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Misappropriation, Infringement and Trade Secret Theft by Employees: Lessons from a Case Study

It is not uncommon for employees to leave their employer to engage in direct competition in the same field. Often, these employees make their competitive plans while still employed. The temptation to take their employer's trade secrets with them can be irresistible. Lessons from a recent case can assist in avoiding this situation, and dealing with it when it arises.

Kerr Russell represents a manufacturer of industrial machines that produce metal fasteners. To service these machines and provide replacement parts, the Client established a subsidiary in the Detroit area. The Client hired two trusted employees to operate the Detroit Service Center, and granted these employees access to the Client's proprietary designs, customer lists and price lists. While still employed by the Client, the employees (the "Defendants") conspired with their wives to open a business that competed directly with the Client in both the service of the Client's machines and replacement parts for the Client's machines. Although the competitor listed the Defendants' wives as the owners of the competing business, the wives were not active in the company and had no working knowledge of the competing business.

Upon discovering the Defendants' competing business, the Client – with Kerr Russell's guidance – terminated the Defendants and filed a federal lawsuit against them alleging 11 causes of action, including violation of the Uniform Trade Secrets Act, infringement of statutory and common law trademark rights, breach of fiduciary duties, and breach of the duty of loyalty. During the discovery phase of the litigation, it was confirmed that the Defendants misappropriated the Client's proprietary designs, as well as the Client's employees, computers and machinery. Defendants' dual roles as agents of both the Client and its newly formed competitor confused customers and suppliers. It was also revealed during discovery that the Defendants opened the competing business in the name of their wives because they knew it would have been "illegal" for the Defendants to establish a competing business under their own names.

Kerr Russell brought and successfully argued a motion for summary judgment against the Defendants. Based on the documents and testimony Kerr Russell obtained in discovery, the Court found the Defendants liable and awarded the Client three times its actual damages, plus its attorney fees and costs. The Court entered a judgment of \$3.7 million against all of the Defendants. The Court also entered a permanent injunction precluding the Defendants from servicing or providing replacement parts for machines manufactured by the Client.

Lessons for Employers. Although Kerr Russell achieved a complete victory for the Client in this recent litigation, the Client may have been able to avoid litigation had it taken some preventative steps to protect its trade secrets and prevent the unfair competition. These steps include:

Confidentiality and Non-Compete Agreements. In our recent case, the Client did not require its employees to sign confidentiality or non-compete agreements. Fortunately, the Client was able to establish that the Defendants had breached their duty of loyalty and misappropriated trade secrets in violation of the Uniform Trade Secrets Act. However, had the Defendants quit their employment with the Client before competing and if the Client could not prove that the misappropriated documents were "trade secrets," the Client would have had a much harder time obtaining an injunction against its former employees' competition. We recommend that our clients require their employees to sign confidentiality and non-compete agreements. Had such agreements been in place, this litigation would likely have been simpler and cheaper, and may have been avoided altogether.

Trust But Verify. The Defendants in our recent case were able to unfairly compete against their employer for a number of years because the Client trusted its long-term employees, and allowed them to operate the Detroit subsidiary with minimal oversight. While trusted employees are invaluable, employers should maintain reasonable oversight of employees and their dealings with suppliers, customers and other employees, as well as their use of company assets.

Carefully Protect Trade Secrets. The Client was able to successfully argue that the Defendants violated the Uniform Trade Secrets Act because the Client carefully controlled its proprietary drawings, and marked those drawings as "PROPERTY OF [CLIENT]. NO REPRODUCTIONS WITHOUT WRITTEN PERMISSION." Because the Client limited access to only those with a need for the proprietary information, the Defendants were unsuccessful in arguing that the misappropriated drawings were public documents.

Act Quickly to Stop Employees Who Improperly Compete. Preliminary and permanent injunctions against former employees are critical to stop the theft of trade secrets and prevent unfair competition. When considering whether to grant this extraordinary relief, Courts will consider whether the employer acted quickly and reasonably when it discovered what its current or former employers were doing. A delay to take action of only days or weeks can be enough for the Court to deny an injunction. When you discover wrongdoing, discuss it with your counsel immediately. ~ Max Sneyd

ICANN Now Has An Even Faster Domain Name Resolution Process: URS

Many people are familiar with the Uniform Domain Name Resolution Policy ("UDRP") implemented by ICANN. This is an expedited process to recover Internet domain names that are improperly taken, for example, by competitors to redirect Internet traffic or speculators to sell back to the trademark owner. UDRP was a good alternative to expensive and lengthy litigation, typically brought under the Anti-cybersquatting Consumer Protection Act. ICANN has now added an even faster and less expensive alternative to UDRP – The Uniform Rapid Suspension ("URS") system. The URS system is not for all trademark owners as it requires the party invoking the process to have a registered trademark not merely a common law or unregistered trademarks. The burden of proof is also higher – the complainant must show by clear and convincing evidence that that infringing domain name is confusingly similar to its registered mark. The remedy provided by URS is a suspension of the infringing domain name not a cancellation or transfer of that domain name. That relief must be sought elsewhere. But the URS is faster – it is designed to be decided within 21 days and often is decided even sooner. It is also less expensive - the filing fees start at \$375 rather than the UDRP's \$1350 fee. URS is designed for owners of registered trademarks who must act quickly to stop the confusion and damage caused by unscrupulous domain name infringers and speculators. Once that damage is stopped, additional remedies such as a transfer or cancellation of the infringing domain names can be pursued. All trademark owners should take note of this new alternative dispute resolution process.

~ Robert Pineau

HOLIDAY MESSAGE FROM KERR RUSSELL

We wish you a joyful holiday season and a prosperous 2016. Please call on Kerr Russell for any of your intellectual property or other business law needs. ~Kerr Russell.



For information about these and other intellectual property issues, please contact our Intellectual Property Group at 313-961-0200

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