



Trade Secret Protection for Marijuana Businesses

By Eric Misterovich

The medical marijuana industry is growing in both size and technological innovation. Specialty strains have already been developed for specific symptoms, and the product can be processed into any number of forms depending on a patient's needs or preferences.

These methods, processes, and products are the result of decades of experimenting, testing, and refining. But given the legal treatment of marijuana, this work was largely done with as little public exposure as possible. Consequently, few lawsuits exist to provide guidance on the extent of legal protections afforded to the marijuana industry. This leads to a business phenomenon unique to the medical marijuana industry: robust, advanced products but little development of business practices to protect them in court. Marijuana business owners would be wise to learn that secrecy can be crucial to protecting competitive advantages in the marketplace, but only if they fully understand trade secret law.

Trade secret law

In 1998, Michigan passed its Uniform Trade Secrets Act.¹ In general, the act creates civil penalties and provides for injunctive relief regarding the “misappropriation” of “trade secrets.”² It supersedes conflicting tort and restitution laws but does not affect contractual remedies.³

In 2016, President Obama signed into law the Defend Trade Secrets Act,⁴ creating the first federal cause of action for trade secret misappropriation. The differences between the Uniform Trade Secrets Act and the Defend Trade Secrets Act are outside the scope of this article. More importantly, however, whether marijuana businesses can (or should) submit to federal court jurisdiction to assert a cause of action under the Defend Trade Secrets Act is an open question given that the sale, possession, and use of marijuana are prohibited by federal law.⁵ To date, the only marijuana-related trade secret case filed in a

federal court pertains to trade secrets surrounding the process to extract and purify cannabidiol from industrial hemp.⁶ The extent to which federal courts will enforce the intellectual property rights of businesses licensed to grow, process, test, transport, and sell marijuana under state law is unresolved.

In other contexts, federal courts have not been willing to afford legal protections to marijuana businesses operating legally under state law. For example, in *In re Johnson*, the Bankruptcy Court for the Western District of Michigan enjoined a debtor from operating a Michigan Medical Marihuana Act-compliant marijuana business during the pendency of his bankruptcy. The court, noting the illegality of the business under federal law, held, “[t]he Debtor’s business is patently incompatible with a bankruptcy proceeding.”⁷

Still, because the trade secret question is unresolved and because trade secret protection may be sought under state law,⁸ it is good practice for marijuana businesses to take steps to protect their trade secrets. Accordingly, this article focuses on the treatment of marijuana-related practices that may be trade secrets under the Uniform Trade Secrets Act.

Defining a trade secret

The Uniform Trade Secrets Act defines “trade secret” as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:

- (i) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.
- (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁹

Michigan courts review a number of factors to determine whether information constitutes a trade secret under the act, including:

- the extent to which the information is known outside the owner’s business;
- the extent to which the information is known by employees and others involved in the business;
- the extent of the measures taken to guard secrecy of the information;
- the value of the information to owners and competitors;
- the amount of effort and money expended in developing the information; and
- the ease or difficulty with which the information could be properly acquired or duplicated by others.¹⁰

At a Glance

Federal protection of marijuana businesses’ trade secrets is not clear.

Trade secrets are protectable only if the business owner takes sufficient measures to guard their secrecy.

Trade secret information and confidential information aren’t always the same thing.

To adequately protect trade secrets, businesses must understand what trade secrets they possess, who has access to them, and how to maintain the secrecy of that information.

Trade secrets depend on the secrecy of the protected information. In other words, “there must be evidence presented that sufficient measures have been taken to guard the secrecy of the information and to preserve its confidentiality.”¹¹ To be protected, the guarded information must provide the owner a competitive advantage in the marketplace.¹² Marijuana business owners should take three steps to protect their trade secrets.

First, take inventory

Marijuana businesses should identify the trade secrets they possess. For example, a licensed marijuana grower¹³ might use specific soil mixtures, watering techniques, lighting schedules, moisture levels, and maintenance protocols for each stage of each type of plant being grown. A licensed provisioning center¹⁴ might have sales data, forecasts, or consumer information. A licensed safety compliance facility¹⁵ might have established business methods, software, or other data that give it a competitive edge. All this information could rise to the level of protectable trade secrets.

Once that information is identified, businesses should examine how it is used. For example, who created it? With whom is it shared? Is it limited to specific people within the business? Is it shared with third parties? What steps are in place to limit accessibility to this information? Do employees know the information is considered a trade secret that must not be disclosed?

Trade secret litigation is often highly fact-intensive. The more steps businesses take to protect the secrecy of their information, the stronger their claims can be made against other entrepreneurs who try to steal their trade secrets.

Second, execute confidentiality and noncompetition agreements

Business owners should require employees and third parties with access to trade secret information to sign confidentiality agreements. This not only constitutes a step toward the “sufficient measures” needed to form a trade secret, but also provides a broader form of protection by covering information that might be confidential but not a protectable trade secret. For example, the United States District Court for the Eastern District of Michigan held, under the Uniform Trade Secrets Act, that customer lists including additional information regarding the needs of specific customers were not trade secrets, but were “protectable under an agreement in which the employee agrees not to disclose such information.”¹⁶

While implementing confidentiality agreements, businesses should consider requiring noncompetition agreements as well. The Uniform Trade Secrets Act will not always serve as a replacement for noncompetition agreements, even when former employees take some knowledge to a competitor.¹⁷

Overall, while the act will protect trade secrets, businesses would be wise to fill any gaps through consistent implementation of confidentiality and noncompetition agreements.

Third, maintain secrecy

Diligent business owners periodically assess their trade secret information, audit who has access to that information, confirm the presence of confidentiality agreements, provide continuing education to employees regarding the importance of nondisclosure, and institute employee exit procedures, including the prompt return of any protectable information.¹⁸ Failure to do so could result in the disclosure of secrets and a risk of losing Uniform Trade Secrets Act protection.

Further, businesses should take care in how they advertise or market their competitive advantage. Extensive discussion of products, processes, or other trade secret information could be viewed as a disclosure of the material, leading to the loss of any protectable status.¹⁹

Conclusion

The Uniform Trade Secrets Act provides businesses with strong statutory remedies to combat misappropriation, including the ability to obtain injunctive relief for “actual or threatened misappropriation”²⁰ and recover damages resulting from the misappropriation of their trade secrets, including attorney fees for “willful and malicious” misappropriation.²¹



Business owners create and control the continued value of their trade secrets. As licensed marijuana businesses start to mature, a plan for identifying, protecting, and maintaining trade secrets will provide a solid foundation for protecting intellectual property under Michigan’s new laws regulating marijuana. ■



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ENDNOTES

1. MCL 445.1901 *et seq.*
2. MCL 445.1903 and MCL 445.1904.
3. MCL 445.1908.
4. 18 USC 1836.
5. 21 USC 841(a)(1).
6. *Orochem Technologies v Whole Hemp Co.*, opinion of the United States District Court for the Northern District of Illinois, filed September 27, 2017 (Case No. 17-cv-06983). As alleged, the cannabidiol at issue is free from marijuana’s main psychoactive component, tetrahydrocannabinol. As a result, this case will not squarely address the issue of federal recognition of trade secrets rights of a state-sanctioned marijuana business. Further, the case was settled without guiding precedent in June 2018.
7. *In re Johnson*, 532 BR 53, 57 (W.D. Mich., 2015).
8. Olesko and Copenhaver, *Intellectual Property and the Medical Marijuana Industry*, 95 Mich B.J. 30, 31 (2016) <<http://www.michbar.org/file/barjournal/article/documents/pdf4article2924.pdf>> (accessed June 30, 2018).
9. MCL 445.1902(d).
10. *Hayes-Albion v Kuberski*, 421 Mich 170, 182 (1984). While *Hayes-Albion* was decided before enactment of the Uniform Trade Secrets Act, Michigan courts continue to rely on these early trade secret cases for guidance. See *McKesson Medical-Surgical v Micro Bio-Medics*, 266 F Supp 2d 590, 595–596 (E.D. Mich., 2003).
11. *Kubik v Hull*, 56 Mich App 335, 347 (1974) and *Dice Corp v Bold Technologies*, 913 F Supp 2d 389, 406 (E.D. Mich., 2012).
12. *Giasson Aerospace Sci, Inc v RCO Engineering, Inc*, 680 F Supp 2d 830, 843–844 (E.D. Mich., 2010).
13. MCL 333.27501.
14. MCL 333.27504.
15. MCL 333.27505.
16. *McKesson Med-Surgical Inc*, 266 F Supp 2d at 596–597 and *Follmer, Rudzewicz & Co v Kosco*, 420 Mich 394 (1984) (restrictive covenants may be used to protect confidential information).
17. *McKesson Med-Surgical Inc* at 597; See *Industrial Control Repair, Inc v McBroom Electric Co, Inc*, unpublished per curiam opinion of the Michigan Court of Appeals, issued October 10, 2013 (Docket No. 302240), p. 6.
18. *In re RnD Engineering*, 546 BR 738, 766 (E.D. Mich., 2016) (discussion of absence of meaningful steps to maintain secrecy of sales process).
19. Trade secrets do not “encompass information which is readily ascertainable, i.e., capable of being acquired by competitors or the general public without undue difficulty of hardship.” *Kubik v Hull*, 56 Mich App 335 at 348. See also *Dura Global Techs, Inc v Magna Donnelly*, 662 F Supp 2d 855, 859 (E.D. Mich., 2009) and MCL 445.1902(d)(i).
20. MCL 445.1903(1).
21. MCL 445.1904.