

## Lights, camera ... trade secrets action

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APRIL 27, 2023

With fast-paced litigation, highly sensitive intellectual property and the potential for criminal-level misconduct, trade secrets are among the flashiest areas of the law. It's no wonder that the practice has even attracted the bright lights of La-La Land. This article highlights the trade secrets lessons to be learned from five of Hollywood's biggest hits.

### **Breaking bad**

While it's the criminal implications of operating an illegal drug business that people usually think of first, *Breaking Bad* revolves entirely around a trade secret and Walter White's transformation from high school science teacher to criminal drug lord.

Using his chemistry background, Walt devises a new formula to create the highest available quality of crystal meth. Given this edge, Walt constantly struggles to stay ahead of law enforcement and rival dealers.

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Putting aside the illegality of his product, Walt's formula is the classic example of a trade secret. To qualify as a "trade secret," information must meet three requirements under the federal Defend Trade Secrets Act ("DTSA").<sup>1</sup>

First, the information must derive value from not being generally known. Walt's formula is obviously valuable — he is able to sell his product at a premium because it's the best on the market, and he's the only producer. Other manufacturers don't know the recipe and can't duplicate his product.

Second, others must be able to obtain economic value from the disclosure of the information. *Breaking Bad* provides ample examples of the lengths to which rival drug dealers will go to get Walt's formula, including one drug lord, Gus, offering him \$3 million to teach his team the formula. When Walt calculates that this proposal will net Gus \$96 million, it's clear how sizeable the economic value would be to others if the formula were disclosed.

Finally, the owner must take reasonable measures to keep the information secret. This is where most of *Breaking Bad's* drama takes place because Walt will do almost anything to protect his secret "product" formula.

Initially, this is easy for Walt because the formula resides solely in his head. But as his business grows, Walt needs others to help him make more of his product to meet the rising demand, which means that he has to share his formula with those assisting in the manufacturing process.

This is a dilemma that all businesses routinely face. A company must maintain the secrecy of its trade secrets, but to operate on any sort of scale, it must also simultaneously disclose the secrets to employees. Thankfully, the law recognizes this reality.

A trade secret doesn't lose its protection by virtue of the owner disclosing it to employees, so long as the owner exercises reasonable care in doing so. This is principally accomplished by disclosing the trade secret only to employees with a need-to-know and an obligation to maintain the secrets' confidentiality.

Walt performs this balancing act first by disclosing the formula only to his business partner, Jesse Pinkman, and later, by disclosing the formula to Gale, a chemist working for Gus. Neither of these disclosures threatens the secrecy of the formula, because: (i) Jesse is Walt's partner and Gale is Walt's co-worker; and (ii) both Jesse and Gale need the formula to do their jobs (*i.e.*, produce Walt's product).

However, things do not go according to plan after Walt discloses the formula to Gale. Unbeknownst to Walt, Gale writes the formula in a notebook, which he brings home and leaves unsecured on his coffee table. When Gale is murdered, the police discover the notebook and the formula.

Gale's actions underscore the importance of training employees on how to handle company trade secrets. Walt should have instructed Gale not to take the formula home and to instead leave it in a secure location within the lab, such as a password-protected/encrypted computer or a locked safe.

In addition to Gale, another threat arises when a rival drug cartel kidnaps Jesse and forces him to teach its members the formula. This is the scenario that companies worry about most when entrusting trade secrets to employees; not that they will be kidnapped *per se*, but that employees who know the company's most valuable trade secrets will work with competitors.

In *Breaking Bad*, this problem is solved by murdering the rival cartel members to whom Jesse taught the formula. Although this may have a certain narrative appeal within the fictional world of *Breaking Bad*, obviously, this is not a viable option in the real world.

Instead, companies should use non-disclosure agreements (“NDAs”) to proactively prevent a competitor from learning their trade secrets. Requiring new and current employees to execute NDAs obligates the employee to protect the trade secret and provides the company with legal recourse if this obligation is breached.

### **Elf**

A slightly lighter production, *Elf* stars Will Ferrell as Buddy, a man who grows up in the North Pole under the mistaken belief that he is one of Santa’s elves. Upon learning the truth, Buddy travels to New York City to find his father, Walter Hobbs, an executive at a children’s book publisher. In addition to teachings about the holiday spirit and family, *Elf* also offers important lessons about protecting trade secrets.

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*The DTSA recognizes two situations in which an individual will not be held criminally or civilly liable for disclosing trade secrets: when disclosure is made in confidence and when disclosure is made in a complaint or other sealed document.*

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With Walter under immense pressure to save the publishing company, he hires a consultant, Miles Finch, to brainstorm new book concepts. When he meets with Walter, Miles brings with him a black book containing his story ideas. Miles presents to the publishing company a handful of these ideas but withholds his best concept: a story about a vulnerable peach.

When Buddy interrupts Walter and Miles’ meeting, he finds himself in a hilarious situation in which he refers to Miles as “an angry elf”<sup>2</sup> and ends with Miles abruptly storming out — and mistakenly leaving his black book behind. When Walter’s employees discover Miles’ peach idea, they recognize its genius and take steps to use the ideas in a new book.

Although we don’t see Miles’ reaction in the movie, one can guess that he would be irate and wonder what legal recourse he might have against the publishing company for stealing his idea. The answer is an action for theft of trade secrets under the DTSA<sup>3</sup> or similar state law.

Whether Miles’ claims would be successful, however, is a different question. While the DTSA prohibits misappropriation of secrets, just like Walt White’s formula, Miles’ idea must qualify as a “trade secret” to be protected.

Assuming Miles could establish the first two elements of a “trade secret,” Miles may struggle to prove that he took reasonable measures to keep the idea secret, given that he told Walter about the black book and then left it out in the open where anyone could find his ideas. Luckily for Miles, even if trade secrets are somewhat available, others do not have the right to *steal* them.

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*Companies must regularly audit their trade secrets to know what exactly they entail, who has access to the secrets and where the secrets are stored.*

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Even more problematic than what Miles *did* do in leaving the black book behind, is what Miles *didn’t* do. Specifically, Miles did not plan ahead and enter into an NDA with the publishing company before sharing his ideas. Had he done so, despite leaving the black book behind, Miles would have a much stronger argument both that his idea qualifies as a trade secret and that the publishing company misappropriated it.

### **13 Going on 30**

It isn’t often that a romantic comedy sets the stage for a trade secrets lesson, but thanks to a Hollywood-style twist, *13 Going on 30* does just that. Beginning in 1987, the movie introduces Jenna Rink, a 13-year-old celebrating her birthday with her best friend, Matty, and fellow classmates. After mean-girl Lucy turns Jenna’s birthday party into a humiliating fiasco, Jenna uses magic wishing dust from Matty to wish that she was 30.

To Jenna’s surprise, the dust works, and Jenna wakes up 17 years later at the age of 30. Jenna has no memory of her life after her 13th birthday, but she eventually learns that she, along with her enemy-turned-friend Lucy, is a co-editor at her favorite childhood magazine, *Poise*. In contrast to the 1980s, present-day *Poise* is struggling to compete with rival magazine, *Sparkle*.

Thanks to an unnamed informant, *Sparkle* has scooped *Poise*’s covers and content for the last seven months. With *Poise*’s readership dwindling, the magazine must undergo a redesign. Jenna develops a yearbook-inspired proposal, but before she can pitch the theme, Lucy steals the design idea and uses it to become *Sparkles*’ new editor-in-chief.

As a result, it appears *Poise* must close its doors for good.

In a devastating twist, Jenna is revealed to be the informant. Before her younger self used the magic wishing dust, Jenna struck a deal with *Sparkle* to become its editor-in-chief in exchange for sharing *Poise*’s secrets. As shocking as Jenna’s actions are, they highlight a valuable trade secrets lesson: owners must proactively and timely act to protect their trade secrets, especially when there’s reason to believe the secrets have already or will soon be disclosed.

Here, *Poise* knew for more than seven months that someone was feeding its confidential cover and content information to *Sparkle*.

Despite that knowledge, the magazine took almost no actionable steps to protect itself from continuing harm. When *Poise* first suspected that someone was leaking its confidential information to *Sparkle*, the magazine should have immediately engaged outside counsel, begun a formal investigation and tightened security measures around future content.

With *Poise* ultimately going out of business, *13 Going on 30* serves as a good reminder that the longer a potential disclosure of trade secrets goes undetected, the more damage it can cause.

### Michael Clayton

This legal thriller stars George Clooney as title character, Michael Clayton, an attorney and fixer at a large law firm. Among Michael's firm colleagues is Arthur Edens, a brilliant litigator and lead counsel defending U-North, a large agrochemical company, against a class action lawsuit regarding use of an alleged cancer-causing product.

Although a suspicious warehouse fire destroys many of U-North's relevant documents, Arthur obtains a copy of a damaging internal research memorandum. The memo confirms that the product is carcinogenic, that it would be costly for U-North to make the product less harmful and, as such, U-North intends to continue to use the product as-is.

Presented with this evidence, Arthur decides to use the memo to build a case against U-North. While Arthur's actions clearly raise legal ethics concerns, U-North's response of hiring a hit man to follow and murder Arthur is more than a little troubling. The actions Arthur takes before his murder, however, serve as a good reminder of the protections available for trade secrets whistleblowers.

Knowing that he is in trouble, Arthur copies the memo and records a voicemail reading the memo's contents. U-North claims that its manufacturing process and internal research are trade secrets, but Arthur's actions beg the question: even with NDAs and other protections in place, are there circumstances under which the law permits disclosure of trade secrets?

The unequivocal answer is yes.

The DTSA recognizes two situations in which an individual will not be held criminally or civilly liable for disclosing trade secrets.<sup>4</sup> First, when disclosure is made in confidence to a federal, state, or local government official, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of the law. Second, when disclosure is made in a complaint or other document filed under seal in a lawsuit, and there are other protections available under the law.

Protections may also be available under state laws. For example, California's Silenced No More Act<sup>5</sup> broadly prohibits confidentiality and non-disparagement clauses but allows employers to prohibit disclosure of trade secrets, so long as such secrets do "not involve illegal conduct."<sup>6</sup> Arthur's efforts to sabotage his own client's case may not be the best example, but it reinforces that while companies have certain protections for trade secrets, so, too, do whistleblowers.

### Raiders of the Lost Ark

Harrison Ford stars in this action-packed movie as archeologist, Indiana Jones, whom the U.S. government has engaged to find the long-lost Ark of the Covenant. Indy is not alone in his search for the Ark, which the Book of Exodus describes as a gold-covered wooden chest meant to hold the Ten Commandments.

Nazis and rival archaeologist, Rene Belloq, are also on the hunt. Believed to be a radio for speaking to God, it is vital that Indy finds the Ark first, for "the army that carries the Ark before it is invincible."<sup>7</sup> While religious and historical teachings abound in this first installment of the *Indiana Jones* series, also noteworthy are the movie's three trade secrets lessons.

First, as Belloq tells Indy, "There's nothing you possess that I cannot take away. And once again, Jones, what was briefly yours is now mine."<sup>8</sup> Such is the truth for trade secrets as well; if an owner doesn't take adequate measures to protect its trade secrets, the secrets are bound to become someone else's.

Second, after Indy eventually finds the Ark, he delivers it to U.S. government officials for safekeeping. Although the officials tell Indy that the Ark will be kept somewhere safe, the movie ends with the wooden crate containing the Ark being stored in a nondescript warehouse with thousands of other nearly identical wooden crates. The officials clearly do not understand the Ark's significance; for if they did, they would have stored the Ark so that it could not be easily lost or intermingled with unimportant crates.

Unlike the Ark, trade secrets should only be accessed by employees who understand the secrets' significance. It is vital that companies train employees on just this, as well as how best to store trade secrets to maintain their secrecy.

Finally, this final scene is also a reminder that companies must regularly audit their trade secrets to know what exactly they entail, who has access to the secrets and where the secrets are stored.

### Conclusion

Unlikely as it may seem, pop culture is rife with valuable trade secrets teachings.

Regardless of size, industry or type, all businesses should remember these lessons from Tinseltown the next time they're faced with trade secrets questions:

- Plan ahead and take reasonable measures to protect your trade secrets, such as using NDAs, and password-protected/encrypted storage systems. What is reasonable to protect one company's trade secrets may not be reasonable for another.
- Conduct frequent audits to identify and inventory trade secrets.
- Separate trade secrets so that they are only available to employees with a need-to-know.
- Train employees on trade secret policies/best practices and conduct exit interviews to remind employees of any continuing obligations.

- While it might be tempting, don't resort to self-help techniques after a trade secrets disclosure. That only works in the movies. Although you can't call Ghostbusters, you can (and should!) call outside counsel.

<sup>3</sup> 18 U.S.C.A. § 1836(b) (West 2023).

<sup>4</sup> 18 U.S.C.A. § 1833(b)(1) (West 2023).

<sup>5</sup> Cal. Gov't Code § 12964.5 (West 2023).

<sup>6</sup> *Id.*

<sup>7</sup> Raiders of the Lost Ark (Paramount Pictures and Lucasfilm 1981)

<sup>8</sup> *Id.*

## Notes

<sup>1</sup> 18 U.S.C.A. § 1839(3) (West 2023).

<sup>2</sup> Elf (New Line Cinema 2003).

## About the authors



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This article was first published on Westlaw Today on April 27, 2023.