

July 2004

Why Trade Secret Protection is Vital

* * *

A Disloyal Nephew

By Dirk A. Bartram

Bill Burke was a chemical engineer and owner and CEO of Solutec Corporation, Inc., a company in Yakima, Washington. Solutec had developed a shellac wax and a carnuba wax that were very competitive in the edible apple wax industry.

To his later regret, Mr. Burke hired his nephew on at Solutec. The nephew first worked in production, then in sales. Bill Burke later let his nephew go when sales didn't meet Bill Burke's expectations. Within the week, another Solutec employee quit the company and joined the nephew in a new business. Mr. Burke suspected the two men planned to manufacture edible apple wax using Solutec's formulas and processes. Solutec filed a complaint against the two seeking injunctive relief and damages in a case now known as *Solutec Corporation, Inc. vs Agnew*.

Could Bill Burke really win this case against his nephew and his cohort? They had not signed non-compete agreements. Solutec apparently had no patent protection for its edible wax, because no patents were alleged in the case. Solutec was also unable to claim copyrights or trademarks, because those forms of protection don't apply to manufacturing formulas and processes. Sounds bleak for Bill, doesn't it?

It wasn't. Burke was able to assert that his edible wax was protected by Washington's Uniform Trade Secrets Act. He convinced the court that the wax formula made Solutec's products extremely competitive, that it could not be reverse engineered, and that Solutec had taken reasonable measures to keep the formula secret. As a result, the court decided that the wax qualified for trade secret protection. It issued an injunction against the nephew and his cohort from using the wax formula.

What qualifies for trade secret protection? It's any technique, method, or other information that: (i) gives the company a competitive advantage; (ii) is not generally known or ascertainable in the industry; and (iii) is subject to reasonable security precautions. If all three factors are present, a Washington court will protect the information from theft by employees or others. But if a company fails to take reasonable security measures to protect the information, the court will not protect it as a trade secret, even if it's a valuable invention that took years to develop.

The Uniform Trade Secrets Act shields not only a company's formulas and processes. It can protect many other items, including customer lists, strategic business plans, custom service goals, methods and techniques, personnel procedures, and financial results and forecasts.

Trade secret protection applies much more broadly than patent law. Patents require that an invention be novel and non-obvious, and that the company publicly disclose the invention. In addition, exclusive patent rights expire no more than 20 years after the patent application. Trade secrets, on the other hand, don't have to meet the patent law's more rigorous standards of novelty and non-obviousness. Trade secrets have no set duration; they can last indefinitely. Perhaps best of all, they require no public disclosure and, in fact, they must not be disclosed publicly.

Information can be a trade secret, even if aspects of the information are generally known. For instance, the nephew in *Solutec* argued that the ingredients and their proportions in the Solutec waxes were generally available in product literature. However, the court found that even if this were true, the *processes* used by Solutec in combining the ingredients were not generally known and were thus entitled to trade secret protection.

Must the company maintain absolute secrecy of the trade secret information? No, it is only required to take reasonable security measures to prevent the information from falling into the wrong hands. In *Solutec*, the court noted that the company disclosed its formulas to only those employees with a need to know—that is, to production employees. In addition, Bill Burke had warned the former employees against divulging the formulas. The court found that these were sufficient measures for trade secret protection.

Bill Burke was lucky. He was able to protect his formulas, even though he appeared to have no formal measures in place to qualify for trade secret protection. Others have not been so lucky. The failure to

protect trade secrets has cost some owners their business. Our next article offers some practical advice on qualifying your vital techniques or other information for trade secret protection.

© 2004 Henke Bartram PLLC

All articles are intended for general information purposes only and should not be construed as legal advice. You should contact us or your attorney to obtain advice on any particular issue or situation.