

# TRADE SECRETS IN AGRICULTURE

## AALA REGIONAL CONFERENCE

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# AGENDA

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- Statutes
- Misappropriation
- Protective Measures
- Litigation
- Looking Ahead

*This is made available for general informational purposes only and none of the information provided herein should be considered to constitute legal advice.*

## TRADE SECRETS

### DEFINITION

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- ❑ There are some business formulae, compiled information, and devices or processes which, though neither copyrighted nor patented, or not even novel, are kept as "trade secrets" of the user. Any secret information used in the conduct of the plaintiff's business which is of some competitive advantage to him, and which is not disclosed to the public, might be included.

Witkin, 7 *Summary of California Law*, at p. 5305.

- ❑ Equity provides a remedy where the information is kept secret and it is improperly obtained by the defendant. *Id.* at 5306.

# STATUTES

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**UNIFORM TRADE SECRETS ACT (UTSA)/  
CALIFORNIA TRADE SECRETS ACT (CTSA) –  
CAL. CIV. CODE § 3426 – 3426.11**

# TRADE SECRETS

## CALIFORNIA TRADE SECRETS ACT (CTSA)

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### ❑ Trade Secret:

“Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) Derives independent **economic value**, actual or potential, **from not being generally known** to the public or to other persons who can obtain economic value from its disclosure or use; and
- (2) Is the subject of **efforts** that are **reasonable** under the circumstances to **maintain its secrecy.**”

CA Civil Code § 3426.1(d)

### KEYS:

1. Economic value
2. Secrecy
3. Competitive advantage

# TRADE SECRETS

## VS. OTHER INTELLECTUAL PROPERTY

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### PROS

- Potentially infinite duration
- No disclosure requirement – MUST not disclose!
- No need to file or register
- No novelty requirement
- Less expense early in life

### CONS

- Subject to potential reverse engineering
- “Reasonable” efforts to maintain secrecy
- Inadvertent disclosure
- Misappropriation
- No presumption - Must identify & prove existence without (disclosing the trade secret)
- Enforcement is potentially costly over time

# TRADE SECRETS PROTECTION

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## Trade Secret Checklist - Key Areas

- Identification
  
- Documentation\*
  
- Procedures – Audit, Plan, Repeat
  - Label, Segregate, Secure
  - Educate: Orientation, Employment Manual, NDA, Memoranda, Exit Interview
  
- Involuntary or Inadvertent Disclosure

# TRADE SECRETS

## MISAPPROPRIATION

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### CA Civil Code § 3426.1

- Acquisition of a trade secret by someone who knows or has reason to know it was acquired by improper means, including by:
  - Theft
  - Bribery
  - Misrepresentation
  - Breach of duty; or
  - Inducement of breach of duty to maintain secrecy.
  
- Use or disclosure without consent after acquisition by improper means.
  
- **Statute of limitations** - Three (3) years. Cal. Civ. Code § 3426.6



## TRADE SECRETS

### REMEDIES

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- **Injunctive Relief:** Court orders defendant to cease violation and to preserve secrecy. Note potential First Amendment limitations. **Cal. Civ. Code § 3426.2.**
- **Damages:** Compensation for economic harm. Includes Plaintiff's losses and the defendant's profits derived from misappropriation.
- **Punitive damages** - Up to twice the actual damages in the event of willfulness. **Cal. Civ. Code § 3426.3.**
- **Attorneys' Fees:** Discretionary where defendant acted willfully or maliciously, or where plaintiff brought suit in bad faith. (Also available for a motion to terminate an injunction made or resisted in bad faith.) **Cal Civ. Code § 3426.4**

## TRADE SECRETS PREEMPTION

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**General Rule** – Claims for breach of contract are not preempted by the California Trade Secrets Act.

- UTSA does not affect contractual remedies, whether or not based on trade secret misappropriation.
- UTSA does not displace non-contractual claims, such as unfair competition, which are related to trade secret misappropriation, if the claims are independent of and based on facts distinct from those supporting the misappropriation claim.

*Angelica Textile Servs., Inc. v. Park, et al.*, 220 Cal. App. 4<sup>th</sup> 495 (Cal. App. 4<sup>th</sup> Dist. 2013)

# TRADE SECRETS

## LITIGATION

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### CCP § 2019.210 - THE BEST DEFENSE?

“before commencing discovery . . . the party alleging the misappropriation shall identify the trade secret with reasonable particularity.”

- Defense counsel: Do NOT allow discovery until plaintiff has satisfied this requirement
- Recourse: Motion to Compel Plaintiff to provide description of the asserted trade secret with reasonable particularity.
- **Reasonable Particularity:** (Inconsistent treatment.) Not required to set out the details.
- **Plaintiff’s Tip:** Avoid Catch-All Descriptions
- **(One) Policy:** Enable defendants to form complete and well-reasoned defenses, ensuring that they need not wait until the eve of trial to effectively defend against charges of trade secret misappropriation.

*Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 985 (S.D. Cal. 1999)

- **Strategy: Set Plaintiff up for MSJ.**

# TRADE SECRETS

## LITIGATION STRATEGY

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### STRATEGIC DEFENSE

- CCP § 2019.210** Request sent early in discovery.
- Depositions of Plaintiff witnesses – Identification of Trade Secret
- Problem: TS Definition is prone to gross inconsistency
- Strategic Option: Forego discovery dispute in favor of MSJ\*
- Basis: Failure to satisfy '2019 with reasonably particularity or *consistency*
- Advantage: Plaintiff cannot introduce further detail not included in the '2019 Statement
- Potentially catastrophic : Not limited to CTSA claims: “[E]xtends to any cause of action which relates to the trade secret.” *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal. App. 4th 826, 830 (2005)

# TRADE SECRETS LITIGATION

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## **Classic Wine Industry Paradigm:**

**Secrecy in Practices (Europe) v. Free Information Flow (U.S.)**

**Trade Secrets are more conducive to commercial industry than to academia, where ideas are more freely shared to spur rapid innovation...**

# TRADE SECRETS LITIGATION

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## ■ WINE INDUSTRY CASES

- ***Kendall-Jackson v. Steele* (Lake County Superior Court, 1992)**
  - Trade secret: Winemaking process - KJ Vintner's Reserve
  - "Slightly sweet" chardonnay ("Off dry")
  - Technique: Stop fermentation before natural grape sugar converts to CO<sub>2</sub>
  - Trade secret formula filed in Court - under seal
  - 30 day trial. Result: Permanent injunction. Cannot be used or divulged by winemaker to subsequent employers or clients.
  - KEY: Developed at the winery. Ergo, Formula belongs to winery, not winemaker.

# TRADE SECRETS LITIGATION

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## ■ WINE INDUSTRY CASES

- ***Domaine Serene v. Rynders* (Oregon Federal District Court, 2009)**
  - Trade secret: Winemaking process – Coeur Blanc (white wine from Pinot Noir grapes)
  - Technique: Pressing clear juice off of colored skins (not new)
  - Rynders was at-will, contract employee and under Employee Incentive Agreement
  - DS alleged breach of confidentiality, loyalty, fiduciary duty and misappropriation of trade secrets.
  - Alleged theft of computer files and documents
  - Settled out of court

## TRADE SECRETS LITIGATION

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### ***Domaine Serene v. Rynders* (Oregon Federal District Court, 2009)**

Winemaker Tony Rynders' written statement to the News-Register in McMinnville regarding private settlement with Domain Serene:

“While I am not at liberty to discuss the details, I can state:

- a) That the matter has been resolved to the satisfaction of both parties...
- b) That the parties have agreed to disagree on whether Domaine has (or does not have) any confidential, proprietary or trade secret information with respect to the white Pinot Noir wine it makes, but may make no further disclosure, comment or statement; and
- c) ...[A]greed not to make or consult on the making of white Pinot Noir wine for three years.”



# TRADE SECRETS

## DRAFTING CONSIDERATIONS

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1. **Confidentiality.** Neither Winemaker nor Client will disclose or use, either during or after the Term, any proprietary or confidential information of the other party, or of a party for whom Winemaker performs services, without the party's prior written permission except to the extent necessary to the performance of Winemaker's Services. Proprietary or confidential information includes, but is not limited to:

- (a) the written, printed, graphic or electronically recorded materials;
- (b) business plans, customer lists, operating procedures, trade secrets, design formulas, know-how and processes, computer programs and inventories, discoveries and improvements of any kind; and
- (c) information belonging to customers and suppliers of Client about whom Winemaker gained knowledge as a result of Winemaker's Services to Client.

A party will not be restricted in using any material that is publicly available, already in that party's possession or known to the party without restriction, or which is rightfully obtained by the party from other sources.

# TRADE SECRETS

## DRAFTING CONSIDERATIONS

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- Require: **\*Assignment of Rights\***
- Agreement itself and its terms should be Confidential
- Require notification (advance, if possible) in the event of disclosure
- If disclosure is required – require reasonable efforts to seek confidential treatment
- Require recipient to keep records of all trade secrets developed or subject to assignment
- Prohibit removal of TS info from the premises
- Prohibit hindering/preventing access to TS info (e.g., IT access)
- Require return of TS materials upon termination
- Require written disclosure of anything developed while with the company
- Require disclosure/assignment inventions, etc. developed within 6 mos. – 1 year (inc. patent applications)
- Take heed: Cal. Lab. Code § 2870

# TRADE SECRETS

## DRAFTING CONSIDERATIONS

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**Cal. Lab. Code § 2870.** Application of provision that employee shall assign or offer to assign rights in invention to employer

**(a)** Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

**(1)** Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

**(2)** Result from any work performed by the employee for the employer.

**(b)** To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

# TRADE SECRETS

## CRIMINAL LAW

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### **Economic Espionage Act of 1996 - Criminal Penalties**

#### **18 U.S.C. § 1831 - Economic Espionage**

- Foreign government beneficiary
- Maximum individual sentence/fine: 15 years imprisonment/\$5 million.
- Maximum organizational fine: Not more than the greater of \$10 million or 3 times the value of the stolen trade secret.

#### **18 U.S.C. § 1832 - Trade Secrets Theft (Industrial Espionage)**

- Beneficiary must be anyone other than the owner of the misappropriated trade secret(s)
- Maximum individual sentence/fine: 10 years imprisonment/\$250,000 or an alternative fine based on gain/loss figures.
- Maximum organizational fine: \$5 million

# TRADE SECRETS

## CRIMINAL LAW

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### **Economic Espionage Act of 1996**

#### **Criminal Forfeiture**

The court may order the violator to forfeit to the United States any (1) property constituting, or derived from, any proceeds the person obtained directly or indirectly, as the result of the violation, or (2) property used, or intended to be used, in any manner or part, to commit or facilitate the commission of the violation.

#### **Civil Proceedings – Injunctive Relief**

In a civil action, the Attorney General may obtain appropriate injunctive relief to prevent the offense. The District Courts of the United States have exclusive original jurisdiction of civil actions.

# TRADE SECRETS

## HOT TOPICS

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### Emerging Federal Legislative Framework

- Currently: Exclusive recourse via state UTSA framework
- Last year:
  - Senate Bill 2267 - “Defend Trade Secrets Act of 2014”
  - House of Representatives (H.R. 5233) - “Trade Secrets Protection Act of 2014”
- Problem addressed : Lack of “uniformity” – e.g., Uniform nationwide corporate nondisclosure policies
- Goal: Bring Trade Secret law in line with federal law applicable to other forms of IP
- Effect: Increased court powers (e.g., preservation orders), statute of limitations, damages
- Purported Benefit: Clear path to federal court.

## TRADE SECRETS

### HOT TOPICS

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- **Data Breach**
- **The Cloud**
- **Public Access via Agency FOIA/Sunshine Act Requests**
- **Trans-Pacific Partnership**

THANK YOU

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