

1988

# IRECO Incorporated v. Megabar Corporation, Megabar Explosives Corporation, Western Brine Research Laboratory Inc., M. Taylor Begg : Brief of Respondent

Utah Supreme Court

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BRIEF

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88-0069-CA

IN THE SUPREME COURT OF THE STATE OF UTAH

MEGABAR CORP., a Utah corporation,  
MEGABAR EXPLOSIVES CORP., a Utah  
corporation, WESTERN BRINE  
RESEARCH LABORATORY, INC., a Utah  
corporation, and M. TAYLOR ABEGG,

Appellants,

v.

IRECO INCORPORATED, a Delaware  
corporation,

Respondent.

Case No. 20930

ARGUMENT PRIORITY  
CLASSIFICATION 13b

88-0069-CA

BRIEF OF RESPONDENT

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Clerk, Supreme Court, Utah

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- I. Memorandum Decision
- II. Findings of Fact and Conslusions of Law
- III. Injunction
- IV. Partial Order, Decree and Judgment
- V. Employment Agreement
- VI. Letter to M. Garfield Cook from M. Taylor Abegg
- VII. Letter to M. Taylor Abegg from M. Garfield Cook, with Termination Statement attached
- VIII. Letter to Harvey Jessop from Jay W. Butler
- IX. Megabar's Method Patent Application
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### STATEMENT OF ISSUES PRESENTED ON APPEAL

1. Did the trial court properly find that Megabar's processor and processing method constituted wrongful use of IRECO's trade secrets?

2. Did the trial court properly enjoin Megabar from continued use for a limited period of time of a processor and processing method that are similar to and based upon misappropriated trade secrets?

### STATEMENT OF THE CASE

This case is an appeal from a decision of the Third District Court (the "trial court"), in which the trial court granted Plaintiff IRECO Incorporated's ("IRECO's") request for an injunction against Defendants' use of a processor and processing method that were developed from secret technology misappropriated from IRECO. This matter was initially brought against Megabar Corporation, Megabar Explosives Corporation, Western Brine Research Laboratory and M. Taylor Abegg (collectively referred to herein as "Megabar") for misappropriation of trade secrets and tortious interference with the nondisclosure and noncompetition provisions of an employment contract. R. at 2. The trial court denied Megabar's Motion for Summary Judgment. Minute Entry dated February 25, 1986, unindexed. The case was then tried before the Honorable James S. Sawaya.



The trial court ruled that Megabar intentionally and tortiously induced the breach of a former IRECO employee's employment agreement. R. at 1137, 1142; Ad. at II-7, II-8 NS II-12. The trial court also ruled that Megabar misappropriated IRECO's trade secrets related to formulations of "cast explosive compositions" and equipment (the "processor") that IRECO had developed for making them. Id. In consequence, the trial court ordered Megabar to license certain patent rights concerning the formulations to IRECO, and the trial court enjoined Megabar for a limited period of time from using, licensing, or selling cast explosive compositions, methods for making them, or equipment for making them. R. at 1128; Ad. at III-1 et seq. The trial court concluded that the compositions, methods and equipment described in the injunction were based on IRECO's trade secret technology. R. at 1138; Ad. at II-12.

The trial court ordered that the length of the injunction and the issue of damages be tried at a subsequent hearing. R. at 1143. These issues were settled by the parties, however, and pursuant to a stipulation of the parties, the trial court entered an injunction lasting for a period of two years and two months from the date of entry of the injunction. R. at 1123; Ad. at III-1. Subsequently, the injunction was stayed as to the processor, conditioned on the posting of a bond by Megabar and pending resolution of this appeal. R. at 1236.

This appeal was initially taken from the first entry of judgment. R. at 1212. This appeal has subsequently been limited to the injunction as it pertains to the processing equipment and methods. Mgabar has chosen not to contest the trial court's findings or remedies in any other respect.

#### STATEMENT OF FACTS

The facts involved in this case are as follows.

A. Development of Cast Explosive Compositions Technology.

"Cast explosive compositions" are a new class of explosives that were developed by IRECO. R. at 1460. Research concerning cast explosive compositions was performed principally by an IRECO employee, a research chemist named Harvey Jessop. R. at 1461. Jessop was first employed by IRECO in 1963; he was induced by Megabar to leave IRECO in August, 1983. R. at 2298; Plaintiff's Exhibit 001040; Ad. at VIII. Jessop began working for Megabar on or about August 23, 1983. Id.

Concurrently with the development of cast explosive compositions, Jessop, with others at IRECO, developed a machine for continuous processing of cast explosive compositions. R. at 1926. This experimental equipment, which was virtually complete when Jessop left IRECO, was called a "cast emulsion unit." R. at 1945, 1665; Plaintiff's Exhibit 16; Ad. at XI.

By 1982, IRECO recognized that cast explosive compositions would be useful for certain applications that traditionally required explosives such as TNT. R. at 1469-1472, 1479-1486, 1491-1499, 1504. IRECO began to develop and market these new compositions for military applications, primarily through the efforts of another IRECO employee, defendant M. Taylor Abegg. R. at 1715-24, 1726, 1760.

B. Defendant Abegg's Employment at IRECO.

Abegg was first employed by IRECO in the early 1970s. R. at 1711-1713. He was re-employed by IRECO in 1981. Id. His job responsibilities included the marketing of IRECO products and technology to the military. R. at 1712, 1729. By 1983, Abegg was Director of Government Operations for IRECO, responsible for marketing IRECO products to the military. R. at 1712. In his positions at IRECO between 1981 and 1983, Abegg became intimately familiar with IRECO's cast explosive composition formulations and equipment. R. at 1725, 1729-1730. Abegg even assisted Jessop in manufacturing cast explosive compositions in the spring of 1983. R. at 1736-1738.

C. Formation of Megabar.

In early 1983, Abegg became dissatisfied with what he apparently considered to be IRECO's lack of appreciation of his contributions and difficulty with a supervisor. R. at 1754-55. By February, 1983, Abegg had decided to leave IRECO, but he did not advise anyone at IRECO of his decision. R. at 1751, 1755. Thus, for about four months he continued to have access to secret

developments in cast explosive compositions technology at IRECO even after he had decided to leave IRECO. Id. See also R. at 1734-35.

In the summer of 1983, Abegg had discussions with Jay W. Butler, former General Counsel of IRECO, and John A. Peterson of Morton Thiokol. R. at 1762, 2046. During these discussions, Abegg disclosed that IRECO was working on cast explosive compositions. R. at 1762, 1765-67, 1777-79, 1781-82. On August 3, 1983, Abegg, Butler and Peterson formed a new corporate entity to market explosives technology, including cast explosive compositions technology. R. at 2296. Abegg resigned from IRECO in early August, 1983, promising to protect IRECO's trade secrets. R. at 1768. He immediately joined Megabar.

D. Jessop's Departure from IRECO and Employment at Megabar.

Abegg and Butler were soon joined by Harvey Jessop. R. at 2298. Abegg knew of Jessop's dissatisfaction with work and safety restrictions before Abegg left IRECO. R. at 1766-68. Jessop was hired at a Megabar subsidiary called Western Brine Research, in part in an effort to disguise his association with Megabar. R. at 2106.

Jessop had entered into an employment contract with IRECO on October 15, 1976. Plaintiff's Exhibit 1000027; Ad. at V. The contract provided that (1) Jessop would not compete with IRECO or assist others in competing with IRECO for two years

after terminating his employment; (2) Jessop would not disclose IRECO's proprietary information; and (3) any invention made by Jessop which related to his work at IRECO would belong to IRECO unless Jessop could prove independent development. Id.

Abegg and Butler were well aware of the provisions of Jessop's contract. R. at 1767. Indeed, Jay W. Butler had drafted the contract while serving as General Counsel of IRECO. Notwithstanding the agreement, Megabar hired Jessop and immediately put him to work on cast explosive compositions under the direction of M. Taylor Abegg. Plaintiff's Exhibit 001040.

E. Status of Cast Explosive Compositions at IRECO in August, 1983.

By the time Abegg and Jessop left IRECO, IRECO had developed several workable formulations of cast explosive compositions and had conducted extensive research on them. R. at 1548-80. Work was nearly completed on the cast emulsion unit, and it was ready for testing. R. at 1572, 1948. Jessop had reviewed draft patent applications on cast explosive composition formulations and had suggested changes. R. at 1586.

F. Megabar's Exploitation of Cast Explosive Compositions.

From the first, Megabar claimed cast explosive compositions technology as its own. Even before any lab work had been carried out, Megabar was offering to license cast explosive compositions technology. R. at 1777-79, 1784. By February, 1984,

after only four months of lab work, Megabar filed three patent applications on cast explosive composition formulations. R. at 1809, 2310-38, 2068-75. Although the Megabar patent applications included two other types of explosive compositions, Megabar touted cast explosive compositions (denominated in Megabar's patent applications as Method 2) as the most useful of the three methods described. See Plaintiff's Exhibits 000480, 000460 and 000424. See also R. at 1777-79, 1784, 1853-62, 1864-76, 1878, 1884-89. While Megabar was rushing to file its patent applications, Harvey Jessop delayed and broke appointments to review and sign IRECO's patent applications. R. at 1809-15. Jessop finally appeared at IRECO the day after Megabar's attorney, Kay Cornaby, flew to Washington, D.C. to file Megabar's applications. R. at 1809-15, 2115.

G. The Continuous Processor.

Megabar built a processor for continuously manufacturing cast explosive compositions. R. at 2222. Although Megabar's witnesses claimed that John Peterson and others developed Megabar's processor independently of IRECO's, R. at 2228, there was a great deal of evidence to the contrary. See, e.g., R. at 1918-53, 2043-2103. Abegg and Jessop were both intimately familiar with the IRECO processor. R. at 1924-25, 1955, 1944-50. In fact, Jessop telephoned IRECO after he joined Megabar to find out whether the IRECO processor was working. R. at 1951.

John Peterson and Clyde Lindeman (Megabar witnesses) testified that Harvey Jessop proposed a processor design at Megabar that was rejected. R. at 2232-39, 2252-54. Even if that testimony is taken at face value, however, it is of little significance. The rejected proposal differed significantly from the IRECO processor. The rejected proposal, for example, used a different mechanism to heat the ingredient reservoirs. R. at 2224.

In contrast to the rejected "Jessop model," the IRECO cast emulsion unit and the processor that Megabar touted as its own had the same important features that are described in Plaintiff's Exhibit 16. R. at 2080, 2225; Ad. at XI. (Because Plaintiff's Exhibit 16 describes proprietary information, its substance is not discussed herein in detail. The Exhibit is set forth in full in the Addendum to this brief. The Addendum, as explained in the Table of Contents, is separately attached to this brief to preserve the secrecy of certain materials that are contained in the Addendum.) Differences between the Megabar and IRECO processors related mainly to the type of pump used and to operation of the Megabar machine by a control mechanism that was not included in the IRECO processor. Compare R. at 2180 and Plaintiff's Exhibit 3000073 with R. at 2226, 2232-33.

#### H. Megabar's Patent Applications.

In August, 1984 Megabar filed two patent applications that related to the processor. R. at 2239; Plaintiff's Exhibits 001275 and 001292; Ad. at IX and X. The apparatus or processor

application describes a device or piece of equipment that allows ingredients to be continuously mixed to make compositive explosives. Plaintiff's Exhibit 001292; Ad. at X. The process is carried out without interruption, instead of in discrete batches. R., at 2220. Megabar's method patent application simply describes in more general terms what the apparatus or machine does, rather than describing the machine itself. Plaintiff's Exhibit 001292, at 001293; Ad. at IX-3. Therefore, the IRECO and Megabar processors both used the "method" described in Megabar's method patent application. See Plaintiff's Exhibit 16; Ad. at XI.

The Megabar patent applications claimed as patentable (i.e., as new or novel) the same elements that were embodied in the IRECO processor as described above. Id. These patent applications, which named Peterson and Abegg as inventors, were signed under oath. See R. at 1815-18. Thus Megabar declared that the devices described in the applications met the statutory patent requirements for novelty. Later Megabar abandoned its patent applications, pursuant to a Stipulation of the parties, in lieu of licensing them to IRECO. R. at 1233-34.

Contrary to representations in Megabar's Brief, Megabar's brief at 12-13, Megabar presented no evidence at trial that the IRECO processor was known elsewhere in the industry. Megabar relies on two citations for a contrary assertion in its brief. One citation, Megabar's Brief at 13, is to the testimony of John Peterson, wherein he agreed that continuous processes are "the kinds of machines that . . . [he] had experience with"



during the time he worked at Thiokol. R. at 2220. The second citation, Megabar's Brief at 13, is to an Affidavit signed by Megabar's patent attorney. Megabar filed the affidavit with the trial court on September 20, 1985, some three months after trial and two months after the trial court issued its Memorandum Decision. The affidavit was not introduced by Megabar during the trial, and should not be considered as trial evidence by this Court.

I. Megabar's Marketing of the Processor.

From the time of its formation until the trial, Megabar attempted to market cast explosive compositions and the processor. Entities to whom disclosures were made and to whom marketing overtures were made included other major explosives manufacturers and aerospace companies. R. at 1777-79, 1784, 1853-62, 1864-76, 1878, 1884-89; Ad. at XII, XIII and XIV.

Agreements involving significant amounts of money were entered into for cast explosive composition technology, including one submitted as Exhibit 000711 at trial. See also Exhibit 000566 and Plaintiff's Exhibit 20. One agreement with Aerojet-General Corporation, Exhibit 000711, Ad. at XIII, which Megabar admitted was based primarily on the other party's interest in cast explosive compositions technology, netted Megabar a substantial capital payment and license payments. See Plaintiff's Exhibit 000711 at 000714; Ad. at XIII-3.

Based on all of the foregoing and all of the evidence presented at trial, the trial court made the following:

FINDINGS OF FACT

. . .

7. IRECO, through research and development extending over several years and expenditure of substantial sums of money, has developed commercially valuable trade secrets and confidential information concerning the research, development, formulation, manufacturing processing of certain castable explosive compositions that were characterized by IRECO as "cast explosive compositions." . . . As developed by IRECO by 1983, cast explosive compositions and related manufacturing equipment constituted a significant improvement over the prior art and were a valuable commercial asset of IRECO. . . .

. . .

10. In connection with the development of cast explosive compositions, Jessop also devised and built a type of a continuous processor which was designed so that cast explosive compositions could be safely and continuously mixed and manufactured as opposed to being manufactured in batches. The processor was essentially complete and ready for trial runs by August of 1983 when Jessop left IRECO.

. . .

13. by August of 1983, the development of the cast explosive compositions and the continuous processor at IRECO, together with IRECO's marketing plans, consisted of a compilation of knowledge and information, including plans, formulas, processes, and devices, which was not generally known in the explosives industry and which constituted a commercial advantage to IRECO over

competitors. No one other than IRECO was at that time working with cast explosive compositions.

. . . .

16. At the time that Jessop joined Western Brine Research, Butler, Jessop and Abegg were all aware of Jessop's employment with IRECO. Jessop and Abegg were aware that IRECO regarded its cast explosive compositions formulations and its continuous processor as proprietary trade secret information.

17. Thereafter, Abegg, Butler and others at Megabar induced and allowed Jessop to disclose IRECO's trade secrets and confidential information to Megabar and to work on cast explosive compositions and a continuous processor based on that developed at IRECO. Jessop continued to work on cast explosive compositions at Western Brine Research, and Jessop and Abegg disclosed IRECO's trade secrets and confidential information to persons at Western Brine Research and Megabar.

. . . .

19. Without notice or consent of IRECO, Megabar, through Western Brine Research, immediately commenced work on both cast explosive compositions and the preparation of a continuous processor. . . .

25. Megabar has filed patent applications concerning methods and apparatus for the continuous production of composite explosives. The claims in Megabar's applications are anticipated by the processor developed at IRECO.

#### CONCLUSIONS OF LAW

1. IRECO'S information and technology concerning cast explosive compositions and the continuous processor constitute trade secrets which are the property of IRECO.

. . .

8. IRECO has suffered and will continue to suffer irreparable harm for which there is no adequate remedy at law, and is entitled to an immediate injunction prohibiting Defendant's, their officers, agents, employees, assigns or anyone acting in concert or participation with them, from researching, developing, disclosing, selling, licensing or using in any way cast explosive compositions and related technology, including equipment, for a term of years to be determined at further hearing.

R. at 1132-1142; Ad. at II-2 to II-12.

#### SUMMARY OF ARGUMENT

Contrary to Megabar's assertions, there was more than adequate evidence at trial to support the Court's finding that Megabar benefitted substantially from IRECO's processor and continuous processing method. There can hardly be any dispute that the processor and processing method were trade secrets because Megabar submitted patent applications for a machine and a continuous processing method that embodied the name elements. In so doing, Megabar represented under oath that the subject matter of the patent applications was patentable, i.e., novel. That Megabar's machine benefitted from IRECO's was to be inferred from the similarities of the processors, particularly as described in Megabar's patent applications. Megabar cannot dispute that the alleged inventions were valuable--Megabar made substantial amounts of money on the processor. Indeed, its many disclosures

of IRECO's technology in its marketing efforts is one of the injuries suffered by IRECO.

In addition to the foregoing, the trial court found that Megabar tortiously induced an IRECO employee to breach his employment agreement and the trial court found that the agreement was reasonable and enforceable. This alternative ground for relief does not depend on the trade secret status of the processor and provides sufficient basis for the relief accorded IRECO by the trial court.

#### ARGUMENT

I. THE TRIAL COURT PROPERLY CONCLUDED THAT MEGABAR WRONGFULLY OBTAINED AND USED IRECO'S TRADE SECRET APPARATUS AND METHODS FOR MAKING CAST EXPLOSIVE COMPOSITIONS.

A. The Trial Court's Order Should Not Be Disturbed Unless the Evidence Clearly Preponderates Against Its Findings.

As Megabar has indicated, findings of the trial court should not be modified unless a clear preponderance of the evidence in the record requires it. Abbott v. Christensen, 660 P.2d 254, 257 (Utah 1983); Brown v. Loveland, 678 P.2d 292, 297 (Utah 1984). In equity cases like the present one, it is strongly presumed that the findings in the judgment entered below are correct. Ovard B. Cannon, 600 P.2d 1246 (Utah 1979). This rule is based on this Court's recognition of the advantaged position of the trial judge, who sees and hears the witnesses and is able

to weigh their credibility. Dang v. Cox Corp., 655 P.2d 658 (Utah 1982); Jensen v. Brown, 639 P.2d 150 (Utah 1981). As the argument and discussions below demonstrate, the trial court did not abuse its discretion in finding that the Megabar processor and processing method substantially benefitted and were derived from IRECO's trade secrets.

B. IRECO's Continuous Processing Method and Processing Equipment Were Trade Secrets.

The Utah Supreme Court has stated the elements of a cause of action for trade secret misappropriation as follows:

(1) possession of knowledge or information not generally known (i.e., the secret); and either (2) his communication of the secret to the defendant under an express or implied agreement limiting its use or further disclosure, and the defendant's use thereof in violation of the confidence, to the injury of the plaintiff; or (3) the defendant's acquisition of the secret by some wrongful manner and the use thereof to the plaintiff's damage.

Microbiological Research Corp. v.. Muna, 625 P.2d 690, 697-698 (Utah 1981) (citation omitted). More recently, the court has defined trade secrets in J & K Computer Systems v. Parrish, 642 P.2d 732 (Utah 1982), as follows:

A trade secret includes any formula, patent, device, plan or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know it.

Id. at 735, citing Restatement of Torts Section 757, comment b (1939).

The evidence at trial showed that IRECO's cast emulsion unit and continuous processing method (hereinafter referred to as "processing technology") were secret, i.e., not generally known in the industry. See, e.g., R. at 2220. IRECO witnesses testified that continuous processing of the type embodied in the IRECO processor was not generally known.

The only evidence that Megabar cites to the contrary is the statement by several witnesses that continuous processing of explosives was well known in the industry. That is not the issue, here, however, because IRECO does not claim that all continuous processing of composite explosives is IRECO's trade secret. At issue in this appeal is whether a processor with the specific combination of components possessed by the IRECO processor was generally known in the industry. There is no evidence to indicate that IRECO's processor was a "standard" model, as Megabar suggests, and the evidence is to the contrary. Megabar's argument is analogous to stating that because automobiles are known, there can be no trade secrets relating to developments of a particular automobile design.

Megabar also relies in its Brief on evidence it produced three months after the trial and eight days after the Findings of Fact and Injunction were entered. See R. at 1187. Even if the evidence stands for the proposition for which it is

asserted, it was not introduced at trial and is not part of the record on appeal.

The best evidence of the trade secret status of the IRECO processing technology is that Megabar filed patent applications that pertained to the same type of device and methodology that IRECO had developed. To do so, the alleged inventors of Megabar's technology, John Peterson and Taylor Abegg, had to sign the applications under oath, indicating that they believed the subject matter described in the applications met the statutory requirement for novelty, among other things. The language of the injunction as it applies to the apparatus and method closely tracks the language of the Megabar patent applications. Compare Injunction, Ad. at III, with Plaintiff's Exhibits 001279 and 001292; Ad. at IX and X. Thus, the injunction covers no more than the subject matter that Megabar claimed, under oath, as novel. If Megabar previously claimed under oath that the processing technology was not generally known, Megabar should now be estopped from claiming the contrary in this appeal.

It is a well-recognized principle of trade secret law that trade secrets do not require the same level of novelty as patents. 1 Milgrim, Milgrim on Trade Secrets, § 2.08[3] at 2-146 (1986). Thus, the fact that Megabar filed patent applications covering the same device and methods that were embodied in IRECO's processor is an admission that the concepts embodied in the patent applications were of sufficient novelty to qualify for trade secret status. See 1 Milgrim, Milgrim on Trade Secrets



§ 2.08[3] at 2-146 to 2-153 (1986). As the court stated in Carter Products v. Colgate Palmolive Co., 130 F. Supp. 557 (D. Md. 1955), aff'd, 230 F.2d 855 (4th Cir.), cert. denied, 352 U.S. 843 (1956):

[T]he contention that [the] information was previously known in the trade is clearly inconsistent with [defendant] Colgate's filing . . . patent applications, covering the same subject matter.

See also 1 Milgrim, Milgrim on Trade Secrets § 2.08[1] at 2-139 (1986). (An invention of sufficient novelty for patent protection is entitled "a fortiori" to protection as a trade secret).

Megabar argues that its processor was different from IRECO's and better engineered. However, Megabar was not seeking to patent the elements that distinguished its processor from IRECO's. The claims of Megabar's patent applications are not limited to specific types of pumps; they do not even mention the unique control mechanism. To the contrary, the elements of the processor and processing technology that Megabar attempted to patent were the same as those that was developed at IRECO. These similarities were illustrated during the trial in Plaintiff's Exhibit 16, Ad. at XI, which juxtaposed the claim language from the Megabar patent applications with the description of the cast emulsion unit and the processing method that were developed at IRECO before Jessop and Abegg left. Indeed, without the relief granted by the trial court, Megabar's patents, if granted, would have excluded IRECO from using its own continuous processing

method or cast emulsion unit to make cast explosive compositions. See 35 U.S.C.A. § 141 et seq. It is not relevant to this appeal that IRECO has chosen not to try to continue to try to patent the processor as a trade secret, thus avoiding public disclosure of the processor that a patent would involve.

Moreover, even if Megabar's characterization of its processor as an improvement is correct, the fact does not exculpate it from liability for misappropriation. The majority and better reasoned authority holds that even if defendants have made improvements on a plaintiff's trade secrets, the use of the improvements can be enjoined. 2 Milgrim, Milgrim on Trade Secrets § 7.07[1] at 7-164 (1986).

Additionally, under Utah law, Megabar's claimed invention need only be substantially similar to IRECO's processing technology. In J & K Computer Systems v. Parrish, 642 P.2d 732, a more recent Utah case than Muna, this Court upheld an injunction against the use of a computer program that was similar but not identical to the plaintiff's program. J & K Computer Systems, 642 P.2d at 734-735. "Defendant need not appropriate every feature of plaintiff's trade secret to be a wrongful user; substantial appropriation is actionable . . . and is analogized by some courts to the patent law determination of 'equivalents.' Moreover, moderate modification by defendant of plaintiff's trade secret will not act as an insulation against an allegation of wrongful use." 2 Milgrim, Milgrim on Trade Secrets section

7.07[1], at 7-162 to 7-164, n.63 (citing J & K Computer Systems) (citations omitted).

To make another analogy, the situation in this appeal can be compared to the rule in patent law that where a device accused of infringement embodies all of the elements of the patent claim, additional elements in the accused device will not preclude a finding of infringement. See D. Chisum, Patents § 16.02[1] at 16-7 (1986). In other words, applying that rule by analogy to the present case, the addition of a special control mechanism to the processor does not change the fact that the processor itself embodies IRECO's trade secrets. Thus, Megabar was properly enjoined from continued use of the processor and the processing method.

C. Megabar's Processor and Processing Method Were Based on IRECO's Technology.

The evidence at trial showed that the Megabar processor and processing method incorporated and were based upon IRECO's technology. Jessop and Abegg were intimately familiar with the IRECO cast emulsion unit before they left IRECO. The principals of Megabar had complete access to Jessop even while he was at Western Brine Research.

Abegg's and Jessop's behavior was like that of the classic "surreptitious employee" that is discussed in 1 Milgrim,

Milgrim on Trade Secrets § 5.04[3] at 5-129 to 5-130 (1986)

(citations omitted) as follows:

Not uncommonly, when an employee plans to appropriate his employer's trade secrets, plans are laid to do so not by disclosure to a third party, such as an existing or potential competitor, but rather through the creation of a corporation in which the defaulting employee or employees will have an ownership interest. Judging from the large number of cases in which trade secrets have been taken by employees for use in a business formed by them, one could construct a correlation between the desire to be on one's own and the temptation to "borrow" one's employer's property to achieve that end. Surreptitious employees share certain habit patterns. They "plot" with other employees who appear to be discontent. They stay in the corporation, gather information that will be of value, all the while going through the formalities of creating a corporate vehicle. . . . Then one or more of the plotters quits, often leaving other plotters behind to keep an eye open for new developments which might be of use to the newly formed competitor. The courts do not tolerate this kind of double-dealing by the employee, the guise of the independent corporation is penetrated in cases where it appears that the corporation is the alter ego of such employees.

See also 2 Milgrim, Milgrim on Trade Secrets § 7.08 at 7-178 to 7-202 (1986) (citing numerous cases supporting injunctive relief when a "surreptitious employee" has injured his employer).

Most salient on the issue of misappropriation are the similarities of the Megabar processor and processing method, as described in the Megabar patent applications, to IRECO's processing technology. See Plaintiff's Exhibit 16. In contrast to

this evidence, Megabar offered only the self-serving testimony of its own employees who stated that John Peterson developed the Megabar processor independently, after rejecting Jessop's unworkable proposal. The rejected Jessop model differed significantly from both Megabar's and IRECO's machines. The Megabar and IRECO machines, however, were quite similar. Additionally, Abegg was intimately involved in designing the Megabar machine. He also was familiar with the IRECO processor, and Jessop discussed IRECO's processor with Megabar employees. R. at 1974-75. All of the facts support the trial court's conclusion that Megabar's technology was borrowed from and based upon IRECO's.

Whether or not Jessop made a processor proposal to Megabar, the trial court was entitled to infer from the evidence that Jessop's and Abegg's knowledge of the IRECO processing technology were used at Megabar in developing its processor. As this Court has often stated, the trial court is in a particularly advantageous position to see and hear the witnesses and weigh their credibility. The trial court apparently drew the obvious conclusion from the IRECO's evidence and should be accorded due deference in weighing that evidence against the credibility of the Megabar witnesses. Certainly, it cannot be said that the evidence in the record clearly preponderates against the trial court's finding on this issue.

It does not matter whether Peterson or anyone else at Megabar might have developed a processor based on information obtained elsewhere when the evidence is clear that they did not

do so. It is an established rule of law that wrongful use of information previously obtained in confidence is subject to injunctive relief, even if the information "could have been independently developed or ascertained." 2 Milgrim, Milgrim on Trade Secrets § 7.08[2] (1986). "What is protected, then, is the integrity of the secret disclosure made in a protected relationship, rather than the invention itself." Id. In other words, because Megabar obtained information about IRECO's processing technology and used it in its own processor, it is irrelevant whether Megabar might have developed the information from other sources. Jeter v. Associated Rack Corporation, 607 S.W.2d 272 (Tex. Civ. App. 1980), writ ref. n.r.e., cert. den. 454 U.S. 965 (1981); General Aniline & Film Corp. v. Frederick, 50 Misc. 2d 994; 272 N.Y.S. 2d 600 (Sup. Ct. 1966) mod. den. 52 Misc.2d 197, 274 N.Y.S.2d 634, 152 U.S.P.Q. 524 (1966); Riteoff v. Contact Industries, Inc. 43 A.D. 2d 731, 350 N.Y.S. 2d 690, 181 U.S.P.Q. 330 (1973).

D. IRECO's Processing Technology was Valuable.

Looking further to the requirements for trade secret protection, the evidence at trial was overwhelming that the IRECO apparatus and processing method were valuable. Megabar successfully marketed a processor containing the same elements (and implicitly utilizing the same method) as the IRECO processor. Additionally, Megabar had the benefit of trial-and-error

experimentation that was conducted at IRECO, which Jessop inquired about after going to work for Megabar. Finally, the value of IRECO's technology is confirmed by Megabar's protestations that it cannot make any of its composite explosives without the processor.<sup>1</sup>

E. IRECO Was Injured by Megabar's Activities.

There was more than adequate evidence at trial to show that IRECO sustained sufficient injury to support a trade secret cause of action. Although Megabar chooses to ignore the evidence, Megabar's misappropriation of IRECO technology, including its processing technology, at a minimum gave Megabar a considerable headstart in the military explosives market.<sup>2</sup>

Additionally, there were numerous disclosures of IRECO's trade secrets to Megabar's prospective customers. These disclosures could not be called back once they were made. The disclosures have clouded IRECO's ownership of the technology it

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1 In fact, Megabar protests too much. Megabar could use batch methods, even if less convenient. The latter are not limited to "mixing with a broomstick," as Megabar suggests. See Megabar's Brief at 15.

2 Megabar admitted as much in its post-hearing brief in support of a Motion for Summary Judgment on the issues of damages and length of the injunction. R. at 1306, 1309-1310, 1312-1315. Megabar's Motion was denied and the issues were settled. See Judgment dated March 21, 1986, and Stipulation dated March 20, 1986, unindexed.

had developed, an intangible but nonetheless real injury to IRECO that is akin to loss of business goodwill.

What Megabar suggests is that technology that is in the developmental stages and for which no lost sales opportunities are shown cannot receive trade secret protection. The suggestion misstates the law. Other courts have held that precommercial uses of trade secrets are entitled to the same protection as commercial uses. 1 Milgrim, Milgrim on Trade Secrets § 2.02[1] at 2-19 (1986). The essential element is value, which can hardly be disputed here. See J & K Computer Systems, 642 P.2d at 735. It is clear that IRECO was injured by Megabar's misappropriation of IRECO's processing technology. Megabar's arguments to the contrary are not persuasive.

F. Megabar is Not Entitled to Use  
Misappropriated Technology for  
Other Purposes.

The evidence shows that development of the processing technology at IRECO and at Megabar was inextricably bound up with cast explosive compositions. The need for more sophisticated continuous processing techniques provided the impetus for development of the IRECO processor. R. at 1977, 2227. While Megabar claims that the processor can be put to other uses (i.e., Methods 1 and 3), there is no question but that most of Megabar's work during the time it built its processor was concentrated on cast explosive compositions (Method 2) rather than Methods 1 or 3.



The law does not entitle a misappropriator to escape liability by diverting stolen technology to other uses. See generally 1 Milgrim, Milgrim on Trade Secrets §§ 2.01 and 2.02 (1986). This conclusion follows generally from the definition of a trade secret with respect to secret machinery or equipment. Secret machinery is entitled to trade secret protection, even if a misappropriator of the machinery puts the machinery to various uses. Id. All uses of the processor embody IRECO's trade secrets; therefore, Megabar has no right to put a processor developed with IRECO's stolen technology to any use at all. Arguments to the contrary in Megabar's Brief are unpersuasive.

II. THE TRIAL COURT'S JUDGMENT SHOULD BE UPHELD BECAUSE INDEPENDENT GROUNDS, NOT CHALLENGED BY MEGABAR IN THIS APPEAL, SUPPORT AND JUSTIFY THE INJUNCTIVE RELIEF GRANTED BY THE TRIAL COURT.

A. A Trial Court Should be Affirmed When Alternative Grounds Support Its Decision.

In addition to holding that Megabar wrongfully used IRECO's trade secrets relating to processing technology, the trial court found that Megabar intentionally and tortiously interfered with Harvey Jessop's employment contract with IRECO. See Findings of Fact Nos. 8, 16, 17, 18, 21, 27, 28; Conclusions of Law Nos. 5, 6, 7, 8; Ad. at II-4 to II-12. This alternative basis for the relief ordered by the court has not even been addressed by Megabar.

This Court has affirmed a trial court's decision whenever it can do so on a proper ground, even if such ground was not relied on by the trial court. Bill Nay & Sons Excavating v. Neeley Construction Company, 677 P.2d 1120 (Utah 1984); Branch v. Western Petroleum, Inc., 657 P.2d 267 (Utah 1982); Matter of Hock's Estate, 655 P.2d 1111 (Utah 1982). Clearly, if it is proper to affirm a trial court on proper grounds even when the trial court does not expressly rely on such grounds, it is even more compelling to affirm the trial court when, as in this case, the trial court has expressly relied upon alternative grounds that are not challenged in this appeal. Global Recreation, Inc. v. Cedar Hills Development Co., 614 P.2d 155 (Utah 1980).

B. The Injunctive Relief Granted By the Trial Court Should be Upheld Because Defendants Intentionally and Tortiously Induced Jessop To Breach His Employment Contract.

After hearing all of the testimony and argument at trial, and after reviewing a copy of Harvey Jessop's employment contract with IRECO, admitted as Pls. Ex. 1000027 (Ad. at V), the trial court concluded as a matter of law, based upon the evidence, that "Harvey Jessop's employment contract was reasonable and enforceable." (R. at 1142; Ad. at II-12.) That contract contained a restrictive covenant as follows:

7. Employee further agrees that improper disclosure of any of the information listed in paragraph 6 above and/or use thereof could be highly detrimental to Employer. Therefore, Employee agrees that

for a period of two (2) years after termination of such employment he will not either for himself or for others then Employer engage in any business competitive with Employer's business, including but not limited to the developing, making, selling and using of explosives.

There is no question that Jessop violated this provision, with the knowledge of and at the inducement of Megabar. It is also commonly held that knowingly hiring an employee in violation of a prior noncompetition agreement states a cause of action for tortious interference with contractual relations, and that this is true regardless of whether the contract is later held to be enforceable against the employee. 1 Milgrim, Milgrim on Trade Secrets § 5.04[4], at 5-133 to 5-134, n. 39 citing, inter alia, Jackson v. Fontaine's Clinics, Inc., 481 S.W.2d 934, 938 (Tex. Civ. App. 1972), rev'd on other issues, 449 S.W.2d 87 (Tex. 1973) (fact that defendant employed plaintiff employees knowing they were subject to covenants not to compete showed malice and justified exemplary damages). Because this independent basis of liability exists unchallenged by Megabar, the trial court's decision must be upheld.

#### CONCLUSION

Contrary to the assertions of Megabar, there is more than ample evidence in the record to support the trial court's finding that IRECO's processing technology was a trade secret and that Megabar wrongfully obtained and used that trade secret. Having so found, and also based on unchallenged alternative

grounds, the trial court properly awarded an injunction to deprive Megabar of the headstart wrongfully gained. The trial court's decision should be affirmed.

RESPECTFULLY SUBMITTED this 30th day of September,  
1986.

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CERTIFICATE OF SERVICE

I hereby certify that I had delivered four true and correct copies of the foregoing Brief of Respondent, with a separate Addendum attached to each in order to protect trade secrets contained in the Addendum, to Peter W. Billings, Gordon W. Campell and Michele Mitchell, Fabian & Clendenin, Twelfth Floor, 215 South State Street, Salt Lake City, Utah 84111 on this 1st day of October, 1986.

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