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Got Trade Secrets? New Case Highlights Options In Pursuing People Who Steal Them

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When an employee with access to a company's trade secrets leaves to work for a competitor, the employer inevitably wonders what they may have taken with them on their way out the door. Fortunately, the answer is usually "nothing." Occasionally, however, employees take information they believe will help them in their new jobs. Still worse are those nightmare scenarios in which employees take information to benefit their new employers.

A new court decision out of Pennsylvania addresses one such nightmare scenario and provides a handy guide of options for employers.

Facts of the Case

The case, *Magnesita Refractories Company, et. al v. Tianjin New Century Refractories*, Civil Action No. 1:17-cv-1587 in the Middle District of Pennsylvania, concerns a company that manufactures refractory materials (these are heat-resistant items – and yes, I admit I had to look that up) for use with various products, including bricks. Way back in 1980, when the company hired the defendant employee, it asked him to sign a "secrecy agreement." Over the years, the agreement morphed into something more akin to what we might recognize as a confidentiality and non-competition agreement that he re-signed in 2003.

The employee held various positions supervising the research and

development of the company's products. In one of his jobs, the employee was stationed in China where he met several similar Chinese-based companies, including one that owned a U.S. subsidiary which, coincidentally, was a direct competitor of the plaintiff.

In 2014, the employee returned to the U.S. in his new position as "research and development and quality control director." After a few months, he retired. Soon after, he began working with company's direct competitor.

On his way out the door, the employee allegedly forwarded emails containing trade secrets and confidential information to his personal email account. He also allegedly downloaded a treasure trove of proprietary information to an external hard drive. According to the plaintiff, the employee handed this data over to his new employer, which is using it to make bricks based on the plaintiff's proprietary information.

Magnesita sued the former employee, his new employer, and its Chinese-based parent companies, claiming misappropriation of trade secrets in violation of the federal Defend Trade Secrets Act, racketeering, and unfair competition. The defendants filed a motion to dismiss the lawsuit.

Misappropriation of Trade Secrets

The Defend Trade Secrets Act (DTSA), which took effect in May 2016, defines misappropriation as the "acquisition of the trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means," or the "disclosure or use of a trade secret without express or implied consent."

The former employee and his new company argued that the alleged misconduct pre-dated DTSA. But Magnesita's complaint was not limited to the improper taking of information in 2014; it also alleged the defendants were still using the stolen trade secrets. Because that conduct could have occurred after May 2016, the DTSA claim survived.

Racketeering

Magnesita paired its DTSA claim with a Racketeer Influenced and Corrupt Organizations (RICO) claim. Under the RICO statute, one must allege (1) the existence of an enterprise affecting interstate commerce, (2) that the defendant was associated with the enterprise, (3) that the defendant participated in the conduct or affairs of the enterprise, and (4) that the defendant participated through a pattern of racketeering activity that include at least two predicate acts. And, of course, stealing trade secrets can be racketeering activity.

The federal court disagreed. At the time the employee downloaded the data in 2014, the DTSA was not yet law. The court also rejected the argument that each and every brick made using the allegedly purloined trade secrets constituted a separate predicate act, or that each and every file the employee downloaded was separate predicate act. In the court's view, that would transform every trade secrets case into a RICO matter.

Conversion and Conspiracy

Magnesita fared better with these counts. The court allowed the conversion claim because the plaintiff alleged that the employee had stolen its trade

secret and confidential information for the purpose of delivering the data to the defendants.

Likewise, the court also allowed the conspiracy count because the plaintiff not only alleged that the employee and his new employer had acted with a common purpose, but also identified an underlying intentional tort or criminal act – the theft of trade secrets and confidential information. In doing so, the court also rejected the defendants' argument that a conspiracy could not be formed by a company with its own employee because the alleged theft of the trade secrets and confidential information occurred while he still was employed by the plaintiff.

Bottom Line

While this case still is in its early stages, this initial opinion reminds employers of their options when dealing with faithless employees (and claims like racketeering, which may be a bridge too far).

The opinion also illustrates the importance of conducting forensic examinations of employees' e-mail and computer files if there is even a hint that they may have taken something. Much of the court's decision hinged on the fact that the company knew the employee improperly transmitted information to himself by e-mail and downloaded it to a thumb drive on his way out the door. The only way the employer knew that was through the prep work that it conducted before filing the lawsuit.