

Is Lawful Possession of a Trade Secret Enough for Standing to Sue for Misappropriation?

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You may be able to bring a misappropriation of trade secrets claim even if you do not actually own the misappropriated trade secret. A growing number of federal cases indicate ownership of a trade secret may not be required in order for a plaintiff to sue for misappropriation; possession alone may be enough to confer standing.

In *Advanced Fluid Systems, Inc. v. Huber*, the Third Circuit affirmed a district court ruling holding that a plaintiff suing for misappropriation under the Pennsylvania Uniform Trade Secrets Act (“PUTSA”) need only demonstrate lawful possession of the trade secret at issue, and not legal ownership, to maintain a claim.^[1] There, Advanced Fluid Systems (“AFS”), a designer and installer of hydraulic systems, filed suit against defendants alleging they had conspired to misappropriate AFS trade secret information to divert business to a competitor. AFS asserted claims for violation of the Lanham Act, the Computer Fraud and Abuse Act (“CFAA”), and the PUTSA.^[2] In their motion to dismiss, defendants argued that AFS lacked standing to sue because it no longer owned the trade secrets at issue. In particular, AFS had been hired by the Virginia Commercial Space Flight Authority (“VCSFA”) to design and engineer the hydraulic motion control system for the Antares rocket.^[3] Pursuant to its contract, AFS was required to assign “legal ownership to all inventions or works” created under the contract to VCSFA, though AFS remained in physical possession and control of the trade secrets and continued to use them in a confidential manner to fulfill its obligations under the contract. In their motion to dismiss, defendants argued that this assignment vitiated any interest AFS had in the trade secrets and that AFS thus lacked standing to sue.

In a twenty-six page opinion, the Court concluded that fee simple ownership of a trade secret is not a prerequisite to recover for its misappropriation. The Court began by observing that the language of the PUTSA offers little guidance as to whether a plaintiff must own a trade secret before suing for misappropriation. Instead, the PUTSA defines misappropriation as the “acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means,” with no reference to ownership.^[4] The Court further observed that neither the commentary to the PUTSA nor its legislative history included any reference to legal ownership of the trade secrets as a prerequisite to standing.^[5]

The Court next examined a decision by the Fourth Circuit holding that legal ownership of a trade secret is not a prerequisite to recovery for misappropriation under the Maryland Trade Secrets Act,

which mirrors the PUTSA.^[6] The Fourth Circuit reasoned that “[w]hile trade secrets are considered property for various analyses, the inherent nature of a trade secret limits the usefulness of an analogy to property in determining the elements of a trade secret misappropriation claim . . . The ‘proprietary aspect’ of a trade secret flows, not from the knowledge itself, but from its secrecy. It is the secret aspect of the knowledge that provides value to the person having the knowledge.”^[7] In other words, it is the “possession of the secret, not the possession of some abstract or academic legal right of ownership in the secret, which is proprietary and which entitles the possessor to trade secret protection.”^[8] Viewed in this light, the Court’s focus was “less on the existence of formal ownership rights and more appropriately on the nature of plaintiff’s interest in the trade secret and the relationship between the plaintiff and the misappropriator.”^[9] Consequently, the Court in *Huber* denied defendants’ motion to dismiss for lack of standing.

In 2018, the Southern District of Mississippi cited *Huber* for the proposition that ownership is not necessary for a misappropriation claim. In *NSEM, LLC v. Butler*, plaintiff NSEM, LLC (f/k/a New South Equipment Mats, LLC) filed suit for trade secret misappropriation, breach of contract and other claims against a former salesman (Butler). NSEM claimed that Butler’s employment agreement required him to protect the confidentiality of New South’s trade secrets. New South later sold substantially all its assets to another company, changed its name to NSEM, and terminated Butler from his employment.^[10] Butler moved for summary judgment, arguing that New South could not enforce the confidentiality agreement against him because New South no longer owned any trade secrets. Citing *Huber*, *DTM* and other decisions cited by *Huber*, the Southern District of Mississippi concluded that “the weight of authority indicates that the lack of ownership is not necessarily dispositive of a misappropriation claim. *DTM* contemplates that a plaintiff need merely have ‘knowledge’ of the trade secret in order to bring a cause of action for misappropriation.”^[11] It is curious that *NSEM* spoke in terms of knowledge of a trade secret, as opposed to lawful possession of a trade secret. In any event, because Butler did not address whether possession or knowledge of a trade secret is sufficient under Mississippi law for standing to sue for misappropriation, the Court denied Butler’s motion for summary judgment without prejudice.^[12]

Earlier this year, the Eastern District of Virginia opinion cited *Huber* in support of the proposition that “[defendant] Fluor’s lawful possession of the JSI, APS, and Ecolog pricing information can give rise of a VUTSA claim [of misappropriation under the Virginia Uniform Trade Secrets Act].”^[13]

Putting it into Practice: Time will tell whether *Huber* and its progeny reflect a trend in the law. But a licensee or possessor of a trade secret may have standing to sue for misappropriation, and legal ownership may not strictly be required. At the same time, there may be countervailing reasons why a trade secret owner would not want a licensee or other lawful possessor to sue for misappropriation. For example, there may be a risk that the trade secret may be adjudicated not to be a trade secret, or the trade secret owner may not want to become entangled in the lawsuit as an interested third party, or the defendant alleged to have misappropriated the trade secret may have an important business relationship with the trade secret owner. Further, companies may wish to analyze (among other things) whether the states they operate in have uniform trade secrets law akin to those in Pennsylvania, Maryland, or California, which do not require legal ownership of a trade secret before filing suit, or the Colorado Uniform Trade Secrets Act, which does require legal ownership. In view of the competing interests and complex issues involved, companies should consult experienced trade secret litigation counsel before filing or defending any lawsuit for misappropriation.

^[1] *Advanced Fluid Systems, Inc. v. Huber*, 958 F.3d 168, 177 (3rd Cir. 2020).

^[2] *Advanced Fluid Systems, Inc. v. Huber*, 28 F. Supp. 3d 306, 313, 316 (M.D. Pa. 2014).

^[3] *Id.* at 313.

^[4] *Id.* at 318. Other UTSA statutes in other states, such as California, are worded similarly. See, e.g., Cal. Civ. Code §3426.1(b)(1) (defining misappropriation as the “[a]cquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.” Further, the federal Defend Trade Secrets Act (“DTSA”) defines the owner of a trade secret as “the person or entity in whom or in which rightful legal or equitable title to, **or license in**, the trade secret is reposed,” which expressly indicates that trade secret licensees have standing to sue for misappropriation. 18 U.S.C. §1839(4) (emphasis added).

^[5] This stands in contrast to the Colorado Uniform Trade Secrets Act, which explicitly refers to protection of the trade secret by “the owner thereof” and requires “the owner” to take measures to prevent the secret from becoming known “to persons other than those selected by the owner.” See *RMS Software Dev., Inc. v. LCS, Inc.*, 1998 WL 74245, at *4 (Tex. Ct. App. 1998) (unpublished).

^[6] *DTM Research, LLC v. AT & T Corp.*, 245 F.3d 327, 330-33 (4th Cir. 2001).

^[7] *Advanced Fluid Systems*, 28 F. Supp. 3d at 319 (quoting *DTM*, 245 F.3d at 329) (internal citations omitted).

^[8] *Id.*

^[9] *Id.*

^[10] *NSEM, LLC v. Butler*, 2018 WL 3910961, at *1 (S.D. Miss. Aug. 15, 2018).

^[11] *Id.* at *10.

^[12] *Id.*

^[13] *Anderson v. Fluor Intercontinental, Inc.*, 2021 WL 837335, at *20 (E.D. Va. Jan. 4, 2021).

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