



## Business Plans as Legally Protected Trade Secrets under the Uniform Trade Secrets Act

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### Abstract

*Small and large businesses alike must all develop business plans that are made up of vital information, practices, and knowledge that can give them a competitive advantage in the industry. This information put into the business plan or model can be costly to develop and thus makes the plan valuable. These business plans and models must remain confidential; otherwise, they would lose their economic value. These business plans, trade secrets, and other models should be legally protected. This article discusses the Uniform Trade Secrets Act as a way to protect the confidential information of a business and entrepreneur when information is not patented, copyrighted, trademarked, or protected by a covenant-not-to-compete. Discussions, implications, and recommendations are provided for managers, business owners, and entrepreneurs who want to protect vital information from falling in the hands of their competitors.*

**Keywords:** Business plans, UTSA, Uniform Trade Secrets Act, business plans and models, trade secrets, confidential information, United States.

### Introduction

The misappropriation of intellectual property, such as trade secrets, is a major problem for business today. Ezelle and Gresham (2013-2014, p. 55) state that “nationally, the incidence of trade secret theft has increased in recent years.” To illustrate, according to Samuels and Weber (2013, p. 1):

The theft of trade secrets is estimated to have caused more than \$300 billion in losses in 2012. Even more alarming, theft of trade secrets will only rise due to, among other things, industry competition, financial incentive, and the susceptibility of trade secrets to computer hacking. As a result, protecting existing trade secrets is crucial – as is taking action when those trade secrets are misappropriated.

Legally protecting intellectual property is a broad area of the law in the United States, encompassing federal patent, copyright, and trademark law, as well as state trade secret law. These legal methods, however, especially the patent process, are “long, involved, and expensive” (Dinan and Clark, 2013, p. 30). This article examines another body of law used to protect intellectual property - state trade secret law, which is primarily based on a “model” statute – the Uniform Trade Secret Act, and which has been adopted by the vast majority of states. Furthermore, this article examines one type of intellectual property – the business plan. However, the article analyzes two types of plans: the business plans of entrepreneurs and also the business plans, at times called “business models,” of established businesses. The principal purpose of the article is to demonstrate how state trade secret law can be used in an efficacious and readily achievable manner by the entrepreneur or business to protect business plans. Accordingly, after addressing the legal requirements of trade secret law, and providing case law illustrations of these requirements, the authors offer recommendations as to what the entrepreneur and business should do to attain trade secret protection.

Trade secret law has an ancient history; and as one court noted that “even under Roman law, a businessperson had a cause of action against a competitor who enticed the businessperson’s slave to divulge confidential business information” (*William LeJeune v. Coin Acceptors, Inc.*, 2004, p. 17). In Anglo-American jurisprudence trade secret law for many years had been based on state common law principles and enunciated in case law, i.e., judge-made decisions. The first known U.S. decision recognizing certain rights in secret information was an 1837 Massachusetts judicial decision (Argento, 2013-2014., p. 177). The “modern” development of trade secret law occurred in 1939, when the drafters of the first Restatement of Torts, which is a compendium and synthesis of common law principles, included a definition of a trade secret and enunciated six factors that a court should consider in deciding whether information rose to the level of a legally protected trade secret (*Restatement of Torts*, Section 757, 1939). Then, in 1979, the United States National Conference of Commissioners on Uniform State Laws promulgated the Uniform Trade Secret Act (UTSA), which proposed a definition of a trade secret similar to the *Restatement* as well as a definition of “misappropriation”; and also provided for redress in the form of damages and an injunction if a trade secret was misappropriated. Since the UTSA has been adopted by the vast majority of states, the statute is the primary focus of this article. However, as will be seen, since a few states still use the *Restatement* factors exclusively and other states use them in conjunction with the UTSA, the *Restatement* criteria will be examined and illustrated. Moreover, another Restatement with applicability to trade secret protection – the *Restatement (Third) of Unfair Competition* will be discussed and illustrated. Finally, one federal law – the Economic Espionage Act, which criminalizes the misappropriation of trade secrets – will be briefly discussed too. Before trade secret law can be analyzed in the context of business plans, the authors must first define a business plan and explain some of the fundamental aspects of a business plan.

### **Business Plan Fundamentals**

According to the Small Business Administration (Small Business Administration, 2014), approximately 750,000 new businesses are started in the United States every year. Many of the entrepreneurs start and successfully grow a business based on an idea developed on the “back of a napkin” without a formal business plan. For example, Calvin Klein, Microsoft, Dell Computers, and Rolling Stone magazine all started without business plans. However, the vast majority of entrepreneurs prepare a business plan prior to launching their new enterprise.

Creating a business plan is critical to the success of a business. The plan serves as a “road map” for the early years of the business. As the business grows, the plan is reviewed and updated annually to insure the business is on the “right track.” A typical business plan generally projects 3-5 years ahead; and outlines the route a company intends to take to reach its yearly milestones, including revenue projections (Mujtaba, 2014a). A well thought-out plan also helps the business owner to step-back and think objectively about the key elements of the business venture. The plan is also a mandatory requirement when a business attempts to borrow funds and attract investors.

Perhaps the most important reason to write a business plan is that it requires you to engage in a rigorous, thoughtful and often painful process that is essential before you start a venture. It requires you to answer hard questions about your venture. Why is there a need for your product/service? Who is your target market? How is your product/service different than your competitor’s? What is your competitive advantage? How profitable is the business and what are the cash flows? How should you fund the business? (Lawrence and Moyes, 2014).

## **A. The Business Plan**

A business plan is a document that gives an in-depth analysis of the critical factors that will determine a firm’s success or failure. It is an entrepreneur’s “game plan.” Although there is no mandatory format for a business plan, all plans contain an executive summary, marketing plan, operation plan, a financial plan, and an appendix.

### ***1. Executive Summary***

The executive summary is an overview of the entire plan. It conveys a clear and concise picture of the proposed venture. The executive summary highlights the strengths of the overall plan. This section briefly describes the status of one’s company, where one wants to take it, and why one’s business idea will be successful. For an entrepreneur seeking financing, the executive summary is the tool to get a potential investor’s interest. It is suggested that it be written last, after all other parts of the plan have been completed.

The executive summary is different for a start-up than for an existing business. According to the Small Business Administration (Small Business Administration, *Create Your Own Business Plan*, 2014), an existing business’ plan includes the following:

- *The Mission Statement* – A mission statement defines what an organization is, why it exists, and the reason for its being. The mission statement reflects every facet of the business: the range and nature of the products offered, pricing, quality, service, marketplace position, growth potential, use of technology, and relationships with customers, employees, suppliers, competitors and the community.
- *Company Information* – This component is a short statement that covers when the business was formed, the names of the founders and their roles, number of employees, and the business locations.
- *Growth Highlights* – This element is a review of the businesses growth, including financial or market highlights. Specifically, it should indicate the increased profit margins and market share year-after-year since its foundation. Graphs and charts are usually part of this section.
- *Products/Services* – This part comprises a description of the products or services provided.

- *Financial Information* – This component is a review of the firm’s present financial conditions. It also indicates the financial needs. If the business is seeking funds, it includes the amount of required funds and the purpose the funds will be used for.

Since a start-up business does not have historical information as does an established company, the entrepreneur in his or her executive summary will focus on his or her experience and background as well as the factors that led the entrepreneur to start the new business. However, the executive summary will also include a description of the opportunity, an explanation of the business concept, an industry overview, the target market, and the competitive advantage the new business hopes to achieve in the market. In start-up summaries, the creator attempts to convince himself or herself as well as others that there is a need or gap in the target market; and accordingly the creator has the solutions to fill it. Furthermore, the entrepreneur explains why he or she will succeed; and also the entrepreneur addresses the future plans of the business (*Entrepreneur*, 2001).

## **2. Marketing Plan**

The marketing plan portion of the business plan is usually the first part of the business plan prepared by entrepreneurs. It is created after conducting extensive market analysis. It is a document that begins with the identification of specific customer needs and how the firm intends to fulfill them while generating an acceptable level of return on the investment. It is also a product specific, market specific, or company-wide plan that describes activities involved in achieving specific marketing objectives within a set time-frame. The marketing plan generally includes analysis of the current market situation (opportunities and trends) and detailed action programs (*Business Dictionary*, 2014).

In order to prepare this portion of the business plan, the business owner should conduct a thorough market analysis to fully understand the industry and market of his or her new endeavor. The following elements are essential to marketing plan:

- *Industry Description and Outlook* – Describes the industry, including its current size and historic growth rate as well as other trends and characteristics, such as the life-cycle stage and projected growth rate. This section also lists the major customer groups within the industry.
- *Information About the Target Market* – Narrows the target market to a manageable size. It establishes distinguished characteristics of the consumers by determining the critical needs of the potential customers and whether those needs are being met.
- *Pricing and Gross Margin Targets* – Defines the pricing structure and gross margin levels. The price of a service or item is based on three basic production costs: direct materials, labor, and overhead. After these costs are determined, a price is then selected that will be both profitable and competitive.
- *Competitive Analysis* – The competitive analysis identifies the competition by product line or service and market segment. It further assesses the characteristics of the competitive landscape including-market share, strengths and weaknesses, barriers to entry, and “window” opportunity to enter the market as well as any indirect or secondary competitors who may impact the success of the business.
- *Regulatory Restrictions* – This section includes any governmental regulatory requirements affecting the business, and how to comply. It cites any operational or cost impact the compliance process will have on the business (*McDaniel and Gates*, 2009).

### **3. Operations Plan**

The next part of the business plan is the operations plan. It is described as a highly detailed plan as to how the firm will achieve its objectives. This is often referred to as the execution strategy. The operations plan includes the company's organizational structure, the business model for earning revenue, details about the ownership of the company, profiles of the management team, and the qualifications of the board of directors. It explains who does what in the business, including their backgrounds and expertise. It gives a detailed description of each division or department and its function. It further includes the compensation and incentives offered to all executives. This section of the plan indicates how the business will actually carry out everything presented elsewhere in the business plan to serve the market (Mujtaba, 2014b). The following are other key components of an operations plan:

*Location.* This part provides the exact place where the business will be located. It indicates whether the firm will buy or lease the property and provides the terms of the mortgage or lease. Presented will be information like the monthly payment, the length of the term and whether the lease is net, double net, or triple net, as well as the responsibility for property taxes, insurance and maintenance. This part also provides details such as the square footage of the property, how the facility is laid out, the type of loading area it has in order to receive merchandise. This component also provides data about vehicle and pedestrian traffic, accessibility from major roads and highways, related nearby businesses and anything else that affects the location. It also describes the fixtures and equipment the business will require and how they work within the physical space.

*Inventory Management, Production, and Distribution.* This section discusses who will be the suppliers/vendors to the business as well as the terms to be established with the suppliers. It also explains how the inventory will be managed as well as the production process. All the major stages of the production are described, including any processes that are outsourced and the technologies utilized. Details are also provided as to what will be produced and how long it takes to produce each unit. The implementation of the methods of quality control, both during and after production, is supplied. With regard to the distribution of the product, this part indicates how the product will be distributed and sold.

*Organization.* This section identifies the managers and lower-level employees, and describes who they are, what their qualifications are and what their responsibilities will be. An organization chart showing the hierarchical structure of the business is also present, providing the names and professional descriptions of each owner and manager as well their roles and responsibilities. Also, a description of other essential jobs in the company, and which key employees will perform them, is supplied. A complete business resume of all individuals should be attached to the Appendix. With regard to lower-level staff members, their functions are explained. This component also indicates how these potential employees will be recruited and what qualifications they must meet, what jobs they will perform, and how they will be compensated. The section will elaborate on whether the business will hire any outside consultants or other independent contractors. If so, why are they being retained? And what functions they will perform (Spinelli and Adams, 2012; Forbes, *et al.*, 2006)?

### **4. Financial Plan**

The financial section of a business plan includes various financial statements that show where the company currently is financially, and where it intends to be. This information helps determine how much financing a business needs and helps financiers determine whether lending money or investing in the business is a prudent use of funds. While the financial statements are

helpful in and of themselves, the data they contain can also be used to calculate financial ratios, such as gross profit margin, return on investment and return on owner's equity. Ratios provide helpful information about a company's liquidity, profitability, debt, operating performance, cash flow and investment valuation. An existing business begins the financial plan with information on where the firm stands financially at the present time, and what its financial situation has looked like historically. It further lays out the financial targets, such as return on investment, sales per employee, profit margin and so on. An existing business' plan is based on the firm's historical financial data. In new businesses, the statements are speculative and typically based on the published financial statements of similar existing businesses.

A financial plan includes three key financial statements: the income statement, the balance sheet, and the cash flow statement, to wit:

- *Income Statement.* The income statement summarizes your company's revenue and expenses. Revenues are the company's sales and/or other sources of income. Expenses include items such as the cost of goods sold, payroll, taxes, and interest. The bottom-line of the income statement shows the company's net income.
- *Balance Sheet.* The balance sheet shows the company's assets and liabilities. It's called a balance sheet because the assets must perfectly balance the liabilities. Within each category are numerous subcategories. For example, your assets will include things like cash, accounts receivable, inventory, and equipment. Liabilities will include accounts payable and loan balances. The balance sheet is important because it shows the company's financial position at a specific point in time, and compares what you own to what is owed.
- *Cash Flow Statement/Cash Budget.* The cash flow statement shows the amount of money that is expected to be coming into and going out of the business in a given time frame. Topics examined to predict cash flow include sales forecasts, cash receipts vs. credit receipts, and the time frame for collecting accounts receivable. How much will these expenses be, and how often will they need to be paid. A realistic cash budget, covering one year of operations, and broken down into one-month intervals, is an important short-term planning tool included in the plan. The plan will also include longer-term projections that go at least three years out, if not five. These are called "pro forma" statements, and they are based on assumptions about how the business will perform.

## 5. Appendix

The Appendix, the final section of the business plan, should contain all the supporting documentation for the information provided in the plan. Everything one did not have room for in the body of the plan or did not want to interrupt the flow of the plan is included. The Appendix also includes all other information that should be provided to readers on an as-needed basis. The Appendix thus would include the following:

- Credit history (personal and business)
- Resumes of key managers
- Product pictures
- Letters of reference
- Details of market studies
- Relevant magazine articles or book references
- Licenses, permits or patents
- Legal documents
- Copies of leases

- Building permits
- Contracts
- List of business consultants, including attorney and accountant

The plan also includes a private placement disclaimer if it is being used to raise capital in order to avoid any violations of security regulations. Copies of the business plan are controlled by keeping a distribution record. Each copy of the plan is numbered and a log is maintained as to the number of the plan provided to outsiders.

## **B. Plan Confidentiality**

Once the plan is completed it is often made available for viewing externally, for example, by bankers, shareholders, and investors. In order to protect the plan from being adopted or the idea copied, and consequently misappropriated by those reviewing it, reviewers are requested to execute a confidentiality and non-disclosure agreement (NDA). The NDA allows one party to share the plan with another party. The NDA form is designed to protect the author of the plan from the concepts ideas and details being misappropriated and stolen by the one who is given the plan to review. The NDA is a legal form drawn up for defense in protecting confidential company information while dealing with a third party. Businesses make necessary arrangements so that company plans do not get disclosed to the competitors. This legal form includes all the necessary legal necessities before sharing such confidential information with any other party. The NDA is not a complicated and exhausting agreement. The key to the agreement is to make sure that no doubt exists that the creator of the business plan wants and insists that the document be maintained confidential and that it not be disclosed without permission.

Now that the definition and fundamental aspects of a business plan have been provided, the authors analyze and discuss how business plans can be protected as legal trade secrets pursuant to the Uniform Trade Secret Act.

### **The Uniform Trade Secret Act (UTSA)**

The key statute regarding trade secrets is the Uniform Trade Secrets Act (UTSA), which is a “model” statute, created in 1979 by the National Conference of Commissioners on Uniform Laws. The UTSA was an effort to modernize, harmonize, and codify the common law of trade secrets; the UTSA is a “model act” has been offered to the states for legislative adoption. The “overwhelming majority” of states have adopted the UTSA (*AGS Capital Corp., Inc. v. Product Action International, LLC*, 2008, p. 308; see *United States Gypsum Company v. LaFarge North America, Inc.*, 2007, pp. 41-42, stating that Illinois has adopted the UTSA). Texas adopted the UTSA in 2013, joining 47 other states which have promulgated some version of the UTSA (Porter, 2013, p. 28). The UTSA defines a legally protected trade secret as follows:

‘Trade secret’ means 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 to 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 (*Uniform Trade Secrets Act*, 1979; see also *California Uniform Trade Secrets Act*, 2014, which follows the UTSA without significant change; the *Maryland Uniform Trade Secrets Act*, 1989, which departs only slightly from the UTSA; and the *Florida Uniform Trade Secrets Act*, 1988, which follows the UTSA in its entirety).

In order to prevail on a claim of misappropriation of trade secrets pursuant to the UTSA, the plaintiff alleging a violation must establish three elements, to wit: 1) the plaintiff possessed a trade secret; 2) the defendant acquired, disclosed, or used the plaintiff's trade secret by improper means without express or implied consent; and 3) the defendant's actions harmed the plaintiff (*Nextdoor.Com*, 2014, p. 12; *Secure Energy, Inc. v. Coal Synthetics, LLC*, 2010, p. 5; *Philips Electronics North America Corporation v. Jason Hope*, 2009, p. 43; *United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 42). Improper means can encompass theft, bribery, misrepresentation, false pretenses, breach of a duty to maintain secrecy, breach of a confidential relationship, and espionage through electronic or other means, "hacking" into computer systems (*Wellington Resource Group LLC v. Beck Energy Corporation*, 2013, pp. 19-20; *United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 46; Argento, 2013-2014, p. 180). Reverse engineering (that is, discovering the elements of a trade secret by the practice of taking something apart and working backwards to determine how it was made) and independent creation or development are not construed as improper means (*United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 46; Argento, 2013-2014, p. 186; Ezelle and Gresham, 2013-2014, p. 63; Schwartz, 2013, p. 631). The remedies for misappropriation of a trade secret are civil ones, encompassing the following: an injunction against actual or threatened misappropriation; money damages, consisting of the actual loss to the aggrieved trade secret holder plus an amount by which the offender is unjustly enriched; punitive damages, not exceeding twice the actual award, if the misappropriation was willful and malicious; and reasonable attorney fees, which a court may award to the prevailing party (See, for example, *Texas Uniform Trade Secrets Act*, 2013; *Florida Uniform Trade Secrets Act*, 1988; see also, Ezelle and Gresham, 2013-2014; Cleveland and Coffman, 2013; Porter, 2013; and Samuels and Weber, 2013).

The owner of the purported trade secret bears the burden of proof and persuasion in establishing the three aforementioned elements of a trade secret (*Nextdoor.Com*, 2014, p. 12). However, a party asserting a misappropriation of a trade secret need only provide a general description of the trade secret; the exact trade secret in question need not be described in detail, "...for the simple reason that such a requirement would result in the public disclosure of the purported trade secret" (*Council for Educational Travel, USA v. Agata Czopek and Harristown Development Corporation*, 2011, p. 11). Nevertheless, a "vague description" is insufficient because such a description does not "describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade" (*Mandana D. Farhang and M.A. Mobile v. Indian Institute of Technology*, 2010, LEXIS 53975, pp. 42-43). The next three sections of this article explicate and illustrate by case law the UTSA's core trade secret requirements of information, value, and reasonable security measures.

### **A. The Information Requirement**

The predicate for trade secret protection is "information," which is broadly construed by the courts to encompass not only "hard" information, such as formulas, programs, devices, compilations, methods, processes, and techniques, but also "soft" information, such as concepts, plans, strategies, and business plans. Information can also "consist of a compilation of information that is continuously used or has the potential to be used in one's business" (*HTS, Inc. V. David Boley*, 2013, p. 944). To illustrate this foundational legal element, the following types of information could meet the first requirement for a trade secret:



- The business plan for a restaurant, encompassing recipes, preparation and serving methods, food processes, product pricing, supplier arrangements, and prices paid to suppliers (*Garden Catering – Hamilton Avenue, LLC v. Wally’s Chicken Coop, LLC*, 2014, pp. 49-50).
- A business plan for opportunities in the oil and gas developmental industry, which contains certain confidential technology built into it (*Wellington Resource Group LLC v. Beck Energy Corporation*, 2013, p. 18).
- A “business proposal” to provide technical support services to clients, including confidential financial information and metrics, such as profit margin information, customer lists, and contact information (*HTS, Inc. V. David Boley*, 2013, p. 9).
- An “engineering plan” based on a Siemens basic engineering design package when the company alleging trade secret status stated that it was only one of two companies in the world that had purchased the package and that it customized it at “considerable time and expense” to suit the company’s particular needs (*Secure Energy, Inc. v. Coal Synthetics, LLC*, 2010, pp. 7-8).
- A business plan based on the preceding “engineering plan” containing financial models and forecasts as well as “vendor network and bidding estimates, commodity prices, identification and valuation of appropriate plant locations, and project schedule” (*Secure Energy, Inc. v. Coal Synthetics, LLC*, 2010, pp. 11-12).
- The business plan for a company that produced accessories for mobile phones, which included customer lists, customer needs and preferences, the financial calculator to determine profitability (which was known internally in the company as “the sausage”), product cost, customer pricing information, and market share data that the company ordered from a third party vendor (*Philips Electronics North America Corporation v. Jason Hope*, 2009, pp. 44-45).
- The business plan for a company that made specialized equipment for the scrap processing industry, which included the company’s “internal strategy for developing, designing, manufacturing and marketing and entire product line for the demolition industry, including a multi-processor and claw bucket..., sensitive financial and cost data and production schedules, along with detailed engineering drawings and detailed descriptions of the benefits and features of each...tool” (*Allied Erecting and Dismantling Co., Inc. v. Genesis Equipment & Manufacturing, Inc.*, 2009, pp. 36-37).
- The annual business plan of a forensic engineering group, including client database, information about all jobs and clients, each client’s contact person and location, marketing strategies, a synopsis of the company and the industry as a whole, mission statement, executive summary, which identifies “growth areas and potential niche markets,” and “key business strategies for the upcoming year” (*Rimkus Consulting Group, Inc. v. Nickie G. Cammarta*, 2008, pp. 70-71).
- The business plan of a manufacturing company, encompassing the pricing of its products, marketing and pricing strategies, production costs, a performance report, as well as “detailed information regarding industry trends, customers, and customer preferences developed by (the company) over many years, and current and historical financial data” (*Carbo Ceramics, Inc. v. Terry P. Keefe*, 2006, pp. 12-13).
- A business plan for a line of surgical products that included strategic plans for surgical products and blood-related products, strategies to maximize cash generation, particularly in declining markets, as well as plans to establish an Asian Business Center combined

with plans to leverage current distribution and sales networks for success in Asia (*Lydall, Inc. v. Walter A. Ruschmeyer*, 2006, p. 433).

- A “strategic marketing plan” encompassing specialty markets, profit information, budgeting information and budgeting software, pricing and cost documents, and “Bill Pro Validator specifications” (*William LeJeune v. Coin Acceptors, Inc.*, 2004, pp. 464-65).

## **B. The Value Requirement**

Secondly, to be protected as a trade secret, the business plan must have value. Value means the information must give its holder an economic advantage, real or potential; and concomitantly, its release would threaten a competitive harm (*Entertainment USA, Inc. v. Moorehead Communications*, 2013, p. 3). Value, significantly for business plan protection, encompasses “‘potential’ economic value, which broadens the type of information that may be claimed as a trade secret” (Porter, 2013, p. 29). To illustrate “value,” a federal district court held that pursuant to the Arizona UTSA a business proposal consisting of confidential financial information and metrics, customer lists, and contact information possessed economic value because a company “developed this information over many years, and it is a source of competitive advantage over other companies” (*HTS, Inc. V. David Boley*, p. 24). Value can also be found in “negative information,” which is also protected by the UTSA (Waks, 2014, p. 402). “Put simply, negative information is the knowledge that some technique, process, formula, etc. *does not work*” (Waks, 2014, p. 402; emphasis in original).

Neither matters of general nor public knowledge nor matters of everyday knowledge possess value (*HTS, Inc. V. David Boley*, 2013, p. 23). A trade secret, “need not be novel or inventive in the patentable sense (but) it possess at least that modicum of originality which will separate it from everyday knowledge” (*Robert J. Myerburg, M.D. v. Medronic, Inc.*, 2004, p. 17). However, a trade secret will possess value if the information consists of “a combination of elements even though each individual component may be a matter of common knowledge” (*HTS, Inc. V. David Boley*, 2013, p. 23). Similarly, even if information “is derived from public sources, but requires laborious accumulation, culling and/or analysis of the public information (it) can still qualify as a trade secret” (*United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 44). Nevertheless, despite many judicial pronouncements, Argento (2013-2014, p. 187) warns that “the line between trade secrets and unprotected general and industry-specific information, however, can be blurry.”

Information also does not possess value if it is readily ascertainable. For example, customer lists which just include the names and addresses of customers or which are based on personal relationships do not possess value; but “special knowledge of customer needs and preferences” does possess value and can thus be a trade secret (*Philips Electronics North America Corporation v. Jason Hope*, 2009, pp. 44-45). Another example of information that lacks value is a merger plan to be effectuated by the purchase of a manufacturer, acquisition of marketing agreements, and acquisition of licensing agreements because such a plan was generally known or readily accessible by competent people in the industry (*Robert J. Myerburg, M.D. v. Medronic, Inc.*, 2004, pp. 15-18). Moreover, information does not possess value when it is available in trade journals, reference books, or published materials (*Frederick Foster v. Pitney Bowes Corporation*, 2013, p. 16). Furthermore, a party seeking trade secret protection must do more than merely assert that his or her business plan has “value”; rather, a party must explain how its disclosure would harm his or her competitive position (*Entertainment USA, Inc. v. Moorehead Communications*, 2013, p. 4). The fact that the disclosure of the information reveals only “weaknesses” in any concept, strategy, or plan does not qualify the information for trade

secret protection (*Entertainment USA, Inc. v. Moorehead Communications*, 2013, p. 3). Also, if information is “time-sensitive,” it may become “outdated” and thus lose its value, thereby precluding trade secret protection (*Rimkus Consulting Group, Inc. v. Nickie G. Cammarta*, 2008, p. 75; *William LeJeune v. Coin Acceptors, Inc.*, 2004, p. 463).

The legal nature of “independent economic value” is illustrated in the federal district court case of *Milso Industries Corporation v. Edward C. Nazzaro, Liberty Casket Company, Edward Larkin, and Kirk A. Boggia*, (2012), which applied the Connecticut UTSA. In the case, the holder of the alleged trade secret was the owner of a business supplying caskets to funeral homes, who alleged that former employees misappropriated his company’s business plan, which included customer lists and pricing information. The key issue in the case was whether the plan possessed value. The plaintiff owner contended that the customer list aspect of his business plan included private contact information, cell phone numbers, and emails that would not be obtainable by public means or would require significant resources to duplicate. However, the defendant former employees asserted that the information was publicly available or readily ascertainable because the listings of area funeral homes are publicly available, the funeral home directors on the list were long-time personal friends of the defendants, these friendships predated their employment, and that the plaintiff’s customers were free to share information as to the number, price, and type of caskets purchased, and discounts received. Based on the preceding conflicting evidence submitted, the court refused to dispose of the case on summary judgment as a matter of law; and accordingly sent the case to the jury to determine as a matter of fact if value was present (*Milso Industries Corporation v. Edward C. Nazzaro, Liberty Casket Company, Edward Larkin, and Kirk A. Boggia*, 2012, pp. 27-29).

### **C. The Secrecy Requirement**

Secrecy is the final requirement of legally protected trade secret pursuant to the UTSA. The law requires that a party must take reasonable steps to maintain the secrecy of the information (*Allied Erecting and Dismantling Co., Inc. v. Genesis Equipment & Manufacturing, Inc.*, 2013, p. 38 (interpreting Ohio UTSA)). Some courts say further that a party must take “some active steps” to protect the confidential nature of the information (*Wellington Resource Group LLC v. Beck Energy Corporation*, 2013, p. 18). The issue of secrecy in a particular case, particularly whether a party has made reasonable efforts to maintain the secrecy of the information, “is by its nature a highly fact-specific inquiry” (*Garden Catering – Hamilton Avenue, LLC v. Wally’s Chicken Coop, LLC*, 2014, p. 49). Similarly, whether a party has taken such reasonable steps is “circumstance-dependent question of fact typically given to a jury” (*Allied Erecting and Dismantling Co., Inc. v. Genesis Equipment & Manufacturing, Inc.*, 2013, pp. 38-39). If secrecy can be maintained, trade secret status can, theoretically, last forever. As explained by one legal commentator (Schwartz, 2013, pp. 630-31), “While a patent offers protection for a specified term of years, a trade secret has no built-in expiration date. Rather, trade secret protection has a perpetual duration that lasts as long as the information remains secret. So, if the secret is kept and not honestly discovered by another, the holder’s legal monopoly will persist forever.” Secrecy, therefore, is obviously critical.

The fact that there exists a non-disclosure or confidentiality agreement is a very important factor in determining whether the requisite reasonable steps have been taken (*Wellington Resource Group LLC v. Beck Energy Corporation*, 2013, p.18; *Mandana D. Farhang and M.A. Mobile v. Indian Institute of Technology*, 2010, pp. 16-17; *Maxpower Corporation v. Gene Abraham, Kevin Hobson and Brady Wilkens*, 2008, p. 17). Other reasonable protective factors can be: physical security, keeping documents under lock-and-key, advising

employees and other people of the confidential nature of the information, limiting access to information to key personnel on a “need-to-know” basis, protecting information with passwords, “firewalls,” and other computer security measures, controlling and limiting access to documents or facilities, locking doors and locking file cabinets, posting warning or cautionary signs, taking precautions with visitors, for example, escorting visitors into facilities, placing “confidential” and other legends on documents, segregating information, and using codes, and giving employees, vendors, and outside contractors and subcontractors only parts of plans, projects, or specifications (*HTS, Inc. V. David Boley*, 2013, p. 24; *Frederick Foster v. Pitney Bowes Corporation*, 2013, p. 16; *Milso Industries Corporation v. Edward C. Nazzaro, Liberty Casket Company, Edward Larkin, and Kirk A. Boggia*, 2012, p. 28; *Maxpower Corporation v. Gene Abraham, Kevin Hobson and Brady Wilkens*, 2008, pp. 17-18; *United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 47; *William LeJeune v. Coin Acceptors, Inc.*, 2004, pp. 464-65; Waks, 2014, p. 407).

Measures to protect secrecy do not have to be “robust,” just “reasonable” (*Philips Electronics North America Corporation v. Jason Hope*, 2009, p. 47). Ezelle and Gresham (2013-2014, pp. 60-61) add that neither “perfection” has to be achieved nor “heroic” measures taken; but they warn that “there is no bright-line rule on reasonableness.” Accordingly, Waks (2014, p. 407) notes that “generally speaking, no one expects a trade secret owner to hold daily meetings to apprise employees of what information is or is not protected, but employers are expected to make some effort to notify employees where trade secrets exist.” The U.S. Supreme Court has stated that voluntary disclosure of trade secret information to employees will not necessarily prevent information from being deemed a trade secret. In the case of *Kewanee Oil Company v. Bircron Corp.* (1974, p. 475), the Court stated: “The subject of a trade secret must be secret, and must not be of public knowledge or general knowledge in the trade or business. This necessary element of secrecy is not lost, however, if the holder of the trade secret reveals the trade secret to another in confidence, and under an obligation not to use or disclose it. These others may include those of the holder’s employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended.” Furthermore, “as long as adequate confidentiality restrictions are imposed on outside contractors, documents that otherwise qualify as containing trade secrets will not lose that character by being provided to outside contractors” (*United States Gypsum Company v. LaFarge North America, Inc.*, 2007, p. 52). Labelling plans, models, documents and other information as “secret” and “confidential” is a very important protective measure. As such, Pierce and Digesti (2014, p. 11) advise: “Through consistent labelling of sensitive data, companies may be able to establish that the data at issue constitutes a protectable trade secret – even when (a) the company’s other efforts to protect trade secrets may be found to be insufficient to address smart phones and other technological threats and/or (b) company data is later stolen and published without the company’s consent.”

To illustrate the secrecy requirement, in the federal district court case of *Philips Electronics North America Corporation v. Jason Hope*, 2009), the court deemed the following measures to protect a company’s business plan as reasonable pursuant to the North Carolina UTSA, to wit: 1) Sponsoring a training course called “Ethics in Business,” which employees were required to attend and which reviewed the company’s policies regarding confidential information; 2) Establishing a policy directive that deems business information to be a corporate asset that must be protected against improper use and disclosure; 3) Mandating that the employees certify that they have read the aforementioned directive, that they understood it, and would comply with it; 4) Mandating that the employees sign as a condition of employment a confidentiality agreement, as well as promise to abide by the agreement, which agreement states

that all information pertaining to the company, its clients, and customers is considered to be confidential, and that the employees agree not to disclose such information outside the company or even make copies of the information (pp. 47-48).

Disclosure of information vitiates the third requirement for a trade secret. Consequently, any public disclosure of information, through publication, display, communication, advertising, or even carelessness, will vitiate the secrecy requirement and forfeit trade secret status for the information (*Frederick Foster v. Pitney Bowes Corporation*, 2013, p. 15). For example, in *Synthes, Inc. v. Emerge Medical, Inc.* (2014, pp. 157-58), a business plan for the sale and distribution of generic orthopedic products to hospitals, hospital administrators, and orthopedic surgeons, described as the "first of its kind," "unique," "innovative," and "game changing," was not deemed to be a legally protected trade secret pursuant to Pennsylvania law because it was not covered by a non-disclosure agreement and it was disclosed to customers, potential customers, investors (including by means of PowerPoint presentations) as well as disclosed in PR campaigns and press releases. Moreover, in the federal district court case of *General Patent Corporation v. Ei-Lan Inc., Gladios IP Inc., and Paul J. Lerner* (2011), trade secret protection was lost for the business plan and model, including marketing strategies, of a patent licensing and enforcement firm because the CEO of the company, who viewed himself as a "self-proclaimed thought leader," publicized and "touted" its business model in the "patent protection community" by attending conferences, discussing the model, and publicizing it in an article (p. 14). Moreover, if a person shows his or her business plans to others who are under no legal obligation to protect the confidentiality and secrecy of the information, or who otherwise publicly discloses the plans, trade secret protection will be denied (*Allied Erecting and Dismantling Co., Inc. v. Genesis Equipment & Manufacturing, Inc.*, 2013, pp. 38-39).

Making information readily available to all the employees of a company without any efforts to insure confidentiality will preclude trade secret status for information (*Maxpower Corporation v. Gene Abraham, Kevin Hobson and Brady Wilkens*, 2008, p. 17). Yet, a disclosure need not be widespread to lose trade secret protection; rather, it can be denied if no reasonable effort was made to maintain its secrecy (*Nextdoor.Com*, 2014, p. 13). Furthermore, information that is generally known to the public or in an industry is not secret (*Garden Catering – Hamilton Avenue, LLC v. Wally's Chicken Coop, LLC*, 2014, p. *Nextdoor.Com*, 2014, p. 13). To illustrate the secrecy requirement, in the federal district court case of *Nextdoor.Com* (2014) an entrepreneur claimed that his business plan for a "private online neighborhood social network" was protected by trade secret law, specifically the California UTSA, which adopted the model UTSA without significant change. He claimed his business plan was confidential. However, in order to determine the viability of his plan, he selected a suitable "ideal" neighborhood to test it. Accordingly, he went door-to-door in the neighborhood to promote interest and to establish connections among residents, thereby achieving a 90% penetration rate. The issue arose as to whether he had disclosed his business plan to the residents of the neighborhood, thereby vitiating the secrecy requirement. However, the court ruled that there was no direct evidence that he divulged any of the particulars of his business plan to the residents by testing it in the neighborhood, and thus his concept could be protected pursuant to the UTSA (*Nextdoor.Com*, 2014, p. 18). He also contended that the bidding history aspect of his concept of private online neighborhood social networks was also legally protected; but the court denied such protection because he had disclosed whatever bids he had made to a bid recipient (*Nextdoor.Com*, 2014, pp. 26-27).

To compare, in the federal district court case of *Allied Erecting and Dismantling Co., Inc. v. Genesis Equipment & Manufacturing, Inc.* (2009), the federal district court ruled that although

some aspects of a dismantling contractor's business plans, specifically the company's demolition tools, were disclosed in patent applications, "the patents do not disclose the level of detail contained in the...business plans," and thus the business plans could be protected as a trade secret (pp. 36-37).

In summary, one can say that trade secrets are treated by the law as a form of intellectual property. Pursuant to this property theory approach, "trade secret rights serve the purpose of providing incentives to develop useful and innovative information by granting rights in that information" (Argento, 2013-014, p. 183). Moreover, trade secret law, especially as applied to business plans, underscores the values of entrepreneurship, intrapreneurship, innovation, and thus value creation - individually, for business, and for the economy and society as a whole. As emphasized by one commentator (Argento, 2013-2014, p. 175), "trade secret law particularly favors small companies, which tend to be engines of innovation because the hurdles of obtaining trade secret protection are so low." Similarly, Meade (2013, pp. 721-722) asserts that "trade secret protection...is particularly useful to small businesses that have little capital to invest in other areas. It is also particularly useful to small businesses in the fields where there are few current competitors, meaning that it is most useful in the areas of new discovery and innovation that the federal government seeks to incentivize through protections granted in intellectual property law."

Accordingly, the UTSA provides a broad level of protection to businesses and entrepreneurs. They can seek, pursuant to the UTSA, recognition, protection, and preservation of their business plans and strategies as trade secrets, even if they are not implemented, or for that matter even if they choose not to implement them. The "information" predicate for a trade secret, as emphasized and illustrated by the authors, is very broad indeed, protecting just about any and all types of information where the owner or creator has taken reasonable measures to keep secret and which has independent economic value. "Value," however, is construed by the courts as the information being at least minimally novel or unique, that is, there is some aspect to the information that is neither publicly known nor readily ascertainable and thus sets it apart from what is generally known. The owner or creator must take reasonable measures to keep the information confidential. The courts accept a wide variety of reasonable measures, though written confidentiality and non-disclosure agreements emerge as key factors in determining the reasonableness of the security measures. Obviously, do not post one's business plan on the Internet, even for a limited period of time; and do not disclose it at conferences and trade shows except in a limited fashion pursuant to confidentiality and non-disclosure agreements. Trade secret law does not preclude other forms of protecting intellectual property, but protecting intellectual property by means of federal patent or copyright law can be a complicated, timely, and costly endeavor, whereas state trade secret law is an expedient and effective way to secure protection for confidential information, including business plans and strategies.

## **Other Legal Doctrines to Protect Business Plans**

### **A. The Restatement of Torts**

As noted, an additional source of law to protect business plans as trade secrets comes from the old common law, as manifested in the *Restatement of Torts* (1939), which is a compendium and synthesis of common law decisions. The *Restatement* in Section 757 lists several factors that are to be considered to determine whether information rises to the level of a legally protected trade secret, to wit: 1) the extent to which the information is known outside the business; 2) the extent to which the information is known to those inside the business (that is, by the employees); 3) the

precautions taken by the holder of the information to guard its secrecy; 4) the savings effected and the value to the possessor of the information in having the information against competitors; 5) the amount of effort or money expended in obtaining or developing the information; and 6) the amount of time and expense it would take for others to acquire and duplicate the information (*Restatement of Torts*, Section 757, 1939). Pennsylvania is an example of a state where the courts for many years only used state tort law, as manifested by the *Restatement* factors (*Doebler's Pennsylvania Hybrids, Inc. v. Taylor Doebler*, 2007, p. 8; *Cornerstone Systems, Inc. v. Knichel Logistics, L.P.*, 2006, pp., 11-13). As of the summer of 2014, however, according to the Uniform Law Commission of the National Conference of Commissioners of Uniform State Laws (2014), only New York and North Carolina have not yet adopted the UTSA; and Massachusetts has a bill pending to adopt the UTSA.

Nevertheless, despite the prevalence of the UTSA, many courts in states that have adopted the UTSA also use the *Restatement* criteria in conjunction with the UTSA in order to make trade secret determinations (See, for example, *Wellington Resource Group LLC v. Beck Energy Corporation*, 2013, pp. 15-16; *Secure Energy, Inc. v. Coal Synthetics, LLC*, 2010, p. 6; *MTG Guarneri Manufacturing, Inc. v. Bradley Clouatre*, 2010, p. 211; *Rimkus Consulting Group, Inc. v. Nickie G. Cammart*, 2008, pp. 68-69). Texas, which recently adopted the UTSA, still looks to the *Restatement* for “additional guidance” (Hanna and Leal, 2014, p. 499). One court noted that a party using the aforementioned *Restatement* criteria to claim a trade secret “need not satisfy all six factors ‘because trade secrets do not neatly fit into each factor every time’” (*Rimkus Consulting Group, Inc. v. Nickie G. Cammart*, 2008, p. 69; see also *United States Gypsum Company v. LaFarge North America, Inc.*, 2007, pp. 42-43). In Texas, according to Hanna and Leal (2014, p. 501): “Although the factors provide clarity to the question of whether a trade secret exists, Texas courts have inserted a degree of ambiguity into the application of this test by recognizing that all six factors do not have to be satisfied by the party asserting that a trade secret exists and by acknowledging that the six-factor list is not exhaustive.” As such, one commentator (Stroud, 2013, p. 234) deems the *Restatement* standard to be a “more subjective balancing test” than the UTSA definition.

## **B. The Restatement (Third) of Unfair Competition**

An additional source of law that can be used to protect business plans can be found in the 1995 *Restatement (Third) of Unfair Competition*. This *Restatement* is “widely considered to be an update of the UTSA (which) clarifies the original six-factor test outlined in the *Restatement*” (Hanna and Leal, 2014, p. 500). However, most states that have adopted the UTSA and consider it as preempting the *Restatement (Third) of Unfair Competition* when applied to trade secret cases (Seaman, C., 2015, p. 40). Conceivably, the *Restatement (Third) of Unfair Competition* could be reflected upon as secondary advisory authority by a judicial forum in the United States addressing a case of misappropriation of a business plan. Under this *Restatement*, a trade secret is “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others” (*Restatement (Third) of Unfair Competition*, Section 39). This definition may cover confidential **business plans**, marketing strategies, and other descriptions of how a business, charity, church, educational institution, or even government agency operates or intends to operate (Volokh, E., 2011, n. 37). Nonetheless, the UTSA will be the primary guiding compass in civil trade secret litigation due to its wide spread adoption and the growing body of case precedent interpreting the UTSA (Bridy, A., 2009, p. 222, n.76). At least one state Supreme Court has acknowledged that numerous courts have specifically found that tort claims such as fraud, unfair competition, and

breach of fiduciary duty are preempted by the Uniform Trade Secret Act when the act is adopted by states (*Weins v. Sporleder*, 2000, pp. 491-493).

### **C. The Economic Espionage Act**

Although the focus of this article has been on state civil law, brief mention should be made of an important federal law which criminalizes the misappropriation of a trade secret – the Economic Espionage Act (EEA), which was promulgated by the U.S. Congress in 1996 as a serious criminal deterrent to the theft of trade secrets (Kuntz, 2013). This act defines trade secrets as:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if— (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public (Economic Espionage Act, 18 USCS, Section 1839(3)).

This act criminalizes the theft of trade secrets and provides for financial penalties up to \$5 million dollars and prison terms up to 15 years for individuals and up to \$10 million dollars or treble damages for business organizations participating in this activity (18 USCS, Sections 1831 and 1832).

While the definition of trade secret is very similar to the UTSA definition, and thus business plans could fall within its coverage, the EEA "is a criminal statute that affords no standing to any private citizen" (*Boyd v. University of Illinois*, 1999, p.11; *Cooper Square Realty Inc. v. Jensen*, 2005 pp. 2-5). Therefore, a company or individual seeking to right the wrong of the theft of a business plan by means of the EEA would have to seek assistance from the U.S. Attorney General's Office (18 USCS, Section 1836; *Brown v. CitiCorp*, 1998, p.9). Such occasions are rare when addressing business plans, but are not unheard of. For example, in January 1997, an employee of Avery Dennison Corporation ("Avery"), having a principal business in the production and sale of self-adhesive materials, such as labels and tapes, attempted to transfer for financial gain Avery's confidential business plan regarding activities in the Far East. His scheme was discovered; and he voluntarily agreed to work as an informant in a FBI sting against several defendants, who ultimately on October 1, 1997, faced a twenty-one count indictment including one count under the EEA stemming from these activities (*United States of America v. Pin Yen Yang, et al*, 1999).

However, there is a strong undertow of a public policy against criminal prosecution under the EEA against employees who leave their jobs to compete later with their former employer. To be successfully prosecuted under the EEA, unlike a violation of the UTSA, the government must prove beyond a reasonable doubt of the actor's *mens rea* or intent to wrongfully convert or misappropriate a trade secret, which is difficult to do. Take for example the case of *United States of America v. Tien Shiah* (1999), in which a former employee (Shiah) signed a



confidentiality agreement that set forth examples of confidential information within its terms as follows:

Any and all information concerning teaching techniques, processes, formulas, trade secrets, inventions, discoveries, improvements, research or development and test results, specifications, data, know-how, formats, marketing plans, business plans, strategies, forecasts, unpublished financial information, budgets, projections, and customer supplier identities, characteristics, and agreements (*United States of America v. Tien Shiah*, 1999, p. 5).

The employee eventually left his job taking with him copies of various sensitive Excel and PowerPoint data files containing plans and strategies, considered by his former employer (Broadcom) as trades secrets, and started work with a competitor thereafter. The court, when finding a lack of proof to establish scienter (or the requisite bad intent), articulated its preference to allow for civil private actions, rather than governmental criminal prosecutions, in this area of the law, by stating:

The Court notes that there is no question that Shiah's actions were wrong and that they were not permitted by Broadcom. Furthermore, Shiah's actions would very likely subject him to civil liability. The Court simply finds that the evidence does not show, beyond a reasonable doubt, that Shiah's actions subject him to criminal liability under the EEA. When life and liberty are involved, proof beyond a reasonable doubt is mandated. Reasonable doubt has a bite, and it is a heavy burden falling on the Government that distinguishes civil actions from criminal actions. In light of all the circumstances surrounding this action, reasonable doubt exists about Shiah's intent to require a finding of not guilty.... If the Court found Shiah guilty without more evidence to support his intent, employees might avoid movement between companies due to the risk of prosecution arising from information carried with them, either in their minds or in physical form. Such a result would be contrary to Congress' intent that the EEA not "be used to prosecute employees who change employers ... using general knowledge and skills developed while employed (*United States of America v. Tien Shiah*, 1999, p. 93; see, also, H.R. Rep. 104-788, 1996 U.S.C.C.A.N. 4021, 4026).

Such language and public policy compel private actions under various state laws as the more viable option when seeking remedies for theft of trade secrets in general, and business plans in particular.

#### **D. Traditional Contract Law Principles**

It is evident from the forgoing examination that there are several sources of law that provide for protection of business plans and models from misappropriation and thievery. At least one court has pointed out a way of bypassing the question of which law applies in a trade secret case, involving the alleged piracy of a business plan, by suggesting a commonsensical approach. In a bankruptcy court matter, the judge was addressing an employer's (NurseWorks) petition to issue an injunction to stop former employees (Lee and Wiczorek) from pirating away its confidential business model to a competitor (NurseOne) (*In Re: Integrated Health Services, Inc. v. Lee et. al.*, 2002). The court sidestepped the issue in part as to which source of law was best applied to the

issue by pointing out that business plans can be kept confidential by identifying them specifically in non-completion clauses and using contractual principles to remedy the wrong by stating:

We disagree with the Defendants' assertion that the information taken by them is not the Debtor's trade secrets. It is not necessary to rely on the Restatement of Torts or the common law definition of trade secret to determine whether an injunction should issue in this case. The information contained in the NurseOne business plan (which was derived from the NurseWorks business plan) contains the exact information which Lee and Wieczorek agreed to keep confidential under the express terms of their employment agreements. Specifically, it includes pricing information, information about potential suppliers, marketing information or programs of the Debtor, and customer information (*In Re: Integrated Health Services, Inc. v. Lee et. al.*, 2002, p. 237).

Traditional contract principles, with equitable remedies available to enforce the same, such as injunctions, may be the most effective way of combatting business plan piracy. However, strategic forethought is needed by entrepreneurs and business owners in order to take necessary contractual precautions, including the crafting of effective non-competition clauses, confidentiality and non-disclosure agreements, and finally “works- for-hire” provisions.

### **Recommendations**

Based on the foregoing legal analysis, the authors offer the following suggestions to entrepreneurs and businesses as well as job applicants on how to protect information as trade secrets.

Table 1 - Non-Disclosure Agreement
<p><i>The undersigned reader of the Business Plan hereby acknowledges that the information provided is completely confidential and therefore the reader agrees not to disclose anything found in the business plan without the express written consent of the owner. It is also acknowledged by the reader that the information to be furnished in this business plan is in all aspects confidential in nature, other than information that is in the public domain through other means and that any disclosure or use of the same by the reader may cause serious harm and or damage to the company. Upon request this business plan document will be immediately returned to the company.</i></p>

First, in an entrepreneurial context, the authors provide the following suggestions:

- Confidentiality and non-disclosure agreements are strongly advised as a reasonable, actually *very* reasonable, measure to protect the secrecy of information.
- Confidentiality and non-disclosure agreements should specifically define that the employer’s business plans and/or business models fall within the definition of confidential, proprietary information and thus a trade secret.
- A “works-for-hire” provision should be included in all policy manuals and employment agreements, so that the hired worker realizes that any of their creations in creating,

modifying, or expanding the present employer's business plan and/or business model remain the exclusive property of the employer.

- When soliciting investors, clearly mark all materials shown as “confidential,” and define them in writing as trade secrets, and require these individuals to enter into a confidentiality agreement, which requires them to return all materials and/or destroy all electronic copies after their review.
- Table 1 provides a simple but enforceable NDA.

Second, in an employment context, the authors provide the following suggestions:

- An employer should have a strongly and clearly worded policy regarding the definition and protection of confidential information, which must be communicated to the employees and which the employees must acknowledge in writing.
- Employers should have contracts with employees; and these contracts should include trade secrecy and confidentiality provisions as well as “works-for-hire” provisions. According to Waks (2014, pp. 407-08), “contracts are the single most important factor affecting the outcome of trade secret litigation...Through contracts, you can tell your employees exactly what you expect of them, including what information they need to keep secret.”
- The policy should state that the employer protects its confidential information; and accordingly the employees have an obligation to protect the employer's confidential information from improper disclosure.
- Employees should be instructed not to disclose, describe, or communicate confidential information to anyone except as specifically allowed in the conduct of the employer's business or as authorized in writing by the employer.
- The employees further should be instructed only to disclose confidential information to other employees or outside vendors and sales people who have a business-related “need-to-know.”
- Confidential information should be defined in a company's policy to encompass confidential information about customers, sales information, technical information, intellectual property, financial information, business plans and models, business and marketing strategies, information regarding employees, information about products and processes, information about mergers, acquisitions and divestitures, and any other non-public information that would be harmful to the employer or useful or helpful to competitors if disclosed. Ezelle and Gresham (2013-2014, p. 62) emphasize that “clarifying the content of trade secrets can be particularly helpful in avoiding questions of whether information is in the public domain.”
- Update the confidentiality policy, “because companies that fail to update their confidentiality policies and practices to remain current with technological advances may...be deemed to have failed to exercise the requisite vigilance and forfeited trade secret protection that might apply” (Pierce and Digesti, 2014, pp. 10-11).
- Label confidential information as “confidential, secret, and proprietary.”
- Confidentiality and non-disclosure agreements are strongly advised as a reasonable, and actually very reasonable, measure to protect the secrecy of information.
- Use other “reasonable” measures to protect the secrecy of the confidential information.

- Confidentiality agreements should be effectuated with not only employees but also “outside” vendors, sales representatives, consultants, and any other independent contractors doing business with the employer.
- The confidentiality or non-disclosure agreement should state as follows: “The employee acknowledges that the company has made reasonable efforts to maintain the secrecy of its confidential information, including the signing of this confidentiality agreement. The employee understands that he or she will not during or after his or her term of employment to disclose to third parties or use for his or her own benefit the company’s confidential information.”
- Memos (“hard copy” and “virtual”) should be sent on a regular basis, say every six months, to the employees and others who have access to or use confidential information reminding them that the information is confidential and legally protected and that there are civil as well as criminal consequences for the improper use of confidential information.
- When an employee resigns or is discharged, the employer should conduct an “exit interview” and remind the employee that the confidential information belong to the employer and cannot be taken, copied, or used in new employment. According to Waks (2014, p. 411), “the exit interview gives you an opportunity to remind your employee of his or her contractual obligation regarding your intellectual property. Where no contract exists, the exit interview provides you with a chance to tell the employee about his or her common law duties not to reveal your trade secrets.”

Finally, in the context of a job applicant, the authors offer the following suggestions:

- First and foremost, the applicant must be aware that his or her prospective employer or its personnel might misappropriate a business plan or strategy that a job applicant submits, either voluntarily to enhance employment prospects or as a requirement of the interview process.
- Do not “give away all the goods”; that is, exclude some details or aspects of your plan or proposal that would make its implementation difficult if not impossible (Lublin, 2006, p. B1).
- “Take a strong stance to protect your ideas” (Lublin, 2006, p. B1). In particular, state to interviewing personnel that the materials are confidential and also by insert a confidentiality label and warning on any document. The warning should state: “This information is being provided solely for the purposes of the job interview and may not be used for any other purposes without the express written permission of the author” (Lublin, 2006, p. B1).
- “Follow-up is important too.” Accordingly, after the interview process is completed, remind the interviewing and hiring personnel of the submitted materials and their confidential nature (Lublin, 2006, p. B1).
- If the employer chooses someone else for the position, the applicant must make sure to ask for, and get back, all submitted materials and documents.

## **Conclusion**

Successful established businesses develop vital information and knowledge that gives them a competitive advantage and which represents a financial investment by the business. This information typically was costly to develop and entailed a great deal of experience to obtain. This confidential information can be in the form of a business plan or model which possesses

economic value. If this information was known by a competitor, the disclosure would materially and adversely affect the business' ability to compete commercially. The entrepreneur's business plan also possesses value but more in the form of potential economic value. Both can be legally protected. If the entrepreneur's business plan was disclosed the entrepreneur might lose a very good business opportunity. Trade secret law, therefore, primarily by means of the UTSA but also the common law emerges as a very practical and efficacious way to protect intellectual property in the form of the business plan of an entrepreneur and business. This corpus of law will protect the confidential information of a business and entrepreneur when information is not patented, copyrighted, trademarked, or protected by a covenant-not-to-compete. Trade secret law might even protect confidential information even if there is no written confidentiality agreement, though, as emphasized by the authors, the latter is strongly recommended as a reasonable measure to protect the secrecy of the information.

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