Criminal Trade Secret Theft Cases Against Judgment Proof Defendants in Texas and California

Michelle Evans

Kurt M. Saunders
Trade secret theft is a costly and ongoing risk to many businesses. As the two most populous states, California and Texas are home to numerous businesses that own trade secrets. Although civil remedies afford one source of relief when a trade secret has been stolen or disclosed, collecting on a judgment may be impossible due to the Homestead laws in both states, which effectively render the defendants judgment proof. In such cases, another alternative is to consider a criminal prosecution under the Federal Economic Espionage Act or state law. The same misconduct that results in civil liability can also violate criminal laws. However, because federal prosecutors have so far shown minimal interest in pursuing cases that do not involve a foreign government or agent, a prosecution under state criminal trade secret theft statutes should be considered. This Article discusses how California and Texas trial and appellate courts have applied these statutes so that businesses can better consider this alternative.
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INTRODUCTION

California and Texas are the two most populated states\(^1\) and, as such, have numerous business owners who have elected to protect their valuable confidential information as trade secrets.\(^2\) Trade secret protection promotes competition as well as the diffusion of knowledge.\(^3\) Unfortunately, trade secret theft is a serious problem in the United States, and business owners must be constantly vigilant to ensure their trade secrets are not stolen.\(^4\) A survey by the American Society for Industrial Security reported estimated annual losses of between $53 and $59 billion to U.S. businesses due to trade secret theft.\(^5\) Another study revealed that more than 90 percent of trade secret theft cases involve a trade secret owner’s departing employee or former business partner.\(^6\) The risk is that, once a trade secret has been stolen and disclosed, “its owner may lose all protection, no matter how much was invested in its creation.”\(^7\)

If a business owner’s trade secret has been stolen, the most common legal remedy is a civil action for trade secret misappropriation.\(^8\) If successful, this claim allows the business owner to

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1 In 2017, California had the highest population (39,536,653) followed by Texas with the second highest population (28,304,596). See QuickFacts Texas; California, U.S. CENSUS BUREAU (Jan. 11, 2019), https://www.census.gov/quickfacts/fact/table/tx,ca/PST045217 [https://perma.cc/7NMY-8DJF] (custom chart comparing population estimates).

2 In particular, small businesses often rely entirely on trade secret law to protect information such as technical data, business methods, marketing strategies, customer lists, formulas, and know-how. See Kurt M. Saunders, The Law and Ethics of Trade Secrets: A Case Study, 42 CAL. W.L. REV. 209, 216 (2006).

3 See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 493 (1974) (“[t]rade secret law promotes the sharing of knowledge, and the efficient operation of industry; it permits the individual inventor to reap the rewards of his labor by contracting with a company large enough to develop and exploit it.”).


7 See Saunders, supra note 2, at 211.

8 See 18 U.S.C. § 1836 (2106) (federal statute governing trade secret civil proceedings); Almeling et al., supra note 6, at 93 (highlighting the increasing
obtain a judgment for monetary damages to compensate the business owner for the loss of the trade secret. The judgment may also include punitive damages to compensate for egregious conduct by the thief. While significant civil remedies exist for trade secret misappropriation, a favorable judgment does not always result in actual monetary recovery—particularly if the defendant is an individual rather than another business, which may be insured. Many individual defendants are “judgment proof” because they lack sufficient assets to pay the judgment. This is especially true for defendants who reside in states with homestead laws, such as Texas and California, which make certain personal assets like homes and personal property exempt from forced sale by general creditors. Those creditors include successful plaintiffs, making monetary recovery against an individual thief in those states nearly impossible.

Another option business owners can consider against trade secret thieves is to pursue criminal charges under federal or state law. The federal Economic Espionage Act (EEA) provides for criminal penalties for trade secret theft. However, federal prosecutors have shown little interest in bringing charges under this statute unless the case involves theft of trade secrets owned by large corporations or economic espionage by agents of a foreign government. In particular, since the Economic Espionage Act was enacted over twenty years ago, there have been very few Economic Espionage Act cases filed across the United States. There is, however, an

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9 See infra notes 33, 38 and accompanying text.
10 See infra note 38.
12 See id.; infra note 42.
13 See infra notes 45, 76.
14 See id.
15 See infra notes 93–98 and accompanying text.
16 The number of prosecutions under the EEA has been relatively few. See Michael L. Rustad, The Negligent Enablement of Trade Secret Misappropriation, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 455, 458 (2006).
17 A study in 2018 found that there had been only 277 cases brought under the EEA since its enactment. See Evans, supra note 11, at 465.
alternate route for trade secret owners to consider—pursuing criminal penalties under a state criminal trade secret theft statute. Both Texas and California have enacted criminal statutes to punish trade secret theft as felonies.18

Quite a bit has been written about the Economic Espionage Act, which can be helpful to a business owner considering that option.19 However, very little has been written about state trade secret theft statutes, particularly those statutes in Texas and California.20 Therefore, this Article examines these statutes in detail, providing information both from the appellate level as well as from the trial court level21 that can aid a business owner in pursuing this option.

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21 A report issued by the Bureau of Justice Statistics indicated that in 2006, 94 percent of state felony offenders pleaded guilty at the trial court level. Sean Rosenmerkel et al., Felony Sentences in State Courts, 2006—Statistical Tables (Standard Error Tables Added), BUREAU OF JUST. STAT. (Dec. 30, 2009), https://www.bjs.gov/index.cfm?ty=pbdetail&iid=2152. Since these pleas could significantly limit appellate level precedent, a content analysis of archival data involving trade secret theft cases was made at the trial court level for selected counties in California and Texas to address gaps found in the appellate case precedent.
I. CIVIL TRADE SECRET MISAPPROPRIATION AND LIMITATIONS ON RECOVERY DUE TO STATE HOMESTEAD EXEMPTIONS

In this Part, we examine the scope of civil liability for trade secret misappropriation under state law as well as the federal Defend Trade Secrets Act. We also consider the impediment posed by homestead laws that may limit or make impossible the recovery of damages adjudged against defendants in civil actions.

A. Civil Liability for Misappropriation Under the Uniform Trade Secrets Act and the Defend Trade Secrets Act

The owner of a trade secret possesses a property right in confidential business information.\(^{22}\) Trade secret protection owes its origin to the common law,\(^ {23}\) and liability for trade secret misappropriation was largely addressed through common law until the promulgation of the Uniform Trade Secrets Act (UTSA).\(^ {24}\) The UTSA, or a modified version of the UTSA, has been adopted in almost every state, including Texas\(^ {25}\) and California.\(^ {26}\) According to the UTSA, a “trade secret” is:

[Information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

\(^{22}\) See Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002–04 (1984) (recognizing that trade secrets are “property” under the Fifth Amendment); see also ROGER M. MILGRIM, 1–2 MILGRIM ON TRADE SECRETS, Ch. 2 Trade Secrets as Property § 2.01 (2018) (“trade secret[s] are intangible intellectual property”).


(i) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.27

The definition broadly encompasses most types of information28 that affords its owner a competitive advantage because it is not easily discoverable and because the owner has kept the information secret through reasonable measures.29

Trade secret misappropriation occurs when a person acquires another’s trade secret by improper means or uses or discloses it without the trade secret owner’s permission.30 Improper means include obtaining the trade secret by theft, bribery, misrepresentation, breach or inducement to breach a duty to keep the information secret, or industrial espionage.31 For misconduct to be considered improper means, the defendant must know that the information is a trade secret, although the conduct does not necessarily have to be criminal or tortious.32 The main remedies for misappropriation are monetary damages and injunctive relief.33

Civil liability for trade secret misappropriation remained the exclusive domain of state law until 2016, when Congress enacted the Defend Trade Secrets Act (DTSA).34 The DTSA provides for a federal civil action and remedies for trade secret misappropriation if the “trade secret is related to a product or service used in,
or intended for use in, interstate or foreign commerce.” The definition of misappropriation largely mirrors that of the UTSA, with its focus on unauthorized use or disclosure of the information or its acquisition through improper means. A prevailing trade secret owner can recover injunctive relief, monetary damages for actual loss and unjust enrichment, and attorney’s fees. In addition, the DTSA permits, in extraordinary circumstances, the trade secret owner to request an ex parte “seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” The DTSA does not preempt state law remedies.

While significant civil remedies exist under both the UTSA and the DTSA, a favorable judgment for a business owner against a former employee who has misappropriated trade secrets from the company does not always result in monetary recovery. The reason for this is because most individuals in Texas and California are judgment proof. Homestead laws in both states render

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35 Id. § 1836(b)(1).
36 According to the DTSA:
 [T]he term “trade secret” means 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....

Id. § 1839(3); see also Michelle Evans, Plausibility under the Defend Trade Secrets Act, 16 J. MARSHALL REV. INTELL. PROP. L. 188, 189 (2017) (comparing the DTSA definition to that of the UTSA).
38 Id. § 1836(b)(3). Exemplary damages can be awarded in an amount not exceeding twice the damages award for willful and malicious misappropriation. Id. § 1836(b)(3)(C).
39 Id. § 1836(b)(2)(A)(i).
41 See Evans, supra note 11, at 477 (“While significant civil remedies exist under each of the laws presented, a favorable judgment in a civil court will not always result in monetary recovery. This occurs when an offender is judgment-proof.”).
42 For further discussion of the judgment proof problem, see generally Stephen G. Gilles, The Judgment-Proof Society, 63 WASH. & LEE L. REV. 603 (2006);
most individuals judgment proof because of the large amount of property identified in the law as exempt from forced sale by general creditors, which includes those trying to collect on judgments.\footnote{Kyle D. Logue, \textit{Solving the Judgment-Proof Problem}, 72 \textit{Tex. L. Rev.} 1375 (1994); Steven Shavell, \textit{The Judgment Proof Problem}, 6 \textit{Int’l Rev. L. \\ & Econ.} 45 (1986).}

\textbf{B. Limitations on Recovery}

The ability of a business owner to recover on a favorable judgment is limited in both Texas and California due to their homestead laws. Texas homestead law is governed by both constitution and statute.\footnote{See \textit{Tex. Const. art. XVI, § 50} (West through Nov. 2011 amendments); \textit{Tex. Prop. Code Ann. §§ 41.001, 42.001, 42.002} (West 2012).} The Texas Constitution provides protection for real estate and sets the limits of that protection according to acreage, rather than value, of the property.\footnote{See \textit{Tex. Const. art. XVI, § 50}; \textit{Tex. Prop. Code Ann. § 41.001} (West 2001).} The Texas Property Code provides additional detail on how the homestead protection for real estate applies.\footnote{General protection for forced sale by general creditors with limited exceptions is found in the Texas Constitution. \textit{Tex. Const. art. XVI, § 50}. The Texas Constitution provides that, \begin{quote}
[t]he homestead, not in a town or city, shall consist of not more than two hundred acres of land, which may be in one or more parcels, with the improvements thereon; the homestead in a city, town or village, shall consist of lot or contiguous lots amounting to not more than 10 acres of land, together with any improvements on the land; provided, that the homestead in a city, town or village shall be used for the purposes of a home, or as both an urban home and a place to exercise a calling or business, of the homestead claimant, whether a single adult person, or the head of a family; provided also, that any temporary renting of the homestead shall not change the character of the same, when no other homestead has been acquired; provided further that a release or refinancing of an existing lien against a homestead as to a part of the homestead does not create an additional burden on the part of the homestead property that is unreleased or subject to the refinancing, and a new lien is not invalid only for that reason. \end{quote} \textit{Id. art. XVI, § 51.}} Mere ownership of real estate is not sufficient to establish the protection.\footnote{See, e.g., \textit{Tex. Prop. Code Ann. § 41.001} (West 2012).} In order to establish homestead protection in Texas, the claimant must show both overt acts of...
homestead usage and the intention to claim the land as a homestead. Once established, the homestead right exempts the property from seizure by general creditors. However, there are seven exceptions when creditors can seize the property: the property can be sold to satisfy a debt for (1) purchase money on the property, (2) property taxes, (3) improvements made to the property, (4) an ow-elty of partition, (5) home equity liens, (6) an extension of credit, or (7) a reverse mortgage.

Although the homestead right in Texas is based on acreage rather than value, the homestead right further distinguishes between urban and rural use. A residence for urban homestead purposes may be in one or more contiguous tracts. The urban homestead, however, is limited to ten acres. Improvements on the urban homestead are entirely exempt. The limits of a rural homestead, however, depend on whether the person uses the property as part of a family or as a single adult. Property will be considered rural if it does not fall within the definition of urban homestead found in the Code. This rural homestead is limited to 200 acres for a family homestead. A single adult homestead is limited to 100 acres. The rural use homestead can include

48 See id.
49 TEX. PROP. CODE ANN. § 41.001(a) (West 2017).
50 Id. § 41.001(b).
51 Id. § 41.002.
52 Id. § 41.002(a).
53 Id.
54 Id.
55 The family relation is (1) one of social status, not of mere contract; (2) the head of the family must have a legal or moral obligation to support the other members; and (3) there must be a corresponding state of dependence on the part of the other members for this support. See Roco v. Green, 50 Tex. 483, 490 (1878).
56 Id.
57 An urban homestead is,
(1) located within the limits of a municipality or its extraterritorial jurisdiction or a platted subdivision; and (2) served by police protection, paid or volunteer fire protection, and at least three of the following services provided by a municipality or under contract to a municipality: (A) electric; (B) natural gas; (C) sewer; (D) storm sewer; and (E) water.
TEX. PROP. CODE ANN. § 41.002(c) (West 2017).
58 Id. § 41.002(b)(1).
59 Id. § 41.002(b)(2).
noncontiguous tracts. Just like urban homesteads, improvements on the rural homestead are entirely exempt.

Homestead protection for real estate in Texas continues until death, abandonment, or alienation. A sale of the property will terminate the homestead rights because it constitutes abandonment, but the proceeds from the sale are exempt for six months. A divorce will terminate a family homestead, but the homestead protection can continue with those remaining in the household following the divorce.

Personal property in Texas is also protected under the homestead laws. There is a monetary exemption for personal property

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60 Id. § 41.002(b).
61 Id.
62 However, there are rights that remain with a surviving spouse. According to the Texas Constitution,

on the death of the husband or wife, or both, the homestead shall descend and vest in like manner as other real property of the deceased, and shall be governed by the same laws of descent and distribution, but it shall not be partitioned among the heirs of the deceased during the lifetime of the surviving husband or wife, or so long as the survivor may elect to use or occupy the same as a homestead, or so long as the guardian of the minor children of the deceased may be permitted, under the order of the proper court having the jurisdiction, to use and occupy the same.

TEX. CONST. art. XVI, § 52.

63 If a homestead claimant is married, a homestead cannot be abandoned without the consent of the claimant’s spouse. TEX. PROP. CODE ANN. § 41.004 (West 2017).

66 See TEX. PROP. CODE ANN. § 41.001(c) (West 2001).
67 See Burk Royalty Co. v. Riley, 475 S.W.2d 566, 568 (Tex. 1972).
68 The monetary exemption applies to a specific list of personal property. This property includes (1) home furnishings, including family heirlooms; (2) provisions for consumption; (3) farming or ranching vehicles and implements; (4) tools, equipment, books, and apparatus, including boats and motor vehicles used in a trade or profession; (5) wearing apparel; (6) jewelry not to exceed 25 percent of the aggregate limitations prescribed by Section 42.001(a); (7) two firearms; (8) athletic and sporting equipment, including bicycles; (9) a two-wheeled, three-wheeled, or four-wheeled motor vehicle for each member of a family or single adult who holds a driver’s license or who does not hold a driver’s license but who relies on another person to operate the vehicle for the benefit of the non-licensed person; (10) the following animals and forage on hand for their consumption: (A) two horses, mules, or donkeys and a saddle, blanket,
(exclusive of any liens, security interests, or other charges encumbering the property, which distinguishes between a family and single adult). 69 Personal property of a family is exempt if it has an aggregate fair market value of not more than $100,000, whereas personal property of a single adult is exempt if it has an aggregate fair market value of not more than $50,000. 70 Several items of personal property are exempt from seizure regardless of their value. These items include (1) current wages for personal services, except for the enforcement of court-ordered child support payments; (2) professionally prescribed health aids of a debtor or a debtor’s dependent; (3) alimony, support, or separate maintenance received or to be received by the debtor for the support of the debtor or a debtor’s dependent; and (4) a religious bible or other book containing sacred writings of a religion. 71 Certain savings plans and college plans are also exempt from seizure. 73

If the homestead exemption prevents recovery of a monetary judgment in Texas, then Texas law does permit the judgment to be abstracted in the county deed records to put third parties on notice of the claim. 74 This creates a lien on any real property for ten years. 75

Like Texas, the California homestead exemption is governed by both constitutional and statutory law. The California Constitution mandates that the legislature protect “from forced sale a certain portion of the homestead,” thereby granting California debtors a constitutional right to an exemption on a homestead subject to a forced sale. 76 The California Code of Civil Procedure includes a statutory homestead exemption. 77 A “homestead” is defined as the

and bridle for each; (B) 12 head of cattle; (C) 60 head of other types of livestock; and (D) 120 fowl; and (11) household pets. TEX. PROP. CODE ANN. § 42.002(a)–(b) (West 2001).

69 TEX. PROP. CODE ANN. § 42.001(a) (West 2015).
70 Id.
71 Id. § 42.001(b).
72 Id. § 42.0021.
73 Id. § 42.0022.
74 Id. § 52.001.
75 Id. § 52.006.
76 CAL. CONST. art. XX, § 1.5 (“The Legislature shall protect, by law, from forced sale a certain portion of the homestead and other property of all heads of families.”); see also Taylor v. Madigan, 126 Cal. Rptr. 376, 382 (Ct. App. 1975) (discussing the origins of the constitutional exemption).
77 CAL. CIV. PROC. CODE §§ 704.710–850 (West 1983).
principal dwelling (1) in which the judgment debtor or the judgment debtor’s spouse resided on the date the judgment creditor’s lien attached to the dwelling, and (2) in which the judgment debtor or the judgment debtor’s spouse resided continuously thereafter until the date of the court determination that the dwelling is a homestead.78

The California homestead law recognizes two types of exemptions. First, an individual may “declare” or record a homestead declaration with the office of the county recorder of the county where the debtor’s dwelling is located.79 Once the declaration has been filed, the debtor is entitled to an exemption on a portion of any proceeds from a voluntary sale.80 Second, there is also an undeclared exemption, which automatically protects a portion of the homestead when the debtor suffers an involuntary loss of property, most often due to a writ of execution by a creditor.81 These exemptions give the debtor a right to a specified amount of money, not a right to retain the property itself.82

The amounts exempted are the same for the declared and undeclared exemptions, but the undeclared exemption does not need to be recorded. Unmarried individuals who are not disabled may exempt up to $75,000 of the equity in their home or other property covered by the homestead exemption.83 An individual may exempt up to $100,000 if he or she resides with a spouse or other family member.84 The exempt amount is $175,000 if he or she is sixty-five years of age or older or physically or mentally disabled.85 The $175,000 amount also applies if the individual is fifty-five years of age or older, single, and has a gross annual income less than $25,000.86 The exemptions do not apply if the judgment to be enforced is for the foreclosure of a mortgage, deed of trust, or some

78 Id. § 704.710(c).
79 Id. § 704.920. A “dwelling” is the place where the individual resides, and includes mobile homes, condominiums, planned development and cooperative units, and boats. Id. § 704.710(a). Aside from the homestead exemption, California law also provides for exemptions for certain personal property, including motor vehicles, household furnishings and effects, jewelry, professional tools and books, and health aids. See id. § 703.140(b).
80 Id. § 704.960(a).
81 Id. §§ 704.710–.850.
82 See In re Bernard v. Coyne, 40 F.3d 1028, 1030 (9th Cir. 1994).
83 CAL. CIV. PROC. CODE § 704.730(a)(1) (West 2013).
84 Id. § 704.730(a)(2).
85 Id. § 704.730(a)(3).
86 Id. § 704.730(a)(3)(C).
other lien or encumbrance on the property, nor do they apply to liens created voluntarily by property owners. Although the California homestead law is more narrowly drawn than that of Texas, the California Supreme Court has stated that the exemptions are remedial and therefore must be liberally construed in their application.

In conclusion, while a civil action for trade secret misappropriation may result in both a judgment and recovery against a business offender that holds an insurance policy, monetary recovery against an individual offender may be nearly impossible. As such, another option business owners can consider, against potentially judgment proof defendants, is to pursue criminal charges under state or federal law.

II. CRIMINAL TRADE SECRET THEFT PROSECUTION AS AN ALTERNATIVE TO CIVIL REMEDIES

In this Part, we consider the extent of a trade secret thief’s criminal liability under the federal Economic Espionage Act and state criminal theft statutes such as those in Texas and California. The data and observations concerning prosecutions under the Texas and California statutes were drawn from a content analysis of available trial and appellate court opinions. We retrieved reported appellate court opinions from both states using the Westlaw and LexisNexis legal research databases. Because most state trial court opinions are not published, we filed public records requests with the district attorney offices in Los Angeles, Orange, San Diego, San Francisco, and Santa Clara counties in California, and in Bexar, Dallas, Harris, Tarrant, and Travis counties in Texas. These counties represent the five largest counties in each state. The requests were filed pursuant to the California Public Records Act and the Texas Public Information Act. Case file information that we were provided in response to these requests varied in content from county

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87 See id. § 703.010(b).
88 See Title Trust Deed Serv., Co. v. Pearson, 33 Cal. Rptr. 3d 311, 315 (Ct. App. 2005).
89 See Becker v. Lindsay, 545 P.2d 260, 263 (Cal. 1976).
91 CAL. GOVT. CODE §§ 6250–6270.5 (Deering 2016).
92 TEX. CODE ANN. § 552.001–.203 (West 1995).
to county and was limited to that data which was not privileged and data that was collected from public trial court databases.

A. Criminal Liability Under the Economic Espionage Act and State Criminal Trade Secret Theft Statutes

In 1996, out of concern with the growing threat of trade secret theft in the United States and industrial espionage by foreign businesses and governments, Congress enacted the Economic Espionage Act.\textsuperscript{93} The EEA imposes federal criminal liability for the intentional and knowing theft of a trade secret for the benefit of someone other than the trade secret owner.\textsuperscript{94} Moreover, the defendant must have acted “with intent to convert a trade secret” and “intending or knowing that the offense will injure” the trade secret owner.\textsuperscript{95} The trade secret must be related to a product or service used or intended for use in interstate or foreign commerce.\textsuperscript{96} The definition of trade secret in the EEA is the same as that used in the DTSA,\textsuperscript{97} and penalties for conviction include imprisonment of up to ten years and fines.\textsuperscript{98} Unfortunately, the government does not pursue all cases that implicate the EEA leaving little possibility for trade secret theft recovery against a judgment-proof debtor.\textsuperscript{99}

Long before the passage of the EEA, many states had enacted criminal statutes for use in prosecuting trade secret theft.\textsuperscript{100}


\textsuperscript{94} 18 U.S.C. § 1832. The EEA includes a second offense of economic espionage, which requires evidence that the theft of the trade secret was done with the specific intent to benefit a foreign government, instrumentality, or agent. \textit{Id.} § 1831. By contrast, there is no requirement of foreign involvement in the offense of theft of trade secrets.

\textsuperscript{95} \textit{Id.} § 1832(a).

\textsuperscript{96} \textit{Id.} § 1832. The EEA does not preempt prosecutions under state criminal trade secret laws. \textit{Id.} § 1838.

\textsuperscript{97} \textit{Id.} § 1839(b)(3).

\textsuperscript{98} \textit{Id.} § 1832(a). If convicted, an individual defendant may be subject to the greater of a fine of up to two times the gross gain from the offense, the gross loss from the offense, or $250,000, whichever is larger, or imprisonment for up to ten years, or both. \textit{Id.} § 1832(a).


\textsuperscript{100} \textit{Id.} at 866 (noting that criminal statutes vary widely from state to state and often have a more limited scope than civil statutes).
In contrast to civil statutes based on the UTSA, there is a notable lack of uniformity among the state criminal statutes.101 Most trade secret theft on the state level is prosecuted either through a general theft statute modeled after the Model Penal Code (MPC)102 or through a separate specific trade secret theft statute.103

In applying general theft statutes based on the MPC, a threshold issue is how those statutes define “property.”104 Many of these states include coverage for “intangible property,”105 which includes trade secrets, while other states have chosen to include the term “trade secrets” as part of the definition of “property” or “intangible property.”106 Among all of the MPC-based statutes, the requisite specific intent and scope of prohibited acts are varied.107 There is

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101 For a general overview of these statutes without analysis, see JAY DRATLER, JR., INTELLECTUAL PROPERTY LAW: COMMERCIAL, CREATIVE & INDUSTRIAL PROPERTY § 13.04(3)(c) (1999).
102 MODEL PENAL CODE (AM. LAW INST. 1980) [hereinafter MPC].
103 DRATLER, supra note 101, at 875.
104 The MPC defines “property” as “anything of value, including ... intangible personal property ....” See MPC § 223.0(6). There are twenty-four states with general theft statutes modeled after the MPC. ALASKA STAT. ANN. § 11.81.900(52) (West 2016); DEL. CODE ANN. tit. 11, § 857(9) (West 2016); IDAHO CODE ANN. § 18-2402(8) (West 2016); 720 ILL. COMP. STAT. ANN. 5/15-1 (West 2016); IND. CODE ANN. § 35-31.5-2-253(a)(9) (West 2016); IOWA CODE ANN. § 702.14 (West 2016); KAN. STAT. ANN. § 21-5111(w) (West 2016); KY. REV. STAT. ANN. § 514.010(6) (West 2016); ME. REV. STAT. ANN. tit. 17-A, § 352(1)(F) (2015); MD. CODE ANN., CRIM. LAW, § 7-101(9)(2)(xi) (West 2016); MINN. STAT. ANN. § 609.52, subd. 1(1), (6) (West 2016); MO. ANN. STAT. § 570.010(19) (West 2016); MONT. CODE ANN. § 45-2-101(61)(j) (2016); NEB. REV. STAT. ANN. § 28-509(5) (West 2016); NEV. REV. STAT. ANN. § 205.08255 (West 2015); N.H. REV. STAT. ANN. § 637:2(1) (2016); N.J. STAT. ANN. § 2C:20-1(g), (i) (West 2016); N.Y. PENAL LAW § 155.00(1), (6) (McKinney 2016); N.D. CENT. CODE ANN. § 12.1-23-10(7) (West 2016); OHIO REV. CODE ANN. § 2901.01(A)(10)(a), (b) (West 2016); OR. REV. STAT. ANN. § 164.005(5) (West 2016); S.D. CODIFIED LAWS § 22-1-2(35) (2016); UTAH CODE ANN. § 76-6-401(1) (West 2016); WASH. REV. CODE ANN. § 9A.56.010(6) (West 2016).
105 See, e.g., ALASKA STAT. ANN. § 11.81.900(52) (West 2016); IOWA CODE ANN. § 702.14 (West 2016); KAN. STAT. ANN. § 21-5111(w) (West 2016); KY. REV. STAT. ANN. § 514.010(6) (West 2016); MO. ANN. STAT. § 570.010(19) (West 2016); NEB. REV. STAT. ANN. § 28-509(5) (West 2016); N.D. CENT. CODE ANN. § 12.1-23-10(7) (West 2016); OR. REV. STAT. ANN. § 164.005(5) (West 2016); S.D. CODIFIED LAWS § 22-1-2(35) (2016).
also wide variation as to classifying the offense as a felony or misdemeanor, and the severity of the penalties imposed.  

For those states that have expressly included trade secrets within their MPC, as well as those states with specific trade secret theft statutes, there are three different trade secret definitions used which allows these laws to be categorized. These three categories are based on the New Jersey, Uniform Trade Secrets Act, or New York statute definitions. Texas’s trade secret theft statute

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108 Id.

109 Eleven states follow the definition of “trade secret” that originated in New Jersey. The New Jersey statute defines trade secret as:

the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula or improvement which is secret and of value; and a trade secret shall be presumed to be secret when the owner thereof takes measures to prevent it from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.

N.J. STAT. ANN. § 2A:119-5.2(c) (West 2016). When New Jersey later adopted the MPC, this definition was included. N.J. STAT. ANN. § 2C:20-1(g), (i) (West 2016). Three additional states have incorporated this definition into their general theft statutes modeled after the MPC. ME. REV. STAT. ANN. tit. 17-A, § 352(1)(F) (2015); N.H. REV. STAT. ANN. § 637:2(1) (2016); U TAH CODE ANN. § 76-6-401(1) (West 2016). An analysis of these statutes is outside the scope of this Article.

110 UNIF. TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM’N 1985). According to this section, “trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Id. Eleven states use this definition. ARIZ. REV. STAT. ANN. § 13-1820(D) (2016); CAL. PENAL CODE § 499c(a)(9) (West 2011); DEL. CODE ANN. tit. 11, § 857(9) (West 2016); GA. CODE ANN. § 16-8-13(a)(4) (West 2016); IND. CODE ANN. § 35-31.5-2-253(a)(9) (West 2016); LA. STAT. ANN. § 14:67.20(B)(4) (2016); MINN. STAT. ANN. § 609.52, subd. 1(1), (6) (West 2016); OHIO REV. CODE ANN. § 2901.01(A)(10)(a), (b) (West 2016); OKLA. STAT. ANN. tit. 21, § 1732(B)(c) (West 2016); S.C. CODE ANN. § 39-8-20(5) (2016); WIS. STAT. ANN. § 943.205(2)(e) (West 2015). An analysis of these statutes is outside the scope of this Article.

111 This trade secret definition originated in New York’s general larceny statute. N.Y. PENAL LAW § 155.30(3) (McKinney 2016). This definition for “secret scientific material” refers to:

a sample, culture, micro-organism, specimen, record, recording, document, drawing or any other article, material, device or substance which constitutes, represents, evidences, reflects, or records a scientific or technical process, invention or formula or any part or phase thereof, and which is not, and is not intended to
is a separate specific trade secret statute modeled after the original 1965 New Jersey statute.\(^{112}\) It was enacted in 1973 and has only been amended once.\(^{113}\) California first enacted a criminal trade secret theft statute six years before Texas, with the purpose to make clear that trade secrets are property that can be the subject of criminal acts.\(^{114}\) Similar to the Texas statute, the first California statute was modeled after the original New Jersey statute.\(^{115}\) However, in 1996, California significantly amended its statute to follow the UTSA definitions.\(^{116}\)

**B. Charging the Offense of Trade Secret Theft Under State Criminal Statutes**

Before detailing the statutory requirements of trade secret theft from Texas and California, it is important to understand the requirements necessary to properly charge the offense. In Texas, the requirements for charging an offense require considerable detail.\(^{117}\) Since the Texas trade secret theft statute specifically focuses on trade secrets, the general theft statute cannot be used for

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\(^{112}\) N.J. STAT. ANN. § 2A:119-5.2(c) added pursuant to Law 1967, ch. 791, § 20. To date, very few states utilize the New York definition within their MPC or specific trade secret theft statute. See CONN. GEN. STAT. ANN. § 53a-124(a) (West 2016); IDAHO CODE ANN. § 18-2402(8) (West 2016); 720 ILL. COMP. STAT. ANN. 5/15-1 (West 2016); MD. CODE ANN., CRIM. LAW § 7-101(i)(2)(xii) (West 2016); MASS. GEN. LAWS ANN. ch. 266, § 30(4) (West 2016); MONT. CODE ANN. § 45-2-101(61)(j) (2016); N.C. GEN. STAT. ANN. § 14-75.1 (West 2016). An analysis of these statutes is outside the scope of this Article.


\(^{114}\) CAL. PENAL CODE § 499c hist. note (West 2016).

\(^{115}\) See supra note 109 and accompanying text.

\(^{116}\) Since the TUTSA is only a few years old, it is still too early to tell whether the Texas legislature will take this approach. Although, other states have made the move from the New Jersey to UTSA definitions. See GA. CODE ANN. § 16-8-13(a)(4) (West 2016); OKLA. STAT. ANN. tit. 21, § 1732(B)(c) (West 2016); WIS. STAT. ANN. § 943.205(2)(e) (West 2015).

\(^{117}\) See infra notes 120–24 and accompanying text.
charging the offense.\textsuperscript{118} This is beneficial to the prosecution because, unlike the general theft statute, the trade secret theft statute does not require the government to prove an intent to deprive the owner of the trade secret.\textsuperscript{119} Furthermore, when charging the offense, the government must make sure that the indictment “set[s] out the particular offense charged with such certainty that a presumptively innocent man who seeks to know what he must meet at trial, may ascertain fully therefrom those matters charged against him.”\textsuperscript{120} This not only includes setting out the specific elements of the crime in the charging instrument, but also includes sufficiently identifying the trade secrets.\textsuperscript{121} Trade secret descriptions supporting a trade secret theft indictment require identification by “name, kind, number, and ownership,” if known.\textsuperscript{122} If such detail is not known, “that fact [must] be stated, and a general classification, describing and identifying” the trade secret as near as possible, must be given.\textsuperscript{123} If the trade secret is set forth in a written document, then that document must be part of the indictment.\textsuperscript{124} If this level of detail cannot be satisfied, then the case will be dismissed.\textsuperscript{125}

Unfortunately, there are very few appellate cases interpreting the Texas trade secret theft statute that can act as a guide to avoid dismissal of these cases.\textsuperscript{126} In fact, about ten years after the statute went into effect, there was a call by prosecutors for amendment

\textsuperscript{118} Falcone v. State, 682 S.W.2d 418, 421 (Tex. App. 1984) (reversing a judgment of conviction under the general theft statute and entering a judgment of acquittal where the government failed to pursue charges under Section 31.05 where it appeared trade secrets were involved in the case).
\textsuperscript{120} Atkins v. State, 667 S.W.2d 540, 542 (Tex. App. 1983).
\textsuperscript{121} Id. at 542–43 (concluding that the designation of the trade secret as “architectural plans designed and drawn by [the victim]” did not satisfy the requirements for a valid indictment on the Section 31.05 charge).
\textsuperscript{122} Tex. Code Crim. Proc. Ann. art. 21.09 (West 2017); Atkins, 667 S.W.2d at 543 (finding that the property description “architectural plans designed and drawn by [the victim]” was only a general category of tangible personal property attributable to the victim’s efforts since it was likely the victim produced numerous and differing trade secrets represented through various architectural plans).
\textsuperscript{123} Id. at 543–44 (reversing and remanding a trade secret theft conviction where the written architectural plans that were alleged as part of the charge in the indictment were not made part of the indictment).
\textsuperscript{124} Atkins, 667 S.W.2d at 544.
\textsuperscript{125} See, e.g., id. at 540.
\textsuperscript{126} At the time of this study, our research identified seven appellate court decisions reported in Texas that involved or addressed section 31.05.
to clarify portions of the statute to avoid loopholes. The requested amendment never took place. A significant number of dismissals at the trial court level appears to be one of the reasons that there are so few appellate cases interpreting the Texas statute. A content analysis of archival trial court data involving trade secret theft charges for the five largest counties in Texas revealed 122 cases, involving 49 defendants. Of those cases, approximately 61 percent (74/122) were dismissed.

In California, the first pleading by the prosecution in felony cases is either an indictment or an information. Unlike Texas, California allows for simplified pleading. “In charging an offense, each count is sufficient if it contains in substance a statement that the accused has committed some specified public offense.” In enacting the California trade secret theft statute, the legislature wanted to make clear that “theft of trade secrets is akin to the theft of any other property” and “to protect trade secrets from appropriation by wrongful, dishonest methods.” In applying the statute, the California courts have held that there are three elements that the prosecution must demonstrate in order to prove the offense of theft of a trade secret: “(1) a taking or unauthorized use of information that (2) qualifies as a trade secret with (3) the requisite specific intent.”

The California courts have required that the prosecution prove that the defendant knew or had reasonable cause to believe that the information is a trade secret. In addition, the California statute specifies proof of an intent to deprive, withhold, or appropriate

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128 The statute was not amended until another ten years passed, amended by 1993 Tex. Gen. Laws 3586. By this time, Texas courts had already used civil trade secret law to clarify the statute. See infra notes 153–54 and accompanying text.
129 CAL. CONST. art. 1, § 14 (“Felonies shall be prosecuted as provided by law, either by indictment or, after examination and commitment by a magistrate, by information.”); see also BERNARD E. WITKIN, CAL. CRIM. LAW, Pretrial § 199 (4th ed. 2012).
130 See infra text accompanying note 133.
131 WITKIN, supra note 129, at § 208; see also CAL. PENAL CODE § 959 (West 1872).
132 People v. Farell, 28 Cal. 4th 381, 387 (2002).
133 People v. Serrata, 133 Cal. Rptr. 144, 150 (Ct. App. 1976).
134 People v. Laiwala, 49 Cal. Rptr. 3d 639, 643 (Ct. App. 2006).
135 Id. at 642–44. The prosecution must offer direct evidence that defendant believed that the information was a trade secret, or circumstantial evidence from which to infer this. See People v. Hsieh, 103 Cal. Rptr. 2d 51, 61 (Ct. App. 2000).
the trade secret. In other words, the defendant must have specific intent “to deprive the owner of the trade secret’s value, whether for personal gain or competitive advantage.” Interestingly, although the California statute’s trade secret definition now follows the UTSA, this mental state for trade secret theft still follows the original New Jersey trade secret statute. Finally, a defendant’s subsequent return of the trade secret to its owner, or his or her intent to return it, is not a defense to prosecution.

As in Texas, there are not many reported California appellate court decisions to provide guidance in prosecuting these cases. The content analysis of archival trial court data involving trade secret theft charges in California revealed a total of 35 cases. Of those cases, approximately 59 percent (17/35) had been dismissed. Of the remaining cases, the defendants pleaded guilty or no contest in 29 percent (10/35) of the cases, and only two of the cases resulted in a conviction after a trial. Just like in Texas, the significant number of dismissals at the trial court level appears to be one of the reasons that there are so few appellate cases interpreting the California statute.

C. Defining What Constitutes a Trade Secret Under the Texas and California Criminal Statutes

One way to avoid dismissal of a trade secret theft charge in both California and Texas is to make sure that a trade secret is involved. A “trade secret” under the Texas trade secret theft statute has three components that are similar to the original New Jersey statute. A trade secret is “[1] the whole or any part of any scientific or technical information, design, process, procedure, formula, or improvement, [2] that has value, and [3] that the owner has taken measures to prevent from becoming available to persons other than those

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136 Cal. Penal Code § 499c(b) (West 2011).
137 Hsieh, 103 Cal. Rptr. 2d at 60.
138 See Cal. Penal Code § 499c hist. note (West 2011); see also Saunders & Evans, supra note 18, at 24. By contrast, Texas requires that the act be committed knowingly. Tex. Penal Code Ann. § 31.05(b) (West 2015).
139 Cal. Penal Code § 499c(d) (West 2011).
140 At the time of this study, our research identified fourteen appellate court decisions reported in California that involved or addressed section 499c.
141 The outcome in six of the cases is unknown since this information was not available or obtainable.
142 See infra note 147.
selected by the owner to have access for limited purposes.\footnote{143} Several states, like Texas, utilize this, or a similar definition, in their specific trade secret theft statutes.\footnote{144} However, the Texas legislature did not find it necessary to incorporate this definition into the Texas Uniform Trade Secrets Act (TUTSA), like some states did in their own versions of the UTSA.\footnote{145} This maintains a clear distinction between what constitutes civil misappropriation versus criminal theft of trade secrets in Texas.\footnote{146} In fact, the TUTSA expressly provides that the Act does not affect available criminal penalties.\footnote{147} Nonetheless, the factors that support trade secret status in Texas are similar in both criminal and civil law.\footnote{148} Indeed, when determining what constitutes a trade secret under the Texas criminal trade secret theft statute, Texas courts often rely on Texas civil trade secret law before resorting to persuasive authority from other states.\footnote{149} During the early years of the trade secret theft statute, this was necessary to add clarity to its trade secret definition.\footnote{150}
When determining whether the information in question is a trade secret, the information does not “have to be ‘secret’ in the strict sense of being kept concealed from the knowledge of others.”\textsuperscript{151} It must “be generally unavailable to the public and it must give one who uses it an advantage over competitors that do not know of or use the trade secret.”\textsuperscript{152} If the information becomes public knowledge, it will lose its status as a trade secret.\textsuperscript{153} However, a limited disclosure to third parties will not risk trade secret status where the third parties agree to keep the information secret.\textsuperscript{154}

The statute does not address the degree or extent to which an owner must go to protect a secret.\textsuperscript{155} Several factors are relevant when determining whether security measures are effective including: “(1) non-disclosure agreements, (2) plant security, (3) access to information, and (4) other measures.”\textsuperscript{156} Although no one category is dispositive, the more security measures used by the trade secret owner to protect the information, the greater the likelihood that the information will be considered a trade secret.\textsuperscript{157} The review of trial court cases in Texas revealed that punishments under the trade secret theft statute have involved a variety of scientific or technical information such as geophysical survey data of oil and gas deposits,\textsuperscript{158} voice controlled computer programs,\textsuperscript{159} industrial designs for the marketing plan. Daniel Benedict, \textit{Law Used Infrequently, with Mixed Results}, HOUS. CHRON., Apr. 7, 1985, at 4-1.

\textsuperscript{152} Leonard v. State, 767 S.W.2d 171, 175 (Tex. App. 1988).
\textsuperscript{154} \textit{Leonard}, 767 S.W.2d at 176; \textit{RESTATEMENT (FIRST) OF TORTS} § 757 cmt. B (1939).
\textsuperscript{155} \textit{Leonard}, 767 S.W.2d at 176.
\textsuperscript{156} McGowan v. State, 938 S.W.2d 732, 737 (Tex. App. 1996) (finding there was sufficient evidence to support the conclusion that the drawings in question were not in the public domain and therefore, were trade secrets); Schalk v. State, 823 S.W.2d 633, 636–37 (Tex. Crim. App. 1991) (affirming that the computer programs in question were trade secrets).
\textsuperscript{157} \textit{See}, e.g., \textit{Leonard}, 767 S.W.2d at 177 (concluding the elaborate procedures used by the business owner to keep the computer programs secret were sufficient to bestow trade secret status on those programs under the statute).
turbines,\textsuperscript{160} architectural blueprints,\textsuperscript{161} a seismic prospect map,\textsuperscript{162} recipe books,\textsuperscript{163} and drawings for bearing assemblies, O-rings and compressor parts.\textsuperscript{164} The defendants in these cases were former employees,\textsuperscript{165} consultants,\textsuperscript{166} and competitors\textsuperscript{167}—both individuals\textsuperscript{168} and businesses.\textsuperscript{169}

A threshold requirement for conviction under the California trade secret theft statute is that the theft must involve a “trade secret.”\textsuperscript{170} Unlike Texas, the California statute uses the UTSA definition\textsuperscript{171} that defines a trade secret as information that has economic value and is subject to reasonable measures to maintain its secrecy.\textsuperscript{172} The review of trial and appellate court cases in California revealed that convictions under the criminal trade secret theft statute have involved a variety of business and technical information, including mechanical and technical drawings and schematics,\textsuperscript{173} computer programs and source code,\textsuperscript{174} semiconductors and

\textsuperscript{170} People v. Hsieh, 103 Cal. Rptr. 2d 51, 56 (Ct. App. 2000). The use of technical experts to assist police officers in identifying trade secrets as part of a search is permissible. See People v. Moore, 163 Cal. Rptr. 906, 910–11 (Ct. App. 1980).
\textsuperscript{171} See supra notes 143–44 and accompanying text.
\textsuperscript{172} CAL. PENAL CODE § 499c(a)(9) (West 2011). Because of this, cases interpreting the UTSA are useful in applying section 499c. E.g., Hsieh, 103 Cal. Rptr. 2d at 56–59 (referring to California UTSA cases in determining trade secret status).
computer chip devices,\textsuperscript{175} customer lists,\textsuperscript{176} financial data and information,\textsuperscript{177} and business methods.\textsuperscript{178}

As in civil cases, the California definition does not encompass an employee’s use of his or her general knowledge and skill.\textsuperscript{179} Nor is there protection “for information known either to the public at large or to those skilled in the particular field.”\textsuperscript{180} The California definition is broader than that of the Texas statute, which is limited to scientific and technical information.\textsuperscript{181} This suggests that purely business or commercial information, such as marketing strategies, customer lists, and financial data, as well as negative know-how, might not be covered by the Texas statute.\textsuperscript{182} However, in practice, Texas counties have been charging theft of customer lists under the statute.\textsuperscript{183}

As with the Texas definition, the California statute requires that the information be valuable, although the California definition ties the value of the information to it being unknown or not easily ascertainable by competitors.\textsuperscript{184} For instance, information that involves or implements a well-known process does not derive economic value from not being generally known.\textsuperscript{185} As such, this element requires proof that the information stolen “gives one who uses it an

\textsuperscript{175} See, e.g., People v. Farell, 121 Cal. Rptr. 2d 603, 604 (2002); People v. Gopal, 217 Cal. Rptr. 487, 489 (Ct. App. 1985).


\textsuperscript{177} See, e.g., Chew, No. KA061570.


\textsuperscript{179} See People v. Hsieh, 103 Cal. Rptr. 2d 51, 61–62 (Ct. App. 2000) (noting that the California trade secret law does not apply to an employee’s use of their own general knowledge).

\textsuperscript{180} Id. at 56.

\textsuperscript{181} Compare CAL. PENAL CODE § 499c(a)(9)(A) (West 2011), with TEX. PENAL CODE ANN. § 31.05(a)(4) (West 2017) (limiting the definition of a trade secret to scientific or technical information).

\textsuperscript{182} See TEX. PENAL CODE ANN. § 31.05(a)(4) (West 2017) (limiting the definition of a trade secret to scientific or technical information).


\textsuperscript{184} CAL. PENAL CODE § 499c(a)(9)(A) (West 2011).

\textsuperscript{185} See People v. Laiwala, 49 Cal. Rptr. 3d 639, 644 (Ct. App. 2006) (“No reasonable person could have conscientiously believed that a [computer] program that was able to perform only a well-known process derived economic value from not being generally known.”).
advantage over competitors.” In other words, the actual or potential economic value must derive from the fact that competitors are unaware of the information and could make beneficial use of it if they knew it. The courts have cautioned that this requires more than merely conclusory and generalized allegations of value. Relevant considerations in proving value include the savings achieved by the information, the amount of money or effort expended in developing the information, and the amount of time and expense for competitors to duplicate it. The Texas trade secret theft statute does not define the measure of value for purposes of the definition; although, presumptively, it could be the amount invested in creating the trade secret.

Both Texas and California require that the owner utilize measures to maintain the secrecy of the information, with California adding that such measures need only be “reasonable under the circumstances.” However, when a trade secret owner has implemented strict security measures to safeguard the information, it is more likely the court will consider the information to be secret and that the owner intended it to remain so. The determination of secrecy is a factual issue. In deciding whether secrecy measures are effective, the California courts have cited approvingly to

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186 People v. Gopal, 217 Cal. Rptr. 487, 496 (Ct. App. 1985); see also People v. Serrata, 62 Cal. Rptr. 144, 152 (Ct. App. 1976) (holding that providing any form of commercial advantage is sufficient).


188 People v. Pribich, 27 Cal. Rptr. 2d 113, 117 (Ct. App. 1994) (finding the prosecution failed to prove the information was a trade secret due to lack of evidence of competitive advantage).

189 See Hsieh, 103 Cal. Rptr. 2d at 57.

190 See TEX. PENAL CODE ANN. § 31.05(a)(4) (West 2017).


192 See People v. Gopal, 217 Cal. Rptr. 487, 496 (Ct. App. 1985); People v. Serrata, 133 Cal. Rptr. 144, 150–53 (Ct. App. 1976) (discussing the presumption that trade secrets shall be presumed secret when the owner has taken measures to prevent it from becoming available).

193 Gopal, 217 Cal. Rptr. at 496.
such procedures as stamping the information as confidential, requiring employees to sign nondisclosure agreements, random audits of employee files, magnetic locks, visitor escorts, and security guards.\textsuperscript{194}

\section*{D. Scope of Criminal Liability Under the Texas and California Trade Secret Theft Statutes}

Once it has been determined that a trade secret is involved, the next consideration is whether the defendant has done something that rises to the level of trade secret theft under the California or Texas statute. In Texas, the trade secret theft statute provides that a person commits trade secret theft if, without the owner’s effective consent,\textsuperscript{195}

\begin{quotation}
\textsuperscript{194} See, e.g., id. at 495–96 (including measures such as security guards, visitor escorts and nondisclosure agreements); \textit{Serrata}, 133 Cal. Rptr. at 152 (including measures such as magnetic locks and random audits of employee files).
\end{quotation}

\begin{quotation}
\textsuperscript{195} See \textsc{Tex. Penal Code Ann.} § 31.01(3) (West 2017), defining effective consent: “Effective consent” includes consent by a person legally authorized to act for the owner. Consent is not effective if: (A) induced by deception or coercion; (B) given by a person the actor knows is not legally authorized to act for the owner; (C) given by a person who by reason of youth, mental disease or defect, or intoxication is known by the actor to be unable to make reasonable property dispositions; (D) given solely to detect the commission of an offense; or (E) given by a person who by reason of advanced age is known by the actor to have a diminished capacity to make informed and rational decisions about the reasonable disposition of property.
\end{quotation}

\begin{quotation}
\textsuperscript{195} See \textsc{Tex. Penal Code Ann.} § 31.01(1) (West 2017), defining deception as, (A) creating or confirming by words or conduct a false impression of law or fact that is likely to affect the judgment of another in the transaction, and that the actor does not believe to be true; (B) failing to correct a false impression of law or fact that is likely to affect the judgment of another in the transaction, that the actor previously created or confirmed by words or conduct, and that the actor does not now believe to be true; (C) preventing another from acquiring information likely to affect his judgment in the transaction; (D) selling or otherwise transferring or encumbering property without disclosing a lien, security interest, adverse claim, or other legal impediment to the enjoyment of the property, whether the lien, security interest, claim, or impediment is or is not valid, or is or is not a matter of official record; or (E) promising performance that is likely to affect the judgment of another in the transaction and that the actor does not intend to perform or knows will not be performed, except that failure to perform the promise in issue without other evidence of intent or knowledge is not sufficient proof that the actor did not intend to perform or knew the promise would not be performed.
\end{quotation}
the person knowingly: “(1) steals a trade secret; (2) makes a copy of an article representing a trade secret; or (3) communicates or transmits a trade secret.” According to the Practice Commentary, “this section criminalizes unauthorized reproductions and communication of trade secrets ... whether or not it is a theft.”

According to the Texas Penal Code, a person acts knowingly, or with knowledge, with respect to the nature of his conduct or to circumstances surrounding his conduct when he is aware of the nature of his conduct or that the circumstances exist. A person acts knowingly, or with knowledge, with respect to a result of his conduct when he is aware that his conduct is reasonably certain to cause the result. TEX. PENAL CODE ANN. § 6.03(b) (West 2017). If the offender does not confess to the trade secret theft, then proof that the offender acted knowingly must be based on circumstantial evidence. Leonard v. State, 767 S.W.2d 171, 178 (Tex. App. 1988) (citing Dillon v. State, 574 S.W.2d 92, 94 (Tex. Crim. App. 1978)). There must be evidence that the offender knew that the information was a trade secret when the violation occurred. Schalk v. State, 767 S.W.2d 441, 448 (Tex. App. 1988). Factors such as the offender’s length of employment with the victim company, level of employment, familiarity with company security precautions, agreement of nondisclosure, acknowledgement of confidentiality in exit documentation, and reference to items as “stolen data base” and the “stolen files” on a periodic basis have been considered in determining whether an offender has committed trade secret theft knowingly.

“Steal” means to acquire property or service by theft.” TEX. PENAL CODE ANN. § 31.01(7) (West 2017).

The statute defines a copy as “a facsimile, replica, photograph, or other reproduction of an article or a note, drawing, or sketch made of or from an article.” Id. § 31.05(a)(2).

The statute defines an article as “any object, material, device, or substance or any copy thereof, including a writing, recording, drawing, sample, specimen, prototype, model, photograph, microorganism, blueprint, or map.” Id. § 31.05(a)(1).

“Representing” is defined by the statute as “describing, depicting, containing, constituting, reflecting, or recording.” Id. § 31.05(a)(3).

“Transmit” means [t]o send or transfer from one person or place to another, or to communicate.” McGowan v. State, 938 S.W.2d 732, 735 (Tex. App. 1996) (quoting Transmit, BLACK’S LAW DICTIONARY (5th ed. 1979)). The transmission is complete when the party to whom the transmission is directed actually receives the transmission. See id. (finding that the trade secret transmission was complete when the alleged trade secret drawings reached the conspiring offender in Texas).

TEX. PENAL CODE ANN. § 31.05(b) (West 2017).

The acts prohibited are quite similar to what was seen in the original New Jersey trade secret theft statute.\textsuperscript{204} The review of trial court cases punishing trade secret theft from the five largest Texas counties revealed that the victims have generally been large companies, such as Texas Instruments,\textsuperscript{205} General Electric Co.,\textsuperscript{206} Amoco,\textsuperscript{207} Dresser-Rand Inc.,\textsuperscript{208} and Shell.\textsuperscript{209} As an alternative to the trade secret theft charge, an offender can be charged for attempted trade secret theft as well as conspiracy to commit the theft.\textsuperscript{210} However, the review of available Texas trial court cases revealed only six defendants who were punished under these alternatives.\textsuperscript{211}

Although both statutes cover several of the same prohibited acts, the range of misconduct in the California statute is slightly more extensive than that found in the Texas statute.\textsuperscript{212} In California, it is a theft of trade secrets to steal,\textsuperscript{213} carry away, or use

\textsuperscript{204} The original New Jersey trade secret theft statute punished stealing, embezzling, or making a copy of a trade secret. N.J. STAT. ANN. § 2A:119-5.3 (repealed 1978).


\textsuperscript{210} See TEX. PENAL CODE ANN. §§ 15.01, 15.02 (West 2017) (stating Texas’s criminal attempt and conspiracy statutes). The offense of attempt or conspiracy is a state jail felony punishable by confinement in a state jail for not more than two years or less than 180 days and a fine not to exceed $10,000. Id. § 12.35(a).


\textsuperscript{212} Compare CAL. PENAL CODE § 499c(b) (West 2016), with TEX. PENAL CODE ANN. § 31.05(b) (West 1994) (prohibiting stealing, making a copy of a trade secret article, communicating or transmitting a trade secret, or disclosing it).

\textsuperscript{213} “Steal” means to appropriate the property of another intending to permanently deprive him or her of its possession. See People v. Hsieh, 103 Cal. Rptr. 2d 51, 60 (Ct. App. 2000).
trade secrets without authorization. The statute also prohibits the fraudulent appropriation of a trade secret or an article representing a trade secret, or making a copy of it. The California statute further prohibits making an unauthorized copy of an article representing a trade secret after obtaining access to it through a relationship of trust and confidence. In addition, the statute prescribes bribery of an agent or employee, or a former agent or employee, in order to obtain a trade secret. The receipt of stolen trade secrets is not included in the statute, but it has been held to be as unlawful as receipt of stolen property under the general theft statute. In addition to establishing specific intent, the prosecution must prove the act of misappropriation beyond a reasonable doubt.

A review of available trial court cases indicated that the charge most often brought under the California statute is for the act of stealing, taking, carrying away, or using the trade secret.

\[\text{CAL. PENAL CODE § 499c(b)(1) (West 2011).} \]


\[\text{Note that if the theft of trade secrets involved unauthorized access to a computer, the trade secret owner may have claims under the federal Computer Fraud and Abuse Act, 18 U.S.C. § 1030, and the California Computer Data Access and Fraud Act, CAL. PENAL CODE § 502 (West 2016).} \]

\[\text{An “article” is defined as “any object, material, device, or substance or copy thereof, including any writing record, recording, drawing, sample, specimen, prototype, model, photograph, micro-organism, blueprint, map, or tangible representation of a computer program or information, including both human and computer readable information and information while in transit.”} \]

\[\text{CAL. PENAL CODE § 499c(a)(2) (West 2011).} \]

\[\text{“Representing” means describing, depicting, containing, constituting, reflecting, or recording a trade secret.} \]

\[\text{Id. § 499c(a)(8).} \]

\[\text{A “copy” is “any facsimile, replica, photograph or other reproduction of an article, and any note, drawing or sketch made of or from an article.”} \]

\[\text{Id. § 499c(a)(7).} \]

\[\text{Specifically prohibited is copying of the article after it was obtained unlawfully or through breach of a fiduciary relationship.} \]

\[\text{Id. §§ 499c(b)(3)–(4).} \]

\[\text{A bribe or reward involves soliciting, accepting, receiving, or taking a benefit as an inducement.} \]

\[\text{Id. A benefit “means gain or advantage, or anything regarded by the beneficiary as gain or advantage, including benefit to any other person or entity in whose welfare he or she is interested.”} \]

\[\text{Id. § 499c(a)(3).} \]

\[\text{Id. § 496; see also People v. Gopal, 217 Cal. Rptr. 487, 497–98 (Ct. App. 1985) (applying section 496 to receipt of stolen trade secrets).} \]

\[\text{See People v. Hsieh, 103 Cal. Rptr. 2d 51, 61 (Ct. App. 2000).} \]
without authorization. Based on data collected, a charge under this section is brought 60 percent (21/35) of the time, almost always along with a charge under another subsection of the California statute or with other charges for related property crimes, such as unauthorized computer access and fraud (45 percent), grand theft/larceny (35 percent), and others. The review of both trial and appellate court cases punishing trade secret theft revealed that the victims have included small businesses as well as large multinational corporations, such as IBM, Intel, Apple, Nikon, Digital Equipment, and Mattel.

E. Penalties Imposed for Trade Secret Theft Under the Texas and California Statutes

There are numerous penalties available when a defendant is punished for trade secret theft in Texas and California. Trade secret theft in Texas carries a hefty penalty; it is a third-degree

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222 CAL. PENAL CODE § 499c(b)(1) (West 2011). As with other state criminal theft statutes, the acts prohibited in this section are based on the criminal law concept of larceny, which involves the stealing, taking, and carrying away of the personal property of another with the intent to permanently deprive the owner of that property. See Saunders & Evans, supra note 18, at 10.

223 CAL. PENAL CODE § 502(c) (West 2016).

224 Id. § 487(a).

225 Some of these charges were conspiracy, receipt of stolen property, property damage, burglary, fraud, and larceny. The court may impose multiple sentences unless the crimes were committed during the same conduct with a single criminal objective. CAL. PENAL CODE § 654 (West 2018); see also People v. Chew, No. B173861, 2005 WL 1332208, at *1 (Cal. Ct. App. 2005) (upholding separate sentences for trade secret theft and later occurring attempted extortion). Although it was not part of the data obtained through our public records request, we were able to independently confirm through additional research that there was a related civil action for trade secret misappropriation based on the misconduct in at least five of the cases, and that the defendants in four of the cases were subject to a confidentiality or nondisclosure agreement.


227 People v. Serrata, 133 Cal. Rptr. 144, 146 (Ct. App. 1976).


231 People v. Farell, 121 Cal. Rptr. 2d 603, 604 (2002).

felony. This classification is based on the crime itself rather than the value of the trade secret involved, as is common in general theft statutes. However, the most likely punishment is deferred adjudication community supervision. The review of available trial court cases in the five largest counties revealed 39 percent (47/122) of the cases, involving 28 defendants, resulted in punishment. According to this data, over 50 percent of defendants (15/28) received deferred adjudication community supervision for their offense, which may be another reason there are so few appellate cases interpreting the trade secret theft statute. Deferred adjudication community supervision is not a conviction, but rather a deferral of the determination of guilt. The judge defers the determination of guilt for a specified time period. The period of deferred adjudication community supervision may not exceed ten years in a trade secret theft case and it is not uncommon for the judge to order the maximum. A fine as well as community service may be imposed with the deferred adjudication. Of the available trial court records, the highest fine assessed with deferred adjudication was $5,000 and the greatest number of community service hours was 240 hours. If the defendant violates the terms of deferred adjudication, then the defendant can be arrested, and the judge can proceed with an adjudication of guilt. However, if the defendant completes deferred adjudication, then the case is dismissed.

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233 TEX. PENAL CODE ANN. § 31.05(c) (West 2017).
235 Trial court data involving defendants who received deferred adjudication is limited, which is likely due to the defendant’s right to request nondisclosure in such cases. TEX. CODE CRIM. PROC. ANN. art. 42A.106(b) (West 2017).
236 Id. art. 42A.001(1).
237 Id.
238 Id. art. 42A.103(a).
240 TEX. CODE CRIM. PROC. ANN. art. 42A.104(a) (West 2017).
241 Id. art. 42A.301(b)(10).
244 TEX. CODE CRIM. PROC. ANN. art. 42A.108 (West 2017).
245 Id. art. 42A.111(a). Several trade secret theft cases in Texas have been dismissed at the trial court level; however, in some cases it is not possible to determine how many of these are due to insufficient evidence or merely successful completion of deferred adjudication.
A conviction under the Texas trade secret theft statute is punishable by imprisonment for two to ten years and a fine not to exceed $10,000.\textsuperscript{246} According to the available trial court records, the shortest prison term assessed was two years,\textsuperscript{247} while the longest term assessed was five years.\textsuperscript{248} In addition, the average fine assessed was $5,000 per count.\textsuperscript{249} Regardless of the punishment assessed for trade secret theft, the court can order that the defendant pay restitution to the victim.\textsuperscript{250}

The offense of trade secret theft under the current California statute is classified as a felony,\textsuperscript{251} punishable by a term of imprisonment of up to one year, or a fine of $5,000, or both.\textsuperscript{252} These are not as severe as the penalties assessed in Texas.\textsuperscript{253} In addition, a victim who incurs an economic loss as a result of the crime is entitled to receive restitution from the defendant based on the amount of the loss, including lost profits.\textsuperscript{254}

The review of California trial court cases\textsuperscript{255} revealed that courts have imposed the maximum sentence of one year on only one defendant\textsuperscript{256} and only one defendant was assessed a fine in

\textsuperscript{246} TEX. PENAL CODE ANN. § 12.34 (West 2017).


\textsuperscript{251} CAL. PENAL CODE § 1170(h) (West 2019). This assumes that the value of the secret stolen is above $950, which is likely in almost every case. The value of the trade secret information itself, not just the value of the physical item or article in which it is contained or recorded, will be considered in determining if the theft is a felony. See People v. Gopal, 217 Cal. Rptr. 487, 499 (Ct. App. 1985).

\textsuperscript{252} CAL. PENAL CODE § 499c(c) (West 2011).

\textsuperscript{253} See TEX. PENAL CODE ANN. § 12.34 (West 2017) (stating a conviction under the Texas trade secret theft statute is punishable by imprisonment for two to ten years and a fine not to exceed $10,000).


\textsuperscript{255} Data on sentencing was either not provided or not available for all cases involving a conviction.

the amount of $528.25.\textsuperscript{257} Otherwise, the terms of imprisonment imposed range from one day\textsuperscript{258} to nine months,\textsuperscript{259} while the court ordered restitution in the amount of $800,000 in one case\textsuperscript{260} and community service in two others.\textsuperscript{261} Courts also ordered probation in 37 percent (13/35) of the cases, almost always in conjunction with other punishments.\textsuperscript{262} In several cases in which the charge of trade secret theft was dismissed, the defendant pleaded guilty to or was convicted of other crimes and received punishments of fines and imprisonment for those crimes.\textsuperscript{263}

Overall, when considering both the factors for prosecuting the trade secret theft charge and the resulting penalties, it is likely that prosecutors will be interested in the strength of the evidence as it relates to the ease or difficulty of proving the case. As such, the business owner should be prepared to ensure availability and cooperation of key witnesses and to provide prosecutors with the results of any internal investigation as well as evidence of the value of and measures used to protect the trade secret.

Aside from its potential deterrent effect, a criminal prosecution can result in an order of restitution to the victim for the loss

\textsuperscript{260} See id. This restitution order was later the subject of an appeal in which the defendant was found to have willfully failed to pay it. See People v. Schapel, No. G043308, 2011 WL 2351590, at *1 (Cal. Ct. App. 2011).
suffered due to the theft. In essence, restitution serves as the equivalent of a compensatory damages award without the necessity of incurring the costs and attorney’s fees of a civil action. A criminal prosecution avoids the problem presented by a defendant who is otherwise judgment-proof due to a homestead exemption. Moreover, restitution furthers the purposes of restorative justice, with its focus on the victim rather than the punishment, by repairing the harm suffered by the trade secret owner because of the crime.264

CONCLUSION

Business owners in Texas and California seeking a remedy for trade secret theft have several options. Civil remedies available under the Defend Trade Secrets Act and state Uniform Trade Secrets Acts can be substantial, but business owners in both states face the harsh reality that homestead laws may prevent collection of a favorable judgment.265 In those cases where the availability and effectiveness of a civil remedy is limited, criminal penalties under either the Economic Espionage Act or state trade secret theft statutes can be an alternative means to punish a thief.266

However, federal prosecutors have shown little interest in bringing charges under the Economic Espionage Act unless the case involves theft of trade secrets owned by large corporations or economic espionage by agents of a foreign government.267 This just leaves the option of pursuing criminal penalties under the state criminal trade secret theft statutes.268 Although there are some limitations posed by these statutes that require some clever drafting on the prosecutor’s part,269 the use of these statutes in both California and Texas appears to be the most viable option for a business owner seeking relief from trade secret theft.

265 See supra note 41 and accompanying text.
266 See supra notes 93–98 and accompanying text.
267 See supra note 16 and accompanying text.
268 See supra note 18 and accompanying text.
269 See supra notes 263–64.