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E. I. duPont de Nemours & Co. v. Christopher: Toward a Higher Standard of Commercial Morality

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NOTES

E. I. duPont de Nemours & Co. v. Christopher: Toward a Higher Standard of Commercial Morality

E. I. duPont de Nemours and Company filed this diversity suit alleging that defendants Rolfe and Gary Christopher had wrongfully obtained and sold aerial photographs which revealed DuPont's trade secrets. DuPont contended that it had developed a highly secret, but unpatented, process for producing methanol, which gave it a competitive advantage over other producers. The photographs exposed the new methanol plant from the air while it was still under construction, thus enabling a knowledgeable person to ascertain the secret process. DuPont sought damages, as well as temporary and permanent injunctions to prohibit any further circulation of the photographs. Defendants moved to dismiss for failure to state a claim upon which relief could be granted.¹ The court denied this motion and granted DuPont's motion to compel the defendants to divulge the name of their client. Defendants' motion for an interlocutory appeal under section 1292(b) was granted.² *Held, affirmed and remanded on the merits:* Under Texas law aerial photography of plant construction is an improper means of obtaining another's trade secrets and is actionable in tort. *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).

I. TRADE SECRETS

A trade secret may consist of any plan, process, tool, mechanism, or compilation of information which gives the owner an opportunity to obtain an advantage over competitors.³ It becomes a property right of its owner⁴ which may be protected by injunction against those who attempt to apply the secret to their own use.⁵ To qualify for such protection, the subject matter of the trade secret must, of course, be kept secret.⁶ It may be either patentable or unpatentable⁷ as long as the owner employed creative faculties in originating it.⁸ A mere mechanical advance will not qualify the item as a trade secret.⁹

Trade secret protection provides the owner with two advantages over patents, copyrights, and trademarks. His secret will be protected for an indefinite period of time, and he is not required to make the public disclosure required of patents.¹⁰ The disadvantage is that one who discovers a trade

¹ FED. R. CIV. P. 12(b)(6).

² 28 U.S.C. § 1292(b) (1966).

³ *E.I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917); *Hyde Corp. v. Huffines*, 158 Tex. 566, 577, 586, 314 S.W.2d 763, 770, 776, *cert. denied*, 358 U.S. 898 (1958); *Brown v. Fowler*, 316 S.W.2d 111, 114 (Tex. Civ. App.—Fort Worth 1958), *error ref. n.r.e.*

⁴ *Brown v. Fowler*, 316 S.W. 111, 115 (Tex. Civ. App.—Fort Worth 1958), *error ref. n.r.e.*

⁵ *Hyde Corp. v. Huffines*, 158 Tex. 566, 586, 314 S.W.2d 763, 776, *cert. denied*, 358 U.S. 898 (1958).

⁶ *Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336, 338 (Tex. 1964).

⁷ *Id.* at 338-39.

⁸ *Boucher v. Wissman*, 233 S.W.2d 314, 317 (Tex. Civ. App.—Dallas 1950), *rev'd on other grounds*, 150 Tex. 326, 240 S.W.2d 278 (1951).

⁹ *Id.*

¹⁰ *Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336, 338-40 (Tex. 1964).

secret properly, as, for example, by inspection or analysis of the commercial product embodying the secret, by independent invention, or by a gift or purchase from the owner, is free to disclose it or use it without liability to the owner.¹¹ However, just because a trade secret may be discovered properly, the owner is not deprived of protection from one who short-cuts the discovery by improper means.¹²

II. THE PROTECTION OF TRADE SECRETS

Statutory. Since there is no federal protection of trade secrets,¹³ this task is left to the states.¹⁴ In Texas the only possible statutory protection would be under the Texas theft statutes,¹⁵ but that possibility is remote. To be so protected, trade secrets would have to be included within the definition of "corporeal personal property."¹⁶ However, a trade secret is not "property" as defined in the Texas Constitution.¹⁷ Also, it would be doubtful that a trade secret has any "specific value capable of being ascertained," as required by the theft statutes.¹⁸

Restatement. Trade secrets are treated in both the *Restatement of Agency*¹⁹ and the *Restatement of Torts*.²⁰ The *Restatement of Torts* places liability on any person who discovers or uses another's trade secret without a privilege to do so and lists four instances when no privilege exists. These are when the trade secret is discovered (a) by improper means, (b) through a breach of confidence, (c) from a third person who gained his knowledge through either improper means or a breach of confidence, or, (d) with notice of the fact that it was a secret and that its disclosure was a mistake.²¹

The legality of the method of the secret's discovery is almost always the determinative issue in trade secret cases, and yet the *Restatement's* term "improper" is not particularly precise. Comment *f* attempts to provide some insight by stating that "means may be improper . . . even though they do not cause any other harm than that to the interest in trade secret."²² A few of the

¹¹ RESTATEMENT OF TORTS § 757, comment *a* at 4 (1939).

¹² *K. & G. Oil Tool Serv. Co. v. G. & G. Fishing Tool Serv.*, 158 Tex. 594, 603, 314 S.W.2d 782, 788, *cert. denied*, 358 U.S. 898 (1958).

¹³ A bill was introduced before the 90th Congress to attempt to provide some degree of uniformity in trade secret law. This bill was basically jurisdictional and was designed to give the federal courts original jurisdiction over unfair competition actions concurrently with the state courts, but was phrased broadly to allow the courts maximum freedom to develop the law with as little statutory direction as possible. The basis of relief was intended to be the confidentiality of the information as against the defendant, and commonly, though not necessarily always, as against the industry at the time of the use which was alleged to be wrongful. S. 1154, 90th Cong., 1st Sess. § 43(a)(4) (1967). See Note, *Trade Secret Protection in Ohio and the Proposed Federal Statute*, 30 OHIO ST. L.J. 157, 164-65 (1969).

¹⁴ Texas has no trade secret statute as such.

¹⁵ TEX. PEN. CODE ANN. arts. 1410-1436d (1953). For examples of specific regulations see CAL. CIV. CODE § 980 (West 1970); ILL. REV. STAT. ch. 38, § 15-1 (1970). See also Fromson, *The Safeguarding of Trade Secrets—Your Elusive Asset*, 40 N.Y. St. B.J. 53, 54 (1968).

¹⁶ TEX. PEN. CODE ANN. art. 1410 (1953).

¹⁷ *Ladner v. Reliance Corp.*, 156 Tex. 158, 166-67, 293 S.W.2d 758, 764 (1958).

¹⁸ TEX. PEN. CODE ANN. art. 1411 (1953).

¹⁹ RESTATEMENT (SECOND) OF AGENCY §§ 395-96 (1958).

²⁰ RESTATEMENT OF TORTS § 757 (1939).

²¹ *Id.*

²² *Id.*, comment *f* at 10-11 (1939).

examples listed include "fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage," but it is admitted that "a complete catalogue . . . is not possible."²³ It concludes that, in general, "improper means" includes any "which fall below the generally accepted standards of commercial morality and reasonable conduct."²⁴

Texas Case Law. In *Hyde Corp. v. Huffines*²⁵ the Texas supreme court used the *Restatement* rule²⁶ and *Restatement* commentaries to explain the applicable sections pertaining to a breach of confidence. It was upon this authority that the trade secret issue was decided. The suit was for appropriation of a trade secret through a breach of confidence. A licensee, after contracting with the inventor of a garbage truck upon which an application for a patent was pending, repudiated the licensing agreement and insisted upon utilizing the invention. All the information necessary for the utilization of this invention was obtained through the licensing agreement. On these facts the court found the licensee liable for using another's trade secret without a privilege to do so.

Prior to 1970 all Texas trade secret cases involved either a trespass, illegal conduct, or breach of a confidence.²⁷ With one exception, *Furr's, Inc. v. United Specialty Advertising*,²⁸ none of the cases implied that trade secret protection was limited exclusively to these elements, although all the litigated cases did contain one or more of them.²⁹ In *Furr's* the suit was brought to dissolve an injunction which had been issued to stop Furr's use of United's business promotion plan in the Midland-Odessa area. Furr's bought the plan from United's salesman with the knowledge that exclusive rights to the plan had already been sold to one of their competitors in the Midland-Odessa area. In response, Furr's asked an advertising firm to develop a competitive plan for their stores in this area. The plan developed was substantially similar to that of United's. United contended that Furr's appropriated their trade secret through a breach of the confidential relationship existing between their salesman and Furr's. However, the court determined that there was no trade secret involved in the case. The legitimate purpose of the plan, combined with the knowledge of similar plans in use throughout the country, made the information common knowledge within the industry. The court further found that there was no confidential relationship to be breached by Furr's use of their plan.³⁰ The trade secret issue was then dismissed.

²³ *Id.*

²⁴ *Id.*

²⁵ 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958).

²⁶ RESTATEMENT OF TORTS § 757 (1939).

²⁷ *E.I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1014 (5th Cir. 1970); *see Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336 (Tex. 1964); *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958); *K. & G. Oil Tool & Serv. Co. v. G. & G. Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, *cert. denied*, 358 U.S. 898 (1958); *Furr's, Inc. v. United Specialty Advertising Co.*, 385 S.W.2d 456 (Tex. Civ. App.—El Paso), *error ref. n.r.e.*, *cert. denied*, 382 U.S. 824 (1964); *Brown v. Fowler*, 316 S.W.2d 311 (Tex. Civ. App.—Fort Worth 1958), *error ref. n.r.e.*; *Boucher v. Wissman*, 206 S.W.2d 101 (Tex. Civ. App.—Dallas 1950), *error ref. n.r.e.*

²⁸ 338 S.W.2d 762 (Tex. Civ. App.—El Paso 1960), *error ref. n.r.e.*

²⁹ *See* note 27 *supra*.

³⁰ *See* note 33 *infra*, and accompanying text.

III. E. I. DUPONT DE NEMOURS & CO. V. CHRISTOPHER

The Fifth Circuit in *E. I. duPont de Nemours & Co. v. Christopher*³¹ faced a case of first impression under Texas law. The defendants contended that the opinion in *Furr's*³² precluded DuPont's recovery. Specifically, they relied on the language stating that the thing appropriated "must be something that meets the requirements of a 'trade secret' and has been obtained through a breach of confidence"³³ From this language defendants extracted the principle that recovery in a trade secret case requires a breach of confidence. There being no such breach between defendants and DuPont, defendants claimed that DuPont had failed to state an actionable claim.

The court was quick to distinguish *Furr's*. The court said that the entire scheme appropriated had been voluntarily divulged to the defendant in the normal course of business, and, thus, *Furr's* was not a trade secret case.³⁴ Defendants' argument was, therefore, based on a phrase totally out of context to *Furr's* actual holding. The court preferred to rely on the Texas supreme court decision in *Hyde Corp. v. Huffines*,³⁵ which it interpreted as adopting section 757 of the *Restatement of Torts*³⁶ as the Texas law of trade secrets. It reasoned that acceptance of defendants' contention would render subsection (a) of the *Restatement* rule "either surplusage or persiflage, an interpretation abhorrent to the traditional precision of the Restatement."³⁷

The court then turned to the question whether the use of aerial photography by defendants was included within the *Restatement* definition of "improper means" of discovery. The court found that it was, but adopted an even broader test: Whenever one "obtain[s] knowledge of a process without spending the time and money to discover it independently . . . [it will be] *improper* unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy."³⁸ Working from this definition and toward the ideal of establishing "higher standards of commercial morality in the business world,"³⁹ the court held that each case must be decided on its own facts. However, the court held specifically that "aerial photography, from whatever altitude, is an improper method of discovering the trade secrets exposed during construction of the DuPont plant"⁴⁰ Since building a roof over their construction would not be a reasonable precaution, DuPont stated a cause of action upon which relief could be granted.

IV. CONCLUSION

DuPont states that the rule of the *Restatement* was specifically adopted as the law in Texas.⁴¹ Thus, in the future, courts apparently need only apply the

³¹ 431 F.2d 1012 (5th Cir. 1970).

³² 338 S.W.2d 762 (Tex. Civ. App.—El Paso 1960), *error ref. n.r.e.*

³³ *Id.* at 766.

³⁴ 431 F.2d at 1015.

³⁵ 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958).

³⁶ *Id.* at 769; RESTATEMENT OF TORTS § 757 (1939).

³⁷ 431 F.2d at 1015.

³⁸ *Id.* at 1015-16.

³⁹ *Id.* at 1015, citing *Hyde Corp. v. Huffines*, 158 Tex. 566, 585, 314 S.W.2d 763, 773, *cert. denied*, 358 U.S. 898 (1958).

⁴⁰ 431 F.2d at 1017.

⁴¹ *Id.* at 1014.