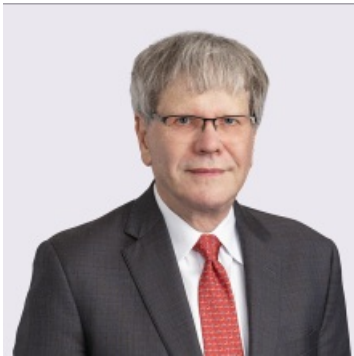


Manufacturers of Custom Products Protecting Trade Secrets Involved in Production Process

By James M. Stone & Zachary A. Ahonen

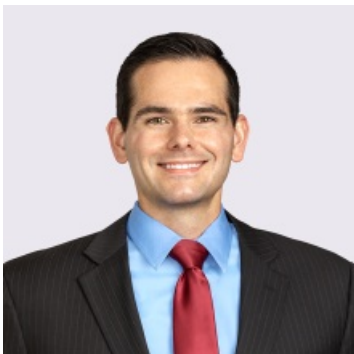
December 27, 2022

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Manufacturers wanting to protect their trade secrets, especially those related to the production of custom products made for specific customers, should consider some general practices that can increase the likelihood of keeping valuable information out of the hands of competitors.

The challenges in maintaining confidentiality often stem from both the manufacturer's relationship with its customers or third parties and its relationships with its employees or contractors. Fortunately, manufacturers can decrease the chances of losing their competitive edge by proactively mapping out a strategy for protecting their trade secrets.

Protectability

Under the Defend Trade Secrets Act (DTSA), 18 U.S.C. § 1836, *et seq.*, a trade secret is defined as:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

- A. the owner thereof has taken reasonable measures to keep such information secret; and
- B. the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information

18 U.S.C. § 1839(3).

Additionally, every state, except New York and North Carolina, has enacted a version of the Uniform Trade Secrets Act (UTSA). [See Trade Secrets Act - Uniform Law Commission \(uniformlaws.org\)](#). Generally, these state versions define trade secrets similarly to the DTSA and include language requiring a trade secret be the subject of reasonable efforts to maintain its secrecy and derive independent economic value from not being known to the general public or readily ascertainable through proper means. *See, e.g.*, Ind. Code § 24-2-3-2; Md. Code, Com. Law § 11-1201(e); Ohio Rev. Code § 1333.61(D). Despite these comprehensive definitions, many courts have explained that what amounts to a trade secret is one of the most elusive and difficult concepts in the law to define.

What courts have held constitutes a trade secret under the DTSA and state versions of

the UTSA tends to be highly fact-specific. Some illustrative examples of trade secrets companies involved in the manufacturing process have successfully protected include:

- The recipe, specifications, manufacturing process, and assets used to make chicken chips. *See Monogram Snacks Martinsville, LLC v. Wilde Brands, Inc*, No. 4:20-cv-00030, 2022 U.S. Dist. LEXIS 11400, at *22-24 (W.D. Va. Jan. 20, 2022) (under both the DTSA and Virginia’s version of the UTSA);
- The compilation and unified manufacturing process of cleaning procedures, temperature settings, safety protocols, and equipment calibrations. *See 3M v. Pribyl*, 259 F.3d 587, 596 (7th Cir. 2001) (under Wisconsin’s version of the UTSA);
- The identity and particular combination of the components selected and used in the development and manufacturing of a permanently lubricated sootblower carriage, including the types of bearings, the hardness of the bevel gears, the bevel gear coatings, and the types of oils and greases used. *See Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 23 1322, 1337 (N.D. Ga. 2007) (under Georgia’s version of the UTSA);
- The specific instructions on how to prepare and manufacture a particular tire, including a unique layout of steel and nylon reinforcing materials, and a phased method of construction using specific types of rubber. *See OTR Wheel Eng’g, Inc. v. West Worldwide Servs.*, 602 Fed. Appx. 669, 671-72 (9th Cir. 2015) (under Washington’s version of the UTSA); and
- The product recipes and production techniques for an energy drink. *See Bodemer v. Swanel Beverage, Inc.*, 884 F. Supp. 2d 717, 723-28 (N.D. Ind. 2012) (under Indiana’s version of the UTSA).

Loss of Protection

Businesses of all kinds risk the loss of the ability to protect their trade secrets due to the actions of employees and contractors or failing to take reasonable protective measures. Manufacturers of custom products have an additional challenge. This is because the introduction of additional customer or third-party input and control over the manufacturing process necessarily involves less control over the process by the manufacturer.

CMI Roadbuilding, Inc. v. SpecSys, Inc., No. CIV-18-1245-G, 2021 U.S. Dist. LEXIS 101527 (W.D. Okla. May 28, 2021), illustrates this point. In *CMI*, SpecSys agreed to manufacture mobile equipment and provide related design and engineering services to CMI. The parties entered into confidentiality and nondisclosure agreements that governed their relationship. Once the relationship soured, CMI sued SpecSys, alleging it had misappropriated CMI’s trade secrets by retaining the engineering documents SpecSys created for CMI. The court determined the retention of the engineering documents by SpecSys — even after CMI subsequently withdrew permission — without more, did not amount to misappropriation under either the DTSA or Oklahoma’s version of the UTSA. As a result, even though CMI had taken measures to protect its trade secrets, its relationship with SpecSys left open the potential for the loss of its trade secrets.

The DTSA and state versions of the UTSA require the owner of a trade secret to take reasonable measures to keep such information secret. What do courts consider to be

reasonable measures? That analysis varies based on case-specific circumstances, as well. For example, what amounts to reasonable measures for small operations can be different from what is reasonable for a large company. The following examples illustrate what courts have considered unreasonable measures to protect the secrecy of a trade secret:

- Seller of high pressure gas regulators did not take reasonable measures to keep information secret because it provided engineering drawings to a manufacturer as part of bidding process without any legend or markings indicating the drawings were confidential, never informed the manufacturer the seller considered the drawings confidential, never requested the manufacturer enter into a confidentiality or nondisclosure agreement, and never asked the manufacturer to return the drawings after the conclusion of the bid. *See Flotec, Inc. v. Southern Research*, 16 F. Supp. 2d 992, 1004-05 (S.D. Ind. June 9, 1998) (under Indiana’s version of the UTSA); and
- Manufacturer did not take reasonable measures to keep its engineering data book secret because its employees would regularly fax or email copies of pages to anyone who called with questions about its axles, including direct customers, and permitted employees to retain copies at the end of employment. *See Dana Ltd. v. Am. Axl & Mfg. Holdings*, No. 1:10-CV-450, 2013 U.S. Dist. LEXIS 116899, at *32-34 (W.D. Mich. Aug. 19, 2013) (under Michigan’s version of the UTSA).

Developing a Plan

Ultimately, developing a plan for protecting trade secrets — and frequently revisiting and updating that plan — is the most effective way for manufacturers of custom products to best position themselves to protect their trade secrets. A company’s plan should be custom fit to its particular business and economic realities.

When mapping out its plan, manufacturers of custom products should at least consider:

- Nondisclosure and confidentiality agreements with third parties involved in the manufacturing or design process;
- Noncompetition, non-solicitation, and confidentiality agreements with employees and contractors;
- Confidentiality language in employee handbooks and policies;
- Physical security measures, such as locks, security cameras, and on-site security;
- Document maintenance, retention, and destruction policies;
- Limiting information, designs, documents, and computer access to individuals who need to know the information;
- Investing in industry-standard cybersecurity measures; and
- Ensuring the return of all company property and materials upon the termination and resignation of key employees.

Jackson Lewis attorneys have extensive experience working with manufacturers to assess, develop, and implement custom plans to protect trade secrets from disclosure

and misappropriation. Contact a Jackson Lewis attorney to learn more or for assistance in updating trade secret protection measures.

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