

WEDNESDAY, OCTOBER 9, 2019



TOP TRADE SECRETS LAWYERS

Cannabis and craft beer: Insulated from tariff wars, still to protect trade secrets

By Dan M. Forman

Cannabis sales are safe from potential tariff wars as the international transportation of cannabis is not yet approved. Many craft breweries do not have the production volume or need to compete on the international market. Overall, beer volume sales are down, however, craft brew sales continue to grow year over year, with California leading the charge. Further, the cannabis market continues to expand as additional states adopt and are poised to allow regulated sales, like market leaders California and Colorado. Every enterprise in a fast-growing industry should endeavor to protect their trade secrets, namely the recipes, formulas, technologies, methodologies and other information that gives them a competitive edge. While new market entrants may feel a collegial environment during market growth and expansion, each proprietor should have a basic understanding of trade secrets, how to protect them, and what to do upon learning or suspecting that a trade secret has been pilfered. Loss of trade secret information can have a devastating effect on any type business, upending an otherwise profitable business. This article will help you identify if you have a trade secret, what laws might apply, and how you can protect them.

Do I Have Trade Secrets?

Information that derives economic value from not being known to the public or to competitors

who can obtain economic value from the secret and is maintained in secrecy through reasonable methods is a trade secret. Other intellectual property may be protected under trademark, patent or copyright laws, all of which protect publically available information that the owner seeks to exploit. Trade secrets, however, are unique as the information that the proprietor needs to protect is not available publically and can exist inside people's heads and on other storage devices. Cannabis and craft brew businesses own many secrets that may be protected including, agricultural methodology, manufacturing and processing methods and techniques, new technology, anything akin to a recipe or formula for the preparation of final product, as well as internal financial information, personnel information, customer information, pricing information and vendor and supplier information.

Which Laws Protect Trade Secrets?

California and the United States have laws that protect businesses who make reasonable efforts to protect their trade secrets. California and many other states employ a version of the Uniform Trade Secrets Act and the United States enacted the Defend Trade Secrets Act, each of which allows the owner of a trade secret to pursue a civil claim, including a powerful injunction against a competitor or former employee who steals a trade secret. Moreover, these laws provide for

double damages and the recovery of attorneys' fees in certain conditions, if laws are violated. And, as discussed below, criminal claims may be filed against trade secret thieves.

What Do I Do to Protect My Trade Secrets?

Unfortunately, departing employees that decide to start their own businesses or who are hired by competitors will take trade secrets with them. To protect against the loss of trade secret information, employers should ensure that prospective employees are not exposed to trade secret information during interviews. Moreover, as part of the employment on-boarding process, employers should be certain to have up to date confidentiality agreements in place with all employees, provide training as to the confidential aspects of their business and ensure that new recruits do not bring other employers' trade secret information into your business. Confidentiality agreements should be updated regularly to ensure compliance with any changes in the law, including whistleblower information required under Federal law to ensure the full range of all potential remedies. Employment agreements may, now, include enforceable post-employment certification by former employees to verify that they have not improperly used trade secret information for a period of time after leaving employment. Further, while use of personal cell phones and other devices may appear to be

ubiquitous in our modern economy, the very use of those devices lowers the barrier to trade secret theft which, at some point, might destroy a trade secret claim. Employees with access to important trade secret information should not be allowed to conduct company business on their personal phones or other personal devices to avoid undetected downloads of your company trade secrets.

New and growing businesses also risk losing trade secrets when working with vendors and suppliers or even the general public. A business with confidential agricultural and other high-level biotech methods should have non-disclosure agreements with vendors and suppliers that not only protect any favorable pricing that is negotiated but to protect any agricultural techniques that a vendor or supplier might learn about or see on a visit or delivery. Likewise, if the general public is allowed to tour a facility or farm, they should agree to maintain the confidentiality of anything that they learn or see on the tour. Likewise, pricing agreements that provide special or volume pricing that is not generally disclosed should include confidentiality provisions to protect uncommon negotiated transactions.

Furthermore, as part of a routine employment separation process, a business should review any departing employee's email and data usage, in particular if that employee had access to or who made regular use of important trade secret information, to evaluate whether the employee was

sending information to a competitor's or personal email account or downloading information to a web server or external drive. It is also helpful to have an exit interview where the employee is reminded about their continuing obligations to maintain an employer's confidences and asked to disclose their future plans.

What If a Former Employee Is Using My Trade Secret Information to Compete Against My Company?

Consult experienced counsel as many decisions, including how to collect incriminating (and infuriating) evidence, could impact the life or death of the company. Utilizing attorneys to coordinate the investigation and preserve information as to the potential theft is critical to minimizing damages, protecting against future losses, and protecting evidence for use at trial. The creation of an investigation plan, whether forensic experts should be engaged to preserve data and/or restore deleted evidence and understanding the steps and costs of different avenues of pursuit are important from the outset.

In some cases, a "cease and desist" letter from your counsel to the former employee demanding an accounting and the return of trade secret information may be all that is needed. Other times, it may be more desirable and powerful to commence a lawsuit or arbitration, without any warning, against your former employee and his or her new employer and seek a temporary restraining order against continued use or possession of the stolen trade

secret information, followed by an injunction. Whatever conclusion the business comes to, if it takes no action to protect what it believes to be stolen trade secret information, a subsequent thief will claim that the business failed to take reasonable action after the first theft in an attempt to strip the important information of trade secret status. In other words, even minor slip ups where trade

secret information has left your premises should be affirmatively addressed.

Case Studies

Anheuser-Busch prosecuted one of its former employees, Mr. Clark, for breach of contract and trade secret theft in federal court. After Clark was no longer employed, he had a colleague send him confidential formulae, information that was protected by a confidentiality agreement with Anheuser-Busch. Clark attempted to have the case thrown out under anti-SLAPP laws claiming that Anheuser-Busch was trying to stifle protected public speech. However, the court supported Anheuser-Busch's right to sue under both breach of contract and misappropriation of trade secret theories because Clark breached his contract by refusing to comply with his contractual obligation

to certify that he had not used Anheuser-Busch's trade secret information after leaving employment. On the trade secret misappropriation claim, the court concluded that the brewery's recipes and methodologies were viable trade secrets worthy of protection and that Clark's cajoling a former colleague to send him the confidential information without checking with his supervisor constituted a

allegations of document theft and Levandowski wiping a laptop clean. The recent indictment alleges that Levandowski downloaded over 14,000 documents prior to his departure from Waymo for the benefit of someone other than the owner of the trade secret. In September, Levandowski's bail was set at \$2 million and the case was assigned back to Judge Alsup for trial.

Overall, beer volume sales are down, however, craft brew sales continue to grow year over year, with California leading the charge. Further, the cannabis market continues to expand as additional states adopt and are poised to allow regulated sales, like market leaders California and Colorado.

Conclusion

Startup and growing businesses, despite high levels of confidence in their employees should undertake important precautions to expressly enlist their employees' (and others) written agreement to confidentiality to protect against the potential loss of trade secret and other important confidential information down the road. This is particularly crucial for those in the burgeoning craft brew and cannabis industries. Your longterm success may depend on maintaining your trade secrets under cover. ■

Dan M. Forman is chair of Carothers DiSante & Freudenberger LLP's Trade Secret Practice Group.
dforman@cdflaborlaw.com
www.cdflaborlaw.com



Reprinted with permission from the *Daily Journal*. ©2019 Daily Journal Corporation. All rights reserved. Reprinted by ReprintPros 949-702-5390.

