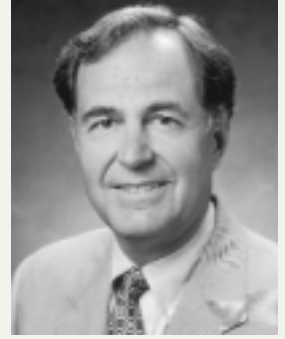
Effective July 1, attorney Franklin A. Klaine, Jr. will join the Cincinnati office of Strauss & Troy as a Shareholder. Frank comes to the firm with an extensive general business practice concentrated in the areas of employment law, municipal and school law, and real estate law. He has practiced law in the Greater Cincinnati/Northern Kentucky area for more than 30 years.

Bill Strauss, president of Strauss & Troy, said bringing Klaine into the firm is a natural fit for both parties: "Frank Klaine is recognized as one of the most highly respected business attorneys in our area," Strauss said. "Adding his talents to those of the lawyers already practicing at Strauss & Troy will make our firm stronger than ever."

Frank is a graduate of the College of the Holy Cross (B.S. 1963) and the University of Cincinnati College of Law (J.D. 1967). He was

admitted to practice in Ohio in 1967 and is also admitted to practice in Kentucky. He is a member of the Cincinnati, Ohio, Kentucky, and American Bar Associations. Frank has been active in community civic affairs for many years, and currently acts as the Solicitor for the City of Wyoming and serves on the board of Women Helping Women.

Frank and his wife, Karen, live in the City of Wyoming. They have two daughters, Katie and Kristin.



## ATTORNEYS ON THE MOVE (continued)

**Philomena Ashdown** was a faculty member for a Continuing Legal Education (CLE) course entitled "Ohio Foreclosure and Repossession." The course, which was presented in Cincinnati and in Dayton, offered a comprehensive, thought-provoking approach to the critical foreclosure, repossession and bankruptcy issues surrounding the secured lender.



Philomena Ashdown

**Charles Atkins** and **Thomas Stachler** taught a full-semester Trial Practice course at the University of Cincinnati College of Law. The course included student participation in a mock trial, from beginning to end, before a Hamilton County judge.



Charles Atkins



Thomas Stachler