

## **II. DISCUSSION OF TRADE SECRET LAW IN EACH STATE (Part 1)**

### **By Sid Leach**

In order to better assess the degree of uniformity, or lack thereof, in trade secret law among the various states, a detailed discussion of trade secret law in each state is provided. For convenience, and due to the length of the material, the discussion is divided into two parts: part 1 covers the states of Alabama through Missouri; and part 2 covers the states of Montana through Wyoming.

#### **1. Alabama**

In 1987, Alabama enacted a trade secrets act. It was not intended to provide a uniform law on trade secrets. The Alabama Trade Secrets Act, in a few instances, borrows language from the proposed uniform trade secrets act, but mostly contains provisions that are substantially different from the uniform trade secrets act. The Alabama statute is codified at ALA. CODE §§ 8-27-1 to 8-27-6 (2015).<sup>191</sup>

The Alabama legislature adopted a different definition for “trade secret.” ALA. CODE § 8-27-2(1). What constitutes misappropriation is also defined differently from the uniform trade secrets act. ALA. CODE §§ 8-27-2(2) & 8-27-3 (2015). In addition, the Alabama legislature enacted a different statute of limitations.<sup>192</sup> Given that the main goals of the uniform trade secrets act were to provide uniform definitions of a “trade

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<sup>191</sup> The legislative history of the Alabama Trade Secrets Act includes comments that aid in the interpretation of the statute.

<sup>192</sup> The Alabama Trade Secrets Act provides a two-year statute of limitations. Section 6 of the uniform trade secrets act has a three year statute of limitations.

secret” and “misappropriation,” together with a single statute of limitations,<sup>193</sup> those goals were not achieved in Alabama.

Section 8-27-6 of the Alabama Trade Secrets Act provides that it “should be construed to be consistent with the common law of trade secrets.” *Id.* The legislative history of the Alabama Trade Secrets Act indicates that it was *not* intended to enact uniform trade secret laws that follow the proposed uniform trade secrets act. In a number of places, the comments accompanying the enactment of the Alabama Trade Secrets indicate that the Alabama legislature rejected certain provisions of the uniform trade secrets act.<sup>194</sup> Instead, the Alabama statute was “intended both to codify and to modify the common law of trade secrets in Alabama.” Comment to Section 8-27-6, ALA. CODE. The Alabama statute draws primarily on the common law of trade secrets as reflected in the first Restatement of Torts (1939). *Id.*

**a. Alabama Definition of a “Trade Secret”**

The legislative history for the Alabama Trade Secrets Act indicates that the definition of a “trade secret” under Alabama law “retains the Restatement view that a trade secret, first, must relate to a trade or business, and, second, must be secret.”

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<sup>193</sup> “The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.” Prefatory Note, National Conference of Commissioners on Uniform State Laws, at 2 (Aug. 9, 1085).

<sup>194</sup> *See, e.g.*, Comment to Section 8-27-6, ALA. CODE (“The act draws primarily on the common law of trade secrets as it is reflected in the first Restatement of Torts (1939). Where contemporary problems or other policy considerations make deviations from the Restatement advisable, the act draws first from the Uniform Trade Secrets Act and the case law that has developed since the Restatement; however, where necessary the Alabama Act differs from these sources (e.g., the length of the statute of limitations and the decision not to use the term ‘espionage’ in the definition of the term ‘improper means’).”).

Comment to Section 8-27-2, ALA. CODE. The legislative history criticizes the approach taken by the uniform trade secrets act, because it fails to clearly set forth either of these requirements. *Id.* (“Neither of these requirements appears clearly in the Uniform Act.”).<sup>195</sup>

The Alabama Trade Secrets Act defines a trade secret as information that:

- “a. Is used or intended for use in a trade or business;”
- “b. Is included or embodied in a formula, pattern, compilation, computer software, drawing, device, method, technique, or process;”
- “c. Is not publicly known and is not generally known in the trade or business of the person asserting that it is a trade secret;”
- “d. Cannot be readily ascertained or derived from publicly available information;”
- “e. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and”
- “f. Has significant economic value.”

ALA. CODE § 8–27–2(1) (2015).

In Alabama, “the 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).” *Public Systems, Inc. v.*

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<sup>195</sup> The legislative history does note, however, that the “Uniform Act’s requirement that one make reasonable efforts to maintain secrecy, however, does give rise to a reasonable inference that secrecy itself is a requirement.” Comment to Section 8-27-2, ALA. CODE. Some courts in other states interpreting the uniform trade secrets act have read in a requirement of secrecy. *See, e.g., Enterprise Leasing Co. v. Ehmke*, 197 Ariz. 144, 149, 3 P.3d 1064, 1069 (Ct. App. 1999) (“Because the hallmark of a trade secret obviously is its secrecy, not only must the subject-matter of the trade secret be secret, it must be of such a nature that it would not occur to persons in the trade or business.”); *Service Centers of Chicago, Inc. v. Minogue*, 180 Ill. App.3d 447, 453, 535 N.E.2d 1132, 1136 (1989) (“The focus of both the common law and the Act is on the secrecy of the information sought to be protected.”).

*Towry*, 587 So.2d 969, 971 (Ala. 1991).<sup>196</sup> This means that a defendant can move for summary judgment if the plaintiff is unable to present substantial evidence to show that the information in question meets each requirement set forth in the definition provided in the Alabama statute. *See, e.g., 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).

The definition of a “trade secret” provided in the uniform act proposed by the National Conference of Commissioners on Uniform State Laws was a departure from the common law requirement, included in the *Restatement (First) of Torts*, that a trade secret must be continuously used in one’s business.<sup>197</sup> The Alabama Trade Secrets Act requires that the information must be used, or must be intended for use, in a trade or business. ALA. CODE § 8-27-2(1)(a) (2015). Because the Alabama statute includes information that is “intended for use” in a business, it is intended to encompass information that a plaintiff has not yet had an opportunity to put into use. Comment to Section 8-27-2, ALA. CODE (“The Restatement position, at comment b, appears to require present and continuous use. The Alabama Act adopts the Uniform Act’s position not to require continuous use. In addition, the Alabama Act makes clear that a trade secret actually intended for use, but not yet employed, is protected.”).

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<sup>196</sup> Comment to Section 8-27-2, ALA. CODE (“The Alabama Trade Secrets Act does define ‘trade secret,’ and to receive protection under the act one must satisfy that definition.”).

<sup>197</sup> Comment to Section 1, National Conference of Commissioners on Uniform State Laws, at 7 (Aug. 9, 1085) (“The definition of ‘trade secret’ contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be ‘continuously used in one’s business.’ The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use.”).

The definition proposed by the National Conference of Commissioners on Uniform State Laws defines a “trade secret” to include secret information that has economic value, actual or *potential*.<sup>198</sup> The Alabama Trade Secrets Act requires that information must have “significant economic value.” ALA. CODE § 8–27–2(1)(f) (2015). The Alabama statute would appear to exclude information that only has potential economic value. The legislative history includes the following comments concerning this requirement:

The information must have significant economic value, otherwise it does not justify protection. The trade secret statute is not intended to serve as a privacy statute; rather, it is designed to encourage exploitation of information that can provide valuable goods or services to the public. The value of a trade secret may result from its present use or from its intended use, and may be reflected in its market value or in the discovery or development costs a misappropriator can avoid by misappropriation.

Comment to Section 8-27-2, ALA. CODE.<sup>199</sup>

The National Conference of Commissioners on Uniform State Laws intended the definition of a trade secret to include information that has value from a negative viewpoint, such as information gained from extensive research proving that a certain

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<sup>198</sup> In the uniform trade secrets act, a “trade secret” is defined as information that: (a) “derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use,” and (b) “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

<sup>199</sup> The comments to section 8-27-4 dealing with remedies state that “exemplary damages are permitted in exceptional cases, even if only *nominal* actual damages are awarded.” Comment to Section 8-27-4, ALA. CODE (emphasis added). This might raise a question concerning how a plaintiff could be awarded only nominal actual damages in a case where the trade secret that was misappropriated was required to have significant value in order to justify protection of the trade secret. One possible explanation is that the trade secret could have significant value, and yet only nominal damages were suffered because the defendant made minimal use of the trade secret before being enjoined.

process will *not* work.<sup>200</sup> The Alabama statute did not use the language in the uniform trade secrets act that information may qualify as a trade secret if it has “potential” value. Nevertheless, the legislative history accompanying the Alabama Trade Secrets Act indicates that the Alabama definition is intended to encompass negative trade secrets. Comment to Section 8-27-2, ALA. CODE (“[S]o-called ‘negative information,’ that is, information as to what will not work, can be a trade secret and is used when unworkable approaches are avoided.”).

The Alabama requirement that information must have “significant” economic value suggests that there may be examples of information with *some* economic value that would meet the definition of a trade secret under the definition proposed in the uniform trade secrets act, but which would not be a “trade secret” under Alabama law. For example, where the information has economic value but that value is not deemed to be “significant,” the information would not qualify in Alabama as a “trade secret,” but would qualify as a trade secret under the uniform trade secrets act.<sup>201</sup>

The Alabama statute requires that information cannot be a trade secret unless it is “included or embodied in” a formula, pattern, compilation, computer software, drawing,

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<sup>200</sup> Comment to Section 1, National Conference of Commissioners on Uniform State Laws, at 7 (Aug. 9, 1085) (“The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will **not** work could be of great value to a competitor.”) (emphasis in original).

<sup>201</sup> In the section discussing Mississippi law, *supra*, note the discussion of the case of *Fred’s Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902 (Miss. 1998), where the court allowed a recovery of \$650 based upon the value of the trade secret under the Mississippi Uniform Trade Secrets Act. MISS. CODE ANN. §§ 75-26-1 *et seq.* (1991). Query whether a trade secret with a value of \$650 would meet the requirement of the Alabama statute that the information must have “significant economic value.” ALA. CODE § 8-27-2(1)(f) (2015).

device, method, technique, or process. ALA. CODE § 8-27-2(1)(b) (2015). The legislative history indicates that “[t]he burden is on the one asserting the trade secret to show that it is **included or embodied in** at least one of the categories listed in paragraph b.” Comment to Section 8-27-2, ALA. CODE (emphasis added). The legislative history indicates that this is intended to be “more restrictive than the approach taken by the Restatement or the approach taken by the Uniform Act.” *Id.*

Under Alabama law, a defendant can argue that information is not a trade secret if it is “head knowledge” that does not satisfy “the embodiment requirement.” *See Alagold Corp. v. Freeman*, 20 F. Supp.2d 1305, 1315 (M.D. Ala. 1998), *aff’d*, 237 F.3d 637 (11th Cir. 2000). This argument was advanced in the *Alagold* case, but the court did not decide the case on that ground.<sup>202</sup> Instead, the court held that the information was not a trade secret because it was not the subject of reasonable efforts to maintain its secrecy.

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<sup>202</sup> The embodiment requirement in the Alabama Trade Secrets Act is in sharp contrast to the rule in many states that have considered the issue under the uniform trade secrets act, and which have held that trade secret protection does not depend upon whether the trade secret is embodied in written form or is memorized. *Calisi v. Unified Financial Services, LLC*, 232 Ariz. 103, 106, 302 P.3d 628, 631 (Ct. App. 2013); *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.”); *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); *see Jostens, Inc. v. Nat’l Computer Sys., Inc.*, 318 N.W.2d 691, 701-02 (Minn. 1982) (“[A]n employee can be required to hold confidential material that exists only in his or her own mind”). However, under Georgia law, customer information that a former employee has memorized is not protected by the Georgia Trade Secrets Act. *Avnet, Inc. v. Wyle Labs., Inc.*, 263 Ga. 615, 619, 437 S.E.2d 302, 305 (1993).

Section 8-27-6 of the Alabama Trade Secrets Act provides that the provisions of the statute “that are inconsistent with the common law of trade secrets supersede the common law.” ALA. CODE § 8-27-6 (2015). The Alabama Trade Secrets Act has been interpreted to preempt common law tort claims for misappropriation of confidential information, including common law causes of action based upon the same underlying facts giving rise to a misappropriation claim. *Allied Supply Co. v. Brown*, 585 So.2d 33, 37 (Ala. 1991).<sup>203</sup>

Contractual agreements that apply to information that does not meet the definition of a “trade secret” provided in the Alabama statute are enforceable. *Jones v. Hamilton*, 53 So.3d 134, 142 (Ala. Civ. App. 2010) (“Although we agree with Hamilton that the information contained in the documents in the box did not qualify as trade secrets under the ATSA, the confidentiality agreement, by its terms, does not limit Hamilton’s duty of confidentiality to only that information that could be considered a trade secret under Alabama law.”), *cert. denied*, No. 1091089 (Ala. June 18, 2010).

**b. Misappropriation Under the Alabama Trade Secrets Act**

The Alabama Trade Secrets Act does not provide a definition for the term “misappropriation,” as does the uniform trade secrets act. Instead, Section 8-27-3 of the Alabama statute sets forth the circumstances under which a person is liable for misappropriation. A person may be liable for misappropriation if the person discloses or

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<sup>203</sup> The legislative history indicates that the definition of a “trade secret” provided in the Alabama Trade Secrets Act was intended to ensure that “users of ideas can be secure both in protecting their trade secrets and in knowing what they are free to use without misappropriating the trade secrets of others.” Comment to Section 8-27-2, ALA. CODE. See also *Bell Aerospace Servs. v. U.S. Aero Servs.*, 690 F. Supp.2d 1267, 1276-77 (M.D. Ala. 2010); *Madison Oslin, Inc. v. Interstate Res., Inc.*, 2012 WL 4730877 (N.D. Ala. Sept. 30, 2012).



uses the trade secret of another “without a privilege to do so.” The term “privilege” is intended to codify the common law. *See* Comment to Section 8-27-3, ALA. CODE (“The common law of privilege has been recognized. *See* comment d to Restatement Section 757.”).

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.” ALA. CODE § 8-27-3(1) (2015). Section 8-27-2 defines “improper means,” and is separately discussed below. *See* ALA. CODE § 8-27-2(2) (2015).

Second, a person is liable if “[t]hat person’s disclosure or use constitutes a breach of confidence reposed in that person by the other.” ALA. CODE § 8-27-3(2) (2015).

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.” ALA. CODE § 8-27-3(3) (2015). Under this provision, the person is liable only if he knew or should have known at the time he learned of the trade secret.

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.” ALA. CODE § 8-27-3(4) (2015). Under this provision, again the person is liable only if he knew or should have known at the time he learned of the trade secret.

The legislative history indicates that this section is generally intended to codify provisions of the common law as stated in the *Restatement (First) of Torts*. Comment to Section 8-27-3, ALA. CODE (“The section on misappropriation is intended to codify the common law means of misappropriation embodied in the Restatement, namely, (1) “improper means”, (2) breach of confidence, (3) appropriation from one who misappropriated, but with notice of the prior misappropriation, and (4) appropriation by means of mistake with notice.”).

However, the Alabama legislature intended to **exclude** from liability any person who innocently received a trade secret, even if the innocent recipient later receives notice that the information was a trade secret. 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.”).

This is different from the uniform trade secrets act, which would impose liability upon a person who may have innocently acquired a trade secret, but who knew or had reason to know, ***before a material change of that person’s position***, that it was a trade secret and that knowledge of the trade secret was acquired by accident or mistake. The uniform trade secrets act would also impose liability upon a person who may have innocently acquired a trade secret, but who knew or had reason to know, ***at the time of his later disclosure or use of the trade secret***, that his knowledge of the trade secret was derived from or through someone who had utilized improper means to acquire it, or was

derived from or through someone who owed a duty to the trade secret owner to maintain its secrecy or limit its use.

**c. Alabama Definition of “Improper Means”**

The Alabama Trade Secrets Act takes a different approach to the definition of “improper means” as compared to the approach taken by the uniform trade secrets act. The legislative history criticizes the uniform trade secrets act because it only provides a partial list of what constitutes “improper means.” According to the comments accompanying the enactment of the Alabama Trade Secrets Act, the definition of “improper means” provided in the Alabama statute is intended to limit the definition to those means listed in the statute. Comment to Section 8-27-2, ALA. CODE (“The Uniform Trade Secrets Act presents a partial list of improper means, and, in the comments, a partial list of proper means. ... [T]he Alabama Act takes a somewhat more restrictive view of improper means than is taken by either the Restatement or the Uniform Act. Rather than presenting a partial list of means that are ‘included’ among improper means, the Alabama Act expressly states that only means of the nature of those included in the list are to be deemed improper means.”). The limitation of “improper means” to those listed in the Alabama statute is not immediately apparent from the language of the statute, however, because it says that “improper means” are means “such as” those listed in the statute.

The Alabama Trade Secrets Act states that “improper means” are means such as:

- a. Theft;
- b. Bribery;
- c. Misrepresentation;

- d. Inducement of a breach of confidence;
- e. Trespass; or
- f. Other 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).

The legislative history indicates that the Alabama Trade Secrets Act does not include two items in the list that appears in the uniform trade secrets act. Comment to Section 8-27-2, ALA. CODE (“Two items in the list that appears in the Uniform Act are not included in the Alabama Act.”). The Alabama statute does not include breach of a duty to maintain secrecy, because it was considered to be redundant in view of the elements of misappropriation. The Alabama legislature also rejected inclusion of the undefined and ambiguous term “espionage” that appears in the uniform trade secrets act, and instead attempted “to give some contours to the nature of the activity that constitutes improper means.” Comment to Section 8-27-2, ALA. CODE.

**d. Alabama Statute of Limitations**

Under the statute of limitations provided in the Alabama Trade Secrets Act, “[a]n action for misappropriation must be brought within *two years* after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” ALA. CODE § 8-27-5 (2015) (emphasis added). This is a departure from the three year statute of limitations provided in the uniform trade secrets act proposed by the National Conference of Commissioners on Uniform State Laws; otherwise, the language used in the Alabama statute is identical to the first sentence of section 6 of the proposed uniform act. The comments accompanying the Act state that the two year period was selected for

two reasons: (1) “it is the period most lawyers would believe applies” based upon the *Restatement of Torts*; and (2) “potential litigants should be prompted to bring their claims quickly due to the effect of extended delays on business relations, business investments, and employee mobility.” Comment to Section 8-27-5, ALA. CODE.

However, the Alabama legislature omitted the second sentence contained in the uniform trade secrets act, which provides that, for purposes of the statute of limitations, a continuing misappropriation constitutes a single claim. Because the Alabama legislature omitted this provision from the Alabama Trade Secrets Act, a court may assume that the omission was intentional<sup>204</sup> and, in Alabama, a continuing misappropriation may *not* constitute a single claim for purposes of the statute of limitations. The legislative history does not include any comment concerning the omission of that sentence. The requirement that the Alabama Trade Secrets Act “should be construed to be consistent with the common law of trade secrets” would appear to apply. ALA. CODE § 8-27-6 (2015). However, at common law, there is a split of authority concerning whether trade secret misappropriation is a continuing wrong for purposes of the statute of limitations. Compare, *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969) (not a continuing wrong -- limitation period upon all recovery begins upon initial misappropriation), with *Underwater Storage, Inc. v. U.S. Rubber Co.*,

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<sup>204</sup> In other states, courts have assumed that when a provision is absent from the version of the uniform trade secrets act enacted in that state, it “suggests that the legislature intentionally omitted it.” *E.g.*, *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).

371 F.2d 950 (D.C. Cir. 1966) (continuing wrong -- limitation period with respect to a specific act of misappropriation begins at the time that the act of misappropriation occurs), *cert. denied*, 386 U.S. 911 (1967). *See also Lemelson v. Carolina Enterprises, Inc.*, 541 F. Supp. 645, 659 (S.D.N.Y. 1982) (“The states are split over the continuing tort theory as applied in the trade secret context.”).

**e. Remedies Under the Alabama Trade Secrets Act**

Section 8-27-4 of the Alabama Trade Secrets Act provides for the recovery of “any profits and other benefits conferred by the misappropriation that are attributable to the misappropriation.” ALA. CODE § 8-27-4(a)(1)(b) (2015). The Alabama statute also provides for the recovery of the “actual damages suffered as a result of the misappropriation” to the extent they are not duplicative of the recovery of profits.<sup>205</sup> ALA. CODE § 8-27-4(a)(1)(c) (2015).

Although Section 8-27-3 provides no recourse against anyone who innocently receives a trade secret, the legislative history indicates that Section 8-27-4 is intended to make the *misappropriator* accountable for damages and profits attributable to use of the trade secret by innocent recipients of the trade secret. Comment to Section 8-27-3, ALA. CODE (“[T]he misappropriator is accountable under Section 8-27-4 for damages and profits of the misappropriation, including the damages and profits attributable to use of the trade secret by innocent recipients of the trade secret.”).

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<sup>205</sup> *See* Comment to Section 8-27-4, ALA. CODE (“If actual damages do not cover all the profits of the misappropriator that are attributable to the misappropriation, then, to the extent they are not covered, such profits also may be awarded, and, if profits of the misappropriator do not cover all the damage caused to the trade secret owner, then, to the extent they are not covered, damages may be awarded in addition to profits. The intention of this provision is to assure two results: first, that the plaintiff is made whole, and, second, that the misappropriator recognizes no profit from wrongdoing.”).

The remedies under the Alabama statute are significantly different from the remedies available under the uniform trade secrets act. The uniform trade secrets act limits damages under circumstances where a material and prejudicial change of position occurred prior to acquiring knowledge or reason to know of misappropriation, and the change in position renders a monetary recovery inequitable. Because the Alabama Trade Secrets Act eliminates any recovery from a person who innocently acquires a trade secret, Alabama law does not address such circumstances.

Unlike the uniform trade secrets act, the Alabama statute shifts the burden of proof concerning damages. In establishing the misappropriator's profits, under Alabama law a trade secret owner is only required to present proof of the misappropriator's gross revenue, and the misappropriator is required to present proof of his or her deductible expenses and the elements of profit attributable to factors other than the trade secret. ALA. CODE § 8-27-4(a)(1)(b) (2015). This can make a dramatic difference in the outcome of a case, as compared to the outcome under the uniform trade secrets act. *See, e.g., Fred's Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902, 915 (Miss. 1998) (reversing award of actual damages based only on proof of gross revenues under the Mississippi Uniform Trade Secrets Act).

Exemplary damages are significantly different under the Alabama Trade Secrets Act. Under Alabama law, exemplary damages are limited to the total amount awarded as actual damages and profits. The uniform trade secrets act allows for exemplary damages up to twice that amount. However, the Alabama statute provides for a minimum award of exemplary damages in the amount of \$10,000. ALA. CODE § 8-27-4(a)(3) (2015). The uniform trade secrets act does not provide any such minimum.

The Alabama Trade Secrets Act gives broad discretion to a court to issue an injunction. Comment to Section 8-27-4, ALA. CODE. The language of the statute provides that a court may grant “[S]uch injunctive and other equitable relief as may be appropriate with respect to any actual or threatened misappropriation of a trade secret.” ALA. CODE § 8-27-4(a)(1)(a) (2015). In contrast, the uniform trade secrets act provides limits on the duration of an injunction. The statutory language enacted in Alabama contains no such limitations, but the comments state: “The duration of an injunction normally is for the period the trade secret is expected to remain a secret.” Comment to Section 8-27-4, ALA. CODE. The comments also state that if an injunction is perpetual, “the enjoined party may come in at any time the secret becomes publicly known and have the injunction dissolved, provided the enjoined party did not cause the trade secret to become publicly known.” *Id.*

The Alabama Trade Secrets Act allows for an award of reasonable attorney’s fees to the prevailing party under circumstances which appear to be the same as the uniform trade secrets acts, except that a fee award may be made if a claim of misappropriation “is made *or resisted* in bad faith,” whereas under the uniform trade secrets act, a fee award can only be made where a claim of misappropriation “is made in bad faith.” ALA. CODE § 8-27-4(a)(2) (2015).

**f. Other Differences in the Alabama Statute**

The Alabama state legislature did not adopt section 5 of the proposed uniform trade secrets act which requires a court to preserve the secrecy of an alleged trade secret. Instead, Rule 507 of the Alabama Rules of Evidence provides that, during litigation, Alabama state courts must take precautionary measures for the protection of trade secrets.



The Alabama Trade Secrets Act includes provisions for criminal liability. ALA. CODE § 8-27-4(b) (2015).

The Alabama Trade Secrets Act does not include section 8 of the uniform trade secrets act, because Alabama law is not intended to be uniform with other states adopting the uniform trade secrets act.

**g. Miscellaneous Alabama Case Law**

In *Allied Supply Co. v. Brown*, 585 So.2d 33, 35 (Ala. 1991), the court held that an employee has no duty to disclose plans to resign even when resignation is followed by competition with his former employer.

**2. Alaska**

In 1988, Alaska enacted the Alaska Uniform Trade Secrets Act. ALASKA STAT. ANN. §§ 45.50.910 - 45.50.945 (2015). The Alaska Uniform Trade Secrets Act follows the language in the version of the uniform trade secrets act originally proposed in 1979 in the sections of the uniform act that were adopted. Alaska has *not* adopted any of the amendments proposed in 1985.

Even with respect to the 1979 version of the uniform trade secrets act, there are some differences in the statute that was adopted in Alaska. The Alaska legislature did not enact the provisions of section 4 of the uniform trade secrets act providing for an award of attorney's fees. Alaska did not enact section 10 of the uniform trade secrets act concerning severability. The definition of "person" was omitted from the Alaska Uniform Trade Secrets Act. In addition, the definitions for "trade secret" and "misappropriation" were written differently, although the differences in these two definitions do not appear to be substantive.

Section 8 of the uniform trade secrets act was modified to limit uniformity. The corresponding statutory provision in Alaska provides that the Alaska Uniform Trade Secrets Act is to be applied and construed to make the law uniform with respect to trade secrets among states enacting “similar provisions.” ALASKA STAT. ANN. § 45.50.935 (2015). The modification to section 8 makes sense in view of the fact that Alaska did not enact *all* of the provisions of the uniform trade secrets act. In addition, this statutory command may be interpreted as eliminating any requirement to make the law uniform with respect to different provisions in other states that have enacted the 1985 amendments.

**a. Alaska Definition of a “Trade Secret”**

The Alaska legislature omitted from the definition of a “trade secret” the list of types of information, *i.e.*, the following language: “including a formula, pattern, compilation, program, device, method, technique, or process.” Instead, the definition of a trade secret in Alaska is as follows:

“trade secret” means information that

- (A) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and
- (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

ALASKA STAT. ANN. § 45.50.940 (3) (2015).

In spite of the statutory definition of a “trade secret,” Alaska courts continue to follow the six factors<sup>206</sup> set forth in the *Restatement (First) of Torts* §757 to determine

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<sup>206</sup> The six factors are: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the

whether information is a trade secret. *Powercorp Alaska, LLC v. Alaska Energy Authority*, 290 P.3d 1173, 1187 & n.47 (Alaska 2013) (as amended on rehearing).

**b. Alaska Definition of “Misappropriation”**

The Alaska legislature rearranged the language of the uniform trade secrets act defining “misappropriation.” The Alaska statute defines “misappropriation” to mean, *inter alia*, the disclosure or 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 knowledge of the trade secret was derived from or through a person who had utilized improper means to acquire it or who owed a duty to the person seeking relief to maintain its secrecy or limit its use, or was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.” ALASKA STAT. ANN. § 45.50.940 (2)(B)(ii) (2015). The revision to this portion of the definition of the term “misappropriation” does not appear to be substantive.

**c. Attorney’s Fees in Alaska**

The Alaska state legislature did not enact the provisions in the uniform trade secrets act allowing for an award of reasonable attorney’s fees under limited circumstances. However, in Alaska state court, in every case the prevailing party is generally entitled to an attorney’s fee award. Rule 82, Alaska R. Civ. P.

Alaska has, since Congress applied the general laws of Oregon to the Territory of Alaska in 1884, followed the English Rule rather than the American Rule on attorney’s

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information; (4) the value of the information to the business and to its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *Powercorp Alaska, LLC v. Alaska Energy Authority*, 290 P.3d 1173, 1187 (Alaska 2013) (as amended on rehearing).

fees. *Alaska Rent-A-Car, Inc. v. Avis Budget Group, Inc.*, 738 F.3d 960, 972 (9th Cir. 2013), *cert. denied*, 134 S.Ct. 644 (2013). Alaska is the only state that follows the English Rule that the prevailing party is generally entitled to an attorney's fee award. *Id.*; *Edwards v. Alaska Pulp Corp.*, 920 P.2d 751, 755 (Alaska 1996). In Alaska, the attorney's fee provisions of the uniform trade secrets act would have been superfluous.

The Alaska state rule allowing attorney's fees to the prevailing party applies in state courts. In diversity cases in federal courts in Alaska, the Alaska state rule is also applied and awards of attorney's fees are routinely granted. *Alaska Rent-A-Car*, 738 F.3d at 973. Given that trade secrets are governed by state law, Rule 82 of the Alaska Rules of Civil Procedure allowing for an award of attorney's fees to the prevailing party will normally apply to any trade secret case in Alaska. *See generally Ryan ex rel. Syndicates and Ins. Companies Subscribing to Policy PHP91-4699 v. Sea Air Inc.*, 902 F. Supp. 1064, 1070 (D. Alaska 1995) ("Alaska follows the English Rule, by virtue of which the prevailing party always recovers a portion of its fees from the losing party," and the United States District Court treats this Alaska practice as "binding in diversity cases" brought in Alaska.); *Alaska Rent-A-Car*, 738 F.3d at 973-74.

Thus, under Alaska law, the prevailing party in any case brought under the Alaska Uniform Trade Secrets Act will be entitled to an award of attorney's fees, *regardless* of whether the claim of misappropriation is made or resisted in bad faith. *See also Klopfenstein v. Pargeter*, 597 F.2d 150, 152 (9th Cir. 1979) (upholding an Alaska Rule 82 attorney's fees award in a diversity case, because "[i]n a diversity action the question of attorneys fees is governed by state law."); *Alaska Rent-A-Car*, 738 F.3d at 974 ("[T]he law of the forum, Alaska, properly applies to diversity cases brought in or removed to the

United States District Court for the District of Alaska. The district court did not err by applying Alaska Rule of Civil Procedure 82 to the attorney’s fee award.”).

### **3. Arizona**

In 1990, Arizona enacted a version of the uniform trade secrets act that follows the language of the 1985 amendments. *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 182, 337 P.3d 545, 547 (2014). The modifications in the language used in the sections that were enacted do not appear to be substantive.

However, the Arizona legislature did not adopt the directive in section 8 that would have required Arizona courts to apply and construe the statute “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.” The Arizona Supreme Court concluded that the absence of this provision from the Arizona statute “suggests that the legislature intentionally omitted it.” *Orca Communications*, 236 Ariz. at 184, 337 P.3d at 549. Thus, Arizona courts are under no obligation to apply or construe the Arizona Uniform Trade Secrets Act to achieve uniformity in the law.<sup>207</sup>

#### **a. Definition of “Trade Secret” in Arizona**

Arizona courts have determined that, in interpreting the Arizona Uniform Trade Secrets Act, the courts are “entitled to rely on common law principles in the absence of a conflict.” *Calisi v. Unified Financial Services, LLC*, 232 Ariz. 103, 106, 302 P.3d 628, 631 (Ct. App. 2013). “Arizona also recognizes the Restatement of Torts in the absence of controlling authority.” *Enterprise Leasing Co. v. Ehmke*, 197 Ariz. 144, 148, 3 P.3d 1064, 1068 (Ct. App. 1999). The six-factor test provided in the *Restatement (First) of*

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<sup>207</sup> In addition, the Arizona legislature did not enact section 10 on severability.

*Torts* is considered by Arizona courts to “provide additional guidance” in determining what is a “trade secret” under the Arizona Uniform Trade Secrets Act. *Id.*, 197 Ariz. at 149 n.6, 3 P.3d at 1069 n.6.

Although the definition of a “trade secret” in the uniform trade secrets act does not explicitly require secrecy, Arizona courts have read in a requirement of secrecy. *Enterprise Leasing Co. v. Ehmke*, 197 Ariz. 144, 149, 3 P.3d 1064, 1069 (Ct. App. 1999) (“Because the hallmark of a trade secret obviously is its secrecy, not only must the subject-matter of the trade secret be secret, it must be of such a nature that it would not occur to persons in the trade or business.”); *Calisi*, 232 Ariz. at 106, 302 P.3d at 631 (“[T]he hallmark of a trade secret is secrecy.”).

Under Arizona law, a trade secret does not need to be in written form in order to be entitled to protection; the information can be memorized. *Calisi v. Unified Financial Services, LLC*, 232 Ariz. 103, 106, 302 P.3d 628, 631 (Ct. App. 2013).

#### **b. Preemption in Arizona**

The Arizona Supreme Court held that the Arizona statute only preempts other remedies based upon misappropriation of “trade secrets,” and leaves untouched any common law remedies based upon confidential information. *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184-85, 337 P.3d 545, 549-50 (2014). The court, however, expressly did *not* decide whether Arizona recognizes a common law claim for unfair competition based upon misappropriation of confidential information that falls outside the definition of a “trade secret.” *Id.*

**c. Additional Comments Concerning Arizona Law**

The issue of whether a trade secret plaintiff should be required to identify the alleged trade secrets with reasonable particularity early in the litigation process is a recent development that has attracted some attention in Arizona. Federal courts in Arizona have held that a “plaintiff seeking relief for misappropriation of trade secrets must describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons ... skilled in the trade.” *HTS, Inc. v. Boley*, 954 F.Supp.2d 927, 944 (D. Ariz. 2013), quoting *Imax Corp. v. Cinema Tech., Inc.*, 152 F.3d 1161, 1164-65 (9th Cir.1998); *Joshua David Mellberg LLC v. Will*, 2015 WL 1442920, at \*5 (D. Ariz. March 30, 2015).

**4. Arkansas**

In 1981, Arkansas enacted the Arkansas Trade Secrets Act. Arkansas enacted a version of the uniform trade secrets act that generally follows the language of the original 1979 version. Arkansas has *not* adopted the 1985 amendments. The Act is codified at ARK. CODE ANN. § 4-75-601 *et seq.* (2015).

The Arkansas legislature did not enact the provision in the uniform trade secrets act allowing for the recovery of exemplary damages if willful and malicious misappropriation exists. Punitive damages are not recoverable under the Arkansas Trade Secrets Act. *Jenkins v. APS Insurance, LLC*, 2013 Ark. App. 746, 431 S.W.3d 356, 363 (Ct. App. 2013); *Brown v. Ruallam Enterprises, Inc.*, 73 Ark. App. 296, 302-03, 44 S.W.3d 740, 745-46 (Ct. App. 2001) (“[T]he chancellor erred as a matter of law in doubling the figure determined to be [the defendants’] profit, as this is not authorized by statute. This is in the nature of punitive damages, which are not expressly included in the

Arkansas Trade Secrets Act.”), *overruled in part on other grounds*, *Pro-Comp Management, Inc. v. R.K. Enterprises, LLC*, 366 Ark. 463, 469, 237 S.W.3d 20, 24 (2006); *see* ARK. CODE ANN. § 4-75-606 (2015).

The Arkansas legislature did not adopt the directive in section 8 that would have required Arkansas courts to apply and construe the statute “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.”<sup>208</sup> Nevertheless, the Arkansas Supreme Court considers the law from other jurisdictions in interpreting the Arkansas Trade Secrets Act. *See, e.g., R.K. Enterprise, LLC v. Pro-Comp Management, Inc.*, 356 Ark. 565, 573-74, 158 S.W.3d 685, 659-90 (2004).<sup>209</sup>

**a. Arkansas Definition of a “Trade Secret”**

The Arkansas Trade Secrets Act adopts as the definition of a “trade secret” the language from the uniform trade secrets act. However, in spite of the statutory definition, the Arkansas Supreme Court has endorsed the six factors in the *Restatement* “as integral” in making a determination of whether information qualifies as a trade secret: (1) the extent to which the information is known outside the business; (2) the extent to which the information is known by employees and others involved in the business; (3) the extent of measures taken by the company to guard the secrecy of the information; (4) the value of the information to the company and to its competitors; (5) the amount of effort or money expended by the appellee in developing the information; and (6) the ease or difficulty

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<sup>208</sup> The Arizona Supreme Court concluded that the absence of this provision from the Arizona statute “suggests that the legislature intentionally omitted it.” *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014).

<sup>209</sup> The Arkansas legislature also did not enact section 10 of the uniform trade secrets act concerning severability.



with which the information could be properly acquired or duplicated by others. *ConAgra, Inc. v. Tyson Foods, Inc.*, 342 Ark. 672, 677, 30 S.W.3d 725, 729 (2000); *Tyson Foods, Inc. v. ConAgra, Inc.*, 349 Ark. 469, 479, 79 S.W.3d 326, 331-32 (2002); *City Slickers, Inc. v. Douglas*, 73 Ark. App. 64, 68, 40 S.W.3d 805, 808 (Ct. App. 2001); *Bradshaw v. Alpha Packaging, Inc.*, 2010 Ark. App. 659, 379 S.W.3d 536, 539 (Ct. App. 2010); *Texarkana Behavioral Associates, L.C. v. Universal Health Services, Inc.*, 748 F. Supp.2d 1008, 1013-14 (W.D. Ark. 2010), *aff'd*, 432 Fed. Appx. 639 (8th Cir. 2011); *Welsco, Inc. v. Brace*, No. 4:12-cv-00394-KGB, 2014 WL 4929453, at \*26 (E.D. Ark. Sept. 30, 2014).

In Arkansas, whether information was written down or memorialized is immaterial to whether it is protectable as a trade secret.<sup>210</sup> *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).

Customer lists obtained through use of a business effort, and the expenditure of time and money that are not readily ascertainable and are kept confidential, are given protection as a trade secret under Arkansas common law and the Arkansas Trade Secrets Act. *Freeman v. Brown Hiller, Inc.*, 102 Ark. App. 76, 281 S.W.3d 749 (Ct. App. 2008); *Allen v. Johar, Inc.*, 308 Ark. 45, 823 S.W.2d 824 (1992).

#### **b. Preemption in Arkansas**

The Arkansas Supreme Court has held that the Arkansas Trade Secrets Act provides the exclusive remedy for misappropriation of trade secrets. *R.K. Enterprise*,

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<sup>210</sup> The Georgia Supreme Court reached an opposite result, and noted that “the Arkansas Trade Secrets Act ... defines a ‘trade secret’ more broadly than does Georgia’s Trade Secrets Act.” *Avnet, Inc. v. Wyle Laboratories, Inc.*, 263 Ga. 615, 619, 437 S.E.2d 302, 305 (1993).

*LLC v. Pro-Comp Management, Inc.*, 356 Ark. 565, 574, 158 S.W.3d 685, 690 (2004) (common law claim for conversion of trade secret was preempted); *Infinity Headwear & Apparel, LLC v. Coughlin*, 2014 Ark. App. 609, 447 S.W.3d 138, 142-43 (Ct. App. 2014). See also *Vigoro Industries, Inc. v. Cleveland Chemical Co.*, 866 F. Supp. 1150 (E.D. Ark. 1994), *aff'd in part, rev'd in part sub nom., Vigoro Industries, Inc. v. Crisp*, 82 F.3d 785 (8th Cir. 1996); *Texarkana Behavioral Associates, L.C. v. Universal Health Services, Inc.*, 748 F. Supp.2d 1008, 1013 (W.D. Ark. 2010).

**c. Damages in Arkansas**

The Arkansas Trade Secrets Act does not define “actual loss” for purposes of calculating damages. *Brown v. Ruallam Enterprises, Inc.*, 73 Ark. App. 296, 302-03, 44 S.W.3d 740, 745-46 (Ct. App. 2001). In *Saforo & Associates, Inc. v. Porocel Corp.*, 337 Ark. 553, 991 S.W.2d 117 (1999), the Arkansas Supreme Court addressed the calculation of damages in the trade-secret context. In determining actual loss, the Arkansas Supreme Court held that a plaintiff can recover either the plaintiff’s lost profits or the defendant’s gain, but actual loss cannot be calculated based upon a combination of the two. Under Arkansas law, “a complainant may recover either his own lost profits or the defendant’s profits, whichever affords the greater recovery.” 337 Ark. at 567, 991 S.W.2d at 124. In *Pro-Comp Management, Inc. v. R.K. Enterprises, LLC*, 366 Ark. 463, 237 S.W.3d 20 (2006), the Arkansas Supreme Court overruled an earlier case and clarified that *Saforo* only dealt with actual loss, and that the statute also permits recovery of unjust enrichment caused by misappropriation where that is not taken into account in computing damages for actual loss. 366 Ark. at 468-69, 237 S.W.3d at 24.

**d. Inevitable Disclosure Doctrine in Arkansas**

The Arkansas Supreme Court has expressly adopted the inevitable-disclosure rule in the context of granting injunctive relief under the Arkansas Trade Secrets Act, where the plaintiff demonstrates that a defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets. *Cardinal Freight Carriers, Inc. v. J.B. Hunt Transport Services, Inc.*, 336 Ark. 143, 152-53, 987 S.W.2d 642, 646-47 (1999); *Bendinger v. Marshalltown Trowell Co.*, 338 Ark. 410, 421-23, 994 S.W.2d 468, 474-75 (1999); *Southwestern Energy Co. v. Eickenhorst*, 955 F. Supp. 1078, 1085 (W.D. Ark. 1997), *aff’d*, 175 F.3d 1025 (8th Cir. 1999).

**e. Other Arkansas Statutes**

Arkansas has a computer-crime statute that provides a civil cause of action for damages, including lost profits, for computer trespass. *Jenkins v. APS Insurance, LLC*, 2013 Ark. App. 746, 431 S.W.3d 356, 362 (Ct. App. 2013). The statute provides that “[a] person commits computer trespass if the person intentionally and without authorization accesses, alters, deletes, damages, destroys, or disrupts any computer, computer system, computer network, computer program, or data.” ARK. CODE ANN. § 5-41-104(a) (2013).

**5. California**

In 1984, California enacted a version of the uniform trade secrets act, but made changes from the proposed language in the uniform trade secrets act.<sup>211</sup> The California

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<sup>211</sup> Some authorities have stated that California adopted the uniform trade secrets act “without significant change.” *DVD Copy Control Ass’n, Inc. v. Bunner*, 75 P.3d 1, 9 (Cal. 2003); *Altavion, Inc. v. Konica Minolta Systems Laboratory Inc.*, 226 Cal. App.4th 26, 41, 171 Cal. Rptr.3d 714, 725 (Ct. App. 2014). Perhaps that depends on what one regards as “significant.” A detailed examination of differences in trade secret cases

Uniform Trade Secrets Act has a substantively different definition for a “trade secret.” The California definition of “improper means” includes an explicit clause concerning reverse engineering and independent derivation. California enacted a different provision concerning attorney’s fees that also include amounts paid to expert witnesses. The damages section enacted in California has differences. To the extent that the California statute follows the uniform trade secrets act, it generally uses language from the 1979 version. However, CAL. CIVIL CODE § 3426.7(b) tracks language in section 7 the 1985 version concerning the effect on other laws.

When the California legislature enacted the California Uniform Trade Secrets Act, the legislative also enacted a statute that requires a plaintiff to identify the alleged trade secrets before pursuing discovery during litigation. CAL. CIVIL CODE § 2019.210. This provision has a significant impact upon trade secret litigation in California.

CAL. CIVIL CODE § 3426.11 is a statutory provision, unique to California, that deals with privileged communications involving trade secret information.

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litigated under California law as opposed to how the same case might proceed, and be determined, under the uniform trade secrets act in another state, suggests that a number of differences exist that one might regard as significant. For example, preemption in California is based upon a significantly different theory. The definition of a “trade secret” is significantly different, because California eliminated the requirement that the information not be readily ascertainable. Damages measured by a reasonable royalty can only be awarded if damages based upon actual loss and unjust enrichment are both not provable. Illinois modified the definition of a “trade secret” in the same way that California did, *i.e.*, to eliminate the requirement that the information not be readily ascertainable, and modified the damages provision similarly; and courts have said “there is substantial variance between [the Illinois Trade Secrets Act] and the uniform version.” *U.S. Gypsum Co. v. LaFarge North America, Inc.*, 508 F. Supp.2d 601, 623 (N.D. Ill. 2007).

**a. California Definition of a “Trade Secret”**

The California legislature enacted a definition of “trade secret” that is substantively different from the uniform trade secrets act. Under the California statute, information is a “trade secret” if it has actual or potential value because it is not generally known, regardless of how easy it would be to obtain the information from available sources. California eliminated the requirement that the information not be readily ascertainable by proper means.

California law defines a trade secret as follows:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

CAL. CIV. CODE § 3426.1(d) (2015).

Unlike the uniform trade secrets act, “whether information is ‘readily ascertainable’ is not part of the definition of a trade secret in California.” *Imax Corp. v. Cinema Technologies, Inc.*, 152 F.3d 1161, 1168 n.10 (9th Cir. 1998) (internal quotes and citation omitted). The California legislature deleted that phrase from the definition of a “trade secret” when the California statute was enacted. *ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 21, 286 Cal. Rptr. 518 (1991).

The California legislature deleted the “not readily ascertainable” requirement from the definition of a “trade secret” because the legislature thought it would muddy the meaning of the term, and invite parties to speculate on the time needed to discover a secret. *Id.* 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.” *Id.* (emphasis added).

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.

*ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 21, 286 Cal. Rptr. 518 (1991).

Thus, in California, “ease of ascertainability is irrelevant to the definition of a trade secret.” *Id.*, 235 Cal. App.3d at 21 n.9.<sup>212</sup> See also *Karoun Daries, Inc. v. Karoun Daries, Inc.*, No. 08-CV-1521-AJB (WVG), 2014 WL 5170800, at \*5 (S.D. Cal. Oct. 14, 2014) (“In California, 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.”) (internal quotes and citation omitted); *SkinMedica, Inc. v. Histogen Inc.*, 869 F. Supp.2d 1176, 1193 (S.D. Cal. 2012); *Spring Design, Inc. v. Barnesandnoble.com, LLC*, No. C 09-05185 JW, 2010 WL 5422556, at \*4 (N.D. Cal. Dec. 27, 2010).

In order to be a trade secret, information must have actual or potential value,<sup>213</sup> and that value must derive from the secrecy of the information. *People v. Hsieh*, 86 Cal. App.4th 287, 103 Cal. Rptr.2d 51, 57-58 (2001). In other words, the information alleged

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<sup>212</sup> The legislative history suggests that the California legislature thought the assertion that a matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation. *ABBA Rubber*, 235 Cal. App.3d at 21 n.9. But this apparently means that the defendant would have to convince the fact finder that the defendant’s knowledge of the information came from public domain sources; and the defense would be “based upon an absence of misappropriation, rather than the absence of a trade secret.” *Id.*; *Imax Corp.*, 152 F.3d at 1168 n.10.

<sup>213</sup> “[T]he fact that [the trade secret] is not incorporated into a product on the market does not preclude a finding of independent economic value.” *Altavion*, 226 Cal. App.4th at 65, 171 Cal. Rptr.3d at 745.

to be a trade secret must be “valuable because it is unknown to others.” *DVD Copy Control Assn. v. Bunner*, 116 Cal. App.4th 241, 251, 10 Cal. Rptr.3d 185 (2004).

To have independent value, a trade secret must be “sufficiently valuable and secret to afford an actual or potential economic advantage over others.” *Yield Dynamics, Inc. v. TEA Sys. Corp.*, 154 Cal. App.4th 547, 564, 66 Cal. Rptr.3d 1 (2007) (citation and quotations omitted). “The value of information claimed as a trade secret may be established by direct or circumstantial evidence. Direct evidence relating to the content of the secret and its impact on business operations is clearly relevant.” *Altavion, Inc. v. Konica Minolta Systems Laboratory Inc.*, 226 Cal. App.4th 26, 62, 171 Cal. Rptr.3d 714, 743 (2014).

Independent economic value can be shown by “circumstantial evidence of the resources invested in producing the information, the precautions taken to protect its secrecy, and the willingness of others to pay for its access.” *Religious Tech. Ctr. v. Netcom On-Line Communication Servs., Inc.*, 923 F. Supp. 1231, 1253 (N.D. Cal. 1995) (citations omitted). “[I]nformation can have independent economic value even if there is no actual product on the market utilizing the information.” *Leatt Corp. v. Innovative Safety Tech., LLC*, No. 09-CV-1301-IEG (POR), 2010 U.S. Dist. LEXIS 37382, at \*18 (S.D. Cal. Apr. 15, 2010).

California recognizes “negative” trade secrets. Under California law, information can have independent economic value even if its value comes from a “negative” standpoint, such as “the results of lengthy and expensive research which proves that a certain process will not work...”. *Courtesy Temp. Serv. v. Camacho*, 222 Cal. App.3d 1278, 1287, 272 Cal. Rptr. 352 (1990) (citation and quotations omitted).

The absence of the “not readily ascertainable” requirement from the definition of a “trade secret” under California law can have a significant impact on some cases, for example, where the alleged trade secret is a customer list.

In *Morlife, Inc. v. Perry*, 56 Cal. App.4th 1514, 66 Cal. Rptr.2d 731 (1997), the plaintiff was in the business of inspecting, maintaining, and repairing roofs primarily for commercial properties. A former employee left the plaintiff’s employment to start his own roofing business, and took his collection of customer business cards he had accumulated over his six years of employment. The plaintiff sued its former employee for misappropriation of trade secrets based upon the collection of customer business cards taken by the former employee. The customer cards represented approximately 75 to 80 percent of the plaintiff’s customer base. The appellate court upheld a judgment for the plaintiff on the trade secret misappropriation claim:

“[The plaintiff] provides a relatively unusual roofing service, namely, commercial roof repair and maintenance, as distinguished from replacement roofing. Its customer list was a compilation, developed over a period of years, of names, addresses, and contact persons, containing pricing information and knowledge about particular roofs and roofing needs of customers using its services: as such, it has independent economic value. The identity of those particular commercial buildings using such services is not generally known to the roofing industry.”

*Morlife, Inc. v. Perry*, 56 Cal. App.4th 1514, 1521, 66 Cal. Rptr.2d 731, 735 (1997) (internal quotes omitted).

In another California case, *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal.App.3d 1278, 272 Cal. Rptr. 352 (1990), the Court of Appeals found that a compilation of Courtesy’s customers, who had demonstrated their willingness to use temporary employees, was the result of lengthy and expensive efforts, including advertising, promotional campaigns, canvassing, and client entertainment. 272 Cal. Rptr.



at 354. The lower court had ruled that this “work effort” was not a secret entitled to protection. The Court of Appeals held that “it is this very ‘work effort’ or process of acquiring and retaining clientele, that constitutes a protectable trade secret.” *Id.* at 357. The court found that Courtesy had taken reasonable steps to maintain the secrecy of its customer list where information on the list was not divulged to anyone outside of its business, employees were allowed access to the information on an “as needed basis” to perform their duties and access was limited to the branch in which they worked, and employees were told of the confidential and proprietary nature of the information. *Id.* at 358.

California recognizes that “[c]ombinations of public information from a variety of different sources when combined in a novel way can be a trade secret.” *02 Micro Intern. Ltd. v. Monolithic Power Systems, Inc.*, 420 F.Supp.2d 1070, 1089 (N.D. Cal. 2006), *aff’d*, 221 Fed. Appx. 996 (Fed. Cir. 2007). “It does not matter if a portion of the trade secret is generally known, or even that every individual portion of the trade secret is generally known, as long as the combination of all such information is not generally known.” *Id.* at 1089–90.

Under California law, information need not be in writing to qualify as a trade secret; a trade secret may include information that is memorized. *Morlife, Inc. v. Perry*, 56 Cal. App.4th 1514, 1522-23 (1997) (to afford protection to the employer, the information need not be in writing but may be in the employee’s memory).

**b. California Definition of “Person”**

The California statute includes a “limited liability company” within the definition of a “person.” CAL. CIV. CODE § 3426.1(c) (2015). Section 1 of the uniform trade secrets

act does not list a limited liability company in the definition of a “person,” but the uniform definition is broad and is intended to include “any other legal or commercial entity.”

**c. Damages in California**

The damages provisions of the California Uniform Trade Secrets Act include a subdivision (b) that is a departure from the uniform trade secrets act, concerning damages measured by a reasonable royalty.<sup>214</sup> The California statute provides:

(a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

(b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

(c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).

CAL. CIV. CODE § 3426.3 (2015).

Subdivision (a) and subdivision (c) that use language that tracks section 3 of the 1979 version of the uniform trade secrets act. Subdivision (b) provides for a recovery of damages in the form of a reasonable royalty *only* if actual loss and unjust enrichment are unprovable.<sup>215</sup> See *Altavion, Inc. v. Konica Minolta Systems Laboratory Inc.*, 226 Cal.

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<sup>214</sup> Section 3 of the 1985 amendments proposed by the National Conference of Commissioners on Uniform State Laws included the idea of damages measured by a reasonable royalty, but the language used in the California statute is completely different from the 1985 amendments to the uniform trade secrets act.

<sup>215</sup> The California statute is different from section 3 of the 1985 amendments to the uniform trade secrets act, which appears to allow a plaintiff to elect a reasonable royalty in lieu of damages measured by any other methods. The comments accompanying section 3 of the 1985 version of the uniform trade secrets act state that “a reasonable

App.4th 26, 66-68, 171 Cal. Rptr.3d 714, 746-48 (2014) (affirming trial court finding that actual loss was unprovable, that unjust enrichment was unprovable, and that a reasonable royalty would be awarded for the misappropriated trade secrets).

Under California law, damages measured by unjust enrichment are unprovable “where a defendant has not realized a profit or other calculable benefit as a result of his or her misappropriation of a trade secret.” *Ajaxo Inc. v. E\*Trade Financial Corp.*, 187 Cal. App.4th 1295, 1313, 115 Cal. Rptr.3d 168 (2010); *Altavion*, 226 Cal. App.4th at 68, 171 Cal. Rptr.3d at 748 (where the defendant did not make any profits from or otherwise commercialize the plaintiff’s trade secrets, unjust enrichment was unprovable).

**d. Attorney’s Fees in California**

The California legislature made substantive changes to section 4 of the uniform trade secrets act concerning attorney’s fees. Under the California Trade Secrets Act, a court may award not only reasonable attorney’s fees, but also “costs.” CAL. CIV. CODE § 3426.4 (2015). More importantly, for purposes of the statute, recoverable “costs” include a reasonable sum to cover the services of expert witnesses. *Id.* Under the California statute:

If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney's fees and costs to the prevailing party. Recoverable costs hereunder shall include a reasonable sum to cover the services of expert witnesses, who are not regular employees of any party, actually incurred and reasonably necessary in either, or both,

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royalty measure of damages is a general option.” Comment to Section 3, National Conference of Commissioners on Uniform State Laws, at 7 (Aug. 9, 1085). Under the California statute, a reasonable royalty can be the measure of damages only if it is established that damages measured either by actual loss or unjust enrichment are both unprovable.

preparation for trial or arbitration, or during trial or arbitration, of the case by the prevailing party.

CAL. CIV. CODE § 3426.4 (2015).

The statute explicitly includes expert witness fees incurred in connection with trial preparation as well as fees paid for an expert's time during trial. Expert witness fees in connection with arbitration proceedings are also included.

The term "bad faith" is not defined in the uniform trade secrets act. California courts interpret the attorney's fee provision as being intended to curb specious actions for misappropriation of trade secrets. *Gemini Aluminum Corp. v. California Custom Shapes, Inc.*, 95 Cal. App.4th 1249, 1262, 116 Cal. Rptr.2d 358, 368 (2002). Based on this, the term "bad faith" for purposes of the California statute requires objective speciousness of the plaintiff's claim, as opposed to frivolousness, plus the plaintiff's subjective bad faith in bringing or maintaining the claim. *Id.*

"An objectively specious claim is one that is completely unsupported by the evidence or one that lacks proof as to one of its essential elements." *JLM Formation, Inc. v. Form Pac*, No. C 04-1774 CW, 2004 WL 1858132, at \*2 (N.D. Cal. Aug. 19, 2004). "Subjective misconduct exists where a plaintiff knows or is reckless in not knowing that its claim for trade secret misappropriation has no merit." *Id.* "A court may determine a plaintiff's subjective misconduct by examining evidence of the plaintiff's knowledge during certain points in the litigation and may also infer it from the speciousness of a plaintiff's trade secret claim."<sup>216</sup> *Id.*

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<sup>216</sup> California cases interpreting the meaning of "bad faith" in the attorney's fee provision have been found persuasive in other states. *See generally Berry v. Hawaii Express Service, Inc.*, No. 03-000385 SOM/LEK, 2007 WL 689474, at \*13-15 (D. Haw. March 2, 2007), *aff'd*, 291 Fed. Appx. 792 (9th Cir. 2008).

e. **Preemption in California**

The California Uniform Trade Secrets Act preempts common law claims that are based on the same nucleus of facts as a misappropriation of trade secrets claim for relief. *K.C. Multimedia, Inc. v. Bank of America Technology & Operations, Inc.*, 171 Cal. App.4th 939, 957-59, 90 Cal. Rptr.3d 247, 261 (2009); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp.2d 1025, 1035 (N.D. Cal. 2005) (“California’s statute ... preempts Digital’s claims for unfair competition and unjust enrichment since those claims are based on the same nucleus of facts as the misappropriation of trade secrets claim for relief”); *AirDefense, Inc. v. AirTight Networks, Inc.*, 2006 WL 2092053, at \*3 (N.D. Cal. July 26, 2006) (claims based on the same factual allegations as the claim for misappropriation of trade secrets are preempted).

The California legislature did not enact the displacement language in section 7 of the uniform trade secrets act.<sup>217</sup> See CAL. CIV. CODE § 3426.7 (2015). California courts reached preemption following a different path from most other states.<sup>218</sup> Instead of stating that the California Uniform Trade Secrets Act displaces certain law, the relevant provisions of the California statute expressly state what it does *not* affect. The statute says, “(b) This title does not affect ... (2) other civil remedies that are not based upon misappropriation of a trade secret....” CAL. CIV. CODE § 3426.7(b)(2) (2015). California courts have held that “[t]his provision would appear to be rendered meaningless if, in

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<sup>217</sup> The California statute does *not* include the following language from section 7 of the uniform trade secrets act: “This Act displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret.”

<sup>218</sup> *K.C. Multimedia*, 171 Cal. App.4th at 956, 90 Cal. Rptr.3d at 259 (“Thus, to the extent that other states’ statutes conform to the uniform version of section 7, subdivision (a), which California has rejected, decisions interpreting that provision are not persuasive in construing California’s unique statute.”).

fact, claims which are based on trade secret misappropriation are not preempted by the state's statutory scheme." *K.C. Multimedia*, 171 Cal. App.4th at 958, 90 Cal. Rptr.3d at 260-61, quoting from *Digital Envoy*, 370 F. Supp.2d at 1035.

Thus, preemption under the California Uniform Trade Secrets Act is based upon a determination that the state legislature intended to cover the entire subject, and to occupy the entire field. *K.C. Multimedia*, 171 Cal. App.4th at 954, 90 Cal. Rptr.3d at 258 ("At least as to common law trade secret misappropriation claims, [the California Uniform Trade Secrets Act] occupies the field in California.") (citation and internal quotes omitted). Thus, California law is based upon a theory of implicit preemption.

#### **f. Inevitable Disclosure Doctrine in California**

California has rejected the inevitable disclosure doctrine. *Whyte v. Schlage Lock Co.*, 101 Cal. App.4th 1443, 125 Cal. Rptr.2d 277, 291 (2002).<sup>219</sup> See also *Globespan, Inc. v. O'Neill*, 151 F. Supp.2d 1229, 1235 (C.D. Cal. 2001); *Bayer Corp. v. Roche Molecular Systems, Inc.*, 72 F. Supp.2d 1111, 1120 (N.D. Cal. 1999) ("California trade-secrets law does not recognize the theory of inevitable disclosure.").

California takes an especially aggressive stance against restraints on trade: "Every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." CAL. BUS. & PROF. CODE § 16600. Non-compete agreements are therefore void in California -- even those with "reasonable restraints" that would be enforceable in other states following the common law rule. See

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<sup>219</sup> A Texas case, applying California law, had incorrectly predicted that California would recognize the inevitable disclosure doctrine. *Maxxim Medical, Inc. v. Michelson*, 51 F. Supp.2d 773, 784-87 (S.D. Tex. 1999), *rev'd*, 182 F.3d 915 (5th Cir. 1999).

*Alliance Payment Sys., Inc. v. Walczel*, 61 Cal. Rptr.3d 789, 802 (Ct. App. 2007), *superseded*, 181 P.3d 947 (2007); *Kelton v. Stravinski*, 138 Cal. App.4th 941, 41 Cal. Rptr.3d 877, 881 (2006). The California courts have taken that strong public policy and extended it to the inevitable disclosure doctrine, reasoning that applying the doctrine creates a “de facto covenant not to compete.” *Whyte*, 125 Cal. Rptr.2d at 292-93.

**g. Identification of Trade Secrets in California**

Prior to the enactment of the uniform trade secrets act in California, the courts had required plaintiffs in trade secret cases to identify the alleged trade secrets prior to commencement of discovery from the defendant concerning the alleged trade secret.

*Diodes Inc. v. Franzen*, 260 Cal. App.2d 244 (1968). In the *Diodes* case, the court held:

Before a defendant is compelled to respond to a complaint upon claimed misappropriation or misuse of a trade secret and to embark on discovery which may be both prolonged and expensive, the complainant should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.

*Diodes Inc. v. Franzen*, 260 Cal. App.2d 244, 253 (1968).

In the same year that the California legislature enacted the uniform trade secrets act, the legislature also passed a statute codifying the trade secret identification requirement set forth in the *Diodes* case. The trade secret identification statute was unique to California, and was included in the California legislation at the California State Bar’s suggestion. *Computer Econ. Inc. v. Gartner Grp. Inc.*, 50 F. Supp.2d 980, 984-85 (S.D. Cal. 1999) (The California State Bar commented that the proposed statute was “intended to codify *Diodes Inc.* and afford a measure of protection against the procedure of initiating an action to pursue extensive discovery without revelation of the trade secret”), *quoting from* Comments from the Patent, Trademark, and Copyright Section of

the California State Bar to Assemblyman Harris, at 5 (March 28, 1983). That statute was subsequently renumbered, and now appears in Section 2019.210 of the California Code of Civil Procedure.

The California courts have recognized that this is an area of potential abuse that is not addressed by the uniform trade secrets act:

One area not addressed by the Uniform Act is the area of plaintiff's abuse in initiating trade secret lawsuits 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. For example, where a plaintiff's employee quits and opens a competing business, a plaintiff often files a lawsuit for trade secret misappropriation which states that the defendant took and is using plaintiff's trade secrets, but does not identify the trade secrets. The plaintiff can then embark upon extensive discovery which the new business is ill equipped to afford. Furthermore, by not informing the defendant with any degree of specificity as to what the alleged trade secrets are, defendant may be forced to disclose its own business or trade secrets, even though those matters may be irrelevant, and the defendant may not learn the exact nature of the supposedly misappropriated trade secrets until the eve of trial.

*Computer Econ. Inc. v. Gartner Grp. Inc.*, 50 F. Supp.2d 980, 985 n.6 (S.D. Cal. 1999).

There are a number of public 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); *Advanced Modular Sputtering Inc. v. Superior Court*, 132 Cal. App.4th 826, 833-34 (2005); *Computer Econ.*, 50 F. Supp.2d at 985.



Some federal courts have determined that California Code of Civil Procedure Section 2019.210 should apply in a federal diversity case as a matter of state substantive law, and in order to discourage forum shopping. *Computer Econ.*, 50 F. Supp.2d at 992 (A “federal court cannot separate [Section 2019.210] from the whole of California’s Uniform Trade Secrets Act without frustrating the legislature’s legitimate goals and disregarding the purposes of *Erie*.”); *SocialApps LLC v. Zynga Inc.*, 2012 U.S. Dist. LEXIS 82767, at \*7 (N.D. Cal. June 14, 2012) (application of Section 2019.210 to trade secret claims in federal court “avoids improper incentives for choosing a federal forum.”); *Gabriel Techs. Corp. v. Qualcomm Inc.*, 2011 U.S. Dist. LEXIS 142478 (S.D. Cal. Dec. 12, 2011).

Other federal court have determined that the California statute does not apply in federal court. *Funcat Leisure Craft Inc. v. Johnson Outdoors Inc.*, 2007 U.S. Dist. LEXIS 8870, at \*6 (E.D. Cal. Jan. 29, 2007) (“it is not within the discretion of the court to willy nilly apply bits and pieces of the discovery civil procedure codes of the various states, even the state in which the district court sits.”); *Hilderman v. Enea Teksci Inc.*, 2010 U.S. Dist. LEXIS 1527, at \*9 (S.D. Cal. Jan. 8, 2010) (“Section 2019.210 imposes burdens on discovery that are not in keeping with the liberal discovery scheme of the Federal Rules of Civil Procedure.”).

Some federal courts have recognized the force of the policy considerations underlying the California statute, and while declining to hold that the state statute applies in federal court, nevertheless reach the same result by entering an appropriate protective order pursuant to Rule 26 of the Federal Rules of Civil Procedure to manage and sequence discovery in a procedure similar to the California statute. *Jardin v. DATAlegro*

*Inc.*, 2011 U.S. Dist. LEXIS 84507, at \*10-11 (S.D. Cal. July 29, 2011) (“the cases rejecting the direct application of § 2019.210 in federal court do not suggest that a federal magistrate judge cannot consider issues related to the policy rationale for § 2019.210; nor do they suggest that a judge employing discovery procedures similar to those mandated by § 2019.210 necessarily applies state law.”); *Applied Materials Inc. v. Advanced Micro-Fabrication Equip. Co.*, 2008 U.S. Dist. LEXIS 82530 (N.D. Cal. Jan. 18, 2008); *Advante Int’l Corp. v. Mintel Learning Tech.*, 2006 U.S. Dist. LEXIS 86334 (N.D. Cal. Nov. 21, 2006); *Excelligence Learning Corp. v. Oriental Trading Co.*, 2004 U.S. Dist. 28125 (N.D. Cal. June 14, 2004).

Under California law, summary judgment has been granted in favor of a defendant on grounds that the plaintiff failed to adequately identify the alleged trade secrets. *Imax Corp. v. Cinema Technologies Inc.*, 152 F.3d 1161, 1164-67 (9th Cir. 1998) (“CTI could not be expected to prepare its rebuttal to Imax’s trade secrets claim without some concrete identification of exactly which “dimensions and tolerances” Imax alleged were incorporated into CTI’s own projector system.”); *Universal Analytics v. MacNeal-Schwendler Corp.*, 707 F. Supp. 1170, 1177 (C.D. Cal. 1989) (plaintiff failed to inform defendant or the court “precisely which trade secret it alleges was misappropriated”), *aff’d*, 914 F.2d 1256 (9th Cir. 1990).

#### **h. Statute of Limitations in California**

In *Ashton-Tate Corp. v. Ross*, 916 F.2d 516 (9th Cir. 1990), the court held that the trade secret misappropriation claim was barred by the statute of limitations. According to the court, the initial misappropriation occurred in February 1985 when a computer programmer working on the trade secret software disclosed the plaintiff’s alleged trade

secrets to the defendant. *Id.* at 523. The plaintiff learned of this incident in March, 1985. The plaintiff argued that he did not discover the defendant's *use* of the trade secrets until 1988. Although the defendant's subsequent use of the trade secrets constituted misappropriation, the court held that the statute of limitations specifically states that a continuing misappropriation constitutes a single claim, and the statute began to run in 1985 when the trade secrets were disclosed. *Id.* at 523-24.

Under California law, the statute of limitations starts to run upon the first act of misappropriation. A claim concerning a second act of misappropriation is barred, even if the first act of misappropriation was relatively inconsequential.<sup>220</sup> *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.”).

#### **i. Other California Statutes**

California has, by statute, established a privilege against the disclosure of a trade secret. CAL. EVID. CODE § 1060 provides that “[t]he owner of a trade secret has a privilege to refuse to disclose the secret, and to prevent another from disclosing it, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice.” In order to resist discovery of a trade secret, a party must first demonstrate by competent

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<sup>220</sup> 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).

evidence that the information sought through discovery is a trade secret and that disclosure of the secret might be harmful. If this showing is made, the burden shifts to the party seeking discovery to establish that the disclosure of trade secrets is relevant and necessary to the action. *Upjohn Co. v. Hygieia Biological Labs.*, 151 F.R.D. 355, 358 (E.D. Cal. 1993).

California's statutory unfair competition law permits claims for "any unlawful, unfair or fraudulent business act or practice." CAL. BUS. & PROF. CODE § 17200; *Feitelberg v. Credit Suisse First Boston, LLC*, 134 Cal. App.4th 997, 1009 (2005). Because section 17200 is written in the disjunctive, a business practice need only meet one of the three criteria - unlawful, unfair, or fraudulent - to violate the statute. *Daro v. Superior Court*, 151 Cal. App.4th 1079, 1093, 61 Cal. Rptr.3d 716 (2007). "Under its 'unlawful' prong, the [statute] borrows violations of other laws ....". *Berryman v. Merit Prop. Mgmt.*, 152 Cal. App.4th 1544, 1554, 62 Cal. Rptr.3d 177 (2007) (quotation and citation omitted). "Thus, a violation of another law is a predicate for stating a cause of action under the [statute's] unlawful prong." *Id.* For example, a claim for trade secret misappropriation can also support a claim for violation of section 17200. *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161, 1169 (9th Cir. 1998).<sup>221</sup>

However, damages are not available under this statute; the available remedies are limited to restitution and injunctive relief. *SkinMedica, Inc. v. Histogen Inc.*, 869 F.

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<sup>221</sup> A breach of contract may not form the basis of a section 17200 claim unless the breach itself is "unlawful, unfair, or fraudulent." *Puentes v. Wells Fargo Home Mortg., Inc.*, 160 Cal. App.4th 638, 645, 72 Cal. Rptr.3d 903 (2008). However, a breach of contract may form the basis of a section 17200 claim where the breach involves the misappropriation of trade secrets. *DocMagic, Inc. v. Ellie Mae, Inc.*, No. 09-04017, 2010 U.S. Dist. LEXIS 108628, at \*55, 2010 WL 3987495 (N.D. Cal. Oct. 12, 2010).

Supp.2d 1176, 1184 (S.D. Cal. 2012). California courts have found that injunctions are the proper remedy to combat unfair business practices, and that “[a]ctual direct victims of unfair competition may obtain restitution as well.” *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal.4th 1134, 1152, 131 Cal. Rptr.2d 29, 63 P.3d 937 (2003).

## **6. Colorado**

Colorado has enacted the Colorado Uniform Trade Secrets Act, but made changes in some of the provisions of the uniform trade secrets act. The Colorado Uniform Trade Secrets Act has a different definition for a “trade secret.” Colorado enacted different provisions concerning injunctions and exemplary damages. To the extent that the Colorado statute follows the uniform trade secrets act, the language tracks the 1985 version.

### **a. Colorado Definition of a “Trade Secret”**

The Colorado Uniform Trade Secrets Act was adopted in July 1986. *Colorado Supply Co. v. Stewart*, 797 P.2d 1303, 1307 (Colo. Ct. App. 1990). The Colorado General Assembly used the same definition for a “trade secret” that appears in the Colorado theft of trade secrets statute.<sup>222</sup>

“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.

COLO. REV. STAT. ANN. § 7-74-102(4) (2015).

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<sup>222</sup> COLO. REV. STAT. ANN. § 18-4-408(2)(d) (2010).

The Colorado statutory definition of a “trade secret” was said to be “clear and unambiguous on its face.” *Network Telecommunications, Inc., Boor-Crepeau*, 790 P.2d 901, 902 (Colo. Ct. App. 1990). As written, the Colorado definition appears to define as a “trade secret” information that is secret and of value, and like California, does not require that the information not be readily ascertainable.<sup>223</sup> Thus, like California, the Colorado definition of a “trade secret” would appear “to exclude from the definition only that information which the industry already knows, as opposed to that which the industry could easily discover.” *See ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 21, 286 Cal. Rptr. 518 (Ct. App. 1991) (interpreting California statute). However, the Colorado Supreme Court has said that the “trade secret” definition in the Colorado Uniform Trade Secrets Act does not differ from the definition in the uniform trade secrets act “in any significant respect.” *Gognat v. Ellsworth*, 259 P.3d 497, 501 n.2 (Colo. 2011).

The Colorado General Assembly did not adopt the language contained in the uniform trade secrets act requiring a “trade secret” to be the “subject of efforts that are reasonable under the circumstances to maintain its secrecy.”<sup>224</sup> Instead, the Colorado statute requires the owner of a trade secret to “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.” Nevertheless, the first Colorado state court to consider the

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<sup>223</sup> *Cf. Gates Rubber Co. v. Bando Chemical Industries, Ltd.*, 9 F.3d 823, 848 (10th Cir. 1993) (“Although there is some evidence that some of the constants might be ‘reverse engineered’ through mathematical trial and error, that fact alone does not deprive the constants of their status as trade secrets.”).

<sup>224</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 (Ct. App. 2009) (citation and internal quotes omitted).

language concluded that this language is “similar” to the language in the uniform trade secrets act, and cited the Commissioner’s comments to the uniform trade secrets act concerning what constitutes reasonable efforts to maintain secrecy. *Network Telecommunications, Inc., Boor-Crepeau*, 790 P.2d 901, 902 (Colo. Ct. App. 1990). Subsequent Colorado cases then took this to be a holding that “the alleged trade secret must be the subject of efforts that are reasonable under the circumstances to maintain its secrecy,” as if the state legislature had adopted the language in the uniform trade secrets act. *Colorado Supply Co. v. Stewart*, 797 P.2d 1303, 1306 (Colo. Ct. App. 1990).<sup>225</sup>

Under Colorado law, in spite of the explicit statutory definition, courts consider the six factors set forth in the *Restatement (First) of Torts* §757 to provide guidance in determining the existence of a trade secret. *Network Telecommunications, Inc., Boor-Crepeau*, 790 P.2d 901, 903 (Colo. Ct. App. 1990); *Colorado Supply Co. v. Stewart*, 797 P.2d 1303, 1306 (Colo. Ct. App. 1990); *Hertz v. Luzenac Group*, 576 F.3d 1103, 1108-09 (10th Cir. 2009); *Harvey Barnett, Inc. v. Shidler*, 143 F. Supp.2d 1247, 1251-52 (D. Colo. 2001). One federal court described the Colorado state courts as recognizing that “the term ‘trade secret’ defies exact definition.” *Gates Rubber Co. v. Bando Chemical Industries, Ltd.*, 9 F.3d 823, 848 (10th Cir. 1993). This would appear to defeat the purpose of the uniform act in providing a uniform definition of a trade secret, and essentially leaves the law of Colorado as it was under the common law before the Colorado Uniform Trade Secrets Acts was enacted.

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<sup>225</sup> Federal courts interpreting the Colorado definition of a “trade secret” follow the reasonableness standard stated in *Colorado Supply* concerning the measures taken to maintain secrecy. *Hertz v. Luzenac Group*, 576 F.3d 1103, 1112 (10th Cir. 2009).

The Colorado definition of a “trade secret” includes “all or part of virtually any information that is of value ... as long as the owner has taken measures to prevent it from becoming available beyond those to whom he has given limited access. *Gognat*, 259 P.3d at 501. Under Colorado law, “information can be a trade secret notwithstanding the fact that some of its components are well-known.” *Harvey Barnett, Inc. v. Shidler*, 338 F.3d 1125, 1129 (10th Cir. 2003). A combination of items of information may be a trade secret even though each individual item of information is disclosed in the public domain, if the unique combination of information affords a competitive advantage and cannot be found in one discrete public repository. *Hertz v. Luzenac Group*, 576 F.3d 1103, 1109 (10th Cir. 2009). Note that the Colorado statute expressly includes a “listing of names, addresses, or telephone numbers” as a “trade secret” if the listing is secret and of value, and individual names, addresses, or telephone numbers are ordinarily not kept secret.

Under Colorado law, to support a claim for misappropriation based upon an idea, that idea must be novel. *Smith v. TCI Communications, Inc.*, 981 P.2d 690, 694 (Colo. App. 1999). The case of *Lucht’s Concrete Pumping Inc. v. Homer*, 224 P.3d 355 (Colo. Ct. App. 2009), involved a claim for misappropriation of business value based upon the plaintiff’s business plan, and the defendant’s established customer relationships with plaintiff’s customers. The court held that “neither claim alleges sufficient novelty as required for misappropriation of an idea as business value.” 224 P.3d at 362. The court said, “[t]he evidence at trial was that both companies had the same customers in the mountain region and planned to grow their businesses through greater customer relationships, not novel business plans.” *Id.*



## **b. Injunctions in Colorado**

The Colorado Uniform trade Secrets Act uses different language concerning a court's power to issue injunctions, as compared to the uniform trade secrets act. The Colorado statute provides:

Temporary and final injunctions including affirmative acts may be granted on such equitable terms as the court deems reasonable to prevent or restrain actual or threatened misappropriation of a trade secret.

COLO. REV. STAT. ANN. § 7-74-103 (2015).

The language in section 2 the uniform trade secrets act contains a mandatory provision requiring an injunction to be terminated when a trade secret has ceased to exist, but authorizing a court to continue the injunction for a reasonable period of time for the purpose of eliminating any commercial advantage that would otherwise be derived from the misappropriation. A Colorado court may assume that the Colorado General Assembly rejected this policy of the uniform act.<sup>226</sup>

The Colorado General Assembly also failed to enact the provision of the uniform trade secrets act (section 2 of the 1985 amendments) providing that, in exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty.

In *Ovation Plumbing, Inc. v. Furton*, 33 P.3d 1221, 1226 (Colo. Ct. App. 2001), the lower court's denial of an injunction was reversed, because the lower court failed to make any findings of fact in support of its conclusion that the plaintiff was not entitled to

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<sup>226</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 (Ct. App. 2009) (citation and internal quotes omitted).

an injunction. The Colorado Court of Appeals noted that the Colorado Uniform Trade Secrets Act authorizes awards of both damages and injunctive relief, although a trial court is not required to award both. *Id.* at 1226.

**c. Exemplary Damages in Colorado**

The Colorado General Assembly did not enact the language of section 3 of the uniform trade secrets act concerning exemplary damages. Instead, the Colorado statute provides:

If the misappropriation is attended by circumstances of fraud, malice, or a willful and wanton disregard of the injured party's right and feelings, the court or the jury may award exemplary damages in an amount not exceeding the award made under subsection (1) of this section.

COLO. REV. STAT. ANN. § 7-74-104(2) (2015).

As a general matter, in 1986, the same year that the Colorado Uniform Trade Secrets Act was enacted, the Colorado legislature limited punitive damage awards in *all* civil cases to an amount equal to actual damages. COLO. REV. STAT. ANN. § 13-21-102(1)(a) (2015). Thus, the Colorado legislature rejected section 3(b) of the uniform trade secrets act which allows exemplary damages in an amount up to twice the amount awarded for actual damages.<sup>227</sup>

The language of the Colorado Uniform Trade Secrets Act providing the circumstances under which exemplary damages may be awarded in trade secret cases is substantially the same as the Colorado statute governing punitive damages in civil cases generally.<sup>228</sup> The term “willful and wanton conduct” is defined in the statute applicable to

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<sup>227</sup> *But see* COLO. REV. STAT. ANN. § 13-21-102(3) (2015).

<sup>228</sup> “In all civil actions in which damages are assessed by a jury for a wrong done to the person or to personal or real property, and the injury complained of is attended by circumstances of fraud, malice, or willful and wanton conduct, the jury, in addition to the

civil actions generally. COLO. REV. STAT. ANN. § 13-21-102(1)(b) (2015) (“As used in this section, ‘willful and wanton conduct’ means conduct purposefully committed which the actor must have realized as dangerous, done heedlessly and recklessly, without regard to consequences, or of the rights and safety of others, particularly the plaintiff.”). A Colorado court may find the definition in subsection 13-21-102(b) instructive on what “willful and wanton” means in subsection 7-74-104(2) of the Colorado Uniform Trade Secrets Act.

In the case of *Cartel Asset Management v. Ocwen Financial Corp.*, 249 Fed. Appx. 63, 80 (10th Cir. 2007), the court noted that exemplary damages can only be awarded after actual damages have been ascertained. Actual damages were remanded for a new trial, eliminating any basis for the proper amount of punitive damages.

In the case of *In re S&D Foods, Inc.*, 144 B.R. 121 (Bankr. D. Colo. 1992), the bankruptcy court awarded exemplary damages in an amount equal to 10% of the plaintiff’s entire recovery after finding that the defendant’s “revelations to others about Pet’s trade secrets were so malicious and wanton.” *Id.* at 168.

The Colorado statute governing an award of attorney’s fees in a trade secrets case follows the language of section 4 of the uniform trade secrets act. COLO. REV. STAT. ANN. § 7-74-105 (2015). The standard for an award of attorney’s fees is “willful and malicious misappropriation.” *Id.* At least one court has held that a jury finding that “the misappropriation is attended by circumstances of fraud, malice, or a willful and wanton

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actual damages sustained by such party, may award him reasonable exemplary damages. The amount of such reasonable exemplary damages shall not exceed an amount which is equal to the amount of the actual damages awarded to the injured party.” COLO. REV. STAT. ANN. § 13-21-102(1)(a) (2015).

disregard of the injured party’s right and feelings,” (the standard for exemplary damages), is a sufficient basis for a court to award attorney’s fees under the “willful and malicious misappropriation” standard. *Cartel Asset Management v. Ocwen Financial Corp.*, 249 Fed. Appx. 63, 85 & n.16 (10th Cir. 2007).

**d. Preemption in Colorado**

A common law claim for alleged misappropriation of confidential information is preempted by the Colorado Uniform Trade Secrets Act. *Hawg Tools, LLC v. Newso International Energy Services, Inc.*, No. 14-cv-03011-REB-MJW, 2015 WL 1064519, at \*5 (D. Colo. Feb. 23, 2015); *Powell Products, Inc. v. Marks*, 948 F. Supp. 1469, 1474-75 (D. Colo. 1996) (“If the design of the plaintiff’s machine is not a trade secret, plaintiff has no property right in its design, and it therefore would have no claim.”).

The Colorado Uniform Trade Secrets Act preempts other claims where they “are no more than a restatement of the same operative facts which would plainly and exclusively spell out only trade secret misappropriation.” *Powell Products*, 948 F. Supp. at 1474; *Hawg Tools, supra*, at \*5. Every claim arising from the same set of facts is not barred by preemption. “Often, a plaintiff will be able to state claims that do not depend upon the information in question qualifying as trade secrets,” and further, “a plaintiff may also bring claims that, although involving a trade secret misappropriation issue, include additional elements not necessary for a misappropriation claim under the UTSA.” *Powell Products*, 948 F. Supp. at 1474.

In *Powell Products*, the court held that a civil conspiracy claim was not preempted, because it required proof of an agreement, which is an additional element beyond the elements of a trade secret misappropriation claim.<sup>229</sup> 948 F. Supp. at 1474.

**e. Miscellaneous Colorado Case Law**

Under Colorado law an employee is entitled, while still employed, to take steps to prepare for competition with his or her employer after termination of employment. *Lucht's Concrete Pumping Inc. v. Homer*, 224 P.3d 355, 361-62 (Colo. Ct. App. 2009). While the defendant employee was involved in assessing the equipment needs of the person who later set up a competing business and hired the former employee, the extent of those prior conversations regarding the equipment was “minimal.” 224 P.3d at 362. Citing the *Restatement (Third) of Agency*, the Colorado Court of Appeals noted that permissible pre-termination activities include “arranging for space and equipment.” *Id.* at 362, quoting from *Restatement (Third) of Agency* § 8.04 cmt. c (2006). In the *Homer* case, there was no evidence that the former employee solicited his employer’s customers or employees or disclosed any trade secrets or proprietary information. *Id.* at 361.

Under Colorado law, “an employee does not have a duty to disclose his or her plans to compete.” *Lucht's Concrete Pumping Inc. v. Homer*, 224 P.3d at 361. In the *Homer* case, there was no evidence that the former employee solicited his employer’s customers or employees or disclosed any trade secrets or proprietary information. *Id.*

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<sup>229</sup> This result has been criticized in other states. *Hauck Mfg. Co. v. Astec Industries, Inc.*, 375 F. Supp.2d 649, 657 (E.D. Tenn. 2004) (“[T]he standard for preemption cannot be a ... same elements test as suggested in *Powell Products*.”) (citation omitted).

**f. Other Colorado Statutes**

Colorado has a criminal trade secret theft statute. COLO. REV. STAT. ANN. § 18-4-408 (2015). The criminal statute uses the same definition of a “trade secret” as the Colorado Uniform Trade Secrets Act.<sup>230</sup> Under the criminal statute, theft of a trade secret is committed when a person either: (1) with intent, deprives or withholds control of his trade secret from an owner; or (2) with intent to appropriate a trade secret to his own or another’s use, steals or discloses to an unauthorized person the trade secret, or without authority, makes or causes to be made a copy of an article representing a trade secret. COLO. REV. STAT. ANN. § 18-4-408(1) (2015). Prosecution for criminal theft of trade secrets has a three year statute of limitations after the discovery of the offense. COLO. REV. STAT. ANN. § 18-4-408(3)(b) (2015).

The Colorado statute governing punitive damages in civil actions in general does not allow a claim for exemplary damages to be included in any initial claim for relief, and may be allowed by amendment only after the exchange of initial disclosures and the plaintiff establishes *prima facie* proof of a triable issue. COLO. REV. STAT. ANN. § 13-21-102(1.5)(a) (2015).

Under the general statute, a court may reduce or disallow the award of exemplary damages to the extent that (a) The deterrent effect of the damages has been accomplished; or (b) The conduct which resulted in the award has ceased; or (c) The purpose of such damages has otherwise been served. COLO. REV. STAT. ANN. § 13-21-102(2) (2015).

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<sup>230</sup> The criminal trade secret theft statute preceded the Colorado Uniform Trade Secrets Act. When the Colorado General Assembly enacted the Colorado Uniform Trade Secrets Act, they used the existing definition in the criminal statute for a “trade secret.”

Under the general statute, a court may increase any award of exemplary damages, to a sum not to exceed three times the amount of actual damages, if it is shown that: (a) The defendant has continued the behavior or repeated the action which is the subject of the claim against the defendant in a willful and wanton manner, either against the plaintiff or another person or persons, during the pendency of the case; or (b) The defendant has acted in a willful and wanton manner during the pendency of the action in a manner which has further aggravated the damages of the plaintiff when the defendant knew or should have known such action would produce aggravation. COLO. REV. STAT. ANN. § 13-21-102(3) (2015).

Under the general statute concerning punitive damages in civil actions, Colorado prohibits consideration of evidence of the income or net worth of a party in determining the appropriateness of exemplary damages, or the amount of such damages. COLO. REV. STAT. ANN. § 13-21-102(6) (2015).

Colorado has a statute that prohibits any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer, unless it falls within one of four statutory exceptions. COLO. REV. STAT. ANN. § 8-2-113(2) (2015). “[C]ovenants not to compete are disfavored in Colorado, and the exceptions to the general rule are narrowly construed.” *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907, 910 (Colo. Ct. App. 1997). One exception is a contract for the protection of trade secrets. *Id.*; COLO. REV. STAT. ANN. § 8-2-113(2)(b) (2015). For a covenant not to compete to fit within the trade secret exception, the purpose of the covenant must be the protection of trade secrets, and the covenant must be

reasonably limited in scope to the protection of those trade secrets. *Gold Messenger*, 937 P.2d at 910.

## 7. Connecticut

Connecticut enacted the Connecticut Uniform Trade Secrets Act, but made changes in the definitions provided in the uniform trade secrets act. To the extent that the Connecticut statute follows the uniform trade secrets act, the language tracks the 1979 version.

### a. Connecticut Definition of a “Trade Secret”

The Connecticut Uniform Trade Secrets Act defines a “trade secret” to explicitly include a “customer list,” “cost data,” and a “drawing.” CONN. GEN. STAT. § 35-51(d) (2015). The statutory definition of a “trade secret” references other Connecticut statutes, indicating that the definition of a “trade secret” provided in the Connecticut Uniform Trade Secrets Act is “notwithstanding” any definitions that may appear in the other referenced statutes.<sup>231</sup> *Id.*

Connecticut courts continue to apply a number of common law factors in determining whether information is a “trade secret” under the Connecticut Uniform Trade Secrets Act. *Blue Cross & Blue Shield of Conn., Inc. v. DiMartino*, 1991 WL 127094, at \*4 (Conn. Super. Ct. 1991); *Genworth Financial Wealth Management, Inc. v. McMullan*, 721 F. Supp.2d 122, 126 (D. Conn. 2010). Connecticut courts follow the six factors listed

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<sup>231</sup> One of the references is to the Connecticut Freedom of Information Act, and at the time that the Connecticut Uniform Trade Secrets Act was enacted, the definitions were different. However, the Connecticut Freedom of Information Act was subsequently amended to mirror the definition in the Connecticut Uniform Trade Secrets Act. As a result, the Connecticut Supreme Court has determined that the term “trade secret” in both statutes should now be construed the same. *University of Connecticut v. Freedom of Information Comm.*, 303 Conn. 724, 735-36, 36 A.3d 663, 668-69 (2012).



in the *Restatement (First) of Torts. Holiday Food Co. v. Munroe*, 37 Conn. Supp. 546, 551, 426 A.2d 814, 817 (Conn. Super. Ct. 1981).

Some courts have expanded the list to include nine factors: (1) the extent to which information is known outside the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the employer to guard the secrecy of the information; (4) the value of the information to the employer and its competition; (5) the amount of effort or money expended by the employer in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others; (7) the extent to which the employer-employee relationship was a confidential or fiduciary one; (8) the method by which the employer acquired or compiled the information; and (9) the unfair advantage gained by the employee from using the employer's information. *Genworth*, 721 F. Supp.2d at 126; *Pressure Science, Inc. v. Kramer*, 413 F. Supp. 618, 626-27 (D. Conn. 1976), *aff'd*, 551 F.2d 301 (2d Cir. 1976).

The Connecticut Supreme Court upheld a trial court's finding that the plaintiff's customer information and pricing scheme constituted a trade secret based on evidence that the plaintiff treated such information as confidential and that the former employees of the company would have been aware of the information's confidentiality. *Smith v. Snyder*, 267 Conn. 456, 839 A.2d 589, 594 (2004). The Connecticut Supreme Court also upheld the trial court's finding that the defendants had misappropriated the trade secrets by soliciting "customers and divert[ing] them to the defendants' new business venture." *Id.* at 596.

In the case of *Nationwide Mut. Ins. Co. v. Mortensen*, 606 F.3d 22 (2d Cir. 2010), former insurance agents took printouts of customer information with them when they terminated their agreements with Nationwide Mutual Insurance Company. In that case, the same information appeared in physical policyholder files, which the former agents also took with them, and the plaintiff did not appeal from the lower court holding that the information in the policyholder files was not a trade secret, (apparently because the plaintiff failed to take reasonable measures to protect the secrecy of the physical files). The court of appeals held that the computer printouts failed to meet the requirements of a trade secret, because the information failed the test that it not be “readily ascertainable by proper means” from another source. In this case, the information in the computer printouts was readily ascertainable from the contents of the policyholder files, which were not secret. In spite of the inclusion of a “customer list” in the statutory definition of a trade secret, the Court of Appeals for the Second Circuit noted that a Connecticut state court had said that customer lists often lie “on the periphery of the law of trade secrets and unfair competition.” 606 F.3d at 28, *quoting from Holiday Food Co. v. Munroe*, 37 Conn. Supp. 546, 551, 426 A.2d 814, 817 (Conn. Super. Ct. 1981).

**b. Connecticut Definition of “Improper Means”**

The Connecticut Uniform Trade Secrets Act defines “improper means” to explicitly include “searching through trash.”<sup>232</sup> CONN. GEN. STAT. § 35-51(a) (2015).

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<sup>232</sup> Apparently, there was a general nationwide problem concerning identity theft with scavengers searching through trash containers near check-out counters at retail stores to obtain paper receipts produced at the point of sale with people’s credit card information printed on the receipt. *Hammer v. Sam’s East, Inc.*, 901 F. Supp.2d 1133, 1134 (W.D. Mo. 2012). However, this problem was solved in 2006 by the Fair and Accurate Credit Transactions Act that requires truncation of certain credit card numbers before disclosure on printed receipts. 15 U.S.C. § 1681c(g).

In a Pennsylvania case specifically considering whether documents thrown in the trash could contain trade secrets, one court said, “it is rather difficult to find that one has taken reasonable precautions to safeguard a trade secret when one leaves it in a place where, as a matter of law, he has no reasonable expectation of privacy from prying eyes.” *Frank W. Winne & Son, Inc. v. Palmer*, No. 91-2239, 1991 WL 155819, at \*4 (E.D. Pa. Aug. 7, 1991). In other states adopting the uniform trade secrets act, the fact that documents were thrown in the trash has been mentioned as a factor weighing against a finding of a trade secret. *See, e.g., Fred’s Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902, 904 (Miss. 1998) (the copy misappropriated by the defendant was not taken from the trash); *Alphamed Pharmaceuticals Corp. v. Arriva Pharmaceuticals, Inc.*, No. 03-20078-CIV, 2005 WL 5960935, at \*4 (S.D. Fla. Aug. 24, 2005) (“In this case, there are disputes of fact as to whether AlphaMed adequately protected the secrecy of its documents, either by shredding them, not placing them in publicly available trash, not freely disseminating them, requiring confidentiality agreements, or any other reasonable means.”). *See also Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App.3d 580, 587, 651 N.E.2d 209, 215 (1995) (efforts to maintain the secrecy of the trade secret customer list included “garbage was checked daily”).

Under the Connecticut statute, it would appear that the law would be different, and since searching through trash is defined as an improper means of obtaining a trade secret in Connecticut, throwing secret documents in the trash would not appear to be legally relevant to the question of whether information is a “trade secret” under Connecticut law.

Because the term “improper means” is part of the definition of “misappropriation,” under the Connecticut statute, acquiring a trade secret by searching through someone’s trash is an act of misappropriation under Connecticut law.

**c. Connecticut Definition of “Person”**

The Connecticut statute includes a “limited liability company” within the definition of a “person.” CONN. GEN. STAT. § 35-51(c) (2015). Section 1 of the uniform trade secrets act does not list a limited liability company in the definition of a “person,” but the uniform definition is broad and is intended to include “any other legal or commercial entity.”

**d. Preemption in Connecticut**

Common law claims for misappropriation of confidential information are preempted by the Connecticut Uniform Trade Secrets Act. *On-Line Techs. v. Perkin Elmer Corp.*, 141 F. Supp.2d 246, 261 (D. Conn. 2001) (in order to avoid preemption of unjust enrichment claim plaintiff needed to allege “ill-gotten gains other than those resulting from the misuse of confidential information”).

**e. Inevitable Disclosure Doctrine in Connecticut**

Courts in Connecticut have recognized the inevitable disclosure doctrine. *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909 (D. Conn. 1996) (invoking inevitable disclosure to enforce covenant not to compete); *Aetna Inc. v. Fluegel*, No. CV074033345S, 2008 WL 544504 (Conn. Super. Feb. 7, 2008).

**f. Noteworthy Connecticut Cases**

In the case of *Lydall, Inc. v. Ruschmeyer*, 282 Conn. 209, 919 A.2d 421 (2007), a corporation’s former executive vice-president of finance and chief financial officer

engaged in discussions with potential investors concerning a takeover of the corporation. The former officer was familiar with the plaintiff corporation's strategic plan, and potential investors were told that his insider knowledge and perspective would assist in maximizing the corporation's "hidden value" if the company was taken over and restructured. 282 Conn. at 217, 919 A.2d at 428.

The Connecticut Supreme Court rejected the argument that the defendant's discussions with a potential buyer of publicly-traded stock in the corporation constituted a prohibited use of a trade secret merely because of his familiarity with the strategic plan. 282 Conn. at 232, 919 A.2d at 436. The court said that such a noncompetitive use of a trade secret was not something that the Connecticut Uniform Trade Secrets Act was intended to prohibit. The court reasoned that the Act was intended to provide that only persons who have invested their resources in a business may profit from the use or disclosure of trade secrets developed by the business. 282 Conn. at 234, 919 A.2d at 437. However, in a publicly traded corporation, the persons entitled to profit from their investments are the shareholders. Accordingly, "[a]n employee who plans to purchase a publicly traded corporation from its shareholders is not *competing* with the shareholders and does not seek to deprive them wrongfully of their right to profit from their investment." *Id.* (emphasis in original).

The Connecticut Supreme Court recognized that the plaintiff argued the defendant may reap the reward of any "hidden value" in the corporation. However, the court noted that the former employee would have purchased the right to reap that profit in a voluntary purchase of each shareholder's shares of stock. 282 Conn. at 234-35, 919 A.2d at 437-38. Based on this analysis, the court held that such use of the trade secret was not prohibited

by the Connecticut Uniform Trade Secrets Act. 282 Conn. at 234-35, 919 A.2d at 438 (“We do not believe that [the Connecticut Uniform Trade Secrets Act] was intended to prohibit this type of activity, which, as [the defendant] observes, promotes corporate efficiency and is ‘a familiar feature of the American business landscape’.”).

**f. Other Connecticut Statutes**

Connecticut has enacted the Connecticut Freedom of Information Act. CONN. GEN. STAT. § 1-200 *et seq.* (2015). A public agency that creates and maintains information that would constitute a trade secret if created by a private entity may shield such information from disclosure under that Act. CONN. GEN. STAT. § 1-210(b) (2015). It is not necessary for the public agency to engage in a trade. *University of Connecticut v. Freedom of Information Comm.*, 303 Conn. 724, 732, 36 A.3d 663, 667 (2012).

The definition of a “trade secret” under this Act mirrors the definition of a “trade secret” under the Connecticut Uniform Trade Secrets Act. *University of Connecticut*, 303 Conn. at 734, 36 A.3d at 668. However, the Connecticut Freedom of Information Act expands the definition of trade secrets to include film scripts, television scripts, and detailed production budgets. CONN. GEN. STAT. § 1-210(b)(5)(A) (2015).

Once information is ordered disclosed under the Freedom of Information Act, it no longer meets the secrecy requirements of a trade secret and cannot be the subject of a claim for misappropriation. *University of Connecticut*, 303 Conn. at 736, 36 A.3d at 669.

**8. Delaware**

Delaware has enacted the Delaware Uniform Trade Secrets Act, codified at DEL. Code ANN. tit. 6, § 2001 *et seq.* (2015). The language in the Delaware statute closely tracks the 1985 version of the uniform trade secrets act, with only minor differences.

**a. Preemption in Delaware**

The Delaware 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.” *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002) (common law claims based on “the same alleged wrongful conduct as the trade secrets claims” are precluded); *Ethypharm S.A. France v. Bentley Pharms., Inc.*, 388 F. Supp.2d 426, 433 (D. Del. 2005) (“Because all claims stemming from the same acts as the alleged misappropriation are intended to be displaced, a claim can be displaced even if the information at issue is not a trade secret.”).

**b. Inevitable Disclosure Doctrine in Delaware**

Delaware courts recognize the inevitable disclosure doctrine. *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, 200 A.2d 428 (Del. Ch. 1964).

**c. Identification of Trade Secrets in Delaware**

A number of cases in Delaware have required trade secret plaintiffs to identify the alleged trade secrets with reasonable particularity before allowing discovery concerning the trade secrets from the defendant. *Leucadia, Inc. v. Applied Extrusion Tech., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991) (discovery not allowed against defendant because plaintiff’s identification of trade secrets too high-level); *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 33 (Del. Ch. 1986) (discovery not allowed where plaintiff failed to make required identification of trade secrets with reasonable particularity); *Miles Inc. v. Cookson Am., Inc.*, No. 12310, 1992 WL 136381, at \*1 (Del. Ch. June 16, 1992) (general outline of alleged secrets insufficient to take discovery against defendant); *Magnox v. Turner*, No. 11951, 1991 WL 182450, at \*1 (Del. Ch. Sept. 10, 1991) (plaintiff served

discovery without first identifying the alleged secrets); *Data General Corp. v. SCI Sys., Inc.*, No. 5662, 1978 WL 22033, at \*1 (Del. Ch. Nov. 27, 1978) (identification prevents the plaintiff from going through the defendant's information to gain an unfair business advantage.).

## **9. Florida**

Florida has enacted the Florida Uniform trade Secrets Act. The language in the Florida statute closely tracks the 1985 version of the uniform trade secrets act. The Florida act is codified at FLA. STAT. §§ 688.001 to 688.009 (2015).

### **a. Noteworthy Cases in Florida**

In *Alphamed Pharmaceuticals Corp. v. Arriva Pharmaceuticals, Inc.*, the court declined to rule whether, as a matter of law, taking documents from the trash was an improper means. The court noted that placing allegedly trade secret documents in publicly available trash raised issues of fact whether the plaintiff had exercised adequate measures to protect the secrecy of the information. *Alphamed Pharmaceuticals*, No. 03-20078-CIV, 2005 WL 5960935, at \*4 (S.D. Fla. Aug. 24, 2005) (“In this case, there are disputes of fact as to whether AlphaMed adequately protected the secrecy of its documents, either by shredding them, not placing them in publicly available trash, not freely disseminating them, requiring confidentiality agreements, or any other reasonable means.”).

Under Florida law, nominal damages cannot be awarded for misappropriation of trade secrets. The failure to prove actual damages is a required element of a claim for misappropriation of trade secrets. *Alphamed Pharmaceuticals Corp. v. Arriva*



*Pharmaceuticals, Inc.*, 432 F. Supp.2d 1319, 1335-38 (S.D. Fla. 2006), *aff'd*, 294 Fed. Appx. 501 (11th Cir. 2008).

Under Florida law, if no compensatory damages are proved, then no punitive damages may be awarded. *Id.* at 1355.

**b. Preemption in Florida**

Claims for unjust enrichment and unfair competition based on the same nucleus of facts as a plaintiff's trade secrets claim are preempted by the Florida Trade Secrets Act. *Allegiance Healthcare Corp. v. Coleman*, 232 F. Supp.2d 1329, 1335-36 (S.D. Fla. 2002).

Florida courts will enforce a contractual agreement not to use or disclose confidential information, even though the information may not qualify as trade secrets. *Concept, Inc. v. Thermotemp, Inc.*, 553 So.2d 1325 (Fla. Dist. Ct. App. 1989).

**c. Inevitable Disclosure Doctrine in Florida**

Florida courts have recognized the inevitable disclosure doctrine. *Thomas v. Alloy Fasteners, Inc.*, 664 So.2d 59 (Fla. Dist. Ct. App. 1995) (granting injunction to stop an employee from using his former employer's customer lists at his new position, but permitting the employee to contact the customers using techniques common in the industry); *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp.2d 1326, 1337 (S.D. Fla. 2001).

**d. Identification of Trade Secrets in Florida**

Florida courts have required a plaintiff to identify the trade secrets at issue with reasonable particularity before allowing further discovery from the defendant. *Del Monte*

*Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp.2d 1322, 1325 (S.D. Fla. 2001) (requiring identification of alleged trade secrets with reasonable particularity).

Under Florida law, a trade secret plaintiff is required to describe the alleged trade secret information that was allegedly misappropriated. *Levenger Co. v. Feldman*, 516 F. Supp.2d 1272, 1287 (S.D. Fla. 2007); see *American Red Cross v. Palm Beach Blood Bank, Inc.*, 143 F.3d 1407, 1410 (11th Cir. 1998). If the alleged trade secret is not adequately described, judgment may be entered in favor of the defendant concerning the claim for trade secret misappropriation. *Levenger*, 516 F. Supp.2d at 1287.

**e. Other Florida Statutes**

Florida has enacted a criminal trade secret theft statute. FLA. STAT. § 812.081 (2015). Under the criminal statute, a “trade secret” means “the whole or any portion or phase of any formula, pattern, device, combination of devices, or compilation of information which is for use, or is used, in the operation of a business and which provides the business an advantage, or an opportunity to obtain an advantage, over those who do not know or use it.” FLA. STAT. § 812.081(1)(c) (2015). A “trade secret” includes “any scientific, technical, or commercial information, including any design, process, procedure, list of suppliers, list of customers, business code, or improvement thereof.” *Id.*

The criminal theft of trade secrets statute goes on to say, “Irrespective of novelty, invention, patentability, the state of the prior art, and the level of skill in the business, art, or field to which the subject matter pertains, a trade secret is considered to be: (1) Secret; (2) Of value; (3) For use or in use by the business; and (4) Of advantage to the business, or providing an opportunity to obtain an advantage, over those who do not know or use it when the owner thereof takes measures to prevent it from becoming available to persons

other than those selected by the owner to have access thereto for limited purposes.” FLA. STAT. § 812.081(1)(c) (2015).

Criminal penalties are provided against any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his or her own use or to the use of another, steals or embezzles an article representing a trade secret or without authority makes or causes to be made a copy of an article representing a trade secret. FLA. STAT. § 812.081(2) (2015).

Florida has adopted the Florida Computer Crimes Act. FLA. STAT. §§ 815.01 to 815.07 (2015). The statute recognizes that various forms of computer crime might be the subject of criminal charges based on other provisions of law, but the Florida legislature determined that “it is appropriate and desirable that a supplemental and additional statute be provided which proscribes various forms of computer abuse.” FLA. STAT. § 815.02(5) (2015).

Under the Florida Computer Crimes Act, anyone who willfully, knowingly, and without authorization discloses or takes data, programs, or supporting documentation, that is a “trade secret” as defined in the criminal trade secret theft statute, residing or existing internal or external to a computer, computer system, computer network, or electronic device,” commits a criminal offense. FLA. STAT. § 815.04(4) (2015).

## **10. Georgia**

Georgia enacted a trade secrets act with some different provisions as compared to the uniform trade secrets act. The Georgia statute is known as the Georgia Trade Secrets Act of 1990. GA. CODE ANN. § 10-1-760 (2015). In addition to a number of other changes in language, the Georgia legislature modified the definition of a “trade secret”

and the definition of “improper means.” To the extent that language from the uniform trade secrets act was adopted, Georgia followed the 1985 version.

Georgia adopted a five year statute of limitations, instead of the three year period provided in the uniform trade secrets act. GA. CODE ANN. § 10-1-766 (2015). The Georgia legislature also modified the rule governing continuing misappropriation for purposes of the statute of limitations.

The Georgia legislature<sup>233</sup> did not adopt the directive in section 8 providing that courts apply and construe the statute “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.”<sup>234</sup> It would therefore appear that Georgia courts are under no obligation to apply or construe the Georgia Trade Secrets Act of 1990 to achieve uniformity in the law in other states.<sup>235</sup>

Georgia has also enacted a criminal trade secret theft statute. GA. CODE ANN. § 16-8-13 (2015).

**a. Georgia Definition of a “Trade Secret”**

The Georgia Trade Secrets Act provides:

“Trade secret” means information, *without regard to form*, including, *but not limited to, technical or nontechnical data*, a formula, a pattern, a compilation, a program, a device, a method, a technique, *a drawing*, a process, *financial data, financial plans, product plans, or a list of actual or potential customers or*

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<sup>233</sup> The Georgia legislature also did not enact section 10 on severability.

<sup>234</sup> The Arizona Supreme Court concluded that the absence of this provision from the Arizona statute “suggests that the legislature intentionally omitted it.” *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014). Presumably, Georgia courts are likely to reach the same conclusion.

<sup>235</sup> Although not obligated to do so, in interpreting the Georgia Trade Secrets Act, the Georgia Supreme Court has sometimes considered legal precedent from other states and found it to be “persuasive and consistent with the Georgia Trade Secrets Act.” *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 554-55, 501 S.E.2d 501, 503 (1998).

***suppliers which is not commonly known by or available to the public and which information:***

(A) Derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(B) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

GA. CODE ANN. § 10-1-761(4) (2015) (emphasis added). The Georgia definition omits the requirement in the uniform trade secrets act that the information derives “independent” economic value from not being generally known or readily ascertainable.

Prior to the enactment of the Georgia Trade Secrets Act, under Georgia common law, former employees could not use information in a written list of customers, but were free to use customer information that they might have in their minds. *Taylor Freezer Sales Co., Inc. v. Sweden Freezer Eastern Corp.*, 224 Ga. 160, 165, 160 S.E.2d 356 (1968); *Vendo Co. v. Long*, 213 Ga. 774, 778, 102 S.E.2d 173 (1958); *Stein v. Nat. Life Assn.*, 105 Ga. 821, 32 S.E. 615 (1899). The employee’s personal knowledge of customer information was not considered to be the property of his employer.

In 1990, when the Georgia legislature enacted the Georgia Trade Secrets Act, the definition of “trade secret” did not include the words “without regard to form.” In *Avnet, Inc. v. Wyle Labs., Inc.*, 263 Ga. 615, 437 S.E.2d 302 (1993), the Georgia Supreme Court held that the legislature did not specifically include “customer information” among the enumerated information that was a trade secret. 263 Ga. at 619, 437 S.E.2d at 305.

The court noted that the definition of a “trade secret” included a “*list* of actual or potential customers.” *Id.* (emphasis in original). In effect, the court held that if the Georgia legislature had intended to eliminate the distinction between a written customer list and customer information that the employee had memorized, the legislature would

have used the term “customer information” instead of customer “lists.” *Id.* (“If the intent of the Trade Secrets Act were to obviate any distinction between an employer’s customer lists as an element of the employer’s property and an employee’s personal knowledge of customer information as otherwise, ‘trade secrets’ would be more broadly defined in [the Act] so as to include all forms of customer ‘information’ rather than specifically defined to include only customer ‘lists’.”).<sup>236</sup> See also *Tronitec, Inc., v. Shealy*, 547 S.E.2d 749, 754 (Ga. Ct. App. 2001), *overruled on other grounds, Williams Gen. Corp. v. Stone*, 279 Ga. 428, 614 S.E.2d 758 (2005).

In the summer of 1996, the Georgia legislature inserted the words “without regard to form” in the definition of a “trade secret,” apparently in response to the *Avnet* decision. *AmeriGas Propane, L.P. v. T-Bo Propane, Inc.*, 972 F. Supp. 685, 697 (S.D. Ga. 1997) (“In the Summer of 1996, the Georgia Legislature apparently saw fit to respond to the *Avnet* decision when it amended the Act’s definition of trade secret.”). The language “which is not commonly known by or available to the public” was also added to the definition immediately after “a list of actual or potential customers or suppliers.” *Id.*

However, in the *AmeriGas* case, the court held that “*Avnet* is unaffected by the recent amendment.” 972 F. Supp. at 697. Noting that the post-amendment case of *Allen v. Hub Cap Heaven, Inc.*, 225 Ga. App. 533, 539, 484 S.E.2d 259 (1997), continued to

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<sup>236</sup> The Georgia Supreme Court noted that the Arkansas Trade Secret Act defined a “trade secret” more broadly than in the Georgia statute, *citing Allen v. Johar, Inc.*, 308 Ark. 45, 823 S.W.2d 824 (1992). The result reached in Georgia is in conflict with the rule in more states than Arkansas. See, e.g., *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.”).

apply the tangible/intangible information distinction in *Avnet*, the court held, “the Court finds meritless Plaintiff’s argument that the ‘in whatever form’ language of the 1996 amendment operates to supersede and render null the *Avnet* decision.” 972 F. Supp. at 698.

In *Becham v. Synthes (U.S.A.)*, the court quoted the statutory definition of a trade secret, emphasizing the “without regard to form” language, but noted that the Georgia Supreme Court had “clarified” in *Avnet* that only a tangible list of actual or potential customers can constitute a trade secret. *Becham*, No. 5:11-CV-73 (MTT), 2011 WL 4102816, at \*8 (M.D. Ga. Sept. 14, 2011), *aff’d*, 482 Fed. Appx. 387 (11th Cir. 2012). In *Diamond Power International, Inc. v. Davidson*, the court distinguished the *Avnet* case on grounds that it was limited to customer information, and cited the “without regard to form” language in the statute in rejecting an argument that there was no misappropriation where a former employee disclosed other types of trade secret information only by way of memory. *Diamond Power*, 540 F. Supp.2d 1322, 1338 n.13 (N.D. Ga. 2007).

In *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 501 S.E.2d 501 (1998), the Georgia Supreme Court concluded that, under the Georgia statute, “trade secret information is protectable until it has been acquired by others by proper means.” 269 Ga. at 556, 501 S.E.2d at 504 (“The theoretical ability of others to ascertain the information through proper means does not necessarily preclude protection as a trade secret. Trade secret protection remains available unless the information is readily ascertainable by such means.”).

In the *Essex Group* case, the plaintiff’s logistics system consisted of a warehouse organizational system with components extending from architectural layout features to

customized equipment and modified computer software. 269 Ga. at 553, 501 S.E.2d at 502. The Georgia Supreme Court held it was a trade secret, even though it was composed primarily of matters within the public domain. The Georgia Supreme Court affirmed the lower court's finding that, notwithstanding the fact that most, if not all, of the computer hardware components and warehouse equipment in the plaintiff's logistics system were commercially available, the plaintiff had established that "its selection and arrangement of components and equipment are unique to the Southwire logistics system," and found that the entirety of the plaintiff's logistics system was a "trade secret" under the Georgia statute because it constituted a method, technique or process "which is not commonly known by or available to the public" and met the other requirements of the statute. 269 Ga. at 555, 501 S.E.2d at 503.

In *AmeriGas Propane, L.P. v. T-Bo Propane, Inc.*, 972 F. Supp. 685 (S.D. Ga. 1997), the court held "*it does not matter* whether Defendants actually utilized proper means to obtain the subject information" as long as it is "readily ascertainable by proper means" because "the focus of [the Georgia statute] is not upon the action of Defendants but upon the nature of the information." 972 F. Supp. at 699 (emphasis in original). Thus, if information is readily ascertainable by proper means, it is not a trade secret and there is no remedy against a person who obtained the information from the plaintiff by improper means. "The inquiry simply boils down to the question: was this information truly a *secret*?" *Id.* at 700 (emphasis in original).

Under Georgia law, requiring employees to sign a general confidentiality agreement upon the commencement of their employment, standing alone, is insufficient as a matter of law to establish reasonable efforts to maintain the secrecy of a trade secret.



*Equifax Services, Inc. v. Examination Mgmt. Services, Inc.*, 216 Ga. App. 35, 453 S.E.2d 488, 493 (1994) (requiring all employees to sign confidentiality agreement alone was not reasonable as a matter of law to maintain secrecy of certain information); *AmeriGas Propane, L.P. v. T-Bo Propane, Inc.*, 972 F. Supp. 685, 700-01 (S.D. Ga. 1997).

In *Diamond Power International, Inc. v. Davidson*, 540 F. Supp.2d 1322, 1335 (N.D. Ga. 2007), the court granted summary judgment in favor of the defendant concerning a Hardware Book file maintained on the plaintiff's password-protected and firewall-protected main computer network available only to employees, even though all employees were required to sign general confidentiality agreements upon commencement of their employment, and there were physical security measures to make sure no outsiders could access the computer network.

In addition, in the *Diamond Power* case, the court also granted summary judgment concerning electronic files (not marked confidential) that were provided to customers upon request, even though the plaintiff's contractual terms of sale to customers stipulated that information concerning their products were "disclosed in confidence on the condition that they are not to be reproduced, copied or used for any purpose detrimental to the interest of" the plaintiff. 540 F. Supp.2d at 1336-37. The plaintiff also asserted that it had an unwritten policy which required that when a customer requests one of the forms at issue, the request was routed through the appropriate sales contact to verify that the customer had actually purchased the equipment for which the form was sought, and then, only after verification, was a customer provided the requested form. *Id.* at 1336. The court held that these collective measures were insufficient as a matter of law to meet the requirement that the information must be "the subject of efforts that are

reasonable under the circumstances to maintain its secrecy,” as that statutory language has been interpreted by Georgia courts. *Id.* at 1337.

**b. Georgia Definition of “Improper Means”**

The Georgia legislature modified the definition of “improper means.” Because the term “improper means” appears in the definition of “misappropriation,” the modification of the meaning of “improper means” also effectively modified the meaning of the term “misappropriation.”

The Georgia Trade Secrets Act of 1990 includes the following definition for “improper means”:

“Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a *confidential relationship or other* duty to maintain secrecy *or limit use*, or espionage through electronic or other means. ***Reverse engineering of a trade secret not acquired by misappropriation or independent development shall not be considered improper means.***

GA. CODE ANN. § 10-1-761(1) (2015) (emphasis added).

In *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 501 S.E.2d 501 (1998), the Georgia Supreme Court said, “Georgia law recognizes that trade secrets may be acquired by others either through independent development or by reverse engineering, and that the acquisition of trade secret information by these means is not improper in the absence of any misappropriation.” 269 Ga. at 555-56, 501 S.E.2d at 503-04.

The language used by the Georgia legislature concerning reverse engineering has been interpreted to mean that reverse engineering is not “improper means” ***only*** when it is not accompanied by ***any*** misappropriation. In the case of *Candy Craft Creations, LLC v. Gartner*, No. CV 212-091, 2015 WL 1541507 (S.D. Ga. March 31, 2015), the defendants misappropriated certain details of the plaintiff’s secret process, and used that information to reverse engineer the secret process and recipe for the plaintiff’s cake icing. The court

held that independent research or reverse engineering based in part upon information that was misappropriated was “improper means.” *Id.*, at \*23.

The additional language included in the Georgia statute concerning independent development opens the door to potential motions for summary judgment. For example, in *Penalty Kick Management Ltd. v. Coca-Cola Co.*, 164 F. Supp.2d 1376 (N.D. Ga. 2001), the plaintiff disclosed to the defendant (under a nondisclosure agreement) a promotional beverage label with a coded message on the reverse side of the label that required purchasers of containers to empty the contents of the beverage container to read the message. *Id.* at 1379-80. For example, the idea could be used in a promotion where customers had to empty the contents of the beverage to determine whether they had won a prize. *Id.* at 1381. The defendant received a similar beverage label idea from another party, which had been independently developed by that third party. *Id.*

In the *Penalty Kick Management* case, the defendant gave a mock-up of the plaintiff’s label to an independent contractor to determine whether it could create such a label. 164 F. Supp.2d at 1381. The court said it did not matter whether the mock-up was one that was given to the defendant by the plaintiff under the nondisclosure agreement, because the defendant “could have created a mock-up using the idea it legitimately received from [the third party].” *Id.* The court noted that the nondisclosure agreement allowed the defendant to disclose information that was “rightfully received from a third party.” *Id.* at 1382. Thus, although the independent contractor produced similar labels for the defendant after being provided with the mock-up, the court held that the similar labels were “independently developed” and, consequently, the court granted summary judgment

on grounds that there was no misappropriation within the meaning of the Georgia statute. *Id.* at 1382.

In *Putters v. Rmax Operating, LLC*, No. 1:13-CV-3382-TWT, 2014 WL 1466902, (N.D. Ga. April 15, 2014), the defendant transferred documents from his company computer to an external hard drive after he resigned. The court held that alone would not support a claim for trade secret misappropriation, because the former employee had acquired the trade secret information during his employment, and therefore did not acquire the trade secrets by improper means.<sup>237</sup> *Id.*, at \*3.

In *Meyn America, LLC v. Tarheel Distributors, Inc.*, 36 F. Supp.3d 1395 (M.D. Ga. 2014), the defendant's work gave him access to drawings which provided a blueprint to make parts. When he was fired, the defendant signed an agreement in which he promised he had returned all of the plaintiff's confidential information or other property. 36 F. Supp.3d at 1400. After going to work for a competitor, the defendant revealed to his new employer that he had drawings for every one of the plaintiff's parts.

The *Putters* case was distinguished on grounds that when the employee in the *Meyn* case was fired, he signed an agreement that he would not personally or on behalf of another company use or disclose "any trade secrets, confidential or competitive business information [he] may have acquired during [his] relationship with [the Plaintiff]." 36 F. Supp.3d at 1407. The court concluded, "[t]here was no such agreement in *Putters*. And it

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<sup>237</sup> There was no basis for alleging that the former employee disclosed or used the trade secrets after his departure. *Putters v. Rmax Operating, LLC*, No. 1:13-CV-3382-TWT, 2014 WL 1466902, at \*3 (N.D. Ga. April 15, 2014) (The plaintiff's "conclusory allegation of disclosure" was not entitled to the assumption of truth on a motion to dismiss. "Concluding otherwise could potentially impose the burdens of discovery on any employee that leaves a company for a different job - all because that employee had previously been exposed to confidential information.").

is Lee’s violation of this agreement that makes his acquisition of the Plaintiff’s drawings ‘improper’ despite the fact he had permission to use the drawings before he was fired; he breached a confidential relationship and duty to maintain the secrecy of the drawings.”<sup>238</sup> *Id.* at 1408.

**c. Georgia Definition of a “Person”**

The Georgia statute adds the terms “for profit or not for profit” legal or commercial entity to the definition of a “person.” GA. CODE ANN. § 10-1-761(3) (2015). The definition of a “person” in the uniform trade secrets act is broad and is intended to include “any other legal or commercial entity.” Thus, adding language to say that the definition includes “any other for profit or not for profit legal or commercial entity” does not appear to be a substantive difference.

**d. Injunctive Relief in Georgia**

The Georgia Trade Secrets Act of 1990 expands the circumstances under which an injunction can be continued after the trade secret information is no longer secret. GA. CODE ANN. § 10-1-762(a) (2015). Similar to the uniform trade secrets act, a court may continue an injunction for a reasonable period of time after a trade secret has ceased to exist for the purpose of eliminating commercial advantage that otherwise would be derived from the misappropriation. *Id.* In addition, a court may continue an injunction for a reasonable period “where the trade secret ceases to exist due to the fault of the enjoined party or others by improper means.” *Id.*

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<sup>238</sup> Although the case was not distinguished on this basis, the *Meyn America* case included evidence of threatened use of the drawings by the defendant’s new employer, whereas the *Putters* case did not include any plausible allegation that the defendant threatened to use the trade secrets at his new job.

The relevant provisions of the Georgia statute provide:

Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in ***appropriate circumstances for reasons including, but not limited to***, an elimination of commercial advantage that otherwise would be derived from the misappropriation ***or where the trade secret ceases to exist due to the fault of the enjoined party or others by improper means***.

GA. CODE ANN. § 10-1-762(a) (2015) (emphasis added to indicate modifications in language as compared to the uniform trade secrets act).

In *Electronic Data Systems Corp. v. Heinemann*, 268 Ga. 755, 493 S.E.2d 132 (1997), a jury answered special interrogatories, finding that the defendants misappropriated the plaintiff's trade secrets, and that the defendants currently used the trade secrets in their own products. 268 Ga. at 755 & 757, 493 S.E.2d at 134-35. However, the jury also found that the defendants had not been unjustly enriched, and that the amount of unjust enrichment was zero dollars. *Id.* The trial court denied an injunction under GA. CODE ANN. § 10-1-762(a) prohibiting further use of the trade secrets, and the Georgia Supreme Court affirmed on grounds that, from the jury's finding of no damages, the trial court could have concluded that all commercial advantage of the misappropriation had evaporated and denied any injunctive relief under that section on that basis. 268 Ga. at 757, 493 S.E.2d at 135. However, the trial court found exceptional circumstances, and granted a royalty injunction under GA. CODE ANN. § 10-1-762(b), imposing a seven percent royalty for seven months. 268 Ga. at 755, 493 S.E.2d at 134. The Georgia Supreme Court held that the trial court did not abuse its discretion in imposing a royalty injunction in that case. 268 Ga. at 757, 493 S.E.2d at 135.

In *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 554, 501 S.E.2d 501, 503 (1998), an unusual injunction was entered against the defendant, where the trade secret

consisted of the plaintiff's selection and arrangement of commercially available computer hardware components and warehouse equipment in a unique combination. The trade secret was a unique combination of publicly available components, and the defendant could readily obtain by proper means the same components and equipment for the defendant's own system. The trial court entered a five year injunction, appointed a verifier, and provided detailed instructions to the verifier to monitor the defendant's development of its own software and to determine whether the arrangement used by the defendant was the same as, or so similar, in whole or in any significant part, so as to call into question whether the defendant violated the injunction against using the plaintiff's trade secret to develop its own system. 269 Ga. at 558, 501 S.E.2d at 505. Thus, the injunction sought to accommodate the defendant's independent development of its own system, but at the same time prevent the defendant from using the trade secret information known by the plaintiff's former employee who now worked for the defendant. The Supreme Court of Georgia held that the injunction was consistent with the statutory requirement that "an injunction shall be terminated when the trade secret has ceased to exist." 269 Ga. at 558, 501 S.E.2d at 506. The court also held that the injunction did not extend for an unreasonable period of time. *Id.*

Prior to the enactment of the Georgia Trade Secrets Act, the Supreme Court of Georgia recognized that a trade secret is entitled to protection until the trade secret owner's competitors are able to duplicate the system by legitimate independent research. *Thomas v. Betts Mfg. Corp.*, 234 Ga. 787, 789, 218 S.E.2d 68 (1975). In the *Essex Group* case, the court said the *Thomas* case was "consistent with the Act." *Essex Group*, 269 Ga. at 558, 501 S.E.2d at 506.

The Georgia Trade Secrets Act specifically provides that a contract is not required in order to obtain injunctive relief for misappropriation of a trade secret. GA. CODE ANN. § 10-1-762(d) (2015). “Trade secrets may be protected even in the absence of a written agreement, and will be protected so long as competitors fail to duplicate them by legitimate, independent research.” *Salsbury Laboratories, Inc. v. Merieux Laboratories, Inc.*, 908 F.2d 706, 710 (11th Cir. 1990) (internal quotation marks omitted).

**e. Damages in Georgia**

Under the Georgia Trade Secrets Act, damages measured in terms of a reasonable royalty are only available if neither actual damages nor unjust enrichment caused by the misappropriation “are proved by a preponderance of the evidence.” GA. CODE ANN. § 10-1-763(a) (2015).<sup>239</sup>

The relevant provisions of the Georgia statute provide:

In addition to or in lieu of the relief provided by Code Section 10-1-762, a person is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. ***If neither damages nor unjust enrichment caused by the misappropriation are proved by a preponderance of the evidence***, the court may award damages caused by misappropriation measured in terms of a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret for no longer than the period of time for which use could have been prohibited.

GA. CODE ANN. § 10-1-763(a) (2015) (emphasis added).

In *Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp.*, 139 F.3d 1396 (11th Cir. 1998), the court of appeals reversed a summary judgment in favor of the

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<sup>239</sup> In this respect, the Georgia statute is similar to CAL. CIV. CODE § 3426.3 (2015), which has been interpreted to allow damages in the form of a reasonable royalty ***only*** if actual loss and unjust enrichment are unprovable. *Altavion, Inc. v. Konica Minolta Systems Laboratory Inc.*, 226 Cal. App.4th 26, 66-68, 171 Cal. Rptr.3d 714, 746-48 (2014).



defendants. Although the court of appeals acknowledged that the plaintiff's generalized evidence on damages failed to isolate losses directly attributable to any particular misuse of trade secret information, the court noted that the Georgia statute "expressly provides for the award of a reasonable royalty in the event that the plaintiff cannot prove damages or unjust enrichment by a preponderance of the evidence." 139 F.3d at 1412.

In *Electronic Data Systems Corp. v. Heinemann*, 268 Ga. 755, 493 S.E.2d 132 (1997), the plaintiff failed to prove damages for unjust enrichment, and apparently did not submit a special interrogatory to the jury seeking an alternative award measured by a reasonable royalty. 268 Ga. at 755 & 757, 493 S.E.2d at 134-35. Nevertheless, the trial court found exceptional circumstances, and granted a royalty injunction under GA. CODE ANN. § 10-1-762(b), imposing a seven percent royalty for seven months.<sup>240</sup> 268 Ga. at 755, 493 S.E.2d at 134. The exceptional circumstances found by the trial court included "the public's interest in competition, EDS's delays in bringing the matter to a resolution, and the adequacy of a royalty to protect the parties' respective interests." 268 Ga. at 756-57, 493 S.E.2d at 135. The case appears to extend the notion of "exceptional circumstances" beyond the example listed in the statute, *i.e.*, "a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable."

In Georgia, where an award of monetary damages is made for unjust enrichment, the award must be supported by evidence from which it can be determined to a reasonable certainty that the defendants in fact realized such a gain. *White v. Arthur*

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<sup>240</sup> While the opinion does not clearly state this, it appears that the royalty was calculated based upon future sales, and there was no royalty imposed upon past sales.

*Enterprises, Inc.*, 219 Ga. App. 124, 125, 464 S.E.2d 225, 226 (1995). In the *White* case, the plaintiff presented evidence that the misappropriated trade secret information contained in its computer files had a value of \$90,000. The jury determined that each of the two defendants realized a gain of \$18,000 from the misappropriation of those files. The court of appeals affirmed the judgment “[b]ecause the jury’s award of damages was well within the range of the evidence.” *Id.*

The Georgia Trade Secrets Act specifically provides that a contract is not required in order to recover damages for misappropriation of a trade secret. GA. CODE ANN. § 10-1-763(c) (2015).

**f. Georgia Statute of Limitations**

Georgia adopted a five year statute of limitations. GA. CODE ANN. § 10-1-766 (2015). The Georgia legislature also modified the rule governing continuing misappropriation for purposes of the statute of limitations, so that continuing misappropriation by a person is a single claim only against that person, but the statute of limitations is applied separately to a claim against each person who receives a trade secret from another person who misappropriated the trade secret. *Id.*

In *Porex Corp. v. Haldopoulos*, 284 Ga. App. 510, 644 S.E.2d 349 (2007), the court of appeal reversed summary judgment granted in favor of the defendants on grounds that the statute of limitations began to run when the plaintiff became suspicious that a former employee may have misappropriated some of the plaintiff’s trade secrets. The Georgia Court of Appeals rejected the lower court’s holding that “any fact that excites a plaintiff’s suspicion is the same as actual knowledge of his entire claim.” 284 Ga. App. at 514, 644 S.E.2d at 352 (internal bracketing omitted). The court held, “while

suspicion alone is insufficient to trigger the limitation period, when there is reason to suspect that a trade secret has been misappropriated, and a reasonable investigation would produce facts sufficient to confirm this suspicion (and justify bringing suit), the limitations period begins, even though the plaintiff has not conducted such an investigation.” 284 Ga. App. at 516, 644 S.E.2d at 353 (citation and internal quotes omitted).

**g. Preemption in Georgia**

The Georgia Supreme Court held that the Georgia Trade Secrets Act “supersedes previous Georgia law on trade secrets, although prior law consistent with the Act remains viable precedent.” *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 554, 501 S.E.2d 501, 503 (1998).

The Georgia Trade Secrets Act “supersedes all conflicting laws providing restitution or civil remedies for the misappropriation of trade secrets.” *Robbins v. Supermarket Equipment Sales, LLC*, 290 Ga. 462, 465, 722 S.E.2d 55, 58 (2012). *See also Opteum Financial Svcs., LLC v. Spain*, 406 F. Supp.2d 1378, 1380 (N.D. Ga. 2005). A common law claim for misappropriation of confidential information that does not rise to the level of a “trade secret” is preempted. *Robbins*, 290 Ga. at 465, 722 S.E.2d at 465 (“For the GTSA to maintain its exclusiveness, a plaintiff cannot be allowed to plead a lesser and alternate theory of restitution simply because the information does not qualify as a trade secret under the act.”); *Meyn America, LLC v. Tarheel Distributors, Inc.*, 36 F. Supp.3d 1395, 1408-09 (M.D. Ga. 2014) (“[W]aiting to address the preemption issue until the drawings’ status as ‘trade secrets’ is determined is futile” because preemption applies regardless.); *Diamond Power Intl. v. Davidson*, 540 F. Supp.2d 1322, 1343 (N.D.

Ga. 2007) (“it would make little sense to go through the rigamarole of proving information was truly a trade secret if a plaintiff could alternatively plead claims with less burdensome requirements of proof”).

The Georgia Trade Secrets Act “preempts claims [that] rely on the same allegations as those underlying the plaintiff’s claim for misappropriation of a trade secret.” *ProNvest, Inc. v. Levy*, 307 Ga. App. 450, 705 S.E.2d 204 (Ct. App. 2010); *see also Tronitec v. Shealy*, 249 Ga. App. 442, 547 S.E.2d 749 (Ct. App. 2001) (holding that claims for conversion and theft were superseded by the Georgia Trade Secrets Act); *Penalty Kick Management Ltd. v. Coca Cola Co.*, 318 F.3d 1284 (11th Cir. 2003) (the Georgia Trade Secrets Act superseded claims for conversion, breach of confidential relationship and duty of good faith, unjust enrichment, and quantum meruit); *Meyn America*, 36 F. Supp.3d at 1409 (claims for unfair competition, unjust enrichment, tortious interference with economic relations, and conversion, based on the same factual allegations as a claim under the Georgia Trade Secrets Act, were preempted).

However, claims for fraud, breach of fiduciary duty, unjust enrichment, and promissory estoppel that are based upon operative facts going beyond those facts that would plainly and exclusively spell out only trade secret misappropriation are not preempted by the Georgia Trade Secrets Act of 1990. *Candy Craft Creations, LLC v. Gartner*, No. CV 212-091, 2015 WL 1541507, at \*14-15 (S.D. Ga. March 31, 2015); *Diamond Power International, Inc. v. Davidson*, 540 F. Supp.2d 1322, 1345 (N.D. Ga. 2007) (“Preemption is only appropriate where other claims are no more than a restatement of the same operative facts which would plainly and exclusively spell out only trade secret misappropriation.”).

#### **h. Inevitable Disclosure in Georgia**

Georgia has not adopted the inevitable disclosure doctrine, but has not conclusively rejected the doctrine either. *Schwartz T.P. Inc. v. McCarthy*, No. 14-1014, 2015 WL 1508416, at \*13 (W.D. Pa. March 31, 2015).

In *Essex Group, Inc. v. Southwire Co.*, 269 Ga. 553, 556-57, 501 S.E.2d 501, 504-05 & n.3 (Ga. 1998), the Georgia Supreme Court affirmed an injunction issued on what appeared to be an inevitable disclosure theory, where the court found that the defendant “sought to obtain, by the simple act of hiring McMichael, all of the logistics information it had taken Southwire millions of dollars and years of testing and modifications to develop as part of Southwire’s plan to acquire a competitive edge over other cable and wire companies.” *Id.* Some commentators interpreted the *Essex* decision as implicitly adopting the inevitable disclosure doctrine. *See, e.g.*, Erika C. Birg, *Application of the “Inevitable Disclosure” Doctrine in Georgia*, 6 Ga. B.J. 58 (April 1999) (The decision in *Essex* “may have rested in part on an implicit adoption of the inevitable disclosure doctrine”).

However, the Georgia Supreme Court later clarified that the *Essex* decision did not expressly address the inevitable disclosure doctrine. *Holton v. Physician Oncology Services*, 292 Ga. 864, 869, 742 S.E.2d 702, 706 (2013). The court held, “[s]ince our decision in *Essex* did not mention the doctrine or cite any cases applying it, it does not stand for the proposition that this State adopted the inevitable disclosure doctrine in that case.” 292 Ga. at 870, 742 S.E.2d at 706. The Georgia Supreme Court further held that “the inevitable disclosure doctrine is not an independent claim under which a trial court may enjoin an employee.” *Id.* The Georgia Supreme Court declined to address whether

the inevitable disclosure doctrine may be applied to support a claim for threatened misappropriation of trade secrets. *Id.*

**i. Identification of Trade Secrets in Georgia**

In Georgia, courts have recognized a requirement that a trade secret must be “defined with particularity throughout litigation.” *Candy Craft Creations, LLC v. Gartner*, No. CV 212-091, 2015 WL 1541507, at \*22 (S.D. Ga. March 31, 2015); *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp.2d 1322, 1346 (N.D. Ga. 2007). However, no case has been found where summary judgment was granted on this basis. Instead, in the *Diamond Power* case, the court, on its own initiative, whittled down the plaintiff’s designation of trade secrets to a few discrete items. 540 F. Supp.2d at 1346. In the *Candy Craft Creations* case, the court found that the plaintiff’s response to an interrogatory sufficiently defined the trade secrets. *Candy Craft Creations, supra*, at \*22.

**j. Noteworthy Georgia cases**

In the case of *Candy Craft Creations, LLC v. Gartner*, No. CV 212-091, 2015 WL 1541507 (S.D. Ga. March 31, 2015), the federal district court declined to make ownership of the trade secret an element of a plaintiff’s claim for trade secret misappropriation under the Georgia Trade Secrets Act. As long as the plaintiff has rightful possession of the trade secret, the plaintiff has standing to bring a claim for trade secret misappropriation in Georgia. *Id.*, at \*17-18.

In reaching that decision, the court relied upon other Georgia statutes. Georgia’s criminal statute for theft of trade secrets includes makes theft of a trade secret “from the owner thereof” an element of the crime. GA. CODE ANN. § 16-8-13(b) (2015). Thus, the court concluded that “the Georgia legislature appears to know how to make ownership an

element of its trade secret laws when it wants to do so.” *Candy Craft Creations, supra*, at \*17. The court rejected a request to infer that the Georgia Supreme Court would require ownership of a trade secret, as opposed to possession, for a party to have standing to bring a misappropriation claim. *Id.*, at \*18 (“[T]he notable differences between misappropriation of trade secrets and theft of trade secrets in the Georgia Code strongly suggests that the Georgia legislature did not intend ownership to be an element of a claim for misappropriation of trade secrets.”).<sup>241</sup>

In *Candy Craft Creations*, the court declined to grant summary judgment on the question of whether the plaintiff failed to take sufficient steps to maintain the secrecy of the trade secrets. In that case, the plaintiff did not have any of its employees sign confidentiality agreements to protect the secrecy of its recipe for cake frosting. *Id.* at \*22. However, the owners of the business spoke in code when discussing the recipe in front of employees, and arranged the production so that several ingredients were premixed, and employees did not have access to the recipe. *Id.* The court held that there was at least a genuine issue of fact concerning whether the plaintiff had taken reasonable measures to maintain the secrecy of the recipe.

#### **k. Other Georgia Statutes**

The Georgia criminal theft of trade secrets statute includes ownership of the trade secret as an element of the crime. GA. CODE ANN. § 16-8-13(b) (2015).

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<sup>241</sup> Although the result was reached based upon considerations unique to Georgia, a federal court in Wisconsin reached the same result. *Metso Minerals Inds. v. FLSmidth-Excel LLC*, 733 F. Supp.2d 969, 972 (E.D. Wis. 2010) (interpreting the language “[a]cquiring the trade secret of another” in Wisconsin’s trade secrets act to only require rightful possession, as opposed to ownership).

Georgia's criminal trade secret misappropriation statute provides that the misappropriation of trade secrets valued at less than \$100 is a misdemeanor. GA. CODE ANN. § 16-8-13(b) (2015). Prosecutions for misdemeanors must begin within two years after the crime's commission. GA. CODE ANN. § 17-3-1(e) (2015).

All other trade secret thefts are punishable by one to five years' imprisonment and a fine up to \$50,000. GA. CODE ANN. § 16-8-13(b) (2015). Prosecutions for felonies must begin within four years after the commission of the crime. GA. CODE ANN. § 17-3-1(c) (2015).

Georgia has enacted the Georgia Computer Systems Protection Act, which creates a civil right of action for computer theft against a "person who uses a computer or computer network with knowledge that such use is without authority and with the intention of ... (1)[t]aking or appropriating any property of another...." GA. CODE ANN. § 16-9-93(a). The phrase " '[w]ithout authority' includes the use of a computer ... in a manner that exceeds any right or permission granted by the owner of the computer or computer network." GA. CODE ANN. § 16-9-92(18). *See generally Putters v. Rmax Operating, LLC*, No. 1:13-CV-3382-TWT, 2014 WL 1466902, at \*4 (N.D. Ga. April 15, 2014) (defendant transferred documents from company computer to an external hard drive after he resigned).

In *DuCom v. State*, 288 Ga. App. 555, 654 S.E.2d 670 (Ct. App. 2007), the defendant had copied company software and documents onto a personal disk before leaving the company. The defendant "was not authorized to use [company] computers for her personal use," and employees were "not permitted to copy [software from the company computers] for use outside the office." 288 Ga. at 557-58, 654 S.E.2d 670. The



court found that these facts were sufficient to establish that the defendant “used a computer, owned by her employer ... without authority....” 288 Ga. at 563, 654 S.E.2d 670.

## 11. Hawaii

Hawaii has enacted the Hawaii Uniform Trade Secrets Act, codified at HAW. REV. STAT. § 482B-1 *et seq.* (2015). The language in the Hawaii statute closely tracks the 1985 version of the uniform trade secrets act.

The Hawaii legislature did not adopt the directive in section 8 providing that courts should apply and construe the statute “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.”<sup>242</sup> However, Hawaii cases often ignore this, and cite the intent of the authors of the uniform trade secrets act. *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 123 Haw. 314, 318, 235 P.3d 310, 314 (2010) (“The Commissioners intended that the UTSA ‘be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it’.”); *Moddha Interactive, Inc. v. Phillips Electronic North America Corp.*, No. 12-00028 BMK, 2015 WL 1064621, at \*5 (D. Haw. March 10, 2015) (“The authors of the UTSA intended it to ‘be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it’.”) (citation omitted). Moreover, in interpreting provisions of the Hawaii Uniform Trade Secrets Act, in the absence of any Hawaii state case law,

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<sup>242</sup> The Arizona Supreme Court concluded that the absence of this provision from the Arizona statute “suggests that the legislature intentionally omitted it.” *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014). Presumably, Hawaii courts are likely to reach the same conclusion.

federal courts in Hawaii look to case law from other states that have adopted the uniform trade secrets act as instructive. *Berry v. Hawaii Express Service, Inc.*, No. 03-00385 SOM/LEK, 2007 WL 689474, at \*13 (D. Haw. March 2, 2007), *aff'd*, 291 Fed. Appx. 792 (9th Cir. 2008).

**a. Hawaii Definition of a “Trade Secret”**

Unlike other states that have changed the language in the definition of a “trade secret” provided in the uniform trade secrets act, Hawaii adopted the definition as it appears in the uniform trade secrets act. Thus, the Hawaii statute “does not explicitly include ‘customer lists’ as a covered trade secret.” *Property Rights Law Group, P.C. v. Lynch*, No. 13-00273 SOM/RLP, 2014 WL 2452803, at \*14 n.2 (D. Haw. May 30, 2014).

Other cases have found customer lists to be trade secrets. In *Merrill Lynch, Pierce, Fenner & Smith Inc. v. McClafferty*, 287 F. Supp.2d 1244 (D. Haw. 2003), the court found that client lists obtained while a financial advisor worked for Merrill Lynch were “trade secrets” within the Hawaii Uniform Trade Secrets Act. *Id.* at 1248-49. The court issued a preliminary injunction enjoining the defendant from soliciting or otherwise initiating any further contact or communication with any client of Merrill Lynch whom the defendant serviced or whose name became known to the defendant while employed by Merrill Lynch. *Id.* at 1250.

**b. Injunctive Relief in Hawaii**

Hawaii enacted language from section 2 of the uniform trade secrets act that closely tracks the 1985 version, including the language providing that in exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty. However, the Hawaii legislature added an additional sentence providing that

“[t]he alleged wrongful user shall bear the burden of proof of exceptional circumstances.”

HAW. REV. STAT. § 482B-3(b) (2015).<sup>243</sup>

**c. Attorney’s Fees in Hawaii**

In the absence of case law from Hawaii state court, federal courts in Hawaii follow California case law when interpreting the attorney’s fee provisions of the Hawaii Uniform Trade Secrets Act. *Berry v. Hawaii Express Service, Inc.*, No. 03-000385 SOM/LEK, 2007 WL 689474, at \*13-15 (D. Haw. March 2, 2007).

The term “bad faith” requires objective speciousness of the plaintiff’s claim, as opposed to frivolousness, plus the plaintiff’s subjective bad faith in bringing or maintaining the claim. An objectively specious claim is one that is completely unsupported by the evidence or one that lacks proof as to one of its essential elements. Subjective misconduct exists where a plaintiff knows or is reckless in not knowing that its claim for trade secret misappropriation has no merit. A court may determine a plaintiff’s subjective misconduct by examining evidence of the plaintiff’s knowledge during certain points in the litigation and may also infer it from the speciousness of a plaintiff’s trade secret claim. *Berry, supra*, at \*13.

The knowing persistence in an invalid claim may demonstrate subjective bad faith, and a party’s tactics during the course of litigation can support a finding as to its

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<sup>243</sup> It is unclear whether this language might produce a different result in a case such as *Electronic Data Systems Corp. v. Heinemann*, 268 Ga. 755, 493 S.E.2d 132 (1997), where the jury found that the damages were zero, but the trial court granted a royalty injunction imposing a seven percent royalty for seven months based upon exceptional circumstances. The defendants in that case argued for no injunction based upon the jury finding of no damages, and did not appear to argue in favor of exceptional circumstances.

underlying motives for purposes of determining whether the party pursued the litigation in bad faith. *Berry, supra*, at \*14.

Given that objective speciousness can support an inference of subjective misconduct, what appears to be a two-part test for “bad faith” can, in some cases, appear to essentially collapse into a one-factor test. *Berry, supra*, at \*15 (“The court may and does infer subjective misconduct from the speciousness of Berry’s trade secret claim.”).

**d. Preemption in Hawaii**

Hawaii courts have held that the Hawaii 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.” *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 123 Haw. 314, 323, 235 P.3d 310, 327 (Haw. 2010); *see also BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 780 F. Supp.2d 1061, 1070-72 (D. Haw. 2011) (discussing questions certified to the Hawaii Supreme Court by the federal district court).

Under the Hawaii statute, “if proof of a non-UTSA claim would also simultaneously establish a claim for misappropriation of trade secrets, it is preempted irrespective of whatever surplus elements of proof were necessary to establish it,” however, “a claim may survive to the extent it alleges wrongful conduct independent of the misappropriation of trade secrets.” *BlueEarth Biofuels*, 123 Haw. at 328-29, 235 P.3d at 324-25 (brackets omitted). This is sometimes referred to as the “same proof” test. *See Moddha Interactive, Inc. v. Phillips Electronic North America Corp.*, No. 12-00028 BMK, 2015 WL 1064621, at \*7 (D. Haw. March 10, 2015) (Under the “same proof” test, “a claim will be preempted when it necessarily rises or falls based on whether the defendant is found to have ‘misappropriated’ confidential information.”).

A claim for breach of duty of loyalty is preempted if it is based upon the use or disclosure of confidential information, but if a claim is based upon wrongful conduct independent of the misappropriation of confidential information, it is not preempted. *BlueEarth Biofuels*, 780 F. Supp.2d at 1081-82. Claims such as fraud and unfair competition are preempted, unless they are based upon a broader spectrum of misconduct than the misappropriation of confidential information. *Moddha Interactive, supra*, at \*7.

**e. Statute of Limitations in Hawaii**

Hawaii case law follows California precedent regarding the application of the discovery rule under the Hawaii Uniform Trade Secrets Act. *Moddha Interactive, Inc. v. Phillips Electronic North America Corp.*, No. 12-00028 BMK, 2015 WL 1064621, at \*9 (D. Haw. March 10, 2015). When there is reason to suspect that a trade secret has been misappropriated, and a reasonable investigation would produce facts sufficient to confirm this suspicion (and justify bringing suit), the limitations period begins, even though the plaintiff has not conducted such an investigation. *Id.*

**f. Identification of Trade Secrets in Hawaii**

At the pleading stage, courts “generally require sufficient pleading such that the other party is on notice of what it is alleged to have misappropriated.” *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 780 F. Supp.2d 1061, 1078 (D. Haw. 2011). However, trade secrets need not be disclosed in detail in a complaint alleging misappropriation. *Id.*

In the case of *Standard Register Co. v. Keala*, the court denied a motion for preliminary injunction, in part, because the plaintiff failed to describe, beyond generalized categories of customer, product, and pricing information, “the actual

substance of the trade secrets,” and the court found that it “cannot discern what it is that Plaintiffs assert are trade secrets and whether such information was the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” *Standard Register*, No. 14-00291 JMS-RLP, 2014 WL 3420785, at \*7 (D. Haw. July 11, 2014). The court expressly rested the denial of the motion for a preliminary injunction on the court’s inability to discern what the trade secrets were. *Id.*, at \*8 (“[A]t this time the court cannot discern precisely what Plaintiffs contend are the trade secrets that Defendants allegedly misappropriated. As a result, the court finds that Plaintiffs have failed to establish a likelihood of success on their trade secret misappropriation claim.”).

**g. Other Hawaii Statutes**

The Hawaii legislature has enacted a statute providing a privilege against the disclosure of a trade secret. HAW. REV. STAT. § 626-1, Rule 508. Based upon this privilege, a trade secret owner can refuse to disclose trade secret information. However, the privilege cannot be used to conceal fraud or another injustice. *Id.*

A Hawaii statute permits employees to enter into an agreement with their employer not to use the employer’s trade secrets in competition with the employer. HAW. REV. STAT. § 480-4(c)(4) (2015). The statute allows such agreements to extend for a period of time after employment, as long as it is reasonably necessary to protect the employer, and does not impose undue hardship on the employee. *Id.*

The Hawaii version of the Uniform Commercial Code does not allow the holder of a security interest to access the debtor’s trade secrets where the security interest is based upon a promissory note, intangibles, or health care receivables. HAW. REV. STAT. § 490:9-408.

## **12. Idaho**

Idaho has adopted a modified version of the uniform trade secrets act. *JustMed, Inc. v. Byce*, 600 F.3d 1118 (9th Cir. 2010). In many places, the Idaho Trade Secrets Act tracks the language of the 1985 version of the uniform trade secrets act. However, Idaho included the term “computer program” in the definition of a “trade secret,” and then explicitly included a definition of a “computer program” for purposes of the Idaho statute. *JustMed, Inc. v. Byce*, 600 F.3d 1118, 1128 (9th Cir. 2010).

Idaho did not enact the provision allowing an award of attorneys’ fees. *GME, Inc. v. Carter*, 128 Idaho 597, 600, 917 P.2d 754, 757 (1996). The Idaho legislature also did not adopt section 8 which requires the courts of the state to apply and construe the statute to make the law uniform with other states. Section 10 concerning severability was also not adopted.

### **a. Idaho Definition of a “Trade Secret”**

The Idaho legislature enacted a statutory definition for a “computer program,” and included that term in the list of information that may constitute a protectable “trade secret.” IDAHO CODE § 48-801(5) (2015). The definition of a “computer program” for purposes of the Idaho Trade Secrets Act is as follows:

“Computer program” means information which is capable of causing a computer to perform logical operation(s) and:

- (a) Is contained on any media or in any format;
- (b) Is capable of being input, directly or indirectly, into a computer; and
- (c) Has prominently displayed a notice of copyright, or other proprietary or confidential marking, either within or on the media containing the information.

IDAHO CODE § 48-801(4) (2015).

Thus, in order to meet the statutory definition for a “computer program,” a notice of copyright or other proprietary or confidential marking must be prominently displayed either within or on the media containing the computer program.<sup>244</sup> IDAHO CODE §48-801(4)(c) (2015). Thus, a valuable computer program that is otherwise the subject of reasonable efforts to maintain its secrecy would not be a “trade secret” within the meaning of the Idaho Trade Secrets Act if it does not prominently display proprietary or confidential markings.<sup>245</sup>

The Supreme Court of Idaho has recognized that “[i]nformation is readily ascertainable [and thus not protected as a trade secret] if it is available in trade journals, reference books, or published materials.” *Basic American, Inc. v. Shatila*, 133 Idaho 726, 734, 992 P.2d 175, 183 (1999). Under Idaho law, “[i]nformation consisting of multiple elements which are each readily ascertainable may still be trade secrets when considered as a whole.” *Basic American*, 133 Idaho at 737, 992 P.2d at 186.

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<sup>244</sup> In other states, there is no absolute requirement for proprietary or confidential markings within or on the media containing a computer program in order for it to be a trade secret. *Cf. Asset Marketing Systems, Inc. v. Gagnon*, 542 F.3d 748, 758 (9th Cir. 2008) (“Gagnon correctly asserts that source code may contain protected trade secrets”.); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 522 (9th Cir.1993) (“We recognize that computer software can qualify for trade secret protection under the UTSA.”).

<sup>245</sup> In the case of *JustMed, Inc. v. Byce*, 600 F.3d 1118 (9th Cir. 2010), the defendant changed the copyright notice on the computer program to reflect his ownership rather than his employer’s. *Id.* at 1129 n.8. In that case, the trade secret status of the computer program was undisputed. *Id.* at 1129 (“It is undisputed that the source code, as a whole, is a trade secret.”). However, if the former employee had deleted the copyright notice entirely from all copies of the computer program prior to his departure from the plaintiff’s employment, it is unclear whether the computer program would have met the unique definition required by the Idaho Trade Secrets Act.



Idaho courts still consider the six factors in the *Restatement (First) of Torts* § 757 in determining whether information is a trade secret.<sup>246</sup> *Basic American, Inc. v. Shatila*, 133 Idaho 726, 735, 992 P.2d 175, 184 (1999); *Wesco Autobody Supply, Inc. v. Ernest*, 149 Idaho 881, 898, 243 P.3d 1069, 1086 (2010).

**b. Attorney's Fees in Idaho**

Idaho did not enact the provisions in section 4 of the uniform trade secrets act allowing for an award of attorney's fees. *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.”). In the *GME* case, the court rejected an argument that the plaintiff should be able to recover the attorney's fees it incurred in pursuing its claim against the defendant for misappropriation of trade secrets as the measure of its actual loss. 128 Idaho at 599, 917 P.2d at 756 (“In light of our adherence to the ‘American rule’ concerning the award of attorney fees, it would be an anomaly for us to allow attorney fees to be recovered in a case like this as part of damages.”).

Idaho Rule of Civil Procedure 54(e)(1) contains a general fee-shifting provision applicable to all civil cases. The rule provides that attorney fees “may be awarded by the court only when it finds, from the facts presented to it, that the case was brought, pursued

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<sup>246</sup> The six factors considered in Idaho are: (1) the extent to which the information is known outside [the plaintiff's] business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *Basic American, Inc. v. Shatila*, 133 Idaho 726, 735, 992 P.2d 175, 184 (1999).

or defended frivolously, unreasonably or without foundation.” *Northwest Bec–Corp v. Home Living Service, Inc.*, 136 Idaho 835, 843, 41 P.3d 263, 271 (2002).

Idaho also has a statute that permits an award of attorney fees in civil cases when the case was brought frivolously, unreasonably, or without foundation. IDAHO CODE § 12-121 (2002); *Kelly v. Silverwood Estates*, 127 Idaho 624, 630, 903 P.2d 1321, 1327 (1995); *Northwest Bec–Corp v. Home Living Service, Inc.*, 136 Idaho 835, 843, 41 P.3d 263, 271 (2002).

### c. Misappropriation in Idaho

In *JustMed, Inc. v. Byce*, 600 F.3d 1118 (9th Cir. 2010), the defendant acquired his former employer’s trade secret computer program while still an employee.<sup>247</sup> The court held that the defendant’s acquisition of the computer program was not through improper means. 600 F.3d at 1129 (“We find that Byce did not ‘acquire’ the source code through improper means because he already had possession of it as an employee”). When the defendant left the company, he deleted all copies of the computer program from his former employer’s computers, and improperly changed the copyright notice on his copy of the computer program to reflect his ownership instead of his former employer. *Id.* at 1129 n.8. The defendant refused to return the software, until after the lawsuit was filed and he was ordered to do so by the court.

In the *JustMed* case, the court held that the defendant’s depositing a portion of a computer program with the Copyright Office in connection with a copyright application was not a “disclosure” for purposes of misappropriation under the Idaho Trade Secrets

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<sup>247</sup> “[The defendant] already had possession of the source code through his work for [the plaintiff]. Indeed, he created much of it.” *JustMed, Inc. v. Byce*, 600 F.3d 1118, 1129 (9th Cir. 2010).

Act. 600 F.3d at 1129-30. The court noted that “[i]t is the general policy of the Copyright Office to deny direct public access to in-process files and to any work (or other) areas where they are kept and thereafter the office releases reproductions of works under limited circumstances only.” 600 F.3d at 1130 (internal quotes and citation omitted).

The Idaho Trade Secrets Act does not define “use,” so the court looked to the *Restatement (Third) of Unfair Competition* § 40 (1995) (Appropriation of Trade Secrets) for a definition of “use”:

There are no technical limitations on the nature of the conduct that constitutes “use” of a trade secret for purposes of the rules stated in Subsection (b). As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a “use” under this Section. Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret all constitute “use.”

*JustMed, Inc. v. Byce*, 600 F.3d 1118, 1130 (9th Cir. 2010), quoting from *Restatement (Third) of Unfair Competition* § 40, cmt. c (1995) (citation omitted). The court said, “[t]he term ‘use’ in the context of misappropriation of a trade secret generally contemplates some type of use that reduces the value of the trade secret to the trade secret owner.” *Id.* (citations omitted).

In the *JustMed* case, the court reversed a finding of misappropriation, holding that the defendant did not acquire the computer program improperly, and did not use or disclose the computer program, thus failing to meet the definition of “misappropriation” in the Idaho Trade Secrets Act. *Id.* (“Nothing here brings Byce’s inappropriate conduct beyond the realm of simple conversion into that of misappropriation of a trade secret.”).

In *Wesco Autobody Supply, Inc. v. Ernest*, 149 Idaho 881, 243 P.3d 1069 (2010), the court held that merely hiring a competitor’s employee (who may have knowledge of a

trade secret) does not constitute acquiring a trade secret within the meaning of the Idaho Trade Secrets Act. 149 Idaho at 898, 243 P.3d at 1086. *Accord, Northwest Bec–Corp v. Home Living Service, Inc.*, 136 Idaho 835, 839, 41 P.3d 263, 267 (2002).

**d. Damages in Idaho**

In *JustMed, Inc. v. Byce*, 600 F.3d 1118 (9th Cir. 2010), the trial court had awarded the plaintiff damages of \$41,250, which covered the salary for two employees who spent three months recreating the source code, after the defendant had deleted all versions of the computer program from the company computers when he was leaving the company. 600 F.3d at 1131. The court of appeals reversed the damages award, holding that damages were not appropriate under the Idaho Trade Secrets Act.<sup>248</sup> The court said:

These damages, however, do not reflect damages from Byce’s use, as opposed to his mere possession, of the source code. Byce returned the source code to JustMed after the court ordered him to do so. His possession of the source code for some period of time did not result in a loss of secrecy or a loss in value, which is evident from the fact that the court did not award damages for lost value or unjust enrichment.

*JustMed, Inc. v. Byce*, 600 F.3d 1118, 1131 (9th Cir. 2010).

In *GME, Inc. v. Carter*, 128 Idaho 597, 917 P.2d 754 (1996), the trial court denied the plaintiff’s request for the recovery of its development costs as the measure of the defendant’s unjust enrichment. The trial court concluded that the cases awarding development costs apply only when the wrongdoer has gained some advantage that it has exploited or will be able to do so in the future. Because the trial court concluded that the defendant had not yet exploited his misappropriation or been unjustly enriched and that a five-year injunction would prevent him from doing so in the future, it declined to award

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<sup>248</sup> In a subsequent appeal, the Ninth Circuit affirmed a damages award entered on remand for the same amount (\$41,250) based upon a theory of conversion. *JustMed, Inc. v. Byce*, 580 Fed. Appx. 566 (9th Cir. 2014).

the plaintiff its development costs. 128 Idaho at 599, 917 P.2d at 756. On appeal, the plaintiff asked the Idaho Supreme Court to reverse on grounds that the trial court should have awarded an amount equal to the plaintiff's development costs as a reasonable royalty under IDAHO CODE § 48-803(1). The court refused to address the issue for the first time on appeal, and held that the plaintiff failed to preserve the issue because it "never asked the trial court to consider the reasonable royalty rationale or caselaw as the basis for awarding development costs." *Id.*

**e. Identification of Trade Secrets in Idaho**

In order to prevail in a misappropriation action under the Idaho Trade Secrets Act, "the plaintiff must show that a trade secret actually existed." *Basic American, Inc. v. Shatila*, 133 Idaho 726, 734, 992 P.2d 175, 183 (1999).

**f. Preemption in Idaho**

Claims for unjust enrichment and unfair competition based upon the same nucleus of facts as trade secret claims are preempted by the Idaho Trade Secrets Act. *Chatterbox, LLC v. Pulsar Ecoproducts, LLC*, 2007 WL 1388183, at \*4 (D. Idaho May 9, 2007) (noting that the Supreme Court of Idaho has not addressed this issue). A fraud claim alleging that the defendant fraudulently represented that it would keep confidential all information sent to it regardless of whether the information was a trade secret was not dismissed. *Id.*

**g. Inevitable Disclosure Doctrine in Idaho**

Idaho courts have acknowledged the existence of the inevitable disclosure doctrine, but have not applied it.

In *Northwest Bec-Corp v. Home Living Service, Inc.*, 136 Idaho 835, 41 P.3d 263 (2002), after the defendant left her employment with the plaintiff, approximately ninety customers ended their business relationship with the plaintiff and began doing business with the defendant's new place of business. However, the defendants nevertheless established the absence of any genuine issue of material fact through the affidavits they submitted providing alternative explanations for the customer changes. 136 Idaho at 840-41, 41 P.3d at 268-69. The court said, "the legislature did not intend the statute to be read so broadly as to preclude the hiring of an employee from a competitor; the legislature also did not intend that merely hiring a competitor's employee constitutes acquiring a trade secret." 136 Idaho at 840, 41 P.3d at 268. As a matter of policy, the court said, "[a]n employee will naturally take with her to a new company the skills, training, and knowledge she has acquired from her time with her previous employer. This basic transfer of information cannot be stopped, unless an employee is not allowed to pursue her livelihood by changing employers." *Id.*

In the *Northwest Bec-Corp* case, the court distinguished *PepsiCo* on grounds that the *PepsiCo* plaintiff presented substantial evidence to support its motion for injunctive relief, and "did not merely file a complaint and then sit idly by while the defendants introduced affidavits, marketing plans, and testimony to quash the motion." 136 Idaho at 848, 41 P.3d at 268. The court said, "This case requires the district court to determine if there has been misappropriation of trade secrets, not if there is potential for future disclosure or use of trade secrets." *Id.*

In *Wesco Autobody Supply, Inc. v. Ernest*, 149 Idaho 881, 243 P.3d 1069 (2010), several former employees went to work for the defendant, and one of them took customer

lists, lists showing customer buying preferences, the history of customer purchases, and custom paint formulas. 149 Idaho at 899, 243 P.3d at 1086. To the extent that customers left the plaintiff and began using the defendant, the testimony of other former employees indicated that this was due to the relationships they had developed with the customers, and not because of trade secrets taken from the plaintiff. *Id.* The Idaho Supreme Court affirmed summary judgment entered in favor of the defendant.

#### **h. Other Idaho Statutes**

The Idaho Competition Act states, “The purpose of this chapter is to maintain and promote economic competition in Idaho commerce, to provide the benefits of that competition to consumers and businesses in the state, and to establish efficient and economical procedures to accomplish these purposes and policies.” IDAHO CODE § 48-102(2) (2010). The statute then provides, “A contract, combination, or conspiracy between two (2) or more persons in unreasonable restraint of Idaho commerce is unlawful.” IDAHO CODE § 48-104 (2010).

The Idaho Competition Act “strikes the balance between free competition and fair competition by offering relief only where a company can show a competitor’s intent to drive the company out of business, rather than simply an intent to compete.” *Woodland Furniture, LLC v. Larsen*, 142 Idaho 140, 146, 124 P.3d 1016, 1022 (2005) (citation omitted). In *Wesco Autobody Supply, Inc. v. Ernest*, 149 Idaho 881, 243 P.3d 1069 (2010), the court held that the evidence failed to show that the defendant’s hiring the majority of the plaintiff’s employees to staff stores in the same three cities was for the purpose of driving the plaintiff out of business. 149 Idaho at 897, 243 P.3d at 1085.

### 13. Illinois

Although patterned after the uniform trade secrets act, “there is substantial variance between [the Illinois Trade Secrets Act] and the uniform version.” *U.S. Gypsum Co. v. LaFarge North America, Inc.*, 508 F. Supp.2d 601, 623 (N.D. Ill. 2007). The Illinois statute has a substantively different definition of a “trade secret.” 765 ILL. COMP. STAT. 1065/2 (d) (West 2015). The Illinois legislature adopted a five year statute of limitations. 765 ILL. COMP. STAT. 1065/7 (West 2015).

The damages provision in the Illinois Trade Secrets Act was modified so that a reasonable royalty cannot be used as a measure of damages unless both actual loss and unjust enrichment cannot be proved by a preponderance of the evidence. 765 ILL. COMP. STAT. 1065/4 (West 2015). The provision governing injunctions was modified. 765 ILL. COMP. STAT. 1065/3 (West 2015). The definition of “improper means” was modified, and the definition of “person” was changed. 765 ILL. COMP. STAT. 1065/2 (a) & (c) (West 2015). Changes were made in the preemption language in section 7 of the uniform trade secrets act. 765 ILL. COMP. STAT. 1065/8 (West 2015). Illinois did not enact the provisions of section 8 of the uniform trade secrets act requiring courts to apply and construe the statute to make the law of trade secrets uniform.<sup>249</sup>

To the extent that it uses language from the uniform trade secrets act, the Illinois Trade Secrets Act borrows language from both the 1979 version and the 1985 version.<sup>250</sup>

The Illinois injunctive relief provisions appear to use language from the 1979 version,

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<sup>249</sup> Illinois also did not enact the provisions of section 10 of the uniform trade secrets act concerning severability.

<sup>250</sup> *But see Hecny Transportation, Inc. v. Chu*, 430 F.3d 402, 404–05 (7th Cir. 2005) (“[T]he Illinois Trade Secrets Act is based on the Uniform Trade Secrets Act of 1985”).



while the damages and preemption provisions appear to use language from the 1985 version.<sup>251</sup>

**a. Illinois Definition of a “Trade Secret”**

The Illinois legislature modified the definition of a “trade secret” to eliminate the requirement that the information not be readily ascertainable by proper means. The definition of a “trade secret” was also modified to add technical data, non-technical data, financial data, drawings, and a list of actual or potential customers or suppliers. The information is not required to have “independent” economic value. Other language was modified as follows:

“Trade secret” means information, including *but not limited to, technical or non-technical data*, a formula, pattern, compilation, program, device, method, technique, *drawing*, process, *financial data, or list of actual or potential customers or suppliers*, that:

- (1) *is sufficiently secret to* derive economic value, actual or potential, from not being generally known to other persons who can obtain economic value from its disclosure or use; and
- (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy *or confidentiality*.

765 ILL. COMP. STAT. 1065/2 (d) (West 2015) (emphasis added).

The unique “sufficiently secret” language of the Illinois statute has been interpreted to mean that plaintiffs must show that the information in question “was sufficiently secret to give them a competitive advantage.” *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 276, 827 N.E.2d 909, 921 (2005).

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<sup>251</sup> The Michigan Uniform Trade Secrets Act similarly modeled its injunctive relief provisions after the 1979 version, and followed the 1985 version in its damages provisions and preemption language. *See* MICH. COMP. LAWS ANN. § 445.1901 *et seq.* (West 2015).

One might assume that the Illinois legislature *intentionally* omitted from the definition of a “trade secret” the requirement that information not be readily ascertainable.<sup>252</sup> California courts held that the effect of a similar omission from the California definition of a trade secret was “to exclude from the definition *only* that information which the industry *already knows*, as opposed to that which the industry could easily discover.”<sup>253</sup> However, Illinois courts rejected the argument that “the drafters of the [Illinois Trade Secrets] Act intended to eliminate the defense available under the Uniform Act that the information could be developed legally through other means.” *Hamer Holding Group, Inc. v. Elmore*, 202 Ill. App.3d 994, 1011-12, 560 N.E.2d 907, 918-19 (1990).

In the *Hamer Holding Group* case, the court said:

Plaintiff points out that, by eliminating from the definition of “trade secret” the qualifying clause “not being readily ascertainable by proper means by others,” the drafters of the Act intended to eliminate the defense available under the Uniform Act that the information could be developed legally through other means. Plaintiff’s argument is unpersuasive, however, because the key to “secrecy” is the ease with which information can be developed through other proper means: ***if the information can be readily duplicated without involving considerable time, effort or expense, then it is not secret.*** Conversely, information which can be duplicated only by an expensive and time-consuming method of reverse engineering, for instance, could be secret, and the ability to duplicate it would not constitute a defense. For the foregoing reasons, we agree with the trial court and affirm its holding that since plaintiff’s customer list could be easily duplicated, it does not qualify as a “trade secret” under the Illinois Trade Secrets Act.

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<sup>252</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 (Ct. App. 2009) (citation and internal quotes omitted).

<sup>253</sup> *ABBA Rubber Co. v. Seaquist*, 235 Cal. App.3d 1, 21, 286 Cal. Rptr. 518 (1991) (emphasis added).

*Hamer Holding Group, Inc. v. Elmore*, 202 Ill. App.3d 994, 1011-12, 560 N.E.2d 907, 918-19 (1990) (citations omitted and emphasis added).

The analysis followed by Illinois courts finds support in the statutory requirement that information must be “sufficiently secret to derive economic value.” The courts’ interpretation of the language “sufficiently secret to derive economic value” seems to effectively incorporate the “not readily ascertainable” analysis, because if information can be readily ascertained from publicly available sources, it is not deemed to be sufficiently secret to have economic value. *See, e.g., Elmer Miller, Inc. v. Landis*, 253 Ill. App.3d 129, 134, 625 N.E.2d 338, 342 (1993) (“We conclude that [the plaintiff’s] competitors cannot duplicate [the plaintiff’s] list without a significant expenditure of time, effort and expense, and that the list is *secret enough* that [the plaintiff] derives economic value from it.”) (emphasis added). In the *Hamer Holding Group* case, a customer list was not a trade secret, because anyone having access to the Secretary of State’s information and a telephone book could have easily duplicated the customer list. 202 Ill. App.3d at 1011-12, 560 N.E.2d at 918-19.

Prior to the Illinois Trade Secrets Act, Illinois courts considered the six factors listed in the *Restatement (First) of Torts* §757 in determining whether information was a trade secret.<sup>254</sup> *E.g., Televation Telecommunication Systems, Inc. v. Saindon*, 169 Ill.

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<sup>254</sup> The six factors considered in Illinois are: (1) the extent to which the information is known outside the plaintiff’s business; (2) the extent to which it is known by employees and others involved in the plaintiff’s business; (3) the extent of measures taken by the plaintiff to guard the secrecy of the information; (4) the value of the information to the plaintiff and to the plaintiff’s competitors; (5) the amount of effort or money expended by the plaintiff in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 277, 827 N.E.2d 909, 921-22 (2005).

App.3d 8, 522 N.E.2d 1359 (1988). After enactment of the statute, Illinois courts continue to consider the six common law factors when deciding whether a trade secret exists. *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 276, 827 N.E.2d 909, 921 (2005); *Delta Medical Systems v. Mid-America Medical Systems, Inc.*, 331 Ill. App.3d 777, 790-91, 772 N.E.2d 768, 780 (2002); *Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App.3d 580, 588, 651 N.E.2d 209 (1995); *Jackson v. Hammer*, 274 Ill. App.3d 59, 68, 653 N.E.2d 809 (1995).<sup>255</sup>

One of the common law factors is “the ease or difficulty with which the information could be properly acquired or duplicated by others.”<sup>256</sup> *Liebert*, 357 Ill. App.3d at 277, 827 N.E.2d at 922. This comes close to the requirement in the uniform trade secrets act that was omitted from the definition of a “trade secret” under the Illinois Trade Secrets Act, *i.e.*, that the information not be readily ascertainable.

By continuing to rely upon the six common law factors, and by interpreting the language “sufficiently secret to derive economic value” to mean that if information can be readily ascertained then it is not secret, courts in Illinois have limited the impact of the unique language used in the Illinois statute for the definition of a “trade secret.”

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<sup>255</sup> In the first cases decided under the Illinois Trade Secrets Act, the courts seemed to blend the prior common law requirements with the new statutory requirements. *Service Centers of Chicago, Inc. v. Minogue*, 180 Ill. App.3d 447, 453, 535 N.E.2d 1132, 1136 (1989) (“The focus of both the common law and the Act is on the secrecy of the information sought to be protected.”); *Hamer Holding Group, Inc. v. Elmore*, 202 Ill. App.3d 994, 1011, 560 N.E.2d 907, 918 (1990) (same).

<sup>256</sup> In the *Televation* case, decided under the common law, the schematics showing the electronic circuitry of the company’s product were held to be a trade secret, in part, because the design could not be easily ascertained from an examination of the product itself and reverse engineering would be time-consuming. *Televation*, 169 Ill. App.3d at 16-17, 522 N.E.2d at 1365.

Customer lists are explicitly included in the definition of a “trade secret” in the Illinois statute. A customer list is a trade secret under Illinois law if it meets the two requirements: (1) the information was sufficiently secret to give the plaintiff a competitive advantage; and (2) the plaintiff took affirmative measures to prevent others from acquiring or using the information. *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 276-77, 827 N.E.2d 909, 921-22 (2005).

In the *Liebert* case, the customer list did not qualify as a trade secret because it failed the second test. The customer contact list was generated over a span of 35 years by calling contractors and engineers, and the sales staff had to conduct additional research through phone calls and lunch meetings to discover the appropriate contacts or authorized buyers within each company. 357 Ill. App.3d at 278, 827 N.E.2d at 923. The customer contact lists were stored on a company server, and computer access was limited on a need-to-know basis, but the plaintiff took no steps to restrict any physical copies of the customer list. The court was troubled by the plaintiff’s failure to either require employees to sign confidentiality agreements, advise employees that its records were confidential, or label the information as confidential. 357 Ill. App.3d at 279, 827 N.E.2d at 923.

In *Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App.3d 580, 651 N.E.2d 209 (1995), the plaintiff sold tools to automotive jobbers and developed its customer list by calling service stations and tool dealers to acquire customer names. 272 Ill. App.3d at 582. Although the service stations and other end users were listed in telephone directories, no one source was available to find jobbers. Once a new customer was found, the information was entered into the plaintiff’s computer. Only two key employees had access to the computer. Customer information was given to other employees on a need-

to-know basis. All hard copies of the customer list were locked in an office, and salespeople were not allowed to remove customer cards from that office. The plaintiffs also used security cameras, required employees to sign confidentiality agreements, and constantly reminded employees about the list's confidentiality. 272 Ill. App.3d at 587. Based on the "laborious method" of creating the customer list and the security efforts used to protect the information, the court decided the customer list met the two requirements of the Illinois Trade Secret Act and was a trade secret. 272 Ill. App.3d at 589.

In *Elmer Miller, Inc. v. Landis*, 253 Ill. App.3d 129, 625 N.E.2d 338 (1993), the plaintiff, a custom tailoring business, contended its list of over 500 active and repeat customers was a trade secret. The court found the list met the first requirement due to the significant efforts and expense required to duplicate the list:

"Using a telephone directory, one can easily achieve moderate success in finding restaurants or businesses that need cleaning services or office support. The custom tailoring business caters to a far larger pool of individuals with more particular needs . . . . The difficulty of developing a cadre of over 500 active, repeat customers for tailored shirts and suits should not be underestimated."

*Elmer Miller, Inc. v. Landis*, 253 Ill. App.3d 129, 134, 625 N.E.2d 338 (1993).

The plaintiff also met the second requirement, because the customer information was kept in a closed file drawer and salespeople had limited access to it. Salespeople were informed that the customer list was confidential when they joined and left the company. 253 Ill. App.3d at 134. Thus, the court found that the customer list was a trade secret, because it satisfied both statutory requirements.

In *Gillis Associated Industries Inc. v. Cari-All, Inc.*, 206 Ill. App.3d 184, 564 N.E.2d 881 (1990), the plaintiff derived economic value from its list of 3,000 customers

who needed its shelving products. 206 Ill. App.3d at 190-91. Nonetheless, the customer list was not a trade secret because the plaintiff did not take reasonable measures to protect it. Although only three key employees had access to the list on the plaintiff's computer, there was no evidence that physical copies of the list were subject to any restrictions. The copies were not locked in the office; they were not marked confidential; and employees were not instructed on the list's confidentiality. 206 Ill. App.3d at 191-92.

In *Stampede Tool Warehouse, Inc. v. May*, 272 Ill. App.3d 580, 587, 651 N.E.2d 209, 215 (1995), one of the efforts to maintain the secrecy of the trade secret customer list included "garbage was checked daily".<sup>257</sup>

**b. Illinois Definition of "Improper Means"**

The Illinois legislature modified the definition of "improper means" as follows:

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of *a confidential relationship or other* duty to maintain secrecy *or limit use*, or espionage through electronic or other means. *Reverse engineering or independent development shall not be considered improper means.*

765 ILL. COMP. STAT. 1065/2 (a) (West 2015) (emphasis added).

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<sup>257</sup> See generally *Frank W. Winne & Son, Inc. v. Palmer*, No. 91-2239, 1991 WL 155819, at \*4 (E.D. Pa. Aug. 7, 1991) ("[I]t is rather difficult to find that one has taken reasonable precautions to safeguard a trade secret when one leaves it in a place where, as a matter of law, he has no reasonable expectation of privacy from prying eyes."); *Alphamed Pharmaceuticals Corp. v. Arriva Pharmaceuticals, Inc.*, No. 03-20078-CIV, 2005 WL 5960935, at \*4 (S.D. Fla. Aug. 24, 2005) ("In this case, there are disputes of fact as to whether AlphaMed adequately protected the secrecy of its documents, either by shredding them, not placing them in publicly available trash, not freely disseminating them, requiring confidentiality agreements, or any other reasonable means."); *Fred's Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902, 904 (Miss. 1998) (the copy misappropriated by the defendant was not taken from the trash). *But see* CONN. GEN. STAT. § 35-51(a) (2015) ("improper means" explicitly defined to include "searching through trash.").

In *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 827 N.E.2d 909 (2005), the court found that an employee had acquired his employer's trade secrets through improper means. Under the uniform trade secrets act, courts in other states have rejected any finding of improper acquisition by an employee who obtained the trade secret information while employed. In the *Liebert* case, the defendant admitted downloading several price books onto his home computer just hours before resigning, and after he had agreed to work for a competitor. When the price books were accessed online by the defendant, a confidentiality statement appeared advising whoever opened the books that the information was proprietary and confidential and "shall be utilized only by current Liebert representatives for the sole purpose of promoting and securing sales of Liebert products." 357 Ill. App.3d at 282, 827 N.E.2d at 926. While the court did not mention the unique language of the Illinois Trade Secrets Act, the court's finding of improper means under Illinois law is supported by the statutory language that "improper means" includes "breach ... of a ... duty to ... limit use." 765 ILL. COMP. STAT. 1065/2 (a) (West 2015).

**c. Illinois Definition of a "Person"**

The Illinois Trade Secrets Act adds the terms "for-profit or not-for-profit" legal entity to the definition of a "person," and eliminated the term "commercial" before entity. 765 ILL. COMP. STAT. 1065/2 (West 2015). The definition of a "person" in the uniform trade secrets act is broad and is intended to include "any other legal or commercial entity." Thus, adding language to say that the definition includes "any other for-profit or not-for-profit legal entity" may not be a substantive difference, although it does make it clear that an entity need not be a *commercial* entity in order to be a "person" within the meaning of the statute.



#### d. Misappropriation in Illinois

Under the common law prior to passage of the Illinois Trade Secrets Act, courts had held that it was irrelevant as a matter of law whether the defendant took copies of documents containing trade secrets from the plaintiff, or memorized them in detail. *Televation Telecommunication Systems, Inc. v. Saindon*, 169 Ill. App.3d 8, 14, 522 N.E.2d 1359, 1363 (1988) (“It is irrelevant as a matter of law, however, whether [the defendant] took copies of Televation’s schematics or memorized them in detail”).

After the enactment of the Illinois Trade Secrets Act, courts carried this forward and continued to hold that the use of memorized trade secret information by a former employee is misappropriation under Illinois law. *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.”).

#### e. Injunctions in Illinois

The provisions governing injunctive relief in the Illinois Trade Secrets Act use modified language as compared to the uniform trade secrets act. The language adopted by the Illinois legislature is as follows:

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction *may* be terminated when the trade secret has ceased to exist, *provided that* the injunction may be continued for an additional reasonable period of time *in appropriate circumstances for reasons including, but not limited to* an elimination of the commercial advantage that otherwise would be derived from the misappropriation, *deterrence of willful and malicious misappropriation, or where the trade secret ceases to exist due to the fault of the enjoined party or others by improper means.*

(b) If the court determines that it would be unreasonable to prohibit future use *due to an overriding public interest*, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

765 ILL. COMP. STAT. 1065/3 (West 2015) (emphasis added).

Although the language in the uniform trade secrets act makes the termination of an injunction mandatory when the trade secret has ceased to exist, under the Illinois statute, termination of the injunction is discretionary.

Under the common law prior to enactment of the Illinois Trade Secrets Act, Illinois courts had held that the misappropriator of a trade secret could not be enjoined for a period of time longer than that required to duplicate the trade secret by lawful means. *Schulenburg v. Signatrol, Inc.*, 33 Ill.2d 379, 388, 212 N.E.2d 865 (1965); *Brunswick Corp. v. Outboard Marine Corp.*, 79 Ill.2d 475, 479-80, 404 N.E.2d 205 (1980). Therefore, the statute appears to be a change from the common law making the termination of the injunction discretionary.

#### **f. Damages in Illinois**

The Illinois Trade Secrets Act provides for a recovery of damages in the form of a reasonable royalty *only* if actual loss and unjust enrichment are not proved by a preponderance of the evidence.<sup>258</sup> Specifically, the Illinois statute provides:

In addition to the relief provided for by Section 3, a person is entitled to recover damages for misappropriation. Damages can include both the actual loss caused

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<sup>258</sup> The comments accompanying section 3 of the 1985 version of the uniform trade secrets act state that “a reasonable royalty measure of damages is a general option.” Comment to Section 3, National Conference of Commissioners on Uniform State Laws, at 7 (Aug. 9, 1985). Section 3 of the 1985 version of the uniform trade secrets act appears to allow a plaintiff in *any* case to elect a reasonable royalty in lieu of damages measured by any other methods. However, under the Illinois statute, only if neither damages measured by actual loss nor damages measured by unjust enrichment are proved, does a court have authority to award damages measured by a reasonable royalty.

by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. ***If neither damages nor unjust enrichment caused by the misappropriation are proved by a preponderance of the evidence, the court may award*** damages caused by misappropriation measured in terms of a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

765 ILL. COMP. STAT. 1065/4 (a) (West 2015) (emphasis added).

In *U.S. Gypsum Co. v. LaFarge North America, Inc.*, 508 F. Supp.2d 601 (N.D. Ill. 2007), the defendant downloaded drawings and blueprints onto an external hard drive just before leaving the plaintiff's employment. *Id.* at 627. Either just before or shortly after receiving a letter from the plaintiff, the defendant deleted the files from his computer. *Id.* There was no evidence that the defendant ever disclosed the drawings or blueprints to his new employer, or that anyone used them. The plaintiff claimed that it would be entitled to a royalty for the six-week period that the defendant had the files. However, the court held that under the Illinois statute, a reasonable royalty is only available "for a misappropriator's unauthorized disclosure or use of a trade secret." 765 ILL. COMP. STAT. 1065/4 (a) (West 2015). Because there was no evidence that the defendant used or disclosed the trade secret drawings or blueprints, the court held there was no basis for awarding a royalty. 508 F. Supp.2d at 627.

**g. Preemption in Illinois**

The Illinois Trade Secrets Act explicitly states that it is intended to displace "unfair competition" laws providing civil remedies for trade secret misappropriation. 765 ILL. COMP. STAT. 1065/8 (a) (West 2015).

In *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp.2d 968, 971 (N.D. Ill. 2000), the court rejected an argument that "preemption is improper because the confidential information taken by [defendant] may not rise to the level of a trade secret,"

and explained that this “theory would render [the displacement provision] meaningless, for it would forbid preemption of state law claims until a final determination has been made with respect to whether the confidential information at issue rises to the level of a trade secret.” The court held that the uniform trade secrets act “was meant to codify all the various common law remedies for theft of ideas.” *Id.* (quotation omitted). *See also Learning Curve Toys, L.P. v. Playwood Toys, Inc.*, 1999 WL 529572, at \*3 (N.D. Ill. 1999) (“The purpose of the ITSA [Illinois Trade Secrets Act] was to codify all the various common law remedies for theft of ideas.”); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992) (“[The UTSA] has abolished all common law theories of misuse of [secret] information.”).

In *AutoMed Techs., Inc. v. Eller*, 160 F. Supp.2d 915, 922 (N.D. Ill. 2001), the court noted that the Illinois trade secrets act “only preempts actions predicated on misuse of secret information,” and “[c]ommon law claims based on different theories are still permissible.”

In *Hecny Transp., Inc. v. Chu*, 430 F.3d 402 (7th Cir. 2005), the court explained that “the dominant view is that claims are foreclosed only when they rest on the conduct that is said to misappropriate trade secrets,” and concluded that “[a]n assertion of trade secret in a customer list does not wipe out claims of theft, fraud, and breach of the duty of loyalty that would be sound even if the customer list were a public record.” 430 F.3d at 404-05. Following *Hecny*, a federal court concluded that: “breach of fiduciary duty claims cannot possibly be preempted just as any breach of loyalty or stealing of a business opportunity would not be. Similarly, the interference with a business expectancy claim is based on defendant taking away a business opportunity of plaintiff. It need not be

proven that [defendant] relied on any confidential information.” *Dominion Nutrition, Inc. v. Cesca*, 2006 WL 560580, at \*4 (N.D. Ill. March 2, 2006).

#### **h. Inevitable Disclosure Doctrine in Illinois**

Illinois is the leading jurisdiction for the inevitable disclosure doctrine. Illinois courts have employed the inevitable-disclosure rule to grant injunctive relief under the Illinois Trade Secrets Act, where the plaintiff demonstrates that a defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995); *Teradyne, Inc. v. Clear Communications Corp.*, 707 F. Supp. 353 (N.D. Ill. 1989); *RKI, Inc. v. Grimes*, 177 F. Supp.2d 859 (N.D. Ill. 2001); *Strata Marketing, Inc. v. Murphy*, 317 Ill. App.3d 1054, 251 Ill. Dec. 595, 740 N.E.2d 1166 (Ct. App. 2000); *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199 (7th Cir. 1987), *superceded in part by statute, as noted in PepsiCo*, 54 F.3d 1269.

“Using the theory of inevitable disclosure, ‘a plaintiff may prove trade secret misappropriation by demonstrating that defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets’.” *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 284, 827 N.E.2d 909, 927 (2005). If a former employee fulfills a substantially similar position with the plaintiff’s competitor, the plaintiff has a better chance of succeeding under this theory, but the mere fact that a former employee accepted a similar position with a competitor, without more, will not demonstrate inevitable disclosure. *Id.*

In *Strata Marketing, Inc. v. Murphy*, 317 Ill. App.3d 1054, 740 N.E.2d 1166 (2000), the plaintiff alleged the defendant, a former employee, had detailed knowledge of its trade secrets, including customer needs, problems, planned product upgrades, and

existing contracts. The plaintiff also alleged the defendant was working as a salesperson for its competitor, and the information she acquired was “exactly the type of information that a salesperson needs and must use to effectively compete for customers against [the plaintiff] on behalf of a competitor”. 317 Ill. App.3d at 1070-71. The employee could have utilized the information to underbid the plaintiff, among other things. On appeal, this court held the plaintiff’s allegations adequately supported the theory of inevitable disclosure under the Illinois Trade Secrets Act, and its complaint was sufficient to withstand a motion to dismiss. 317 Ill. App.3d at 1071.

The leading case concerning the inevitable disclosure doctrine, in *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995), the district court found the defendant learned plaintiff’s secret pricing, distribution, packaging, and marketing strategies while working as its employee. The defendant began working for a competitor, and the court found he would inevitably use his knowledge of the plaintiff’s strategies to make decisions at his new job. On appeal, the Seventh Circuit concluded the trial court’s findings were supported by the evidence. 54 F.3d at 1269-71.

Although the defendant asserted he did not intend to use the knowledge he acquired while working for the plaintiff, the court was not convinced, in part because he demonstrated a lack of candor when he failed to tell his employer he had been hired to work for a competitor. The fact that the competitor “had an unnatural interest in hiring [the plaintiff’s] employees” also weighed against the defendant. *PepsiCo*, 54 F.3d at 1271. The court said, the “defendant could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification

that he was not using plaintiff's secrets would be [defendant's] word to that effect." 54 F.3d at 1270.

In *Liebert Corp. v. Mazur*, 357 Ill. App.3d 265, 827 N.E.2d 909 (2005), the court reversed the trial court's decision to denying a preliminary injunction against a former employee concerning the plaintiff's pricing information. The defendant agreed to go to work for a competitor, then two days before he resigned, downloaded 60 megabytes of data to his home computer, including the plaintiff's price books. His purported reason for downloading the price books was unbelievable. 357 Ill. App.3d at 282-83, 827 N.E.2d at 926-27. On the day that the defendant was served with the complaint, he undertook to copy the price books onto a CD. There was a dispute over whether he successfully burned the price book files to the CD. Over the next few days, the defendant proceeded to delete 12,000 files from his computer. 357 Ill. App.3d at 272-74, 827 N.E.2d at 917-19. More importantly, four days after being served with the complaint, the defendant deleted the application log, which is a file that tracks when the program to burn CDs starts and finishes, and how many CDs were successfully burned, which destroyed evidence that would have showed whether he successfully copied the price books to a CD before deleting them from his computer. 357 Ill. App.3d at 274, 827 N.E.2d at 919.

In the *Liebert* case, the district court had denied the preliminary injunction by reasoning that if the defendant was unsuccessful in burning the price books onto a CD, then there was no risk that he would use the plaintiff's trade secret information contained in the price books, in view of the fact that all copies were deleted from the defendant's computer. 357 Ill. App.3d at 274, 827 N.E.2d at 920 ("Although the plaintiffs showed [the defendant] downloaded price books onto his computer, the court found that [he]

erased all of the information he took, and there was not a ‘fair chance from the evidence presented’ that the price books still existed or that anyone else took price books.”). The court of appeals held that the trial court’s findings were against the manifest weight of the evidence, and that the trial court’s denial of a preliminary injunction was an abuse of discretion. 357 Ill. App.3d at 283, 827 N.E.2d at 927.

On the question of inevitable disclosure, the court said that “[w]here a party has deliberately destroyed evidence, a trial court will indulge all reasonable presumptions against the party.” *Liebert*, 357 Ill. App.3d at 286, 827 N.E.2d at 928-29. Whether the defendant successfully made CD copies of the price books was a key issue, and because he destroyed this crucial piece of evidence by deleting the application log which would have decisively answered the question, the court of appeals presumed the destroyed evidence would have showed he successfully copied the price books onto a CD. 357 Ill. App.3d at 286, 827 N.E.2d at 929. Finding that the circumstances surrounding the defendant’s departure cast doubt on his denials that he still had the trade secret information, the court of appeals rejected the trial court’s findings on the issue of inevitable use. *Id.*

#### **i. Identification of Trade Secrets in Illinois**

Some Illinois courts have required a plaintiff to identify the alleged trade secrets at issue before being allowed to take discovery concerning the trade secrets from the defendant. *Automed Tech., Inc. v. Eller*, 160 F. Supp.2d 915, 925-26 (N.D. Ill. 2001) (plaintiff must identify alleged secrets with “reasonable particularity” before taking discovery “so that we can evaluate the relevance of plaintiff’s discovery and address any objections.”).



At the pleading stage, a plaintiff is “not required to plead highly specific facts on improper trade secret use, because such facts will often not be available before discovery.” *Motorola, Inc. v. Lemoko Corp.*, 609 F. Supp.2d 760, 770 (N.D. Ill. 2009).

#### **14. Indiana**

In 1982, Indiana was one of the first states to adopt the uniform trade secrets act substantially as originally promulgated by the National Conference of Commissioners on Uniform State Laws. *AGS Capital Corp. v. Product Action Internernational, LLC*, 884 N.E.2d 294, 307 (Ind. Ct. App. 2008). The Indiana Trade Secrets Act was effective on September 1, 1982. IND. CODE § 24-2-3-8 (2015). The Indiana statute closely follows the language of the 1979 version of the uniform trade secrets act, except that the Indiana preemption provision uses stronger language than section 7 of the uniform trade secrets act. *Infinity Products, Inc. v. Quandt*, 810 N.E.2d 1028, 1033 (Ind. 2004). The Indiana legislature amended the statute in 1984 to add a uniquely worded provision to the damages section allowing a court to order payment of a reasonable royalty. IND. CODE § 24-2-3-4 (b) (2015).

##### **a. Indiana Definition of a “Trade Secret”**

The Indiana statute uses the definition of a “trade secret” exactly as proposed by the National Conference of Commissioners on Uniform State Laws.

In the case of *Kozuch v. CRA-MAR Video Center, Inc.*, 478 N.E.2d 110 (Ind. Ct. App. 1985), a video center sought to preliminarily enjoin a competitor from using its customer list. The trial court issued the injunction and the competitor appealed. The trial court’s finding that the customer list met the definition of a “trade secret” was upheld on appeal. The appellate court found that:

There was evidence presented at trial that CRA-MAR's customer list included only the names of owners of video hardware purchased at CRA-MAR and those who had purchased memberships in CRA-MAR's video rental club, and were therefore either customers or prospective customers for video movies. There was also evidence that the customer list could not have been created by any means other than through CRA-MAR's business operations. In addition, there was evidence that the list derived its independent economic value from not being generally known or ascertainable by CRA-MAR's competitors.

*Kozuch v. CRA-MAR Video Center, Inc.*, 478 N.E.2d 110, 113 (Ind. Ct. App. 1985).

In *Ackerman v. Kimball International, Inc.*, 634 N.E.2d 778 (Ind. Ct. App. 1994), *adopted in part*, 652 N.E.2d 507 (Ind. 1995), the Court of Appeals held that customer and supplier lists and pricing information were trade secrets where the number of employees who had access to the information was limited, employees who did have access were instructed not to disclose it, the computer on which the information was stored was accessible only by password, and the computer displayed notice to the user indicating the proprietary nature of the information. *Ackerman*, 634 N.E.2d at 783.

**b. Indiana Definition of a "Person"**

The Indiana statute expressly includes a "limited liability company" within the definition of a "person." IND. CODE § 24-2-3-4 (b) (2015). This does not appear to be a substantive change, because the definition of a "person" in the uniform trade secrets act is intended to include "any other legal or commercial entity."

**c. Injunctions in Indiana**

The provisions governing injunctive relief in section 2 of the 1979 version of the uniform trade secrets act were adopted when the Indiana Uniform Trade Secrets Act was enacted in 1982. In 1984, the language was amended to add the words "in exceptional circumstances," as follows:

If the court determines *in exceptional circumstances* that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

IND. CODE § 24-2-3-3 (b) (2015) (emphasis added).

The amendment to the statute appears to limit royalty injunctions to “exceptional circumstances.”

**d. Damages in Indiana**

The damages provisions use the language from the 1979 version of the uniform trade secrets act, except that the Indiana legislature added a separate provision allowing for payment of a reasonable royalty, as follows:

When neither damages nor unjust enrichment are provable, the court may order payment of a reasonable royalty for no longer than the period during which the use could have been prohibited.

IND. CODE § 24-2-3-4 (b) (2015).

The Indiana Trade Secrets Act allows the court to “order” payment of a reasonable royalty only if damages measured by actual loss or unjust enrichment are both not “provable.” *McRoberts Software, Inc. v. Media 100, Inc.*, No. IP99-1577-C-M/S, 2001 WL 1224727, at \*6 (S.D. Ind. Aug. 17, 2001) (“The law also provides that a court may award damages for the actual loss caused by the misappropriation or for the unjust enrichment of the misappropriating party. In the event that neither of those are provable, a court may award a reasonable royalty for the period during which the use could have been prohibited.”) (internal quotes and citations omitted). The length of time for any such royalty is limited to the time during which the use could have been prohibited. IND. CODE § 24-2-3-4 (b) (2015).

In Indiana, the computation of damages is within the sound discretion of the trial court. Although the damage award cannot be based upon mere speculation or guesswork, no degree of mathematical certainty is required in the damage calculation. Any doubts and uncertainties as to proof of the exact measure of damages must be resolved against the defendant. *Weston v. Buckley*, 677 N.E.2d 1089, 1093 (Ind. Ct. App. 1997) (“Public policy and justice require that the risk of uncertainty in the computation of damages be borne by the wrongdoer.”)

**e. Attorney’s Fees in Indiana**

Indiana enacted the provisions of section 4 of the uniform trade secrets act allowing an award of attorney’s fees to the “prevailing party” under certain circumstances. IND. CODE § 24-2-3-5 (2015). The statute does not permit an award of attorney’s fees in connection with a preliminary injunction. Instead the court must await a final determination of the trade secret claim before there is a “prevailing party” within the meaning of the statute. *AGS Capital Corp. v. Product Action Internernational, LLC*, 884 N.E.2d 294, 316 (Ind. Ct. App. 2008) (“[I]n order to be considered a prevailing party, plaintiffs must prevail on the merits of their claims. ... Inherent in the definition of preliminary judgment is the fact that a judgment on the merits has yet to be made.”).

**f. Preemption in Indiana**

The preemption language used in the Indiana statute is “somewhat stronger” than the language in the uniform trade secrets act. *Infinity Products, Inc. v. Quandt*, 810 N.E.2d 1028, 1033 (Ind. 2004). The Indiana statute states that “[t]he chapter displaces all conflicting law of this state pertaining to the misappropriation of trade secrets, except contract and criminal law.” IND. CODE § 24-2-3-1(c) (2015).

According to the Indiana Supreme Court, the Indiana General Assembly rejected the language in the uniform act. *Infinity Products*, 810 N.E.2d at 1034. While the preemption provision in section 7 of the uniform act reads that it “displaces conflicting tort, restitutionary, and other law of this State providing civil *remedies*,” the Indiana Trade Secrets Act refers to areas of law as a whole, and says it “displaces all conflicting law of this state pertaining to the misappropriation of trade secrets, except contract law and criminal law.” *AGS Capital Corp. v. Product Action International, LLC*, 884 N.E.2d 294, 308 (Ind. Ct. App. 2008) (“Rather than dealing in terms of the remedies provided, [the Indiana Trade Secrets Act] refers to areas of the law as a whole.”).

In the *Infinity Products* case, the court held that the common law *respondeat superior* doctrine is displaced by the Indiana Trade Secrets Act. 810 N.E.2d at 1034. The court noted that the *respondeat superior* doctrine imposes liability upon the master for acts done by the servant, regardless of the master’s complicity in the acts. It may impose liability even when the master directed the servant to the contrary. *Id.* The court said, “[s]urely, this doctrine must be thought of as conflicting with the uniform act’s requirements that a claimant demonstrate that the defendant ‘knows or has reason to know’ that the trade secret at issue was acquired by improper means.” *Id.*

**g. Inevitable Disclosure Doctrine in Indiana**

Federal courts in Indiana have recognized the inevitable disclosure doctrine. *Dearborn v. Everett J. Prescott, Inc.*, 486 F. Supp.2d 802, 820 (S.D. Ind. 2007). *See also Bridgestone/Firestone, Inc. v. Lockhart*, 5 F. Supp.2d 667, 682 (S.D. Ind. 1998) (finding *PepsiCo* to be “instructive,” but did not warrant finding of inevitable disclosure because there was no evidence the employee took confidential information).

## 15. Iowa

Iowa enacted the Iowa Uniform Trade Secrets Act in 1990. The Iowa legislature did not enact the provisions of section 8 of the uniform trade secrets act requiring the statute to be applied and construed to make the law uniform.<sup>259</sup> Nevertheless, the Iowa Court of Appeals has said that, because the Iowa statute is based on a uniform act, Iowa courts may “look to the comments and statements of purpose contained in Uniform Acts to guide our interpretation of a comparable provision in an Iowa Act” in the absence of “instructive Iowa legislative history.” *SHI R2 Solutions, Inc. v. Pella Corp.*, 864 N.W.2d 553 (Iowa Ct. App. 2015), *quoting from Office of Citizens’ Aide/Ombudsman v. Edwards*, 825 N.W.2d 8, 15 n.2 (Iowa 2012).

The Iowa legislature enacted a definition for the term “knows” or “knowledge.” The Iowa statute uses different language for the definition of “misappropriation” which incorporates the term “knows.” The Iowa statute eliminated the language “without express or implied consent” from the definition of “misappropriation,” and instead included a separate section establishing a defense based upon implied or express consent. IOWA CODE ANN. § 550.5 (West 2015).

### a. Iowa Definition of “Misappropriation”

The Iowa definition of misappropriation includes the term “knows.” The Iowa statute defines that term as follows:

“Knows” or “knowledge” means that a person has actual knowledge of information or a circumstance or that the person has reason to know of the information or circumstance.

IOWA CODE ANN. § 550.2(2) (West 2015).

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<sup>259</sup> Iowa also did not enact section 10 of the uniform trade secrets act on severability.

The definition of “misappropriation” in the Iowa Uniform Trade Secrets Act is:

“Misappropriation” means doing any of the following:

- a. Acquisition of a trade secret by a person who *knows* that the trade secret is acquired by improper means.
- b. Disclosure or use of a trade secret by a person who uses improper means to acquire the trade secret.
- c. Disclosure or use of a trade secret by a person who at the time of disclosure or use, *knows* that the trade secret is derived from or through a person who had utilized improper means to acquire the trade secret.
- d. Disclosure or use of a trade secret by a person who at the time of disclosure or use *knows* that the trade secret is acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.
- e. Disclosure or use of a trade secret by a person who at the time of disclosure or use *knows* that the trade secret is derived from or through a person who owes a duty to maintain the trade secret's secrecy or limit its use.
- f. Disclosure or use of a trade secret by a person who, before a material change in the person's position, *knows* that the information is a trade secret and that the trade secret has been acquired by accident or mistake.

IOWA CODE ANN. § 550.2(3) (West 2015) (emphasis added).

As mentioned above, the Iowa statute 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, as follows:

In an action for injunctive relief or damages against a person under this chapter, it shall be a complete defense that the person disclosing a trade secret made the disclosure with the implied or express consent of the owner of the trade secret.

IOWA CODE ANN. § 550.5 (West 2015).

The effect of this statutory provision appears to be that the burden of proof on the issue of express or implied consent is shifted to the defendant. Moreover, under Iowa law, it would appear that a defendant is required to plead express or implied consent as an

affirmative defense. If the defendant fails to do so, a court might hold that the defense was waived.<sup>260</sup>

**b. Preemption in Iowa**

There is no preemption in Iowa. 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).

**c. Inevitable Disclosure Doctrine in Iowa**

The inevitable disclosure doctrine has been recognized in Iowa. *APAC Teleservices, Inc. v. McRae*, 985 F. Supp. 852, 857 n.3 (N.D. Iowa 1997); *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405, 1435-36 (N.D. Iowa 1996); *Interbake Foods, L.L.C. v. Tomasiello*, 461 F. Supp.2d 943, 972 (N.D. Iowa 2006) (noting that the courts generally grant relief using the doctrine in cases where an employee has knowledge that would allow a competitor to improve its business with little or no effort or when the competitors are attempting to produce similar products).

**16. Kansas**

Kansas originally enacted the Kansas Uniform Trade Secrets Act in 1981. The statute was amended in 1988, and now closely follows the language in the 1985 version of the uniform trade secrets act.

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<sup>260</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).



**a. Preemption in Kansas**

The Kansas statute preempts common law claims for misappropriation of confidential information. *BioCore, Inc. v. Khosrowshahi*, 96 F. Supp.2d 1221, 1238 (D. Kan. 2000) (“Even if confidential information can be something less than a trade secret, it must at least be a trade secret to give its owner a property right in it.”), *rev'd on other grounds*, 80 Fed. Appx. 619 (10th Cir. 2003) (unpublished opinion).

**17. Kentucky**

Kentucky enacted the Kentucky Uniform Trade Secrets Act, with an effective date of July 13, 1990. The Kentucky statute closely follows the language in the 1985 version of the uniform trade secrets act, and is codified at KY. REV. STAT. ANN. § 365.880 *et seq.* (Banks-Baldwin 2015).

**a. Kentucky Definition of a “Trade Secret”**

The Kentucky legislature added “data” to the definition of a “trade secret” in the Kentucky Uniform Trade Secrets Act. KY. REV. STAT. ANN. § 365.880(4) (Banks-Baldwin 2015). Otherwise, the Kentucky definition tracks the language in the uniform acts.

**b. Preemption in Kentucky**

The Kentucky legislature changed the wording of section 7 of the uniform act to say that the Kentucky Uniform Trade Secrets Act “replaces” conflicting tort, restitutionary, and other law of the state, instead of using the word “displaces.” KY. REV. STAT. ANN. § 365.892(1) (Banks-Baldwin 2015).

Kentucky’s version of the uniform trade secrets act has been held to provide “the only avenue for claims based on idea misappropriation in Kentucky.” *Auto Channel, Inc.*

*v. Speedvision Network, LLC*, 144 F. Supp.2d 784, 788-90 (W.D. Ky. 2001). Thus, the Kentucky statute preempts common law claims for misappropriation of confidential information that does not rise to the level of a trade secret.

## **18. Louisiana**

Louisiana enacted the Louisiana Uniform Trade Secrets Act,<sup>261</sup> which closely follows the language in the 1979 version of the uniform trade secrets act.<sup>262</sup> However, Louisiana did not adopt the provisions allowing for the recovery of exemplary damages.<sup>263</sup> The Louisiana statute is codified at LA. REV. STAT. ANN. § 1431 *et seq.* (West 2015).

### **a. Louisiana Definition of a “Trade Secret”**

In *Wyatt v. PO2, Inc.*, 651 So.2d 359 (La. Ct. App. 1995), a former employee used the identities of PO2’s clients in a new business. A Louisiana district court found that the client’s identities were not a trade secret. Specifically, the court found that the PO2 computer had no access code to restrict entry, and that there was no evidence of any contractual agreement regarding confidentiality of PO2 information or restricting competition. *Wyatt*, 651 So.2d at 363.

### **b. Damages in Louisiana**

Louisiana did not enact the provisions in section 3 of the uniform trade secrets that allow a plaintiff to recover exemplary damages if willful and malicious

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<sup>261</sup> The legislative history of the Louisiana Uniform Trade Secrets Act includes comments that aid in the interpretation of the legislation.

<sup>262</sup> Louisiana did not enact section 10 of the uniform trade secrets act.

<sup>263</sup> *See* LA. REV. STAT. ANN. § 1433 (West 2015).

misappropriation exists. Consequently, punitive damages are not available in Louisiana on a trade secret misappropriation claim.

Because Louisiana has not adopted the 1985 amendments to the uniform trade secrets act, there is no provision in Louisiana for the recovery of damages measured by a reasonable royalty. *See* LA. REV. STAT. ANN. § 1433 (West 2015).

## **19. Maine**

The Maine Uniform Trade Secrets Act was enacted in 1987. The Maine statute follows the language in the 1985 version of the uniform trade secrets act, and is codified at ME. REV. STAT. ANN. tit. 10, § 1541 *et seq.* (2015). However, the Maine legislature did not adopt the provisions of section 8 of the uniform trade secrets act requiring courts to apply and construe the Maine statute to achieve uniformity in the law.

### **a. Maine Definition of a “Trade Secret”**

The Maine legislature made a minor change to the language in the definition of a “trade secret.” The Maine statute adds the words “but not limited to” after the word “including.” This provides a clear indication that the legislature did not intend for trade secrets to be limited to a formula, pattern, compilation, program, device, method, technique or process.

### **b. Maine Definition of “Improper Means”**

Maine changed the language in the definition of “improper means” from saying that improper means “includes” certain things listed in the uniform act, the Maine statute says that the term “means” what is listed in the statute. The language appears to eliminate the open ended language in the model act, and to instead provide a closed definition

limiting the definition to the list enumerated in the statutory definition. It is unclear, however, whether this is a substantive difference.

**c. Maine Statute of Limitations**

The Maine legislature rejected the three-year limitations period provided in the uniform act, and enacted a four-year statute of limitations. ME. REV. STAT. ANN. tit. 10, § 1547 (2015).

**d. Preemption in Maine**

The preemption provisions of the Maine act specifically state that the Maine Uniform Trade Secrets Act does not affect “[t]he duty of any person to disclose information where expressly required by law,” and that the Maine statute does not affect the Maine Tort Claims Act.<sup>264</sup>

**20. Maryland**

On July 1, 1989, Maryland adopted the Uniform Trade Secrets Act. *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 585 (Md. App. 1991). The Maryland statute closely follows the 1985 version of the uniform trade secrets act, and is codified at MD. CODE ANN., COM. LAW § 11-1201 *et seq.* (2015).

The Maryland legislature added a unique provision to the preemption language in section 7 of the uniform act providing that nothing in the Maryland Trade Secrets Act limits any common law or statutory defense of immunity by state personnel. MD. CODE ANN., COM. LAW § 11-1207 (b)(2) (2015).

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<sup>264</sup> ME. REV. STAT. ANN. tit. 14, § 8101 *et seq.* (2015).

In 2010, the Maryland legislature amended the definition of “person” to include a “statutory trust.” MD. CODE ANN., COM. LAW § 11-1201 (d) (2015). The Maryland definition of a “person” also uses the term “individual” instead of natural person.

**a. Maryland Definition of a “Trade Secret”**

Maryland courts still consider the six factors in the Restatement (First) of Torts in determining whether information is a trade secret. *Optic Graphics v. Agee*, 87 Md. App. 770, 591 A.2d 578, 585 (1991) (“Although all of the Restatement’s factors no longer are required to find a trade secret, those factors still provide helpful guidance to determine whether the information in a given case constitutes ‘trade secrets’ within the definition of the statute.”).

Maryland courts recognize that a trade secret may exist in a process, methods, and materials used in combination, even if all components are available on the open market. *Bond v. PolyCycle, Inc.*, 127 Md. App. 365, 375-76, 732 A.2d 970 (1999), citing *Head Ski Co. v. Kam Ski Co.*, 158 F. Supp. 919 (D. Md. 1958). Maryland courts recognize that a trade secret does not need to be patentable, but can be information of any sort, “like a secret machine, process, formula, or it may be industrial know-how.” *Space Aero Prods. Co. v. R.E. Darling Co.*, 238 Md. 93, 105, 208 A.2d 699 (1965); see also *Optic Graphics, Inc. v. Agee*, 87 Md. App. 770, 782, 591 A.2d 578 (1991) (trade secret can be any formula, pattern, device or compilation of information that gives the holder a business advantage).

Under the common law, a Maryland court held that demonstrations of a technology do not render information concerning the technology’s development not confidential, even if the end result is public. See *Ellicott Mach. Corp. v. Wiley Mfg. Co.*,

297 F. Supp. 1044, 1053 (D. Md. 1969) (drawings of final product released to public did not render meaningless the disclosure of confidential information where engineering information had not been disclosed). This case has been cited by courts subsequent to the enactment of the Maryland Trade Secrets Act. *Swedish Civil Aviation Admin. v. Project Management Enterprises, Inc.*, 190 F. Supp.2d 785, 800 (D. Md. 2002).

**b. Attorney's Fees in Maryland**

In determining whether the defendants were entitled to attorneys' fees, federal courts in Maryland have followed California case law on the meaning of the term "bad faith." *Contract Materials Processing, Inc. v. Katalauna GMBH Catalysts*, 222 F. Supp.2d 733, 744 (D. Md. 2002) ("[C]ourts considering the attorneys' fees provisions under the [California statute] have reasoned persuasively that 'bad faith' exists when the court finds '(1) objective speciousness of the plaintiff's claim and (2) plaintiff's subjective misconduct in bringing or maintaining a claim for misappropriation of trade secrets'.").

The *Contract Materials* case approved of the California interpretation that the knowing persistence in an invalid claim demonstrates subjective bad faith. In addition, *Contract Materials* approved of the notion that "a party's 'tactics during the course of litigation' can support a finding as to its 'underlying motives' for purposes of determining whether the party pursued the litigation in bad faith." *Id.* at 745 n.4. The court awarded the defendants attorneys' fees after concluding that the plaintiff "utterly failed to identify any evidence in some respects, and has failed to identify *admissible* evidence in other respects, in support of the elements of its ostensible misappropriation of trade secrets claims" and that the plaintiff, "despite several warnings to [it] about the

evident lack of merit in its misappropriation claims ... has continued to pursue these baseless claims.” *Id.* at 745 (emphasis in original).

**c. Preemption in Maryland**

In *Bond v. PolyCycle, Inc.*, 127 Md. App. 365, 732 A.2d 970 (1999), the court held that “a claim for usurpation of a corporate opportunity, if based solely on misappropriation of a trade secret, cannot survive once a remedy under the [Maryland Uniform Trade Secrets Act] is obtained.” *Id.*, 127 Md. App. at 377, *citing* MD. CODE ANN., COM. LAW § 11-1207 (a)-(b)(1)(ii).

In *Swedish Civil Aviation Admin. v. Project Management Enterprises, Inc.*, 190 F. Supp.2d 785 (D. Md. 2002), the defendant moved to dismiss a claim for breach of duty of confidential relationship on grounds that the claim rested on allegations of misappropriation of a trade secret, and was therefore preempted by the Maryland Trade Secrets Act. The court held that the claim could alternatively be based upon confidential information that did not rise to the level of a trade secret, and was therefore not preempted. 190 F. Supp.2d at 802.

The Maryland legislature added the following to the preemption language in section 7 of the uniform act:

Nothing contained in this act may be applied or construed to waive or limit any common law or statutory defense or immunity possessed by State personnel as defined under § 12-101 of the State Government Article.

MD. CODE ANN., COM. LAW § 11-1207 (b)(2) (2015). Thus, the Maryland Trade Secrets Act does not preempt or limit any common law or statutory defense of immunity available to Maryland state personnel.

**d. Inevitable Disclosure Doctrine in Maryland**

The Maryland Supreme Court has rejected the inevitable disclosure doctrine. *LeJeune v. Coin Acceptors, Inc.*, 381 Md. 288, 849 A.2d 451, 471 (Md. 2004).

**21. Massachusetts**

Massachusetts has a statute governing trade secret misappropriation claims. The statute provides:

Whoever embezzles, steals or unlawfully takes, carries away, conceals, or copies, or by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use, any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting therefrom.

MASS. GEN. LAWS ANN. ch. 93, § 42 (2015).

Massachusetts has not enacted the uniform trade secrets act.

**a. Massachusetts Definition of a “Trade Secret”**

Under the terms of the Massachusetts statute, the term “trade secret” has “the same meaning as is set forth in section thirty of chapter two hundred and sixty-six.”

MASS. GEN. LAWS ANN. ch. 93, § 42 (2015). The reference to chapter 266, section 30, is a citation to the criminal statute for larceny. That criminal statute defines a “trade secret” as follows:

The term “trade secret” as used in this paragraph means and includes anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records a secret scientific, technical, merchandising, production or management information, design, process, procedure, formula, invention or improvement.

MASS. GEN. LAWS ANN. ch. 266, § 30(4) (2015).

Massachusetts courts also generally follow the *Restatement (First) of Torts* § 757. Under Massachusetts law, “[a] trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an



opportunity to obtain an advantage over competitors who do not know or use it.” *J.T. Healy & Son, Inc. v. James A. Murphy & Son, Inc.*, 357 Mass. 728, 736, 260 N.E.2d 723 (1970), quoting from *Restatement of Torts* § 757, comment b.

In the case of *Com. v. Robinson*, 7 Mass. App. Ct. 470, 388 N.E.2d 705 (1979), a customer list and price lists were found to not be trade secrets where neither the manufacturer nor the distributor took any precaution to secure or preserve the secrecy of the information or to caution the defendant or any other person concerning its alleged confidentiality.

#### **b. Injunctions in Massachusetts**

Massachusetts has a statute governing injunctions in trade secret cases. The statute provides:

Any aggrieved person may file a petition in equity in the supreme judicial court or in the superior court for the county in which either the petitioner or the respondent resides or transacts business, or in Suffolk county, to obtain appropriate injunctive relief including orders or decrees restraining and enjoining the respondent from taking, receiving, concealing, assigning, transferring, leasing, pledging, copying or otherwise using or disposing of a trade secret, regardless of value.

MASS. GEN. LAWS ANN. ch. 93, § 42A (2015). For purposes of this statute, the term “trade secret” is defined to have the same meaning as set forth in the criminal statute. *See* MASS. GEN. LAWS ANN. ch. 266, § 30(4) (2015).

There is an additional provision governing injunctions against former employees:

In an action by an employer against a former employee under the provisions of this section for the conversion of a trade secret and where such conversion is in violation of the terms of a written employment agreement between said employer and employee, said employer shall, upon petition, be granted a preliminary injunction if it is shown that said employee is working in a directly competitive capacity with his former employer in violation of the terms of such agreement and that in violation of the terms of such agreement said employee has used such trade secret in such competition.

MASS. GEN. LAWS ANN. ch. 93, § 42A (2015).

**c. Punitive Damages in Massachusetts**

Under the Massachusetts statute governing the taking of trade secrets, a court has discretion to “increase the damages up to double the amount found.” MASS. GEN. LAWS ANN. ch. 93, § 42 (2015). This applies whether or not the case it tried by a jury. *Id.*

**d. Massachusetts Statute of Limitations**

A tort claim for trade secret misappropriation is governed by a three-year statute of limitations. MASS. GEN. LAWS ANN. ch. 260, § 2A (2015). Actions for misappropriation of trade secrets must be brought within three years after the cause of action accrues. *Stark v. Advanced Magnetics, Inc.*, 50 Mass. App. Ct. 226, 232, 736 N.E.2d 434, 441 (2000). The cause of action accrues at the time the plaintiff is injured. *Id.* To start the statute running, the plaintiff need not know the full extent of his injury. *Bowen v. Eli Lilly & Co.*, 408 Mass. 204, 207, 557 N.E.2d 739 (1990). All that is necessary is that an event or events have occurred that are reasonably likely to put the plaintiff on notice that he has been harmed. *Id.*

Under MASS. GEN. LAWS ANN. ch. 260, § 12, the statute of limitations will be tolled “if the wrongdoer either ‘concealed the existence of a cause of action through some affirmative act done with intent to deceive’ or breached a fiduciary duty of full disclosure.” *Puritan Med. Center, Inc. v. Cashman*, 413 Mass. 167, 175, 596 N.E.2d 1004 (1992), quoting from *Frank Cooke, Inc., v. Hurwitz*, 10 Mass. App. Ct. 99, 108, 406 N.E.2d 678 (1980). The statute of limitations, however, is not tolled if the plaintiff has actual knowledge of the facts giving rise to his cause of action. *Malapanis v. Shirazi*, 21 Mass. App. Ct. 378, 386 n.8, 487 N.E.2d 533 (1986); *Patsos v. First Albany Corp.*, 48 Mass. App. Ct. 266, 272, 719 N.E.2d 882 (1999). In the case of actual fraud, the statute

will not be tolled if the plaintiff also had the means to acquire the facts on which his cause of action is based. *Brackett v. Perry*, 201 Mass. 502, 505, 87 N.E. 903 (1909); *Demoulas v. Demoulas Super Markets, Inc.*, 424 Mass. 501, 520 & n.25, 677 N.E.2d 159 (1997). However, if the defendants had a fiduciary duty to disclose the facts and failed fully to do so, the fact that the plaintiff had the means of learning the facts would not preclude the tolling of the statute until such time as the plaintiff acquired actual knowledge of the facts. *Stark v. Advanced Magnetics, Inc.*, 50 Mass. App. Ct. 226, 234, 736 N.E.2d 434, 442-43 (2000); *Demoulas v. Demoulas Super Markets, Inc.*, 424 Mass. at 519-20.

**e. Identification of Trade Secrets in Massachusetts**

At least one Massachusetts court has required a plaintiff to identify the alleged trade secrets at issue before being allowed to take discovery concerning the trade secrets from the defendant. *L-3 Comm. Corp. v. Reveal Imaging Tech., Inc.*, 2004 WL 2915743, at \*13 (Mass. Sup. Ct. Dec. 2, 2004) (plaintiff must specifically identify alleged secrets before commencing discovery).

**22. Michigan**

In 1998, Michigan enacted the Michigan Uniform Trade Secrets Act. *Compuware Corp. v. International Bus. Machs. Corp.*, No. 02-CV-70906, 2003 WL 23212863, at \*8 (E.D. Mich. Dec. 19, 2003). The Michigan statute had an effective date of October 1, 1998. MICH. COMP. LAWS ANN. § 445.1910 (West 2015).

The Michigan legislature eliminated the exemplary damages provisions in section 3 of the uniform act.<sup>265</sup> Otherwise, the Michigan statute follows the language of the 1985

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<sup>265</sup> See MICH. COMP. LAWS ANN. § 445.1904 (West 2015).

version of the uniform trade secrets act in section 3 (damages) and section 7 (preemption). However, the injunction provisions of the Michigan statute use the language from the 1979 version of the uniform trade secrets act.<sup>266</sup>

**a. Michigan Definition of a “Trade Secret”**

In the case of *Compuware Corp. v. Serena Software Int’l, Inc.*, 77 F. Supp.2d 816 (E.D. Mich. 1999), the court held that computer software maintained its status as a protected trade secret, under Michigan law, even after a copy of the software was deposited with Copyright Office in connection with a copyright application. 77 F. Supp.2d at 821-22, 823 n.18, & 825 n.24.

**b. Attorney’s Fees in Michigan**

In *Degussa Admixtures, Inc. v. Burnett*, a federal court noted that the Michigan Uniform Trade Secrets Act, which provides for the award of attorneys’ fees “[i]f a claim of misappropriation is made in bad faith,” does not contain a definition of “bad faith.” *Degussa Admixtures, Inc. v. Burnett*, No. 1:05–CV–705, 2007 WL 274219, at \*7 (W.D. Mich. Jan. 30, 2007), *aff’d*, 277 Fed. Appx. 530 (6th Cir. 2008). The court therefore turned to California’s interpretation of “bad faith” in the California statute. The court stated, “interpreting the [California statute], courts have held that ‘bad faith’ exists when the court finds ‘(1) objective speciousness of the plaintiff’s claim and (2) plaintiff’s subjective misconduct in bringing or maintaining a claim for misappropriation of trade secrets’.” *Id.* The court ultimately awarded attorneys’ fees to the defendant after finding

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<sup>266</sup> The Illinois Trade Secrets Act similarly modeled its injunctive relief provisions after the 1979 version, and generally followed the 1985 version in its damages provisions and preemption language. *See* 765 ILL. COMP. STAT. 1065/1 *et seq.* (West 2015).

that “Plaintiff’s claims were objectively unsupported, both factually and under Michigan law, at the time of filing” and that “[Plaintiff’s] invocation of the MUTSA to prevent legitimate competition constituted an improper purpose.” *Id.* at \*8.

**c. Exemplary Damages in Michigan**

The Michigan legislature did not enact the exemplary damages provisions in section 3 of the uniform act.<sup>267</sup> Consequently, exemplary damages are not allowed in Michigan on a trade secret misappropriation claim.

**d. Preemption in Michigan**

The Michigan Uniform Trade Secrets Act preempts common law claims for misappropriation of confidential information, as explained by a federal court in Michigan:

Because the purpose of the UTSA is to preserve a single tort cause of action under state law for misappropriation ... and thus to eliminate other tort causes of action founded on allegations of trade secret misappropriation, allowing otherwise displaced tort claims to proceed on the basis that the information may not rise to the level of a trade secret would defeat the purpose of the UTSA. Thus, unless Midwest misappropriated a statutory trade secret, it did no legal wrong.

*Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp.2d 943, 949 (W.D. Mich. 2003) (citations and internal quotes omitted).

**e. Inevitable Disclosure Doctrine in Michigan**

The inevitable disclosure doctrine has been recognized in Michigan. *CMI Int’l, Inc. v. Internet Int’l Corp.*, 251 Mich. App. 125, 649 N.W.2d 808, 813-14 (Ct. App. 2002). *See also Hoskins Mfg. Co. v. PMC Corp.*, 47 F. Supp.2d 852 (E.D. Mich. 1999)

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<sup>267</sup> *See* MICH. COMP. LAWS ANN. § 445.1904 (West 2015).

(disclosure not inevitable because parties' differing technology made trade secrets useless).

### **23. Minnesota**

Minnesota enacted the Minnesota Uniform Trade Secrets Act in 1980. *Jostens, Inc. v. Nat'l Computer Sys., Inc.*, 318 N.W.2d 691, 698 (Minn. 1982). The Minnesota statute was amended in 1997 to conform to the 1985 version of the uniform trade secrets act. 1997 Minn. Laws, ch. 1, § 2.

The Minnesota legislature 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 specific notice that it is a trade secret. MINN. STAT. ANN. § 325C.01(5) (West 2015).

The Minnesota legislature<sup>268</sup> did not adopt the provisions in section 8 of the uniform act requiring courts to apply and construe the statute “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.”<sup>269</sup> It would therefore appear that Minnesota courts are under no obligation to construe the Minnesota Uniform Trade Secrets Act to achieve uniformity with the law in other states.

#### **a. Minnesota Definition of a “Trade Secret”**

The case of *Jostens, Inc. v. Nat'l Computer Sys., Inc.*, 318 N.W.2d 691 (Minn. 1982), was decided after the enactment of the Minnesota Uniform Trade Secrets Act in

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<sup>268</sup> The Minnesota legislature also did not enact section 10 on severability.

<sup>269</sup> The Arizona Supreme Court concluded that the absence of this provision from the Arizona statute “suggests that the legislature intentionally omitted it.” *Orca Communications Unlimited, LLC v. Noder*, 236 Ariz. 180, 184, 337 P.3d 545, 549 (2014).

1980, but involved events that took place before the effective date of the statute. 318 N.W.2d at 698. In *Jostens*, the court said,

[K]nowledge gained at an employer's expense, which takes on the characteristics of a trade secret and which would be unfair for the employee to use elsewhere, is deemed confidential and is not to be disclosed or used. Even if this knowledge is only in the employee's memory, it may be protectable. Confidential information is that which an employee knew or should have known was confidential. ... On the other hand, ***the employee is entitled to fair notice of the confidential nature of the relationship and what material is to be kept confidential.***

*Jostens, Inc. v. Nat'l Computer Sys., Inc.*, 318 N.W.2d 691, 702 (Minn. 1982) (emphasis added and citations omitted).

After the *Jostens* decision, subsequent cases decided under the Minnesota statute carried forward the requirement of a continuing course of conduct "by which the employer signals to its employees and to others that certain information is confidential and should not be disclosed." *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 902 (Minn. 1983).

In 1985, the Minnesota legislature amended the definition of a trade secret to add the following provision:

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.

MINN. STAT. ANN. § 325C.01(5) (West 2015).

In *Northwest Airlines v. American Airlines*, 853 F. Supp. 1110 (D. Minn. 1994), the court noted that this amendment of the statute occurred two years after the *Electro-Craft* decision. 853 F. Supp. at 1116 n.5. As a result, the court in the *Northwest Airlines* case held that documents not marked confidential could still be trade secrets when other

evidence demonstrated employees had reason to know the employer intended to keep that type of information confidential. *Id.*, at 1115-16.

In Minnesota, courts have said that customer lists are generally not deemed trade secrets or confidential. *See Blackburn, Nickels & Smith, Inc. v. Erickson*, 366 N.W.2d 640, 645 (Minn.App.1985), *review denied* (Minn. June 24, 1985). “The mere compilation and use of data that is readily known or available does not transform that compilation or use into confidential or trade secret information.” *Signergy Sign Group, Inc. v. Adam*, No. A04-70, 2004 WL 2711312, at \*3 (Minn. Ct. App. Nov. 30, 2004), *review denied* (Minn. Feb. 23, 2005). But customer lists and information that meet the elements of the Minnesota Uniform Trade Secrets Act will presumably receive protection.

“Although an employee can be required to hold confidential material that exists only in his or her own mind, he or she also acquires experience and skills while working that can be used to ‘ply his [or her] trade’.” *Signergy Sign Group, supra*, at \*3, *quoting from Jostens, Inc. v. Nat’l Computer Sys., Inc.*, 318 N.W.2d 691, 701-02 (Minn. 1982).

### **c. Preemption in Minnesota**

The Minnesota Uniform Trade Secrets Act displaces common law causes of action for misappropriation of trade secrets. *Micro Display Systems, Inc. v. Axtel, Inc.*, 699 F. Supp. 202, 205 (D. Minn. 1988). However, the preemption has been limited to causes of action that directly conflict with the statute. In the *Micro Display Systems* case, the court went on to say, “To the extent a cause of action exists in the commercial area not dependent on trade secrets, that cause of action continues to exist.” 699 F. Supp. at 205.



Thus, as adopted in Minnesota, the preemption provision means: “Only that law which conflicts with the [Minnesota Uniform Trade Secrets Act] is displaced.” *Micro Display Systems*, 699 F. Supp. at 205. “Under this displacement provision, courts will allow plaintiffs to maintain separate causes of action ‘to the extent that causes of action have more to their factual allegations than the mere misuse or misappropriation of trade secrets’.” *Cardiac Pacemakers, Inc. v. Aspen II Holding Co., Inc.*, 413 F. Supp.2d 1016, 1024 (D. Minn. 2006), *quoting from Micro Display Systems*, 699 F. Supp. at 205.

In the *Micro Display Systems* case, the court allowed claims to proceed involving misappropriation, conversion, misrepresentation, conspiracy, unjust enrichment, and unfair competition. 413 F. Supp. at 203-04. The court concluded, “If the facts at trial disclose that the whole of plaintiff’s case involves the misappropriation of trade secrets, those counts will be dismissed which are merely duplicative of the [Minnesota Uniform Trade Secrets Act].” *Id.* at 205.

#### **d. Inevitable Disclosure Doctrine in Minnesota**

Cases in Minnesota appear to recognize the inevitable disclosure doctrine. *Surgidev Corp. v. Eye Technology, Inc.*, 648 F. Supp. 661, 687 (D. Minn. 1986), *aff’d*, 828 F.2d 452 (8th Cir 1987); *Lexis-Nexis v. Beer*, 41 F. Supp.2d 950, 959 (D. Minn. 1999) (dictum because no finding of trade secrets). Minnesota courts have said that the moving party must demonstrate “a high degree of probability of inevitable disclosure.” *Lexis–Nexis v. Beer*, 41 F.Supp.2d at 958. “Merely possessing trade secrets and holding a comparable position with a competitor does not justify an injunction.” *International Bus. Machines Corp. v. Seagate Tech., Inc.*, 941 F. Supp. 98, 101 (D. Minn. 1992).

**e. Identification of Trade Secrets in Minnesota**

Some courts in Minnesota have required the plaintiff to identify the alleged trade secrets that were allegedly misappropriated before commencing discovery from the defendant concerning the trade secrets. *Porous Media Corp. v. Midland Brake, Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999) (trade secret plaintiffs must provide an identification with “the same specificity” required on a motion for preliminary injunction or at trial; “The orderly disposition of cases involving claims of misappropriation of trade secrets cannot permit a situation where the details concerning the claimed trade secrets are not disclosed at an early date in the litigation.”).

A party alleging a misappropriation cause of action must first prove the existence of a trade secret. *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 897 (Minn. 1983). In order to successfully seek protection of a trade secret, a plaintiff must identify the trade secret with sufficient specificity so that appropriate relief may be granted. *Porous Media Corp. v. Midland Brake, Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999) (“Failure to identify the trade secrets with sufficient specificity renders the Court powerless to enforce any trade secret claim.”) (citations omitted).

In *Electro-Craft v. Controlled Motion, Inc.*, 332 N.W.2d 890 (Minn. 1983), the appellant argued that neither the plaintiff nor the district court were “specific enough in defining [the plaintiff’s] trade secrets.” The appellant also argued that the plaintiff’s definition of the trade secrets involved “changed during the course of the litigation.” *Id.* at 898. The Minnesota Supreme Court overturned for lack of specificity the district court’s finding that the “general design procedures” of the plaintiff’s electric motors were

trade secrets. However, the Minnesota Supreme Court held that other trade secrets were sufficiently specific:

With respect to the moving coil motor, however, ECC claims that the dimensions, tolerances, adhesives, and manufacturing processes of the ECC 1125-03-003 motor are trade secrets. The thrust of ECC's claim is that the specific combination of details and processes for the ... motor is a trade secret, and the evidence of the specific features of the 1125 motor are trade secrets. We believe that ECC's claim was specific enough in identifying its trade secrets to support a misappropriation action.

*Electro-Craft v. Controlled Motion, Inc.*, 332 N.W.2d 890, 898 (Minn. 1983). Subsequent cases have said that it is the plaintiff's "responsibility to specify the precise information that it claimed to be protected trade secrets." *Reliastar Life Ins. Co. v. KMG America Corp.*, No. A05-2079, 2006 WL 2529760, at \*4 Minn. Ct. App. Sept. 5, 2006).

## **24. Mississippi**

Mississippi has enacted the Mississippi Uniform Trade Secrets Act. MISS. CODE ANN. §§ 75-26-1 *et seq.* (1991). The Mississippi statute tracks the language in the 1985 version of the uniform trade secrets act, but does not include the provision limiting the amount of exemplary damages. In Mississippi, there is no limit on the amount of exemplary damages that may be awarded.

### **a. Mississippi Definition of a "Trade Secret"**

The definition of a trade secret in Mississippi is identical to the language in the uniform trade secrets act. MISS. CODE ANN. § 75-26-3(d) (1991).

In *Fred's Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902 (Miss. 1998), the alleged trade secret was a list of pharmacy customers that included the amounts each customer had spent on prescription medicine during the last tax year. The Mississippi Supreme Court held that the efforts to maintain the secrecy of the list were sufficient. The list was printed out once a year from a computer, so that the pharmacist

could provide a total to any customer who wanted to know how much he had spent on prescription medicine for purposes of his tax return. The computer was accessed through a password. The list was kept in an accordion folder on the pharmacy counter during those months of the year when it was used frequently (through April 15). It was kept in an unlocked filing cabinet when it was not being used frequently. The pharmacy platform was located in the back left corner of the building. There was a gate without a locking device at the entrance of the pharmacy platform. Because the pharmacy contained prescription medicine and controlled substances, access to the pharmacy was limited to pharmacists, pharmacy technicians, pharmacy students in internships, stock persons, and when absolutely necessary a counter person. People such as pest control servicemen were also allowed behind the counter, but were carefully monitored. 725 So.2d at 910.

In the *Fred's Stores* case, the defendant was not required to sign any sort of termination agreement ensuring confidentiality when he left his employment. The list was not stamped with any sort of language identifying it as secret or confidential. The defendant testified he was never told the list was a trade secret, and that he did not recall there ever being any trade secret policy. There were no instructions given to employees about what to do with the list after April 15th. Another employee testified he tossed the list in the dumpster after the end of tax season.

The Mississippi Supreme Court said that it may have decided the case differently if the list had been maintained behind the front counter, instead of the pharmacy platform area. 725 So.2d at 911. The Mississippi Supreme Court found it persuasive that the list was maintained in the same area as the prescription drugs, an area to which any pharmacy should carefully monitor access. *Id.* The information on the list was not divulged to

anyone outside of the business save the customer who requested an accounting of his expenditures for the year. When a request was made by a customer, the pharmacist would look up the information and write it on a separate sheet of paper to give to the customer. This sheet of paper could only be signed by a pharmacist, and only two employees were pharmacists, one of whom was the former employee who took the list. The court found that the number of employees who had access to the list was limited, and the list was available only to those employees who needed to know the information. *Id.* The Mississippi Supreme Court found these steps to be reasonable in this particular case “because of the unique security necessary to protect prescription drugs in the pharmacy setting.” *Id.*

The *Fred’s Stores* case provides an interesting twist to the interpretation of the statutory requirement that the information alleged to be a “trade secret” must be the **subject** of efforts that are reasonable under the circumstances to maintain **its** secrecy. If information is left in an area where access is limited for **other reasons**, that may nevertheless be sufficient under Mississippi law to satisfy the statutory requirement.

**b. Damages in Mississippi**

In the *Fred’s Stores* case, the plaintiff alleged that the defendant provided the list to his new employer, who used the list to write letters to more than 900 of the plaintiff’s customers. 725 So.2d at 905. On the issue of damages, the plaintiff introduced a list of at least 150 customers who had received a letter, and had then moved to the defendant’s newly opened store for prescriptions. The court held that this was sufficient evidence to prove proximate cause. *Id.* at 913. However, the Mississippi Supreme Court reversed the award of compensatory damages based upon lost sales, because the plaintiff failed to

prove net profits lost, and instead only offered proof of a reduction in gross sales and gross revenues. *Id.* at 914-15. The court allowed a recovery of \$650 based upon the cost the plaintiff incurred to recreate the list, after it was taken by the departing employee and later shredded by the defendant prior to commencement of the lawsuit. *Id.* at 915. The court also affirmed an award of \$300,000 in punitive damages on grounds that it was not against the overwhelming weight of the evidence. *Id.* at 921.

**c. Preemption in Mississippi**

In the *Fred's Stores* case, the Mississippi Supreme Court held that the Mississippi Uniform Trade Secrets Act does not preempt other causes of action involving theft or use of information, such as claims for unfair competition or claims for intentional interference with a business relationship. 725 So.2d at 908.

In the *Fred's Stores* case, the plaintiff drug store maintained a list each year of each customer's name, address, phone number, and annual expenditures on prescription medication, and used the list to provide information to customers who needed the total amount they had spent on prescriptions for their tax returns. 725 So.2d at 904. There was no policy or procedure for keeping the list after it was no longer needed, or the information became outdated. *Id.* One pharmacist testified that when the information became outdated or the list was no longer needed for the tax year, he would throw the list away in the dumpster. *Id.* A pharmacist employed by the plaintiff resigned to take a job with a competitor, and took with him a copy of the list. He testified that he did not think his taking of the list would be any "big deal" because it was after April 15, and the list was not used very often after that date. *Id.*

The plaintiff asserted, in addition to a trade secret misappropriation claim, additional claims for unfair competition, intentional interference with a business relationship, intentional interference with a lawful trade, and intentional interference with a business interest. *Id.* at 907. All of the causes of action had as their central theme the defendant’s role in connection with the theft or use of the list of customers. *Id.* The Mississippi Supreme Court held that the Mississippi Uniform Trade Secrets Act did not preempt the other claims for relief. The court concluded:

“[W]e conclude that [the plaintiff’s] other claims for relief are not preempted or displaced by the Mississippi Uniform Trade Secrets Act. Each of the claims could stand alone and withstand summary judgment even without [the plaintiff] proving that the I.R.S. list was a trade secret. Each of the claims basically alleges that [the defendants] conspired to take and use the list for an economic advantage to the detriment of [the plaintiff]. These claims are independent of the misappropriation of trade secret claim and not conflicting with the Mississippi Uniform Trade Secrets Act.”

*Fred’s Stores of Mississippi, Inc. v. M&H Drugs, Inc.*, 725 So.2d 902, 908 (Miss. 1998).

## **25. Missouri**

Missouri has adopted the Uniform Trade Secrets Act, codified as MO. ANN. STAT. §§ 417.450 - 417.467 (West 2015). Missouri adopted a five-year statute of limitations. MO. ANN. STAT. § 417.461 (West 2015).

Missouri did not adopt the provisions allowing an award of attorney’s fees.<sup>270</sup>

### **a. Missouri Definition of a “Trade Secret”**

The Missouri legislature modified the definition of a “trade secret” to explicitly include “technical or nontechnical data.” MO. ANN. STAT. § 417.453(4) (West 2015).

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<sup>270</sup> The Missouri legislature also did not enact section 10 of the uniform act concerning severability.

Missouri also modified the language to say that a trade secret is “information, including **but not limited to** ...”. *Id.* (emphasis added).

In spite of the statutory definition of a “trade secret,” Missouri courts continue to follow the six factors set forth in the *Restatement (First) of Torts* §757 to determine whether information is a trade secret. *Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 926 (E.D. Mo. 2010), quoting *Cerner Corp. v. Visicu, Inc.*, 667 F. Supp.2d 1062, 1077–78 (W.D. Mo. 2009) (interpreting MO. REV. STAT. § 417.453).

Under Missouri law, “[t]he subject matter of a trade secret must be secret.” *Kessler-Heasley Artificial Limb Co. v. Kenney*, 90 S.W.3d 181, 189 (Mo. Ct. App. 2002). Generally, “[m]atters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret.” *AEE-EMF, Inc. v. Passamore*, 906 S.W.2d 714, 722 (Mo. Ct. App. 1995).

Generally, Missouri courts refuse to protect confidential information that is not in continuous use and is only valuable for a limited time, and knowledge that is the natural product of employment. *Brown v. Rollet Bros. Trucking Co.*, 291 S.W.3d 766 (Mo. Ct. App. 2009).

In the case of *Walter E. Zemitzsch, Inc. v. Harrison*, 712 S.W.2d 418 (Mo. Ct. App. 1986), the definition of a trade secret was not met there the information in question concerned operations, costs, profits, pricing structures, source for raw material, production timing and identities of client contacts, and the information was common knowledge or easily obtained.



In Missouri, “[t]he existence of a trade secret is a conclusion of law based on the applicable facts.” *Lyn-Flex West, Inc. v. Dieckhaus*, 24 S.W.3d 693, 698 (Mo. Ct. App. 1999).

**b. Missouri Definition of a “Person”**

Missouri modified the definition of a “person” to add that it included “... any other legal or commercial entity, *whether for profit or not for profit*.” MO. ANN. STAT. § 417.453(3) (West 2015).

**c. Damages in Missouri**

A Missouri case has addressed the measurement of damages in the form of a reasonable royalty under the Missouri Uniform Trade Secrets Act. *Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923 (E.D. Mo. 2010). In that case, the court agreed that neither unjust enrichment nor lost profits would provide an appropriate means of measuring any potential damages. 708 F. Supp.2d at 731. Neither the plaintiffs nor the defendant had operational plants, and the defendant claimed that its plant would never become operational. *Id.* The plaintiffs provided evidence that the trade secrets were valuable to potential entrants to the coal gasification business. *Id.* The court also noted that the plaintiffs’ development costs may not adequately compensate it for the loss of a valuable trade secret. The court said:

In determining a reasonable royalty, Plaintiffs must first create a hypothetical negotiation between the parties set at the time the misappropriation began. The parties then determine the royalty the parties would have agreed to, taking into consideration the market at that time. Once the royalty is determined, that value is used to calculate the total amount owed by defendants for their misappropriation of the trade secret.

*Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 931 (E.D. Mo. 2010)

(citations omitted).

The Court said that “[a] reasonable royalty may be computed in various ways, including a lump-sum royalty based on expected sales or a running royalty based on a percentage of actual sales.” 708 F. Supp.2d at 932, *quoting from LinkCo, Inc. v. Fujitsu Ltd.*, 232 F. Supp.2d 182, 188 (S.D.N.Y. 2002).

The court listed the following factors that may be considered in determining the amount of a reasonable royalty under the Missouri Uniform Trade Secrets Act:

1. The royalties received by the plaintiff for the licensing of the trade secrets to others, which may prove an established royalty;
2. The rates paid by the defendant for the use of other trade secrets comparable to the trade secret in suit;
3. The nature and scope of the license, as exclusive or non-exclusive; or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold;
4. The plaintiff’s established policy and marketing program to maintain its trade secret by not licensing others to use the invention or by granting licenses under special conditions designed to preserve the trade secret;
5. The commercial relationship between the plaintiff and defendant, such as, whether they are competitors in the same territory in the same line of business; or whether they are inventor and promoter;
6. The effect of selling the trade secret product in promoting sales of other products of the defendant; the existing value of the trade secret to the plaintiff as a generator of sales of its non-trade secret items; and the extent of such derivative or connected or conveyed sales;
7. The duration of the trade secret and the term of the license;
8. The established profitability of the product made with the trade secret; its commercial success; and its current popularity;
9. The utility and advantages of the trade secret over the old modes or devices, if any, that had been used for working out similar results;
10. The nature of the trade secret; the character of the commercial embodiment of it as owned or produced by the plaintiff; and the benefits to those who have used the trade secret;

11. The extent to which the defendant has made use of the trade secret; and any evidence probative of the value of that use;
12. The portion of the profit or of the selling price that may be customary in the particular business or in comparable businesses to allow for the use of the trade secret or analogous trade secrets;
13. The portion of the realizable profit that should be credited to the invention as distinguished from non-trade secret elements, the manufacturing process, business risks, or significant features or improvements added by the defendant;
14. The opinion testimony of qualified experts;
15. The amount that the plaintiff and the defendant would have agreed upon (at the time the misappropriation began) if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount which a prudent licensee—who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the trade secret—would have been willing to pay as a royalty and yet be able to make a reasonable profit and which amount would have been acceptable to a prudent licensor who was willing to grant a license.

*Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 931 n.4 (E.D. Mo. 2010) (citations omitted).

#### **d. Punitive Damages in Missouri**

The Missouri legislature rejected the language in section 3 of the uniform trade secrets act concerning exemplary damages. Instead, Missouri enacted the following provision governing punitive damages:

If misappropriation is outrageous because of the misappropriator's evil motive or reckless indifference to the rights of others, the court may award punitive damages.

MO. ANN. STAT. § 417.457 (West 2015).

The Missouri statute provides a different standard for awarding punitive damages. *Cf. Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 933 (E.D. Mo. 2010) (“Under Missouri law, ‘[i]f misappropriation is outrageous because of the

misappropriator's evil motive or reckless indifference to the rights of others, the court may award punitive damages'.") (citation omitted).

In addition, the Missouri statute does not place any limit on the amount of punitive damages.

**e. Attorney's Fees in Missouri**

The Missouri legislature did not enact section 4 of the uniform act allowing the recovery of attorney's fees under certain circumstances. Consequently, an award of attorney's fees is not available in Missouri. *Secure Energy, Inc. v. Coal Synthetics, LLC*, 708 F. Supp.2d 923, 934 (E.D. Mo. 2010).<sup>271</sup>

**f. Preemption in Missouri**

Common law claims for misappropriation of confidential information are preempted in Missouri. *Coulter Corp. v. Leinert*, 869 F. Supp. 732, 734 (E.D. Mo. 1994) ("[T]he issue becomes whether allegations of trade secret misappropriation alone comprise the underlying wrong; if so, the cause of action is barred.").

The preemption provisions of the Missouri state were modified to include a statement that the Missouri statute shall not affect "[t]he discovery of facts, opinions, information, documents, things, and any other matters discoverable in litigation, except in litigation which alleges misappropriation of trade secrets as a cause of action." MO. ANN. STAT. § 417.463(2)(4) (West 2015).

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<sup>271</sup> There may be an argument available under Missouri law, based upon a case decided prior to the enactment of the Missouri statute, that attorney's fees could be awarded if the parties entered into a contract providing for an award of attorney's fees to the prevailing party. *Watlow Elec. Mfg. Co. v. Wrob*, 899 S.W.2d 585 (Mo. Ct. App. 1995); see also MO. ANN. STAT. § 417.463(2)(1) (West 2015) (Missouri statute does not affect contractual remedies).

**g. Identification of Trade Secrets in Missouri**

Under Missouri law, a plaintiff seeking relief for misappropriation of trade secrets must initially identify the trade secrets at issue. *Bancorp Servs., L.L.C. v. Hartford Life Ins. Co.*, 2002 WL 32727076, at \*3 (E.D. Mo. Feb. 25, 2002) (“A plaintiff seeking relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist.”) (citation omitted); *see also Conseco Fin. Servicing Corp. v. North Am. Mortgage Co.*, No. 00-CV-1776, 2000 WL 33739340 (E.D. Mo. Dec. 6, 2000) (The party seeking trade secret protection bears the burden of proving that a trade secret exists).

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