

# Know And Protect Your Assets: Trade Secrets Have Value

By David Hoffman

**S**ome people are surprised to learn that there is a winery in every state, even Alaska. Possibly more surprising is that a bagel bakery in Ellsworth, Iowa became a twenty million dollar a year business. The company created a process for extending the shelf life of bagels from about three days up to well over three months if refrigerated. The process involved putting the bagels in an air tight plastic bag, removing oxygen from the bag and putting carbon dioxide and nitrogen in its place. The company filed for a patent for this special preservation method.

The company founder, William Rose, Jr., had spent some of his childhood in Chicago, where he grew to love bagels. When he went to University of Iowa to study business, he longed for a good bagel. So, in 1985, not long after he graduated, he started Uncle B's Bagels in Ames, Iowa. He built a sizable business. The company even built a bagel plant in Ellsworth. After developing the special preservation method, Uncle B's had a substantial competitive advantage by selling to grocery stores and guaranteeing a ninety day shelf life in the refrigeration section.

Uncle B's was careful to protect its trade secrets. All plant visitors had to sign a nondisclosure agreement (NDA). About the beginning of 1994, when Uncle B's needed a plant manager, they interviewed Kevin O'Rourke. During the interview, he signed Uncle B's NDA so he could see the plant. It was also Uncle B's practice to have all employees sign an NDA and a noncompete agreement. Uncle B's hired him. When both William Rose, Jr. and his father welcomed O'Rourke aboard, they said they had him sign the more comprehensive employee NDA and the noncompete. The signed agreements were kept in HR.

O'Rourke was a trusted employee. He even went to Europe with William Rose, Jr. to help develop the bagel preservation process. However, within about a year, O'Rourke was hired by a compet-

itor, Brooklyn Bagel Boys (the "Bagel Boys") near Chicago. Uncle B's was deathly afraid that O'Rourke would divulge their trade secrets. They filed suit in federal district court in Iowa against the Bagel Boys and O'Rourke alleging several things, including misappropriation of Uncle B's trade secrets. In addition, Uncle B's asked the Court for an injunction against O'Rourke working for the Bagel Boys.

In the case, it was clear that Uncle B's bagels were unique in that they were the only never-frozen bagels sold in refrigerated cases at supermarkets. But, there was no evidence that the Bagel Boys ever used any of Uncle B's trade secrets. There was only some evidence that the Bagel Boys did start using a similar bag as Uncle B's. O'Rourke said the bag was common in the industry. The Court found that even if the bag was a "stock" material of packaging suppliers, there were still some trade secrets involved. For example, the specifications that the material must meet, and the names of the actual suppliers were "secret" and protectable.

The Court also found that Uncle B's trade secrets were protectable even if used by Bagel Boys on products other than never-frozen refrigerated bagels, e.g., fresh bagels or frozen bagels. Moreover, the Court found that Uncle B's unique recipes having special ingredients to prevent molding or staling, and its bagel-making processes, were trade secrets. For example, Uncle B's Bakery's bagel-making process employed special cold treatments to the bagels.

Was the special preservation process on which a patent application had been filed protectable as a trade secret? Since unpublished patent applications are processed in confidence by the U.S. Patent & Trademark Office (PTO), trade secret status may be retained unless it becomes patented. The PTO had rejected the application because it considered the process obvious in view of prior patents and publications. So, the process never was patented. The Court was persuaded that it was in view of Uncle

B's having invested over seven years and that it was not shown to be in widespread usage and was not readily ascertainable by others.

Uncle B's also had to show that it took reasonable measures to protect the trade secrets. But, Uncle B's could not produce O'Rourke's signed employee version NDA or the noncompete agreement. Strangely, O'Rourke's NDA and noncompete could not be found at the time of the lawsuit. Fortunately, both William Rose, Jr. and Sr. said that they saw O'Rourke sign the agreements, and Uncle B's produced evidence that at least 148 out of 149 other employees had signed the NDA and noncompete. Uncle B's also produced evidence that O'Rourke had opportunities for unsupervised access to the HR office and files.

A noncompete can be unenforceable against a former employee. But, Court's do not like to limit someone's right to earn a living. For example, in California, noncompetes are normally not enforceable against a former employee. While Uncle B's did fail to secure its important HR documents against unauthorized access, there is little doubt that Uncle B's took several steps to protect its trade secrets. In addition, the Court appeared to have a healthy skepticism regarding O'Rourke's claim that he never saw or signed the NDA and noncompete.

What does it take to prove you have a trade secret? Under Iowa trade secret law and the uniform trade secrets act, generally the following:

A process, invention or other information that has economic value;

The information is "secret," i.e., not generally known in the industry and is not readily ascertainable by others; and

The owner of the secret takes reasonable steps to maintain its secrecy.

Many owners slip up on the last requirement. They fail to take steps to protect the secret. Here, Uncle B's made every plant visitor and every employee sign an NDA, among other steps. So, even without a signed NDA and noncompete, and even before

trial of the case on the merits, the Court enjoined O'Rourke from working at Bagel Boys based on the Iowa Trade Secrets Act.

The first step in a good trade secrets protection program is to figure out all of the trade secrets the company has. These may include wine club member lists, vendor lists, customer lists, winemaking recipes and processes, grape growing processes, and many other things. The simplest steps to protect these trade secrets are to limit access to only those who need to know the secrets, such as by using passwords on computer files and/or computers, having employees sign NDAs, locking doors and file cabinets, and giving your attorney a copy of all NDAs and noncompetes upon execution. Ask yourself: what information does your company have, that if it fell into a competitor's hands, would be a problem for you? Then make sure you take enough steps to protect it.

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David Hoffman has been an attorney practicing exclusively in intellectual property law (patents, trademarks, copyrights and unfair competition) since 1985. Mr. Hoffman represents multinational companies as well as numerous start up to medium size businesses. He both litigates and procures rights for his clients, and with his philosophy of procuring the broadest rights possible, performing good clearance procedures, and negotiating, has successfully avoided and minimized litigation for clients he counsels.



Mr. Hoffman has taught for a patent bar review class, has authored articles and given lectures on intellectual property, and has been named to Who's Who Millennium Edition and Who's Who Among Rising Young Americans in American Society &



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