

Pennsylvania Bar Association  
Trade Secret Memorandum

Introduction:

This summary explains and identifies the major aspects of trade secret law in Pennsylvania. As a creature of state law, trade secret protection has received criticism. In *Kewanee Oil*, the U.S. Supreme Court stated that "[t]rade secret law provides far weaker protection in many respects than the patent law." This statement has been rebutted by many; however, since patent law (as a creature of federal law) preempts any conflict with trade secret law (as a creature of state law), trade secret law remains subject to the constraints of patent law.

For the most part, in Pennsylvania, trade secret law is governed by Pennsylvania's adoption of the Uniform Trade Secret Act ("the Act").<sup>1</sup> After providing a brief summary identifying the elements of the Act and illustrating the crux of trade secret law in Pennsylvania, this summary focuses on the relevant case law in Pennsylvania. As a consequence of the Act being adopted only four years ago,

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<sup>1</sup>Under 12 Pa. C.S. § 5308, Pennsylvania's adoption of the Uniform Trade Secret Act "displaces conflicting tort, restitutionary and other law providing civil remedies for misappropriation of a trade secret" but contractual remedies, other civil remedies, and other criminal remedies. For an in-depth discussion about the adoption of the Uniform Trade Secret Act and the effect on existing law, see PRIMER ON PENNSYLVANIA TRADE SECRET LAW FOLLOWING ENACTMENT OF THE UNIFORM TRADE SECRETS ACT, 75 Pa. B.A. Q. 155, 159 (2004).

however, there are not many Pennsylvania cases providing guidance about the Act. Thus, this summary ends with a summary of federal case law interpreting Pennsylvania's adoption of the Act.

In Pennsylvania, protection of information under the trade secret law was clarified by Pennsylvania's adoption of the Uniform Trade Secrets Act in 2004.<sup>2</sup> Prior to 2004, trade secret protection in Pennsylvania only existed through common law. The Act permits the award of damages or injunctive relief in order to protect trade secrets. This protection can be extended to anything that meets the definition of trade secret. Thus, in understanding whether something can be protected under the Act, the primary issue is whether the information meets the definition of trade secret, which requires that information was identified as a trade secret and the information was protected as a trade secret.

#### Pennsylvania's Adoption of the Uniform Trade Secret Act:

Pennsylvania's adoption of the Uniform Trade Secret Act provides protection where other forms of intellectual property protection do not. Under 12 Pa. C.S. § 5303, injunctive relief is available for actual or threatened

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<sup>2</sup>12 Pa. C.S. §§ 5301 *et seq.*

misappropriation.<sup>3</sup> In addition, section 5303 provides courts with the power to enjoin royalties or enjoin other affirmative acts.<sup>4</sup> Under 12 Pa. C.S. § 5304, monetary damages are available for misappropriation and, in the case of willful and malicious misappropriation, exemplary damages not exceeding two times the monetary damages are available.<sup>5</sup>

The protection under section 5303 and section 5304 is limited by 12 Pa. C.S. § 5307. Under section 5307, a cause of action for misappropriation "must be brought within three years after the misappropriation was discovered or by the exercise of reasonable diligence should have been discovered."<sup>6</sup>

The Definitions section of the Act provides guidance regarding all of the other sections. As used throughout the Act, the Definitions section, 12 Pa. C.S. § 5302, provides that misappropriation includes:

- (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:

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<sup>3</sup>12 Pa. C.S. § 5303 (a).

<sup>4</sup>12 Pa. C.S. § 5303 (b), (c).

<sup>5</sup>12 Pa. C.S. § 5304. In addition, under 35 Pa. C.S. § 5305, a court may award attorneys fees if the misappropriation was in bad faith, a motion to terminate an injunction was made or resisted in bad faith, or willful and malicious misappropriation existed.

<sup>6</sup>12 PA. C.S. § 5307.

- (i) used improper means to acquire knowledge of the trade secret;
- (ii) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:
  - (A) derived from or through a person who had utilized improper means to acquire it;
  - (B) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
  - (C) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (iii) before a material change of his 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.

The Definitions section provides that improper means, as it is used in the definition for misappropriation, includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy or espionage through electronic or other means."<sup>7</sup> Further, the Definitions section provides that willful and malicious includes "[s]uch intentional acts or gross neglect of duty as to evidence a reckless indifference of the rights of others on the part of the wrongdoer, and an entire want of care so as to raise the presumption that the person at fault is conscious of the consequences of his carelessness."

Perhaps the most important part of the Act, the Definitions section also governs whether information meets

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<sup>7</sup>12 Pa. C.S. § 5302.

the definition of trade secret.<sup>8</sup> The statutory definition of trade secret includes:

[i]nformation, including a formula, drawing, pattern, compilation including a customer list, program, device, method, technique or process that:

(1) 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.

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>9</sup>

Thus, for a remedy (either equitable or legal) to exist under the Act, there must be economic value associated with the information being kept confidential, and reasonable efforts must be taken to maintain the secrecy of the information. Thus, the crux of trade secret law requires the identification of information that has economic value as a secret and the maintaining of its secrecy.

#### Pennsylvania Case Law Under the Uniform Trade Secret Act:

In analyzing whether information constitutes a trade secret, in *Iron Age Corp. v. Dvorak*, the Pennsylvania Superior Court provided factors that may be considered.

These factors include:

(1) the extent to which the information is known outside the owner's business; (2) the extent to which

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<sup>8</sup>12 Pa. C.S. § 5302.

<sup>9</sup>*Id.*

it is known by employees and others involved in the owner's business; (3) the extent of measures taken by the owner to guard the secrecy of the information; (4) the value of the information to the owner and to his competitors; (5) the amount of effort or money expended by the owner in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>10</sup>

Applying these factors, the Pennsylvania Superior Court further explained that the definition of trade secret "does not include a worker's aptitude, skill, dexterity, or his manual and mental ability" or "such other subjective knowledge as [a worker] obtains while in the course of his employment."<sup>11</sup>

Case law has expanded upon some aspects of the definition of trade secret. Several cases have illustrated whether information considered "[d]erives 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." In *Pestco, Inc. v. Associated Products Inc.*, information contained in a bill of lading was held as general in nature, easily obtainable from other sources, and, therefore, not protected by trade

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<sup>10</sup>*Iron Age Corp. v. Dvorak*, 880 A.2d 657 (Pa. Super. 2005) (citing *Christopher M's Hand Poured Fudge, Inc. v. Hennon*, 699 A.2d 1272, 1275 (Pa. Super.1997)).

<sup>11</sup>*Id.*

secret law.<sup>12</sup> In *WellSpan Health v. Bayliss*,<sup>13</sup> the Superior Court restated that a trade secret may include "a compilation of information which is used in one's business" that gives one "an opportunity to obtain an advantage over competitors."<sup>14</sup> The Court also repeated that if a competitor could obtain the information by legitimate means, it will not be given injunctive protection as a trade secret.<sup>15</sup> In *Omicron Systems, Inc. v. Weiner*, the Superior Court held that non-confidential sections of complex proposals were nothing more than standard concepts and, therefore, not protected by trade secret law.<sup>16</sup>

Other case law stemming from Pennsylvania's adoption of the Act relates to public entities attempting (but failing) to use trade secret law to avoid disclosure of public information. In *Pa ChildCare LLC*, PA ChildCare attempted to withhold its business model that was disclosed in response to receiving a subpoena.<sup>17</sup> ChildCare maintained that its business model was unique because it was "privately designed, financed and constructed" and included

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<sup>12</sup>*Pestco, Inc. v. Associated Products, Inc.*, 880 A.2d 700, 703 (Pa. Super. 2005).

<sup>13</sup>*WellSpan Health v. Bayliss*, 869 A.2d 990, 997 (Pa. Super. 2005).

<sup>14</sup>*Id.* (citing *Christopher M's Hand Poured Fudge v. Hennon*, 699 A.2d 1272, 1275 (Pa. Super.1997), *appeal denied*, 553 Pa. 686, 717 A.2d 1026 (1998) (quoting *Felmler v. Lockett*, 466 Pa. 1, 9(1976))).

<sup>15</sup>*Id.* (citing *Tyson Metal Products, Inc. v. McCann*, 546 A.2d 119, 122 (Pa. Super. 1988)).

<sup>16</sup>*Omicron Systems, Inc. v. Weiner*, 860 A.2d 554, 562 (Pa. Super. 2004).

<sup>17</sup>*PA ChildCare LLC v. Flood* 887 A.2d 309, 311 (Pa. Super. 2005).

"internal financial information, business model and structure" as well as "internal financial information [which was] the result of innovative compilations of data."<sup>18</sup> The court held that, in light of Article I, Section 11 of the Pennsylvania Constitution (providing that all courts shall be open), the information had to be disclosed.<sup>19</sup>

A similar case, where a public entity tried to avoid disclosure by relying upon the Act, occurred when the Pennsylvania Higher Education Assistance Agency ("PHEAA") attempted to withhold disclosure of information under Pennsylvania's existing version of the Right to Know Law (65 P.S. §§ 66.1 et seq.).<sup>20</sup> The information included vouchers and receipts for travel expenses of PHEAA's board members. Despite PHEAA's argument that its competitor (who had recently offered a billion dollar takeover) would benefit from access to the information, the court held that the information was not protected by the trade secret law.<sup>21</sup> However, the court did acknowledged PHEAA's right to

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<sup>18</sup>*PA ChildCare LLC v. Flood*, 887 A.2d 309, 311 (Pa. Super. 2005).

<sup>19</sup>*Id.*

<sup>20</sup>*Parsons v. Pennsylvania Higher Educ. Assistance Agency*, 910 A.2d 177 (Pa. Commw. 2006).

<sup>21</sup>*Id.*

protect other information under the Uniform Trade Secret Act.<sup>22</sup>

Federal Case Law Under the Uniform Trade Secret Act:

Beyond the above cases, Pennsylvania courts have been relatively silent regarding the Uniform Trade Secret Act. The federal courts in Pennsylvania, however, have provided much more guidance on the Uniform Trade Secret Act.

In *Select Medical Corp. v. Hardaway*, the U.S. District Court for the Eastern District of Pennsylvania suggested that Select Medical's future business plans and plans for expansion were public knowledge and, therefore, not covered by trade secret law.<sup>23</sup>

In *Brubaker Kitchens, Inc. v. Brown*, the U.S. District Court for the Eastern District of Pennsylvania held that Brubaker Kitchens could not protect their customer lists as a trade secret because they were readily obtainable through trade journals and other public resources.<sup>24</sup> In addition, the court held that certain business plans including an order reservation program and a limited lifetime warranty

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<sup>22</sup>*Id.*

<sup>23</sup>*Select Medical Corp. v. Hardaway*, 2006 WL 859741, \*7 (E.D.Pa. Mar 24, 2006).

<sup>24</sup>*Brubaker Kitchens, Inc. v. Brown*, 2006 WL 1193223, \*1 (E.D.Pa. May 03, 2006).

could not be protected under trade secret law because no confidentiality governed the use of these plans.<sup>25</sup>

In *Fisher Bioservices, Inc. v. Bilcare, Inc.*, the U.S. District Court for the Eastern District of Pennsylvania held that personal contact lists and calendars that do not have commercial value are not considered trade secrets.<sup>26</sup>

In *N3 Oceanic, Inc. v. Shields*, the U.S. District Court for the Eastern District of Pennsylvania held that the intent to use an infomercial and the financial data about a company were not trade secrets because the information did not have economic value and could ultimately be discerned by other individuals.<sup>27</sup>

In *B & B Microscopes v. Armogida*, the U.S. District Court for the Western District of Pennsylvania held that a former employee's improvement to his former employer's system, while still an employee, was a trade secret.<sup>28</sup> The Court required the former employee to pay damages, provide the former employer with a copy of the system as it existed

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<sup>25</sup>*Id.*

<sup>26</sup>*Fisher Bioservices, Inc. v. Bilcare, Inc.*, 2006 WL 1517382, \*16 (E.D.Pa. May 31, 2006).

<sup>27</sup>*N3 Oceanic, Inc. v. Shields*, 2006 WL 2433731, \*7 (E.D.Pa. Aug 21, 2006).

<sup>28</sup>*B & B Microscopes v. Armogida*, 532 F.Supp.2d 744, 745 (W.D.Pa. 2007).

on the day employment was terminated, and provide any non-personal data deleted from the system.<sup>29</sup>

In *Ideal Aerosmith, Inc. v. Acutronic USA, Inc.*, the U.S. District Court for the Western District of Pennsylvania held that information obtained through emails unwittingly transmitted to the competitor's server could be protected through trade secret law.<sup>30</sup> The emails were sent to the wrong server due to the acquisition of certain email addresses at an auction ordered by a bankruptcy court.<sup>31</sup> The emails included information concerning the development, marketing and sale of one of motion controllers, customer communications, and other property.<sup>32</sup> The Court held that the information retained in the emails was subject to trade secret protection despite the information being sent to the wrong server.<sup>33</sup>

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<sup>29</sup>*B & B Microscopes v. Armogida*, 532 F.Supp.2d 744, 745(W.D.Pa. Sep 25, 2007).

<sup>30</sup>*Ideal Aerosmith, Inc. v. Acutronic USA, Inc.*, 2007 WL 4394447, \*7 (E.D.Pa. Dec 13, 2007).

<sup>31</sup>*Id.*

<sup>32</sup>*Id.*

<sup>33</sup>*Id.*