

## **PROTECTING THE COMPANY’S INTELLECTUAL PROPERTY ASSETS WHEN EMPLOYEES DEPART**

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David Smith, Vice-President of Research and Development, just walked into your office and dropped a bombshell - he is considering leaving the company and accepting the position of CEO with your biggest competitor. David has been intimately involved in most of the company’s R&D projects over the last twenty years, starting out in the lab as a researcher and rising through the ranks to his current VP position. He is a named inventor on numerous patents in the company’s portfolio. But most concerning of all, he is (was) overseeing the company’s latest project, which has been in development for three years and is expected to be a market powerhouse. To your knowledge, your competitor is completely unaware of your new masterpiece and does not have a competing product in development.

Many questions start running through your mind. Can we prevent David from disclosing our new product (or other sensitive business information) to his new employer? Are the company’s patent and other intellectual property assets safe? If the company has taken the appropriate safeguards, the answer to each of those questions is yes.

### **Protecting the Company’s Trade Secrets**

Most states have adopted some version of the Uniform Trade Secrets Act (“UTSA”). Under that act, a trade secret is defined as “information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” As one can readily imagine, a wide range of information can qualify as a trade secret, such as market research, client or customer lists, formulas, software, and manufacturing processes that cannot be determined only from the product created.

In our example, the yet-to-be released product would almost certainly qualify as a trade secret. It is not generally known to others, is not readily ascertainable by proper means, provides an economic advantage to the company, and has been the subject of substantial investment by the company. The question then becomes whether the company has used reasonable efforts to maintain the secrecy of the information.

Appropriate use of confidentiality or non-disclosure agreements (discussed in more detail below) with employees and anyone else that may have access to sensitive business information is an

effective tool for maintaining secrecy. Other common ways of protecting the company's trade secrets and other sensitive business information includes marking any documents related to the secret "confidential" and limiting access to the secret information to those employees who need such access (it would be advisable to limit access to areas housing such information, like laboratories or sections of the building where secret manufacturing processes are performed). Additionally, forbidding and preventing any access or disclosure to third parties not bound by a confidentiality agreement is an absolute necessity. No visitor to your business should be given access to areas housing secret information or be permitted to roam unescorted. Electronic locks and key-cards are also worth the investment.

Assuming David signed a non-disclosure or confidentiality agreement, he would be in violation of that agreement if he disclosed any trade secret (or other sensitive business information) to his new employer. Even if David did not sign a non-disclosure or confidentiality agreement, he is not free to disclose the company's deepest secrets to the highest bidder. As an executive of the company, David has a fiduciary duty to maintain the company's trade secrets. This duty extends beyond the termination of his employment and lasts so long as the information remains secret.

There are limits on the type of information that David can be prevented from taking to his new employer. The general skills developed by an employee or knowledge of the business gained during the course of employment are generally considered non-confidential and therefore are not protectable. But, where the employee's knowledge and skills are so intertwined with the employer's trade secrets that subsequent employment with a competitor poses a substantial risk that the employer's trade secrets will be used, there is still a risk of disclosure. This situation is commonly referred to in many other jurisdictions as the doctrine of inevitable disclosure, and applies regardless of whether a non-disclosure agreement has been signed. In our example, a strong argument could be made that David's knowledge and skills are so intertwined with the company's trade secrets that he could not work for a competitor in a similar position without disclosing that information. The doctrine likely would not apply if David was joining the new company in a completely different role; for example, if David were taking a position in human resources.

Even though David will be contractually or otherwise prevented from disclosing the company's sensitive business information to his new employer, it would be advisable to send the new employer a letter informing them of the existence of the non-disclosure agreement, David's exposure to and involvement in the company's research and development projects, and that David has knowledge of many of the company's trade secrets. The UTSA defines misappropriation as "(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire knowledge of the trade secret; or (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who has utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake."

Having received your letter, the new employer will know or have reason to know that any new product or other “idea” David discloses to them may be a trade secret of your company and that it will have been acquired by improper means, subjecting the new employer to liability for misappropriation.

Lastly, a thorough exit interview should be conducted with David if he ultimately decides to leave the company. He should be reminded of his continuing obligations to maintain the confidentiality of the company’s trade secrets and other sensitive business information. The company should also have David sign a statement indicating that he has returned all business records or other information to the company, including any company issued laptops and/or files on his personal computer(s).

### **Non-Compete and Non-Solicitation Agreements**

Another option available to the company to prevent disclosure of sensitive business information to competitors is a non-compete agreement. Essentially, such an agreement prevents an employee from leaving the company and taking sensitive business information to a competitor. There are limitations on the acceptable scope of such an agreement. The agreement must protect a well recognized employer interest, such as trade secrets and customer contacts, and be reasonable in geographic and temporal scope. It is generally not required in the context of customer contacts that the list be secret, as sales personnel may have built a strong relationship with the customer and be able to draw them to a competitor.

A “no-solicitation” clause is typical in non-compete agreements. Such a clause prevents the employee from soliciting customers of the company, particularly those with whom he/she had a relationship, after he/she leaves the company. Some jurisdictions, may enforce a “no-solicitation” clause that prevents the former employee from soliciting other employees of the company to terminate their employment to join the former employee.

### **Patent and Other Intellectual Property Ownership Agreements**

Once your new product is released, your ability to protect it (or its secret production processes) as a trade secret is greatly, if not completely, diminished. Your competitors will be free to “reverse engineer” the product; meaning they may buy it off the shelf, take it apart and figure out how it works, and then produce the same or a similar product. In other words, once the “secret” can be figured out by “appropriate means,” such as reverse engineering, it is no longer protectable as a trade secret.

There are other options available. A patent application can be filed covering the new product or process that has been developed. If the patent is granted, the company receives a limited time (20 years from the date of filing the application) monopoly on the invention. The trade off for this monopoly is that the invention is disclosed to world. Thus, the ability to protect the invention as a trade secret is effectively eliminated, but a guaranteed single-supplier market for a limited period of time is provided in exchange. Deciding whether to rely on trade secret or patent protection is an important decision and should be made with the advice of legal counsel.

Typcially, inventions made by an employee in the course of his/her employment become the property of the company. This is true whether the company relies on trade secret or patent protection. However, it is advisable to include in each employee's contract a provision that the employee shall assign to the company all ownership rights in any inventions made in the course of employment, as well as any rights in any patent(s) acquired to cover the invention. Typically, such agreements provide for a nominal payment, such as \$1.00, to be paid to the employee in exchange for his/her assignment of rights, as well as the employee's continuing cooperation in obtaining and enforcing or defending the patent.

### **Conclusion**

By implementing the safeguards discussed above, your company will have taken the first and probably most important steps in protecting its intellectual property. These safeguards will ensure the company's trade secrets and other sensitive business information are protected from wrongful disclosure and that the company's other intellectual property assets remain just that - assets.