

April 2019

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

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Michelle Evans and Kurt M. Saunders, *Criminal Trade Secret Theft Cases Against Judgment Proof Defendants in Texas and California*, 10 Wm. & Mary Bus. L. Rev. 579 (2019), <https://scholarship.law.wm.edu/wmblr/vol10/iss3/2>

CRIMINAL TRADE SECRET THEFT CASES
AGAINST JUDGMENT PROOF DEFENDANTS IN
TEXAS AND CALIFORNIA

MICHELLE EVANS*
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ABSTRACT

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 states¹ 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

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.").

⁴ See Michelle Evans, *Trade Secret Misappropriation in Texas*, 24 S. L.J. 67, 67 (2014).

⁵ *Trends in Proprietary Information Loss Survey Report*, AM. SOC'Y FOR INDUS. SEC. & PRICEWATERHOUSE COOPERS, 1 (Sept. 2002), <https://www.uschamber.com/sites/default/files/legacy/issues/technology/files/informationloss2.pdf> [<https://perma.cc/4MS4-9GNN>].

⁶ See David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZAGA L. REV. 57, 69 (2010).

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.⁹ The judgment may also include punitive damages to compensate for egregious conduct by the thief.¹⁰ 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.¹¹ Many individual defendants are “judgment proof” because they lack sufficient assets to pay the judgment.¹² 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.¹³ Those creditors include successful plaintiffs, making monetary recovery against an individual thief in those states nearly impossible.¹⁴

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.¹⁵ 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.¹⁶ 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.¹⁷ There is, however, an

popularity of trade secret litigation). *See generally* Douglas R. Nemecek et al., *The Rise of Trade Secret Litigation in the Digital Age*, SKADDEN (Jan. 23, 2018), <https://www.skadden.com/insights/publications/2018/01/2018-insights/the-rise-of-trade-secret-litigation>.

⁹ *See infra* notes 33, 38 and accompanying text.

¹⁰ *See infra* note 38.

¹¹ *See* Michelle Evans, *Effectiveness of Available Civil Remedies as a Factor Influencing Prosecution of Economic Espionage Act Cases*, 57 WASHBURN L.J. 463, 477–78 (2018) (describing the problem of judgement-proof defendants).

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.

¹⁸ See Kurt M. Saunders & Michelle Evans, *A Review of State Criminal Trade Secret Theft Statutes*, 21 UCLA J.L. & TECH. 1, 22, 25 (2017), <http://www.lawtechjournal.com/home/articles/750/> [<http://perma.cc/GV3P-KVAN>].

¹⁹ On HeinOnline, a search for law journal articles concerning the Economic Espionage Act returned over 14,000 results. Search for Economic Espionage Act Limited to Law Journal Articles, HEINONLINE (Jan. 11, 2019), https://heinonline.org/HOL/LuceneSearch?terms=Economic+Espionage+Act&collection=all&searchtype=advanced&typea=text&tabfrom=&submitGo&all=true&face_quers=partof%3Ajournals&new_face=partof.

²⁰ On Westlaw, a search for journal articles citing the Texas trade secrets title returned 14 results. Search for Citing References Limited to Law Reviews for TX Civ. Prac. & Rem. § 134A.001, WESTLAW (Jan. 12, 2019), [https://1.next.westlaw.com/RelatedInformation/NA73AC1E0D99011E2B45DEDA738257200/kcCitingReferences.html?docSource=2b8d48d877c14b1f8913616890daca47&rank=1&pageNumber=1&facetGuid=he2c946cad0287a6a5f92b2d2c89e8854&transitionType=ListViewType&contextData=\(sc.Search\)](https://1.next.westlaw.com/RelatedInformation/NA73AC1E0D99011E2B45DEDA738257200/kcCitingReferences.html?docSource=2b8d48d877c14b1f8913616890daca47&rank=1&pageNumber=1&facetGuid=he2c946cad0287a6a5f92b2d2c89e8854&transitionType=ListViewType&contextData=(sc.Search)). A similar search for the California title returned 155 results. Search for Citing References Limited to Law Reviews for CA Civil § 3426, WESTLAW (Jan. 12, 2019), [https://1.next.westlaw.com/RelatedInformation/NFFABC3B08E5911D8A8ACD145B11214D7/kcCitingReferences.html?docSource=4867ed71731849368b041b92a5fcd4ec&rank=1&pageNumber=1&facetGuid=he2c946cad0287a6a5f92b2d2c89e8854&transitionType=ListViewType&contextData=\(sc.Search\)](https://1.next.westlaw.com/RelatedInformation/NFFABC3B08E5911D8A8ACD145B11214D7/kcCitingReferences.html?docSource=4867ed71731849368b041b92a5fcd4ec&rank=1&pageNumber=1&facetGuid=he2c946cad0287a6a5f92b2d2c89e8854&transitionType=ListViewType&contextData=(sc.Search)).

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 Texas²⁵ and California.²⁶ According to the UTSA, a “trade secret” is:

[I]nformation, 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”).

²³ See generally Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800–1920*, 52 HASTINGS L.J. 441 (2001).

²⁴ UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 529–659 (2005) [hereinafter UTSA].

²⁵ TEX. CIV. PRAC. & REM. CODE ANN. §§ 134A.001–.008 (West 2016). For further discussion of the Texas Uniform Trade Secrets Act, see generally Michelle Evans, *Determining What Constitutes a Trade Secret Under the New Texas Uniform Trade Secrets Act (TUTSA)*, 46 TEX. TECH. L. REV. 469 (2014); Michelle Evans, *The Uniform Trade Secrets Act Makes Its Way to Texas*, 23 TEX. INTELL. PROP. L.J. 25 (2014).

²⁶ CAL. CIV. CODE §§ 3426.1–.11 (West 2016). For a discussion of the legislative background and intent of the California UTSA, see generally James H. Pooley, *The Uniform Trade Secrets Act: California Civil Code 3426*, 1 SANTA CLARA COMPUTER & HIGH TECH. L.J. 193 (1985).

- (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,

²⁷ UTSA § 1(4). For a case study detailing each subpart of the UTSA trade secret definition, see generally Michelle Evans, *Trade Secrets in the Legal Studies Curriculum—A Case Study*, 29 J. LEGAL STUD. EDUC. 1 (2012).

²⁸ See generally Richard F. Dole, *The Contours of American Trade Secret Law: What Is and What Isn't Protectable as a Trade Secret*, 19 SMU SCI. & TECH. L. REV. 89 (2016) (reviewing the types of confidential information that qualify for protection as trade secrets).

²⁹ See Saunders & Evans, *supra* note 18, at 8–9; see also Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 285 (1980) (discussing the three elements of the UTSA definition).

³⁰ See UTSA § 1(2).

³¹ *Id.* § 1(1). Liability for misappropriation can be negated by proof of reverse engineering of a lawfully acquired product containing the trade secret, or through independent discovery of the same information constituting the trade secret. See *id.* § 1(1) cmt.

³² See *id.*

³³ *Id.* §§ 2–3. In addition, the court may award attorney's fees. *Id.* § 4.

³⁴ 18 U.S.C. § 1836 (2016).

or intended for use in, interstate or foreign commerce.”³⁵ The definition of misappropriation largely mirrors that of the UTSA,³⁶ with its focus on unauthorized use or disclosure of the information or its acquisition through improper means.³⁷ A prevailing trade secret owner can recover injunctive relief, monetary damages for actual loss and unjust enrichment, and attorney’s fees.³⁸ 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.”³⁹ The DTSA does not preempt state law remedies.⁴⁰

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.⁴¹ The reason for this is because most individuals in Texas and California are judgment proof.⁴² Homestead laws in both states render

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).

³⁷ 18 U.S.C. § 1839(b)(3)(B)(5) (2016).

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).

⁴⁰ See generally *id.* § 1838. For a discussion of the background and main provisions of the DTSA, see generally John Cannan, *A (Mostly) Legislative History of the Defend Trade Secrets Act*, 109 L. LIBR. J. 363 (2017).

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.⁴³

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.⁴⁴ The Texas Constitution provides protection for real estate and sets the limits of that protection according to acreage, rather than value, of the property.⁴⁵ The Texas Property Code provides additional detail on how the homestead protection for real estate applies.⁴⁶ Mere ownership of real estate is not sufficient to establish the protection.⁴⁷ In order to establish homestead protection in Texas, the claimant must show both overt acts of

Kyle D. Logue, *Solving the Judgment-Proof Problem*, 72 TEX. L. REV. 1375 (1994); Steven Shavell, *The Judgment Proof Problem*, 6 INT'L REV. L. & ECON. 45 (1986).

⁴³ See TEX. CONST. art. XVI, § 50 (West through Nov. 2011 amendments); TEX. PROP. CODE ANN. §§ 41.001, 42.001, 42.002 (West 2012).

⁴⁴ See TEX. CONST. art. XVI, § 50; TEX. PROP. CODE ANN. § 41.001 (West 2001).

⁴⁵ General protection for forced sale by general creditors with limited exceptions is found in the Texas Constitution. TEX. CONST. art. XVI, § 50. The Texas Constitution provides that,

[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 refinance 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 refinance, and a new lien is not invalid only for that reason.

Id. art. XVI, § 51.

⁴⁶ See, e.g., TEX. PROP. CODE ANN. § 41.001 (West 2012).

⁴⁷ See *Lifemark Corp. v. Merritt*, 655 S.W.2d 310, 314 (Tex. Ct. App. 1983).

homestead usage and the intention to claim the land as a homestead.⁴⁸ Once established, the homestead right exempts the property from seizure by general creditors.⁴⁹ 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 owelty of partition, (5) home equity liens, (6) an extension of credit, or (7) a reverse mortgage.⁵⁰

Although the homestead right in Texas is based on acreage rather than value, the homestead right further distinguishes between urban and rural use.⁵¹ A residence for urban homestead purposes may be in one or more contiguous tracts.⁵² The urban homestead, however, is limited to ten acres.⁵³ Improvements on the urban homestead are entirely exempt.⁵⁴ The limits of a rural homestead, however, depend on whether the person uses the property as part of a family⁵⁵ or as a single adult.⁵⁶ Property will be considered rural if it does not fall within the definition of urban homestead found in the Code.⁵⁷ This rural homestead is limited to 200 acres for a family homestead.⁵⁸ A single adult homestead is limited to 100 acres.⁵⁹ 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.⁶⁰ Just like urban homesteads, improvements on the rural homestead are entirely exempt.⁶¹

Homestead protection for real estate in Texas continues until death,⁶² abandonment,⁶³ or alienation.⁶⁴ A sale of the property will terminate the homestead rights because it constitutes abandonment,⁶⁵ but the proceeds from the sale are exempt for six months.⁶⁶ A divorce will terminate a family homestead, but the homestead protection can continue with those remaining in the household following the divorce.⁶⁷

Personal property in Texas is also protected under the homestead laws. There is a monetary exemption for personal property⁶⁸

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).

⁶⁴ See Long Bell Lumber Co. v. Miller, 240 S.W.2d 405, 406 (Tex. Ct. App. 1951).

⁶⁵ See Franklin v. Woods, 598 S.W.2d 946, 949 (Tex. Ct. App. 1980).

⁶⁶ 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 plans⁷² 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,⁸⁷ nor do they apply to liens created voluntarily by property owners.⁸⁸ 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.⁸⁹

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.⁹⁰

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 Act⁹¹ and the Texas Public Information Act.⁹² Case file information that we were provided in response to these requests varied in content from county

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).

⁹⁰ See generally William J. Edelman, *The "Benefit" of Spying: Defining The Boundaries Of Economic Espionage under the Economic Espionage Act Of 1996*, 63 STAN. L. REV. 447 (2011) (discussing the Economic Espionage Act).

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.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.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.⁹⁵ The trade secret must be related to a product or service used or intended for use in interstate or foreign commerce.⁹⁶ The definition of trade secret in the EEA is the same as that used in the DTSA,⁹⁷ and penalties for conviction include imprisonment of up to ten years and fines.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.⁹⁹

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

⁹³ 18 U.S.C. §§ 1831–39 (2016). For a detailed discussion of the background and provisions of the EEA, see James H. A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 TEX. INTELL. PROP. L.J. 177 (1997).

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. *Id.* § 1831. By contrast, there is no requirement of foreign involvement in the offense of theft of trade secrets.

⁹⁵ *Id.* § 1832(a).

⁹⁶ *Id.* § 1832. The EEA does not preempt prosecutions under state criminal trade secret laws. *Id.* § 1838.

⁹⁷ *Id.* § 1839(b)(3).

⁹⁸ *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. *Id.* § 1832(a).

⁹⁹ See Geraldine S. Moohr, *The Problematic Role of Criminal Law in Regulating Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. REV. 853, 884 (2002).

¹⁰⁰ *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

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(i)(2)(xii) (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).

¹⁰⁶ See, e.g., ME. REV. STAT. ANN. tit. 17-A, § 352(1)(F) (2015); MONT. CODE ANN. § 45-2-101(61)(j) (2016); N.H. REV. STAT. ANN. § 637:2(1) (2016); N.J. STAT. ANN. § 2C:20-1(g), (i) (West 2016); OHIO REV. CODE ANN. § 2901.01(A)(10)(a), (b) (West 2016); UTAH CODE ANN. § 76-6-401(1) (West 2016).

¹⁰⁷ See Saunders & Evans, *supra* note 18, at 16–17.

also wide variation as to classifying the offense as a felony or misdemeanor, and the severity of the penalties imposed.¹⁰⁸

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,¹⁰⁹ Uniform Trade Secrets Act,¹¹⁰ or New York¹¹¹ statute definitions. Texas's trade secret theft statute

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); UTAH 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

be, available to anyone other than the person or persons rightfully in possession thereof or selected persons having access thereto with his or their consent, and when it accords or may accord such rightful possessors an advantage over competitors or other persons who do not have knowledge or the benefit thereof.

N.Y. PENAL LAW § 155.00(6) (McKinney 2016) 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.

¹¹² N.J. STAT. ANN. § 2A:119-5.2(c) added pursuant to 1965 N.J. Laws 119 (repealed 1978). For a discussion of the original but now repealed New Jersey statute, see Rainer M. Kohler, *Trade Secrets*, 7 B.C. L. REV. 324 (1966).

¹¹³ 1973 Tex. Gen. Laws 883, *amended by* 1993 Tex. Gen. Laws 3586.

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.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.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.”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.¹²¹ Trade secret descriptions supporting a trade secret theft indictment require identification by “name, kind, number, and ownership,” if known.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.¹²³ If the trade secret is set forth in a written document, then that document must be part of the indictment.¹²⁴ If this level of detail cannot be satisfied, then the case will be dismissed.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.¹²⁶ In fact, about ten years after the statute went into effect, there was a call by prosecutors for amendment

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).

¹¹⁹ *McClain v. State*, 269 S.W.3d 191, 194–95 (Tex. App. 2008).

¹²⁰ *Atkins v. State*, 667 S.W.2d 540, 542 (Tex. App. 1983).

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).

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).

¹²³ TEX. CODE CRIM. PROC. ANN. art. 21.09 (West 2017).

¹²⁴ *Atkins*, 667 S.W.2d 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).

¹²⁵ *See, e.g., id.* at 540.

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.¹²⁷ The requested amendment never took place.¹²⁸ 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.¹²⁹ Unlike Texas, California allows for simplified pleading.¹³⁰ “In charging an offense, each count is sufficient if it contains in substance a statement that the accused has committed some specified public offense.”¹³¹ 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”¹³² and “to protect trade secrets from appropriation by wrongful, dishonest methods.”¹³³ 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.”¹³⁴

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.¹³⁵ In addition, the California statute specifies proof of an intent to deprive, withhold, or appropriate

¹²⁷ Daniel Benedict, *Law Used Infrequently, with Mixed Results*, HOUS. CHRON., Apr. 7, 1985, at 4-1.

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. Farrell*, 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.¹³⁶ 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.”¹³⁷ 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.¹³⁸ 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.¹³⁹

As in Texas, there are not many reported California appellate court decisions to provide guidance in prosecuting these cases.¹⁴⁰ 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.¹⁴¹ 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.¹⁴² 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

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.”¹⁴³ Several states, like Texas, utilize this, or a similar definition, in their specific trade secret theft statutes.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.¹⁴⁵ This maintains a clear distinction between what constitutes civil misappropriation versus criminal theft of trade secrets in Texas.¹⁴⁶ In fact, the TUTSA expressly provides that the Act does not affect available criminal penalties.¹⁴⁷ Nonetheless, the factors that support trade secret status in Texas are similar in both criminal and civil law.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.¹⁴⁹ During the early years of the trade secret theft statute, this was necessary to add clarity to its trade secret definition.¹⁵⁰

¹⁴³ TEX. PENAL CODE ANN. § 31.05(a)(4) (West 2017); *see also* Leonard v. State, 767 S.W.2d 171, 175 (Tex. App. 1988).

¹⁴⁴ *See, e.g.*, ALA. CODE § 13A-8-10.4(a)(4) (2016); ARK. CODE ANN. § 5-36-101(12) (West 2016); COLO. REV. STAT. ANN. § 18-4-408(2)(d) (West 2016); FLA. STAT. ANN. § 812.081(1)(c) (West 2016); 18 PA. STAT. AND CONS. STAT. ANN. § 3930(e) (West 2016); TENN. CODE ANN. § 39-14-138(a)(4) (West 2016); TEX. PENAL CODE ANN. § 31.05(a)(4) (West 2015).

¹⁴⁵ *See* COLO. REV. STAT. ANN. § 18-4-408(2)(d) (West 2016); OHIO REV. CODE ANN. § 2901.01(A)(10)(a), (b) (West 2016).

¹⁴⁶ *See* TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(b)(3) (West 2017).

¹⁴⁷ *See id.* Prior to adoption of the TUTSA a claim under the Texas Trade Secret Theft statute could also be alleged as a civil claim for theft under the Texas Theft Liability Act. *See* TEX. CIV. PRAC. & REM. CODE ANN. §§ 134.001–134.005 (West 2012). The legislature removed this option with enactment of the TUTSA. *See* 2013 Tex. Gen. Laws 12. Most court interpretation of the Texas trade secret theft statute has been made in civil cases under the TTLA rather than directly through criminal trade secret cases. *See infra* note 153 and accompanying text.

¹⁴⁸ *See infra* note 153 and accompanying text.

¹⁴⁹ Schalk v. State, 823 S.W.2d 633, 636 (Tex. Crim. App. 1991). For a historical account of civil trade secret cases decided before enactment of the Texas Uniform Trade Secrets Act, *see generally* Michelle Evans, *What Constitutes a Trade Secret in Texas?*, 23 S. L.J. 99 (2013).

¹⁵⁰ A question arose concerning the trade secret’s value. Was this value tied to the tangibility of the trade secret itself, which might be measured in pennies, or to the value of the idea or the competitive advantage in owning the idea? In addition, a concern about the limitation to “scientific or technical information” was that intertwined trade secrets might not be captured by the statute. One example involves a marketing plan and design of a missile, which are equally valuable to the company, but the statute only covers the design rather than

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.”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.”¹⁵² If the information becomes public knowledge, it will lose its status as a trade secret.¹⁵³ However, a limited disclosure to third parties will not risk trade secret status where the third parties agree to keep the information secret.¹⁵⁴

The statute does not address the degree or extent to which an owner must go to protect a secret.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.”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.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,¹⁵⁸ voice controlled computer programs,¹⁵⁹ industrial designs for

the marketing plan. Daniel Benedict, *Law Used Infrequently, with Mixed Results*, HOUS. CHRON., Apr. 7, 1985, at 4-1.

¹⁵¹ *Atkins v. State*, 667 S.W.2d 540, 542 (Tex. App. 1983).

¹⁵² *Leonard v. State*, 767 S.W.2d 171, 175 (Tex. App. 1988).

¹⁵³ *McClain v. State*, 269 S.W.3d 191, 197 (Tex. App. 2008) (reversing a conviction for trade secret theft where the alleged trade secret circuit diagrams were public knowledge); *Leonard*, 767 S.W.2d at 175; *Furr’s Inc. v. United Specialty Advert. Co.*, 338 S.W.2d 762, 765 (Tex. Civ. App. 1960).

¹⁵⁴ *Leonard*, 767 S.W.2d at 175; RESTATEMENT (FIRST) OF TORTS § 757 cmt. B (1939).

¹⁵⁵ *Leonard*, 767 S.W.2d at 176.

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).

¹⁵⁷ *See, e.g., 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).

¹⁵⁸ *State v. Hamilton*, No. 037731901010 (Harris Cty. Dist. Ct. Dec. 20, 1983).

¹⁵⁹ *State v. Leonard*, No. F86-98690-HM (Dall. Cty. Dist. Ct. Sept. 11, 1986); *State v. Schalk*, No. F85-98689-M (Dall. Cty. Dist. Ct. Sept. 11, 1986).

turbines,¹⁶⁰ architectural blueprints,¹⁶¹ a seismic prospect map,¹⁶² recipe books,¹⁶³ and drawings for bearing assemblies, O-rings and compressor parts.¹⁶⁴ The defendants in these cases were former employees,¹⁶⁵ consultants,¹⁶⁶ and competitors¹⁶⁷—both individuals¹⁶⁸ and businesses.¹⁶⁹

A threshold requirement for conviction under the California trade secret theft statute is that the theft must involve a “trade secret.”¹⁷⁰ Unlike Texas, the California statute uses the UTSA definition¹⁷¹ that defines a trade secret as information that has economic value and is subject to reasonable measures to maintain its secrecy.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,¹⁷³ computer programs and source code,¹⁷⁴ semiconductors and

¹⁶⁰ *State v. Preco Turbine Serv., Inc.*, No. 044312501030 (Harris Cty. Dist. Ct. Mar. 3, 1985).

¹⁶¹ *State v. Atkins*, No. F79-3950-JQ (Dall. Cty. Dist. Ct. Sept. 4, 1981).

¹⁶² *State v. Jusbasche*, No. 041222101010 (Harris Cty. Dist. Ct. Dec. 7, 1984).

¹⁶³ *State v. Lin*, No. 103585201010 (Harris Cty. Dist. Ct. Sept. 15, 2005).

¹⁶⁴ *State v. McGowan*, No. 065393701010 (Harris Cty. Dist. Ct. Dec. 6, 1993); *State v. Weightman*, No. 063563801010 (Harris Cty. Dist. Ct. Dec. 6, 1993).

¹⁶⁵ *See, e.g., State v. Schalk*, No. F85-98689-M (Dall. Cty. Dist. Ct. Sept. 11, 1986).

¹⁶⁶ *See, e.g., State v. Hamilton*, No. 037731901010 (Harris Cty. Dist. Ct. Dec. 20, 1983).

¹⁶⁷ *See, e.g., State v. Preco Turbine Serv., Inc.*, No. 044312501030 (Harris Cty. Dist. Ct. Mar. 3, 1986).

¹⁶⁸ *See, e.g., State v. Ortiz*, No. 2014CR4433 (Bexar Cty. Dist. Ct. Dec. 17, 2015).

¹⁶⁹ *See, e.g., State v. Gen. Oilfield Prod., Inc.*, No. 055072801010 (Harris Cty. Dist. Ct. Mar. 1, 1990).

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).

¹⁷¹ *See supra* notes 143–44 and accompanying text.

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).

¹⁷³ *People v. Serrata*, 133 Cal. Rptr. 144, 150 (Ct. App. 1976); *People v. Tsukurukawa*, No. 1889267 (S.F. Cty. Super. Ct. 1998).

¹⁷⁴ *See, e.g., People v. Naranjo*, No. A102038, 2004 WL 1283993, at *1 (Cal. Ct. App. 2004); *People v. Seagraves*, No. H021996, 2001 WL 1283781, at *1 (Cal. Ct. App. 2001); *People v. Schapel*, No. 08HF1635 (Orange Cty. Super. Ct. Jan. 8, 2009); *People v. Batza*, No. BA240376 (L.A. Cty. May 21, 2003).

computer chip devices,¹⁷⁵ customer lists,¹⁷⁶ financial data and information,¹⁷⁷ and business methods.¹⁷⁸

As in civil cases, the California definition does not encompass an employee's use of his or her general knowledge and skill.¹⁷⁹ Nor is there protection "for information known either to the public at large or to those skilled in the particular field."¹⁸⁰ The California definition is broader than that of the Texas statute, which is limited to scientific and technical information.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.¹⁸² However, in practice, Texas counties have been charging theft of customer lists under the statute.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.¹⁸⁴ For instance, information that involves or implements a well-known process does not derive economic value from not being generally known.¹⁸⁵ As such, this element requires proof that the information stolen "gives one who uses it an

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).

¹⁷⁶ See, e.g., *People v. Schapel*, No. 08HF1635 (Orange Cty. Super. Ct. Jan. 8, 2009); *People v. Chew*, No. KA061570 (L.A. Cty. Super. Ct. June 18, 2003).

¹⁷⁷ See, e.g., *Chew*, No. KA061570.

¹⁷⁸ See, e.g., *People v. Castilla*, No. BA368861 (L.A. Cty. Super. Ct. Jan. 11, 2011).

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).

¹⁸⁰ *Id.* at 56.

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).

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

¹⁸³ See, e.g., *State v. Nielsen*, No. 1983CR1639 (Bexar Cty. Dist. Ct. Mar. 26, 1986).

¹⁸⁴ CAL. PENAL CODE § 499c(a)(9)(A) (West 2011).

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.”¹⁸⁶ 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.¹⁸⁷ The courts have cautioned that this requires more than merely conclusory and generalized allegations of value.¹⁸⁸ 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.¹⁸⁹ 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.¹⁹⁰

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.”¹⁹¹ 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.¹⁹² The determination of secrecy is a factual issue.¹⁹³ In deciding whether secrecy measures are effective, the California courts have cited approvingly to

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).

¹⁸⁷ *See* *People v. Hsieh*, 103 Cal. Rptr. 2d 51, 57 (Ct. App. 2000).

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).

¹⁹¹ *Hsieh*, 103 Cal. Rptr. 2d at 59. For further discussion about what constitute “reasonable efforts” to maintain secrecy, *see* generally Molly H. Cash, *Keep It Secret, Keep It Safe: Protecting Trade Secrets by Revisiting the Reasonable Efforts Requirement in Federal Law*, 23 J. INTELL. PROP. 263 (2016); David W. Slaby et al., *Trade Secret Protection: An Analysis of the Concept “Efforts Reasonable Under the Circumstances to Maintain Secrecy,”* 5 SANTA CLARA COMPUTER & HIGH TECH. L.J. 321 (1989).

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.¹⁹⁴

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,¹⁹⁵

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

¹⁹⁵ See 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. See 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.

the person knowingly¹⁹⁶: “(1) steals¹⁹⁷ a trade secret; (2) makes a copy¹⁹⁸ of an article¹⁹⁹ representing²⁰⁰ a trade secret; or (3) communicates or transmits²⁰¹ a trade secret.”²⁰² According to the Practice Commentary, “this section criminalizes unauthorized reproductions and communication of trade secrets ... whether or not it is a theft.”²⁰³

¹⁹⁶ 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. *Leonard*, 767 S.W.2d at 178.

¹⁹⁷ “Steal’ means to acquire property or service by theft.” TEX. PENAL CODE ANN. § 31.01(7) (West 2017).

¹⁹⁸ 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).

¹⁹⁹ 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).

²⁰⁰ “Representing” is defined by the statute as “describing, depicting, containing, constituting, reflecting, or recording.” *Id.* § 31.05(a)(3).

²⁰¹ “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).

²⁰² TEX. PENAL CODE ANN. § 31.05(b) (West 2017).

²⁰³ *Falcone v. State*, 682 S.W.2d 418, 421 (Tex. App. 1984) (quoting Practice Commentary to Vernon’s Texas Penal Code Annotated § 31.05 (1974)); *Atkins v. State*, 667 S.W.2d 540, 542 (Tex. App. 1983).

The acts prohibited are quite similar to what was seen in the original New Jersey trade secret theft statute.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,²⁰⁵ General Electric Co.,²⁰⁶ Amoco,²⁰⁷ Dresser-Rand Inc.,²⁰⁸ and Shell.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.²¹⁰ However, the review of available Texas trial court cases revealed only six defendants who were punished under these alternatives.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.²¹² In California, it is a theft of trade secrets to steal,²¹³ carry away, or use

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).

²⁰⁵ See, e.g., *State v. Leonard*, No. F86-98690-HM (Dall. Cty. Dist. Ct. Sept. 11, 1986).

²⁰⁶ See, e.g., *State v. Preco Turbine Serv., Inc.*, No. 044312501030 (Harris Cty. Dist. Ct. Mar. 3, 1986).

²⁰⁷ See, e.g., *State v. Hamilton*, No. 037731901010 (Harris Cty. Dist. Ct. Dec. 20, 1983).

²⁰⁸ See, e.g., *State v. Weightman*, No. 063563801010 (Harris Cty. Dist. Ct. Dec. 6, 1993).

²⁰⁹ See, e.g., *State v. Jusbasche*, No. 041222101010 (Harris Cty. Dist. Ct. Dec. 7, 1984).

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).

²¹¹ *State v. Lin*, No. 103585201010 (Harris Cty. Dist. Ct. Sept. 15, 2005); *State v. Johnson*, No. 063472501010 (Harris Cty. Dist. Ct. Jan. 20, 1993); *State v. Tomacelli*, No. 046158501010 (Harris Cty. Dist. Ct. Feb. 5, 1987); *State v. Pennock*, No. 032543801010 (Harris Cty. Dist. Ct. Jan. 7, 1981); *State v. Weekley*, No. 053334201010 (Harris Cty. Dist. Ct. Oct. 16, 1978); *State v. Simien*, No. 027453301010 (Harris Cty. Dist. Ct. Jan. 30, 1978).

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).

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.²¹⁴ The statute also prohibits the fraudulent appropriation of a trade secret or an article²¹⁵ representing a trade secret,²¹⁶ or making a copy of it.²¹⁷ 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.²¹⁸ In addition, the statute proscribes bribery of an agent or employee, or a former agent or employee, in order to obtain a trade secret.²¹⁹ 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.²²⁰ In addition to establishing specific intent, the prosecution must prove the act of misappropriation beyond a reasonable doubt.²²¹

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

²¹⁴ CAL. PENAL CODE § 499c(b)(1) (West 2011). For instance, taking documents containing trade secrets without permission would violate this section. *See People v. Chew*, No. B173861, 2005 WL 1332208, at *5 (Cal. Ct. App. 2005). 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).

²¹⁵ 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.” CAL. PENAL CODE § 499c(a)(2) (West 2011).

²¹⁶ “Representing” means describing, depicting, containing, constituting, reflecting, or recording” a trade secret. *Id.* § 499c(a)(8).

²¹⁷ *Id.* § 499c(b)(3). 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.” *Id.* § 499c(a)(7). Specifically prohibited is copying of the article after it was obtained unlawfully or through breach of a fiduciary relationship. *Id.* §§ 499c(b)(3)–(4).

²¹⁸ *Id.* § 499c(b)(4).

²¹⁹ *Id.* § 499c(c). A bribe or reward involves soliciting, accepting, receiving, or taking a benefit as an inducement. *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.” *Id.* § 499c(a)(3).

²²⁰ *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).

²²¹ *See People v. Hsieh*, 103 Cal. Rptr. 2d 51, 61 (Ct. App. 2000).

without authorization.²²² 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),²²³ grand theft/larceny (35 percent),²²⁴ and others.²²⁵ The review of both trial and appellate court cases punishing trade secret theft revealed that the victims have included small businesses²²⁶ as well as large multinational corporations, such as IBM,²²⁷ Intel,²²⁸ Apple,²²⁹ Nikon,²³⁰ Digital Equipment,²³¹ and Mattel.²³²

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

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.

²²⁶ *See, e.g.*, People v. Schapel, No. 08HF1635 (Orange Cty. Super. Ct. Jan. 8, 2009) (data recovery); People v. Batza, No. BA240376 (L.A. Cty. Super. Ct. May 21, 2003) (security services); People v. Chew, No. KA061570 (L.A. Cty. Super. Ct. June 18, 2003) (import and resale of electronics).

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

²²⁸ People v. Gopal, 217 Cal. Rptr. 487, 490 (Ct. App. 1985).

²²⁹ People v. Seagraves, No. H021996, 2001 WL 1283781, at *1 (Ct. App. 2001).

²³⁰ People v. Tsurukawa, No. 1889267 (S.F. Cty. Super. Ct. 1998).

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

²³² People v. Castilla, No. BA368861 (L.A. Cty. Super. Ct. Jan. 11, 2011).

felony.²³³ This classification is based on the crime itself rather than the value of the trade secret involved, as is common in general theft statutes.²³⁴ 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.²³⁵ Deferred adjudication community supervision is not a conviction, but rather a deferral of the determination of guilt.²³⁶ The judge defers the determination of guilt for a specified time period.²³⁷ The period of deferred adjudication community supervision may not exceed ten years in a trade secret theft case²³⁸ and it is not uncommon for the judge to order the maximum.²³⁹ A fine²⁴⁰ as well as community service²⁴¹ may be imposed with the deferred adjudication. Of the available trial court records, the highest fine assessed with deferred adjudication was \$5,000,²⁴² and the greatest number of community service hours was 240 hours.²⁴³ 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.²⁴⁴ However, if the defendant completes deferred adjudication, then the case is dismissed.²⁴⁵

²³³ TEX. PENAL CODE ANN. § 31.05(c) (West 2017).

²³⁴ *Atkins v. State*, 667 S.W.2d 540, 542 (Tex. Ct. App. 1983) (quoting TEX. PENAL CODE ANN. § 31.05 (West 1974)).

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).

²³⁹ *See, e.g., State v. Hardesty*, No. 128788401010 (Harris Cty. Dist. Ct. Oct. 14, 2011).

²⁴⁰ TEX. CODE CRIM. PROC. ANN. art. 42A.104(a) (West 2017).

²⁴¹ *Id.* art. 42A.301(b)(10).

²⁴² *See, e.g., State v. Jusbasche*, No. 041222101010 (Harris Cty. Dist. Ct. Dec. 7, 1984).

²⁴³ *See, e.g., State v. Perez*, No. F9839520 (Dall. Cty. Dist. Ct. Dec. 1, 2006).

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 \$10,000.²⁴⁶ According to the available trial court records, the shortest prison term assessed was two years,²⁴⁷ while the longest term assessed was five years.²⁴⁸ In addition, the average fine assessed was \$5,000 per count.²⁴⁹ Regardless of the punishment assessed for trade secret theft, the court can order that the defendant pay restitution to the victim.²⁵⁰

The offense of trade secret theft under the current California statute is classified as a felony,²⁵¹ punishable by a term of imprisonment of up to one year, or a fine of \$5,000, or both.²⁵² These are not as severe as the penalties assessed in Texas.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.²⁵⁴

The review of California trial court cases²⁵⁵ revealed that courts have imposed the maximum sentence of one year on only one defendant²⁵⁶ and only one defendant was assessed a fine in

²⁴⁶ TEX. PENAL CODE ANN. § 12.34 (West 2017).

²⁴⁷ *See, e.g.*, State v. Schalk, No. F85-98689-M (Dall. Cty. Dist. Ct. Sept. 11, 1986).

²⁴⁸ *See, e.g.*, State v. Weightman, No. 063563801010 (Harris Cty. Dist. Ct. Dec. 6, 1993).

²⁴⁹ *See, e.g.*, State v. Leonard, No. F86-98690-HM (Dall. Cty. Dist. Ct. Sept. 11, 1986).

²⁵⁰ *See, e.g.*, State v. Stevenson, No. F0100640 (Dall. Cty. Dist. Ct. Apr. 26, 2006) (requiring restitution of \$42,050).

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).

²⁵² CAL. PENAL CODE § 499c(c) (West 2011).

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).

²⁵⁴ CAL. CONST. art. 1, § 28(b)(13); CAL. PENAL CODE § 1202.4(f) (West 2019). The factual determinations necessary to order restitution cannot be based on speculation. *See* People v. Naranjo, No. A102038, 2004 WL 1283993, at *1, *4 (Cal. Ct. App. 2004) (reducing amount of restitution for trade secret theft conviction as speculative).

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

²⁵⁶ *See* People v. Chew, No. KA061570 (L.A. Cty. Super. Ct. June 18, 2003).

the amount of \$528.²⁵⁷ Otherwise, the terms of imprisonment imposed range from one day²⁵⁸ to nine months,²⁵⁹ while the court ordered restitution in the amount of \$800,000 in one case²⁶⁰ and community service in two others.²⁶¹ Courts also ordered probation in 37 percent (13/35) of the cases, almost always in conjunction with other punishments.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.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

²⁵⁷ See *People v. Hidalgo*, No. GA049236 (L.A. Cty. Super. Ct. Feb. 14, 2007).

²⁵⁸ See *People v. Diaz*, No. BA253175 (L.A. Cty. Super. Ct. Apr. 27, 2007).

²⁵⁹ See *People v. Schapel*, No. 08HF1635 (Orange Cty. Super. Ct. Jan. 8, 2009).

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).

²⁶¹ See *People v. Chase*, No. SA059701 (L.A. Cty. Super. Ct. Mar. 24, 2006) (152 hours); *People v. Cinney*, No. SA058233 (L.A. Cty. Super. Ct. Oct. 31, 2005) (80 hours).

²⁶² The terms of probation ordered varied from ten years to one year, with three years being most common. See, e.g., *People v. Diaz*, No. BA253175 (L.A. Cty. Super. Ct. Apr. 27, 2007); *People v. Plascencia*, No. 05HF1581 (Orange Cty. Super. Ct. Oct. 14, 2005); *People v. Lin*, No. BA150321 (L.A. Cty. Super. Ct. July 10, 1998); *People v. Keuhne*, No. KA037224 (L.A. Cty. Super. Ct. Nov. 10, 1997).

²⁶³ See, e.g., *People v. Santos*, No. BA275138 (L.A. Cty. Super. Ct. Mar. 1, 2006) (burglary); *People v. Canterbury*, No. BA260183 (L.A. Cty. Super. Ct. Aug. 31, 2004) (receipt of stolen property); *People v. Grinberg*, No. H024701, 2003 WL 21404535, at *1 (Cal. Ct. App. 2003) (computer access and fraud); *People v. Diaz*, No. BA237594 (L.A. Cty. Super. Ct. Nov. 12, 2003) (computer access and fraud); *People v. Morgan*, No. COLTA055177-01 (L.A. Cty. Super. Ct. Jan. 20, 2000) (grand theft); see also *People v. Hawkins*, 121 Cal. Rptr. 2d 627 (Ct. App. 2002) (jury acquitted defendant of trade secret theft but convicted him of unauthorized computer access).

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.

²⁶⁴ See Susan M. Olson & Albert W. Dzur, *Revisiting Informal Justice: Restorative Justice and Democratic Professionalism*, 38 LAW & SOC'Y REV. 139, 142 (2004).

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.