

WEDNESDAY, OCTOBER 7, 2020



Trade Secret Protection Gone Rogue

The Walter White Case Study

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Walter White perfected a recipe for cooking crystal meth that revolutionized the drug trade, and his fictional efforts to protect his secret recipe gained worldwide attention. White's enterprise illustrates a number of lessons for companies seeking to protect trade secrets.

Under the Defend Trade Secrets Act, information must meet three requirements to earn trade secret protection: (1) it derives value from not being generally known; (2) others can obtain economic value from its disclosure or use; and (3) the owner took reasonable measures to keep it secret. 18 U.S.C. Section 1839(3). Walter White's infamous journey provides a useful construct for examining protection of trade secret information.

All trade secrets share one thing in common — their secrecy. Initially, White had his recipe entirely within his head — undoubtedly nonpublic. As White's business

grew, he needed help to produce enough product to meet demand, so he had to disclose his secret recipe to three others to assist with manufacturing. Businesses of all types face this same dilemma of maintaining secrecy while needing to disclose trade secrets to employees or business partners. A trade secret does not lose its protection by the owner disclosing it to employees or business associates with a need to know, as long as they have obligations to maintain its confidentiality. White's disclosures demonstrate this principle. Although White's wayward business partner and lab assistant Jesse Pinkman learned

the recipe, he held it close within his partnership with White. While Pinkman taught the recipe to rival cartel members, Gus Fring subsequently murdered them, eliminating threat of improper disclosure. Similarly, White's disclosure to his understudy Gale Boetticher did not destroy the recipe's secrecy because they were coworkers in Gus Fring's business organization. Nor did White's disclosure to Todd Alquist destroy the secrecy because Alquist was a coworker assisting White's production.

Pinkman eventually murdered Boetticher because Boetticher's knowledge of the secret recipe threatened to put White and

Pinkman out of business for life. Fortunately, most companies have more peaceful solutions to prevent intra-company conflicts about trade secret ownership. For example, many businesses use invention disclosure agreements, or IDAs, which assign all intellectual property created by employees to the company. IDAs prevent employees from walking away with trade secrets and avoid disputes about ownership that otherwise could end in expensive litigation. Similarly, businesses use nondisclosure agreements, or NDAs, to prevent employees who gain access to company trade secrets from using or sharing that

information with future employers or the public.

These strategies are equally important to implement with business partners and executives. Pinkman was forced to teach a competitor cartel how to make crystal meth. If these competitors had not been murdered by Gus Fring, this disclosure may have destroyed the secrecy of the recipe. Companies may face similar issues — in which one member of a collaboration leaves to start her own company or work for a competitor. To avoid questions about trade secret ownership in such cases, IDAs and NDAs help companies protect IP rights in the event of the departure of a business partner or company leader. In the absence of such agreements, a company's trade secrets face uncertain fate.

Trade secret protection analysis boils down to whether the trade secret would be useful to a competitor and would require cost, time, and effort to duplicate. White, a highly-qualified chemist, previously co-founded a multi-billion dollar company based on a high tech invention he developed with a college friend. When he turned to meth production, his talent served as the foundation of his business. The purity of White's product indicates that his recipe would be difficult to reproduce, and its popularity and profitability show the usefulness of the secret recipe to a competitor. Hank Schrader, White's DEA agent brother-in-law, said it was the purest meth the DEA had ever seen; sophisticated chemist Gale Boetticher stated that its purity was beyond anything he had seen or could produce; and Jesse Pinkman, a meth consumer himself, called it "the best shizz ever." Boetticher's comment that the extra 3% purity of White's product may not sound like a lot, but was "tremendous", and Todd Alquist's inability to achieve the same high level of purity also demonstrate the difficulty of duplicating White's recipe. White's

product had massive earning potential: Fring offered White \$3 million to cook for three months, and White calculated Fring would make \$96 million from his efforts. Moreover, the fact that various competitors fought over White's innovation evinces its value to a competitor and difficulty to duplicate.

While White did not patent his innovation, most major companies do. So why do some companies that have built their multi-billion dollar brands on a trade secret, such as Coca Cola and KFC, not patent them? While each company may have their own reasons, the answer likely lies in the fact that trade secrets confer a number of advantages that patents do not. For example, trade secrets have protection indefinitely, while patents are only protected for 20 years. Trade secrets remain secret (so long as appropriate procedures are in place), as opposed to patents, which are published for the whole world to study, dispute in court, and improve upon. Trade secrets are not susceptible to *Alice* patentability challenges. See *Alice v. CLS Bank Int'l* (2014). Furthermore, trade secrets avoid the formalities, expenses, and waiting periods of patent registration — which can take several years. Trade secrets may not provide appropriate protection in all cases, for example failing to patent an invention

may result in a rival reverse engineering the secret, so companies should determine whether to patent on a case-by-case basis.

Courts conduct a fact-intensive analysis when determining whether a company made "reasonable efforts" to maintain a trade secret's secrecy, often taking into account a company's size and resources. White and Pinkman ran a relatively small operation and worked in remote areas (e.g., an RV in the middle of the New Mexico desert, the basement of a laundromat, and fumigated houses) to prevent others, including law enforcement, from learning their recipe. When the police obtained a video recording of the trade secret (and their identities), White and Pinkman spent significant time and money on a very large magnet to destroy the recording. Without even considering the lives sacrificed to keep the recipe secret, they made significant efforts in light of the small size of their operation. In contrast, Gale Boetticher did not follow best practices for protecting trade secret information. He wrote the secret recipe down in his lab notebook, which he left unsecured on his coffee table, where the police discovered it after his murder.

Fortunately, American businesses ordinarily do not have to take such extreme or criminal measures as White and Pinkman did to protect their trade secrets. Companies should clearly identify

and mark trade secret documents "confidential" so that employees know not to disclose them to unauthorized personnel. Moreover, employers should stress the importance of maintaining confidentiality by requiring employees to sign nondisclosure agreements and holding regular trainings. Finally, restricting employee access to trade secrets, encrypting trade secret data, placing restrictions on USB port usage, monitoring email use, and requiring password protection also help prevent misappropriation. Even just a few of these techniques could have prevented Boetticher's inadvertent disclosure.

When a rival drug operation kidnapped Pinkman for his trade secret knowledge, Walter White's lawyer Saul Goodman advised him to skip town. Legitimate businesses who have had trade secrets stolen better not call Saul. Instead, they should hire experienced trade secret litigators to investigate pursuing a misappropriation lawsuit against the responsible parties. The court system will remedy theft of trade secrets — with injunctions, civil seizures, and monetary remedies — better than vigilante justice. ■

The views and opinions set forth herein are the personal views or opinions of the authors; they do not necessarily reflect views or opinions of the law firm with which they are associated.

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