



2002

# The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law

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## Recommended Citation

Babirak, Milton E. Jr. (2002) "The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law," *University of Baltimore Law Review*: Vol. 31: Iss. 2, Article 3.

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# THE MARYLAND UNIFORM TRADE SECRETS ACT: A CRITICAL SUMMARY OF THE ACT AND CASE LAW†

Milton E. Babirak, Jr.††

“Your secret is your property.”<sup>1</sup>

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† This article is derived from a law review article entitled *The Virginia Uniform Trade Secret Act: a Critical Summary of the Act and Case Law*, 5 VA. J.L. & TECH. 15 (2000), available at [www.vjolt.org](http://www.vjolt.org), and a speech entitled “The Uniform Trade Secrets Act in the United States” given by the author in Kitzbuhel, Austria on March 21, 2000, at a Conference on the International Protection of Intellectual Property, which was sponsored by the Center for International Legal Studies and co-sponsored by the American Bar Association’s Section on International Law.

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1. PROVERBS MAXIMS AND PHRASES OF ALL AGES (Robert Christy ed., G. P. Putnam’s Sons 1906) (quoting Rothschild).

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## I. INTRODUCTION

The Uniform Trade Secrets Act ("Uniform Act")<sup>2</sup> was originally proposed over twenty years ago in the United States by the National Conference of Commissioners on Uniform State Laws, and now it has been enacted in most of the individual states.<sup>3</sup> The Maryland Uniform Trade Secrets Act ("Maryland Act")<sup>4</sup> was enacted in Maryland, with some modifications to the Uniform Act, and became effective on July 1, 1989.<sup>5</sup> Just after its enactment in 1990, Peter B. Swann authored an excellent note on the Maryland Act.<sup>6</sup> However, at that time, there were relatively few reported Maryland cases on the common law of trade secrets and no reported cases litigated under the Maryland Uniform Trade Secrets Act.<sup>7</sup> The purpose of this article, in addition to reviewing the Maryland Act, is to review over twelve years of case law in Maryland since the enactment of the Maryland Act and the publication of Swann's Note. To attempt to accomplish these purposes, this article will: (1) briefly review the historical development of trade secrets law;<sup>8</sup> (2) critically summarize the significant provisions of the Maryland Act, including a discussion of a few unusual and contro-

2. UNIF. TRADE SECRETS ACT §§ 1-12 (amended 1985), 14 U.L.A. 437 (1990).

3. See *infra* note 60 and accompanying text for the state statutes enacting the Uniform Act.

4. MD. CODE ANN., COM. LAW II §§ 11-1201 to -1209 (2000).

5. *Id.* § 11-1201.

6. Peter B. Swann, Note, *Maryland Uniform Trade Secrets Act*, 49 MD. L. REV. 1056 (1990).

7. *Id.* at 1061.

8. See *infra* notes 15-68 and accompanying text. This article does not cover the Economic Espionage Act. See generally J. Derek Mason et al., *The Economic Espionage Act: Federal Protection for Corporate Trade Secrets*, 16 NO. 3 COMPUTER LAW. 14 (1999), WL 16 No. 3 CLW 14, for a discussion of this topic.

versial features of the Maryland Act;<sup>9</sup> (3) compare the Maryland Act and the Uniform Act;<sup>10</sup> and (4) review most of the significant published case law in Maryland concerning the Maryland Act.<sup>11</sup>

## II. HISTORICAL DEVELOPMENT OF TRADE SECRETS LAW

Epigraphical and literary sources clearly establish that trade secrets have existed for many years.<sup>12</sup> Early businesses had trade secrets, such as customer lists, secret formulas, methods of production, and vital business and financial records.<sup>13</sup> Because trade secrets gave an enterprise a competitive advantage, early businessmen must have attempted to protect their commercially unique processes and records. Surprisingly, however, the early history of the law governing trade secrets is unclear.<sup>14</sup> There is a debate among classical Greek and Roman scholars regarding the existence of legal protection of trade secrets during the era when sophisticated Greek and Roman businesses flourished and traded throughout the known world at that time.<sup>15</sup> One commentator, who cites Justinian and Gaius, argued that during the time of the late Republic and early Empire, there was a cause of action called *actio servi corrupti* that provided a remedy in the Roman law to a master against a competitor who had enticed a slave to give up one of his master's secrets.<sup>16</sup> As late as the Middle Ages in Europe, there does not appear to be any protection of trade secrets through the application of any unified body of trade secret law.<sup>17</sup> At that time, trade secrets were protected, if at all, through the application of unfair competition laws.<sup>18</sup>

### A. Europe

Trade secret law began to develop with the newfound mobility of labor during the Industrial Revolution in Europe.<sup>19</sup> Some early English trade secret cases were published in the Nineteenth Century.<sup>20</sup>

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9. See *infra* 69-115 and accompanying text.
  10. See *infra* Parts III & IV.
  11. See *infra* Parts III & IV.
  12. See A. Aurthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, 30 COLUM. L. REV. 837, 838 n.5 (1930).
  13. See *id.* See generally JERRY COHEN & ALAN S. GUTTERMAN, TRADE SECRETS PROTECTION AND EXPLOITATION 5-7 (1998) [hereinafter COHEN & GUTTERMAN].
  14. See *infra* notes 16-18 and accompanying text.
  15. See Schiller, *supra* note 12, at 837-38.
  16. *Id.* at 839 & n.18.
  17. *Id.* at 837.
  18. *Id.*
  19. The relationship between current trade secret law and the mobility of employees is discussed in Edmund W. Kitch, *The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem for the Law*, 47 S.C. L. REV. 659 (1996).
  20. See COHEN & GUTTERMAN, *supra* note 13, at 6 & nn.8-9.

One such case was the 1851 case of *Morison v. Moat*.<sup>21</sup> In *Morison*, the plaintiff was granted an injunction to restrain the defendant from using a secret for compounding a medicine named "Morison's Universal Medicine."<sup>22</sup> The defendant had acquired knowledge of the secret process to make the medicine, which was not patented, in violation of a contract and in breach of good faith.<sup>23</sup> However, this case was not the first trade secret case of industrial England.<sup>24</sup> The Vice-Chancellor, who wrote the opinion, noted that by 1851 the court had heard trade secret cases before and stated "[t]hat the Court has exercised jurisdiction in cases of this nature does not, I think, admit of any question."<sup>25</sup>

### B. Early American Trade Secret Case Law

Possibly the first reported American case involving trade secrets was the 1837 case of *Vickery v. Welch*,<sup>26</sup> which involved the sale of a chocolate mill in Braintree, Massachusetts.<sup>27</sup> In the sales agreement for the mill, the seller agreed to sell the mill, to convey to the buyer the secret as to how to make the chocolate, and to deliver a written assurance that he would not give the secret to anyone else.<sup>28</sup> Two or three other persons in the company had knowledge of the seller's secret, but they had given a written oath not to divulge it.<sup>29</sup> The buyer tendered the consideration.<sup>30</sup>

Upon advice of counsel, the seller refused to tender to the buyer the written promise not to convey his secret art to others.<sup>31</sup> The seller argued that if he so bound himself, it would be an unlawful restraint of trade.<sup>32</sup> The Massachusetts court upheld the terms of the contract and ordered the seller not to disclose the secret to others.<sup>33</sup> The court reached the conclusion that there was no restraint of trade in this case because it was "of no consequence to the public whether the secret art be used by the plaintiff or by the defendant."<sup>34</sup>

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21. 68 Eng. Rep. 492 (Ch. 1851).

22. *Id.* at 493.

23. *Id.* at 501.

24. *Id.* at 498. The court stated that "[t]he case of *Green v. Folgham* . . . where the Court decreed an account against a party to whom a secret of this nature had been entrusted, might perhaps be accounted for upon the ground that the Defendant in that case had expressed himself to be trustee of the secret." *Id.* (citations omitted).

25. *Id.*

26. 36 Mass. 523 (1837).

27. *Id.*

28. *Id.* at 523-24.

29. *Id.* at 524.

30. *Id.*

31. *Id.*

32. *Id.* at 525.

33. *Id.* at 527.

34. *Id.*

The earliest reported case in Maryland that specifically involved an alleged trade secret was possibly *Fulton Grand Laundry Co. v. Edward Johnson*.<sup>35</sup> This may have been Maryland's earliest case because the Court of Appeals of Maryland stated that it could not locate any prior decisions in the court of appeals, nor could it find any decisions that dealt specifically with trade secrets.<sup>36</sup> The case involved a list of customers on a laundry route used by an employee of the laundry company.<sup>37</sup> The employee left the laundry company and used the list to start his own business.<sup>38</sup> The court held that the identity of the customers on the laundry route was not a trade secret:

The decisions in this country and in England seem to be fairly harmonious in principle as to the duty of courts to protect owners of trade secrets from disclosure by employees, but the divergences begin when the question to be determined in particular cases is, whether the thing sought to be protected should be classed as a trade secret. And this is the real question presented in this case.

A thing can hardly be said to be a secret, in the sense that it should be guarded by a court of equity, which is susceptible of discovery by observation, and which is open to the observation of any one who thinks it worth while to observe.<sup>39</sup>

C. *Judiciary Attempts to Formulate a Legal Theory to Encompass Trade Secrets*

As more and more of these early cases were heard in England and America, the judiciary attempted to formulate a unified comprehensive legal theory to justify the protection of trade secrets. In the above mentioned 1851 case of *Morison v. Moat*,<sup>40</sup> the English court was already focusing on the theoretical basis for the protection of trade secrets:

[D]ifferent grounds have indeed been assigned for the exercise of that jurisdiction. In some cases it has been referred to property, in others to contract, and in others, again, it has been treated as founded upon trust or confidence, meaning, as I conceive, that the Court fastens the obligation on the conscience of the party, and enforces it against him in the same manner as it enforces against a party to whom a benefit is given the obligation of performing a promise on the faith of which the benefit has been conferred; but, upon whatever

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35. 140 Md. 359, 117 A. 753 (1922).

36. *Id.* at 361, 117 A. at 753.

37. *Id.* at 360, 117 A. at 753.

38. *Id.*

39. *Id.* at 361, 117 A. at 753.

40. *See supra* notes 21-24.

grounds the jurisdiction is founded, the authorities leave no doubt as to the exercise of it.<sup>41</sup>

Even today, there does not appear to be any singular underlying legal theory to justify the protection of trade secrets. While the need for the protection of such secrets is virtually uncontroverted in most Western countries, the several legal theories used to justify trade secret legislation do so only partially and inadequately.<sup>42</sup>

### 1. Property Right of Owner

Early trade secret cases and some current trade secret cases justify the protection of trade secrets as a property right of the owner of the trade secret.<sup>43</sup> However, this theory does not work in all cases. For example, trade secret law provides that the owner of a trade secret has no right to protect it if that secret is acquired by others who develop it on their own by proper means.<sup>44</sup> Also, protection of a trade secret will be lost, and others will be able to exploit it, if the secret is inadvertently or even improperly disclosed to the public or if the secret enters the public domain.<sup>45</sup> Clearly, these examples are inconsistent with the concept of protection of a trade secret based on a property right.

### 2. Contract Theory

Contract theory is another basis asserted for the protection of trade secrets.<sup>46</sup> However, this theory has limited applicability because in many cases a written contract does not exist between the owner of the trade secret and the misappropriator of the trade secret.<sup>47</sup> The misappropriator may even be a complete stranger to the owner of the trade secret.<sup>48</sup> A frequent example is the case of a departing employee who misappropriates a trade secret from his employer. Typically, the employee in this type of scenario has not executed a non-disclosure of proprietary information agreement or an employment agreement that covers trade secrets.<sup>49</sup>

### 3. General Duty of Good Faith

Recognizing the obvious inadequacies of the use of the property theory and the contract theory to justify the protection of trade secrets, legal scholars and jurists advanced the theory that the protec-

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41. 68 Eng. Rep. 492, 498 (Ch. 1851).

42. See generally Kristine M. Boylan, *The Corporate Right of Publicity in Federal Dilution Legislation* (pt. 2), J. PAT. & TRADEMARK OFF. SOC'Y 5 (2000).

43. COHEN & GUTTERMAN, *supra* note 13, at 12.

44. *Id.*

45. *Id.*

46. HENRY H. PERRITT, JR., *TRADE SECRETS: A PRACTITIONER'S GUIDE* 6 (1994).

47. *Id.*

48. See, e.g., DTM Research, L.L.C. v. AT&T Corp., 245 F.3d 327 (4th Cir 2001).

49. See *infra* note 127 and accompanying text.

tion of trade secrets is justified on the basis of a general duty of good faith.<sup>50</sup> Simply stated, the protection of a person who possesses a trade secret from another, who misappropriates it by improper or unlawful means, is an issue of fundamental fairness.<sup>51</sup>

#### 4. Encourage Development of Technology

Finally, it has been argued that trade secret protection is justified, like patents, to encourage inventors and investors to create, innovate, and develop new technologies by protecting their inventions and investments and allowing them to profit thereby.<sup>52</sup>

#### D. *The Restatement Sheds New Light*

Regardless of the absence of a singular and comprehensive underlying theory justifying the protection of trade secrets, during the early Twentieth Century, the number of trade secret cases began to increase substantially.<sup>53</sup> Concurrently, prominent American legal scholars and jurists began to draft the first *Restatement* to set forth the general principles of law in an attempt to foster a uniformity in the laws of the various states.<sup>54</sup> In 1939, in recognition of this growing body of trade secret case law, the drafters of the first *Restatement* included an important new definition of a trade secret.<sup>55</sup> Comment b of section 757b of the *Restatement of the Law of Torts* defined a trade secret as any "formula, pattern, device, or compilation of information which is used in one's business, and which gives [the user] an opportunity to obtain an advantage over competitors who do not know or use it."<sup>56</sup>

#### E. *The Uniform Act*

After the publication of the first *Restatement's* definition of trade secret, it was widely applied by the judiciary to the increasing numbers of trade secret cases in the United States.<sup>57</sup> In 1969, the United States National Conference of Commissioners on Uniform State Laws ("Con-

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50. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481-82 (1974).

51. *Id.*

52. *Id.* at 484.

53. See generally Robert T. Neufeld, Note, *Mission Impossible: New York Cannot Face the Future Without a Trade Secret Act*, 7 *FORDAM INTELL. PROP. MEDIA & ENT. L.J.* 883 (1997).

54. COHEN & GUTTERMAN, *supra* note 13, at 18.

55. RESTATEMENT OF THE LAW OF TORTS § 757 cmt. b (1939).

56. *Id.*

57. See, e.g., *Associated Perfumers, Inc. v. Andelman*, 55 N.E.2d 209, 214 (Mass. 1944) (holding that merchandising methods do not fall under the definition of trade secrets); *Fairchild Engine & Airplane Corp. v. Cox*, 50 N.Y.S.2d 643, 66, 651 (Sup. Ct. 1944) (holding that the process for bonding aluminum to steel qualified as a trade secret); *Pitt. Cut Wire Co. v. Sufrin*, 38 A.2d 33, 34 (Pa. 1944) (holding that a paper clip machine that the defendant learned of while employed by the plaintiff was not a trade secret).



ference") organized a Committee ("Committee") to develop a uniform trade secret act. The Committee considered the definition of a trade secret used in the first *Restatement* and formulated the Uniform Act's definition of a trade secret, relying heavily on the definition found in the first *Restatement*.<sup>58</sup> In 1979, the Conference adopted the Uniform Trade Secrets Act ("Uniform Act") and, in 1985, it made important amendments to the Uniform Act.<sup>59</sup>

The Uniform Act soon became recognized in the various states as a model for legislation. Currently, forty-two of the fifty states and the District of Columbia have enacted a version of the Uniform Act, each state varying its legislation to some degree from the Uniform Act.<sup>60</sup>

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58. For a discussion of the evolution of the various definitions of trade secrets in the *Restatements* since the first *Restatement* in 1939, see Kitch, *supra* note 19, 660-62.

59. UNIF. TRADE SECRETS ACT, 14 U.L.A. 434 Commissioner's prefatory note.

60. The effective dates of each of the state statutes and the citation to the act in the state code are: ALA. CODE §§ 8-27-1 to 8-27-6 (1993) (entered effect Aug. 12, 1987); ALASKA STAT. §§ 45.50.910 to 45.50.945 (Michie 2000) (entered effect Sept. 2, 1988); ARIZ. REV. STAT. ANN. §§ 44-401 to 44-407 (West 1994) (entered effect Sept. 27, 1990); ARK. CODE ANN. §§ 4-75-601 to 44-75-607 (Michie 2001) (entered effect Mar. 12, 1981); CAL. CIV. CODE §§ 3426 to 3426.11 (West 1997) (entered effect Jan. 1, 1985); COLO. REV. STAT. ANN. §§ 7-74-101 to 7-74-110 (West 1999) (entered effect July 1, 1986); CONN. GEN. STAT. ANN. §§ 35-50 to -58 (West 1997) (enacted June 23, 1983); DEL. CODE ANN. tit. 6, §§ 2001 to 2009 (1999) (entered effect Apr. 15, 1982); D.C. CODE ANN. §§ 48-501 to 48-510 (2000) (enacted effect Mar. 16, 1989); FLA. STAT. ANN. §§ 688.001 to 668.009 (Supp. 2001) (entered effect Oct. 1, 1988); GA. CODE ANN. §§ 10-1-760 to 10-1-767 (2000) (entered effect July 1, 1990); HAW. REV. STAT. §§ 482B-1 to 482B-9 (1993) (entered effect July 1, 1989); IDAHO CODE §§ 48-801 to 48-807 (Michie 1997) (entered effect 1989); 765 ILL. COMP. STAT. ANN. §§ 1065/1 to 1065/9 (West 2001) (entered effect Jan. 1, 1988); IND. CODE ANN. §§ 24-2-3-1 to 24-2-3-8 (Michie 1996) (enacted Feb. 25, 1982); IOWA CODE ANN. §§ 550.1 to 550.8 (West 1997) (enacted Apr. 27, 1990); KAN. STAT. ANN. §§ 60-3320 to 60-3330 (1994) (entered effect July 1, 1981); KY. REV. STAT. ANN. §§ 365-880 to 365-900 (Banks-Baldwin 1994) (enacted Apr. 6, 1990); LA. REV. STAT. ANN. §§ 51:1431 to 51:1439 (West 1987) (enacted July 19, 1981); ME. REV. STAT. ANN. tit. 10, §§ 1541 to 1548 (West 1997) (entered effect May 22, 1987); MD. CODE ANN., COM LAW II §§ 11-1201 to -1209 (2000) (entered effect July 1, 1989); MICH. COMP. LAWS ANN. §§ 445.1901 to 445.1910 (West Supp. 2001) (entered effect Oct. 1, 1998); MINN. STAT. ANN. §§ 325C.01-325C.08 (West 1995) (entered effect Jan. 1, 1981); MISS. CODE ANN. §§ 75-26-1 to 75-26-19 (1999) (entered effect July 1, 1990); MO. ANN. STAT. §§ 417.450 to 417.467 (West 2001) (entered effect Aug. 28, 1995); MONT. CODE ANN. §§ 30-14-401 to 30-14-409 (1999) (entered effect 1985); NEB. REV. STAT. §§ 87-501 to 87-507 (1999) (entered effect July 8, 1988); NEV. REV. STAT. ANN. §§ 600A.010 to 600A.100 (1999) (entered effect Mar. 5, 1987); N.H. REV. STAT. ANN. §§ 350-B:1 to 350-B:9 (1995) (entered effect Jan. 1, 1990); N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (Michie 2000) (enacted Apr. 3, 1989); N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (1999) (entered effect July 1, 1983); OHIO REV. CODE ANN. §§ 1333.61 to 1333.69 (West 1993) (entered effect July 20, 1994); OKLA. STAT. tit. 78, §§ 85-94 (West 1995) (entered effect Nov. 1, 1986); OR. REV. STAT. §§ 646.461 to 646.475 (1999) (entered effect Jan. 1, 1988); R.I. GEN. LAWS §§ 6-41-1 to 6-41-11 (2001) (entered

Since its adoption by the Conference and enactment by various states, the Uniform Act has been interpreted and redefined by numerous state courts.<sup>61</sup> Maryland's judiciary has also provided judicial gloss to the Uniform Act from the time that the Maryland Uniform Trade Secrets Act took effect on July 1, 1989.<sup>62</sup>

#### F. *International Trade Secret Law*

Because so many states have enacted a version of the Uniform Act, and because there has been so much litigation based on it, it is plausible to conclude that not only is trade secret law here to stay as a distinct and unified body of law, but that it will also continue to develop into a more comprehensive body of law in Maryland and throughout the United States. Other countries are also adopting some form of trade secrets law.<sup>63</sup> Some of those countries are following the format and concepts of the Uniform Act.<sup>64</sup> However, some of the United

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effect July 1, 1986); S.C. CODE ANN. §§ 39-8-10 to 39-8-130 (Law. Co-op. Supp. 2001) (entered effect May 21, 1997); S.D. CODIFIED LAWS §§ 37-29-1 to 37-29-11 (Michie 2000) (entered effect July 1, 1988); UTAH CODE ANN. §§ 13-24-1 to 13-24-9 (2001) (entered effect May 1, 1989); VT. STAT. ANN. tit. 9, §§ 4601-09 (Supp. 2001) (entered effect July 1, 1996); VA. CODE ANN. §§ 59.1-336 to 59.1-343 (Michie 2001) (entered effect July 1, 1986); WASH. REV. CODE ANN. §§ 19.108.010 to 19.108.940 (West 1999) (entered effect Jan. 1, 1982); W. VA. CODE ANN. §§ 47-22-1 to 47-22-10 (Michie 1999) (entered effect July 1, 1986); WIS. STAT. ANN §§ 134.90 (West 2001) (entered effect Apr. 24, 1986).

61. See, e.g., *Zemco Mfg., Inc. v. Navistar Int'l Transp. Corp.*, 759 N.E.2d 239, 245 (Ind. Ct. App. 2001) (applying and discussing the Indiana Trade Secrets Act); *Titus v. Rheitone, Inc.*, 758 N.E.2d 85, 95 (Ind. Ct. App. 2001) (same); *Home Pride Foods, Inc. v. Johnson*, 634 N.W.2d 774, 781 (Neb. 2001) (defining trade secret under Nebraska law); *Combs & Assocs., Inc. v. Kennedy*, 555 S.E.2d 634, 639-40 (N.C. Ct. App. 2001) (discussing what constitutes a trade secret under the laws of North Carolina).
62. See, e.g., *Diamond v. T. Rowe Price Assocs., Inc.*, 852 F. Supp. 372, 411 (D. Md. 1994) (applying and discussing the Maryland Uniform Trade Secrets Act); *Bond v. Polycycle, Inc.*, 127 Md. App. 365, 732 A.2d 970, 977 (1999) (applying and discussing the Maryland Uniform Trade Secrets Act); *Optic Graphics, Inc. v. Agee*, 87 Md. App. 770, 784, 591 A.2d 578, 585 (1991) (applying and discussing the Maryland Uniform Trade Secrets Act). Many trade secrets cases are arbitrated, mediated or settled by the parties for various reasons such as cost-effectiveness and privacy. See COHEN & GUTTERMAN, *supra* note 13, at 225-26, 228, 235.
63. See, e.g., Yuan Cheng, *Legal Protection of Trade Secrets in the People's Republic of China*, 5 PAC. RIM L. & POL'Y J. 261 (1996) (discussing how the ambiguity of China's law for preventing unfair competition affects remedies for misappropriating an employer's trade secret). But see Anuja Rajbhandary, *Protecting Trade Secrets Through Family Businesses: A Case Study on Nepal*, 16 INT'L REV. L. & ECON. 483 (1996) (utilizing empirical evidence to demonstrate that companies opt to hire family members when there are legally unprotected trade secrets within the company).
64. For example, the Czech and Slovak Republics have enacted trade secret laws closely following the Uniform Act. See Jennifer Felicia Swiller, *The Secrets of Success: Confidential Business Information in the Czech and Slovak Republics*, 7 TRANSNAT'L LAW. 497, 505-16 (1994).

States' major trading partners, such as Canada and the United Kingdom, do not protect their citizens' trade secrets by a distinct and unified body of law. Generally, those countries apply their existing unfair competition laws to protect their citizens' trade secrets.<sup>65</sup> Further, while it is frequently said that there is no international treaty concerning the protection and exploitation of trade secrets, the United States is a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights of the General Agreement on Tariffs and Trade ("Agreement on Trade"), which requires each signatory to enact legislation for the protection of information.<sup>66</sup> The Agreement on Trade describes the required legislation using language very similar, if not identical in some respects, to the Uniform Act.<sup>67</sup> Other than the Agreement on Trade, there is no international treaty concerning the protection and exploitation of trade secrets. This may not be surprising because modern trade secret law is still new and developing. However, this may change.<sup>68</sup> Governments of both industrial countries with multinational businesses and less-developed countries, which desire to promote investments within their country, have good reasons to seek the international protection of trade secrets.

### III. THE MARYLAND UNIFORM TRADE SECRETS ACT

The Maryland Act regulating trade secrets does not violate the United States Constitution.<sup>69</sup> While patents, trademarks and copyrights are regulated by federal law, the United States Court of Appeals for the Fourth Circuit has held that a state statute regulating trade secrets is constitutional. In *Sears v. Gottschalk*,<sup>70</sup> the court concluded that "the states may protect trade secrets, and we perceive no violation of the fifth amendment in federal forbearance to permit that power to be exercised."<sup>71</sup>

From a structural point of view, the Uniform Act is somewhat unusual in that its significant provisions are contained in section 1, which

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65. PERRITT, *supra* note 46, at 572-73.

66. Kitch, *supra* note 19, at 659-60.

67. The United States is a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights, April 15, 1994, 33 I.L.M. 1197 (entered into force January 1, 1995). Article 39 of this Agreement requires the United States and other signatories "to provide legal protection for undisclosed information of private parties when disclosed or used contrary to honest commercial practices." Kitch, *supra* note 19, at 660; *see also* Raj Bhala & Kevin Kennedy, World Trade Law 1116 (Lexis Law Publishing 1998). Because trade secret law is a matter governed by state law, rather than federal law, compliance by the United States with the Agreement is based on state law compliance. *Id.*

68. *See supra* notes 12-62 for a short history of trade secret law.

69. *Sears v. Gottschalk*, 502 F.2d 122 (1974).

70. *Id.* at 132 (1974) (relying on *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485 (1974)).

71. *Id.*

provides the definitions of the relevant terms found in the Act.<sup>72</sup> The Maryland Act follows the Uniform Act's format in this regard.<sup>73</sup>

A. *Definition of "Trade Secret"*

Commentators of the first *Restatement* clearly recognized that "[a]n exact definition of a trade secret is not possible."<sup>74</sup> In recognition of this difficulty, the definition of trade secret found in the Act and the Maryland Act is not specific.<sup>75</sup> In Section 11-1201(e) of the Maryland Act, a trade secret is defined as "information, including but not limited to, a formula, pattern, compilation, program, device, method, technique or process."<sup>76</sup> This broad definition is similar to the definition found in the first *Restatement of Torts*, which defined a trade secret as 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."<sup>77</sup>

In *Optic Graphics, Inc. v. Agee*,<sup>78</sup> the Court of Special Appeals of Maryland stated that: (1) "[t]o the extent that the *Restatement* presents a narrower view, the [Maryland] Act pre-empts that definition [of a trade secret];"<sup>79</sup> and (2) "[a]lthough 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."<sup>80</sup>

In the *Home Paramount Pest Control Cos. v. FMC Corp./Agricultural Products Group*,<sup>81</sup> the United States District Court for the District of Maryland cited *Bond v. Polycycles Inc.*<sup>82</sup> for a recitation of the *Restatement's* six factors:

- (i) the extent to which the information is known outside of his [the employer's] business; (ii) the extent to which it is known by employees and others involved in his business; (iii)

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72. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437 (noting that in most statutes, the definition section merely defines terms and does not contain much substantive law, while in the Uniform Trade Secrets Act, the definition section contains much of the Act's substantive law).

73. MD. CODE ANN., COM. LAW II § 11-1201(e).

74. RESTATEMENT OF TORTS § 757 cmt. b.

75. See MD. CODE ANN., COM. LAW II § 11-1201(e); UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438.

76. Illinois, Maine, Virginia, and West Virginia have also added the phrase "but not limited to." 765 ILL. COMP. STAT. ANN. 165/2(d) (West 2001); ME. REV. STAT. ANN. tit. 10 § 1542(4) (West 1997); VA CODE ANN. § 59.1-336 (Michie 2001); W. VA. CODE ANN. § 47-22-(d) (Michie 1999). Alabama requires that the information possess specific characteristics. ALA. CODE § 8-27-2(1) (1993).

77. RESTATEMENT OF TORTS § 757 cmt. b.

78. 87 Md. App. 770, 591 A.2d 578 (1991).

79. *Id.* at 783, 591 A.2d at 585.

80. *Id.* at 784, 591 A.2d at 585.

81. 107 F. Supp. 2d 684 (D. Md. 2000).

82. 127 Md. App. 365, 732 A.2d 970 (1999).

the extent of measures taken by him to guard the secrecy of the information; (iv) the value of the information to him and to his competitors; (v) the amount of effort or money expended by him in developing the information; and (vi) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>83</sup>

It is significant to note that the definitions in the Maryland Act, the Uniform Act, and the first *Restatement* not only cover high-tech trade secrets, like computer programs,<sup>84</sup> but "low-tech" secrets as well.<sup>85</sup> Some common examples of low-tech trade secrets include customer lists,<sup>86</sup> pricing information,<sup>87</sup> financial information,<sup>88</sup> marketing strategies,<sup>89</sup> and methods of conducting business.<sup>90</sup> In contrast to patent law, the definitions of trade secrets in the Maryland Act, Uniform Act, and the *Restatement* do not require that the information exist in some tangible format.<sup>91</sup> In fact, the information can be an idea, theory, or concept.<sup>92</sup> Further, while no Maryland court seems to have specifically addressed the issue, other courts have found that these definitions of trade secrets do not require that the trade secret be novel.<sup>93</sup> Several courts outside of Maryland have held that novelty is not a requirement for a trade secret but that maintaining its secrecy is necessary.<sup>94</sup> Unlike patent law, those definitions do not impose any limit

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83. *Home Paramount*, 107 F. Supp. 2d at 692-93.

84. For example, sophisticated mining software as described in *Trandes Corp. v. Guy F. Atkinson, Co.*, 996 F.2d 655, 664 (4th Cir. 1993), and analyzing immense volumes of data, discussed in *DTM Research, L.L.C. v. AT&T Corp.*, 245 F.3d 327, 329 (4th Cir. 2001).

85. *See, e.g., Home Paramount*, 107 F. Supp. 2d at 692 (holding that a customer list is a trade secret).

86. *Id.* at 692.

87. *See SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1260 (3d Cir. 1985).

88. *Motor City Bagels, L.L.C. v. American Bagel Co.*, 50 F. Supp. 2d 460 (D. Md. 1998).

89. *See Air Prods. & Chems., Inc. v. Johnson*, 442 A.2d 1114, 1121 (Pa. Super. Ct. 1982).

90. *See Home Paramount*, 107 F. Supp. 2d at 693; *Optic Graphics*, 87 Md. App. at 781, 591 A. 2d at 584.

91. *See* 1 MILGRIM ON TRADE SECRETS § 1.01[1] (2001).

92. *See id.*

93. *Sperry Rand Corp.*, 325 F. Supp. at 1219; *Bond*, 127 Md. App. at 371, 723 A.2d at 973.

94. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974) (noting that "novelty in the patent law sense, is not required for a trade secret"); *Avtec Sys., Inc. v. Peiffer*, 21 F.3d 568, 575 (4th Cir. 1994) (stating that the "hallmark of a trade secret is not its novelty but its secrecy"); *Space Aero Prods. Co. v. R.E. Daning Co.*, 238 Md. 93, 109, 208 A.2d 74, 82 (1965) (explaining that secrecy is required for "judicial protection"); *Operations Research, Inc. v. Davidson & Talbird, Inc.*, 241 Md. 550, 558, 217 A.2d 375, 380 (1965) (stating that secrecy is an "essential element"); *Optic Graphics, Inc. v. Agee*, 87 Md. App. 770, 778, 591 A.2d 578, 587 (1991) (stating that a requirement for finding something to be a trade secret is that it "be the subject of reasonable efforts to maintain its secrecy").

on the length of time a trade secret can be protected. While patents may be protected by statute for twenty years, trade secrets may be protected as long as their secrecy is maintained, they are not generally known, and they are not readily ascertainable.<sup>95</sup> The Maryland Act and the Uniform Act require only the acquisition of the trade secret for misappropriation, excluding any mention of motivation.<sup>96</sup>

Significantly, in contrast to patent law, under the Maryland Act, the Uniform Act, and the *Restatement*, the right to a trade secret need not be exclusive.<sup>97</sup> It seems that this concept has been accepted from the very beginning of trade secret case law.<sup>98</sup> Even the 1851 English case of *Morison v. Moat*<sup>99</sup> refers to the non-exclusivity of trade secrets.<sup>100</sup> By non-exclusivity, it is meant that two entities, which concurrently but independently develop the same trade secret, may both acquire rights to it.<sup>101</sup> For example, a business in Garrett County, Maryland may develop a technique to produce multiple clones of a renowned Maryland law professor in order to provide uniformly excellent legal instruction throughout the State. That business may seek to protect that technique as a trade secret. Another business in Baltimore, Maryland may subsequently and independently develop the very same technique<sup>102</sup> and also seek to protect it as a trade secret. The Baltimore company's acquisition, use, and disclosure of that technique is not a violation of the Garrett County company's trade secret and both com-

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95. 35 U.S.C. § 154(2) (1994) (stating that "such grant shall be for a term beginning on the date on which the patent issues and ending 20 years from the date on which the application for the patent was filed in the United States . . ."); see also *Kewanee Oil Co.*, 416 U.S. at 475; RESTATEMENT OF TORTS § 757.

96. MD. CODE ANN., COM. LAW II § 11-1201(c); UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437.

97. Compare MD. CODE ANN. COM. LAW II § 11-1201(c)(3) (making no mention of an "exclusive" requirement in the definition of trade secret) and RESTATEMENT OF TORTS § 757 cmt. a (stating that "[t]he suggestion that one has a right to exclude others from the use of his trade secret because he has a right of property in the idea has been frequently advanced and rejected") with 35 U.S.C. § 154(A)(1) (1994) (stating that "[e]very patent shall . . . grant to the patentee, . . . the right to *exclude* others from making, using, offering for sale, or selling the invention throughout the United States" (emphasis added)) and 35 U.S.C. § 102(a) (stating that a patent will not be issued if "the invention was known or used by others").

98. See *supra* notes 20-25 and accompanying text.

99. 68 Eng. Rep. 492, 500 (Ch. 1851).

100. See *id.* at 503 (holding that regardless of the fact that another person had knowledge of the secret, the holder of the secret was entitled to an injunction to prevent the other from producing product derived from secret).

101. See RESTATEMENT OF TORTS § 757 cmt. a (stating that "[o]ne who discovers another's trade secret properly . . . by independent invention . . . is free to disclose it or use it in his business without liability").

102. Assume that the differences in linguistic style and sartorial resplendence between the Garrett County and Baltimore clones are unrelated to the cloning technique itself and the technique to create both versions of the clones is the same for both versions.

panies can protect their secret. However, if the secret becomes generally known, as discussed below, the right to protect the secret is lost.<sup>103</sup> Similarly, if the secrecy of the trade secret is not maintained or if the trade secret becomes readily ascertainable, the right to protect the secret is also lost.<sup>104</sup>

In fact, a plaintiff does not need to have ownership rights in the trade secret. In *DTM Research, L.L.C. v. AT&T Corp.*,<sup>105</sup> AT&T unsuccessfully attempted to defend a trade secret misappropriation claim by arguing that the plaintiff did not own the trade secret in fee simple.<sup>106</sup> DTM alleged that AT&T misappropriated its trade secret.<sup>107</sup> AT&T argued that the plaintiff had misappropriated the trade secret from the federal government and had no right to it.<sup>108</sup> AT&T also argued that it had separately developed the secret.<sup>109</sup> The defendant argued that to make a *prima facie* case, the plaintiff had to show that it owned the trade secret.<sup>110</sup> At trial, the United States District Court for the District of Maryland disagreed.<sup>111</sup> The Fourth Circuit affirmed the decision in an opinion that contained an analysis of the problems inherent in the application of traditional property law to the Maryland Act and trade secrets law generally.<sup>112</sup> The Fourth Circuit concluded that "fee simple ownership in its traditional sense is not an element of a trade secrets misappropriation claim in Maryland."<sup>113</sup>

While the definitions of a trade secret found in both the Maryland Act and the Uniform Act are relatively similar to the definition found in the *Restatement*, there is at least one significant difference. The Maryland Act and the Uniform Act do not require continuous use of the trade secret in a business or even any use at all; the first *Restatement* requires the trade secret to be used in a business.<sup>114</sup> The Maryland Act and the Uniform Act do not require this because it protects the trade secret of an owner who has not yet begun his business, not yet had the opportunity or acquired the means to put the trade secret to use, has temporarily stopped use, or has determined that the secret

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103. *Space Aero Prods. Co. v. Darling Co.*, 238 Md. 93, 109-10, 208 A.2d. 74, 82 (1965) (stating that "[a]bsolute secrecy is not essential but a substantial element of secrecy must exist so that there would be difficulty in others properly acquiring the information").

104. *See Swann, supra* note 6, at 1059 (stating that "rights in a trade secret persist as long as the holder maintains the requisite level of secrecy").

105. 245 F.3d 327 (4th Cir. 2001).

106. *See id.* at 330.

107. *Id.* at 331.

108. *Id.* at 330.

109. *Id.* at 334.

110. *Id.* at 331.

111. *Id.*

112. *See generally id.*

113. *Id.* at 333.

114. *See* RESTATEMENT OF TORTS § 757 cmt. b; Swann, *supra* note 6, at 1061.

process or method does not work and wants to protect that negative information as a trade secret.<sup>115</sup>

### *B. Definition of Misappropriation*

The initial language of the Maryland Act defines the misappropriation of a trade secret in the same manner as section 1 of the Uniform Act.<sup>116</sup> Section 11-1201 of the Commercial Law article of the Annotated Code of Maryland begins its definition of misappropriation as follows:

1. Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
2. Disclosure or use of a trade secret of another without express or implied consent by a person who: (i) Used improper means to acquire knowledge of the trade secret . . . .<sup>117</sup>

It is interesting that both Acts define misappropriation as the mere acquisition of a trade secret.<sup>118</sup> In so doing, the Uniform Act's drafters and Maryland's legislators recognized a commercial reality. People who employ improper means to use or disclose a trade secret of another usually try to cover up those misdeeds, thereby making it difficult to prove their disclosure or use. It makes sense to define misappropriation of a trade secret to include the mere acquisition of a trade secret, even if a party cannot prove disclosure or use. One can infer that a person who acquires a trade secret by improper means is almost certainly doing so to use or disclose it at some time.

The Fourth Circuit has addressed whether the mere acquisition of a trade secret by improper means is a misappropriation under the Maryland Act. In *Trandes Corp. v. Guy F. Atkinson Co.*,<sup>119</sup> the court held that the mere acquisition is sufficient and stated that "[t]he [Maryland Uniform Trade Secrets Act] does not require proof of competition, but only proof of improper acquisition or improper use."<sup>120</sup> The court concluded that "[c]onsequently, Atkinson's improper acquisi-

115. See Swann, *supra* note 6, at 1062.

116. Compare MD. CODE ANN., COM. LAW II § 11-1201(c) with UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437.

117. MD. CODE ANN., COM. LAW II § 11-1201(c)(1-2).

118. Compare *id.* with UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437.

119. 996 F.2d 655, 657 (4th Cir. 1993) (noting the facts in the case involve a computer program that was acquired and disclosed by defendants).

120. *Id.* at 665; see also MD. CODE ANN., COM. LAW II § 11-1201(c); cf. Schalk v. State, 767 S.W.2d 441, 449 (Tex. Ct. App. 1988) (noting that acquisition without use constituted theft of trade secrets); Computer Print Sys., Inc. v. Lewis, 422 A.2d 148, 154 (1980) (stating that the mere acquisition of computer programs through the breach of a duty of confidentiality creates liability); RESTATEMENT OF TORTS § 757 cmt. c (stating that "mere disclosure enhances the possibility of adverse use" and may reduce the value of a trade secret).



tion and use of the object code constitutes a misappropriation in violation of the MUTSA."<sup>121</sup>

The Maryland Act continues its definition of misappropriation to include the:

- (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
  - (i) Used improper means to acquire knowledge of the trade secret; or
  - (ii) At the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was:
    - 1. Derived from or through a person who had utilized improper means to acquire it;
    - 2. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - 3. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use . . . .<sup>122</sup>

In this regard, both the Maryland Act and the Uniform Act define improper means to include "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."<sup>123</sup>

A common example in Maryland case law of a misappropriation involving the use or disclosure of a trade secret is an employee who properly obtains a trade secret during the course of his employment, but subsequently takes it to use for his own benefit.<sup>124</sup> Generally, an employee is under an obligation to protect, and not divulge, any of the trade secrets of the employer imparted to the employee in confidence.<sup>125</sup> An employee must not use or disclose to third persons, in competition with the employer, trade secrets such as written lists of names, or other similar confidential matters, given to the employee by the employer.<sup>126</sup> However, in the absence of an agreement to the contrary, after the termination of employment an employee may use general information concerning the method of business of the employer and the names of the employer's customers retained in his or her memory, if not acquired in violation of any duty to the em-

121. *Trandes Corp.*, 996 F.2d at 665.

122. MD. CODE ANN., COM. LAW II § 11-1201(c)(2).

123. MD. CODE ANN., COM. LAW II § 11-1201(b).

124. *See* *Md. Metals, Inc. v. Metzner*, 282 Md. 31, 32, 382 A.2d 564, 564 (1978) (discussing a scrap metal processor who brought action against two former high-level managerial employees who utilized secret knowledge to subsequently form rival corporations); *Bond v. Polycycle, Inc.*, 127 Md. App. 365, 732 A.2d 970 (1999) (noting that a former president was sued after misappropriating technology after he left the company).

125. *See infra* notes 128-63 and accompanying text.

126. *See infra* notes 182-89 and accompanying text.

ployer.<sup>127</sup> On the other hand, if the employee departs his employment with information, even if the information is a trade secret, there is no actionable misappropriation if the employee does not acquire the trade secret by improper means or use. In *Diamond v. T. Rowe Price Associates, Inc.*<sup>128</sup> a departing employee left work and took approximately 10,000 pages of documents with her.<sup>129</sup> Plaintiff offered no evidence that the former employee acquired the documents by improper means or used or disclosed them.<sup>130</sup> The court held that without such evidence, there was no violation under the Maryland Act.<sup>131</sup>

Sometimes, trade secrets are acquired by accident or mistake. The Maryland Act defines misappropriation to also include:

Disclosure of use of a trade secret of another without express or implied consent by a person who . . . before a material change of the person's position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.<sup>132</sup>

If a person made a material change in their position before discovering that they had acquired a trade secret by accident or mistake, there is no misappropriation of a trade secret.

The drafters of the Maryland and Uniform Acts may have inserted this material change requirement into these Acts in an attempt to balance the property interests of the trade secret owner with the interests of another who acquired the trade secret by accident or mistake, applying the fairness theory over the property theory. However, the balancing of these interests may be more easily accomplished, as Virginia has done, without the Maryland Uniform Act's material change requirement.<sup>133</sup> This may be achieved by prohibiting the disclosure or use of a trade secret acquired by accident or mistake if the other had knowledge of the accident or mistake at the time of his disclosure or use. If he did not have such knowledge when he disclosed or used it, the value of the trade secret is still diminished but it is unfair to punish the other person who used or disclosed it because he had no knowledge. On the other hand, it is fair to punish the other person if he had such knowledge before he used or disclosed the trade secret.

If the only impact of the Maryland Act provision and the Uniform Act provision concerning the accidental or mistaken acquisition of a trade secret was on this very specific and unique fact pattern, these provisions would probably effect the outcome of relatively few cases.

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127. *Dworkin v. Blumenthal*, 77 Md. App. 774, 779, 551 A.2d 947, 949 (1989).

128. 852 F. Supp. 372 (D. Md. 1994).

129. *Id.* at 412.

130. *Id.*

131. *Id.* For another Maryland trade secret cases involving a departing employee, see *Optic Graphics, Inc.*, 591 A.2d. at 578, 87 Md. App. at 770.

132. MD. CODE ANN., COM. LAW II § 11-1201(c)(2)(iii), (3).

133. VA. CODE ANN. § 59.1-336 (2001).

However, these provisions of the Maryland Act and the Uniform Act may give rise to an unintended opportunity for misappropriators and can be problematic for a trade secret owner. For example, a misappropriator can falsely argue that it was not until after he used the trade secret that he found out that he had acquired a trade secret by accident or mistake. Consequently, it may be difficult for the trade secret owner to contest the misappropriator's allegation that he did not know he had acquired a trade secret by mistake or accident until after he used or disclosed it. The difficulty would be based on the fact that only the misappropriator would have information concerning the timing of his knowledge of the trade secret; and the owner may have difficulty discovering independent evidence to prove the timing of the misappropriator's knowledge.

A discussion of the definition of the misappropriation of a trade secret under the Maryland Act or any state uniform trade secrets act is incomplete without at least briefly identifying a distinctive line of non-Maryland trade secrets cases which are sometimes referred to as the "inevitable disclosure" or "inevitability" cases. Because the topic of this Article is limited, and the inevitable disclosures doctrine is controversial and has been addressed by others, this Article will only briefly describe the doctrine.<sup>134</sup> A discussion of the doctrine may be helpful even though Maryland case law has not addressed it. The theory of inevitable disclosure may be useful to Maryland practitioners bringing or defending cases with similar fact patterns. Courts outside of Maryland have applied this doctrine to enjoin or limit the subsequent employment, by a competitor, of a departing employee, when it is alleged that it is inevitable that the employee will use or disclose the trade secrets of his employer when working for the competitor.<sup>135</sup> Significantly, the inevitable disclosure doctrine is utilized in cases where the employee has not signed, or has even refused to sign, a non-competition agreement or non-disclosure of proprietary information agreement with his prior employer, and where the employee has not threatened, directly or indirectly, to use or disclose the trade secrets of his former employer to his new employer.<sup>136</sup> A great deal of contro-

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134. For a fuller discussion and differing views of this doctrine and the related case law, see Terrence P. McMahon et al., *Inevitable Disclosure: Not So Sure In The West*, NAT'L L.J., May 12, 1997, at C35; Lawrence I. Weinstein, *Revisiting the Inevitability Doctrine: When Can a Former Employee Who Never Signed a Non-Compete Agreement nor Threatened to Use or Disclose Trade Secrets Be Prohibited from Working for a Competitor?*, 21 AM. J. TRIAL ADVOC. 211 (1997).

135. See *infra* notes 142-44 and accompanying text.

136. Obviously, courts do not need to apply the doctrine if there were such a non-competition or non-disclosure agreement because the case could be decided as a breach of contract case. Similarly, if there was a threat of disclosure or use, the case could be decided under the Uniform Trade Secrets Act, without the use of the inevitable disclosure doctrine, because the Act specifically permits an injunction even for the threat of disclosure

versy has accompanied the inevitable disclosure doctrine<sup>137</sup> because it limits a worker's right to move to a better job.<sup>138</sup> This right of mobility has been widely recognized<sup>139</sup> and has a long history in Maryland.<sup>140</sup> An analysis of these controversial inevitability cases is illuminating because courts deciding these cases must balance the right of a worker's job mobility with the right of a trade secret owner to protect its trade secret.<sup>141</sup> In balancing these rights, the courts set forth factors used in reaching a decision, thereby more completely describing the boundaries and features of the two rights.

The three initial inevitable disclosure cases are: *B.F. Goodrich Co. v. Wohlgemuth*,<sup>142</sup> *Allis-Chalmers Manufacturing Co. v. Continental Aviation & Engineering Corp.*,<sup>143</sup> and *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*<sup>144</sup> All three of these cases were decided in the mid-1960s and involved a similar fact pattern.<sup>145</sup> In each case, the employer was a leader in its industry because of the technology it developed. In *B.F. Goodrich Co.*, the technology was the development of space suits.<sup>146</sup> In *Allis-Chalmers*, the technology was advanced fuel injection pumps,<sup>147</sup> and in the *American Potash* case, it was pigments.<sup>148</sup> In each of these three cases, the competitors of the companies that owned the trade secrets could not compete successfully because the competitors lacked the technology owned by the industry leader.<sup>149</sup> The competitors attempted to obtain the technology by hiring away one of the industry leader's senior scientists or executives who was directly involved with and intimately familiar with the subject technol-

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of use. MD. CODE ANN., COM. LAW II § 11-1202; Swann, *supra* note 6, at 1068.

137. See *supra* note 134 and accompanying text.

138. Weinstein, *supra* note 134, at 211-15.

139. *Id.*

140. *Md. Metals v. Metzner*, 282 Md. 31, 39, 382 A.2d 564, 569 (1978) (stating that "courts have been receptive to the view that every person has or least ought to have the right to ameliorate his socio-economic status by exercising a maximum degree of personal freedom in choosing employment").

141. See *infra* notes 152-54 and accompanying text.

142. 192 N.E.2d 99 (Ohio Ct. App. 1963).

143. 255 F. Supp. 645 (E.D. Mich. 1966).

144. 200 A.2d 428 (Del. Ch. 1964).

145. See *infra* notes 156-61 and accompanying text.

146. *B.F. Goodrich Co.*, 192 N.E.2d at 102 (noting that the space suits were high-altitude full pressure space suits).

147. *Allis-Chalmers*, 255 F. Supp. at 645 (discussing an employee previously of the Allis-Chalmers division for manufacturing fuel pumps who had joined another company looking for a second source of fuel pumps).

148. *American Potash*, 200 A.2d at 430 (describing that plaintiff is the only successful manufacturer of a pigment product and that employee of plaintiff was hired by defendant to gain access to the knowledge).

149. *Allis-Chalmers*, 255 F. Supp. at 650 (manufacturing and design of fuel injection systems and pumps); *American Potash*, 200 A.2d at 479 (manufacturing pigments through the chloride process); *B.F. Goodrich Co.*, 192 N.E.2d at 102 (engineering and development of space suit).

ogy of the trade secret.<sup>150</sup> The competitor's purpose was to successfully compete with the plaintiff. In all of these cases, the departing employee had not signed a non-disclosure of proprietary information agreement, had not signed a non-competition agreement when hired, and had not threatened to use or disclose their employers' trade secrets.<sup>151</sup> In each case, the argument was made that it was inevitable that the employee would use or disclose the trade secret of his former employer while he was engaged in the duties for which he was hired by his new employer.<sup>152</sup>

From the dates of these three cases until 1995, there were very few inevitable disclosure cases decided which were actual inevitable disclosure cases.<sup>153</sup> However in 1995, an interest in these cases was rekindled with the Seventh Circuit's affirmation of an injunction in a new inevitable disclosure case. In *Pepsico, Inc. v. Redmond*,<sup>154</sup> Pepsi was marketing and selling a sports drink called "All Sport," which was far behind Quaker Oats' "Gatorade" in market share.<sup>155</sup> Redmond was a senior executive of a larger Pepsi business unit which included All Sport.<sup>156</sup> In this position, Redmond knew All Sport's marketing information.<sup>157</sup> Quaker Oats hired Redmond away from Pepsi to work on its Gatorade and Snapple line.<sup>158</sup> Applying the inevitable disclosure theory, the lower court granted Pepsi a preliminary injunction against Redmond and Quaker Oats, prohibiting Redmond from any beverage pricing, marketing and distribution at Quaker Oats.<sup>159</sup> The Seventh Circuit affirmed the injunction.<sup>160</sup>

The *Pepsico* case is different from the initial three inevitable disclosure cases because in *Pepsico*, the market leader and not the competitor was the party hiring away an employee with the alleged trade

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150. *Allis-Chalmers*, 255 F. Supp. at 651; *American Potash*, 200 A.2d at 430; *B.F. Goodrich Co.*, 192 N.E.2d at 102-04.

151. *Allis-Chalmers*, 255 F. Supp. at 645; *American Potash*, 200 A.2d at 428; *B.F. Goodrich Co.*, 192 N.E.2d at 105.

152. *Allis-Chalmers*, 255 F. Supp. at 645; *American Potash*, 200 A.2d at 429-31; *B.F. Goodrich Co.*, 192 N.E.2d at 103; see also Weinstein, *supra* note 134, at 227 n.72. A California appellate court apparently has also adopted the doctrine. See *Electro Optical Indus., Inc. v. Stephen White*, 90 Cal. Rptr. 2d 680 (1999).

153. There are a number of cases in several jurisdictions which are cited by counsel as inevitable disclosure cases but which are actually contract cases. See, e.g., *FMC Corp. v. Varco, Int'l*, 677 F.2d 500 (5th Cir. 1982); *Union Carbide Corp. v. UGI Corp.*, 731 F.2d 1186 (5th Cir. 1984); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898 (Tex 1978).

154. 54 F.3d 1262 (7th Cir. 1995).

155. *Id.* at 1263-64.

156. *Id.* at 1264-65.

157. *Id.* at 1265.

158. *Id.* at 1264.

159. *Id.* at 1266-67.

160. *Id.* at 1272.

secret.<sup>161</sup> In addition, the value of Quaker Oats' trade secret to Pepsi, a competitor, was obvious, but possibly less critical than in the three prior cases.<sup>162</sup> Most troubling was that while the Seventh Circuit opinion acknowledged that the "mere fact that a person assumed a similar position at a competitor does not, without more, make it 'inevitable that he will use or disclose . . . trade secret information' so as to entitle plaintiff to an injunction,"<sup>163</sup> the court did not go further to offer more guidance as to what does make it inevitable.

At present, there is no indication in Maryland case law that Maryland will adopt, in whole or in part, the inevitability doctrine.

### C. Does Size Really Matter?

Under the Maryland and Uniform Act's definition of a trade secret, the size of or the amount of information contained in the trade secret does not matter, assuming the other statutory requirements are met.<sup>164</sup> The Maryland Act defines a trade secret simply as "information,"<sup>165</sup> without any limitation as to the amount of the information.<sup>166</sup> In many cases, the size of the trade secret is not a factor because the trade secret at issue is specific, singular and limited, such as a source code or object code<sup>167</sup> or customer or patient list.<sup>168</sup>

However, there has been recent trade secret litigation outside of Maryland in which relatively large amounts of information are alleged to be trade secrets. For example, in the "settled" Virginia trade secret case of *ServiceMaster v. Pletcher*,<sup>169</sup> ServiceMaster, a large national franchisor of cleaning businesses claimed that its whole "Business System" was a trade secret.<sup>170</sup> ServiceMaster required its franchisees to use this Business System to conduct their cleaning business.<sup>171</sup> This Business System was compromised of dozens of three inch, three ring

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161. Compare *id.* at 1264 with *Allis-Chalmers*, 255 F. Supp. at 647; see *American Potash*, 200 A.2d at 430-31; *B.F. Goodrich Co.*, 192 N.E.2d at 102.

162. Compare *Pepsico*, 54 F.3d at 1264 with *Allis-Chalmers*, 255 F. Supp. at 647; *American Potash*, 200 A.2d at 430-31; *B.F. Goodrich Co.*, 192 N.E.2d at 102.

163. *Pepsico*, 54 F.3d at 1269 (quoting *AMP Inc. v. Fleischhacker*, 823 F.2d 1199, 1207 (7th Cir. 1987)).

164. See MD. CODE ANN., COM LAW II § 11-1201(e); UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438.

165. MD. CODE ANN., COM LAW II § 11-1201(e).

166. *Id.*

167. *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 663 (4th Cir. 1993) (defining object code as "the binary language comprised of zeros and ones through which the computer directly receives its instructions").

168. *Dworkin D.D.S., P.A. v. Blumenthal*, 77 Md. App. 770, 551 A.2d 947 (1989) (noting that patient or customer lists include names and addresses of those listed).

169. *Service Master v. Pletcher*, Civil Action No. 00-942-A (court settled date) (noting that this case is settled, and there is no confidentiality clause in the Settlement Agreement and Mutual Release executed in this case).

170. *Id.*

171. *Id.*

manuals, altogether consisting of thousands of pages of text and numerous video tapes.<sup>172</sup> The Business System also consisted of numerous periodic magazines and newsletters, technical bulletins, training materials, training seminars, workshops, promotional materials, advertising materials, marketing materials, sales materials, invoices, and correspondence with third parties.<sup>173</sup> These materials covered virtually every aspect of initiating, operating, and maintaining a cleaning business.<sup>174</sup>

Some courts have held that a whole franchise system can be protected as a trade secret. In *Big O Tires, Inc. v. Granada Enterprises Corp.*,<sup>175</sup> the court upheld plaintiff's claim that its whole "Big O System," comprised of "techniques, systems, details as to the Big O System, theory and practices, supplier lists, equipment standards, special uses of equipment and equipment supplier lists," was a trade secret.<sup>176</sup>

In *Gold Messenger, Inc. v. McGuay*,<sup>177</sup> a franchiser developed a comprehensive system for setting up and operating an advertising circular business.<sup>178</sup> This system was compiled in an apparently voluminous manual.<sup>179</sup> The plaintiff sought to enforce its written covenant not to compete against the defendant in Colorado, which statutorily voided such agreements unless it was to protect a trade secret.<sup>180</sup> The court held that the whole manual was a trade secret.<sup>181</sup>

There are other cases in Maryland,<sup>182</sup> and outside of Maryland,<sup>183</sup> which have held that large volumes of information are protected as

172. *Id.*

173. *Id.*

174. *Id.* (noting that the franchisor now maintains a web site containing most of these materials which is available only to franchises with the proper password).

175. Business Franchise Guide (CCH) ¶ 11,607, Case No. CV98-2298DT (C.D. Cal. 1990).

176. *Id.*

177. *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907 (Colo. Ct. App. 1997).

178. *Id.* at 908.

179. *Id.* at 909.

180. *Id.*; see also COLO. REV. STAT. ANN. § 8-2-113(2)(b) (West 1994).

181. *Gold Messenger, Inc.*, 937 P.2d at 911.

182. *Motor City Bagels, L.L.C. v. American Bagel Co.*, 50 F. Supp. 2d 460, 479 (D. Md. 1999) (holding that "plaintiff's extensive compilation of information and analysis in their business plan qualifies as a trade secret"); *National Risk Management, Inc. v. Bramwell*, 819 F. Supp. 417, 432 (D. Pa. 1993) (holding that a combination of information in the proposal book that reflected market research gathered from a larger pool of information was a trade secret); *Picker Int'l Corp. v. Imaging Equip. Svcs.*, 931 F. Supp. 18, 38 (D. Mass. 1995) (noting that a set of service and repair manuals compiled of both public and nonpublic information by plaintiff was a trade secret).

183. *ISC-Bunker Ramo Corp. v. Atlech, Inc.*, 765 F. Supp. 1310, 1333 (N.D. Ill. 1990) (noting that ISC's compilations of valuable technological information guides, service manuals, and technical bulletins were all found to be trade secrets); *Comprehensive Tech. v. Software Artisans*, 3 F.3d 730, 737

trade secrets. If the Maryland Act allows employers or franchisers to classify such large volumes of information as trade secrets, then the protection of such expansive information could lead to an unintended result. In the case of a departing employee, it may mean that he cannot continue to work in the same industry. The employee's departure would severely limit his job mobility because the information classified as a trade secret by the former employer is so broad that it possibly encompasses the whole industry. Because necessity requires that the employee use or disclose some of that information at his next job, the employee will be prevented from working in the same industry.

However, the departing employee may defend such a claim by arguing that much of the information for which the employer seeks protection is general knowledge, publicly available, generally known, and/or readily ascertainable.<sup>184</sup> As set forth above, Maryland case law clearly protects an employee by allowing him to depart from his employment with his general knowledge and skills.<sup>185</sup> Information that is generally known or readily ascertainable cannot be protected as a trade secret.<sup>186</sup> However, in order to restrict employees from using all information in their subsequent employment, some employers outside of Maryland are attempting to denominate as much information as possible as a trade secret.<sup>187</sup>

If an employer can protect large volumes of information as a trade secret, the effect of such protection could result in the functional equivalent of a non-compete agreement without reasonable limitations as to time or geography. As stated above, trade secrets are not limited in this way.<sup>188</sup> This is in contrast to Maryland's case law on non-compete agreements, which requires that these agreements be reasonable as to time and geography.<sup>189</sup>

#### *D. Requirement of Independent Economic Value*

The definition of a trade secret in the first Restatement requires that the trade secret give the user an opportunity to obtain an advan-

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(4th Cir. 1993) (stating that in order for compilation to be regarded as a trade secret the combination of information itself must not be publicly available).

184. *Comprehensive Tech. v. Software Artisans*, 3 F.3d 730, 737 (4th Cir. 1993).

185. *Space Aero Prods. Co. v. Darling*, 238 Md. 93, 113, 208 A.2d. 74, 84 (1965).

186. MD. CODE ANN., COM. LAW II § 11-1201(e)(1).

187. See *supra* note 172 and accompanying text.

188. See *supra* Part III.A.

189. *Becker v. Bailey*, 268 Md. 93, 96, 299 A.2d 835, 838 (1973) (“[A]n employment contract . . . will be upheld ‘if the restraint is confined within limits which are no wider as to area and duration than are reasonably necessary’ . . .” (quoting *Ruhl v. Bartlett Tree Co.*, 245 Md. 118, 123-24, 225 A.2d 288, 291 (1967); *MacIntosh v. Brunswick*, 241 Md. 24, 31, 215 A.2d 222, 225 (1965))).



tage over nonusers.<sup>190</sup> The Maryland<sup>191</sup> and Uniform Act's definition of a trade secret requires that the secret information derive "independent economic value."<sup>192</sup> This quoted phrase, while seemingly unfathomable, has been interpreted by the courts to simply mean that the trade secret information must give the owner of the secret some competitive advantage, whether actual or potential.<sup>193</sup> The Maryland and Uniform Acts do not state that the independent economic value has to be substantial or significant.<sup>194</sup> The economic value has to be more than *de minimis*.<sup>195</sup> In fact, the trade secret need only give the owner "an opportunity to obtain an advantage."<sup>196</sup>

*E. Requirement that Trade Secret Not Be Generally Known*

The Maryland and Uniform Act's definition of a trade secret further requires that the trade secret not be generally known.<sup>197</sup> The drafters of the Uniform Act and the courts are clear that "not generally known" does not mean not generally known to the public, but instead, means not generally known to those in the relevant industry or trade.<sup>198</sup> In trade secret litigation, the requirement that the information not be generally known is often a vigorously contested issue and it can be a close factual issue for a judge or jury to decide.<sup>199</sup> For example, consider whether a particular method of selling a product or service is or is not generally known. A company may argue that it has developed a program to sell a product or service and that the company has spent considerable money, time, and effort on that program.<sup>200</sup> The company may have trained its employees to use it and

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190. RESTATEMENT OF TORTS § 757 cmt. b.

191. Swann, *supra* note 6, at 1056 (stating that "[o]n July 1, 1989, Maryland became the twenty-ninth state to adopt the Uniform Trade Secrets Act . . .").

192. MD. CODE ANN, COM. LAW II § 11-1201 (noting that "[t]o qualify as a trade secret under this title, the information must: (1) hold independent economic value . . .").

193. *Electo-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 900 (Minn. 1983).

194. *See* MD. CODE ANN, COM. LAW II § 11-1201.

195. *See* MD. CODE ANN, COM. LAW II § 11-1201.

196. RESTATEMENT OF TORTS § 757 cmt. b (stating that "[a] trade secret may consist of any formula, pattern, device or compilation of information . . . which gives him an opportunity to obtain an advantage over competitors . . .").

197. *See* MD. CODE ANN., COM. LAW II § 11-1201(e)(1) (stating that a required element of a trade secret is that it "[d]erives independent economic value, actual or potential, from not being generally known"); UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 437.

198. UNIF. TRADE SECRETS ACT § 1 cmt, 14 U.L.A. at 437. *See generally*, *Precision Moulding & Frame, Inc. v. Simpson Door, Co.*, 888 P.2d 1239, 1242-43 (Wash. Ct. App. 1995) (noting that if the knowledge behind a trade secret is "readily ascertainable," a plaintiff will not be able to establish that a trade secret exists).

199. *See, e.g.*, *Optic Graphics, Inc. v. Agee*, 87 Md. App. 770, 788, 591 A.2d 578, 587 (1991).

200. *See id.* at 781, 591 A.2d at 584.

maintain the secrecy of the program.<sup>201</sup> On the other hand, an employee departing that company who wants to use the same program for her own benefit may argue that the method is generally known because you can read a book at your local public library on sales or marketing that would provide information about almost any sales method. Further, a departing employee may also contend that the sales method is generally known because several of the competitors of the company use the same or similar method.<sup>202</sup> This is not unlikely in a mature competitive industry.

In 1999, the Court of Special Appeals of Maryland decided a case concerning the requirement that an alleged trade secret not be generally known. In *Bond v. PolyCycle, Inc.*,<sup>203</sup> the two founders of a company became aware of another company's discovery of a way to separate toxins from medical waste and the founders thought they could apply that process to recycling plastic.<sup>204</sup> The two asked Bond, an engineer, to review the technology, and he concluded that it had great economic potential.<sup>205</sup> Bond estimated that it would take six months and about \$75,000 to \$100,000 to develop the technology.<sup>206</sup> As a result, the two founders and Bond formed PolyCycle, licensed the process from the inventor, and Bond became president of the company.<sup>207</sup> Two years and \$500,000 later, the technology was not ready and Bond requested a salary.<sup>208</sup> The company was not yet profitable and refused to pay Bond's request.<sup>209</sup> Bond left, telling PolyCycle he had developed an alternative technology that did not belong to PolyCycle.<sup>210</sup> He took all of the technology with him, including a machine, and computer files; he also deleted the computer files from PolyCycle's network.<sup>211</sup>

Bond contended that the technology was not a trade secret because the components of the machine were all available on the open market and the fundamental concept of breaking plastics into pieces and applying heated water and agitation was widely known in the plastics industry.<sup>212</sup> The court disagreed with Bond, holding:

[O]nly Bond knows the "secret formula" of how small to make the pieces of plastic, how much water to use, the appropriate temperature of the water, the proper level of agita-

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201. *See id.* at 775, 591 A.2d at 581.

202. *See id.* at 787-88, 591 A.2d at 586-87.

203. 127 Md. App. 365, 732 A.2d 870 (1999).

204. *Id.* at 368, 732 A.2d at 971.

205. *Id.* at 369, 732 A.2d at 972.

206. *Id.*

207. *Id.*

208. *Id.* at 370, 732 A.2d at 972.

209. *Id.*

210. *Id.*

211. *Id.*

212. *Id.* at 374, 732 A.2d at 971.

tion to apply, and the length of the agitation process. As appellee correctly points out, "[i]t is those elements, mixed and processed precisely in a certain manner, that define the PolyCycle process, just as much as the specific blend of . . . available ingredients defines Coca-Cola."<sup>213</sup>

The court also dismissed defendant's argument that the technology was generally known in the industry, stating:

Appellant's knowledge was not acquired by a general study of technologies available in the market place. Appellant acquired his knowledge when Marks and Brown offered him the opportunity to participate in the joint venture, and later, when acting as an agent for PolyCycle, he utilized PolyCycle's funds in the development process.<sup>214</sup>

Perhaps one of the more interesting trade secret cases concerning the meaning of "not generally known" is *Religious Technology Center v. Lerma*,<sup>215</sup> involving the Church of Scientology. In 1991, the Church, located in California, sued a disgruntled former member of the church.<sup>216</sup> The defendant in that case filed an affidavit in the open court file and attached thereto sixty-nine pages of church documents.<sup>217</sup> The church claimed that the documents were protected by the U.S. copyright laws and trade secret laws and sought to have the records sealed.<sup>218</sup> However, the circuit court upheld the district court's refusal to seal the file.<sup>219</sup> Subsequently, Lerma, another former church member, obtained a copy of the affidavit and the church documents, and published them on the Internet.<sup>220</sup> Thereafter, in mid-1995, the church obtained a temporary restraining order from the United States District Court for the Eastern District of Virginia against Lerma, restricting Lerma from any further publication of the affidavit and church documents, and a United States Marshall seized Lerma's personal computer, disks, and copies of the documents.<sup>221</sup>

In *Lerma*, the Church went to great lengths to protect the court filed documents from being disclosed.<sup>222</sup> The court found that the Church had been "checking that [court] file out [everyday] and holding it all day to prevent anyone from seeing it, [however,] the file was not sealed and obviously was available, upon request, to any member of the public who wished to see it."<sup>223</sup> In fact, the file was made available

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213. *Id.* at 375, 732 A.2d at 975.

214. *Id.* at 376, 732 A.2d at 976.

215. 908 F. Supp. 1362 (E.D. Va. 1995).

216. *Id.* at 1364.

217. *Id.*

218. *Id.*

219. *Id.*

220. *Id.*

221. *Id.* at 1364-65.

222. *Id.*

223. *Id.* at 1365.

to a reporter.<sup>224</sup> The ever-resourceful *Washington Post* sent a reporter to California and obtained the documents from the clerk of the court in the California case.<sup>225</sup> The *Washington Post* published an article about the Church, and following publication of the article, the Church sued the newspaper in Virginia.<sup>226</sup>

However, despite the fact that the Church had gone to great lengths to protect the court filed documents from the public, the United States District Court for the Eastern District of Virginia held that the documents were not a trade secret.<sup>227</sup> The court reasoned that the documents were generally known because they were in an open court file available to the public and they were posted on the Internet.<sup>228</sup> The court further stated:

Of even more significance is the undisputed fact that these documents were posted on the Internet on July 31 and August 1, 1995. (Lerma Affidavit). On August 11, 1995, this Court entered a Temporary Restraining Order among other orders which directed Lerma to stop disseminating the [Church] documents. However, that was more than ten days after the documents were posted on the Internet, where they remained potentially available to the millions of Internet users around the world.

As other courts who have dealt with similar issues have observed, "posting works to the Internet makes them 'generally known'" at least to the relevant people interested in the news group. Once a trade secret is posted on the Internet, it is effectively part of the public domain, impossible to retrieve.<sup>229</sup>

In the more recent case of *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*,<sup>230</sup> the United States Court of Appeals for the Fourth Circuit took a different position with regard to trade secrets that were filed in an open court file but not posted on the Internet. In that case, a party had inadvertently filed documents, which it alleged were trade secrets, in another court proceeding.<sup>231</sup> The documents had been in the open court file for several months.<sup>232</sup> The Fourth Circuit referred to the *Lerma* case, but reached a different result:

In holding that the [Scientology Church's] works were not trade secrets when the *Post* acquired them, the court specifically relied on both of these factors [documents in an open

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224. *Id.*

225. *Id.*

226. *Id.*

227. *Id.* at 1368.

228. *Id.*

229. *Id.* (citations omitted).

230. 174 F.3d 411 (4th Cir. 1999).

231. *Id.* at 415.

232. *Id.*

court file for 28 months and published on the Internet]. First, it noted that the documents' extended presence in the court's public files – from which the *Post* had obtained its own copy – made them no longer secret. Importantly, though, the court reasoned that the documents' posting on the Internet was “[o]f even more significance” than their extended presence in public records: “posting works to the Internet makes them “generally known” at least to the relevant people interested in the news group.” As a result, the court correctly found that the information which had been both disclosed in public court files *and* made “generally known” by Internet publication had lost its trade secret status.<sup>233</sup>

The *Hoechst* court believed that there was no suggestion that the document was published on the Internet. The only issue was whether it was present in the district court's public files.<sup>234</sup> The court held that, under the Act, the mere presence of the information “in the district court's public files, in and of itself, did not make the information contained in the document ‘generally known’ for purposes of the Act.”<sup>235</sup>

The court concluded that there was a material difference between information deposited in an open court file available to the public and information available on the Internet.<sup>236</sup> Of course, the information is publicly available in both instances.<sup>237</sup> However, the *Hoechst* court determined that information in an open court file may or may not be generally known, but it is generally known if it is posted on the Internet.<sup>238</sup> While the logic of this is debatable, the distinction that the court is making is rational. The contents of court files are publicly available but are not as accessible as information posted on the Internet.<sup>239</sup> However, if and when court files become available on the Internet, the distinction made by the Court in the *Hoechst* case may be less meaningful.<sup>240</sup> At some not too distant time, this current distinction may again be the subject of litigation.

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233. *Id.* at 419.

234. *Id.*

235. *Id.* (citing *Religious Tech. Center v. Lerma*, 908 F. Supp. 1362, 1368 (E.D. Va. 1995)).

236. *Id.*

237. To see how the information was publicly available in *Lerma* see *supra* notes 225-29. To see how the information was publicly available in *Hoechst* see *infra* notes 238-40.

238. *Hoechst*, 174 F.3d at 419.

239. *Id.* at 419 (noting that the information deposited in the district court's public files “in and of itself, did not make the information contained in the document ‘generally known’”).

240. For discussions of trade secrets and the Internet, see Victoria A. Cundiff, *Trade Secrets and the Internet: A Practical Perspective*, 14 No. 8 COMPUTER LAW. 6 (1997); Bruce T. Atkins, *Trading Secrets in the Information Age: Can Trade Secret Law Survive the Internet?*, 1996 U. ILL. L. REV. 1151 (1996).

In *Montgomery County Association of Realtors, Inc. v. Realty Photo Master Corporation*,<sup>241</sup> a voluntary association of realtors brought an action alleging, among other things, a misappropriation of a trade secret by a photographic service.<sup>242</sup> The realtors' association had a database of real estate listings that the photo service used to provide realtors with photographs of real estate.<sup>243</sup> Named the "Multiple Listing Service," the database was a computerized listing of real estate in the Montgomery County area available for sale, which the plaintiff compiled and disseminated to its members.<sup>244</sup> The court found that the "information in the MLS database [was] not a secret; to the contrary, it is distributed widely to its realtor members and potential purchasers."<sup>245</sup> In essence, the court held that the information was generally known to the industry because it was not kept secret, but was widely distributed in the industry.<sup>246</sup>

*F. Requirement that Trade Secrets Not Be Readily Ascertainable*

The Maryland Act and the Uniform Act also require that a trade secret not be readily ascertainable by proper means.<sup>247</sup> The Commentary to the Uniform Act lists several proper means, including: 1. Discovery by independent invention; 2. Reverse engineering; 3. Discovery under a license; 4. Observing the product or service on public use or display; and 5. Review of publicly available literature.<sup>248</sup>

While the Maryland Act contains a requirement that a trade secret not be generally known, there is no line in the sand as to when information is readily ascertainable.<sup>249</sup> This is also a factual issue that is often litigated.<sup>250</sup> A common example in trade secret litigation is the

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241. 878 F. Supp. 804 (D. Md. 1995).

242. *Id.* at 804.

243. *Id.* at 808-09.

244. *Id.* at 808.

245. *Id.* at 814.

246. *Id.*

247. In a case of misappropriation of trade secrets, the Uniform Act requires that the secret be acquired through improper means. UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 438. The Uniform Act defines "improper means" to include "theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy, or espionage through electronic or other means." *Id.* The Maryland Act contains identical language. See MD. CODE ANN., COM. LAW II § 11-1201(b).

248. UNIF. TRADE SECRETS ACT § 1 cmt, 14 U.L.A. 439.

249. See *infra* Part III.F.

250. See *Surgidev Corp. v. Eye Tech., Inc.*, 828 F.2d 452 (8th Cir. 1987) (stating that the identities of ophthalmologists who were high volume implanters of manufacturers' lenses were not readily ascertainable); see also *Eaton Corp. v. Appliance Valves Co.*, 634 F. Supp. 974, 980-81 (N.D. Ind. 1984) (holding that patent information readily available to the public and removed from employer's files did not amount to a misappropriation of trade secrets and confidential information); *Crown Holding Corp. v. Larson*, 410 N.W.2d 373, 375 (Minn. Ct. App. 1987) (noting that a confidentiality agreement terminated with the lifting of a temporary restraining order).

case of a departing employee who takes the customer list with him when he departs to work at a competing business, which may even be the employee's own start up company. The former employer will argue that its customer list was developed only after many years of effort and great expenditures on advertising, client development, and salaries for salesmen. On the other hand, the departing employee, who has appropriated the list, will argue that the customer list constitutes information which is readily ascertainable through common business sources such as telephone books, trade magazines, or published industry information sources.

The seminal case in Maryland on this topic is *Fulton Grand Laundry Co. v. Johnson*.<sup>251</sup> In this case, Johnson, an employee of a laundry company, drove a laundry route as part of his required duties.<sup>252</sup> After three years of employment, Johnson departed from the laundry company and started his own laundry business.<sup>253</sup> Before he left, Johnson solicited the customers of his previous laundry route.<sup>254</sup> The court held that the identity of the laundry customers on the laundry route was not a trade secret because those identities could be readily ascertained by merely observing the driver on his laundry route.<sup>255</sup>

In 1989, the Court of Special Appeals of Maryland decided the case of *Alan M. Dworkin, D.D.S., P.A. v. Blumenthal*,<sup>256</sup> a case that predated the Maryland Act.<sup>257</sup> There, a professional association of dentists sought injunctive relief, accounting, and damages from dentists formerly in practice with the association, alleging wrongful use of patient information and unfair competition.<sup>258</sup> The departing dentists compiled a list of patients from the records of the professional association before their employment with the professional association ended.<sup>259</sup> After resigning from the professional association, the departing dentists mailed relocation announcements only to patients for whom they had been the primary dentist.<sup>260</sup> The relocation announcements did not solicit the patient's business.<sup>261</sup> The court found that the patient list was not kept secret and that the departing dentists had a profes-

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251. 140 Md. 359, 117 A. 753 (1922).

252. *Id.* at 360, 117 A. at 753.

253. *Id.*

254. *Id.*

255. *Id.* at 361-62, 117 A. at 753-54.

256. 77 Md. App. 774, 551 A.2d 947 (1989).

257. *See supra* note 4 and accompanying text (explaining that the Maryland Act was passed in 1980).

258. *Blumenthal*, 77 Md. App. at 778, 551 A.2d at 948.

259. *Id.* at 777, 551 A.2d at 948.

260. *Id.* at 780, 551 A.2d at 949.

261. *See id.* (noting that the announcements only informed patients of the change of address and did not purport to offer superior services).

sional duty to inform their patients of their relocation.<sup>262</sup> Accordingly, the court held that the patient list was not a trade secret.<sup>263</sup>

In *Optic Graphics, Inc. v. Agee*,<sup>264</sup> the court of special appeals, applying the Maryland Act, held that a marketing strategy was not a trade secret because the information was easily obtainable from the marketplace.<sup>265</sup> At trial, the circuit court concluded that Optic's marketing strategy could be readily ascertained simply by talking with prospective purchasers of Optics.<sup>266</sup> Furthermore, the trial court found that Optic's marketing strategy was subject to change and therefore useless to a competitor.<sup>267</sup>

In *Home Paramount Pest Control Cos. v. FMC Corp./Agricultural Products Group*,<sup>268</sup> FMC, a manufacturer, gave a customer list of York, a distributor and subsidiary of Home Paramount Pest Control Companies, to one of York's principal competitors.<sup>269</sup> The plaintiff alleged this to be a misappropriation of a trade secret, while FMC asserted that the list was readily ascertainable.<sup>270</sup> The customer list provided the names, addresses, and phone numbers of York's top fifty customers.<sup>271</sup> Apparently, the details of the prices and quantities of each product purchased by each customer were not disclosed.<sup>272</sup> The court found that the names and addresses of York's customers were obtainable through public sources, such as the phone directory and trade associations.<sup>273</sup> The plaintiff argued that it put substantial effort into compiling the information on the list and that FMC actually paid for it.<sup>274</sup> The court concluded that such information could be "gathered as a matter of course as part of York's day-to-day operations."<sup>275</sup>

However, in the case of *Motor City Bagels, L.L.C. v. American Bagel Co.*,<sup>276</sup> the United States District Court for the District of Maryland found that a business plan was a trade secret even though the business plan contained some facts ascertainable from the market place and some public information.<sup>277</sup> In this case, two recent business school graduates were investigating and negotiating the purchase of a bagel franchise, and prepared an extensive business plan assessing the via-

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262. *Id.* at 782, 551 A.2d at 950-51.

263. *Id.* at 782, 551 A.2d at 951.

264. 87 Md. App. 770, 591 A. 2d 578 (1991).

265. *Id.* at 788, 591 A. 2d 587.

266. *Id.*

267. *Id.* at 787-88, 591 A.2d at 587.

268. 107 F. Supp. 2d 684 (D. Md. 2000).

269. *Id.* at 688.

270. *Id.* at 692.

271. *Id.*

272. *Id.*

273. *Id.* at 693.

274. *Id.* at 693

275. *Id.*

276. 50 F. Supp. 2d 460 (D. Md. 1999).

277. *Id.* at 479.



bility of a bagel franchise.<sup>278</sup> The franchisor with whom they were negotiating disclosed the plan to other prospective franchisees.<sup>279</sup> The court held that "while the business plan at issue [did] contain some public information and facts ascertainable from the marketplace, it likewise include[d] personal insights and analysis brought to bear through diligent research and by marshaling a large volume of information."<sup>280</sup> Unlike the marketing strategy in *Optic Graphics*, an attempt to independently duplicate the business plan would require extensive research and analysis.<sup>281</sup>

While the Maryland Act is clear that information that is generally known or readily ascertainable cannot be a trade secret, combinations of generally known information, combinations of readily ascertainable information, and combinations of both, can be trade secrets. In *Motor City Bagel*, the court stated that "[t]he fact that individual forms in marketing material or in plaintiff's proposal book were compilations of public information does not itself preclude a finding that the combination of the included elements affords a competitive advantage and is not itself in the public domain."<sup>282</sup> The court also cited, with approval, the Fourth Circuit, stating that "although a trade secret cannot subsist in information in the public domain, it can subsist in a combination of such information as long as the combination is itself a secret."<sup>283</sup>

#### G. Requirement of Reasonable Efforts to Maintain Secrecy

The Maryland Act and the Uniform Act also provide that a trade secret is protectable only if it "is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."<sup>284</sup> There are no qualifications or exceptions to this requirement. However, it is also clear from this quoted language that complete secrecy is not required.<sup>285</sup> Sensibly, trade secret protection is not lost if the trade secret is disclosed in confidence to those that need to know it, such as employees, agents, suppliers, subcontractors, and others.<sup>286</sup> However, courts have also interpreted this language to require that a trade secret owner demonstrate that he pursued an active course of conduct

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278. *Id.* at 466.

279. *Id.* at 478.

280. *Id.* at 479.

281. *Id.*

282. *Motor City Bagel*, 50 F. Supp. 2d at 479 (citing *Nat'l Risk Mgmt., Inc. v. Bramwell*, 819 F. Supp. 417, 431-32 (E.D. Pa. 1993)).

283. *Id.* (citing *Comprehensive Techs. Int'l, Inc. v. Software Artisans, Inc.*, 3 F.3d 730, 736 (4th Cir. 1993)).

284. MD. CODE ANN., COM. LAW II § 11-1201(e)(2); UNIF. TRADE SECRETS ACT § 1(4)(ii), 14 U.L.A. 439.

285. *See Tabs Assocs., Inc. v. Brohawn*, 59 Md. App. 330, 475, A.2d 1203 (1984).

286. *Dionne v. Southeast Foam Converting & Packaging*, 397 S.E.2d 110, 113 (Va. 1990) (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475 (1974)).

to keep the information secret.<sup>287</sup> Doing nothing is not enough, even though doing nothing has been good enough in the past to protect the secret.<sup>288</sup> It is also true that while the owner of a trade secret must demonstrate active conduct, the trade secret “owner need not take heroic measures.”<sup>289</sup>

In some cases, courts have held that not much is required to protect information as a trade secret. In *Dionne v. Southeast Foam Converting & Packaging*,<sup>290</sup> the Virginia Supreme Court upheld the circuit court’s decision that the foam company had used reasonable efforts to maintain the secrecy of its trade secret, referring only to the fact that the company had required confidential information agreements from all its “employees, suppliers, customers, and contractors . . . .”<sup>291</sup> However, in many cases, a court will look much more closely at the facts of the case. In a Fourth Circuit case applying the Maryland Act, the court closely looked at the facts to determine if reasonable efforts were employed to maintain secrecy. In *Trandes Corp. v. Guy F. Atkinson Co.*,<sup>292</sup> the developer and owner of a software program that designed subway tunnels sued a licensee and its contractor, the Washington Metropolitan Area Transit Authority, for misappropriation of that trade secret.<sup>293</sup> The defendants argued that the information was not a trade secret because the software was widely disclosed, mass marketed, and that its existence and its abilities were not secret.<sup>294</sup> The defendants further argued that the plaintiff software owner even offered a demonstration version of the software for sale for \$100.<sup>295</sup> However, the court looked closely at the facts, found that only six or seven people inquired about the demonstration version, and none were sold.<sup>296</sup> In deciding the case, the court found that the owner took measures that were reasonable under the circumstances to protect the secrecy of the software.<sup>297</sup> Additionally, the court found that the company licensed only two object code versions of its software and they were licensed under a confidentiality agreement, the company used a password to prevent access to the program in-house and for licensed ver-

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287. *Jet Spray Cooler, Inc. v. Crampton*, 282 N.E.2d 921, 925 (Mass. 1972).

288. *Pressed Steel Car Co. v. Standard Steel Car Co.*, 60 A. 4 (Pa. 1904) (holding that there was an implied agreement of secrecy between the plaintiff and its customers, who were provided with blueprints as a means of facilitating transactions).

289. COHEN & GUTTERMAN, *supra* note 13, at 15 n.51.

290. 397 S.E.2d 110 (Va. 1990).

291. *Id.* at 112, 114.

292. 996 F.2d 655 (4th Cir. 1993).

293. *Id.* at 657.

294. *Id.* at 663.

295. *Id.* at 663-64.

296. *Id.* at 664.

297. *Id.*

sions, and there was no other unauthorized person who ever obtained a copy of the software.<sup>298</sup>

Of course, efforts that are reasonable under the circumstances will vary from case to case. Some examples are:

1. [C]lassifying and labeling certain documents as trade secrets;
2. restricting access to certain materials or areas;
3. limiting disclosures within the company only to those individuals who need the trade secrets in order to perform their jobs properly;
4. implementing badge or other electronic monitoring systems;
5. advising employees of the existence of trade secrets and conditioning employment on signing confidentiality agreements;
6. requiring consultants, customers, vendors, and ancillary service providers to sign confidentiality agreements;
7. implementing periodic internal review procedures regarding inventions, periodicals, marketing materials, and government filings;
8. restricting access to computers, copiers, fax machines, and trash receptacles;
9. performing security checks of employees, visitors, and others with access to trade secrets; and
10. using protective orders when disclosing trade secrets in the course of litigation.<sup>299</sup>

Not only does the trade secret owner have to take measures that are reasonable under the circumstances to protect the secrecy of the trade secret, the trade secret owner must also make sure its licensee also takes such measures. In *Home Paramount Pest Control Companies, Inc.*,<sup>300</sup> the court held that even if the owner of a trade secret meets the secrecy requirements of the Maryland Act, it must also make sure, if it licenses the trade secret to another, that the owner takes steps to make sure that the licensee also treats the information as secret.<sup>301</sup> If the owner does not, any disclosure by the licensee of the information to others may not be protected by the Maryland Act.

A lawyer must advise and assist his clients with regard to measures to protect trade secrets. Today's numerous trade secret law suits, not only in Maryland, but all over the country, are *ad hoc* testimonials to the fact that many companies still do not take measures that are reasonable under the circumstances to protect their trade secrets.<sup>302</sup> A trade secret owner may well consider the implementation of a trade secret protection program, designed by counsel, to protect such

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298. *Id.*

299. COHEN & GUTTERMAN, *supra* note 13, at 89-90.

300. 107 F. Supp. 2d 684 (D. Md. 2000).

301. *Id.* at 693.

302. *See supra* Part III.

secrets from disclosure and to increase the owner's probability of success in future litigation involving the misappropriation of the trade secret.<sup>303</sup>

#### H. *Respondeat Superior*

While there does not appear to be any case in Maryland determining whether the Maryland Act precludes the application of the doctrine of respondeat superior,<sup>304</sup> a recent case in Virginia held that the Virginia Uniform Trade Secrets Act ("Virginia Act") does not preclude the application of the doctrine of respondeat superior. In *Newport News Industrial v. Dynamic Testing, Inc.*,<sup>305</sup> a long-time employee of a ship building company invented and helped develop a shock mount for electric equipment for use by the United States Navy.<sup>306</sup> The ship building company asked DTI, a testing company, to test the mount.<sup>307</sup> The employee, who invented the mount, was hired by the testing company and immediately began work on developing a competing shock mount.<sup>308</sup> From the employee's computer at the shipbuilding company, and while still employed by the company, the employee had detailed the design of the competing mount.<sup>309</sup> The shipbuilding company brought an action against the testing company and its subsidiaries on numerous counts, including misappropriation of trade secret.<sup>310</sup> Defendant claimed that they could not be vicariously liable for the misappropriation because the Virginia Act precluded the imposition of liability under the theory of *respondeat superior*.<sup>311</sup> The defendants contended that the Virginia Act failed to explicitly provide for *respondeat superior* liability and that the Virginia Act's preemptive provision precluded the application of the doctrine.<sup>312</sup> The Virginia Act's preemptive provision states that this chapter "'displaces conflicting tort, restitutionary, and other law of this Commonwealth providing civil remedies for misappropriation of a trade secret.'"<sup>313</sup> This

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303. See Richard C. McCrea, Jr., *Protecting Trade Secrets & Confidential Business Information (with Forms)*, 44 PRAC. LAW. 71 (July 1998).

304. BLACK'S LAW DICTIONARY 1313 (7th ed. 1999) (defining "respondeat superior" as "[t]he doctrine holding an employer or principal liable for the employee's or agent's wrongful acts committed within the scope of employment or agency").

305. 130 F. Supp. 2d 745 (E.D. Va. 2001).

306. *Id.* at 746.

307. *Id.* at 747.

308. *Id.* at 747-48.

309. *Id.* at 748.

310. *Id.*

311. *Id.* at 750.

312. *Id.* (noting the VA. CODE ANN. § 59.1 - 341 (Mitchie 2001)).

313. *Id.*

Virginia provision is similar in all material aspects to the Maryland provision at Section 11-1207.<sup>314</sup>

In its opinion, the court, citing the *Restatement (Second) of Agency*<sup>315</sup> and Virginia case law,<sup>316</sup> held that "the doctrine of respondent superior is thoroughly ensconced in Virginia law"<sup>317</sup> and that the preemptive provision of the Virginia Act does not displace the doctrine of *respondereat superior* because that doctrine is a "legal precept that presupposes the existence of an underlying claim and assesses liability not because of the act giving rise to the claim but because of a certain status."<sup>318</sup> The court noted that reaching this result was consistent with the application of the doctrine of *respondereat superior* in similar contexts, such as Virginia's conspiracy to "injure others in trade or business statute" and the Lanham Act.<sup>319</sup>

#### IV. OTHER PROVISIONS OF THE ACT

##### A. *Equitable Relief*

Because of the nature of the injury suffered from a misappropriation of a trade secret, money damages may be an inadequate form of relief and equitable relief may be necessary. In recognition of this, section 11-1202(a) of the Maryland Act and section 2(a) of the Uniform Act specifically provide that a court may order an injunction in the case of actual or threatened misappropriation of a trade secret.<sup>320</sup> A court order imposing the injunction can provide that the injunction shall terminate when the trade secret has ceased to exist.<sup>321</sup> However, a court may continue the injunction for an even longer period in order to eliminate any commercial advantage that otherwise would be derived from the misappropriation of a trade secret.<sup>322</sup> It is notable that even threatened misappropriation is the proper subject of an injunction under both Acts.<sup>323</sup> However, it is unclear how a threat of misappropriation fits within the Maryland and Uniform Act's definition of misappropriation, because, as we have seen, the definition of misappropriation only refers to the acquisition, use, or disclosure of

314. MD. CODE ANN., COM. LAW II § 11-1207; VA. CODE ANN. § 59.1-344 (Mitchie 2001).

315. *Newport News*, 130 F. Supp. 2d at 749.

316. *Id.* at 750 (citing *Giant of Md., Inc. v. Eager*, 515 S.E.2d 111, 112 (1999)).

317. *Id.*

318. *Id.* at 751.

319. *Id.* at 754 n.8.

320. MD. CODE ANN., COM. LAW II § 11-1202(a); UNIF. TRADE SECRETS ACT § 2(a), 14 U.L.A. 449.

321. MD. CODE ANN., COM. LAW II § 11-1202(b); UNIF. TRADE SECRETS ACT § 2(b), 14 U.L.A. 449.

322. MD. CODE ANN., COM. LAW II § 11-1202(b); UNIF. TRADE SECRETS ACT § 2(b), 14 U.L.A. 449.

323. MD. CODE ANN., COM. LAW II § 11-1202(a); UNIF. TRADE SECRETS ACT § 2(a), 14 U.L.A. 449.

trade secrets and does not have any language specifically referring to the threat thereof.<sup>324</sup>

When the Conference adopted various amendments to the Uniform Act in 1985, one of those amendments added language to subpart b of section 2 of the Uniform Act concerning injunctive relief in the case of “exceptional circumstances.”<sup>325</sup> This new language is also in the Maryland Act. The new Maryland language provides that:

(c) *Payment of royalty* – In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited . . . .

(e) *“Exceptional circumstances defined”* – In this section, “exceptional circumstances” includes, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.<sup>326</sup>

## B. Damages

### 1. Actual Loss, Unjust Enrichment, and Reasonable Royalty

Section 11-1203 of the Maryland Act and section 3 of the Uniform Act provide that damages for the misappropriation of a trade secret can include damages for actual loss to the trade secret owner.<sup>327</sup> The Acts also provide for those damages stemming from the misappropriator’s unjust enrichment that were not factored into the computation of actual loss.<sup>328</sup> In addition, both Acts state that damages can also be measured by a reasonable royalty in lieu of any other damages.<sup>329</sup>

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324. MD. CODE ANN., COM. LAW II § 11-1202(c); *see also supra* notes 118-65 and accompanying text.

325. UNIF. TRADE SECRETS ACT § 2(b), 14 U.L.A. 449; *see also supra* notes 59-60 and accompanying text.

326. MD. CODE ANN., COM. LAW II § 11-1202(c),(e).

327. *Id.* § 11-1203; UNIF. TRADE SECRETS ACT § 3(a), 14 U.L.A. 455.

328. MD. CODE ANN., COM. LAW II § 11-1203(b) (stating that damages may include “[t]he unjust enrichment caused by misappropriation that is not taken into account in computing actual loss”); UNIF. TRADE SECRETS ACT § 3(a), 14 U.L.A. 455 (stating that “[d]amages can include . . . the unjust enrichment caused by misappropriation that is not taken into account computing actual loss”).

329. MD. CODE ANN., COM. LAW II § 11-1203(c); UNIF. TRADE SECRETS ACT § 3(a), 14 U.L.A. 455. One commentator has even argued that the Racketeer Influenced and Corruption Organizations Act, 18 U.S.C. §§ 1961-68 (1994) (RICO) is applicable to causes of action based on the misappropriation of trade secrets. *See* Thomas P. Heed, Comment, *Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action That Works*, 30 J. MARSHALL L. REV. 207, 235-42 (1996). RICO provides for treble damages and legal fees. 18 U.S.C. § 1964(c).

Measuring damages by a royalty amount instead of actual loss or unjust enrichment is an interesting option for plaintiffs. Such a measurement option may be advantageous for some plaintiffs for a number of reasons. First, plaintiffs may not be able to readily determine their own actual losses because the defendant may have kept the misappropriation a secret and the plaintiff may not be aware of or be able to reasonably calculate the effects of the misappropriation of plaintiff's trade secret or business. Second, plaintiffs may not be able to calculate the defendant's unjust enrichment because the defendant may not fully disclose or properly calculate the amount he has profited as a result of the misappropriation. Thus, a royalty amount may be much easier for the plaintiff to prove because the information concerning its own trade secret is readily available and the plaintiff is already aware of its value.

From a defendant's point of view, however, measuring damages by a royalty amount may be disadvantageous. For instance, because the defendant may only have had the secret for a short time, may not have been able to use it to its full potential, and may not have generated much money from it because it was wrongfully obtained, the defendant may suffer a greater loss if damages are measured by a reasonable royalty. Also, in some cases the defendant may not have all of the facts concerning the secret to be able to disprove the alleged value that the plaintiff attributes to the secret.

Maryland may have one of the very few reported cases concerning the measurement of damages by awarding a reasonable royalty.<sup>330</sup> In *Motor City Bagels, L.L.C. v. American Bagel, Co.*,<sup>331</sup> the court, applying Virginia's unjust enrichment law, found that the plaintiffs had not introduced any evidence establishing that the defendants "were enriched 'at the expense of' the plaintiffs."<sup>332</sup> Citing section 11-1203 (b) of the Maryland Act, the court concluded that the plaintiffs "could have argued that they were entitled to monetary damages in the form of royalties as a result of the defendants' unauthorized distribution of their business plan to prospective franchisees."<sup>333</sup>

## 2. Exemplary Damages

Under section 11-1203 (d) of the Maryland Act and section 3(b) of the Uniform Act, a court may award exemplary damages, not exceeding twice the award for general misappropriation damages, if there is

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330. For one of the few reported cases discussing measuring damages by a royalty amount, see *American Sales Corp. v. Adventure Travel, Inc.*, 862 F. Supp. 1476 (E.D. Va. 1994), *amended by* 867 F. Supp. 378 (E.D. Va. 1994) (amending the court's awarding of attorney fees).

331. 50 F. Supp. 2d 460 (D. Md. 1999).

332. *Id.* at 477-78.

333. *Id.* at 479-80.

a willful and malicious misappropriation.<sup>334</sup> Some states do not have any punitive or exemplary damages provision in their state uniform trade secrets act.<sup>335</sup> Other states that do award punitive or exemplary damages in their uniform trade secrets acts have a cap on their damage provisions.<sup>336</sup>

### C. Attorney Fees

Section 11-1204 of the Maryland Act and section 4 of the Uniform Act specifically provide that a court may award reasonable attorney's fees to the prevailing party if there is a willful and malicious misappropriation.<sup>337</sup> Both Acts also provide that reasonable attorney's fees will be awarded if a claim of misappropriation is made in bad faith or if a motion to terminate an injunction is made or requested in bad faith.<sup>338</sup> Although "willful and malicious" and "bad faith" are two different standards, the use of different standards may nonetheless be appropriate because the types of acts and actors are different.<sup>339</sup> However, both bad faith and willful and malicious are interpreted by the courts to require egregious conduct of a similar degree.<sup>340</sup> As the fol-

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334. MD. CODE ANN., COM. LAW II § 11-1203(d); UNIF. TRADE SECRETS ACT § 3(b), 14 U.L.A. 455.

335. A few of the states that do not have any punitive or exemplary damage provision in their state uniform trade secrets act are Arkansas, Michigan, Mississippi, and Nebraska. See ARK. CODE ANN. § 4-75-606 (2001) (allowing damages only for actual loss and unjust enrichment caused by misappropriation); MICH. COMP. LAWS § 445.1904 (Supp. 2001) (permitting a plaintiff to recover damages for actual loss and unjust enrichment caused by misappropriation); MISS. CODE ANN. § 75-26-7 (1999) (failing to state whether a court may award punitive and exemplary damages); NEB. REV. STAT. § 87-504 (1999) (failing to address whether a plaintiff may be awarded any exemplary damages).

336. States that have some type of cap for punitive or exemplary damages provisions are Alabama, Colorado, and Idaho. See ALA. CODE § 8-27-4 (1993) (permitting an award of exemplary damages that may not "exceed the actual award made under subdivision (1)"); COLO. REV. STAT. ANN. § 7-74-104 (1999) (stating that a court may award exemplary damages in an amount not exceeding the award made under subsection (1) of their section"); IDAHO CODE § 48-803 (1997) (stating that "the court may award exemplary damages in amount not exceeding twice any award made under subsection (1) of this section").

337. MD. CODE ANN., COM. LAW II § 11-1204; UNIF. TRADE SECRETS ACT § 4, 14 U.L.A. 459; see also MD. R. 1-341.

338. MD. CODE ANN., COM. LAW II § 11-1204; UNIF. TRADE SECRETS ACT § 4, 14 U.L.A. 459.

339. See *Am. Sales*, 862 F. Supp. at 1480-81 (explaining that "willful and malicious" conduct requires ill-will and is a very high standard to meet for punitive damages); see also *Optic Graphics*, 87 Md. App. at 789-90, 591 A.2d at 587-88 (noting that an example of bad faith is continuing a court action for malicious reasons and that proving bad faith requires clear evidence that the action was without merit and taken for improper purposes).

340. For a discussion of egregious punitive damages in willful and malicious cases, see *Am. Sales*, 862 F. Supp. at 1480-81. For a discussion of egregious



lowing cases demonstrate, the award of attorney's fees under the Maryland Act is difficult to achieve.

For instance, in *Bond v. PolyCycle, Inc.*,<sup>341</sup> the Court of Special Appeals of Maryland considered the award of attorney fees under the Maryland Act.<sup>342</sup> Here, a company president developed and modified plastic recycling technology and a machine both which were trade secrets of the company.<sup>343</sup> When he left the company, he misappropriated the trade secrets, taking all of the information pertaining to the technology with him.<sup>344</sup> In addition, he deleted all of the information from the corporation's computers.<sup>345</sup>

The *Bond* court affirmed the trial court's finding that the president had willfully and maliciously misappropriated the company's trade secret and upheld its award of attorney's fees.<sup>346</sup> However, in reaching a decision, the court focused not on the misappropriation of the secret technique, but on the deletion of the files from PolyCycle's computers, which the court found harmed PolyCycle from carrying out its stated corporate purpose.<sup>347</sup>

In *Optic Graphics*,<sup>348</sup> claims of breach of a written confidentiality agreement and misappropriation of a trade secret were before the court.<sup>349</sup> During the course of the case, it was determined that the alleged confidentiality agreement of the former employee was actually forged, bringing into question whether the breach of contract claim should have been brought or maintained even after the forgery had been determined.<sup>350</sup> The court reversed the trial court's imposition of attorney fees and expenses based on the allegation that the claim of misappropriation of a trade secret was filed in bad faith.<sup>351</sup> However,

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punitive damages in bad faith cases, see *Optic Graphics*, 87 Md. App. 789, 591 A.2d at 587-88.

341. 127 Md. App. 365, 732 A.2d 970 (1999).

342. *Id.* at 380-83, 732 A.2d at 977-79.

343. *Id.* at 369-70, 732 A.2d at 972. See also *supra* notes 214-16 and accompanying text for a more detailed discussion of the facts and holding of this case.

344. *Bond*, 127 Md. App. at 370, 732 A.2d at 972; see also *supra* note 213 and accompanying text.

345. *Bond*, 127 Md. App. at 370, 732 A.2d at 972; see also *supra* note 213 and accompanying text.

346. *Bond*, 127 Md. App. at 384-85, 732 A.2d at 979-80. The *Bond* court defined "willfull," stating that "[i]n a civil action the word [willfully] often denotes an act which is intentional, or knowing, or voluntary, as distinguished from accidental." *Id.* at 381, 732 A.2d at 978 (citing BLACK'S LAW DICTIONARY 1600 (7th ed. 1999)). It also defined "malice" as "the intentional doing of a wrongful act without legal justification or excuse. An act is malicious if it is done knowingly and deliberately, for an improper motive and without legal justification." *Id.* at 382, 732 A.2d at 978 (citing *Elliott v. Kapferman*, 58 Md. App. 510, 526, 475 A.2d. 960 (1984)).

347. *Id.* at 377-80, 732 A.2d at 976-77.

348. 87 Md. App. 770, 591 A.2d 578 (1991).

349. *Id.* at 770, 591 A.2d at 578.

350. *Id.* at 779, 591 A.2d at 582-83.

351. *Id.* at 794, 591 A.2d at 590.

the court remanded to the lower court that portion of the case concerning the claim for attorney fees and expenses related to breach of the contract claim.<sup>352</sup>

#### D. *Preservation of Secrecy*

During the course of a court proceeding, section 11-1205 of the Maryland Act and section 5 of the Uniform Act require that a court “preserve the secrecy of [any] alleged trade secret by reasonable means . . . .”<sup>353</sup> Both the Uniform Act and Maryland Act set forth examples of means by which an alleged trade secret can be preserved, including (1) protective orders during discovery; (2) *in camera* hearings; (3) sealing records; and (4) ordering persons involved in the litigation not to disclose the information.<sup>354</sup>

Of course, the parties and the court can also protect the secrecy of discoverable information under the Maryland Rules by stipulation<sup>355</sup> and by motion for protective order.<sup>356</sup> In most cases, it may be in the best interest of all of the parties involved to agree to protect this information because quite frequently in trade secret litigation the alleged trade secrets of both plaintiff and defendant are discoverable. In such cases, counsel for all of the parties may prepare and submit to the court a joint motion for a protective order as well as a proposed order to restrict the disclosure of confidential information in discovery, depositions, hearings, and at trial. Such a protective order may have provisions allowing: (1) limited disclosure of specified information to counsel and parties; and (2) limited disclosure of other specified information to counsel only or special masters only. Submitting such an order often minimizes legal fees and court time.

#### E. *Statute of Limitations*

Section 11-1206 of the Maryland Act and section 6 of the Uniform Act set forth a statute of limitations of three years for misappropriation actions.<sup>357</sup> This three year period starts after the misappropriation is discovered or should have been discovered by the exercise of reasonable diligence.<sup>358</sup> Two states, Illinois and Maine, have, respec-

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352. *Id.* at 795, 591 A.2d at 590.

353. MD. CODE ANN., COM. LAW II § 11-1205; UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461.

354. MD. CODE ANN., COM. LAW II § 11-1205; UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461.

355. MD. R. 2-401(g).

356. MD. R. 2-403(a)(8).

357. MD. CODE ANN., COM. LAW II § 11-1206; UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 462.

358. MD. CODE ANN., COM. LAW II § 11-1206; UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. 462.

tively, a five and four year statute of limitations in their uniform trade secrets acts.<sup>359</sup>

#### F. *Effect on Other Law*

Section 11-1207 of the Maryland Act and section 7 of the Uniform Act state that the Acts displace conflicting existing law providing for remedies for misappropriation of trade secrets.<sup>360</sup> The Acts do not effect: (1) contractual remedies; (2) other civil remedies not based on misappropriation of trade secrets; and (3) criminal remedies.<sup>361</sup> Furthermore, the Commentary to the Uniform Act specifically states that the Uniform Act is not intended to affect the law concerning contractual provisions prohibiting disclosure of trade secrets and covenants by employees not to compete against their employers.<sup>362</sup>

An interesting question arises as to whether debts related to misappropriation can be discharged in bankruptcy. Certainly if a disgruntled employee misappropriates a trade secret and his former employer obtains a judgment against him, the employee may file for bankruptcy, whether this debt is discharged in bankruptcy is beyond the scope of this Article.<sup>363</sup>

#### V. CONCLUSION

Twelve years have passed since the Maryland legislature enacted the Maryland Uniform Trade Secrets Act.<sup>364</sup> During this time, Maryland courts have decided numerous cases under the Maryland Act that have interpreted the Act's provisions.<sup>365</sup> A critical review of the Act and much of the reported Maryland trade secrets case law suggests that the Maryland Act currently meets the needs of both the high-tech and low-tech trade secret litigants for a unified and comprehensive body of law.<sup>366</sup> The increasing volume of case law under the Act reflects a continuing need for this unified and comprehensive body of law governing the protection of trade secrets. This case law also suggests that many Maryland businesses are not making efforts that are

359. See 765 ILL. COMP. STAT. ANN. 1065/7 (West 2001); ME. REV. STAT. tit. 10, § 1547 (West 1997).

360. MD. CODE ANN., COM. LAW II § 11-1206; UNIF. TRADE SECRETS ACT § 76, 14 U.L.A. 463.

361. MD. CODE ANN., COM. LAW II § 11-1206; UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 463.

362. UNIF. TRADE SECRETS ACT § 7 cmt., 14 U.L.A. 463. Nevada and South Carolina have criminal penalties for the theft of a trade secret. See NEV. REV. STAT. ANN. § 600A.035 (Mitchie 2001); S.C. CODE ANN. § 39-8-90 (Law. Cop. Supp. 2001).

363. See generally Beverly A. Berneman, *Caveat Trade Secret Misappropriator: The Discharge of Trade Secret Misappropriation Debts*, III J. MARSHALL CENTER FOR INTELL. PROP. L. NEWS SOURCE 3, Winter 2002.

364. See *supra* note 5 and accompanying text.

365. See *supra* Parts III and IV.

366. See *supra* Parts III and IV.

reasonable under the circumstances to maintain the secrecy of their trade secrets.<sup>367</sup> Accordingly, Maryland lawyers should advise their clients of the need for a comprehensive and demonstrable program to establish and maintain efforts that are reasonable under the circumstances to maintain the secrecy of such trade secrets.

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367. *See supra* Parts III and IV.