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CONTRACTS

Trade Secrets: Provide Definition

CODE SECTION:	O.C.G.A. § 10-1-760 (new)
BILL NUMBER:	HB 252
ACT NUMBER:	468
SUMMARY:	The Act defines "trade secret" and states that all rights relating to trade secrets shall be in accord with the term as used in the Act.
EFFECTIVE DATE:	July 1, 1989

History

Georgia courts recognize and enforce property rights in trade secrets.¹ Georgia case law states that a protected property right exists in an idea, process, or product if: (1) an idea is novel; (2) the owner makes the disclosure of the idea in confidence; (3) the defendant adopts and makes use of the idea; and (4) the idea is sufficiently concrete to be usable.² Georgia courts adopted the principle that general knowledge gained by an employee during the regular course of employment is not a trade secret.³ Therefore, an employee may later use such knowledge.⁴ However, specialized knowledge that the employee obtains only by virtue of his relationship with the employer will likely be protected as a trade secret.⁵

If one appropriates a protected concept, product, or process, the owner of the trade secret may pursue both legal⁶ and equitable⁷ relief.

1. A "trade secret" is distinguished from a patent because the owner of a trade secret has exclusive rights in the secret only until the knowledge forming the basis of the secret becomes generally known or is discovered independently by another. A patent protects the holder for a specified length of time, even if another develops the process, idea, or other patentable thing independently, or if it becomes generally known. *Monumental Properties, Inc. v. Frontier Disposal, Inc.*, 159 Ga. App. 35, 38, 282 S.E.2d 660, 664 (1981).

2. *Wilson v. Barton & Ludwig*, 163 Ga. App. 721, 296 S.E.2d 74 (1982).

3. "[The right] does not exist . . . with respect to matters which are generally known in the trade . . ." *Thomas v. Best Mfg. Co.*, 234 Ga. 787, 790, 218 S.E.2d 68, 71 (1975).

4. *Id.*

5. *Stewart v. Hook*, 118 Ga. 445, 45 S.E.2d 369 (1903).

6. The tort concept of conversion protects a plaintiff from the misappropriation and misuse of a trade secret. *See Morton B. Katz v. Arnold*, 175 Ga. App. 278, 333 S.E.2d 115 (1985).

7. "A trade secret is a property right which the courts will protect by restraining its divulgence by one who has acquired it through confidential relations with the discoverer . . ." *Thomas v. Best Mfg. Co.*, 234 Ga. 787, 789-90, 218 S.E.2d 68, 71 (1975).

The concept of the trade secret is also prominent in contract law.⁸ Prior to the enactment of HB 252 the only statutory definition of the term contained in the Georgia Code appeared in the section describing criminal penalties for theft of a trade secret.⁹

HB 252

The Act defines "trade secret" for all purposes except criminal cases.¹⁰ Specifically, the Act identifies both tangibles and intangibles which may form the subject matter of a trade secret.¹¹ It also details the accompanying circumstances which a court must find present to declare the existence of a trade secret.¹² The Act goes no further, however, and does not define the elements of a cause of action for misappropriation of a trade secret.¹³

The original bill included a list of the things which may form the substance of a trade secret. That list included "a design, plan, tool, mechanism, compound, process, procedure, formula, or improvement and the whole or any portion of any scientific, technical, or confidential business information of a competitively advantageous nature, which is relatively secret and of value"¹⁴

The Senate Judiciary Committee expressed the view that the general intent of the Act is to standardize the definition of the term "trade secret."¹⁵ Both the Senate and House Judiciary Committees noted that the original bill did not track the language appearing in the Uniform Trade Secrets Act (Uniform Act).¹⁶ Each of the committees

8. An employer may, as a condition of the employment contract, require that the employee refrain from divulging or utilizing for the employee's benefit certain information deemed to be a trade secret. Such an agreement may be express or implied. *Monumental Properties, Inc. v. Frontier Disposal, Inc.*, 159 Ga. App. 35, 38, 282 S.E.2d 660, 663 (1981). However, such an agreement may be unenforceable as against public policy if the protected information or process does not constitute a protected trade secret. *Thomas v. Best Mfg. Co.*, 234 Ga. 787, 788, 218 S.E.2d 68, 70 (1975).

9. See O.C.G.A. § 16-8-13(a)(4) (1988). With passage of the Act, the Georgia Code now contains two definitions of "trade secret." See *infra* note 25.

10. O.C.G.A. § 10-1-760(a) (1989).

11. *Id.*

12. *Id.*

13. Other states have passed acts which define trade secret and specify the elements of the plaintiff's tort remedy for the misappropriation of the trade secret. See, e.g., ALA. CODE §§ 8-27-1 to -6 (Supp. 1988).

14. HB 252, as introduced, 1989 Ga. Gen. Assem. The definition, as proposed, was similar to that reflected in the section concerning criminal penalties for theft of trade secrets. See O.C.G.A. § 16-8-13 (1988). The recitation of protected items has appeared in substantially this form in Georgia civil cases. See, e.g., *Vendo Co. v. Long*, 213 Ga. 774, 776, 102 S.E.2d 173, 174 (1958).

15. Notes of proceedings, Senate Judiciary Committee meeting (Feb. 28, 1989).

16. *Id.*

proposed substitutes which adopted certain language of the Uniform Act.

The Act, as passed, includes language employed in the Senate and House committee substitutes.¹⁷ It states that a trade secret "means information including, but not limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, drawing, process, financial data, or list of actual or potential customers or suppliers."¹⁸ The Act does not require that a trade secret be novel.¹⁹ However, a court must find the purported secret to have actual or potential economic value to the owner because others are unaware of the secret.²⁰ Additionally, the owner must have taken reasonable efforts to protect the secret to maintain its status as a trade secret.²¹ The secret will not lose its status if disclosure is the result of access by unauthorized persons or if the disclosure is inadvertent.²² The Act allows the potential of economic value to sustain trade secret status.²³ This is a departure from the common law position that the owner must reduce the secret to practice before it is protected.²⁴

The original bill would have placed the definition of "trade secret" in Title 13 of the Code, pertaining to contracts.²⁵ The definition was

17. Compare HB 252 (HCS), (SCS) with HB 252, as passed, 1989 Ga. Gen. Assem. Although the Senate Committee expressed a desire that the Act be consistent with the Uniform Trade Secrets Act, the new law departs from the language of the Uniform Act. The corresponding section of the Uniform Act declares that:

(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process that:

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

UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 369 (Supp. 1989). Uniform Act subsections (4)(i) and (4)(ii) were adopted with minor changes into the Georgia Act. See O.C.G.A. § 10-1-760(a)(1)-(2) (1989).

18. O.C.G.A. § 10-1-760(a) (1989).

19. See O.C.G.A. § 10-1-760 (1989).

20. O.C.G.A. § 10-1-760(a)(1) (1989).

21. O.C.G.A. § 10-1-760(a)(2) (1989).

22. O.C.G.A. § 10-1-760(c) (1989).

23. O.C.G.A. § 10-1-760(a)(1) (1989).

24. *Id.* The Uniform Act has been construed as making a departure from the rule reflected in the Restatement of Torts that the trade secret "be 'continuously used in one's business.'" Therefore, under the Uniform Act, an idea would receive protection although "a plaintiff . . . has not yet had an opportunity or acquired the means to put a trade secret to use." Compare UNIF. TRADE SECRETS ACT, § 1, 14 U.L.A. 369 commissioner's comments (Supp. 1989) with RESTATEMENT OF TORTS § 757 (1939).

25. HB 252, as introduced, 1989 Ga. Gen. Assem.

to appear immediately following the statutory definition of a contract.²⁶ The legislature intended to apply the definition generally, by providing that "[a]ny contractual rights or other rights independent of contract relating to trade secrets shall be construed according to [this] definition"²⁷

The Senate Committee feared that courts would use the definition only in contract cases if the definition were in Title 13.²⁸ Therefore, the Senate Committee moved the definition to Title 10, which includes the general provisions regarding selling and other trade practices.²⁹

Each of the substitute bills made certain exceptions to the general application of the definition.³⁰ Both committee substitutes excluded the application of the definition to section 16-8-13.³¹ That section relates to criminal penalties for theft of trade secrets.³² The House Committee also provided that "the right of any person to apply for a protective order" during discovery would not be affected by the bill's provisions.³³ The Act, as passed, provides only that it shall not apply to the criminal penalties for theft of trade secrets.³⁴

Nothing in the Act appears likely to disturb the principle that the general knowledge an employee gains during the regular course of employment is not a trade secret. The Act appears, however, to continue to protect as a trade secret particular knowledge obtained by the employee by virtue of his relationship with the employer.³⁵

The Act will immediately affect tort and contract law. The definition provided by the Act does not specify the elements necessary to bring a cause of action in law or in equity to prevent or remedy the misuse

26. *Id.*

27. *Id.*

28. HB 252 (SCS), 1989 Ga. Gen. Assem. Computer software industry representatives voiced concern that the location of the definition would stymie the use of the definition in tort cases. Notes of proceedings, Senate Judiciary Committee meeting (Feb. 28, 1989).

29. Notes of proceedings, Senate Judiciary Committee meeting (Feb. 28, 1989).

30. Compare HB 252 (HCS) with HB 252 (SCS), 1989 Ga. Gen. Assem.

31. HB 252 (HCS), (SCS), 1989 Ga. Gen. Assem.

32. See O.C.G.A. § 16-8-13 (1988).

33. HB 252 (HCS), 1989 Ga. Gen. Assem. *But see* HB 252 (SCS), 1989 Ga. Gen. Assem. (which deleted this exception).

34. O.C.G.A. § 10-1-760(b) (1989).

35. However, some confusion is reflected in previous cases concerning customer lists, which the Act protects. Customer lists have not been extended protection in many cases. See, e.g., *American Photocopy Equipment Co. v. Henderson*, 250 Ga. 114, 296 S.E.2d 573 (1982). "Customer lists are not trade secrets." *Id.* at 115, 296 S.E.2d at 575 (citing *Textile Rubber Co. v. Shook*, 243 Ga. 587, 255 S.E.2d 705 (1979)). The courts have held that the fact that a former employee is soliciting the same customers that he did while working for his previous employer is not alone sufficient to find liability under a tort theory. *Id.* at 116, 296 S.E.2d at 575 (citing *Vendo Co. v. Long*, 213 Ga. 774, 778, 102 S.E.2d 173, 175 (1958)). The Act expressly protects not only lists of current customers, but also potential customers. O.C.G.A. § 10-1-760(a) (1989).

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of a trade secret.³⁶ Courts must use the definition to determine initially the existence of a protected property right.

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36. *See supra* text accompanying notes 11–13.