

**Anything but Uniform: A State-By-State Comparison of the Key Differences of the  
Uniform Trade Secrets Act  
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Citing “the commercial importance of state trade secret law to interstate business,” thirty-five years ago the National Conference of Commissioners on Uniform State Laws proposed a uniform trade secrets act. The National Conference of Commissioners found that trade secret law had developed unevenly among the various states. Clear, uniform trade secret protection was “urgently needed.” Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U.Pa.L.Rev. 378, 380-81 (1971). A general consensus had emerged concerning the importance of achieving nationwide uniformity in trade secret law.

The uniform trade secrets act was approved and recommended for enactment in all states on August 9, 1979. The uniform trade secrets act “arose to create a uniform business environment that created more certain standards for protection of commercially valuable information.” *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp.2d 784, 789 (W.D. Ky. 2001). “The UTSA Commissioners made clear that the ‘general purpose’ of the UTSA was uniformity of trade secret law.” *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 123 Haw. 314, 327, 235 P.3d 310, 323 (2010). However, thirty-five years later, it is apparent that the goal of a uniform nationwide law has not been achieved. Although forty-eight states have enacted some form of a trade secrets statute, it is an overstatement to say that all of those states have a “uniform” law governing trade secrets.

First of all, there is not a single uniform act -- there are two. On August 8, 1985, the National Conference of Commissioners on Uniform State Laws approved amendments to the uniform act. Some states enacted language from the 1979 version, and

have not enacted the 1985 amendments. Other states enacted language from the 1985 version. Illinois and Michigan enacted language from both versions. As a result, this has contributed to differences in trade secret law in the states where different versions of the uniform act are in force. In addition, some states only adopted portions of the proposed uniform act, and did not enact all of the proposed provisions. More importantly, many states made modifications and changes to the language in the proposed uniform act,<sup>1</sup> resulting in differences in the trade secret law governing those states.<sup>2</sup> In states where the legislature enacted special statutory provisions for their particular state, the law actually became less uniform than it was before the divergent statutes were enacted.

Cases reaching different interpretations of the act have also contributed to a lack of uniformity. When a court in one state is faced with an issue of first impression, and attempts to look to case law in other states, it is oftentimes noticeable that “there are some variations” in the case law. *Altavion, Inc. v. Konica Minolta Systems Laboratory Inc.*, 226 Cal. App.4th 26, 41, 171 Cal. Rptr.3d 714, 725 (2014). For example, a significant split has arisen in the case law concerning the extent to which the uniform trade secrets act preempts other common law tort claims. On this issue, the differences in

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<sup>1</sup> In 2011, the legislative history accompanying the enactment of the New Jersey Trade Secrets Act indicated that the uniform act had been adopted in 46 states “with varying degrees of modification.” Comment to Assembly Bill No. 921, 2011 N.J. Laws c. 161 (“The ‘Uniform Trade Secrets Act’ has been adopted in 46 states and the District of Columbia. Many of those states have adopted the ‘Uniform Trade Secrets Act’ with varying degrees of modification.”). New Jersey also modified the uniform act “to reflect this State’s common law trade secret jurisprudence.” *Id.*

<sup>2</sup> “Typically, when a Legislature models a statute after a uniform act, but does not adopt the particular language of that act, courts conclude the deviation was deliberate and that the policy of the uniform act was rejected.” *K.C. Multimedia, Inc. v. Bank of America Technology & Operations, Inc.*, 171 Cal. App.4th 939, 956, 90 Cal. Rptr.3d 247, 259 (2009) (citation and internal quotes omitted).

the law, even among the states that have enacted the so-called “uniform” act, are so bad, one court recently conceded that “the quest for uniformity is a fruitless endeavor.” *Orca Communications Unlimited LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014).

Finally, the uniform act has not been adopted in New York or Massachusetts - two states that are significant for purposes of interstate commerce. Thus, after three and a half decades of experience with the uniform trade secrets act, the goal of a uniform nationwide law governing trade secrets has yet to be achieved.

## **I. DISCUSSION OF NONUNIFORMITY IN TRADE SECRET LAW**

Non-uniformity has arisen due to differences in the statutes enacted in various states, as well as differences in the case law interpreting the statutes.

### **A. Differences in Statutes**

Many states have made changes to the language in the act proposed by the National Conference of Commissioners on Uniform State Laws, resulting in differences in the trade secret law in those states.<sup>3</sup> In a number of instances, the differences in the law are significant.

The main goals of the uniform trade secrets act were to provide uniform definitions of a “trade secret” and what constitutes “misappropriation,” and a single statute of limitations.

#### **a. Differences in the Definition of a “Trade Secret”**

The definition of a “trade secret” prior to the uniform trade secrets act was based upon the *Restatement (First) of Torts* §757, which provided six factors to consider under the common law in determining whether information was a trade secret. However, these

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<sup>3</sup> See, e.g., Comment to Section 134.90, WIS. STAT. ANN. (“This bill differs in some respects from the [uniform] act.”).

six factors are still considered and applied in many states that have adopted the uniform trade secrets act. *E.g.*, *Network Telecommunications, Inc. v. Boor-Crepeau*, 790 P.2d 901, 903 (Colo. Ct. App. 1990); *ConAgra, Inc. v. Tyson Foods, Inc.*, 342 Ark. 672, 677, 30 S.W.3d 725, 729 (2000); *Powercorp Alaska, LLC v. Alaska Energy Authority*, 290 P.3d 1173, 1187 & n.47 (Alaska 2013); *Enterprise Leasing Co. v. Ehmke*, 197 Ariz. 144, 149 n.6, 3 P.3d 1064, 1069 n.6 (Ct. App. 1999); *Basic American, Inc. v. Shatila*, 133 Idaho 726, 735, 992 P.2d 175, 184 (1999); *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 276-77, 827 N.E.2d 909, 921-22 (2005); *Optic Graphics v. Agee*, 87 Md. App. 770, 591 A.2d 578, 585 (1991); *Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 926 (E.D. Mo. 2010).

When Alabama enacted the Alabama Trade Secrets Act, the legislature adopted a different definition for a “trade secret” imposing six requirements that must be met before information is considered to be a “trade secret.”<sup>4</sup> In Alabama, information cannot be a trade secret unless it has “significant economic value.”<sup>5</sup> In Alabama, a defendant is entitled to summary judgment on grounds that the information is not a trade secret if it can be readily ascertained or derived from publicly available information, even if the defendant actually obtained the information from the plaintiff instead of from publicly available information.<sup>6</sup> In contrast, under New Jersey law, a person who misappropriates

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<sup>4</sup> ALA. CODE §§ 8-27-2(1) & 8-27-3 (2015).

<sup>5</sup> ALA. CODE § 8-27-2(1)(f) (2015).

<sup>6</sup> *See* ALA. CODE § 8-27-2(1)(d) (2015). *See also Public Systems, Inc. v. Towry*, 587 So.2d 969, 971 (Ala. 1991) (“[T]he burden is on the one asserting the trade secret ... to show that it is included or embodied in the categories listed in § 8-27-2(1).”); *Johns v. Hamilton*, 53 So.3d 134 (Ala. Civ. App. 2010), (affirming summary judgment on trade secret claim), *cert. denied*, No. 1091089 (Ala. June 18, 2010).

a trade secret cannot defend on grounds that proper means to acquire the trade secret existed at the time of misappropriation.<sup>7</sup>

California enacted a different definition for a “trade secret” that deleted the requirement that the information not be readily ascertainable.<sup>8</sup> Oregon did the same thing.<sup>9</sup> Illinois also adopted a definition for a “trade secret” that did not include the language that the information cannot be readily ascertainable; and Illinois expressly included “technical or non-technical data,” a “drawing,” “financial data,” and a “list of actual or potential customers or suppliers.”<sup>10</sup> Colorado adopted a unique definition of a “trade secret” that does not include the requirement that the information not be generally known and not be readily ascertainable. The Colorado definition merely requires that the information “is secret and of value.”<sup>11</sup>

In Nebraska, information is not a trade secret if it is known, or if it is ascertainable.<sup>12</sup> Nebraska eliminated the word “generally” before known, and eliminated the word “readily” before ascertainable. Thus, the literal language of the statute would suggest that if information is ascertainable in Nebraska, it is not a trade secret, even if the

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<sup>7</sup> N.J. STAT. ANN. § 56:15-5 (West 2015).

<sup>8</sup> CAL. CIV. CODE § 3426.1(d) (2015). The effect of that deletion is “to exclude from the definition only that information which the industry already knows, as opposed to that which the industry could easily discover.” *ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 21, 286 Cal. Rptr. 518 (1991) (“Therefore, under California law, information can be a trade secret even though it is readily ascertainable, so long as it has not yet been ascertained by others in the industry.”).

<sup>9</sup> OR. REV. STAT. § 646.461(4) (2015).

<sup>10</sup> 765 ILL. COMP. STAT. 1065/2 (d) (West 2015).

<sup>11</sup> COLO. REV. STAT. ANN. § 7-74-102(4) (2015).

<sup>12</sup> NEB. REV. STAT. ANN. § 87-502(4) (West 2015).

information is not readily available.<sup>13</sup> Nebraska also added a “drawing” and “code” to the definition of a “trade secret.”

Idaho adopted a definition of a “trade secret,” which includes a statutory definition of a “computer program,” and a computer program cannot be a trade secret under the Idaho statute if it does not have “prominently displayed a notice of copyright, or other proprietary or confidential marking, either within or on the media containing the information.”<sup>14</sup>

North Carolina adopted a statute that includes, in the definition of a “trade secret,” a provision stating that the existence of a trade secret is not negated merely because other people have independently developed the same information.<sup>15</sup> In contrast, in Illinois, a court held that “[t]he plaintiff must establish that the information in question is not known by anyone other than itself” and that the plaintiff “must show that no other manufacturer is using the same information.” *Gasway Corp. v. Consolidated Engineering Co.*, No. 89 C 874, 1990 U.S. Dist. LEXIS, at \*11 (N.D. Ill. Nov. 29, 1990). In other states, if information can be independently developed by others, it is not considered to be secret enough to be a trade secret. *See, e.g., Elmer Miller, Inc. v. Landis*, 253 Ill. App.3d 129, 134, 625 N.E.2d 338, 342 (1993). The North Carolina definition of a “trade secret”

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<sup>13</sup> *See Home Pride Foods, Inc. v. Johnson*, 262 Neb. 701, 709, 634 N.W.2d 774, 782 (2001) (customer list was a trade secret because “the customer list contained information not available from publicly available lists,” and it could not be ascertained through proper means).

<sup>14</sup> IDAHO CODE ANN. § 48-801 (2015).

<sup>15</sup> N.C. GEN. STAT. § 66-152(3) (2015) (“The existence of a trade secret shall not be negated merely because the information comprising the trade secret has also been developed, used, or owned independently by more than one person, or licensed to other persons”).

uses different language, in that the information must derive “independent actual or potential commercial value from not being generally known or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use.”<sup>16</sup>

Colorado adopted a different definition of a “trade secret” that requires the information to be “secret and of value,” and expressly includes “confidential business or financial information” and “listing of names, addresses or telephone numbers.”<sup>17</sup> Under Colorado law, that definition is as follows:

“Trade secret” means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers, or other information relating to any business or profession which is secret and of value. To be a “trade secret” the owner thereof must have taken measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.<sup>18</sup>

Under South Carolina law, the definition of a “trade secret” includes the requirements from the uniform act that the information not be generally known and not be readily ascertainable, plus the information must be the subject of efforts that are reasonable under the circumstances to maintain secrecy. However, South Carolina added an *additional* provision to the definition of a “trade secret”:

A trade secret may consist of a simple fact, item, or procedure, or a series or sequence of items or procedures which, although individually could be perceived as relatively minor or simple, collectively can make a substantial difference in the efficiency of a process or the production of a product, or may be the basis of a marketing or commercial strategy. The collective effect of the items and

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<sup>16</sup> N.C. GEN. STAT. § 66-152(3) (2015).

<sup>17</sup> COLO. REV. STAT. ANN. § 7-74-102(4) (2015).

<sup>18</sup> *Id.*

procedures must be considered in any analysis of whether a trade secret exists and not the general knowledge of each individual item or procedure.<sup>19</sup>

Nevada used unique language in its definition of a “trade secret,” stating that information must not be generally known or readily ascertainable by proper means “by the public or *any* other persons...”<sup>20</sup> This would suggest that information cannot be a trade secret if known to any other single person. Contrast this with the North Carolina statute mentioned above that provides, “[t]he existence of a trade secret shall not be negated merely because the information comprising the trade secret has also been developed, used, or owned independently by more than one person, or licensed to other persons.”<sup>21</sup>

In New Jersey, a “trade secret” is defined as “information, held by one or more people, without regard to form ...”<sup>22</sup> The uniform definition was also modified to add a “design, diagram, drawing, invention, plan, procedure,” and “prototype.”<sup>23</sup>

In Tennessee, the definition of a “trade secret” includes information “without regard to form.”<sup>24</sup> Georgia added that the definition meant information “without regard to form” that included “technical or nontechnical data,” a “drawing,” “financial data,”

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<sup>19</sup> S.C. CODE ANN. § 39-8-20(5)(b) (Law Co-op. 2015).

<sup>20</sup> NEV. REV. STAT. ANN. § 600A.030(5)(a) (West 2015) (emphasis added).

<sup>21</sup> N.C. GEN. STAT. § 66-152 (2015).

<sup>22</sup> N.J. STAT. ANN. § 56:15-2 (West 2015).

<sup>23</sup> *Id.*

<sup>24</sup> TENN. CODE ANN. § 47-25-1702(4) (2015).



“financial plans,” “product plans,” and “a list of actual or potential customers or suppliers which is not commonly known by or available to the public.”<sup>25</sup>

A number of other states added to the types of information listed in the definition of a “trade secret.”<sup>26</sup> Texas adopted a definition for a “trade secret” that specifically includes “financial data” and a “list of actual or potential customers or suppliers.”<sup>27</sup> Missouri added “technical or nontechnical data” to the definition of a “trade secret.”<sup>28</sup> Nevada included “computer programming instruction or code,” “product,” “system,” “design,” “prototype,” and “procedure” in the definition of a “trade secret.”<sup>29</sup> Connecticut added a “drawing,” “cost data,” and a “customer list.”<sup>30</sup> “Kentucky added “data” to the definition of a “trade secret.”<sup>31</sup> South Carolina added a “product,” “system,” “design,” “prototype,” “procedure,” and “code.”<sup>32</sup> In Montana, the definition of a “trade secret” includes “computer software.”<sup>33</sup> Ohio added “the whole or any portion or phase of any

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<sup>25</sup> GA. CODE ANN. § 10-1-761(4) (2015).

<sup>26</sup> The legislative history for the Wisconsin statute indicates that a special committee considered adding items such as “biological materials” and “materials embodying information” to the definition of a trade secret, but ultimately decided not to do so, and instead included comments indicating that the intent was that the list provided in the statute “be treated as examples and not as a comprehensive listing of items eligible for trade secret status.” Comment to Section 134.90, WIS. STAT. ANN.

<sup>27</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2015).

<sup>28</sup> MO. ANN. STAT. § 417.453(4) (West 2015).

<sup>29</sup> NEV. REV. STAT. ANN. § 600A.030(5) (West 2015).

<sup>30</sup> CONN. GEN. STAT. § 35-51(d) (2015).

<sup>31</sup> KY. REV. STAT. ANN. § 365.880(4) (Banks-Baldwin 2015).

<sup>32</sup> S.C. CODE ANN. § 39-8-20(5)(a) (Law Co-op. 2015).

<sup>33</sup> MONT. CODE ANN. § 30-14-402(4) (2015).

scientific or technical information,” an “improvement,” “or any business information or plans, financial information, or listing of names, addresses, or telephone numbers.”<sup>34</sup> The North Carolina definition explicitly says “business or technical information.”<sup>35</sup> Oregon added a “drawing,” “cost data,” and “customer list.”<sup>36</sup> Pennsylvania added a “drawing” and “a customer list.”<sup>37</sup> Tennessee included “technical, nontechnical or financial data,” and a “plan.”<sup>38</sup> Alaska took a different approach, and eliminated all of the examples listed in the uniform act.<sup>39</sup>

Minnesota added a unique provision to the definition of a trade secret providing that the existence of a trade secret is not negated merely because an employee is not given express or specific notice that information is a trade secret if under the circumstances the employee should know it is a secret.<sup>40</sup>

Wisconsin added a definition of “readily ascertainable” providing that readily ascertainable information “does not include information accessible through a license agreement or by an employee under a confidentiality agreement with his or her

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<sup>34</sup> OHIO REV. CODE ANN. § 1333.61(D) (Banks-Baldwin 2015).

<sup>35</sup> N.C. GEN. STAT. § 66-152 (2015).

<sup>36</sup> OR. REV. STAT. § 646.461(4) (2015).

<sup>37</sup> 12 PA. CONS. STAT. ANN. § 5302 (West 2015).

<sup>38</sup> TENN. CODE ANN. § 47-25-1702(4) (2015).

<sup>39</sup> ALASKA STAT. ANN. § 45.50.940(3) (2015).

<sup>40</sup> MINN. STAT. ANN. § 325C.01(5) (West 2015) (“The existence of a trade secret is not negated merely because an employee or other person has acquired the trade secret without express or specific notice that it is a trade secret if, under all the circumstances, the employee or other person knows or has reason to know that the owner intends or expects the secrecy of the type of information comprising the trade secret to be maintained.”).

employer.”<sup>41</sup> The intent of this provision was “to avoid the assertion, for example, that information available through a licensing agreement is not eligible for trade secret status because it is ‘readily ascertainable’ by ‘proper means’.”<sup>42</sup>

South Carolina enacted a statute providing that “[a] trade secret endures and is protectable and enforceable until it is disclosed or discovered by proper means.”<sup>43</sup>

**b. Differences in the Definition of “Misappropriation”**

Alabama has a significantly different definition for “misappropriation.”<sup>44</sup> Under Alabama law, a person may be liable for misappropriation if the person discloses or uses the trade secret of another “without a privilege to do so.” The term “privilege” is intended to codify the common law.<sup>45</sup> In the event of disclosure or use of a trade secret (without a privilege to do so), a person is liable for misappropriation under four circumstances. First, a person is liable if “[t]hat person discovered the trade secret by improper means.”<sup>46</sup> Second, a person is liable if “[t]hat person’s disclosure or use

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<sup>41</sup> WIS. STAT. ANN. § 134.90(1)(b) (West 2015).

<sup>42</sup> Comment to Section 134.90, WIS. STAT. ANN.

<sup>43</sup> S.C. CODE ANN. § 39-8-30(A) (Law Co-op. 2015).

<sup>44</sup> ALA. CODE §§ 8-27-2(1) & 8-27-3 (2015).

<sup>45</sup> Comment to Section 8-27-3, ALA. CODE (“The common law of privilege has been recognized. See comment d to Restatement Section 757.”).

<sup>46</sup> ALA. CODE § 8-27-3(1) (2015). Alabama defines “improper means” to include theft, bribery, misrepresentation, inducement of a breach of confidence, trespass, and “[o]ther deliberate acts taken for the specific purpose of gaining access to the information of another by means such as electronic, photographic, telescopic or other aids to enhance normal human perception, where the trade secret owner reasonably should be able to expect privacy.” ALA. CODE § 8-27-2(2) (2015).

constitutes a breach of confidence reposed in that person by the other.”<sup>47</sup> Third, a person is liable if “[t]hat person learned the trade secret from a third person, and knew or should have known that (i) the information was a trade secret and (ii) that the trade secret had been appropriated under circumstances which violate the provisions of (1) or (2), above.”<sup>48</sup> Fourth, a person is liable if “[t]hat person learned the information and knew or should have known that it was a trade secret and that its disclosure was made to that person by mistake.”<sup>49</sup> Under Alabama law, the owner of a trade secret has no recourse against someone who innocently learns of a trade secret.<sup>50</sup> North Carolina also adopted special statutory provisions, discussed in more detail below, limiting remedies against someone who innocently obtains knowledge of a trade secret by accident or mistake.<sup>51</sup>

North Carolina also has a significantly different definition of “misappropriation.”<sup>52</sup> In addition, North Carolina adopted a unique statutory provision

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<sup>47</sup> ALA. CODE § 8-27-3(2) (2015).

<sup>48</sup> ALA. CODE § 8-27-3(3) (2015).

<sup>49</sup> ALA. CODE § 8-27-3(4) (2015).

<sup>50</sup> Comment to Section 8-27-3, ALA. CODE (“Unlike Restatement Section 758(b), proper appropriation without notice of an earlier misappropriation cannot be misappropriation under the statute even if subsequent notice is given. That is, one who loses a trade secret has no recourse against one who innocently receives the trade secret. The sole recourse is against the misappropriator.”).

<sup>51</sup> N.C. GEN. STAT. § 66-154(a)(2) (2015).

<sup>52</sup> *Id.* § 66-152(1) (“Misappropriation” is defined to mean “acquisition, disclosure, or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret.”).

for establishing a *prima facie* case of trade secret misappropriation, and with specific provisions concerning what kind of evidence will rebut such a *prima facie* case.<sup>53</sup>

New Jersey enacted a different definition of “misappropriation,” and eliminated from the definition any provision concerning a trade secret acquired by accident or mistake.<sup>54</sup>

Virginia modified the definition of “misappropriation” to include disclosure or use of a trade secret of another without express or implied consent by a person who acquired the trade secret by accident or mistake.<sup>55</sup> Virginia eliminated the requirement in the uniform act that (a) the person “knew or had reason to know” that the information was a trade secret, and (b) that knowledge of it was acquired by accident or mistake, and (c) that this occur before a material change in the person’s position. Wisconsin did the same thing.<sup>56</sup>

In sharp contrast, under Alabama law, there is no remedy against someone who innocently or accidentally learns of a trade secret, even if the innocent recipient later receives notice that the information was a trade secret.<sup>57</sup>

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<sup>53</sup> *Id.* § 66-155. A *prima facie* case is established by proof the defendant (1) knows or should have known of the trade secret; and (2) has had a specific opportunity to acquire it for disclosure or use or has acquired, disclosed, or used it without the express or implied consent or authority of the owner. *Id.* This *prima facie* evidence is rebutted by evidence that the defendant acquired the information comprising the trade secret by independent development, reverse engineering, or it was obtained from another person with a right to disclose the trade secret. *Id.*

<sup>54</sup> N.J. STAT. ANN. § 56:15-2 (West 2015).

<sup>55</sup> VA. CODE ANN. § 59.1-336 (West 2015).

<sup>56</sup> WIS. STAT. ANN. § 134.90(2)(b)(2)(d) (West 2015).

<sup>57</sup> Comment to Section 8-27-3, ALA. CODE (“Unlike Restatement Section 758(b), proper appropriation without notice of an earlier misappropriation cannot be

In South Carolina, “misappropriation” includes disclosure and use of a trade secret of another without express or implied consent by a person who, at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was acquired by mistake.<sup>58</sup> South Carolina added a separate additional provision to the definition of “misappropriation” providing that the term also means “acquisition of a trade secret of another by a person by improper means.”<sup>59</sup>

Iowa adopted a statute that eliminated the language “without express or implied consent” from the definition of “misappropriation.” Instead, the Iowa legislature enacted a unique statutory provision establishing a defense based upon implied or express consent. IOWA CODE ANN. § 550.5 (West 2015). Under Iowa law, a defendant would be required to plead express or implied consent as an affirmative defense, and if a defendant fails to do so, a court may hold that the defense was waived.<sup>60</sup>

Nevada modified the definition of “misappropriation” to add a separate provision that misappropriation includes “[a]cquisition of the trade secret of another by a person by improper means.”<sup>61</sup> Nevada modified the definition of “improper means” to limit any breach of a duty to maintain secrecy to a “willful” breach or “willful” inducement of a

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misappropriation under the statute even if subsequent notice is given. That is, one who loses a trade secret has no recourse against one who innocently receives the trade secret. The sole recourse is against the misappropriator.”).

<sup>58</sup> S.C. CODE ANN. § 39-8-20(2)(c)(ii)(B) (Law Co-op. 2015).

<sup>59</sup> *Id.* § 39-8-20(2)(a).

<sup>60</sup> As a general rule, affirmative defenses are waived if not raised in the answer or first responsive pleading. *Nardi v. Stewart*, 354 F.3d 1134, 1140 (9th Cir. 2004), *abrogated on other grounds*, *Day v. McDonough*, 547 U.S. 198 (2006).

<sup>61</sup> NEV. REV. STAT. ANN. § 600A.030(2)(a) (West 2015).

breach.<sup>62</sup> Thus, a breach of a duty to maintain secrecy that was *not* willful is not misappropriation under Nevada law. Nevada also added that “improper means” includes “[w]illful breach or willful inducement of a breach of a duty imposed by common law, statute, contract, license, protective order or other court or administrative order.”<sup>63</sup>

Other states effectively modified the meaning of “misappropriation” by adopting different definitions of “improper means.”

Connecticut enacted a definition of “improper means” to include “searching through trash.”<sup>64</sup> In other states, documents thrown in the trash may destroy any claim to secrecy. *Frank W. Winne & Son, Inc. v. Palmer*, No. 91-2239, 1991 WL 155819, at \*4 (E.D. Pa. Aug. 7, 1991); see *Frosty Bites, Inc. v. Dippin’ Dots, Inc.*, 2003 WL 21196247, at \*4 (N.D. Tex. May 19, 2003). But in Connecticut, the law is different, since searching through someone’s trash is an improper means of discovering trade secret information under Connecticut law.

Virginia enacted a definition of “improper means” that includes “use of a computer or computer network without authority.”<sup>65</sup>

Georgia enacted a definition of “improper means” that explicitly states that independent development or reverse engineering of a trade secret not acquired by improper means shall not be considered improper means.<sup>66</sup> Illinois adopted a definition of

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<sup>62</sup> NEV. REV. STAT. ANN. § 600A.030(1)(d) (West 2015).

<sup>63</sup> NEV. REV. STAT. ANN. § 600A.030(1)(e) (West 2015).

<sup>64</sup> CONN. GEN. STAT. § 35-51(a) (2015).

<sup>65</sup> VA. CODE ANN. § 59.1-336 (West 2015).

<sup>66</sup> GA. CODE ANN. § 10-1-761(1) (2015).

“improper means” expressly stating that “reverse engineering” and “independent development” are not considered to be improper means.<sup>67</sup>

Texas effectively modified the definition of “misappropriation” by enacting explicit definitions for “proper means” and “reverse engineering.”<sup>68</sup> Unlike other statutes that list examples of “improper means,” the Texas statute appears to explicitly define as “proper means” any means that is *not* “improper means.”<sup>69</sup>

The New Jersey statute is similar to Texas in this respect. New Jersey eliminated the open ended language of the uniform act in the definition of “improper means,” and instead said, “‘improper means’ means the theft, bribery, misrepresentation, breach or inducement of a breach of an express or implied duty to maintain the secrecy of, or to limit the use or disclosure of, a trade secret, or espionage through electronic or other means, access that is unauthorized or exceeds the scope of authorization, or other means that violate a person’s rights under the laws of this State.”<sup>70</sup> New Jersey enacted a definition of “proper means” as follows: “‘Proper means’ means discovery by independent invention, discovery by reverse engineering, discovery under a license from the owner of the trade secret, observation of the information in public use or on public display, obtaining the trade secret from published literature, or discovery or observation

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<sup>67</sup> 765 ILL. COMP. STAT. 1065/2 (a) (West 2015).

<sup>68</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(4) & (5) (West 2015).

<sup>69</sup> The Texas statute also includes a modified definition of “improper means” that includes breach or inducement of a breach of a duty “to limit use, or to prohibit discovery of a trade secret.” *Id.* § 134A.002(2).

<sup>70</sup> N.J. STAT. ANN. § 56:15-2 (West 2015).



*by any other means that is not improper.*<sup>71</sup> The New Jersey statute defines “reverse engineering.”<sup>72</sup>

Oregon modified the definition of “improper means” to explicitly state, “[r]everse engineering and independent development alone shall not be considered improper means.”<sup>73</sup>

South Carolina added to the definition of improper means the breach or inducement of a breach of “duties imposed by the common law, statute, contract, license, protective order, or other court or administrative order.”<sup>74</sup>

As mentioned above, a unique statutory provision was enacted in New Jersey providing that a person who misappropriates a trade secret cannot defend on grounds that proper means to acquire the trade secret existed at the time of misappropriation.<sup>75</sup>

### **c. Differences in Exemplary Damages**

Arkansas did not adopt the provision allowing for the recovery of exemplary damages in the event of willful and malicious misappropriation, and as a result, punitive damages are not recoverable on a trade secret claim in Arkansas.<sup>76</sup> Louisiana is another state that did not adopt the language allowing for the recovery of exemplary damages.<sup>77</sup>

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<sup>71</sup> *Id.* (emphasis added).

<sup>72</sup> *Id.*

<sup>73</sup> OR. REV. STAT. § 646.461(1) (2015).

<sup>74</sup> S.C. CODE ANN. § 39-8-20(1) (Law Co-op. 2015).

<sup>75</sup> N.J. STAT. ANN. § 56:15-5 (West 2015).

<sup>76</sup> ARK. CODE ANN. § 4-75-606 (2014).

<sup>77</sup> *See* LA. REV. STAT. ANN. § 1433 (West 2015).

The Michigan legislature eliminated the exemplary damages provisions as well.<sup>78</sup> So did Nebraska.<sup>79</sup>

Colorado rejected the provision of the uniform trade secrets act allowing exemplary damages in an amount up to twice the amount awarded as actual damages, and instead, limited exemplary damages to no more than the amount awarded for actual damages.<sup>80</sup> Ohio allows exemplary damages up to three times the amount awarded as damages.<sup>81</sup>

Virginia allows punitive damages up to twice the amount awarded in damages, or \$350,000, whichever amount is less.<sup>82</sup>

The North Carolina statute allows punitive damages to be awarded and does not place any limit on the amount.<sup>83</sup> Mississippi did not place any limit on exemplary damages.<sup>84</sup>

Vermont allows punitive damages to be awarded “[i]f malicious misappropriation exists.”<sup>85</sup> In addition, Vermont places no limit on the amount of punitive damages that may be awarded.<sup>86</sup>

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<sup>78</sup> See MICH. COMP. LAWS ANN. § 445.1904 (West 2015).

<sup>79</sup> NEB. REV. STAT. ANN. § 87-504 (West 2015).

<sup>80</sup> COLO. REV. STAT. ANN. § 7-74-104(2) (2015).

<sup>81</sup> OHIO REV. CODE ANN. § 1333.63(B) (Banks-Baldwin 2015).

<sup>82</sup> VA. CODE ANN. § 59.1-338(B) (West 2015).

<sup>83</sup> N.C. GEN. STAT. § 66-154(c) (2015).

<sup>84</sup> MISS. CODE ANN. § 75-26-6(2) (2015).

<sup>85</sup> VT. STAT. ANN. tit. 9, § 4603(b) (2015).

The uniform act does not define the term “willful and malicious” in the exemplary damages provision of section 3. Pennsylvania enacted a statutory definition of “willful and malicious.”<sup>87</sup>

Nevada adopted unique language concerning the standard for exemplary damages, providing that such damages can be awarded “[i]f willful, wanton or reckless misappropriation or disregard of the rights of the owner of the trade secret exists.”<sup>88</sup> South Carolina defines the circumstances under which exemplary damages may be awarded to be “[u]pon a finding of wilful, wanton, or reckless disregard of the plaintiff’s rights.”<sup>89</sup>

Missouri enacted unique language governing punitive damages, allowing such damages if the misappropriation is “outrageous because of the misappropriator’s evil motive or reckless indifference to the rights of others,” and there is no limit on the amount that may be awarded.<sup>90</sup> Montana also eliminated the provision placing a limit on the amount of exemplary damages.<sup>91</sup> In Montana, the amount of exemplary damages is unlimited by statute.

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<sup>86</sup> *Id.*

<sup>87</sup> 12 PA. CONS. STAT. ANN. § 5302 (West 2015).

<sup>88</sup> NEV. REV. STAT. ANN. § 600A.050(2) (West 2015).

<sup>89</sup> S.C. CODE ANN. § 39-8-40(C) (Law Co-op. 2015).

<sup>90</sup> MO. ANN. STAT. § 417.457(2) (West 2015).

<sup>91</sup> MONT. CODE ANN. § 30-14-404(2) (2015).

In Texas, a statute provides that willful and malicious misappropriation must be proven by clear and convincing evidence before exemplary damages may be awarded.<sup>92</sup>

**d. Differences in Awards of Attorney’s Fees**

Idaho did not enact the provision allowing an award of attorney’s fees.<sup>93</sup> Similarly, in Missouri the provisions in section 4 of the uniform act providing for an award of attorney’s fees were not enacted.<sup>94</sup> Nebraska similarly did not adopt the provisions of section 4 of the uniform act allowing an award of attorney’s fees.

Alaska also did not adopt the provision in the uniform act allowing for an award of attorney’s fees; however, in Alaska, attorney’s fees are generally awarded to the prevailing party in *every* trade secret case.<sup>95</sup> Under the statute enacted in Vermont, attorney’s fees and costs are awarded to a substantially prevailing party in all trade secret cases.<sup>96</sup>

The uniform act does not define the term “bad faith” in the attorney’s fee provision of section 4. California case law provided a judicial gloss on the statute

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<sup>92</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(b) (2015).

<sup>93</sup> *GME, Inc. v. Carter*, 128 Idaho 597, 600, 917 P.2d 754, 757 (1996) (“[W]hen the legislature enacted the trade secrets act, it copied much of the Uniform Trade Secret Act, but did not include the portion of the uniform act which provides for an award of attorney fees.”).

<sup>94</sup> *Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 934 (E.D. Mo. 2010) (attorneys fees are not available in Missouri).

<sup>95</sup> Rule 82, Alaska R. Civ. P.

<sup>96</sup> VT. STAT. ANN. tit. 9, § 4603(a)(4) (2015).

defining the meaning of “bad faith,”<sup>97</sup> which has been followed in other states.<sup>98</sup> New Jersey included a statutory definition of “bad faith” in the provisions of the New Jersey statute concerning an award of attorney’s fees, which is different from the California definition.<sup>99</sup>

The uniform act does not define the term “willful and malicious” in the attorney’s fee provision of section 4. Pennsylvania enacted a statutory definition of “willful and malicious.”<sup>100</sup>

South Carolina deleted the word “malicious” from section 4 of the uniform act, and allows an award of attorney’s fees if “willful misappropriation exists.”<sup>101</sup>

North Carolina limited the circumstances under which attorney’s fees may be awarded, rejecting the provision in the uniform act that a fee award may be made if a

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<sup>97</sup> *Gemini Aluminum Corp. v. California Custom Shapes, Inc.*, 95 Cal. App.4th 1249, 1262, 116 Cal. Rptr.2d 358, 368 (2002); *JLM Formation, Inc. v. Form Pac*, No. C 04-1774 CW, 2004 WL 1858132, at \*2 (N.D. Cal. Aug. 19, 2004).

<sup>98</sup> *Berry v. Hawaii Express Service, Inc.*, No. 03-000385 SOM/LEK, 2007 WL 689474, at \*13-15 (D. Haw. March 2, 2007); *Degussa Admixtures, Inc. v. Burnett*, No. 1:05-CV-705, 2007 WL 274219, at \*7 (W.D. Mich. Jan. 30, 2007); *Contract Materials Processing, Inc. v. Katalena GMBH Catalysts*, 222 F. Supp.2d 733, 744 (D. Md. 2002).

<sup>99</sup> N.J. STAT. ANN. § 56:15-6 (West 2015) (“For purposes of this section, ‘bad faith’ is that which is undertaken or continued solely to harass or maliciously injure another, or to delay or prolong the resolution of the litigation, or that which is without any reasonable basis in fact or law and not capable of support by a good faith argument for an extension, modification or reversal of existing law.”).

<sup>100</sup> 12 PA. CONS. STAT. ANN. § 5302 (West 2015) (“willful and malicious” is defined to mean “[s]uch intentional acts or gross neglect of duty as to evince a reckless indifference of the rights of others on the part of the wrongdoer, and an entire want of care so as to raise the presumption that the person at fault is conscious of the consequences of his carelessness.”).

<sup>101</sup> S.C. CODE ANN. § 39-8-80 (Law Co-op. 2015).

motion to terminate an injunction is made or resisted in bad faith.<sup>102</sup> Virginia did so as well.<sup>103</sup>

The Alabama Trade Secrets Act allows for an award of reasonable attorney's fees to the prevailing party if a claim of misappropriation "is made *or resisted* in bad faith."<sup>104</sup>

In California, section 4 of the uniform act was modified so that an award of attorney's fees includes a reasonable sum to cover expert witness fees.<sup>105</sup> Expert witness fees can also be awarded in New Jersey.<sup>106</sup> An award of attorney's fees in Montana also includes an award of "reasonable costs."<sup>107</sup> In Pennsylvania, an award includes "expenses and costs."<sup>108</sup>

#### e. Differences in Statutes of Limitation

As mentioned above, one of the main goals of the uniform trade secrets act was to provide a single statute of limitations. Alabama rejected the three-year statute of limitations in the uniform trade secrets act, and adopted a two-year statute of limitations.<sup>109</sup> Illinois enacted a five-year statute of limitations.<sup>110</sup> Vermont adopted a six-

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<sup>102</sup> N.C. GEN. STAT. § 66-154(d) (2015).

<sup>103</sup> VA. CODE ANN. § 59.1-338.1 (West 2015).

<sup>104</sup> ALA. CODE § 8-27-4(a)(2) (2015).

<sup>105</sup> CAL. CIV. CODE § 3426.4 (2015).

<sup>106</sup> N.J. STAT. ANN. § 56:15-6 (West 2015).

<sup>107</sup> MONT. CODE ANN. § 30-14-405 (2015).

<sup>108</sup> 12 PA. CONS. STAT. ANN. § 5305 (West 2015).

<sup>109</sup> ALA. CODE § 8-27-5 (2015).

<sup>110</sup> 765 ILL. COMP. STAT. 1065/7 (West 2015).

year statute of limitations.<sup>111</sup> In Maine, the statute of limitations is four years.<sup>112</sup> Missouri has a five-year statute of limitations.<sup>113</sup> Nebraska has a four-year limitations period.<sup>114</sup> Ohio also has a four-year statute of limitations.<sup>115</sup> Wyoming enacted a four-year statute of limitations.<sup>116</sup>

Georgia adopted a five-year statute of limitations, and a different provision concerning continuing misappropriation by multiple persons.<sup>117</sup> Tennessee also enacted a different provision concerning continuing misappropriation by multiple persons.<sup>118</sup>

Alabama did not enact the provision in the uniform act that a continuing misappropriation constitutes a single claim for purposes of the statute of limitations.<sup>119</sup> North Carolina did not do so either.<sup>120</sup> Nor did Pennsylvania.<sup>121</sup>

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<sup>111</sup> VT. STAT. ANN. tit. 12, § 523 (2015) (An action for misappropriation “shall be commenced within six years after the cause of action accrues, and not after. The cause of action shall be deemed to accrue as of the date the misappropriation was discovered or reasonably should have been discovered.”).

<sup>112</sup> ME. REV. STAT. ANN. tit. 10, § 1547 (2015).

<sup>113</sup> MO. ANN. STAT. § 417.461 (West 2015).

<sup>114</sup> NEB. REV. STAT. ANN. § 87-506 (West 2015).

<sup>115</sup> OHIO REV. CODE ANN. § 1333.66 (West 2015).

<sup>116</sup> WYO. STAT. ANN. § 40-24-106 (West 2015).

<sup>117</sup> The Georgia legislature adopted the provision that “continuing misappropriation by any person constitutes a single claim against that person,” but added that the Georgia statute of limitations “shall be applied separately to the claim against each person who receives a trade secret from another person who misappropriated that trade secret.” GA. CODE ANN. § 10-1-766 (2015).

<sup>118</sup> TENN. CODE ANN. § 47-25-1707 (2015) (“For the purposes of this section, a continuing misappropriation by any person constitutes a single claim against that person, but this section shall be applied separately to any claim against each other person who receives a trade secret from another person who misappropriated that trade secret.”).

**e. Differences in Damages Measured by a Reasonable Royalty**

The 1979 version of the uniform trade secrets act did not include a provision for awarding damages measured by a reasonable royalty in lieu of damages measured by actual loss or unjust enrichment. Thus, states that enacted the 1979 version of the uniform act, *i.e.*, Connecticut, Indiana, Louisiana, Arkansas, Washington, and Alaska, do not have a provision allowing for an award of damages measured by a reasonable royalty.

While the 1985 version of the uniform trade secrets act appears to allow a plaintiff in any case to opt for damages measured by a reasonable royalty,<sup>122</sup> California, Georgia, Illinois and Indiana only allow a reasonable royalty as the measure of damages if neither actual loss nor unjust enrichment are provable.

Virginia allows damages to be measured by a reasonable royalty only “[i]f a complainant is unable to prove a greater amount of damages by other methods of measurement,” and under those circumstances, the statute provides that a reasonable royalty must be the exclusive measure of damages.<sup>123</sup>

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<sup>119</sup> ALA. CODE § 8-27-5 (2015).

<sup>120</sup> N.C. GEN. STAT. § 66-157 (2015).

<sup>121</sup> 12 PA. CONS. STAT. ANN. § 5307 (West 2015).

<sup>122</sup> *See, e.g.*, Comment to Title 12, Section 5304, PA. CONS. STAT. ANN. (“As an alternative to all other methods of measuring damages caused by a misappropriator’s past conduct, a complainant can request that damages be based upon a demonstrably reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret. In order to justify this alternative measure of damages, there must be competent evidence of the amount of a reasonable royalty.”).

<sup>123</sup> VA. CODE ANN. § 59.1-338(A) (West 2015).



Wisconsin allows damages to be measured exclusively by the imposition of liability for a reasonable royalty only if the complainant cannot by any other method of measurement prove an amount of damages which exceeds the reasonable royalty.<sup>124</sup>

In Montana, a reasonable royalty can be the measure of damages for a misappropriator's unauthorized *use* of a trade secret, but not the misappropriator's disclosure.<sup>125</sup>

Oregon modified the damages provisions to say that "a complainant is entitled to recover damages adequate to compensate for misappropriation."<sup>126</sup> Coupled with this, the language of the statute sets a reasonable royalty as the floor for a damages award, providing that damages "shall not be less than a reasonable royalty for the unauthorized disclosure or use of a trade secret"<sup>127</sup>

Ohio adopted modified language providing that a court may impose "a reasonable royalty that is equitable under the circumstances considering the loss to the complainant, the benefit to the misappropriator, or both."<sup>128</sup>

**f. States That Did Not Enact All Provisions of the Uniform Act**

Arizona, Georgia, Hawaii, Idaho, Illinois, Iowa, Minnesota, North Dakota, Maine, New Mexico, Nebraska, Nevada, New Jersey, Alabama, and North Carolina did not enact section 8 of the uniform trade secrets act, which requires courts in the state to apply and

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<sup>124</sup> WIS. STAT. ANN. § 134.90(4)(a) (West 2015).

<sup>125</sup> MONT. CODE ANN. § 30-14-404(1) (2015).

<sup>126</sup> OR. REV. STAT. § 646.465(1) (2015).

<sup>127</sup> OR. REV. STAT. § 646.465(2) (2015).

<sup>128</sup> OHIO REV. CODE ANN. § 1333.63(A) (Banks-Baldwin 2015).

construe their state statute to effectuate the general purpose of making trade secret law uniform.<sup>129</sup>

The Alabama Trade Secrets Act provides that it “should be construed to be consistent with *the common law* of trade secrets,” not the uniform trade secrets act.<sup>130</sup> The legislative history of the New Jersey Trade Secrets Act indicates that the state legislature modified the provisions of the uniform trade secrets act to reflect New Jersey common law,<sup>131</sup> thus indicating that the New Jersey statute was not enacted for the purpose of making the law of that state uniform with other states. The legislative history for other state statutes indicates that the state legislature intentionally departed from the language of the uniform act.

The Tennessee statute says that the statute shall be applied and construed to effectuate its general purpose “to make *consistent* the law” with respect to the subject matter of the statute, instead of using the word “uniform.”<sup>132</sup> The Wisconsin statute says

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<sup>129</sup> Courts often assume that when a provision like section 8 is absent from the version of the uniform trade secrets act enacted in that state, it “suggests that the legislature intentionally omitted it.” *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014). *See also K.C. Multimedia, Inc. v. Bank of America Technology & Operations, Inc.*, 171 Cal. App.4th 939, 956, 90 Cal. Rptr.3d 247, 259 (Ct. App. 2009) (“Typically, when a Legislature models a statute after a uniform act, but does not adopt the particular language of that act, courts conclude the deviation was deliberate and that the policy of the uniform act was rejected.”) (citation and internal quotes omitted).

<sup>130</sup> ALA. CODE § 8-27-6 (2015) (emphasis added).

<sup>131</sup> Comment to Assembly Bill No. 921, 2011 N.J. Laws c. 161 (“The New Jersey Law Revision Commission has reviewed and modified the ‘Uniform Trade Secrets Act’ to reflect this State’s common law trade secret jurisprudence.”).

<sup>132</sup> TENN. CODE ANN. § 47-25-1709 (2015) (emphasis added).

that it shall be applied and construed to make uniform the law “relating to misappropriation of trade secrets among states enacting *substantially identical laws*.”<sup>133</sup>

The Alaska Uniform Trade Secrets Act has modified language stating that it is to be applied and construed to make the law uniform with respect to trade secrets among states enacting “similar provisions,” presumably because Alaska did not enact all provisions of the uniform act.<sup>134</sup>

Iowa did not enact the provisions in section 7 of the uniform act preempting other trade secret remedies, and as a result, there is no preemption in Iowa. *205 Corp. v. Brandow*, 517 N.W.2d 548, 551-52 (Iowa 1994). New Mexico and Nebraska also did not enact the preemption provisions of section 7 of the uniform act.<sup>135</sup>

Many states did not enact section 10 of the uniform act concerning severability. In most cases, the state already had a general provision concerning severability.<sup>136</sup> No case has been found in which the severability provision was an issue, so the omission of section 10 is not regarded as a significant difference.

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<sup>133</sup> WIS. STAT. ANN. § 134.90(7) (West 2015) (emphasis added).

<sup>134</sup> ALASKA STAT. ANN. § 45.50.935 (2015).

<sup>135</sup> New Jersey adopted a statute explicitly providing that the remedies provided in the New Jersey Trade Secrets Act “are in addition to and cumulative of any other right, remedy or prohibition provided under the common law or statutory law of this State,” except that the New Jersey statute supersedes conflicting civil remedies for misappropriation of a trade secret. N.J. STAT. ANN. § 56:15-9 (West 2015).

<sup>136</sup> See, e.g., Comment to Section 134.90, WIS. STAT. ANN. (“Section 10, a severability clause, is not included in the bill because s. 990.001(11) is a general severability provision for all Wisconsin statutes.”).

**g. Unique Statutory Provisions Enacted in Some States**

Nevada enacted a special statutory provision establishing a presumption under certain circumstances concerning reasonable efforts to maintain the secrecy of a trade secret that can only be rebutted by clear and convincing evidence. Specifically, the statute provides:

The owner of a trade secret is presumed to make a reasonable effort to maintain its secrecy if the word “Confidential” or “Private” or another indication of secrecy is placed in a reasonably noticeable manner on any medium or container that describes or includes any portion of the trade secret. This presumption may be rebutted only by clear and convincing evidence that the owner did not take reasonable efforts to maintain the secrecy of the trade secret.<sup>137</sup>

South Carolina enacted a provision imposing a duty upon employees to refrain from using or disclosing trade secrets independently of any written contract.<sup>138</sup> This would appear to effectively change what is required to show efforts to maintain the secrecy of a trade secret, because written nondisclosure agreements with employees are not required in South Carolina. South Carolina also has a statute providing that “[a] contractual duty not to disclose or divulge a trade secret, to maintain the secrecy of a trade secret, or to limit the use of a trade secret must not be considered void or

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<sup>137</sup> NEV. REV. STAT. ANN. § 600A.032 (West 2015). Nevada also has a definition of an “owner.” *Id.* § 600A.030(3).

<sup>138</sup> S.C. CODE ANN. § 39-8-30(B) (Law Co-op. 2015) (“Every employee who is informed of or should reasonably have known from the circumstances of the existence of any employer’s trade secret has a duty to refrain from using or disclosing the trade secret without the employer’s permission independently of and in addition to any written contract of employment, secrecy agreement, noncompete agreement, nondisclosure agreement, or other agreement between the employer and the employee.”).

unenforceable or against public policy for lack of a durational or geographical limitation.”<sup>139</sup>

Tennessee enacted a provision that, “[i]n no event shall a written contract be required to maintain an action or recover damages for misappropriation of a trade secret proven under this part.”<sup>140</sup>

Nevada enacted a statute providing that an employer is the sole owner of any trade secret developed by an employee during the course and scope of employment.<sup>141</sup>

Wisconsin enacted a statute prohibiting a court from issuing an injunction or restraining order unless the complainant makes an application “which includes a description of each alleged trade secret in sufficient detail to inform the party to be enjoined or restrained of the nature of the complaint against that party or, if the court so orders, includes written disclosure of the trade secret.”<sup>142</sup> The intent of the provision is “to allow the defendant to bring in evidence early in the process as to whether the information is a trade secret.”<sup>143</sup>

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<sup>139</sup> S.C. CODE ANN. § 39-8-30(D) (Law Co-op. 2015). This statute was enacted to legislatively overrule *Carolina Chemical Equipment Co. v. Muckenfuss*, 322 S.C. 289, 471 S.E.2d 721 (Ct. App. 1996).

<sup>140</sup> TENN. CODE ANN. § 47-25-1708(c) (2015).

<sup>141</sup> The Nevada statute also makes the employer the owner of any patentable invention developed by an employee. NEV. REV. STAT. ANN. § 600.500 (West 2014).

<sup>142</sup> WIS. STAT. ANN. § 134.90(3)(a)(1) (West 2015).

<sup>143</sup> Comment to Section 134.90, WIS. STAT. ANN.

Nevada has a statute explicitly providing that a court shall preserve the secrecy of an alleged trade secret, including “[d]etermining the need for any information related to the trade secret before allowing discovery.”<sup>144</sup>

California enacted a statute requiring an alleged trade secret to be identified with reasonable particularity before a plaintiff is allowed to commence discovery relating to the trade secret.<sup>145</sup> The failure to comply with this statutory requirement can be grounds for summary judgment in favor of the defendant. *Imax Corp. v. Cinema Technologies Inc.*, 152 F.3d 1161, 1164-67 (9th Cir. 1998).

The California statute requiring identification of alleged trade secrets is directed to an important issue that is not addressed by the uniform trade secrets act. It is relatively easy to initiate a trade secret lawsuit “for the purpose of harassing or even driving a competitor out of business by forcing a competitor to spend large sums in defending unwarranted litigation.” *Computer Econ. Inc. v. Gartner Grp. Inc.*, 50 F. Supp.2d 980, 985 n.6 (S.D. Cal. 1999). There are a number of policy considerations supporting the California statute. First, it promotes well investigated claims and dissuades the filing of meritless trade secret complaints. Second, it prevents the misuse of the discovery process as a means to obtain a competitor’s trade secrets. Third, the rule assists the court in framing the scope of discovery and determining whether discovery requests properly fall within that scope. Fourth, it enables a defendant to form complete and well-reasoned defenses, ensuring that it need not wait until the eve of trial to defend effectively against trade secret claims. *Brescia v. Angelin*, 172 Cal. App.4th 133, 144 (2009).

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<sup>144</sup> NEV. REV. STAT. ANN. § 600A.070(4) (West 2015).

<sup>145</sup> CAL. CODE CIV. PROC. § 2019.210 (2015).

One consequence of leaving trade secret law to develop as a matter of state law is that emerging developments cannot be effectively and efficiently addressed when left to fifty different state legislatures or state court systems. For example, emerging issues such as the potential for abusive trade secret lawsuits, the identification of trade secrets, new technology as trade secrets, or new means for misappropriation, are not specifically addressed in the uniform trade secrets act. If there is a laudatory new statutory provision enacted in one state, or the National Commissioners make amendments to the uniform act, it can be a lengthy and difficult process to convince the legislatures in each of the states to adopt new legislation or amend their existing statutes.

In addition, because the California trade secret identification statute is a matter of state law, differences have arisen in how California trade secret law is applied in federal courts in California. Some California federal courts have determined that the California trade secret identification statute should apply in a federal diversity case governed by California state law as a matter of state substantive law, and in order to discourage forum shopping. *Computer Econ. Inc. v. Gartner Grp. Inc.*, 50 F. Supp.2d 980, 992 (S.D. Cal. 1999). Other federal courts in that state have determined that the California statute does not govern cases pending in federal court. *Functat Leisure Craft Inc. v. Johnson Outdoors Inc.*, 2007 U.S. Dist. LEXIS 8870, at \*6 (E.D. Cal. Jan. 29, 2007).

South Carolina enacted detailed provisions concerning discovery in trade secret cases.<sup>146</sup> The statute provides, “In any civil action where discovery is sought of information designated by its holder as a trade secret, before ordering discovery a court shall first determine whether there is a substantial need by the party seeking discovery for

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<sup>146</sup> S.C. CODE ANN. § 39-8-60 (Law Co-op. 2015).

the information.”<sup>147</sup> The statute contains a detailed definition of “substantial need.” The definition of “substantial need” includes a requirement that “the allegations in the initial pleading setting forth the factual predicate for or against liability have been plead with particularity.”<sup>148</sup>

Nebraska enacted a special provision that “[t]he disclosure or publication of a trade secret in a court proceeding or as a result thereof shall not constitute an abandonment of the secret.”<sup>149</sup>

Nevada has a special Internet take-down statutory provision authorizing a court to issue “an injunction or order requiring that a trade secret which has been misappropriated and posted, displayed or otherwise disseminated on the Internet be removed from the Internet immediately.”<sup>150</sup> In addition, Nevada has special statutory provisions concerning trade secrets disseminated on the Internet, providing that information remains a trade secret and does not cease to exist if (1) “[t]he owner, within a reasonable time after discovering that the trade secret has been misappropriated and posted, displayed or otherwise disseminated on the Internet, obtains an injunction or order issued by a court requiring that the trade secret be removed from the Internet,” and “[t]he trade secret is removed from the Internet within a reasonable time after the injunction or order requiring removal of the trade secret is issued by the court.”<sup>151</sup> Thus, under Nevada law, even if a

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<sup>147</sup> *Id.* § 39-8-60(B).

<sup>148</sup> *Id.* § 39-8-60(B)(1).

<sup>149</sup> NEB. REV. STAT. ANN. § 87-505 (West 2015).

<sup>150</sup> NEV. REV. STAT. ANN. § 600A.040(3) (West 2015).

<sup>151</sup> NEV. REV. STAT. ANN. § 600A.055 (West 2015).



misappropriated trade secret has been posted, displayed or otherwise disseminated on the Internet, an injunction should not be terminated on grounds that the trade secret has ceased to exist, if the requirements of this special Nevada statute are met.

As noted previously, the New Jersey Trade Secrets Act includes a special statutory provision that “[a] person who misappropriates a trade secret shall not use as a defense to the misappropriation that proper means to acquire the trade secret existed at the time of the misappropriation.”<sup>152</sup>

North Carolina made permanent injunctions mandatory.<sup>153</sup> North Carolina has a special statutory provision governing someone who innocently acquires a trade secret by accident or mistake:

A person who in good faith derives knowledge of a trade secret from or through misappropriation or by mistake, or any other person subsequently acquiring the trade secret therefrom or thereby, shall be enjoined from disclosing the trade secret, but no damages shall be awarded against any person for any misappropriation prior to the time the person knows or has reason to know that it is a trade secret. If the person has substantially changed his position in good faith reliance upon the availability of the trade secret for future use, he shall not be enjoined from using the trade secret but may be required to pay a reasonable royalty as deemed just by the court. If the person has acquired inventory through such knowledge or use of a trade secret, he can dispose of the inventory without payment of royalty. If his use of the trade secret has no adverse economic effect upon the owner of the trade secret, the only available remedy shall be an injunction against disclosure.<sup>154</sup>

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<sup>152</sup> N.J. STAT. ANN. § 56:15-5 (West 2015).

<sup>153</sup> N.C. GEN. STAT. § 66-154(a) (2015).

<sup>154</sup> *Id.* § 66-154(a)(2).

In North Carolina, if a court determines that it would be unreasonable to enjoin use of a misappropriated trade secret, the court may condition future use “upon payment of a reasonable royalty *for any period the court may deem just.*”<sup>155</sup>

In North Carolina, the recovery of damages measured by economic loss or unjust enrichment is stated in the alternative. A plaintiff can recover whichever measure is greater, but apparently not both.<sup>156</sup>

South Carolina has a special statutory provision concerning the reasonable period of time that an injunction can be continued when a trade secret has ceased to exist, stating, “[s]uch reasonable period of time shall take into account the average rate of business growth that would have been gained from nonmisappropriated use of the misappropriated trade secret.”<sup>157</sup>

Under the uniform act, an injunction that must be terminated after the trade secret ceases to exist “*may*” be continued for an additional reasonable period of time to eliminate commercial advantage. Under the Ohio statute, the continuation of an injunction under those circumstances is mandatory.<sup>158</sup> Under the Tennessee statute, the circumstances under which an injunction can be continued include, in addition to an elimination of commercial advantage, “deterrence of willful and malicious

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<sup>155</sup> *Id.* § 66-154(a)(1). The uniform act limits the period of time of such a reasonable royalty for no longer than the period of time for which use could have been prohibited.

<sup>156</sup> *Id.* § 66-154(b). Under the uniform act, damages measured by unjust enrichment are recoverable in addition to damages for actual loss, to the extent that such damages have not already been taken into account in computing actual loss.

<sup>157</sup> S.C. CODE ANN. § 39-8-50(A) (Law Co-op. 2015).

<sup>158</sup> OHIO REV. CODE ANN. § 1333.62(A) (Banks-Baldwin 2015).

misappropriation, or where the trade secret ceases to exist due to the fault of the enjoined party or others by improper means.”<sup>159</sup>

Under the uniform act, a complainant is entitled to recover damages except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable. The South Carolina statute includes language explicitly providing that such circumstances may provide a “basis for *reducing* monetary recovery,” indicating that a *partial* recovery may still be appropriate.<sup>160</sup>

West Virginia eliminated the language in section 3 of the uniform act that the recovery of unjust enrichment is limited to such damages “that is not taken into account in computing actual loss.”<sup>161</sup>

The Tennessee statute provides, “a contractual duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty.”<sup>162</sup>

Upon a motion made by the holder of a trade secret, South Carolina explicitly allows that, “a court may condition the production of trade secret information on the posting of an appropriate bond.”<sup>163</sup> The owner of a trade secret is also allowed “to obtain individually signed confidentiality agreements from all parties that are present in the

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<sup>159</sup> TENN. CODE ANN. § 47-25-1703(A) (2015).

<sup>160</sup> S.C. CODE ANN. § 39-8-40(A) (Law Co-op. 2015) (emphasis added).

<sup>161</sup> W. VA. CODE § 47-22-3 (2015).

<sup>162</sup> TENN. CODE ANN. § 47-25-1708(b)(1) (2015).

<sup>163</sup> *Id.* § 39-8-60(D).

courtroom.”<sup>164</sup> South Carolina has a special statutory provision stating, “[d]irect access to computer databases containing trade secret information, so-called ‘real time’ discovery, shall not be ordered by the court unless the court finds that the proponent of the discovery cannot obtain this information by any other means and provided that the information sought is not subject to any privilege.”<sup>165</sup>

In South Carolina, protective orders governing trade secret information produced during discovery must limit use of the information to purposes of that case.<sup>166</sup> The statute goes on to say, “Litigation-sharing orders pertaining to trade secret information must not be entered by the court.”<sup>167</sup> The South Carolina statute applies to any civil action outside the state where discovery is sought of trade secret information present in South Carolina.<sup>168</sup> In addition, any person receiving trade secret information pursuant to the South Carolina statute is subject to the jurisdiction of the courts of that state.<sup>169</sup>

There are a few other state statutes that make minor contributions to a lack of uniformity. California and Hawaii are examples of states that have enacted statutes providing that the owner of a trade secret has a privilege to refuse to disclose the trade secret, and to prevent another from disclosing it, if the enforcement of the privilege will

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<sup>164</sup> *Id.* § 39-8-60(H).

<sup>165</sup> *Id.* § 39-8-60(C).

<sup>166</sup> *Id.* § 39-8-60(F).

<sup>167</sup> *Id.*

<sup>168</sup> *Id.* § 39-8-60(J).

<sup>169</sup> *Id.* § 39-8-60(G).

not tend to conceal fraud or otherwise work injustice.<sup>170</sup> Alabama adopted a rule of evidence that requires courts to protect trade secrets during litigation, instead of adopting section 5 of the uniform trade secrets act.<sup>171</sup>

The Texas statute explicitly provides that there is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets.<sup>172</sup> This presumably eliminates any requirement of a showing of “good cause” under Rule 26(c), Fed.R.Civ.P., or under similar state court rules. The Texas statute also explicitly states that “[p]rotective orders may include provisions limiting access to confidential information to only the attorneys and their experts.”<sup>173</sup> South Carolina also appears to make protective orders mandatory.<sup>174</sup>

The Nevada Uniform Trade Secrets Act includes criminal penalties for theft and misappropriation of a trade secret.<sup>175</sup> So does the South Carolina statute.<sup>176</sup>

#### **h. Definition of a “Person”**

The definition of a “person” in the uniform act is intended to encompass any legal or commercial entity. Nevertheless, a number of states modified the definition.

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<sup>170</sup> CAL. EVID. CODE §1060 & HAW. REV. STAT. § 626-1, Rule 508.

<sup>171</sup> Rule 507, Ala.R.Evid.

<sup>172</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.006 (2015).

<sup>173</sup> *Id.*

<sup>174</sup> S.C. CODE ANN. § 39-8-60(E) (Law Co-op. 2015) (“Information produced pursuant to this section must be governed by an appropriate written protective order of the court.”).

<sup>175</sup> NEV. REV. STAT. ANN. § 600A.035 (West 2015).

<sup>176</sup> S.C. CODE ANN. § 39-8-90 (Law Co-op. 2015).

California, Nebraska, Connecticut, Indiana, and South Dakota added a “limited liability company” to the definition.<sup>177</sup> Delaware and Maryland added a “statutory trust” to the definition.<sup>178</sup> Missouri added that a “person” included any other legal or commercial entity “whether for profit or not for profit.”<sup>179</sup> Georgia did something similar.<sup>180</sup> So did Illinois.<sup>181</sup>

Ohio adopted a provision indicating that “person” had the same meaning as in another statute.<sup>182</sup> Wisconsin also did not enact the definition of a “person,” and the legislative history indicates that the term was already defined in another existing statute.<sup>183</sup> In addition, Colorado, Iowa and Vermont did not enact a definition of a “person.” Texas did not enact the definition of a “person,” but adopted a definition of a “claimant.”<sup>184</sup>

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<sup>177</sup> CAL. CIV. CODE § 3426.1(c) (2015); NEB. REV. STAT. ANN. § 87-502(3) (West 2015); CONN. GEN. STAT. § 35-51(c) (2015); IND. CODE ANN. § 24-2-3-2 (West 2015); S.D. CODIFIED LAWS § 37-29-1(3) (West 2015).

<sup>178</sup> DEL. CODE ANN. tit. 6, § 2001(3) (2015); MD. CODE ANN., COM. LAW § 11-1201 (d) (2015).

<sup>179</sup> MO. ANN. STAT. § 417.453(3) (West 2015).

<sup>180</sup> GA. CODE ANN. § 10-1-761(3) (2015).

<sup>181</sup> 765 ILL. COMP. STAT. ANN. 1065/2(c) (West 2015).

<sup>182</sup> OHIO REV. CODE ANN. § 1333.61(C) (Banks-Baldwin 2015).

<sup>183</sup> Comment to Section 134.90, WIS. STAT. ANN. (“The definition of ‘person’ contained in section 1(3) of the act is deleted from this bill. Section 990.01(26), stats., defines ‘person’ to include all partnerships, associations and bodies politic or corporate.”).

<sup>184</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(1) (2015).

## **B. Differences in Case Law**

Separate and apart from the differences in the statutes enacted in the various states, court decisions have also contributed to a lack of uniformity in trade secret law.

### **a. Case Law Split Concerning Preemption**

A significant split of authority has developed concerning the extent to which the uniform trade secrets act displaces other common law tort claims, such as common law tort claims based upon misappropriation of confidential information.

A number of courts have held that the uniform trade secrets act preempts common law tort claims based upon misappropriation of confidential information that does not rise to the level of a “trade secret.” *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 664 (N.H. 2006); *Robbins v. Supermarket Equipment Sales, LLC*, 290 Ga. 462, 722 S.E.2d 55 (2012); *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310, 327 (Haw. 2010); *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002); *Powell Products, Inc. v. Marks*, 948 F. Supp. 1469, 1474-75 (D. Colo. 1996); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp.2d 968, 971 (N.D. Ill. 2000); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp.2d 943, 949 (W.D. Mich. 2003); *Glasstech, Inc. v. TGL Tempering Sys., Inc.*, 50 F. Supp.2d 722, 730 (N.D. Ohio 1999); *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F.Supp.2d 784, 789 (W.D. Ky. 2001); *see generally Hauck Mfg. v. Astec Industries, Inc.*, 375 F.Supp.2d 649 (E.D. Tenn. 2004) (discussing the nationwide jurisprudence on this issue).

Other courts have held that the statute only preempts other remedies based upon misappropriation of “trade secrets,” and leaves untouched any other common law remedies based upon confidential information or theft of information. *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184-85, 337 P.3d 545, 549-50

(2014); *Burbank Grease Servs., LLC v. Sokolowski*, 717 N.W.2d 781, 789 (Wis. 2006); *Stone Castle Fin., Inc. v. Friedman, Billings, Ramsey & Co.*, 191 F. Supp.2d 652, 656-59 (E.D. Va. 2002); *Fred's Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902, 908 (Miss. 1998); *see Nucor Corp. v. Bell*, 482 F. Supp.2d 714, 725 (D.S.C. 2007) (“only claims purporting to provide a remedy for the misappropriation of ‘trade secrets’ are preempted by the South Carolina Trade Secrets Act, and because Nucor alleges facts that support the contested claims to the extent the misappropriated information is not classified as ‘trade secrets,’ the contested causes of action must survive Defendants’ motion”); *Swedish Civil Aviation Admin. v. Project Management Enterprises, Inc.*, 190 F. Supp.2d 785 (D. Md. 2002) (refused dismissal of a claim for breach of duty of confidential relationship because it could be based upon confidential information that was not a trade secret).

As mentioned above, the Iowa legislature did not enact the preemption provisions of section 7 of the uniform trade secrets act. Therefore, the Iowa Uniform Trade Secrets Act does not preempt *any* other tort remedies for misappropriation of trade secrets or confidential information. *205 Corp. v. Brandow*, 517 N.W.2d 548, 551-52 (Iowa 1994). In addition, New Mexico and Nebraska did not enact the preemption provisions of the uniform act. As discussed previously, New Jersey adopted a statute explicitly providing that the remedies provided in the New Jersey Trade Secrets Act “are in addition to and cumulative of any other right, remedy or prohibition provided under the common law or statutory law of this State,” except that the New Jersey statute supersedes conflicting civil remedies for misappropriation of a trade secret.<sup>185</sup>

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<sup>185</sup> N.J. STAT. ANN. § 56:15-9 (West 2015).



There is a split among the states enacting some version of the uniform act concerning whether fraud claims are preempted. *Compare Chatterbox, LLC v. Pulsar Ecoproducts, LLC*, 2007 WL 1388183, at \*4 (D. Idaho May 9, 2007) (fraud claim not preempted), and *Hecny Transp., Inc. v. Chu*, 430 F.3d 402, 404-05 (7th Cir. 2005) (fraud claim not preempted), with *Weins v. Sporleder*, 605 N.W.2d 488 (S.D. 2000) (fraud claim preempted), *cert. denied*, 531 U.S. 821 (2000).

There is a split among the states concerning whether the common law *respondeat superior* doctrine is displaced by the uniform trade secrets act. *Compare Infinity Products, Inc. v. Quandt*, 810 N.E.2d 1028, 1034 (Ind. 2004) (*respondeat superior* doctrine is displaced), with *Newport News Industrial v. Dynamic Testing*, 130 F. Supp.2d 745, 751 (E.D. Va. 2001) (*respondeat superior* doctrine is not displaced).

**b. Differences in the Law - Information Committed to Memory**

There are differences in the law concerning whether it is misappropriation to use information that a former employee has memorized. In Georgia, a former employee is free to use any customer information he may have committed to memory. *Avnet, Inc. v. Wyle Labs., Inc.*, 263 Ga. 615, 437 S.E.2d 302 (1993). The statutory definition of a “trade secret” in Alabama requires that the information must be “included or embodied in” a formula, pattern, compilation, computer software, drawing, device, method, technique, or process.<sup>186</sup> *See Alagold Corp. v. Freeman*, 20 F. Supp.2d 1305, 1315 (M.D. Ala. 1998) (defendant argued that “head knowledge” did not meet the embodiment requirement under Alabama law), *aff’d*, 237 F.3d 637 (11th Cir. 2000).

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<sup>186</sup> ALA. CODE § 8-27-2(1)(b) (2015).

In most states, a former employee cannot use memorized trade secrets of his previous employer. *Burt Dickens & Co. v. Bodi*, 144 Ill. App.3d 875, 882, 494 N.E.2d 817, 821 (1986) (“It is well established that an employee breaches his confidential relationship with his employer where he acts in a manner inconsistent with his employer’s interest during his employment in that he surreptitiously copies or memorizes trade secret information for use after his termination in the solicitation of his employer’s customers.”); *Calisi v. Unified Financial Services, LLC*, 232 Ariz. 103, 106, 302 P.3d 628, 631 (Ct. App. 2013); *Al Minor & Assoc., Inc. v. Martin*, 117 Ohio St.3d 58, 881 N.E.2d 850, 853-54 (2008); *Ed Nowogroski Ins., Inc. v. Rucker*, 137 Wash.2d 427, 971 P.2d 936, 948 (1999); *Allen v. Johar, Inc.*, 308 Ark. 45, 823 S.W.2d 824, 827 (1992); *Welsco, Inc. v. Brace*, No. 4:12-cv-00394-KGB, 2014 WL 4929453, at \*26 (E.D. Ark. Sept. 30, 2014).

**c. Differences in the Law - Standing**

There are differences in state laws concerning whether the plaintiff in a trade secret case must prove ownership of the trade secrets at issue. In some states, the plaintiff only need establish that it is in rightful possession of the trade secrets that are the basis for the claim of misappropriation. *Metso Minerals Inds. v. FLSmidth-Excel LLC*, 733 F. Supp.2d 969, 972 (E.D. Wis. 2010); *Candy Craft Creations, LLC v. Gartner*, No. CV 212-091, 2015 WL 1541507, at \*18 (S.D. Ga. March 31, 2015), *denying certificate of appealability*, 2015 WL 2408185 (S.D. Ga. May 19, 2015).

However, in North Carolina, the plaintiff must be the owner of the trade secret.<sup>187</sup> In South Carolina, a person who is “aggrieved by a misappropriation, wrongful

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<sup>187</sup> N.C. GEN. STAT. § 66-153 (2015).

disclosure, or wrongful use of *his trade secret*” has standing to bring a civil action to recover damages and enjoin wrongful acts pertaining to trade secrets.<sup>188</sup> The language of the South Carolina statute would appear to effectively limit standing to someone who is the owner of the trade secret. In addition, South Carolina enacted a definition of “owner.”<sup>189</sup>

**d. Differences in the Burden of Proof for Exemplary Damages**

The case law is split concerning the burden of proof required to show exemplary damages. *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 666 (4th Cir.1993) (Maryland law) (clear and convincing); *Centrol, Inc. v. Morrow*, 489 N.W.2d 890, 896 (S.D. 1992) (clear and convincing); *Zawels v. Edutronics, Inc.*, 520 N.W.2d 520, 523-24 (Minn. App. 1994) (preponderance of the evidence).

Under Texas law, the issue is governed by statute, and willful and malicious misappropriation must be proven by clear and convincing evidence before exemplary damages may be awarded.<sup>190</sup>

**e. Differences in the Law - Application of Statute of Limitations**

There appears to be a split of authority concerning the interpretation of the statute of limitations in the uniform trade secrets act, when the same defendant later commits a second act of misappropriation, and the limitations period has run since the commission of the first act of misappropriation.

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<sup>188</sup> S.C. CODE ANN. § 39-8-30(C) (Law Co-op. 2015) (emphasis added).

<sup>189</sup> *Id.* § 39-8-20(3).

<sup>190</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(b) (2015).

California case law holds that a claim concerning the second act of misappropriation is barred, even if the first act of misappropriation was relatively inconsequential. *Intermedics, Inc. v. Ventritex, Inc.*, 822 F. Supp. 634, 654 (N.D. Cal. 1993) (“[O]nce plaintiff knows or should know that a defendant who once was trusted has shown, by any act of misappropriation, that he cannot be trusted, plaintiff should understand that there is a risk that that defendant will commit additional acts of misappropriation, whether they involve repeated misappropriations of one trade secret or initial misappropriations of other confidences.”). *See also Ashton-Tate Corp. v. Ross*, 916 F.2d 516, 523-24 (9th Cir. 1990).

The Colorado Supreme Court disapproved of this rule, and suggested that the correct approach is to determine whether the second act of misappropriation involves the same trade secret. *Gognat v. Ellsworth*, 259 P.3d 497, 502-03 (Colo. 2011). This is an example illustrating the fact that even where the identical statutory language has been enacted in two states, the courts in those states may interpret the language differently.

**f. Case Law Split Concerning Inevitable Disclosure Doctrine**

There is a split of authority concerning the inevitable disclosure doctrine. A majority of states that have considered the issue have followed the inevitable disclosure doctrine. *E.g., PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995); *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transport Services, Inc.*, 336 Ark. 143, 152-53, 987 S.W.2d 642, 646-47 (1999); *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, 200 A.2d 428 (Del. Ch. 1964); *Thomas v. Alloy Fasteners, Inc.*, 664 So.2d 59 (Fla. Dist. Ct. App. 1995); *CMI Int’l, Inc. v. Intermet Int’l Corp.*, 251 Mich. App. 125, 649 N.W.2d 808, 813-14 (Ct. App. 2002); *National Starch & Chemical Corp.*

*v. Parker Chemical Corp.*, 219 N.J. Super. 158, 530 A.2d 31 (1987); *DoubleClick Inc. v. Henderson*, 1997 N.Y. Misc. LEXIS 577 (N.Y. Sup. Ct. Nov. 5, 1997); *Interbake Foods, L.L.C. v. Tomasiello*, 461 F. Supp.2d 943, 972 (N.D. Iowa 2006); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909 (D. Conn. 1996); *Dearborn v. Everett J. Prescott, Inc.*, 486 F. Supp.2d 802, 820 (S.D. Ind. 2007); *see generally* Keith A. Roberson, *South Carolina's Inevitable Adoption of the Inevitable Disclosure Doctrine: Balancing Protection of Trade Secrets with Freedom of Employment*, 52 S.C.L. Rev. 895 (2001).

However, some states have rejected the inevitable disclosure doctrine. *Whyte v. Schlage Lock Co.*, 101 Cal. App.4th 1443, 125 Cal. Rptr.2d 277, 291 (2002); *LeJeune v. Coin Acceptors, Inc.*, 381 Md. 288, 849 A.2d 451, 471 (Md. 2004).

#### **g. Differences in the Law - Identification of Trade Secrets**

There have been developments in the law concerning the burden upon a plaintiff to identify the alleged trade secrets, and when the plaintiff is required to do so. As noted above, California has enacted a statute requiring a plaintiff to identify the alleged trade secrets with reasonable particularity before being allowed discovery from the defendant.

Various cases in other states have sometimes reached the same result in the absence of a statute.

#### **h. Federal Courts' Attempts to Predict State Law**

One consequence of trade secret law being a matter of state law is that federal courts are sometimes called upon to predict how the state courts would decide a question that has not yet been addressed by the state courts. *Firetrace USA, LLC v. Jesclard*, 800 F. Supp.2d 1042, 1047 (D. Ariz. 2010) ("In the absence of a decision from a state's highest court on an issue of state law, a federal court 'must predict how the highest state

court would decide the issue using intermediate appellate court decisions, decisions from other jurisdictions, statutes, treaties, and restatements as guidance’.”), *quoting from Vestar Development II v. General Dynamics Corp.*, 249 F.3d 958, 960 (9th Cir. 2001). In the *Firetrace* case, the federal court predicted that Arizona would follow the majority rule that common law claims for misappropriation of confidential information are preempted by the Arizona Uniform Trade Secrets Act. 800 F. Supp.2d at 1048-49. However, three years later, the Arizona Supreme Court decided the issue the other way. *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184-85, 337 P.3d 545, 549-50 (2014). Federal courts are thereafter bound to apply the law as decided by the state courts. *Vestar Development*, 249 F.3d at 960. This may further contribute to the absence of a clear uniform nationwide law governing trade secrets.

Another consequence of leaving trade secret law to develop as a matter of state law is that if the courts in one state reach a decision on a question of first impression, the same issue may still be litigated forty-nine more times in every other state that has not yet decided the question, because other states may decide the same issue differently.

### **C. General Comments Concerning Uniformity**

If it is desirable to have a uniform nationwide law governing the important area of interstate commerce involving trade secrets, the present legal framework governing trade secrets falls far short of uniformity. The uniform trade secrets act has not been adopted in every state. Among the states that have adopted the uniform act, some states adopted language from the 1979 version, and some states adopted language from the 1985 version. Many states made modifications to the language of the uniform act, and a number of states did not enact all of the provisions of the uniform act. Some people count Alabama and North Carolina among the states that have adopted the uniform trade secrets

act, but those states enacted statutes that are significantly different from the uniform act. Among the states that have adopted some version of the uniform act, there are splits of authority among the courts in those states on a number of issues. And only one state has passed a statute to address the important emerging issue concerning identification of the alleged trade secrets during litigation.

Unfortunately, even after thirty-five years, the uniform trade secrets act has failed to achieve its goal of a uniform nationwide law governing trade secrets.

Perhaps one of the primary questions concerning uniformity involves whether we achieved uniformity concerning the fundamental issue of what is a “trade secret.” Prior to the uniform act, states generally followed the six factors set forth in the *Restatement (First) of Torts* § 757 in determining whether information was a trade secret. One goal of the uniform act was to provide a uniform statutory definition of a “trade secret.” But even after adopting the uniform act, courts in many states still consider and follow the six factors in the *Restatement* in making their determinations concerning whether information is a trade secret. To make things worse, however, several state legislatures made substantive changes to the language defining a “trade secret.” Consequently, the law concerning what qualifies as a “trade secret” is less uniform now than it was before state legislatures passed statutes providing different definitions for a “trade secret.”

The different statutory preemption provisions, and the lack of uniformity in the state court decisions that have considered the issue of preemption, have left us with a patchwork of laws governing use and misappropriation of information (confidential information and trade secrets) that can vary significantly from state to state. In some states, you can be liable for misappropriation of confidential information. In other states,

you cannot. Various other common law claims are preempted in some states, and in other states they are not preempted.

The goal of achieving a uniform three-year statute of limitations in every state was not achieved. At least nine states adopted a different limitations period. Out of forty-seven states enacting trade secret statutes, this represents an 18% failure rate at achieving uniformity on just this one area of the law.

Whether attorney's fees can be awarded, and the circumstances under which they can be awarded, varies in some states. A few states allow the recovery of expert witness fees. The law governing exemplary damages is not uniform. The law is not uniform concerning whether damages can be measured by a reasonable royalty, and the circumstances under which a reasonable royalty can be used as the measure of damages. Some states have not enacted the 1985 amendments to the uniform act, and as a result, do not have a statutory provision permitting damages measured by a reasonable royalty.

A careful consideration of the differences in the statutes enacted in each state, and the differences in relevant case law in the various states, seems to compel the conclusion that trade secret law is far from uniform in all 50 states.

Instead of achieving a more uniform law governing trade secrets as a result of the recommended uniform act in 1979, we may have actually reached an opposite result. The net effect of the different language enacted by many state legislatures, and the splits that have arisen among the various state courts interpreting and applying the statutes enacted in each state, has been to provide us with a framework of law governing trade secrets that may actually be *less* uniform now than it was in 1979.



The current debate over the need for federal legislation in the area of trade secret law is premised, in part, upon various perceptions that more uniformity may be needed. It is hoped that this survey of trade secret law will contribute to a better understanding of the degree of uniformity that has actually been achieved, and better inform policy makers and others involved in the current debate.

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