

Could Have, Would Have, Should Have: Legally Protecting Your Marketing and Customer Information Under the Uniform Trade Secrets Act

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Abstract

The Uniform Trade Secrets Act is a widely adopted state law that protects trade secrets. Trade secrets are valuable information belonging to a company that is secret and for which adequate safeguards are in place to assure its confidentiality. While some secrets are legally protected, others are not. It is imperative companies recognize if they possesses valuable trade secrets and takes appropriate protective measures if it does. Trade secrets laws will protect a company should someone steal or otherwise misappropriate its trade secrets. Marketing information including customer lists, are often at the heart of many cases involving trade secrets misappropriation.

There have been many state court cases involving the misappropriation or theft of information purported to be trade secrets. Such cases often seek injunctive relief and damages from the unjust enrichment by the person or firm who took the secrets for their own use and the detrimental impact of the misappropriation or theft on the original owner of the information. Marketing information, especially customer lists are at the heart of many such misappropriations. In some cases, the courts ruled the customer lists in contention are trade secrets and as such are given legal protection. In other cases, legal protection did not ensue as those courts ruled the customer lists in contention were not trade secrets. The difference in the rulings center on what the owners of the lists in question did, or failed to do, to garner trade secrets status and the legal protection that ensues.

Owners of information that wish to garner the protection offered by trade secrets laws need to understand the definition of trade secrets in the law, and expectations of the law. The Uniform Trade Secrets Act (UTSA) is a state law that has been enacted in 48 states as of this date (only New York and North Carolina have yet to adopt the law). The minor differences that exist among the states' versions generally have to do with the date of the act's implementation for each state, which varied as the states moved to adopt the act over time. The good news for those states that adopted the UTSA, the definition of trade secrets as proposed is universal. The UTSA defines trade secrets and delineates expectations of the owners of such information. If the information possessed is of significant value to a firm, specific actions must be taken to protect it and garner legal protection under the law.

Introduction

This week was one that you will remember for a long time. Each day something occurred that left you bewildered. It seemed that something or someone was intentionally hurting your business in a variety of ways. In fact, it seemed someone was listening in on your discussions with employees and associates. It appears someone knew your game plan and was using it against you.

A prime location you had been considering buying for an expansion was taken off the market as a competitor purchased it. New social media advertising by a competitor is eerily similar to a campaign you were about to launch. A competitor released a new food product to serve a niche in the market that your firm had recently identified – beating you to the punch. Your sales force is reporting that specialized customers, for whom you had a virtual service monopoly, had been targeted by your competition with product offerings and pricing that were similar to your firm's offerings.

It finally hits you. Marketing information belonging to your firm on which its competitiveness relies, somehow has been acquired by your competitor. Your customer lists, marketing research, location research, advertising campaigns and strategies, product and pricing strategies, recipes, and who knows what other proprietary information has been given or leaked to your competition. Is there something you could have done or should have done to prevent this from happening?

Secret, proprietary information that a firm owns and uses to establish its competitive stance may be considered a trade secret. Both state laws and federal laws protect trade secrets. Prior to trade secrets laws, a hodgepodge of state-based contract laws, state trade secrets laws and non-compete agreements protected trade secrets (Budden, 1995). As might be imagined, a hodgepodge of state laws protecting trade secrets resulted in inconsistent protection for secrets: thus, the need for a uniform law among the states and the effort by the National Conference of Commissioners on Uniform Laws (Lake, Budden & Lett, 1991).

Some might ask, what about patent law or copyright law? Do they extend protection to trade secrets? The difference in garnering trade secrets protection and protection offered by patent and copyright laws is significant – and different.

Products and processes protected by U.S. patent law are disclosed for the protection to be in force. In other words, to receive a patent, one submits the product/process to the U.S. Patent Office for consideration before a patent can potentially be issued. Thus, the information is made accessible to others and is no longer secret. If no patent is issued, the information has been made public – a potentially, crippling development. In a major decision, the U.S. Supreme Court found in *Kewanee Oil Company v. Bicron Corp* (416 U.S. 470, 94 S. Ct. 1879, 40 L. Ed. 2d 315; ((1974))) it was held that neither the Patent Clause in the U.S. Constitution nor federal patent statutes preempted the protection provided by state laws. Due to the conflicting nature of secrecy and disclosure, the handling of secret information is of concern. Thus, it is up to the owner of proprietary information to consider whether seeking patent

protection or trade secrets protection is the best course of action – since they are mutually exclusive.

For a U.S. copyright to be issued, copies of the material (book, article, work of art, etc.) are submitted to the Library of Congress before a formal copyright can be issued. In a similar vein to patent applications, materials to be copyrighted are essentially made available for public scrutiny. In other words, such material cannot and will not be considered secret information, negating potential protection from trade secrets laws.

Trade secrets and their protection are nothing new. Indeed, in *Vickery v. Welch*, a case dating from 1837, saw the Massachusetts Supreme Court rule a seller's promise to keep a recipe secret was enforceable relative to the sale of his chocolate factory, even though such a secret might be seen as a "restraint of trade." Note however, that this court did not give a specific definition of a trade secret. Thus, trade secrets – secret information from which a firm garners economic competitiveness and for which efforts are made to protect the secret information have been deemed legally defensible assets for some time before being addressed by the National Conference of Commissioners on Uniform Laws ("NCCUL") which introduced the trade secrets definition in 1979 under the Uniform Trade Secrets Act ("UTSA").

In essence, the UTSA was not designed as a statute but rather as a document which proposed the first uniform law text for individual states to adopt in their legislation. The first federal legislative definition was enacted under the Economic Espionage Act ("EEA") and was subsequently amended under the Defend Trade Secrets Act ("DTSA") (Nashkova, 2023).

The Uniform Trade Secrets Act

Trade secrets are by definition, information that possesses economic value from not being generally known, not being easily determined and accorded reasonable efforts to protect and maintain its secrecy (Budden, 1996, p. 16). According to the UTSA, a trade secret is defined as: "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." In other words, it is valuable information that provides a competitive stance for a firm and for which efforts to protect it are evident. So under the Uniform Trade Secrets Act, in order for information to be considered a trade secret, the information must be secret, valuable and for which appropriate steps have been taken to protect it and maintain its secrecy (Budden, 1996, Nashkova 2023).

Businesses possess many secrets with value providing them a competitive advantage. Customer lists, market research data, market knowledge, management processes, recipes and other non-patentable information are often valuable and yet, may not be appropriate for patent or copyright protection due to the information being

made public in the application process. As noted above, the National Conference of Commissioners on Uniform Laws (NCCUL) recommended the adoption of a model law to protect trade secrets called The Uniform Trade Secrets Act (UTSA). Adoption did not take place overnight and has still not been universally adopted.

In 1987, Alabama became the first state to implement the UTSA. Texas adopted the Act in 2013. At this point, all but two states (New York and North Carolina) have adopted versions of the UTSA. The versions between the states that adopted the act are generally minor. Dates of implementation vary depending on the effective date of a state's statute. California probably made the largest change to its adopted version of the Act – removing the phrase, “and not being readily ascertainable by proper means by other persons.” All California requires is that it (the secret) not be ascertained at the time of an alleged misappropriation (Budden, 1996, p. 60).

The UTSA offers injunctive relief for the misuse or theft of trade secrets and provides for damages in cases where losses are incurred from such misappropriations and for unjust enrichment caused by theft or misappropriation. Understanding the UTSA, a state law is vital, as federal statutes do not preempt the protection afforded through state laws. The UTSA offers consistency in the identification and protection of trade secrets, a missing ingredient in pre-UTSA adoptions. Still, there are still differences as to how specifics of the UTSA are interpreted.

Recognizing and Protecting Your Marketing Secrets

Marketers need to recognize they are often in possession of proprietary information that might be protected through trade secrets laws – especially the UTSA. Customer lists, location research, market research, recipes or formulas, and a variety of other information may be considered to be a trade secret and eligible for protection under the law. The question arises, what secret, valuable marketing information do you possess and for which you have taken appropriate steps to protect its secrecy? Is your customer list a trade secret that would garner legal protection?

Cases Involving Customer Lists

A major competitive advantage for many firms arises from information found in their customer lists. Customer lists often contain contact information, purchasing patterns, product or service needs and pricing/costs analyses relative to past account servicing. A good list can be quite valuable. So, is a customer list a trade secret? Yes and no.

Several cases have arisen relative to the question of customer lists being trade secrets. Again, to be a trade secret, the information must be valuable, secret and for which appropriate steps have been taken to protect its secrecy. And therein lies the heart of the problem: does your customer list contain the ingredients to identify it as a trade secret and as a result, garner trade secrets protection?

In an Arkansas case where customer lists and files, proprietary software and pricing strategies were found to be protectable trade secrets deserving of legal status, the Court of Appeals affirmed the lower court's ruling. In the appeal by the defendant in

Combs v. Elite Title Company, 646 S.W. 3d 230 (Ark App 2022), 2022 Ark. App. 231, the Court of Appeals of Arkansas affirmed the finding of the trial court that Elite's customer lists, its pricing strategies and its title plant (proprietary software) were protectable interests under trade secrets laws. The defendants had signed non-disclosure, non-competition agreements prohibiting their using and disclosing confidential, trade secret information, including the title plant. Access to customer files was restricted and required password access. Elite claimed the title plant was a valuable asset with a value in seven figures. The ruling the information was confidential, valuable and appropriately protected allowed protection under the law.

In *Gordon Employment, Inc. v. Jewell* (356 N.W. 2d 738, Minn. App. 1984), an employment agency sued a former manager for theft of trade secrets – namely its customer lists. In this case, the Minnesota Court of Appeal agreed with the lower court that the client list did not qualify as a trade secret. In the trial, it was revealed the customer list was kept in an unlocked file cabinet in a public reception area, was not labeled as confidential and there was no written policy delineating the need to protect any confidentiality in the list. Thus, in this case, the customer list was not found to be a trade secret under the UTSA.

In *Johnston v. Vincent*, 359 So 3d 896 (2023) the Louisiana Supreme Court found in 2023 the customer list in question was a trade secret. In this case, Lake Charles Rubber and Gasket, LLC (Lake) and Vesta Johnston sued Gulf Coast Rubber and Gasket, LLC for using Lake's trade secrets – namely its customer list. The Supreme Court majority found for Lake and Johnston. It was noted the list was compiled through the work and diligence of Lake's original sales force and could not be recounted by memory alone. The court noted the list significantly included allocation of revenues from customers and therefore, the court stated it would be difficult if not impossible to conclude such a list with company revenues per customer is not a "secret" but instead is "common knowledge." Thus, the customer list was a trade secret.

So, if one wants to establish a customer list as a trade secret, the list must be secret, valuable and appropriate efforts to protect the information must have been in place. In a case tried in Minnesota, *Surgidev Corporation v. Eye Technologies, Inc. et al*, 828 F.2d 452 (8th Cir.1987) the concern centered on whether its customer list was a trade secret. Surgidev required non-disclosure agreements of all employees, restricted visitor access to only certain areas of its office, kept customer information in locked file cabinets, and allowed access to customer data by employees only on a "need to know" basis. Surgidev's customer list was comprised of ophthalmologists who were substantial implanters of intraocular lenses - products Surgidev sold. Surgidev's customer list, developed by Surgidev's employees who had spent substantial time and cost in acquiring the information was a valuable asset of the firm. As a result, the information was secret, valuable and as noted by the court, was the beneficiary of adequate steps to protect its confidentiality.

In a relevant case in Arkansas, *Lamb & Associates Packaging, Inc. v Troy Best, James Best and Precision Digital Printing, LLC* 595 S.W. 3d 378 (Ark. App. 2020), (2020 Ark. App.62), the plaintiff claimed that upon hiring, Troy Best was required to sign

a non-disclosure, non-solicitation, and non-competition agreement. Later, Lamb learned Best had taken and shared some of its confidential information/property with Precision, a competitor, and filed suit. The lower court ordered Troy Best to return or destroy all confidential information taken or still in his possession, but found no evidence of irreparable harm warranting injunctive relief. Lamb appealed. The Court of Appeal of Arkansas found the plaintiff (Lamb) did not have a protectable business interest in its claimed confidential (trade secret) information.

Lamb had not taken steps necessary to adequately protect its confidential information. Specifically, other employees had unrestrained access to sensitive, important and confidential information such as customer information, pricing information and confidential information to prepare cost studies. None of the other employees were required to sign non-competition, non-solicitation and non-disclosure agreements. The Court noted that other employees could use the information to compete after employment, and thus held that Lamb's claimed confidential (trade secret) information was not a protectable business interest. In short, adequate steps had not been taken to protect proprietary information.

In a case where a non-disclosure agreement did not provide protection sought under the trade secrets law, the Minnesota Supreme Court ruled the plaintiff did not take reasonable efforts to protect the secrecy of its process. The finding in *Electro-Craft Corporation v. Controlled Motion, Incorporated*, (1983), hit on several points. Employees were required to sign a non-disclosure agreement but not a non-competition agreement. Further, the agreement was determined to be too vague, as it did not adequately identify which company information was considered confidential. Other concerns noted by the Court included the fact that motor diagrams were thrown away in the trash – not destroyed, and that technical documents were not labeled as “confidential.”

A similar finding occurred in *Rockwell Graphic Systems, Inc. v. Dev Industries, Inc* 730 F.Supp 171 (N.D. ILL. ED1990). In this case, Rockwell lost in its efforts to obtain a summary judgment, when it was revealed the firm regularly loaned its piece-part drawings to its customers and did not track the disposition of those drawings, nor assure their destruction when their use had been completed. It is apparent that if information is to be construed a trade secret it must be adequately protected by its owner.

In a case involving a former employee of a firm, a U.S. District Court found that information containing customer information did qualify as a trade secret. In that case, *H&E Equipment Service, Inc. v. Kevin Hartley, Civil Action 22-103-SDD-RLB* (M. D. LA February 23, 2022), Hartley during his course of employment with H&E had signed a confidentiality, non-competition, non-solicitation agreement. H&E sought a temporary restraining order (TRO) and injunctive relief under Louisiana's Uniform Trade Secrets Act after Hartley's departure. Hartley, who worked for approximately 2 years, had forwarded from his work computer to his personal email address trade secrets information, claimed by H&E, reflecting its client information, customer-specific billing rates, invoiced amounts, equipment rates and market performance. H&E demonstrated

to the Court that it had taken great care in protecting its confidential business information that included multiple steps and limiting access to work computers.

In Hartley, the U.S. District Court asserted jurisdiction over the defendant Hartley on the basis of diversity of jurisdictions. The Court found that the plaintiff (H&E) had demonstrated the proprietary (trade secret) information misappropriated by the defendant included a list of its top 30 customers, client pricing, rental rates and market performance. The TRO was granted. The Court further found that plaintiff made a prima facie showing that it is likely to succeed on the merits of the case on its LUTSA, the federal Defend Trade Secrets Act (DTSA) and breach of contract claims.

Finally, an Arkansas case involving Wal-Mart stores found that Wal-Mart did not misappropriate another's trade secrets. In *Wal-Mart Stores Inc. d/b/a Sam's Club Defendant/appellant v. The P.O. Market, Inc.; Joseph O'Banion, Leonard Hoffman, and Michael McNew – Plaintiff/appellees*, 66 S.W. 3d 620, 347 Ark, 651 (Ark 2002), Wal-Mart was originally sued by The P. O. Market, Inc. and its principals for misappropriation of trade secrets. In this case, Sam's Club, a division of Wal-Mart did not previously have a mechanism for purchasers of large quantities of goods to finance their purchases. In 1992, O'Banion of The P.O. Market met Mike Hampson, a Sam's Club manager and put forth a proposal that Sam's Club buy his idea for a way to execute bulk credit transactions. Nothing materialized with Sam's Club, who eventually set up its own credit arrangements to handle bulk purchases. Legal action ensued.

The Supreme Court of Arkansas reversed and dismissed the jury verdict from the lower court, awarding \$31.7 million in compensatory damages for misappropriation of trade secrets. The Court voiced its concern that the concept claimed by the plaintiff/appellee ever reached the point of definiteness so as to qualify as protected "information" for trade secret purposes. The Court held that the basic economic components of appellee's concept were generally known in the business world and that the combination of the components into the appellee concept was not unique but rather was readily ascertainable, and did not meet the test for a trade secret under Arkansas trade secrets law.

Conclusion

Prior to the Uniform Trade Secrets Act, many states when dealing with trade secret cases relied on common law respecting unfair competition and the Restatement of Torts, Section 757 (b) ("Unfair Competition"). Eventually, all but two states have enacted the Uniform Trade Secrets Act that prohibits misappropriation or theft of information that constitute "trade secrets." All but two states model their definition of trade secret from the Uniform Act offered by the National Conference of Commissioners on Uniform State Laws. To garner the protections offered by the UTSA, information must be secret, valuable and the target of appropriate acts to safeguard and protect its secrecy. Failure to adequately safeguard information will result in a failure to prove trade secret status for information, including customer lists. Similarly, valuable, secret and appropriately protected information including customer lists, will garner trade secrets protection under the UTSA.

It should be noted, that most litigation since the adoption of the UTSA has taken place in the state courts because of the availability of the uniform trade secrets acts; however, recently federal courts are seeing an uptick in cases due to the expansion of the federal statute on trade secrets the Economic Espionage Act (EEA) which was subsequently amended under the Defend Trade Secrets Act (“DTSA”) of 2016, a federal law, which allows civil litigation and for which the definition itself is broader in scope in that it includes “the term trade secrets means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if: (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential from not being generally known to, and not being readily ascertainable through proper means by the public. It is expected that the DTSA will become increasingly central to trade secrets cases in the future due to its broader definition of trade secrets.

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