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Do You Own Trade Secrets and Not Even Know It?

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Is it possible that you own trade secrets, without even knowing it? Could you have rights you didn't realize you have to protect confidential information your company uses? For some companies, they have learned that such is precisely the case.

Specifically, multiple courts have recently held that a company who did not create a trade secret can nonetheless protect itself from others who may misappropriate those trade secrets. This often happens in the case of a licensing agreement, the purchase of proprietary information, information created pursuant to a joint venture, or other instances where one has the right (and often exclusive right) to use trade secret information, but is arguably not the "owner" of that information.

This situation arose recently in the case of *Genesis 1 Oil Services, LLC v. Wismann Group, LLC*, 2021 WL 1110594 (C.D. Cal. 2021). There, the plaintiff brought suit to protect its trade secret information and to enjoin the misappropriation of it by the defendant. The plaintiff had obtained a license in certain proprietary information under a services contract. That contract provided the plaintiff with an exclusive license to the information. The defendant attempted to attack the binding nature of the services agreement, stating that it was merely an "agreement to agree" and therefore did not provide the plaintiff with the exclusive license that the plaintiff claimed.

The court disagreed. It held that the agreement was binding, and therefore concluded that the plaintiff could prove that it owned a trade secret interest in the confidential information in question. This was based on the court's holding that the Defend Trade Secrets Act (the "DTSA") defines "owner" of a trade secret as "the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed." *Id.*; 18 U.S.C. § 1839(4). "Further," the court held, "trade secrets can be jointly owned and, in fact, a joint owner can bring a claim for trade secret misappropriation against the other owner." *Id.*;

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citing *StrikePoint Trading, LLC v. Sabolyk*, No. SACV 07-1073-DOC-MLG, 2008 WL 11334084, at *6 (C.D. Cal. Dec. 22, 2008); *Morton v. Rank America, Inc.*, 812 F. Supp. 1062, 1074 (C.D. Cal. 1993). Thus, the court held that the matter could proceed, and that the licensor of the trade secrets could proceed in pursuing a misappropriation of trade secrets claim.

A similar issue was present in the case *Advanced Fluid Systems, Inc. v. Huber*, 958 F.3d 168 (3d Cir. 2020). In that matter, the plaintiff AFS had entered an agreement with the Space Flight Authority. That contract explicitly designated the confidential information in question as the Space Flight Authority's "exclusive property." When AFS brought a misappropriation claim against the defendant to enforce its trade secret rights, the defendant argued that AFS did not "own" the claimed trade secrets and did not "lawfully possess" the trade secrets. The court found that "[n]one of those positions is persuasive."

The court looked to prior precedent that had held "that a party asserting a misappropriation claim . . . need only demonstrate a lawful possession of the trade secret, and not 'ownership in its traditional sense.'" *Id.*; quoting *DTM Research, LLC v. AT&T Corp.*, 245 F.3d 327 (4th Cir. 2001). This is because "the proprietary aspect of a trade secret flows, not from the knowledge itself, but from its secrecy," because "it is the secret aspect of the knowledge that provides value to the person having the knowledge." *Id.* Thus, "[w]hile the information forming the basis of a trade secret can be transferred, as with personal property, its continuing secrecy provides the value, and any general disclosure destroys the value." *Id.*

In other words, the Third Circuit Court held, "while ownership of the sort traditionally associated with real or personal property is sufficient to maintain a trade secret misappropriation claim because the complete bundle of rights related to trade secrets includes the right to enjoy the value of the information's secrecy, it is not a necessary condition." *Id.* "A *per se* ownership requirement for misappropriation claims is flawed since it takes account neither of the substantial interest that lawful possessors of the secrets have in the value of that secrecy, nor of the statutory language that creates the protection for trade secrets while saying nothing of ownership as an element of a claim for misappropriation." *Id.*

As to the contention that AFS did not "lawfully possess" the trade secrets, the court was likewise unmoved. The court noted that AFS was given physical control of the drawings in question and was permitted to put the secret information to use. "Ownership of a trade secret – or any intellectual property for that matter – undoubtedly imbues the owner with authority to give others lawful possession . . ." *Id.* Even if the agreement did not include an express licensure or transfer of ownership, when "one retains and uses a trade secret owned by another for that owner's benefit, with the owner's knowledge, and, at a minimum, with that owner's implied consent," the party using the trade secret "lawfully possesses" that trade secret.

Thus, we see that to bring suit to stop someone from misappropriating a trade secret, a plaintiff need not be the end owner of the trade secret. Nor must they be the only owner of it. In fact, one co-owner of a trade secret could stop another owner of the same trade secret from disclosing it.

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These holdings have important implications for all businesses. Whether you are a licensor or a licensee under a contract, you must know your rights. If you are part of a joint venture or a partner in a project, you may have rights to protect yourself even against the other parties involved. Whether you own a trade secret, license it, or are merely lawfully using it, you may have rights.

Butzel Long often assists clients in performing trade secret audits to determine what trade secrets it owns, whether it is reasonably protecting them, and what to do if those trade secrets are stolen by others. If you have not done such an audit recently, you should. And don't forget information that you lawfully possess as a licensee or lawful user or even joint-owner. Know your rights, protect them, and then move swiftly if anyone else infringes upon them.

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