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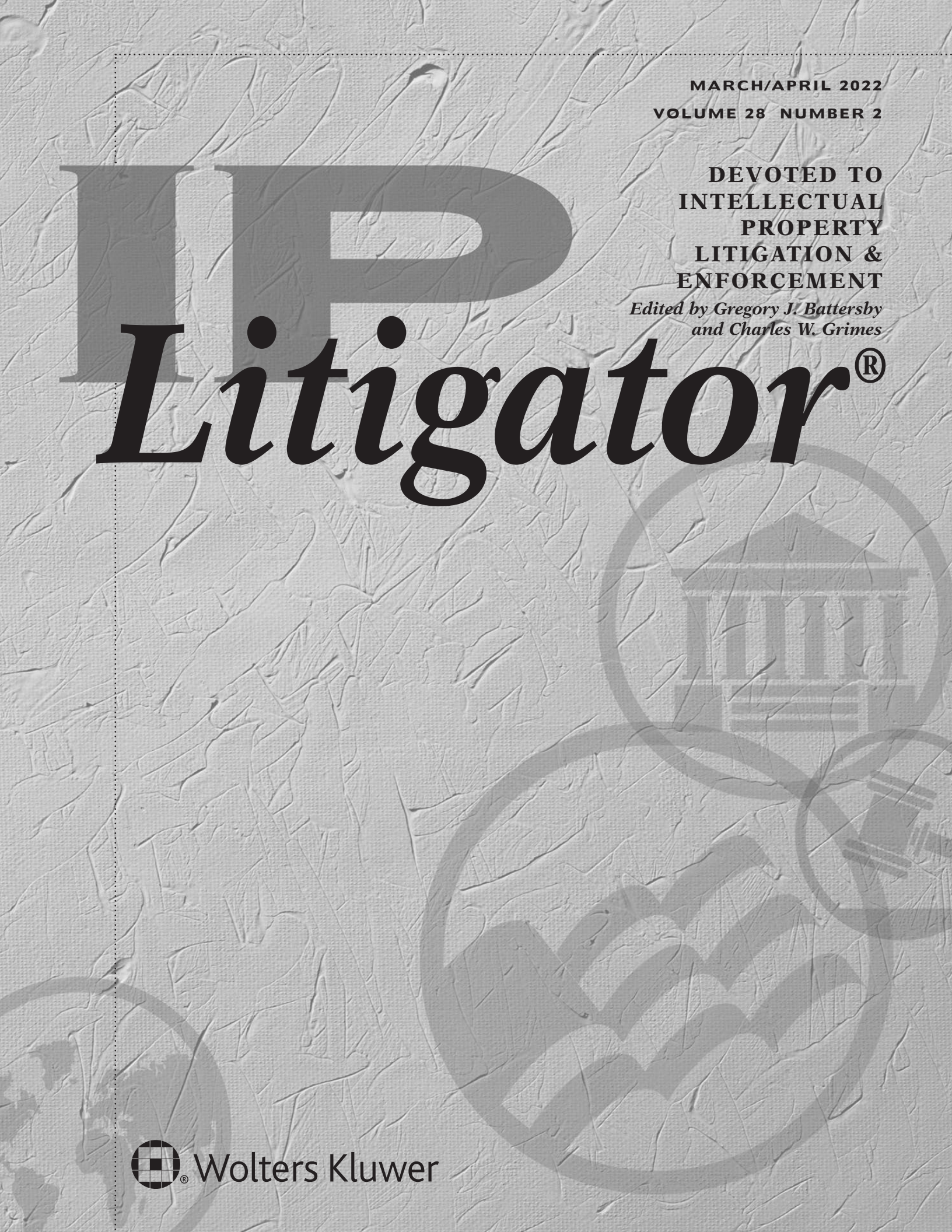

Wolters Kluwer

Trade Secret Litigation

Jesse M. Coleman and Kevin Green

DTSA/TUTSA Lawsuit Unraveled by Public Disclosure of Alleged Trade Secret in its Expired Patent

After a four-day bench trial on August 10, 2021, a Houston federal judge ruled that the conceptual designs an oil and gas manufacturing company disclosed to its erstwhile collaborator under an NDA were not eligible for trade secret protection because they were neither secret nor misappropriated due predominantly to disclosure in a prior public patent. The ruling in *Vita International Inc. v. Foro Energy Inc. et al.,* case number 4:18-cv-01663, in the US District Court for the Southern District of Texas, underscores the necessity that trade secrets are—in fact—kept actually secret. Moreover, any prior patent of the party seeking to protect its trade secrets should be scrutinized for similarity with the technology or information allegedly comprising a trade secret.

Background

Vita International, Inc. (Vita) is an oilfield and industrial service equipment manufacturer. Foro Energy, Inc. (Foro) is in the business of commercializing the application of high-powered lasers for the oil, natural gas, geothermal and mining industries. In April 2014 Foro contacted Vita through the generic contact form on Vita's Web site to discuss building a deployment wheel for Foro's laser, which it marketed as a multiconductor cutting tool. The purpose of the deployment wheel was to guide and retrieve the umbilical—flexible piping that among other things provides the laser with power—with the laser attached through the wellbore. Vita agreed to produce a feasibility study, a nonbinding assessment that would determine if Vita could build the deployment wheel and at what cost. On July 29, 2014, the Parties executed a mutual Nondisclosure and Restricted Use Agreement (the "NDA").

Foro anticipated that, at the conclusion of the feasibility study, Vita would provide a design of the deployment wheel that provided sufficient detail for manufacturing the equipment. The court found, however, that in early 2015 Foro received only "conceptual drawings" that were not final drawings ready for manufacture, but rather the first step of an engineering process. Moreover, Vita's concept had many of the same features (*e.g.*, 14 "hold-down rollers," a quick release pin for the rollers allowing detachment from the injector device and 90 degree pivot, etc.) that were previously disclosed in its first coiled tubing unit prototype that it had previously patented (the "1998 Patent"). According to the opinion, Foro thought Vita's estimate to complete the project was too high and, because key elements of the project had changed by the time Foro got the proposal, Foro declined it and went with another company.

In May 2018 Vita sued Foro alleging misappropriation of trade secrets (*i.e.*, its conceptual drawings of the deployment wheel) under the Texas Uniform Trade Secrets Act (TUTSA), Tex. Civ. Prac. & Rem. Code §§ 134A.001 et. seq., the Defend Trade Secrets Act (DTSA), and a breach of contract claim as to the mutual Nondisclosure and Restricted Use Agreement (the NDA) executed by the parties in July 2014.

Analysis

The court held Vita failed to prove either the existence of a trade secret or misappropriation by Foro. With respect to the first element, the court found Vita's conceptual drawings were not trade secrets because the "essential characteristic" of the design was publicly disclosed by Vita's own expired patent. Moreover, Vita's conceptual drawings were not secret because they illustrated a "generally known" concept in the oil and gas industry—namely the side-loading feature of its deployment wheel concept. In addition to the individual features of Vita's concept being described in patents, there are a variety of similar commercially available alternatives that contain the same features. Vita's conceptual design was therefore readily ascertainable by proper means, and every feature was visually observable. Accordingly, the court held Vita did not establish the existence of any trade secret.

With respect to misappropriation, the court did not find sufficient evidence of misappropriation because: (1) Vita's conceptual drawings and proposal were never sent to anyone outside of Foro; and (2) no confidential information belonging to Vita was incorporated into the

materials Foro provided to the ultimate manufacturer. The court further held that Foro did not breach the NDA by sending the conceptual drawings to its consultant because, as information generally known or available to the public through the public patent, they did not fall under the NDA's protection.

Interestingly, another District Court in the federal Fifth Circuit recently held that a party that filed a patent application containing its trade secrets can still prevail on a DTSA claim so long as the behavior at issue occurred before the patent issued or was published. Once that patent is published, however, the existence of the trade secret necessarily ceases and any unauthorized use of the information in the former trade secret after publication appears to become an issue of patent infringement. (*see Cajun Services Unlimited, LLC v. Benton Energy Serv. Co.,* CV 17-0491, 2019 WL 2410933, at *11 (E.D. La. June 7, 2019)).

Jesse Coleman is a Partner in the Litigation Department and Houston Office of Seyfarth Shaw. He has worked for more than a decade handling numerous trade secret and non-compete matters for clients across the business spectrum, from energy to hospitality to telecommunications. He has successfully prosecuted and defended against trade-secret and restrictive-covenant claims in bet-the-company disputes and managed teams of dozens of lawyers in multi-national litigation.

Kevin Green is a Senior Associate in the Litigation Department of Seyfarth Shaw's Houston office. Kevin's practice runs the gamut of complex commercial litigation, including trade secrets, non-competes, health care, energy, construction, securities, business torts, and contractual disputes. Kevin has obtained favorable outcomes representing both Plaintiffs and Defendants in state and federal jury trials, bench trials, arbitrations, and multi-national litigation.