Georgia State University Law Review

Volume 7
Issue 1 *Fall 1990*

Article 20

9-1-1990

COMMERCE AND TRADE Selling and Other Trade Practices: Expand Trade Secrets Statute

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COMMERCE AND TRADE

Selling and Other Trade Practices: Expand Trade Secrets Statute

CODE SECTIONS:	O.C.G.A. § 10-1-760 (amended), 10-1-761 to -767 (new)
BILL NUMBER:	HB 1449
ACT NUMBER:	1369
SUMMARY:	The Act expands the definition of "trade secret" and other related terms, provides remedies for misappropriation of trade secrets, permits payment of attorneys' fees in cases of bad faith misappropriation, requires preservation of secrecy in judicial proceedings, and establishes a statute of limitations for trade secret misappropriation actions.
EFFECTIVE DATE:	July 1, 1990

History

Until 1989, the sole codification of Georgia's trade secret law was a criminal statute, which established penalties for the theft or embezzlement of trade secrets.[1] Civil actions for misappropriation were governed exclusively by case law.[2] In 1989, the Georgia General Assembly enacted legislation that defined trade secrets for purposes other than criminal actions.[3] The 1989 Act did not define other relevant terms or provide remedies against misappropriation.[4]

The 1989 statute required that all trade secret rights, including those established by contract, be construed according to the statutory definition exclusively.[5] In commercial transactions, however, the contractual definition, which sets forth the scope of information that will be considered to be a trade secret, is often the result of careful, arm's length negotiations by the parties and may be contrary to the statutory definition.[6]

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1. *See* O.C.G.A. § 16-8-13 (1981).

2. *See, e.g.*, Morton B. Katz & Assoc. v. Arnold, 175 Ga. App. 278, 333 S.E.2d 115 (1985).

3. 1989 Ga. Laws 569 (formerly found at O.C.G.A. § 10-1-760 (Supp. 1989)).

4. *See* Legislative Review, *Trade Secrets: Provide Definition*, 6 GA. ST. U.L. REV. 179 (1989).

5. 1989 Ga. Laws 569 (formerly found at O.C.G.A. § 10-1-760 (Supp. 1989)).

6. Telephone interview with Joel Goldman, Chairman of Special Committee on Trade Secrets and Restrictive Covenant Legislation of the Georgia Bar Association's Patent and Trademark Section (Mar. 16, 1990) [hereinafter Goldman Interview].

The 1989 Act required the statutory definition to supersede any contractual definition of trade secret.[7] Practitioners in patent, copyright, trademark, and other related areas of law feared that the definition would cause confusion and, therefore, litigation. Parties might find, for example, that information which had been purposefully excluded from the contractual definition of trade secret was, nevertheless, statutorily protected.[8]

Georgia case law had also distinguished trade secrets, which were readily protectable, from confidential business information, which was not.[9] To obtain trade secret protection for an abstract idea or concept, the owner of the idea had to prove that the information was novel, original, and not generally known in the trade.[10] Owners whose information was not novel[11] received less protection against competitors' use.[12]

As a result of this distinction, the level of protection depended upon the subject matter of the information.[13] For example, business customer lists, though maintained in secrecy, were not considered trade secrets under Georgia common law; courts instead categorized such lists as confidential business information.[14] Courts treated trade secrets as property rights, upholding contracts protecting against disclosure for an indefinite period of time, and over a wide geographic area.[15] However, courts often found that similar contracts protecting confidential business information were overbroad and unenforceable.[16]

The provisions of the 1989 Act and the distinctions of the Georgia common law created peculiarities in Georgia's trade secret law that possibly discouraged the growth of business and industry in the state.[17] In the 1990 session, legislators, legal practitioners, and industry representatives sought to clarify the areas of confusion in trade secret

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7. *Id.*

8. *Id.*

9. *Id.*

10. Morton B. Katz & Assoc. v. Arnold, 175 Ga. App. 278, 280, 333 S.E.2d 115, 117 (1985).

11. *See* Wilson v. Barton & Ludwig, Inc., 163 Ga. App. 721, 725, 296 S.E.2d 74, 78 (1982).

> [T]o be protected, an idea must possess *genuine* novelty invention, which it cannot have if it is merely an adaptation of existing knowledge .... The 'novelty essential to a protected property right [cannot] arise solely from the fact that something already known and in use is put to a new use."

Id. (quoting Stevens v. Continental Can, 308 F.2d 100, 105 (6th Cir. 1962)).

12. *Wilson*, 163 Ga. App. at 724, 296 S.E.2d at 78.

13. Goldman Interview, *supra* note 6.

14. American Photocopy Equip. Co. v. Henderson, 250 Ga. 114, 115, 296 S.E.2d 573, 575 (1982).

15. Thomas v. Best Mfg. Corp., 234 Ga. 787, 788–90, 218 S.E.2d 68, 71 (1975).

16. *Id.* at 788, 218 S.E.2d at 70.

17. Goldman Interview, *supra* note 6.

law and to bring Georgia's law into uniformity with the laws of other states.[18] To achieve these objectives, the legislators adopted HB 1449, which was drafted by a special committee on trade secret and restrictive covenant legislation, part of the Georgia Bar Association's Patent, Trademark, and Copyright section.[19] The Act is modeled after the Uniform Trade Secrets Act (U.T.S.A.), currently followed by over half of the states.[20]

HB 1449

The Georgia Trade Secrets Act of 1990 represents a compromise between proponents of HB 1449 and of HB 1606,[21] a similar bill

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18. *Id.*

19. *Id.*

20. *See* ALA. CODE §§ 8-27-1 to -6 (Supp. 1989); ALASKA STAT. §§ 45.50.910 to .945 (Supp. 1989); ARK. CODE ANN. §§ 4-75-601 to -607 (1987); CAL. CIV. CODE §§ 3426 to 3426.10 (West Supp. 1990); COLO. REV. STAT. §§ 7-74-101 to -110 (1986); CONN. GEN. STAT. ANN. §§ 35-50 to -58 (West Supp. 1987); DEL. CODE ANN. tit. 6, §§ 2001 to 2009 (Supp. 1988); D.C. CODE ANN. §§ 48-501 to -510 (Supp. 1989); FLA. STAT. ANN. §§ 688.001 to .009 (West Supp. 1990); IDAHO CODE §§ 48-801 to -807 (Supp. 1990); ILL. ANN. STAT. ch. 140, para. 351 to 359 (Smith-Hurd Supp. 1990); IND. STAT. ANN. §§ 24-2-3-1 to -8 (Burns Supp. 1990); KANSAS STAT. ANN. §§ 60-3320 to -3330 (Supp. 1990); LA. REV. STAT. ANN. §§ 51:1431 to 51:1439 (West 1987); ME. REV. STAT. ANN. tit. 10, §§ 1541 to 1548 (Supp. 1989); MD. COMMERCIAL CODE ANN. §§ 11-1201 to -1209 (1990); MINN. STAT. ANN. §§ 325C.01 to 325C.08 (West 1981 & Supp. 1990); MONT. CODE ANN. §§ 30-14-401 to -409 (1989); NEV. REV. STAT. 600A.010 (Supp. 1989); N.M. STAT. ANN. §§ 57-3A-1 to -7 (Supp. 1989); N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (Supp. 1990); OKLA. STAT. ANN. tit. 78, §§ 85 to 95 (West 1987); ORE. REV. STAT. §§ 646.461 to 646.475 (1988); R.I. GEN. LAWS §§ 6-41-1 to 6-41-11 (Supp. 1989); S.D. CODIFIED LAWS ANN. §§ 37-29-1 to -11 (Supp. 1990); UTAH CODE ANN. §§ 13-24-1 to -9 (Supp. 1990); VA. CODE ANN. §§ 59.1-336 to -343 (1987 & Supp. 1990); WASH. REV. CODE ANN. §§ 19.108.010 to 19.108.940 (1989); W. VA. CODE §§ 47-22-1 to -10 (1986); WIS. STAT. ANN. § 134.90 (West 1989).

21. *Compare* HB 1606, as introduced, 1990 Ga. Gen. Assem., *with* O.C.G.A. §§ 10-1-760 to 767 (Supp. 1990). The final version of the bill provides a broad definition of the persons to whom the Act applies: "any other for profit or not for profit legal or commercial entity." O.C.G.A. § 10-1-761(3). *See infra* notes 43–44 and accompanying text. HB 1606 would have omitted this language from the definition of person.

Further, the Act states that no contract is required to maintain an action or obtain injunctive relief for misappropriation of a trade secret, O.C.G.A. § 10-1-762(d) (Supp. 1990), and that no contract is required to maintain an action or recover damages for misappropriation of a trade secret. O.C.G.A. § 10-1-763(c) (Supp. 1990). This language also would have been omitted in HB 1606. In addition, the Act provides that a person is entitled to recover damages in addition to "or in lieu of" the injunctive relief provided in section 10-1-762. O.C.G.A. § 10-1-763(a) (Supp. 1990). HB 1606 omitted "in lieu of."

HB 1606 included sections not present in the Act. For example, the bill would have provided, at section 10-1-768, that the article would be "applied and construed to effectuate its general purpose to make uniform the laws of those states which enact the Uniform Trade Secrets Act." HB 1606 also defined a trade secret as "information ... which ... [i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality." HB 1606 § 10-1-761(4)(B). The final version of the bill does not include "confidentiality." O.C.G.A. § 10-1-761(4)(B) (Supp. 1990).

supported by lobbyists from Georgia's computer industry.[22] HB 1606, although based on the U.T.S.A., reflected the computer companies' desire for more stringent protection, and probably would not have passed the House.[23] HB 1449, however, encountered few barriers as it traveled through the House and Senate.[24] The bill was changed slightly in the House Judiciary Committee;[25] the House committee substitute was then passed by the House and the Senate.[26] The Act, as passed, retains the provisions the sponsors considered most important to Georgia law: a clear definition of "trade secret," and rights of action for damages and injunctive relief.[27]

The Act repeals the code section which had previously defined trade secret and governed contract construction.[28] It inserts a new article[29] that expands the prior definition of trade secret[30] and defines other relevant terms. A trade secret in Georgia is no longer limited to novel ideas or information, as under the prior law.[31] As of July 1, 1990, a trade secret consists of information that includes, but is not limited to, technical or nontechnical data, formulae, patterns, compilations, programs, devices, methods, techniques, drawings, processes, financial data or plans, product plans, or lists of actual or potential customers or suppliers.[32]

A trade secret has actual or potential economic value to its owner because the information is not generally known to or readily ascertainable by others wishing to benefit by its economic value.[33] To maintain secrecy, the owner of the trade secret exerts efforts that are "reasonable under the circumstances."[34]

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22. Telephone interview with Representative Pete Robinson, House District No. 96 (Apr. 2, 1990) [hereinafter Robinson Interview].

23. *Id.*

24. *Id.*

25. Telephone interview with Deputy Legislative Counsel Terry McKenzie (Mar. 21, 1990).

26. *Id. Compare* HB 1449, as introduced, 1990 Ga. Gen. Assem., *with* HB 1449 (HCS), as passed, 1990 Ga. Gen. Assem. The House Judiciary Committee added "breach or inducement of a breach of a confidential relationship" and "espionage through electronic or other means" to the definition of "improper means." O.C.G.A. § 10-1-761(1) (Supp. 1990). The Committee also added "any other profit or not for profit legal or commercial entity" to the definition of "person," O.C.G.A. § 10-1-761(3) (Supp. 1990), and "financial data, financial plans, product plans" to the definition of "trade secret." O.C.G.A. § 10-1-761(4) (Supp. 1990).

27. Robinson Interview, *supra* note 22.

28. 1989 Ga. Laws 559 (formerly found at O.C.G.A. § 10-1-760 (Supp. 1989)).

29. O.C.G.A. § 10-1-761 (Supp. 1990).

30. O.C.G.A. § 10-1-761(4) (Supp. 1990).

31. Goldman Interview, *supra* note 6.

32. O.C.G.A. § 10-1-761(4) (Supp. 1990).

33. O.C.G.A. § 10-1-761(4)(A) (Supp. 1990).

34. O.C.G.A. § 10-1-761(4)(B) (Supp. 1990).

The Act provides that "a contractual duty to maintain a trade secret or limit use of a trade secret shall not be deemed void or unenforceable" merely because it lacks a durational or geographical limitation.[35] In addition, the Act specifically includes customer lists in the definition of trade secret.[36] These two provisions were intended to eliminate the Georgia common law distinction between protected trade secrets and unprotected confidential business information, such as customer lists.[37]

With some minor deviations and additions, which reflect Georgia case law,[38] the Act tracks the definitions of the Uniform Trade Secrets Act (U.T.S.A.).[39] Misappropriation, previously not defined by statute in Georgia, now includes acquisition of a trade secret by another "person who knows or has reason to know that the trade secret was acquired by improper means."[40]

The issue of improper means of acquisition has often been a key element in misappropriation actions in other states that follow the U.T.S.A.[41] Thus, the definitions of "improper means" in both the U.T.S.A. and the Georgia Trade Secrets Act of 1990 include disclosure or use of the secret, without consent, by a person who either used improper means to acquire the secret, or knowingly acquired the secret from another source that obtained the information through improper means.[42]

Misappropriation of trade secrets may occur in two ways. The trade secret may be acquired by a person who knows or should know that the information was misappropriated from another.[43] A trade secret may also be acquired by accident.[44] To encompass any possible accidental misappropriations, the definition of misappropriation also includes both disclosure of a trade secret under circumstances that give rise to a duty to maintain secrecy or limit use, and acquisition from a person who owed a duty to the owner of the secret to maintain its secrecy or limit its use.[45] In addition, misappropriation includes disclosure or use of a trade secret by a person who knew or had

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35. O.C.G.A. § 10-1-767(b) (Supp. 1990).

36. O.C.G.A. § 10-1-761(4) (Supp. 1990).

37. Goldman Interview, *supra* note 6.

38. Robinson Interview, *supra* note 22.

39. Uniform Trade Secrets Act § 1 (1985). The U.T.S.A. was adopted in 1979 and amended in 1985 by the National Conference of Commissioners on Uniform Laws. Borgman, *The Adoption of the Uniform Trade Secrets Act: How Uniform Is Uniform?*, 27 IDEA—J.L. TECH. 73, 75—76 (1986) [hereinafter Borgman].

40. O.C.G.A. § 10-1-761(2)(A) (Supp. 1990).

41. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 259 (1980) [hereinafter Klitzke].

42. O.C.G.A. § 10-1-761(2)(B)(i)—(ii)(I) (Supp. 1990).

43. O.C.G.A. § 10-1-761(2)(A) (Supp. 1990).

44. Klitzke, *supra* note 41, at 296—97.

45. O.C.G.A. § 10-1-761(2)(B)(ii)(II)—(III) (Supp. 1990).

reason to know, before a material change of position,[46] that the information was a trade secret acquired by accident or mistake.[47]

The Georgia Trade Acts of 1990 (the Act) differs slightly from the U.T.S.A. by defining "person" more broadly. In addition to the U.T.S.A.'s listing of "natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency,"[48] the Act also applies to "any other profit or not for profit legal or commercial entity."[49] In addition, the Act departs from the U.T.S.A. by explicitly excluding "reverse engineering" from the list of acts constituting "improper means" of acquiring a trade secret.[50]

The Act provides remedies for persons whose trade secrets have been misappropriated by competitors or other parties. Georgia courts may now grant equitable relief by enjoining actual or even threatened misappropriation.[51]

This provision offers significant protection, in that the owner of a trade secret may now obtain protection before any disclosure has occurred.[52] On the other hand, a party whose use of secret trade information has been enjoined may later seek termination of the injunction, if the party can prove that the owner of the secret has previously disclosed the secret, thereby eliminating any value the information might have held because of its status as a secret.[53]

However, the court may continue the injunction for a reasonable time, if such action is necessary to eliminate any commercial advantage

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46. Neither the U.T.S.A. nor the Georgia Trade Secrets Act of 1990 defines "material change of position." However, one commentator has explained the term by using a hypothetical illustration in which a company buys a secret process and has no reason to know that the seller of the secret acquired the information through improper means. If the company then relies on the representations of the seller and builds a new factory to make use of the secret process, the company will not be liable for damages caused by the misappropriation, even after it learns of the misappropriation. Borgman, *supra* note 39, at 80. "[I]t relied in good faith on the [seller] and materially changed its position by building the new [factory.]" *Id.*

47. O.C.G.A. § 10-1-761(2)(B)(iii) (Supp. 1990).

48. *Compare* Uniform Trade Secrets Act § 1(3) (1985) *with* O.C.G.A. § 10-1-761(3) (Supp. 1990).

49. O.C.G.A. § 10-1-761(3) (Supp. 1990).

50. *Compare* Uniform Trade Secrets Act § 1(1) (1985) ("Improper means includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." *Id.*) *with* O.C.G.A. § 10-1-761(1) (Supp. 1990) ("Improper means includes theft, bribery, misrepresentation, breach or inducement of a breach of a confidential relationship or other duty to maintain secrecy or limit use, or espionage through electronic or other means. Reverse engineering of a trade secret not acquired by misappropriation or independent development shall not be considered improper means." *Id.*)

51. O.C.G.A. § 10-1-762(a) (Supp. 1990).

52. Borgman, *supra* note 39, at 81.

53. O.C.G.A. § 10-1-762(a) (Supp. 1990).

that a misappropriating competitor might obtain through misappropriation.[54] This provision works to "deprive the misappropriator of any 'headstart' gained over the other competitors due to the misappropriation."[55] A court may also bypass the "headstart rule"[56] and continue the injunction, if it finds that the secret was disclosed by the enjoined party or by others through improper means.[57] Comments to the U.T.S.A. reject perpetual injunctions, and recommend limiting the duration of an injunction to the "amount of time in which the secret would have been discovered through proper means, such as reverse engineering."[58] Thus, the U.T.S.A. removes any commercial advantage the misappropriator has gained, "without unduly hampering the misappropriator's competitive ability."[59]

The court may, under certain circumstances, condition future use of the secret on the defendant competitor's payment of a reasonable royalty.[60] In addition, a trade secret owner may sue a competitor for misappropriation, even if the owner did not first attempt to protect the secret by contract.[61]

A trade secret owner may recover damages for misappropriation, including any actual loss to the owner, or unjust enrichment of the competitor.[62] If the plaintiff is unable to prove either type of loss by a preponderance of the evidence, the court may base its award of damages on a reasonable royalty, covering the period of time during which use of the trade secret could have been prohibited.[63]

Even though plantiffs may obtain both injunctive and monetary relief, comments to the U.T.S.A. state that if both types of relief are granted, "the monetary award will be limited to that amount necessary to compensate the injured party for the loss incurred during the period in which the injunction is not effective."[64] Courts may also

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54. *Id.*
55. Borgman, *supra* note 39, at 82.
56. *Id.*
57. O.C.G.A. § 10-1-762(a) (Supp. 1990).
58. Borgman, *supra* note 39, at 83.
59. *Id.*
60. O.C.G.A. § 10-1-762(b) (Supp. 1990).

> In exceptional circumstances, if the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

Id.

61. O.C.G.A. § 10-1-762(d) (Supp. 1990).
62. O.C.G.A. § 10-1-763(a) (Supp. 1990).
63. *Id.*
64. Klitzke, *supra* note 41, at 304-05.

award exemplary damages in cases of willful and malicious misappropriation.[65] Finally, a court may award attorneys' fees to the prevailing party, if the opposing party has shown bad faith in either bringing or resisting the action.[66]

Courts must preserve the secrecy of disputed trade secrets by reasonable means: by granting protective orders during discovery, holding *in camera* hearings, and sealing records.[67] A court may also require that any person involved in the litigation seek court approval before disclosing the trade secret.[68] A party suffering misappropriation of a trade secret must bring an action within five years after discovering the loss.[69]

The Act supersedes conflicting tort, restitutionary, and any other laws of the state that provide civil remedies for trade secret misappropriation,[70] but leaving inact[71] the Code section pertaining to criminal offenses involving theft of trade secrets.[72] Proponents of the bill were unconcerned about federal preemption of state trade secret law because the subject matter of trade secrets generally falls outside the protective scope of federal patent, trademark, and copyright law.[73]

Conclusion

The Georgia Trade Secrets Act of 1990 addresses the concerns of Georgia's business and industrial community, providing greater protection of trade secrets and eliminating the distinctions that led to uncertainty. Georgia trade secret law now stands in relative conformity with trade secret laws in other states. This should encourage greater industrial growth within the state.

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65. O.C.G.A. § 10-1-763(b) (Supp. 1990).
66. O.C.G.A. § 10-1-764 (Supp. 1990).
67. O.C.G.A. § 10-1-765 (Supp. 1990).
68. *Id.*
69. O.C.G.A. § 10-1-766 (Supp. 1990).
70. O.C.G.A. § 10-1-767(a) (Supp. 1990).
71. O.C.G.A. § 10-1-767(b)(3) (Supp. 1990).
72. O.C.G.A. § 16-18-13 (1981).
73. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).