

## Supreme Court Establishes Precedent of Employee Violation of the UCPA

On the limited issue of whether there was “acquisition” of a trade secret by an employee, the Korean Supreme Court found that an employee who has knowledge of company trade secrets and takes such information out of the company cannot be punished for acquisition of the trade secret under the Unfair Competition Prevention and Trade Secret Protection Act (UCPA). The Court also held that such an employee can be found liable under the legal cause of action of “bae-im” (breach of fiduciary duty which is punishable criminally under the Korean Criminal Act, hereafter breach of fiduciary duty) (Supreme Court of Korea Decision 2012Do3317, June 28, 2012). The trial court and intermediate appellate court had found that the employee had improperly used the trade secret under the UCPA, but this issue was not appealed to the Supreme Court.

The court found that an employee who became aware of a company trade secret and had authority to use such information should be deemed to have lawfully acquired the relevant trade secret. Thus, such person cannot be found to have “acquired” a trade secret under the UCPA.

### 1. Facts

The defendant joined the claimant company in March 1999 as a director and factory manager, and supervised the testing/analysis of lactic acid bacteria and manufacturing of products. While working for the claimant company, the defendant kept physical copies and digital copies (stored in portable storage devices) of the claimant’s trade secrets, such as the manufacturing method of lactic acid bacteria per each type of strain and factory drawings, etc., relating to double coating of lactic acid bacteria. When the defendant left the claimant company in November 2007, the defendant took the above information out of the company without authorization, and immediately incorporated a new company.

When leaving the claimant company, the defendant signed a non-competition agreement to stipulating the following: (i) he will not join or manage another company which does business relating to lactic acid bacteria similar to the claimant company; and (ii) he will not develop any products using lactic acid bacteria acquired during the course of his employment nor commercialize any such products. The defendant also confirmed in the non-competition agreement that he would bear both civil and criminal liability if he were to engage in any of these activities.

The information at issue in the case related to methods of manufacturing and marketing lactic acid bacteria, which was either subject to security protocols or was clearly understood by the executive officers to be confidential and not to be divulged outside the company. Further, the claimant company had treated the information as confidential by classifying the information as confidential or by storing the same in locked file safes, etc.

Prosecutors charged the defendant with acquisition of trade secrets under the UCPA and breach of fiduciary duty under the Criminal Act. The defendant argued that the information at issue did not contain trade secrets,

because the information was (i) provided to the company's customers upon request; (ii) found in various references and academic theses; and (iii) not maintained as a secret. Based on the above, the defendant further argued that there was no intention to commit breach of trust.

## **2. Lower Court Decisions**

The court of first instance found the defendant guilty of "acquisition of trade secrets", "breach of fiduciary duty" and "use of trade secrets". The intermediate appellate court found that the defendant was not guilty of "acquisition of trade secrets", but found the defendant guilty of "breach of fiduciary duty" and "use of trade secrets". The prosecutor appealed on the issue of acquisition of trade secrets.

## **3. Supreme Court's Decision**

(1) Whether the information amounted to a trade secret. The court held that the information at issue amounted to a trade secret as defined under Article 2 Paragraph 2 of the UCPA because the claimant company had exerted reasonable efforts to maintain the information as a secret by (i) either marking the information at issue as confidential or notifying others of such fact; (ii) restricting who may access such information or how the information could be accessed; and (iii) imposing confidentiality obligations upon those who were given access to the information. As a result, the court found that it was objectively possible for people to know that the information was maintained as a secret through considerable effort on the part of the claimant company, as required under Article 2 Paragraph 2 of the UCPA.

(2) Whether there was breach of trust. The court held that the defendant committed breach of trust at the time he took the information at issue out of the claimant company on the grounds that (i) the claimant company had maintained the information at issue as trade secrets and the defendant knew or should have known the secret nature of the information; (ii) the defendant had planned to incorporate a company for a significant period of time before resignation; and (iii) the defendant actually used the information at issue to run his new company and to manufacture products.

(3) Whether there was "acquisition" of trade secrets. The court held that an employee who is authorized to use trade secrets should be deemed to have lawfully acquired the relevant trade secrets, and as a result, an act of simply taking such trade secrets out of the company does not constitute an "acquisition" of trade secrets.

## 4. Lessons and Implications

The case illustrates that when a person leaving a company takes trade secrets out of his/her employer company to use after incorporating his/her own company, he/she will be punishable under breach of trust even if he/she may be able to avoid liability for “acquisition of trade secrets” (Article 2 Paragraph 2 of the UCPA).

The case reaffirms the importance of taking measures to protect information as trade secrets, such as (i) marking information as confidential; (ii) restricting access to the information; and (iii) imposing confidentiality obligations on those who access the information.

It must be noted that if trade secrets taken out of a company are actually used in a related business such as manufacturing products etc., it would be possible to find liability for ‘use of a trade secret’ under Article 18(2) of the UCPA.

Material included in our newsletter has been prepared for informational purposes only and is not offered as legal advice on any particular matter. Yulchon and contributing authors disclaim all liability for the newsletter’s content and are not responsible for any third party contents which can be accessed through this newsletter.

### ■ Yulchon LLC.

Textile Center 12F, 518 Teheran-ro, Daechi-dong,  
Gangnam-gu, Seoul 135-713, Korea  
Tel : +82-2-528-5200 Fax : +82-2-528-5300  
E-mail : mail@yulchon.com

### ■ Yulchon LLC. China

9F,SK Tower,6A Jianguomenwai Avenue,  
Chaoyang District,Beijing 100022,P.R.China  
TEL: +86-10-8567-0828 FAX: +86-10-8567-0738

### ■ Yulchon LLC. Vietnam Ho Chi Minh

Unit 03, 4th Floor, Kumho Asiana Plaza,  
39 Le Duan St., Ben Nghe Ward, Dist.1,  
Ho Chi Minh City, Vietnam  
Tel : +84-8-3911-0225 Fax : +84-8-3911-0230

### ■ Yulchon LLC. Vietnam Hanoi

Suite 2502, Keangnam Hanoi Landmark Tower,  
Pham Hung Street, Tu Liem District, Hanoi, Vietnam  
Tel: +84-4-3837-8200 Fax : +84-4-3837-8230