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Client Advisory

And Now for Something Completely Different: Third Circuit Upholds Damages Claim For Misappropriation of Trade Secrets

Last week, the Third Circuit issued an opinion on trade secrets that examines the difference, if any, between owning and simply possessing a trade secret for the purposes of bringing a misappropriation claim. This decision has implications for contractors and subcontractors who develop confidential materials while performing a contract.

In the case, a company, Advanced Fluid Systems ("AFS"), contracted with the Virginia Space Flight Authority ("Authority") to build, install, and maintain a system for a NASA rocket launch facility. The contract between the parties stated that any materials generated during performance of the contract would be the property of the Authority. The nature of the work required AFS to create and utilize trade secrets, which, under the contract, were owned by the Authority.

Little did AFS know that one of its employees was working with a competitor against AFS's interests. In the court's words, the case presented a "sorry story of disloyalty and deception piled upon deception." *Advanced Fluid Sys., Inc. v. Huber*, 2020 WL 2078298, at *1 (3d Cir. Apr. 30, 2020). This included providing the competitor with confidential documents and drawings, as well as sabotaging AFS's efforts to obtain subsequent bids from the Authority's successor company. Eventually, the employee left AFS and formed his own company, while continuing to use the trade secrets he obtained through his employment with AFS.

AFS sued a number of defendants, including the former employee, for misappropriation of trade secrets under Pennsylvania law. After a bench trial, the district court ruled for the plaintiff and awarded AFS compensatory and punitive damages. The Third Circuit affirmed.

The defendants argued that AFS did not have standing to bring a trade-secrets claim because, under its contract with the Authority, AFS did not actually own any of the confidential materials at issue. For its part, AFS argued that it did not have to own the trade secrets, as possession of them was sufficient to bring a claim.

In rejecting the defendants' argument, the court noted that the text of Pennsylvania's Trade Secrets Act (which is modeled off of the Uniform Trade Secrets Act) does not state that the plaintiff must own the trade secrets. While a party who owns a trade secret can certainly bring a claim against someone who misappropriates that trade secret, a party in possession of the trade secret also has a protectable interest because the value of the trade secret derives in part from its secrecy.

Here, pursuant to its contract with the Authority, AFS legally possessed the trade secrets in question. As this case makes clear, a party who legally possesses (even if it does not own) a trade secret can suffer significant damage if that trade secret is misappropriated. The former employee used the trade secrets here in a way that prevented AFS from securing a contract that it may have otherwise been able to obtain.

The factual underpinnings of this case are common. Many contractors and subcontractors must work with or develop trade secrets by virtue of the work that they contract to do, even if legal ownership of the trade secrets rests with another. It is important for them to remember that they can be damaged if those trade secrets are misappropriated.

If you have any questions about this case, or need advice about trade secrets in general, please contact Group Chair Thomas A. Muccifori at (856) 354-3056, Deborah A. Hays at (856) 354-3089, or any member of Archer's Trade Secret Protection and Non-Compete Group in Haddonfield, N.J., at (856) 795-2121, in Hackensack, N.J., at (201) 342-6000, or in Philadelphia, Pa., at (215) 963-3300.