

THE Enterprise

UTAH'S BUSINESS JOURNAL

www.senterprise.com

July 16-22, 2012

Volume 41, Number 48

Safeguarding your business' trade secrets

One of the consequences of being in a state that has an extremely well educated population combined with a strong entrepreneurial spirit is that new opportunities frequently attract talented employees away from their current positions. Employees moving from one company to another or choosing to strike out on their own and start up their own venture creates a ripe atmosphere for trade secret violations. Because such violations can have a devastating impact on the departed company and create unfair competition, the Utah legislature has enacted the Uniform Trade Secrets Act.

This act not only helps define the vague concept of a "trade secret," it provides victims of trade secret theft a mechanism to reap justice on the offender. Specifically, successful plaintiffs in a trade secret action may be entitled to (1) injunctive relief, barring the offending parties from using the stolen trade secret; (2) a judgment requiring the offenders to compensate the plaintiff for the damages caused by the theft; (3) an award of exemplary damages; and (4) attorney's fees.

These consequences should serve as a strong deterrent to any employee stealing trade secrets from their former employer. However, all too frequently, employees are either ignorant of the consequences or believe that the reward outweighs the risks. In such circumstances, the victim of the trade secret theft will likely be forced to bring a lawsuit against the offending parties.

To prevail on a trade secret claim, a plaintiff must first establish that the information is indeed a trade secret. To do this, the plaintiff will need to show that the information: "(a) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by property means by, other persons who can obtain economic value from its disclosure or use; and (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Simply put, a trade secret is valuable information that is not known to the public and which the plaintiff has taken measure to keep secret.

Once the plaintiff has shown that the information in question is a trade secret, it must establish that there was an actual misappropriation. This occurs where the trade secret is *acquired* by improper means, including theft, bribery, fraud or electronic espionage. It also occurs through the *disclosure or use* of a trade secret that was

acquired by improper means. Accordingly, not only can the disclosing party be found liable for trade secret theft, the party acquiring or using the trade secret may also be liable.

Depending on the circumstances, the victim of trade secret misappropriation should strongly consider seeking injunctive relief. Under Utah's Uniform Trade Secrets Act, actual *or* threatened misappropriation may be enjoined. In such circumstances, a victim of trade secret theft may choose to commence the action with a complaint and an application for temporary restraining order, wherein it seeks to prevent disclosure or use of the trade secret. To obtain the restraining order, the plaintiff must show that it will suffer irreparable harm if the disclosure and/or use are not restrained. The plaintiff may also be required to post a bond or other security. Because a temporary restraining order is only effective for 10 days, the plaintiff will typically apply for a preliminary injunction as well, which may restrain the offending conduct through trial and beyond if converted to a permanent injunction.

A victim of trade secret theft may also seek monetary compensatory damages for the misappropriation. Under the Uniform Trade Secrets Act, the damages may include both the actual loss caused by the misappropriation as well as the unjust enrichment caused by the misappropriation (i.e. the windfall obtained by the offending party through disclosure or use of the trade secret). Alternatively, the damages caused by the misappropriation may be measured by the imposition of a reasonable royalty for the unauthorized disclosure or use of the trade secret.

If the plaintiff can show that the trade secret misappropriation was "willful and malicious," a court may also award exemplary damages in an amount up to twice the amount of compensatory damages awarded as well as attorney's fees and costs. Conduct is considered willful if it was done voluntarily and intentionally. It is considered malicious if it is substantially certain to cause injury.

A trade secret lawsuit is a costly endeavor for the plaintiff as well as the defendant. But whether an owner, shareholder, manager or employee, there are additional reasons why one should care to have a general understanding of trade secret law. The shareholder may care because trade secrets can provide a business with a

profitable competitive advantage, which in turn may be of interest to the employee to the extent the competitive advantage results in higher compensation and/or increased job security.

Utah's Uniform Trade Secrets Act defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or process." Some, but not all, of the information protectable by trade secrets may also be protectable by patents. To better understand trade secret law, one might thus consider the quandary of whether to seek patent protection for an invention or maintain it as a trade secret in relation to, among others, the following three factors: (1) whether the invention is likely to be independently developed or reverse-engineered; (2) the lifetime of the invention; and (3) the requirements and costs of maintaining the invention as a trade secret versus seeking patent protection.

Trade secret law only protects against misappropriation. Unlike patent law, trade secret law does not protect against independent development or reverse-engineering. That is, as long as no trade secret information is used, another may freely arrive at the same result.

In terms of the lifetime of the invention, one should consider that it can take a few years to obtain a patent and that the resulting protection only lasts 20 years from the earliest filing date. Trade secrets, on the other hand, do not require any formal application process and can last indefinitely.

As a practical matter, if the lifetime of the invention is less than a few years or more than 20 years, and the invention is unlikely to be independently developed or reverse-engineered, a business should consider maintaining the invention as a trade secret.

One should also consider the requirements and costs of maintaining the invention as a trade secret versus seeking patent protection. A patent applicant must publicly disclose the best mode of the invention in sufficient detail to enable a person skilled in the art to practice the invention. If no patent is ultimately granted, the patent applicant cannot prevent another from practicing what has been disclosed. If a patent is issued, it can cost tens of thousands of dollars, not to mention maintenance fees to maintain the patent.

In contrast, a trade secret owner must make efforts that are reasonable under the circumstances to maintain the trade secret's secrecy, and undertake such efforts for so long as the protection is desired. If at any time the trade secret is disclosed, whether intentionally or inadvertently, the protection may be irretrievably lost.

In evaluating whether to seek patent protection for an invention or maintain it as a trade secret, one may also consider that under the 2011 Leahy-Smith America Invents Act, the U.S. will become a "first to file" system, whereas it has historically operated under a "first to invent" system. In this regard, it may become increasingly desirable to seek patent protection for some inventions that may otherwise be protectable by trade secrets. Under the "first to file" system, a trade secret owner will no longer be able to challenge another's patent based on earlier inventorship. As a result, while the trade secret owner may have a prior commercial use defense to patent infringement, another could nevertheless obtain a patent covering the trade secret. On the other hand, for inventions that are unlikely to be independently developed or reverse-engineered, the expanded prior commercial use defense under the act may actually encourage trade secret protection.

No matter the nature of the trade secret information, a prudent owner should consider implementing measures to protect and limit access to information by, for example, limiting physical access via keycards, requiring passwords for computers and mobile devices, shredding sensitive documents, limiting who has access to all of the elements of a trade secret, educating employees, identifying trade secrets and using confidentiality agreements with third parties. In addition, each employee should enter into an employment agreement by which the employee (1) agrees that no former employer's trade secrets will be used during the employment, and (2) acknowledges that all trade secrets developed during the employment are owned by the business.

An employee should take great care in handling trade secret information and should understand that all trade secrets developed during the employment are likely owned by the business. In this regard, an employee should be cautious when departing to work for an existing competitor, or starting a competing business, recognizing that the line drawn between common industry knowledge and learned skills versus trade secret information is often difficult to distinguish.

Michael A. Gehret and Eric M. Nielsen are attorneys at Snell & Wilmer L.L.P. Gehret is a commercial litigator admitted to practice in Utah, California and Nevada. Nielsen is an intellectual property attorney, admitted to practice in Arizona. This article should not be considered legal advice or opinion because its content may not apply to the specific facts of a particular case. Any reliance on this article is per se unreasonable.



Michael Gehret



Eric Nielsen