

Protect or Lose Trade Secrets

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The California version of the Uniform Trade Secret Act (UTSA) defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) derives independent economic value, actual or potential, from not being generally known to the public or other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (Civil Code § 3426.1(d). Both elements are required for proprietary information to qualify for trade secret protection. (*American Paper & Packing Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318.)

In order to comply with the second requirement, that "reasonable" efforts be undertaken to preserve secrecy, employers should at least advise employees of the existence of a trade secret; maintain "company proprietary" legends; engage in Confidentiality or Proprietary Information Agreements prior to any third party disclosures; and require employees to sign Invention and Confidentiality Agreements. (See generally, Commissioners Comment to Section 1, Uniform Trade Secrets Statute, 14 Uniform Laws Annotated 541 (1985).)

In the event of an actual or threatened misappropriation of a trade secret, an employer may obtain an injunction and recover any damages caused by misappropriation. (Civil Code Sections 3426.2, 3426.3.) Misappropriation includes: (1) the acquisition of a trade secret by a person who knows or has reason to know that it was acquired by "improper means"; or (2) the disclosure or use of a trade secret, without consent, by an employee or other person who obtained the trade secret by "improper means." "Improper means" include theft, bribery, misrepresentation, breach of a duty to maintain secrecy or espionage. However, reverse engineering, independent derivation, invention, discovery under a contractual relationship (e.g., a license agreement), or obtaining the secret from information available to the public, are not considered improper means.

In addition to injunctive relief against actual or threatened misappropriation, the court may compel the misappropriating party to take affirmative steps to protect the trade secret. (Civil Code § 3426.2(c).) The court may also direct payment of a reasonable royalty, (Civil Code § 3426.2(b)), or award damages for any actual loss or any unjust enrichment caused by the misappropriation. (Civil Code § 3426.3(a-b).) However, in order to preserve these remedies, it is critical that the employer exercise reasonable efforts to maintain secrecy under the circumstances.

The law helps the vigilant before those who sleep on their rights. (Civil Code § 3527.)