

Trade Secrets in Texas

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Trade Secrets are the “Little Brothers of Patents” According to U.S. Supreme Court

- According to the U.S. Supreme Court in ***Kewaunee Oil Co. v. Bicron Corp.***, trade secrets are protected as a sort of “**mini-patent** or **little brothers** of patents.”
 - Must be kept secret, not be of public knowledge or of a general knowledge in the trade or business
 - Potentially kept forever
 - Public policy of enforcing commercial morality
 - Patents and trade secrets each have its particular role to play
 - Some novelty is required if merely because that which does not possess novelty is usually known.

Trade Secrets are “Little Brothers of Patents” According to Supreme Court

- In **Kewaunee**, Harshaw Chemical Company produced a 17-inch crystal useful in detecting ionizing radiation as a result of research expenditures of over \$1 million.
- Respondents were former employees of Harshaw who formed or later joined Bicron.
- Bicron was formed in 1969 to compete with Harshaw in the production of crystals, and by 1970 had grown a 17-inch crystal.

Trade Secrets are “Little Brothers of Patents” According to Supreme Court

- The trade secret holder is protected against unauthorized disclosure or use of the trade secret by
 1. those to whom the secret has been confided under an express or implied restriction of non-disclosure or non-use.
 2. those who gain disclosure or use through “improper means.”

Definition for a Texas Trade Secret from the Texas Uniform Trade Secret Act (TUTSA)

“Trade secret” means “information, including a formula, pattern, compilation, program, device, method, technique, financial data, or list of actual or potential customers or suppliers, that:

- (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, *and*
- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

Consequently, 4 separate elements are required for a trade secret:

- 1. Concrete information;**
- 2. Providing economic value or competitive advantage;**
- 3. Not generally known or readily ascertainable by proper means; *and***
- 4. Subject to reasonable security efforts**

Some Novelty is Required

- Although the subject matter of a trade secret need not be inventive in the patent law sense, some **novelty** will be required if merely because that which does not possess novelty is usually publicly known
- Secrecy, in the context of trade secrets, thus implies at least minimal novelty.

Absolute Secrecy is *Not* Required

- The amount of secrecy must only be *reasonable under the circumstances*.
- What is a reasonable precaution depends on a balancing of costs and benefits that will vary from case to case.
- The owner of a purported trade secret must keep it secret, or the law will not protect it.
- Thus, the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to wrongful conduct.

Trade Secrets and Patents Contrasted

- The paradigmatic trade secret involves **technical or scientific information**, such as a formula or a production process.
- **Examples include:**
 - ❑ Design of a circuit;
 - ❑ Sub-routine of a computer program;
 - ❑ Construction details for a complex piece of machinery;
or
 - ❑ The chemical process used to grow crystals in **Kewanee**

Trade Secrets and Patents Contrasted

- Unlike patents, however, trade secret law may *also* protect **non-technical information** such as
 - customer lists,
 - lists of suppliers, or
 - market strategies.
- Whether information is a trade secret is a question of fact.

Some Examples of Information That Have Been Protected as Trade Secrets

- Formula (e.g., a chemical formula)
- Pattern (e.g., drawings necessary to make a machine or manufacture)
- Compilation (e.g., customer lists, marketing data and strategies, geological data gained from surveys; genetic information)
- Program (e.g., a computer program code)
- Device (e.g., a design of a machine or manufacturing process; blueprints for machines)
- Method, Technique, or Process (e.g., a manufacturing method or process, chemical processes and related equipment; business methods, techniques for treating materials, and other processes)

Confidentiality Agreements are Critical

- Corporations must often reveal their trade secrets to third parties, either to make use of the secret in their business, or to serve some other legitimate commercial purpose.
- To protect your corporation in such circumstances, you should enter into a contract (i.e., **confidentiality agreement**) with those third parties explicitly imposing a duty on them to keep the secret confidential.
- A duty of trust and confidence arises under the agreement

Improper Means

- If a party learns the content of a trade secret through **illegal activities**, those means are clearly improper and provide the trade secret owner with a basis for relief in a civil suit for trade secret misappropriation.
- **Examples:**
 - Outright theft of documents containing the secret information,
 - bribery,
 - fraud, or
 - electronic surveillance are all improper.

Improper Means

- Even if the method of learning another party's trade secret is not illegal per se, it will also be labeled **improper** if it is a calculated attempt to overcome reasonable efforts to maintain secrecy.

E.I. DuPont v. Christopher

- A chemical company was constructing a new plant to manufacture methanol in Beaumont, Texas.
- The chemical was to be produced through the use of a new process, which was a trade secret, which could be discerned by inspecting the installations within the plant.
- Respondents flew over the construction site in a small plane and took photographs of the plant while construction was still in progress.
- Aerial photography here constituted an **improper means** of learning the secret.

Proper Means

- But “**reverse engineering**” is okay!!!
- Also, someone else may independently invent and patent your technology which you currently hold as trade secret
- Limited prior usage rights in U.S.

What remedies are available under TUTSA if somebody steals a Texas trade secret?

Civil Remedies for Trade Secret Theft

- **Injunctive relief**
 - Court may grant an injunction to prevent person or company who misappropriated a trade secret from using it for their own profit.
- **Damages**
 - Compensatory for actual loss and the unjust enrichment caused by misappropriation
 - Imposition of a reasonable royalty
 - Exemplary damages if “willful and malicious appropriation” proven by clear and convincing evidence
- **Attorney’s fees**
 - Recovery of attorney’s fees is now possible under TUTSA for “willful and malicious misappropriation.”

Criminal Remedies for the Theft of Trade Secrets

- **Theft of trade secrets is a crime in Texas!**
 - **Texas Penal Code §31.05(b): “A person commits an offense if, without the owner’s effective consent, he knowingly:**
 - (1) steals a trade secret;**
 - (2) makes a copy of an article representing a trade secret; or**
 - (3) communicates or transmits a trade secret.**
- **Theft of trade secrets is also prosecutable by the federal government under the Economic Espionage Act, 18 U.S.C. §1832**

Remedies – Other

- **The vast majority of intellectual property (IP) litigation is settled out of court through mediation or informal settlement**
 - Only 140 out of 7,445 IP suits filed in 2002 were resolved by a trial verdict (ABA Journal, April 2007 at 15).
 - Mediation is a negotiation facilitated by a neutral arbiter
- **Your company should retain counsel experienced in complex commercial litigation to seek injunctive relief, damages and attorney's fees**

First step: Identify Trade Secrets

Trade Secret Initial Screening Form:

Trade Secret Initial Screening Form:								TRADE SECRET CRITERIA SCREENING		
Title	Owner	Abstract	Information Location	Related Documents			Use of Technology (List by Site)	Summary of Competitive Advantage / Commercial Value	Information is generally known or ascertainable?	Do we practice, have we practiced in past? If no, do we have concrete knowledge that this does or does not work?
				Invention Disclosures	Agreements	Research Reports				
Process for preparing PB&J	Albert Einstein	Using two slices of bread, spread peanut butter on one. Spread jam on other slice. Put together so peanut butter side meets jam side. If preparing for 5 year old, trim crust.	Complete documentation and picture references in Legal Department locked files (Building A, Office 100)	D-2016-01	209885 - Peter Pan Co.	none	North America (Texas, New York, Canada) and Germany.	Trying to spread peanut butter and jam on same piece of bread much more difficult resulting in higher cycle time. Sometimes results in wasted jam. Some peanut butters spread much more easily and work with homemade jam better. ~\$2.40 per sandwich.	Specific combination of bread, PB and J that I use is confidential and not released.	

Second step: Document Trade Secrets

- ❑ **Have your legal department retain documentation of your trade secrets as well as policies and procedures for protecting them.**

Third step: Reasonable Security Measures

- **Confidentiality Agreements**
- **Limitations on Disclosure of the Information**
- **Physical Limitations on Access**
- **Keeping Track of Copies of the Information and Keeping Records of Those with Access**
- **Documentation that Employees and Others were Informed of Restrictions**
- **Industry Standards and Ethics**

Key Learnings

- **Trade secrets are a sort of “mini-patent.”**
- **Four key elements**
 - **Concrete information**
 - **Economic value or competitive advantage**
 - **Not generally known or readily accessible by proper means**
 - **Subject to reasonable efforts to maintain secrecy**
- **Identify, document, and protect your trade secrets!**
- **Implement reasonable security measures**
- **Always have third-parties sign confidentiality agreement if you plan to share trade secrets!**

Further reading

- **Stephen M. McJohn, Intellectual Property Examples and Explanations, Second Edition 341-392 (Aspen, 2006).**
- **Peter B. Maggs and Roger E. Schechter, Trademark and Unfair Competition Law, Sixth Edition, 670-728 (West Group, 2002).**
- ***Kewanee Oil Corp. v. Bicron Corp.*, 416 U.S. 470 (1974).**
- ***E.I. duPont deNemours & Co., Inc. v. Christopher*, 431 F.2d 1012, *cert. denied* 400 U.S. 1024 (1971).**
- ***Lawfinders Associates, Inc. v. Legal Research Center, Inc.*, 65 F.2d 416 (1998).**
- ***Behind the Numbers*, ABA Journal, April 2007, at 15.**

Trade Secrets in Texas

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