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## COMMENT

### Is the North Carolina Trade Secrets Protection Act Itself a Secret, and Is the Act Worth Protecting?

#### I. INTRODUCTION

In the late 1980s, the owner of several North Carolina travel agencies developed what he considered a novel business plan:<sup>1</sup> he envisioned a scheme that combined the services of a travel agency with those of a bank.<sup>2</sup> Under this scheme, a customer would plan a vacation and deposit a minimum of fifty dollars per month in an escrow account for a set period preceding departure.<sup>3</sup> When the account contained an amount equal to sixty percent of the anticipated vacation expenses, the remaining forty percent would be loaned to the vacationer.<sup>4</sup> The loan would be interest-free, with the repayment period equaling the amount of time it had taken the customer to save the initial sixty percent.<sup>5</sup>

After implementing this strategy at his own agencies, Jack Amariglio-Dunn marketed his concept to other travel companies and approached local banks for additional financial resources.<sup>6</sup> The banks were unreceptive.<sup>7</sup> In 1991 he responded to an advertisement seeking candidates for a managerial position at Banc One Travel Corporation ("Banc One"), an Ohio travel agency. At that time, he also proposed a cooperative venture with Banc One.<sup>8</sup> When a director of travel management for Banc One later contacted Mr. Amariglio-Dunn, he explained his idea to the executive and resubmitted its associated promotional materials.<sup>9</sup> When he found out that the company turned

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1. See *Bank Travel Bank v. McCoy*, 802 F. Supp. 1358, 1358 (E.D.N.C. 1992), *aff'd sub nom.* *Amariglio-Dunn v. McCoy*, 4 F.3d 984 (4th Cir. 1993). Although the plaintiff considered his idea to be unique, the court disagreed. "[I]t seems plain that anyone with reasonable skill in the [banking] field could divine and copy the basic concept of the plan based on plaintiff's own promotional materials." *Id.* at 1360.

2. See *id.* at 1358.

3. See *id.*

4. See *id.*

5. See *id.*

6. See *id.*

7. See *id.*

8. See *id.* at 1359.

9. See *id.*

down his proposal, Mr. Amariglio-Dunn sued the company to prevent it from wrongfully using his scheme without compensating him.<sup>10</sup>

Although Mr. Amariglio-Dunn's claim did not succeed for several reasons,<sup>11</sup> his attempt to recover under the North Carolina Trade Secrets Protection Act provides an interesting introduction to the law of trade secrets protection.<sup>12</sup> Trade secrets law aims to restrict the dissemination of confidential and commercially useful information in order to protect the business interests of its rightful owner.<sup>13</sup> The Uniform Trade Secrets Act<sup>14</sup> ("UTSA") of 1980 codified the various common law rules on trade secrets. Every state has adopted laws, usually civil statutes, protecting trade secrets.<sup>15</sup> The

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10. See *id.* The plaintiff did not present evidence that the agency used or intended to use the information. Evidently the lawsuit was a precautionary measure. See *id.*

11. See *id.* at 1360. The defendant succeeded on a summary judgment because, even when viewing the facts in favor of the plaintiff, the evidence indicated that the concept was not a trade secret, that it was freely divulged by the plaintiff, and that the requisite showing of imminent harm to enjoin the defendant was absent. See *id.*

12. Actually, the plaintiff's complaint, written pro se, demanded a "promissory note" secured by a bond and did not mention the North Carolina Trade Secrets Protection Act. However, the court treated the action as one for an injunction under the Act because the court declined to penalize the plaintiff for making an inadvertent procedural error. See *id.* at 1359-60. For trade secrets resources on the Internet, see <<http://www.execpc.com/~mhalign/>>. See HARLEY HAHN, HARLEY HAHN'S INTERNET & WEB YELLOW PAGES 451 (1999).

13. See, e.g., Joseph E. Root III & Guy M. Blynn, *Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act*, 18 WAKE FOREST L. REV. 823, 823 (1982) ("Trade secrets law seeks to protect a business person's interest in information that is confidential and commercially valuable.").

14. UNIF. TRADE SECRETS ACT §§ 1-12, 14 U.L.A. 433-67 (1990). For a section-by-section discussion of the UTSA and a summary of its concepts, see MICHAEL CRAIG BUDDEN, *PROTECTING TRADE SECRETS UNDER THE UNIFORM TRADE SECRETS ACT: PRACTICAL ADVICE FOR EXECUTIVES* 15-45 (1996).

15. This includes the District of Columbia. Seven states, Massachusetts, Michigan, New Jersey, Pennsylvania, Tennessee, Texas, and Wyoming, have only criminal statutes defining trade secrets. The other states address trade secrets in civil statutes. See ALA. CODE §§ 8-27-1 to -6 (1) (1998 Supp.); ALASKA STAT. §§ 45.50.910 to -.945 (1998); ARIZ. REV. STAT. ANN. §§ 44-401 to -407 (1994); ARK. CODE ANN. §§ 4-75-601 to -607 (1996); CAL. CIV. CODE §§ 3426-3246.11 (West 1997 & 1999 Supp.); COLO. REV. STAT. ANN. §§ 7-74-101 to -110 (West 1986); CONN. GEN. STAT. §§ 35-50 to -58 (West 1997 & 1999 Supp.); 6 DEL. CODE ANN. §§ 2001-2009(4) (1993 & 1998 Supp.); D.C. CODE ANN. §§ 48-501 to -510 (Michie 1997); FLA. STAT. ANN. §§ 688.001-.009 (West 1990 & 1999 Supp.); GA. CODE ANN. §§ 10-1760 to -1767 (1994 & 1998 Supp.); HAW. REV. STAT. §§ 482B-1 to B-9 (1992); IDAHO CODE §§ 48-801 to -807 (1997); 765 ILL. COMP. STAT. 1065/1-1065/9 (1998 Supp.); IND. CODE §§ 24-2-3-1 to -3-8 (Michie 1996); IOWA CODE ANN. §§ 550.1-.8 (West 1997); KAN. STAT. ANN. §§ 60-3320 to -3330 (1994); KY. REV. STAT. ANN. §§ 365.880-.900 (Michie 1996); LA. REV. STAT. §§ 51:1431-1439 (West 1987); ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (West 1997); MD. CODE ANN. §§ 11-1201 to -1209 (1990); MASS. GEN. L. ch. 266, § 30(4) (1992 & 1999 Supp.); MICH. COMP. LAWS ANN. § 752.772 (MICH. STAT. ANN. §§ 28.643(51)-(53) (1990)); MINN. STAT. §§ 325C.01-.08 (1995); MISS. CODE ANN. §§ 75-26-1 to -19 (1991); MO. ANN. STAT. §§ 417.450-.467 (West 1999); MONT.

North Carolina Trade Secrets Protection Act<sup>16</sup> ("NCTSPA" or "the Act"), based largely on the UTSA, was enacted in July 1981 after three years of planning.<sup>17</sup> Although the Patent, Trademark, and Copyright Committee of the North Carolina Bar Association initially sought to adopt the entirety of the Uniform Act as it appeared in 1978, it later decided that the definition sections were overly lengthy and complicated.<sup>18</sup> Consequently, the Committee drafted a simplified bill that was introduced to the North Carolina General Assembly during the 1981 session.<sup>19</sup> Despite a debate regarding royalties<sup>20</sup> that led to the defeat of one portion of the bill,<sup>21</sup> the submitted draft was approved with only cosmetic changes.<sup>22</sup>

Since its inception, the NCTSPA has been the subject of very few published decisions.<sup>23</sup> This Comment will explore a number of

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CODE ANN. §§ 30-14-401 to -409 (1997); NEB. REV. STAT. §§ 87-501 to -507 (1994); NEV. REV. STAT. ANN. §§ 600A.010-.030 (Michie 1994); N.H. REV. STAT. ANN. § 350-B:1-.9 (Michie 1995); N.J. STAT. ANN. § 2C:20-1i (1995 & 1998 Supp.); N.M. STAT. ANN. §§ 57-3A-1 to -3A-7 (Michie Supp. 1995); (New York's law is not articulated in any one statute.); N.C. GEN. STAT. §§ 66-152 to -157 (1992); N.D. CENT. CODE §§ 47-25.1-01 to -08 (1997 Supp.); OHIO REV. CODE ANN. §§ 1333.61-.69 (Page 1998 Supp.); OKLA. STAT. ANN. tit. 78, §§ 85-95 (1987); OR. REV. STAT. §§ 646.461-.475 (1997); 18 PA. CONS. STAT. ANN. § 3930 (Purdon 1983 & 1998 Supp.); R.I. GEN. LAWS §§ 6-41-1 to -11 (1992); S.C. CODE STAT. §§ 39-8-10 to -130 (1998); S.D. CODIFIED LAWS §§ 37-29-1 to -29-11 (Michie 1994 Revision); TENN. CODE ANN. § 39-14-138 (1997); TEX. PENAL CODE ANN. § 31.05 (West 1994); UTAH CODE ANN. §§ 13-24-2 to -24-9 (Michie 1996); VA. CODE §§ 59.1-336 to -343 (Michie 1998); WASH. REV. CODE ANN. §§ 19.108.010-.940 (West 1989); W. VA. CODE ANN. §§ 47-22-1 to -10 (Michie 1998); WIS. STAT. ANN. § 134.90(1)(c) (West 1984); WYO. STAT. ANN. §§ 6-3-501 to -505 (1997). Some of these statutes are not based on the UTSA.

16. N.C. GEN. STAT. §§ 66-152 to -157 (1992). For a discussion of why states have codified trade secrets law, see *infra* notes 401-13 and accompanying text.

17. See N.C. GEN. STAT. §§ 66-152 to -157 (Supp. 1981). The Act was to be effective October 1 of the same year.

18. See Root & Blynn, *supra* note 13, at 831. The original source of this information was the Committee's file, which included letters, drafts, and other papers, as well as telephone interviews in 1981 with the sponsor of the bill, Hon. Marvin D. Musslewhite, Jr. See *id.*

19. See *id.*

20. Royalties are compensation for the use of property, usually intellectual property or natural resources, expressed as a percentage of receipts from using the property or as an account per unit produced. See AMEDÉE E. TURNER, *THE LAW OF TRADE SECRETS* 428 (1962) (discussing royalties); see also BLACK'S LAW DICTIONARY 1330-31 (6th ed. 1990) (defining royalties).

21. In the end, the Senate removed the limitation that the House Judiciary Committee approved. See Root & Blynn, *supra* note 13, at 831. The debate addressed a scenario in which a person who, in good faith, uses information given to him by another without realizing that such information should have remained confidential as a trade secret. See *id.*

22. See *id.*

23. Of the published decisions mentioning the NCTSPA, only 10 have applied the Act to fact patterns. See *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1456-62 (M.D.N.C. 1996); *Glaxo, Inc. v. Novopharm, Ltd.*, 931 F. Supp. 1280, 1298-1305 (E.D.N.C. 1996); *FMC*

possible explanations for the scarcity of NCTSPA case law. For instance, the Act could be flawed in its structure, making attorneys hesitant to rely on it. Another possible reason for the limited number of judicial opinions involving the NCTSPA is that lawsuits based on trade secrets are often pursued as a breach of a covenant not to compete in the employment agreement. In addition to these reasons, attorneys who use the NCTSPA have offered other ideas to explain its low visibility in the almost two decades since its effective date.<sup>24</sup> First, perhaps the NCTSPA is used frequently, but there is little case law because most cases are unpublished trial court injunctions and temporary restraining orders that are rarely worth appealing. Alternatively, litigating such claims may simply be undesirable since customers are often called as witnesses at trial, and such cases are therefore predisposed to settlement to avoid straining customer relations.<sup>25</sup>

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Corp. v. Cyprus Foote Mineral Co., 899 F. Supp. 1477, 1481-83 (W.D.N.C. 1995); Quantum Health Resources v. Hemophilia Resources of America, Inc., 1995 U.S. Dist. LEXIS 16726, at \*30-36 (M.D.N.C.); Bank Travel Bank v. McCoy, 802 F. Supp. 1358, 1359-60 (E.D.N.C. 1992); Moore v. American Barmag Corp., 710 F. Supp. 1050, 1058-61 (W.D.N.C. 1989); Mirafi, Inc. v. Murphy, 14 U.S.P.Q.2d 1337, 1385-87 (W.D.N.C. 1989); North Carolina Elec. Membership Corp. v. North Carolina Dep't of Econ. and Community Dev., 108 N.C. App. 711, 718-19, 425 S.E.2d 440, 444-45 (1993); Barr-Mullin, Inc. v. Browning, 108 N.C. App. 590, 594-99, 424 S.E.2d 226, 228-31 (1993); Drouillard v. Keister Williams Newspaper Servs, 108 N.C. App. 169, 171-74, 423 S.E.2d 324, 326-27 (1992).

In fact, the NCTSPA has only been mentioned in four other opinions. See *AG Systems, Inc. v. United Decorative Plastics Corp.*, 55 F.3d 970, 972-3 (4th Cir. 1995); *Western Steer—Mom'N'Pop's, Inc. v. FMT Invs., Inc.*, 578 F. Supp. 260, 264 (W.D.N.C. 1984); *Wilmington Star-News, Inc. v. New Hanover Reg'l Med. Ctr., Inc.*, 125 N.C. App. 174, 179, 480 S.E.2d 53, 55-57 (1997); *Wallace Computer Servs., Inc. v. Waite*, 95 N.C. App. 439, 439, 382 S.E.2d 846, 846 (1989). However, four North Carolina decisions that do not specifically cite the NCTSPA are helpful trade secrets cases nonetheless. See *Consolidated Textiles, Inc. v. Sprague*, 117 N.C. App. 132, 134, 450 S.E.2d 348, 349 (1994) (forbidding a former employee from using his ex-employer's customer list); *S.E.T.A. UNC-CH, Inc. v. Huffines*, 107 N.C. App. 440, 446-47, 420 S.E.2d 674, 677-78 (1992) (refusing trade secret protection to information about using animals in research projects); *United Labs., Inc. v. Kuykendall*, 322 N.C. 643, 655-58, 370 S.E.2d 375, 383-85 (1988) (finding trade secrets in customer information taken from a former place of employment); *Travenol Labs., Inc. v. Turner*, 30 N.C. App. 686, 690-96, 228 S.E.2d 478, 482-86 (1976) (protecting a modified method of manufacturing as a trade secret). Also, one unpublished decision involves the NCTSPA. See *In re Wilson*, 165 F.3d 913, Nos. 97-1924, 97-1983, 97-1315, 97-9183, 1998 WL 671658, at \*2-5 (4th Cir. Sept. 23, 1998).

24. Several top trade secrets attorneys in North Carolina contributed to this Comment by offering experienced insight into why references to NCTSPA seldom appear in published opinions. See *infra* notes 465-84.

25. Research is especially difficult because the NCTSPA has received very little scholarly attention. With the exception of one law review article discussing the enactment of the NCTSPA, see Root & Blynn, *supra* note 13, any North Carolina piece covering a subject similar to trade secrets law does so in a context that completely neglects the

This Comment attempts to test these theories through legal

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NCTSPA. Although North Carolina scholars have addressed a wide range of topics associated with trade secrets laws, none has discussed the NCTSPA specifically. See Tom W. Bell, *Fair Use vs. Fared Use: The Impact of Automated Rights Management on Copyright's Fair Use Doctrine*, 76 N.C. L. REV. 557, 563 (1998); John M. Conley & Robert M. Bryan, *A Unifying Theory for the Litigation of Computer Software Copyright Cases*, 63 N.C. L. REV. 563, 573-77 (1985); Alan S. Gutterman, *The North-South Debate Regarding the Protection of Intellectual Property Rights*, 28 WAKE FOREST L. REV. 89, 94-96, 102 (1993); Doris Estelle Long, *The Impact of Foreign Investment on Indigenous Culture: An Intellectual Property Perspective*, 23 N.C. J. INT'L L. & COM. REG. 229, 233-35 (1998); Maureen A. O'Rourke, *Drawing the Boundary Between Copyright and Contract: Copyright Preemption of Software License Terms*, 45 DUKE L.J. 479, 497 (1995); Hamideh Ramjerdi & Anthony D'Amato, *The Intellectual Property Rights Laws of The People's Republic of China*, 21 N.C. J. INT'L L. & COM. REG. 169, 178-79 (1995); Pamela Samuelson, *Contu Revisited: The Case Against Copyright Protection for Computer Programs in Machine-Readable Form*, 1984 DUKE L.J. 663, 717-19; Kim Lane Scheppeie, "It's Just Not Right": *The Ethics of Insider Trading*, LAW & CONTEMP. PROBS., Summer 1993, at 145-58; Elinor P. Schroeder, *Legislative and Judicial Responses to the Inadequacy of Compensation for Occupational Disease*, LAW & CONTEMP. PROBS., Autumn 1986, at 164; David E. Shipley, *Refusing to Rock the Boat: The Sears/Compco Preemption Doctrine Applied to Bonito Boats v. Thunder Craft*, 25 WAKE FOREST L. REV. 385, 399 (1990); David E. Shipley & Jeffrey S. Hay, *Protecting Research: Copyright, Common-Law Alternatives, and Federal Preemption*, 63 N.C. L. REV. 125, 153 (1984); William K. Slate, II, *International Arbitration: Do Institutions Make a Difference?*, 31 WAKE FOREST L. REV. 41, 51 (1996); Maury M. Tepper, III, *Copyright Law: Integrating Successive Filtering Into the Bifurcated Substantial Similarity Inquiry in Software Copyright Infringement Cases: A Standard for Determining the Scope of Copyright Protection for Non-Literal Elements of Computer Programs*, 14 CAMPBELL L. REV. 1, 10-12 (1991); Roy E. Thoman, Book Review, *Protecting Trade Secrets Under the Uniform Trade Secrets Act: Practical Advice for Executives*, N.C. J. INT'L L. & COM. REG. 511, 551-52 (1996); Matias F. Travieso-Diaz & Alejandro Ferrate, *Recommended Features of a Foreign Investment Code for Cuba's Free Market Transition*, 21 N.C. J. INT'L L. & COM. REG. 511, 551-52 (1996); Vance Franklin Brown, Comment, *The Incompatibility of Copyright and Computer Software: An Economic Evaluation and a Proposal for a Marketplace Solution*, 66 N.C. L. REV. 977, 1007-09 (1988); Christopher Grafflin Browning, Jr., Comment, *Intellectual Property: The Souring of Sweet Acidophilus Milk: Speck v. North Carolina Dairy Foundation and the Rights of University Faculty to Their Inventive Ideas*, 63 N.C. L. REV. 1248, 1251-52 & n.25 (1985); Stephen M. Dorvee, Note, *Protecting Trade Secrets Through Copyright*, 1981 DUKE L.J. 981, 982-86 (1981); Amy R. Edge, Comment, *Preventing Software Piracy Through Regional Trade Agreements: The Mexican Example*, 20 N.C. J. INT'L L. & COM. REG. 175, 182-84 (1994); Richard J. Ferris, Jr., Note, *Aspiration and Reality in Taiwan, Hong Kong, South Korea, and Singapore: An Introduction to the Environmental Regulatory Systems of Asia's Four New Dragons*, 4 DUKE J. COMP. & INT'L L. 125, 169 (1993); Lawrence J. Goode and Douglas R. Williams, Note, *Developments Under the Freedom of Information Act—1985*, 1986 DUKE L.J. 384, 394-95; Steven J. Lepper, Note, *Developments Under the Freedom of Information Act—1982*, 1983 DUKE L.J. 390, 391; Elizabeth Miller, Note, *Antitrust Restrictions on Trade Secret Licensing: A Legal Review and Economic Analysis*, LAW & CONTEMP. PROBS., Winter 1989, at 184-90; John Reid Parker, Jr., Note, *Injunctive Russian Roulette and Employment Noncompetition Cases: A.E.P. Industries, Inc. v. McClure*, 63 N.C. L. REV. 222, 228-30 (1984); John L. Spilsbury, Note, *The Hazardous Chemicals Right-to-Know Act: Letting the Public Know What's Next Door*, 64 N.C. L. REV. 1330, 1337, 1341-47 (1986).

research and investigation.<sup>26</sup> The logic of this Comment's investigation is simple. It begins with two observations: first, that the NCTSPA seldom appears in published judicial opinions; and second, that its statutory language departs from the language of the UTSA. In light of these two observations, the Comment first queries whether the NCTSPA is somehow flawed and therefore of little practical use to North Carolina businesses. To evaluate this possibility, this Comment uses a two-pronged test: First, Section II of this Comment contrasts the specific language of the NCTSPA with that of the UTSA and trade secrets acts of other states;<sup>27</sup> next, Section III compares North Carolina's trade secrets case law with case law in other states.<sup>28</sup> In the findings, Section II concludes that, despite two significant distinctions, the NCTSPA is not fundamentally different from other trade secrets acts,<sup>29</sup> and Section III confirms that North Carolina's case law parallels the law of almost every other state.<sup>30</sup> This strongly suggests that the NCTSPA is not flawed, assuming that trade secrets law in general is a sound construct.

Satisfied that the NCTSPA appears well grounded, this Comment returns to the preliminary observation that the Act rarely appears in published opinions and asks whether most trade secrets cases are being framed as claims for breach of non-competition agreements rather than as violations of the NCTSPA. To test this notion, Section IV of the Comment explores the use of non-competition covenants in North Carolina as an alternative legal solution to litigating under the NCTSPA.<sup>31</sup> In doing so, the Comment compares the principles of trade secret law with those of covenants not to compete and then explores case law on the covenants, concluding that the NCTSPA probably is overshadowed by cases on employment contracts.<sup>32</sup> In search of additional support for this conclusion, Section V of this Comment reports the views of several experienced trade secrets attorneys in North Carolina, who supply valuable insight into the reasons for the NCTSPA's low visibility in published law. For the most part, the attorneys agreed that litigating non-competition covenants typically is preferred over suing under the

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26. For an examination of whether the NCTSPA is flawed, see *infra* notes 35-398 and accompanying text. For an investigation of whether trade secrets claims are more likely to be couched as contract actions, see *infra* notes 399-464 and accompanying text.

27. See *infra* notes 35-120 and accompanying text.

28. See *infra* notes 121-398 and accompanying text.

29. See *infra* notes 35-120 and accompanying text.

30. See *infra* notes 121-398 and accompanying text.

31. See *infra* notes 399-464 and accompanying text.

32. See *infra* notes 399-464 and accompanying text.

Act.<sup>33</sup> Section VI concludes that, despite the reluctance of practicing attorneys to litigate claims under the NCTSPA, it is effective legislation nonetheless.<sup>34</sup>

## II. THE NCTSPA CONTRASTED WITH THE UTSA AND TRADE SECRETS ACTS OF OTHER STATES

In the North Carolina General Statutes, Article 24 of Chapter 66 on business commerce is the "Trade Secrets Protection Act."<sup>35</sup> It is comprised of six sections and reserves another five for future developments.<sup>36</sup> The six sections individually address the definitions, the nature of the action, the remedies available, the applicable burden of proof, the appropriate court measures to preserve secrecy, and the statute of limitations.<sup>37</sup>

A close comparison of definitions may reveal a flaw in the NCTSPA because statutory definitions are critical to trade secrets cases. The term "misappropriation" appears first in the NCTSPA, and of the forty-two states that have trade secrets statutes in their general civil statutes, every state except North Carolina has adopted the UTSA definition of misappropriation, usually with slight semantic or stylistic alterations.<sup>38</sup> In the NCTSPA, "misappropriation" is defined as the acquisition, disclosure, or use of another's trade secret without express or implied authority or consent, unless the trade secret was obtained by independent development, reverse engineering, or from someone who had a right to disclose the trade secret.<sup>39</sup> The UTSA definition is different because it focuses on improper motive.<sup>40</sup> The definition explains misappropriation in two ways: (1) the acquisition of someone's trade secret by one who knew or had reason to know it was improperly acquired; and (2) disclosure by parties who have neither consent nor authority to make such

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33. See *infra* notes 465-84 and accompanying text.

34. See *infra* notes 485-87 and accompanying text.

35. See N.C. GEN. STAT. §§ 66-152 to -157 (1992).

36. See §§ 66-158 to -162.

37. See §§ 66-152 to -157.

38. See *supra* note 15 (listing the civil trade secrets acts in the United States). The Patent, Trademark, and Copyright Committee of the North Carolina Bar Associations rejected the UTSA definitions written by the Commissioners on Uniform State Laws. See Root & Blynn, *supra* note 13, at 833. Regarding "misappropriation," the Committee felt that arguing to a jury against any violation of, for example, section 1(2)(ii)(B)(I) would be confusing. See *id.*

39. See N.C. GEN. STAT. § 66-152(1).

40. See UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 438 (1990).



disclosure.<sup>41</sup> No component of the North Carolina definition requires improper intent on the part of the misappropriator.<sup>42</sup> Because the NCTSPA does not include improper motive in its definition of misappropriation, the UTSA's definition of "improper means" is absent in the NCTSPA as well.<sup>43</sup> The UTSA defines "improper means" as including "theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means."<sup>44</sup> The definition of improper means is significant in delineating what acts constitute the requisite fault upon which liability is based.

North Carolina is the only state of the forty-two with a civil trade secrets statute that does not include this language,<sup>45</sup> and, in rare circumstances, North Carolina's unique definition of "misappropriation" could make the outcome of a trade secrets case in North Carolina different from the outcome of a similar case in other states.<sup>46</sup> To illustrate, suppose hypothetically that a physicist creates a self-watering flower pot and that a flower pot manufacturer knows the physicist has developed such technology. When the corporation

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41. See § 1(2)(i), (ii). The second definition is slightly more complex in that it presents three alternative scenarios focusing on disclosure rather than acquisition of trade secrets. See § 1(2)(ii). The first scenario is the non-consensual disclosure or use of another's trade secret. See § 1(2)(ii)(A). The second misappropriation scenario is the non-consensual disclosure or use of another's trade secret by one who, at the time of disclosure or use, should have known: (1) that his knowledge of it was improperly acquired by someone else; (2) that he acquired the trade secret under circumstances triggering a duty to keep it a secret or limit its use; or (3) that he owed a duty of secrecy. See § 1(2)(ii)(B)(I), (III). The final misappropriation scenario is the non-consensual disclosure of another's trade secret by one who, before a material change in his position, knew or had reason to know that it was a trade secret and that he learned it either by accident or mistake. See § 1(2)(ii)(C).

42. However, intent is relevant for determining what remedies may be granted when a party receives misappropriated information in good faith. See N.C. GEN. STAT. § 66-154(a)(2) (1992).

43. See *id.* at § 66-152.

44. § 1(1), 14 U.L.A. at 437. In contrast, Alabama accepts the UTSA's examples of theft, bribery, and misrepresentation, but then adds to this definition "inducement of a breach of confidence," "trespass," and "[o]ther deliberate acts taken for the specific purpose of gaining access to the information of another by means such as electronic, photographic, telescopic or other aids to enhance normal human perception, where the trade secret owner reasonably should be able to expect privacy." ALA. CODE § 8-27-2(2) (1993).

45. See *supra* note 15; ALA. CODE § 8-27-2(2) (1993).

46. See Root & Blynn, *supra* note 13, at 834-35. For a case in which North Carolina courts might have reached the opposite result, see *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 405-06 (9th Cir. 1982), in which the circuit court reversed a trial court based on the absence of "improper means" in obtaining information. The hypothetical scenario that follows in the text is adapted from the Root & Blynn article. See Root & Blynn, *supra* note 13, at 835.

offers to purchase the physicist's idea, she refuses, saying that she intends to enhance her profits by keeping the self-watering innovation confidential. The physicist's former lab assistant, having a spare key to the physicist's laboratory, enters and copies all the secrets about how pots can water themselves. The assistant then approaches the flower pot corporation and convinces its executives that he has invented a self-watering pot through his own independent development. If the corporation pays for the information and uses it, it would not be liable for misappropriation under the UTSA because it lacked the knowledge or reason to know that the assistant used improper means to obtain the information.<sup>47</sup> By contrast, under the NCTSPA the physicist would have *prima facie* evidence to establish a case against the corporation because the corporation knew the self-watering process was a trade secret and used it without consent.<sup>48</sup> Since "improper means" is not an element of "misappropriation" in North Carolina, the corporation would be liable even if it proved in court that it obtained the trade secret in good faith.<sup>49</sup> The corporation would lose the case because as a matter of law the former lab assistant had no right to disclose the secret. As the above example illustrates, a North Carolina trade secrets case could come out differently from an identical case in another state but only where such a rare fact pattern arises.<sup>50</sup>

"Trade secret," the final term defined by the NCTSPA, is business or technical information including, but not limited to, formulae, patterns, programs, devices, compilations of information, methods, techniques, or processes.<sup>51</sup> This information must derive its

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47. See UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. at 438.

48. See N.C. GEN. STAT. § 66-155 (1992).

49. See *supra* note 39 and accompanying text.

50. Common sense dictates that a party knowing it has another person's trade secret will also have exercised some type of improper motive in obtaining it.

51. See § 66-152(3). Because the definition requires that the information be "business or technical" and have "commercial value," one could argue that artistic or charitable concepts are not afforded protection. See ABA SECTION OF LABOR AND EMPLOYMENT LAW, TRADE SECRETS: A STATE-BY-STATE SURVEY 681 (1997) [hereinafter ABA SURVEY]. The NCTSPA and UTSA also differ in their definition of "[p]erson." The NCTSPA defines "person" as "an individual, corporation, government, governmental subdivision or agency, business trust, estate, trust, partnership, association, or any other legal or commercial entity." See § 66-152(2). The UTSA definition is nearly identical except that it uses "natural person" rather than "individual" and lists the other entities in a different order. See UNIF. TRADE SECRETS ACT § 1(3), 14 U.L.A. 438 (1990). Of the forty-two states with a civil trade secrets protection act, Wisconsin is alone in opting not to define "person." See WIS. STAT. ANN. § 134.90 (1) (West 1989). However, section 990.01 (26) of the Wisconsin Statutes Annotated, titled "Construction and Effect of Acts and Statutes," defines "person" by terms that appear in the UTSA definition. See WIS. STAT.

actual or potential commercial value because it is not generally known or readily ascertainable through independent development or reverse engineering by those who can profit from it.<sup>52</sup> Additionally, the material must be reasonably secretive.<sup>53</sup> The corresponding language in UTSA is substantially similar. The noticeable differences are that the UTSA requires the information to be unavailable "by proper means" and that the UTSA mentions neither independent development nor reverse engineering.<sup>54</sup> Perhaps the only implication of this difference is that the NCTSPA definition may be considered broader by its inclusion of "but not limited to" preceding its list of examples of trade secrets.<sup>55</sup>

Other states have added to their definition of "trade secrets" by naming tangible or specific objects.<sup>56</sup> For example, Colorado and

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ANN. § 990.01(26) (1992). Assuming "individual" and "natural person" are synonymous terms, the difference between the NCTSPA and UTSA definitions of "person" is probably cosmetic. Research reveals no implication that "individual" introduces anything more or less to the NCTSPA construction than what would be covered by the term "natural person" in the UTSA.

52. See § 66-152(3)(a). Nevada substituted the words "present or potential" for the UTSA's "actual or potential" economic value. See NEV. REV. STAT. ANN. § 600A.030(4)(a) (Michie 1994).

53. See § 66-152(3)(b).

54. See UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 438 (1990). The NCTSPA also adds "of information" after "compilation," which adds clarity but not substance. See § 66-152(3).

55. See § 66-152(3). Presumably, Missouri attempted a similar objective in adding "including but not limited to" before its examples and including a reference to "technical or nontechnical data." See MO. ANN. STAT. § 417.453(4) (West 1999).

56. See ALA. CODE § 8-27-2(1) (1993); ALASKA STAT. § 45.50.940(3) (Michie 1996); ARIZ. REV. STAT. ANN. § 44-401(4) (1994); ARK. CODE ANN. § 48-501(4) (Michie 1996); CAL. CIV. CODE § 3426.1(4) (1985); COLO. REV. STAT. ANN. § 7-74-102(4) (West 1996); CONN. GEN. STAT. § 35-51(d) (West 1996); 6 DEL. CODE ANN. § 2001(4) (1982); D.C. CODE ANN. § 48-501(4) (Michie 1990); FLA. STAT. ANN. § 688.002(4) (1988); GA. CODE ANN. § 10-1-761(4) (1996); HAW. REV. STAT. § 482B-2 (1989); IDAHO CODE § 48-801(5) (1990); 765 ILL. COMP. STAT. 1065/2(d) (West 1993); IND. CODE § 24-2-3-2 (1995); IOWA CODE ANN. § 550.2(4) (West 1994); KAN. STAT. ANN. §§ 60-3320(4) (1988); KY. REV. STAT. ANN. § 365.880(4) (Banks-Baldwin 1994); LA. REV. STAT. § 51:1431(4) (West 1995); ME. REV. STAT. ANN. tit. 10, § 1542(4) (West 1997); MD. CODE ANN. § 11-1201(e) (1989); MASS. GEN. L. ch. 266, § 30(4); MICH. COMP. LAWS ANN. § 752.772 (MICH. STAT. ANN. § 28.643 (52)); MINN. STAT. §§ 325C.01 Subd. 5 (1981); MISS. CODE ANN. § 75-26-3(d) (1990); MO. REV. STAT. § 417.453(4) (West 1996); MONT. CODE ANN. § 30-14-402(4) (1993); NEB. REV. STAT. § 87-502(4) (1994); NEV. REV. STAT. § 600A.030(4) (1993); N.H. REV. STAT. ANN. § 350-B:1(IV) (Michie 1995); N.J. STAT. ANN. 2C:20-1i (1992); N.M. STAT. ANN. § 57-3A-2(D) (Michie Supp. 1995); N.Y. PUB. OFFICERS LAW, art. 6 (1988) and N.Y. ST. ENVIR. FACILITIES CORP. ACT, Pub. Auths. Law § 1280 (1990); N.C. GEN. STAT. § 66-152(3) (1995); N.D. CENT. CODE § 47-25.1-01(4) (1983); OHIO REV. CODE ANN. § 1333.61(D) (Baldwin 1996); OKLA. STAT. tit. 78, § 86(4) (1986); OR. REV. STAT. § 646.461(4) (1995); 18 PA. CON. STAT. ANN. § 3930 (West Cum. Ann. Pocket Part 1997); R.I. GEN. LAWS § 6-41-1(D) (1992); S.C. CODE ANN. § 39-8-1(4) (Law. Co-op. 1994); S.D.

Ohio include "listing of names, addresses, or telephone numbers."<sup>57</sup> The Oregon statute includes drawings, cost data, and customer lists.<sup>58</sup> Idaho specifically includes computer programs to the UTSA definition,<sup>59</sup> as do Montana and North Dakota.<sup>60</sup> Naming specific items in a statute removes uncertainty when determining what is included under the general heading of "business or technical information" in the UTSA. This is due, in part, to the fact that "formulae, patterns, programs" and such are written as a subset of that heading, not as alternatives in themselves. Therefore, in North Carolina a court may have some difficulty deciding whether, for instance, secrets about a prominent businessperson's personal life that are sold to a newspaper may be a trade secret. The information

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CODIFIED LAWS § 37-29-1(4) (Michie 1994 Revision); TENN. CODE ANN. § 39-14-138 (Michie Repl. Vol. 1991); TEX. PENAL CODE ANN. § 31.05 (1989); UTAH CODE ANN. § 13-24-2(4) (1989); VA. CODE § 59.1-336(4) (1990); WASH. REV. CODE § 19.108.010(4) (West 1989); W. VA. CODE § 47-22-1(d) (1986); WIS. STAT. ANN. § 134.90(1)(c) (West 1994); WYO. STAT. ANN. § 6-3-501(a)(xi) (1995). Some of these statutes are not based on the UTSA.

57. COLO. REV. STAT. ANN. § 7-74-102(4) (West 1986); OHIO REV. CODE ANN. § 1333.61(D) (Page 1998 Supp.). Colorado, Ohio, and Alabama are the only states that have made substantive changes to the UTSA's language in this section. ALA. CODE § 8-27-2 (1993); COLO. REV. STAT. ANN. § 7-74-102(4) (West 1986); OHIO REV. CODE ANN. § 1333.61(D) (Page 1998 Supp.). Alabama uses the terms "computer software, drawing, [and] device," among others. § 8-27-2. Some less substantive changes have been made in other states, such as Kentucky and Nebraska. Kentucky's trade secrets act includes "data" in its list, *see* KY. REV. STAT. ANN. § 365.880(4) (Banks-Baldwin 1996), and Nebraska's includes drawings and codes, *see* NEB. REV. STAT. § 87-502(4) (1994). Note, however, that where lists are not exhaustive, the legal distinction between statutes containing them is diminished. The more descriptive definitions simply aid in guiding the courts.

58. *See* OR. REV. STAT. § 646.461(4) (1997). The Oregon legislature also removed the UTSA's requirement that trade secrets not be readily ascertainable by proper means. *See id.* California did the same. *See* CAL. CIV. CODE § 3426.1(d) (West 1997).

Customer lists are indicated in Georgia's act as well as Oregon's. Georgia specifies that financial data, financial plans, product plans, or a list of actual or potential customers or suppliers that the public does not commonly know, are trade secrets. *See* GA. CODE ANN. § 10-1-761 (4) (1998 Supp.); *see also* 765 ILL. COMP. STAT. 1065/2 (d) (West 1993) (offering trade secret protection to a "drawing, process, financial data, or list of actual or potential customers or suppliers"). The Georgia legislature's strict wording regarding customer lists expresses that customer information that is personally known by employees might not qualify as a trade secret. *See* ABA SURVEY, *supra* note 51, at 219. However, the Georgia definition arguably is broader than the UTSA because it stipulates that trade secrets include information "without regard to form." § 10-1-761(4).

59. *See* IDAHO CODE § 48-801(5) (1997). That section continues with an addendum providing that Idaho's trade secrets are subject to disclosure by a public agency according to the Open Public Records Law. *See id.*

60. *See* MONT. CODE ANN. § 30-14-402(4) (1997); N.D. CENT. CODE § 44-04-18.4(2)(a) (1993 & 1997 Supp.). North Dakota's statute specifically provides that a "computer software program and components of a computer software program which are subject to a copyright or patent" fit within the definition of "trade secret." N.D. CENT. CODE § 47-25.1-01 (1997 Supp.).

may be commercially valuable, but it is not clear under either the NCTSPA or the UTSA whether it is "business or technical information."

The NCTSPA concludes its definitional section with the following sentence: "The existence of a trade secret shall not be negated merely because the information comprising the trade secret has also been developed, used, or owned independently by more than one person, or licensed to other persons."<sup>61</sup> This proviso parallels in some ways the Commissioners' Comment that follows the UTSA's definitions, which explains that trade secrets need not be exclusive to confer a competitive advantage.<sup>62</sup> That is to say, separate corporations may acquire rights in the same trade secret.<sup>63</sup> As the notion of dual trade secret ownership is recognized by both the NCTSPA and UTSA, the statutes should operate the same when a relevant situation arises. Under either scheme, for example, a defendant could not escape liability by proving only that another person had the plaintiff's trade secret.

The second section of the NCTSPA is the "engine" of the Act. It grants any trade-secret owner a civil remedy for the misappropriation of her trade secret.<sup>64</sup> The UTSA has no similar separate provision, relying instead on sections that address injunctive relief and damages to provide a remedy for misappropriation.<sup>65</sup> No state other than North Carolina has designed its act so that the definitions are followed by a single section providing relief for the person wronged under the statute.<sup>66</sup> The placement of a single section providing relief, however, should not impact the way the statute operates. A plaintiff would have an opportunity to recover equally under this section of the NCTSPA or under the parts of the UTSA that describe remedies.

The next section of the NCTSPA expands on remedies.<sup>67</sup> Subsection (a) declares that actual or threatened misappropriation may be preliminarily enjoined during the pendency of the action and

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61. N.C. GEN. STAT. § 66-152 (1992). Only the Minnesota Uniform Trade Secrets Act supplements its trade secrets definition with a complete disclaimer like North Carolina's. See MINN. STAT. § 325C.01 Subd.(5) (1995). The Minnesota Act provides that even if an employee or someone else has acquired sensitive information without express or specific notice that it is a trade secret, the information may still qualify if, under all the circumstances, the acquirer knows or has reason to know that the owner intends or expects the secrecy at issue to be maintained. See *id.*

62. See UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. at 439 (commissioners' comment).

63. See *id.*

64. See § 66-153.

65. See § 2, 3, 14 U.L.A. at 449, 455-56.

66. See *supra* note 15 (listing the civil trade secrets acts in the United States).

67. See § 66-154.

shall be permanently enjoined following a judgment against the misappropriating individual.<sup>68</sup> The permanent injunction will persist for the time that the trade secret exists and longer if the judge deems an extension is necessary to preclude the misappropriating person from benefiting unjustly from his misdeed.<sup>69</sup> Subpart (1) states, however, that if the court finds that a permanent injunction is unreasonable, an injunction may be conditional upon payment of a reasonable royalty for any reasonable period.<sup>70</sup> This subpart also authorizes judges to compel affirmative acts by court order if such acts would be sensible in particular cases.<sup>71</sup> Subpart (2) instructs that acquirers of a trade secret—even those who act in good faith—shall be enjoined from disclosing it.<sup>72</sup> However, no damages can be assessed against anyone for misappropriation if she learns the information before she could have reasonably known that it was, in fact, a trade secret.<sup>73</sup> Although the Act does not provide for damages in such cases, good-faith acquirers who have substantially relied on a trade secret may be ordered to pay a reasonable royalty for its use rather than be permanently enjoined.<sup>74</sup> The good-faith acquirer may dispose of any inventory amassed through knowing or using the trade secret without penalty. If that person's use of the trade secret does not harm the original owner's economic standing, then the acquirer can only be enjoined from disclosing the trade secret and cannot be penalized any further.<sup>75</sup>

Subsection (b) provides that, in addition to any relief granted in the previous subsection on injunctions, actual damages are recoverable.<sup>76</sup> Actual damages are the greater of either the economic loss or the unjust enrichment resulting from the misappropriation of the trade secret.<sup>77</sup> Subsection (c) allows for punitive damages where the misappropriation is willful and malicious.<sup>78</sup> Finally, subsection (d) authorizes the court to award reasonable attorneys' fees to the prevailing party if it finds either that willful and malicious

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68. See § 66-154(a). That statement is qualified by "except as provided herein" because exceptions immediately follow. *Id.*

69. See *id.*

70. See § 66-154(a)(1).

71. See *id.*

72. See § 66-154(a)(2).

73. See *id.*

74. See *id.* The court determines what qualifies as just payment. See *id.*

75. See *id.*

76. See § 66-154(b).

77. See *id.*

78. See § 66-154(c). Discretion to award punitive damages rests with the trier of fact. See *id.*

appropriation occurred or that a claim of misappropriation was made in bad faith.<sup>79</sup>

The NCTSPA and UTSA share many similarities with regard to providing remedies.<sup>80</sup> Among the dissimilarities, however, is the fact that the UTSA restrains judicial discretion slightly more than the North Carolina Act. The NCTSPA and UTSA also contain some significant differences regarding remedies. An injunction under the UTSA may be extended after a trade secret ceases to exist only if the advantage obtained by use of the trade secret is commercial.<sup>81</sup> The NCTSPA, in contrast, allows extension for any "inequitable or unjust" benefit.<sup>82</sup> Furthermore, the UTSA limits the payment of royalties in a conditional injunction to the period of time that the trade secret's use could have been prohibited and allows conditional injunctions only for "exceptional circumstances."<sup>83</sup> In contrast, the NCTSPA permits conditional injunctions for "any period the court may deem just."<sup>84</sup> The UTSA also caps punitive damages at an amount double that of the non-punitive monetary award, while the NCTSPA's punitive damages provision is limitless—although all claims for punitive damages in North Carolina are limited under a separate chapter.<sup>85</sup> Finally, unlike the NCTSPA, the UTSA grants attorney's fees if a motion to terminate an injunction is made or resisted in bad faith.<sup>86</sup> This comparison demonstrates that none of those differences is substantial enough to indicate any flawed policy

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79. See § 66-154(d).

80. Both laws authorize a court to compel affirmative acts to protect the trade secret in appropriate circumstances, to grant attorneys' fees if misappropriation is malicious or litigation is commenced in bad faith, and to allow the complainant recovery of actual damages or unjust enrichment in addition to injunctive relief. See UNIF. TRADE SECRETS ACT §§ 3-4, 14 U.L.A. 455-56, 459 (1990); N.C. GEN. STAT. § 66-154(c). In fact, UTSA says money damages may be taken in addition to or "in lieu of" injunctive relief, but presumably under the NCTSPA a plaintiff could not recover damages without an injunction of some kind. See *id.*

81. See § 2, 14 U.L.A. at 449.

82. § 66-154(a).

83. See § 2(b), 14 U.L.A. at 449. The UTSA defines exceptional circumstances to include a situation in which the defendant has made a material and prejudicial change of position before she knew or had reason to know of misappropriation that renders a prohibitive injunction inequitable. See § 2(b), 14 U.L.A. at 449. Indiana's trade secrets act states that such circumstances might include the plaintiff's inability to prove damages or unjust enrichment. See IND. CODE § 24-2-3-4(b) (1995).

84. § 66-154(a)(1). The NCTSPA does not refer to "exceptional circumstances." See § 66-154(a).

85. See § 3(b), 14 U.L.A. at 456; N.C. GEN. STAT. § 66-154(c); see also N.C. GEN. STAT. § 1D-10 (1997) (stating that any claim for punitive damages will be limited regardless of any law to the contrary).

86. See § 4(ii), 14 U.L.A. at 459; N.C. GEN. STAT. § 66-154(d).

underlying the NCTSPA, especially when recognizing that other states have added similar flexibility to their trade secrets acts.

Although most states generally adopt the UTSA approach to the issues of injunctive relief, damages, and attorneys' fees, there are some variations. With regard to injunctive relief, four states in addition to North Carolina omit the UTSA's preface that conditional injunctions are reserved for "exceptional circumstances."<sup>87</sup> For example, Georgia adds a subsection declaring that a contract is not required to enjoin a person who misappropriates a trade secret.<sup>88</sup> Oregon's trade secrets act is also more flexible in permitting injunctions; it states that actual or threatened misappropriation may be "temporarily, preliminarily or permanently enjoined."<sup>89</sup>

The damages issue is also treated in different ways by some states. Alaska and California omit the UTSA's exemption from damages where a defendant who has made a material or prejudicial change of position before learning or having a reason to know of misappropriation in a way that would render monetary recovery inequitable.<sup>90</sup> Arkansas, Louisiana, and Nebraska do not expressly permit punitive damages in their trade secrets acts.<sup>91</sup> Mississippi and Missouri removed the cap on punitive damages altogether,<sup>92</sup> whereas Alabama, Ohio, and Virginia have established caps that allow larger awards than does the UTSA.<sup>93</sup> Several states have damages

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87. See § 2(b), 14 U.L.A. at 449; ALA. CODE § 8-27-4 (1993); ALASKA STAT. § 45.50.910(b) (1998); CAL. CIV. CODE § 3426.2(b) (West 1997); COLO. REV. STAT. ANN. § 7-74-103 (West 1986); CONN. GEN. STAT. § 35-52(b) (1997).

88. See GA. CODE ANN. § 10-1-762(d) (1994).

89. OR. REV. STAT. ANN. § 646.463(1) (1995). In Wisconsin, a complainant must include a detailed, written description of the trade secret that he or she seeks to enjoin or restrain. See WIS. STAT. ANN. § 134.90(3)(a)(1) (West 1989).

90. See ALASKA STAT. § 45.50.915(a) (1998); CAL. CIV. CODE § 3426.3(a) (West 1997).

91. See ARK. CODE ANN. § 4-75-606 (1996); LA. REV. STAT. § 51:1433 (1987); NEB. REV. STAT. § 87-504 (1994). In fact, Nebraska opted to adopt neither the damages nor the attorney's fees sections of the UTSA. See NEB. REV. STAT. § 87-504 (1994).

92. See MISS. CODE ANN. § 75-26-7(2) (1991); MO. ANN. STAT. § 417.457(2) (West 1999). Missouri allows punitive damages "[i]f misappropriation is outrageous because of the misappropriator's evil motive or reckless indifference to the rights of others." MO. REV. ANN. § 417.457(2) (West 1997). Oregon places a cap on the amount of damages available of two times the amount of total damages, but makes punitive damages easier to prove by its substitution of the UTSA's "willful and malicious" precondition with "willful or malicious." OR. REV. STAT. § 646.465(3) (1997) (emphasis added).

93. See ALA. CODE § 8-27-4(3) (1993) (limiting exemplary damages to the greater of \$5000 or the non-punitive amount recovered); OHIO REV. CODE ANN. § 1333.63(B) (1996) (limiting punitive or exemplary damages to three times any other award recovered); VA. CODE § 59.1-338(B) (1990) (limiting punitive damages to the lesser of \$350,000 or twice the money damages awarded).



provisions expressing that where damages and unjust enrichment have not been proven, or in lieu of such proof, the court may award damages based on a reasonable royalty for the misappropriating individual's unauthorized disclosure or use. The reasonable royalty is restricted in some states to the period of time that the use could have been forbidden as trade secret misappropriation.<sup>94</sup>

Most states adopted the UTSA's section addressing attorneys' fees.<sup>95</sup> Alaska, Idaho, Missouri, and Nebraska, however, did not.<sup>96</sup> Two states made slight modifications: Iowa's trade secrets act affords a prevailing party "actual and reasonable" attorneys' fees,<sup>97</sup> and Oregon allows attorneys' fees if the misappropriation was willful "or" malicious, abandoning the UTSA's conjunctive form.<sup>98</sup>

A section establishing the burden of proof for recovery under the Act follows the remedies section in the NCTSPA.<sup>99</sup> According to this section, a *prima facie* case for misappropriation of a trade secret is assumed when substantial evidence shows that the defendant knows or should have known that the information at issue is a trade secret and has acquired, disclosed, or used it—or had a specific opportunity to do so—without the owner's express or implied consent or authority.<sup>100</sup> The *prima facie* evidence can be rebutted by a showing of substantial evidence that the defendant acquired the information comprising the trade secret by independent development, reverse engineering, or from someone who rightfully disclosed it to the defendant.<sup>101</sup> This section concludes by advising that defendants in trade secrets cases are entitled to other legal defenses as well.<sup>102</sup> Since neither the UTSA drafters nor any other state inserted provisions addressing a burden of proof,<sup>103</sup> the NCTSPA's *prima facie*

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94. See, e.g., CAL. CIV. CODE § 3426.3(b) (West 1997) (limiting royalty payments to a duration no longer than use of the secret could be prohibited); GA. CODE ANN. § 10-1-763(a) (1994) (limiting damages in terms of a reasonable royalty for no longer than the use could have been prohibited). Ohio's provision explains that such alternative proof shall consider "the loss to the complainant, the benefit to the misappropriator, or both." OHIO REV. CODE ANN. § 1333.63(A) (1996).

95. See *supra* note 15 (listing the state trade secrets acts).

96. See ALASKA STAT. §§ 45.50.910-.945 (1998); IDAHO CODE §§ 48-801 to -807 (1997); MO. ANN. STAT. §§ 417.450-.467 (West 1997); NEB. REV. STAT. §§ 87-501 to -507 (1994).

97. See IOWA CODE ANN. § 550.6 (West 1997).

98. See OR. REV. STAT. § 646.647(3) (1997).

99. See N.C. GEN. STAT. § 66-155 (1992).

100. See *id.*

101. See *id.*

102. See *id.*

103. See *supra* note 15 (listing the civil trade secrets acts); UNIF. TRADE SECRETS ACT §§ 1-12, 14 U.L.A. 433-67 (1990).

requirement and affirmative defenses could be read as an effort to counterbalance its broad definition of "misappropriation."<sup>104</sup>

The next section in the NCTSPA is entitled "Preservation of Secrecy."<sup>105</sup> It states that a court shall protect an alleged trade secret by means that may include granting protective orders for discovery proceedings, holding in camera hearings, sealing records of the action subject to further court order, and ordering anyone who learns the alleged trade secret during the litigation not to divulge it without court approval.<sup>106</sup> The UTSA's corresponding section is almost identical, except that it does not include the words "subject to further court order" in describing the sealing of records.<sup>107</sup> Nebraska is the only state that materially departs from the UTSA's version of this section,<sup>108</sup> however, Alabama did not adopt the UTSA's section at all and does not substitute one of its own.<sup>109</sup>

A statute of limitations statement is the final section of the NCTSPA.<sup>110</sup> It gives plaintiffs three years to commence an action under the Act, beginning when the alleged misappropriation is, or reasonably should have been, discovered.<sup>111</sup> However, the NCTSPA omits a provision included in the UTSA that requires the exercise of reasonable diligence to discover the misappropriation by the plaintiff.<sup>112</sup> The UTSA, unlike the NCTSPA, also stipulates that a continuing misappropriation constitutes a single claim.<sup>113</sup> Every state with a civil trade secrets act includes a statute of limitations,<sup>114</sup> and only six deviate from the three year allowance in the UTSA.<sup>115</sup>

Despite some minor variations, the NCTSPA is not fundamentally different from the UTSA and other states' trade secret

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104. See ABA SURVEY, *supra* note 51, at 680.

105. See § 66-156.

106. See *id.*

107. See UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461 (1990).

108. See NEB. REV. STAT. § 87-505 (1994) (specifying that parties' attorneys, witnesses and experts must not disclose the alleged trade secret, and adding that disclosure or publication of a trade secret in or resulting from a court proceeding will not constitute an abandonment of the secret).

109. See ALA. CODE §§ 8-27-2 to -6 (1993).

110. See § 66-157.

111. See *id.*

112. See UNIF. TRADE SECRETS ACT § 6, 14 U.L.A. at 462.

113. See *id.* (including a section not contained in the NCTSPA).

114. See *supra* note 15 (listing the civil trade secrets acts).

115. See ALA. CODE § 8-27-5 (1993) (allowing two years); 765 ILL. COMP. STAT. 1065/7 (West 1993) (allowing five years); ME. REV. STAT. ANN. tit. 10, § 1547 (1997) (allowing four years); MO. ANN. STAT. § 417.461 (West 1999) (allowing five years); NEB. REV. STAT. § 87-506 (1994) (allowing four years); OHIO REV. CODE ANN. § 1333.66 (Page 1998 Supp.) (allowing four years).

acts.<sup>116</sup> The major distinctions in the NCTSPA—the absence of a bad faith requirement and the inclusion of a burden of proof section—should offset each other in terms of ease of making a claim under the statute.<sup>117</sup> A claim may be easier to establish under the NCTSPA because a plaintiff need not show that the defendant knew of the impropriety of the trade secret acquisition.<sup>118</sup> That same claim may be more difficult, however, in that the plaintiff's burden is clearly defined: to prove that the defendant at least should have known that he or she had an opportunity to, or did in fact, acquire or use a trade secret without consent.<sup>119</sup> Thus, a trade secrets plaintiff in North Carolina would be advantaged over a UTSA plaintiff in not having to prove improper motive, yet disadvantaged in having to satisfy a clearly defined burden of proof that is absent in the UTSA.<sup>120</sup> Considered in its totality from a practitioner's standpoint, it appears that maintaining a claim under the NCTSPA is not much easier or more difficult than it would be under the UTSA or most other states' trade secrets acts.

### III. NORTH CAROLINA'S TRADE SECRETS CASE LAW CONTRASTED WITH CASE LAW IN OTHER STATES

Most trade secrets cases in North Carolina are not tremendously informative standing alone, but taken together they offer some insight into how North Carolina courts compare with other state courts in treating certain issues. This Section will first discuss how courts define "trade secrets."<sup>121</sup> Next, this Section will present cases expounding on how misappropriation is proven or defeated.<sup>122</sup> In addition, this Section will analyze the specific types of information that are protected or refused protection in state courts.<sup>123</sup> Finally, it

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116. Incidentally, the NCTSPA does exclude five sections that appear in the UTSA. These sections of the UTSA are titled "Effect on Other Law," "Uniformity of Application and Construction," "Short Title," "Severability" and "Time of Taking Effect." See UNIF. TRADE SECRETS ACT §§ 7-11, 14 U.L.A. 463-66 (1990); N.C. GEN. STAT. §§ 66-152 to -157 (1992). They are, however, the most likely sections to be stricken or rewritten by the states, so they are not central to the purpose of the UTSA. See *supra* note 15 (listing the civil trade secrets acts).

117. See ABA SURVEY, *supra* note 51, at 680.

118. See *supra* notes 38-50 and accompanying text.

119. See *supra* notes 99-104 and accompanying text.

120. A plaintiff under the NCTSPA may also obtain a better remedy. See *supra* notes 67-86 and accompanying text.

121. See *infra* notes 125-54 and accompanying text.

122. See *infra* notes 155-91 and accompanying text.

123. See *infra* notes 192-357 and accompanying text.

will explore the type of relief that states grant.<sup>124</sup>

A. "Trade Secrets"

Two North Carolina cases shed light on the meaning of the statutory definition of "trade secrets." In *Amariglio-Dunn v. McCoy*, the court relied on the statutory definition to describe a trade secret as valuable business or technical information that (a) is neither "generally known nor readily ascertainable through independent development or reverse engineering" and (b) has been subject to "efforts that are reasonable under the circumstances to maintain its secrecy."<sup>125</sup> In order to withstand a motion for summary judgment, the court held that a plaintiff must allege facts sufficient to allow a reasonable finder of fact to conclude that the information at issue satisfies both requirements.<sup>126</sup>

The Fourth Circuit interpreted "trade secrets" again in *Glaxo, Inc. v. Novopharm, Ltd.*<sup>127</sup> In that case, Glaxo claimed that Novopharm sought permission to manufacture and market anti-ulcer tablets containing a mixture of two forms of a chemical, one of which was patented by Glaxo.<sup>128</sup> In addition, Glaxo accused Novopharm of violating the NCTSPA by disobeying a protective order in an effort to develop the manufacturing process for its new product.<sup>129</sup> The court explained that a tension arises when trade secret protection is asserted for the only known method of practicing a patented invention.<sup>130</sup> The court noted that a trade secret is generally not known to the public, while a patent demands disclosure of the best way to operate the invention.<sup>131</sup> The court, therefore, reasoned that any time an invention qualifies as a trade secret, the inventor has not disclosed the idea sufficiently to obtain a patent.<sup>132</sup> Conversely, according to the court, the owner of a valid patent will have disclosed

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124. See *infra* notes 358-98 and accompanying text.

125. *Bank Travel Bank v. McCoy*, 802 F. Supp. 1358, 1360 (E.D.N.C. 1992), *aff'd sub nom. Amariglio-Dunn v. McCoy*, 4 F.3d 984 (4th Cir. 1993); see also *supra* notes 1-12 and accompanying text (discussing *McCoy*).

126. See *id.* (citing *Matsushita Elec. Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586 (1986)); 10A CHARLES ALAN ET AL., *FEDERAL PRACTICE & PROCEDURE* § 2727 (1995).

127. 931 F. Supp. 1280 (E.D.N.C. 1996), *aff'd*, 110 F.3d 1562 (4th Cir. 1997).

128. See *id.* at 1284.

129. See *id.* The protective order prohibited the use of certain proprietary information owned by Glaxo. See *id.* Novopharm counterclaimed that Glaxo was attempting to monopolize the market for the chemical in question. See *id.*

130. See *id.* at 1298.

131. See *id.*

132. See *id.*

the best method for practicing the invention, effectively destroying trade secret protection, unless he later develops some unanticipated alternative practice.<sup>133</sup> Thus, the court concluded that only in an unusual circumstance could Glaxo sue under trade secret law and sue on its patent as well.<sup>134</sup> In explaining why Glaxo had not proven a trade secret, the court set out the NCTSPA definition and determined that

[a] trade secret need not necessarily be comprised of positive information, such as a specific formula, but can include negative, inconclusive, or sufficiently suggestive research data that would give a person skilled in the art a competitive advantage he might not otherwise enjoy but for the knowledge gleaned from the owner's research investment.<sup>135</sup>

The court then inquired into the merit of Glaxo's trade secrets claim by identifying the nature of the alleged secret without further expanding on the definition of trade secret as a general legal term.<sup>136</sup>

As in North Carolina, judicial interpretation of the "trade secrets" definition is generally sparse across the United States. In fact, eighteen states have not interpreted the definition in their civil trade secrets acts at all,<sup>137</sup> and Wyoming has not interpreted its criminal statutory definition.<sup>138</sup> A few other states, including North Dakota, Oklahoma, and Rhode Island, have only one or two cases that expand on the definition in their state acts.<sup>139</sup> Several states have relied heavily on either common law<sup>140</sup> or the Restatement of Torts<sup>141</sup> to decide their trade secret cases, while others have simply interpreted the language embodied in their state trade secrets acts.<sup>142</sup>

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133. *See id.*

134. *See id.*

135. *Id.* at 1299.

136. *See id.*

137. *See* ABA SURVEY, *supra* note 51, at 8, 22, 49, 191, 241, 256, 371, 408, 465, 523, 539, 553, 627, 714, 814, 868, 878, 933. These states include Alabama, Alaska, Arkansas, the District of Columbia, Hawaii, Idaho, Kentucky, Maine, Michigan, Mississippi, Missouri, Montana, New Mexico, Ohio, South Carolina, Utah, Vermont, and West Virginia. *See id.*

138. *See id.* at 976.

139. *See, e.g., id.* at 696, 733, 795 (reviewing the cases).

140. For instance, Connecticut, Illinois, Minnesota, New York, Pennsylvania, and Wyoming have based their decisions on common law. *See* ABA SURVEY, *supra* note 51, at 142, 271, 493, 640-41, 772, 976.

141. *See* RESTATEMENT OF TORTS § 757 cmt. b (1939). Examples are Michigan, New Jersey, Pennsylvania, and Texas. *See* ABA SURVEY, *supra* note 51, at 465, 604, 772, 849.

142. Arkansas, Delaware, Indiana, Virginia, and Washington are some. *See* ABA SURVEY, *supra* note 51, at 50, 161, 314, 888-89, 912.

The nine states with the most concrete judicial interpretations of their trade secrets definitions are California, Colorado, Georgia, Indiana, Iowa, Maryland, South Dakota, Virginia, and Washington.<sup>143</sup> In California, trade secret information is not protected where it has been confidential by mere chance; in other words, the holder must have taken affirmative steps to prevent its disclosure.<sup>144</sup> Colorado's court of appeals listed factors to assist in the determination of a trade secret, including the extent to which the information is known to those outside and inside a business, the amount of effort or money spent in obtaining or developing the secret, and the time and expense others would endure in order to acquire or duplicate the information themselves.<sup>145</sup> To sort out the notion of a trade secret, most cases in Georgia address the distinction between customer lists taken from an employer and customer information known personally to a former employee; a list written from memory after the employee left might be useable, whereas a list written at work on the day before leaving would have to be returned.<sup>146</sup>

To determine whether or not a trade secret was readily ascertainable, Indiana once used an "economic infeasibility" standard by which a trade secret could be proven if others' duplication of the information would be economically infeasible.<sup>147</sup> That standard later was overturned in favor of a test that measures time invested, expense, and effort needed to duplicate or acquire the alleged trade secret.<sup>148</sup> The Iowa Supreme Court broadly interprets trade secrets to

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143. See *id.* at 78, 115, 224, 314, 332, 424, 827, 888, 912.

144. See *Vacco Indus., Inc. v. Van Den Berg*, 50, 6 Cal. Rptr. 2d 602, 611 (Cal. Ct. App. 1992). Also, for information to satisfy the "independent economic value" element of the state trade secrets definition, which requires a trade secret to hold such value, the information must provide a "competitive advantage" to its owner. See *Religious Tech. Ctr. v. Wollersheim*, 796 F.2d 1076, 1090-91 (9th Cir. 1986).

145. See *Network Telecommunications, Inc. v. Boor-Crepeau*, 790 P.2d 901, 903 (Colo. Ct. App. 1990) (citing *Porter Indus., Inc. v. Higgins*, 680 P.2d 1339, 1341 (Colo. Ct. App. 1984), a case that preceded the passage of Colorado's trade secrets act); see also *Religious Tech. Ctr. v. F.A.C.T. Net, Inc.*, 901 F. Supp. 1519, 1526-27 (D. Colo. 1995) (using the *Porter Industries* test to conclude that religious works which were "widely known outside the Church" were not trade secrets, for lack of secrecy).

146. See, e.g., *Avnet, Inc. v. Wyle Labs., Inc.*, 437 S.E.2d 302, 303 (Ga. 1993) (holding that lists containing information about customers of distributors were trade secrets); *Smith v. Mid-State Nurses, Inc.*, 403 S.E.2d 789, 790 (Ga. 1991) (holding that a nurse-placement agency's customer lists were not trade secrets); *American Bldgs. Co. v. Pascoe Bldg. Sys.*, 392 S.E.2d 860, 864 (Ga. 1990) (disallowing an injunction to keep a competitor from soliciting, inducing, or recruiting a manufacturer's employees to change jobs).

147. See *Xpert Automation Sys. Corp. v. Vibromatic Co., Inc.*, 569 N.E.2d 351, 355-60 (Ind. Ct. App. 1991).

148. See *Amoco Prod. Co. v. Laird*, 622 N.E.2d 912, 919 (Ind. 1993). The *Amoco* court continued that a trade secret can be composed of individual non-secrets because the

include virtually any category of information,<sup>149</sup> including recipes for sandwiches, pizza sauce, and crust.<sup>150</sup> In Maryland, the most important factors for finding a trade secret are secrecy, novelty, and value to the company.<sup>151</sup>

South Dakota does not permit "general dissemination" if knowledge is to qualify as a trade secret, but releasing certain confidential and proprietary knowledge to member cooperatives does not negate trade secret status.<sup>152</sup> Virginia law also allows disclosure of trade secrets, as long as they are made in express or implied confidence.<sup>153</sup> Washington's courts, however, have noted that sensitive information can be readily ascertainable through a product itself where its design reveals the process that created it.<sup>154</sup>

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combination itself is unique and largely unknown. *See id.* at 919-20 (relying on *Trandes Corp. v. Guy F. Atkinson Co.*, 798 F. Supp. 284, 288 (D. Md. 1992)). Furthermore, the court announced, a defendant cannot divert liability by asserting that his or her concept could have been independently created, if in fact it was not.

149. *See U.S. West Communications, Inc. v. Office of Consumer Advocate*, 498 N.W.2d 711, 714 (Iowa 1993).

150. *205 Corp. v. Brandow*, 517 N.W.2d 548, 550 (Iowa 1994).

151. *See Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 661 (4th Cir. 1990); *Operations Research, Inc. v. Davidson & Talbird, Inc.*, 217 A.2d 375, 377 (Md. 1966); *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 585 (Md. App. 1991); *Dworkin v. Blumenthal*, 551 A.2d 947, 950 (Md. App. 1989).

152. *See Centrol, Inc. v. Morrow*, 489 N.W.2d 890, 894-95 (S.D. 1992).

153. *See Dionne v. Southeast Foam Converting & Packaging, Inc.*, 397 S.E.2d 110, 113 (Va. 1990). Incidentally, the leading British trade secrets case discussed the obligation of confidence as the second of three elements required for a plaintiff to protect her confidential information, after a finding that the information possessed the requisite secrecy and before a finding of a breach:

It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable obligation of confidence. In particular where information is of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture or the manufacture of articles by one party for the other, I would regard the recipient as carrying a heavy burden if he seeks to repel a contention that he was bound by a duty of confidence.

*Coco v. Clark* [1969] RPC 41, 48.

154. *See Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 674 (Wash. 1987) (en banc); *see also Public Sys., Inc. v. Towry*, 587 So. 2d 969, 971-72 (Ala. 1991) (holding that a spreadsheet software program was not a trade secret because the information that was allegedly a secret could be derived easily from publicly available testimony).

Alternatively, an Alabama court has protected information as a trade secret despite evidence that others competent in the given field could easily duplicate it. *See, e.g., Mason v. Jack Daniel Distillery*, 518 So. 2d 130, 133 (Ala. Civ. App. 1987) (citing *KFC Corp. v. Marion-Kay Co.*, 620 F. Supp. 1160 (S.D. Ind. 1985); *Sperry Rand Corp. v. Rothlein*, 241 F. Supp. 549 (D. Conn. 1964)).

### B. "Misappropriation"

Unless misappropriation is also shown, proving that information is a trade secret is fruitless under state law.<sup>155</sup> As previously illustrated in *McCoy*, unconditioned disclosure of information foils a showing of misappropriation.<sup>156</sup> In addition to *McCoy*, five cases in North Carolina provide guidance on how misappropriation may be proven or defeated.<sup>157</sup>

In *Merck & Co. v. Lyon*,<sup>158</sup> the court held that a credible threat of misappropriation was revealed when the pharmaceutical company Merck sought an injunction against a former employee from working on Zantac (R) 75 at Glaxo Wellcome, his new employer.<sup>159</sup> The employee, Gary A. Lyon, earlier had been exposed to secret information when he worked on Pepcid (R) AC at Merck, including the nature of a drug supply agreement and the projected launch dates of various drugs.<sup>160</sup> Merck's "inevitable disclosure" theory was coupled with proof of the precise nature of at least some information that was claimed to be a trade secret and to which Lyon had access.<sup>161</sup> The court granted an injunction because Merck also showed that Lyon was not entirely forthright about the particulars of his new position at Glaxo Wellcome; the court found that this new position

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155. See, e.g., N.C. GEN. STAT. § 66-153 (1992) (granting any trade-secret owner a civil remedy for the misappropriation of her trade secret).

156. See *supra* note 11.

157. See *infra* notes 158-81 and accompanying text.

158. 941 F. Supp. 1443 (M.D.N.C. 1996).

159. See *id.* at 1456, 1458, 1460-61, 1463.

160. See *id.* at 1451, 1457, 1459.

161. See *id.* at 1457-58. The court supported its decision by analyzing *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). That court found that the defendant took knowledge of particular plans and processes to a competitor rather than simply general skills and knowledge, and an injunction was granted because the disclosure of the plaintiff's information was inevitable. See *Merck*, 941 F. Supp. at 1457-48. Articulating its inevitability theory, the *PepsiCo* court stated that unless the defendant "possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions about Gatorade and Snapple by relying on his knowledge of [PepsiCo's] trade secrets." *PepsiCo, Inc.*, 54 F.3d at 1269. Moreover, the court in *PepsiCo* noted that the defendant's "lack of forthrightness on some occasions, and out and out lies on others" bolstered the trial court's belief that he "could not be trusted to act with the necessary sensitivity and good faith." *Id.* at 1270.

In *Merck*, however, Glaxo argued that North Carolina courts have refused to apply the doctrine of inevitable discovery. See *Merck*, 941 F. Supp. at 1458. Three cases were cited in support of that assertion: *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477 (W.D.N.C. 1995); *Union Carbide Corp. v. Sunox, Inc.*, 590 F. Supp. 224 (W.D.N.C. 1984); and *Travenol Lab, Inc. v. Turner*, 30 N.C. App. 686, 228 S.E.2d 478 (1976). All three were deemed "not to support Glaxo's argument." *Merck*, 941 F. Supp. at 1458.



involved similar responsibilities to those he handled at Merck.<sup>162</sup> The court's analysis espoused the notion of inevitable disclosure and paved the way for plaintiffs to prove misappropriation by showing that the information would be useful in the new environment and that the defendant may be hiding his true intentions regarding the treatment of the trade secret.

Similarly, the North Carolina Court of Appeals held that a corporation had shown a *prima facie* case of trade secret misappropriation in *Barr-Mullin, Inc. v. Browning*.<sup>163</sup> In that case, a corporation selling lumber processing equipment sued a former employee who had developed computer software to create a lumber optimization system during his employment and, after leaving, incorporated his own company to customize those systems.<sup>164</sup> The court held that evidence showing the computer software was distributed in a form that was virtually impossible to alter established the employer's intent to maintain the secrecy of how its processing system worked.<sup>165</sup> The defendant had access to copies of the source codes before he resigned, and the court held that a preliminary injunction was appropriate because trade secret injury is of such a continuous and frequent recurrence that no other reasonable redress could be provided by a court.<sup>166</sup>

In *North Carolina Electric Membership Corp. v. North Carolina Department of Economic and Community Development*,<sup>167</sup> a wholesale cooperative electric membership corporation contested a competitor's attempt to gain access to documents that it had filed in an application to receive federal funds.<sup>168</sup> Affirming the trial court's

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162. See *id.* at 1460-61. Lyon's exit interview did not include the presentation of a non-competition agreement, which the court found to "weigh heavily" against entering an injunction prohibiting Lyon from being hired by a competitor. See *id.* at 1461. The *Merck* court considered the lack of such a contract to indicate the limited value of Lyon's trade secrets information, and also noted the absence of evidence that Glaxo hired Lyon for his privileged knowledge. See *id.* The court did acknowledge, however, that Lyon's misrepresentations to Merck that he would not join a competitor—when joined with Merck's reliance on earlier confidentiality agreements, verbal reminders, and industry practice—made its failure to pursue a non-competition contract "somewhat more reasonable." *Id.* at 1457.

163. 108 N.C. App. 590, 424 S.E.2d 226 (1993).

164. See *id.* at 592-93, 424 S.E.2d at 227-28.

165. See *id.* at 595-96, 424 S.E.2d at 229. Yet absolute secrecy is not required, which the court supported with a New York opinion. See *id.* (citing *Q-CO Indus., Inc. v. Hoffman*, 625 F. Supp. 608, 617 (S.D.N.Y. 1985)).

166. See *Barr-Mullin*, 108 N.C. App. at 597, 424 S.E.2d at 230 (quoting from *Barrier v. Troutman*, 231 N.C. 47, 50, 55 S.E.2d 923, 925 (1949)).

167. 108 N.C. App. 711, 425 S.E.2d 440 (1993).

168. See *id.* at 714, 425 S.E.2d at 442. The cooperative provided electric energy at

denial of a preliminary injunction,<sup>169</sup> the court of appeals held that the plaintiff failed to show misappropriation and thus could not prevail under the NCTSA, despite the apparent existence of a trade secret.<sup>170</sup> Failing to prove misappropriation was the result of not having any evidence to satisfy the elements, as the competitor had not acquired, disclosed, or used any of the information before the lawsuit was initiated.<sup>171</sup>

Glaxo also failed to prove misappropriation of a trade secret in the previously discussed *Glaxo* case.<sup>172</sup> Glaxo had been involved in a related lawsuit against Novopharm, and in that suit it freely introduced information it later claimed to contain trade secrets.<sup>173</sup> The court noted that the prior trial had been "closely scrutinized by the industry" and that Novopharm "had every reason to believe the information was not a secret."<sup>174</sup> The release of information for trial defeated Glaxo's attempt to prove misappropriation under the NCTSPA.

Another NCTSPA plaintiff failed to prove its case for misappropriation in *FMC Corp. v. Cyprus Foote Mineral Co.*<sup>175</sup> There

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wholesale prices to member corporations who, in turn, supplied electricity to residents. *See id.* For a more detailed review of the facts, see *infra* notes 259-67 and accompanying text.

169. *See id.* at 716, 425 S.E.2d at 443.

170. *See id.* at 718-19, 425 S.E.2d at 444-45.

171. *See id.* at 719, 425 S.E.2d at 445. The Public Records Act offered a remedy, however, which led the appellate court to reverse and remand to the trial court for entry of a preliminary injunction pending a trial on the merits. *See id.* at 721, 425 S.E.2d at 446.

172. *See supra* notes 127-36 and accompanying text.

173. *See Glaxo, Inc. v. Novopharm, Ltd.*, 830 F. Supp. 871, 873 (E.D.N.C. 1993), *aff'd*, 52 F.3d 1043 (Fed. Cir. 1995). In this earlier case, Novopharm retained an expert witness who had access to several confidential Glaxo documents that were submitted during discovery under a protective order. The expert specifically acknowledged the protective order in her affidavit. *See id.* at 875-86. She was then hired by Novopharm and joined its development team, yet Novopharm had already developed its method for producing the drug that Glaxo in the later case claimed was misappropriated. *See Glaxo, Inc. v. Novopharm, Ltd.*, 931 F. Supp. 1280, 1303 (E.D.N.C. 1996), *aff'd*, 110 F.3d 1562 (Fed. Cir. 1997). Glaxo asserted that the doctor's newfound expertise in that drug was wholly the result of her exploration of Glaxo's documents, but the court rejected claims that she violated the protective order or that she would inevitably disclose what she learned. *See id.*, at 1303. The court said that the protective order itself excluded restrictions from documents used as exhibits in court, and all the documents at issue were exhibits. *See id.* Another reason for the court's rejecting Glaxo's arguments was that Novopharm did not have specific opportunity to acquire the secrets. *See id.* The court also found that Novopharm hired her as an expert, not Glaxo, yielding an atypical trade secrets situation where Glaxo would have to prove that the doctor could not have learned the information at Novopharm but for her having seen the Glaxo documents, since employees are free to take their skills elsewhere. *See id.*

174. *Glaxo*, 931 F. Supp. at 1302.

175. 899 F. Supp. 1477 (W.D.N.C. 1995).

the manufacturer of battery-quality lithium products sued a former employee of fourteen years to prohibit him from disclosing trade secrets to his new employer, the plaintiff's sole competitor in the United States.<sup>176</sup> The court held that the plaintiff only had surmised a possibility of misappropriation but had not established a real threat.<sup>177</sup> No real threat existed, according to the court, because the competitor had not labored to lure away the employee, and the employee had neither taken nor offered to provide trade secrets to the competitor.<sup>178</sup> The court recognized that the parties supplied those facts without hard evidence but stated that it had no reason to suspect either defendant of lying.<sup>179</sup> Personal reasons seemed to spark the career move, the court said, and the employee's specialized skill would not be sought by just any corporation.<sup>180</sup> Therefore, the court rejected the plaintiff's misappropriation claim because it rested solely on the fact that the plaintiff's former employee left to work for the competitor.<sup>181</sup>

Other state laws on misappropriation echo North Carolina's in most respects, although nine jurisdictions have not yet addressed the issue under their trade secrets acts.<sup>182</sup> Other than those nine, almost all states with civil trade secrets acts have discussed the particulars of misappropriation only briefly.<sup>183</sup> Usually, the most heavily litigated issue in trade secrets cases is whether an owner tried to protect the trade secret. This is not a misappropriation question despite the conceptual overlap.<sup>184</sup> The appellate courts of a few states have decided a few helpful cases interpreting the parameters of

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176. *See id.* at 1479.

177. *See id.* at 1481. With regard to the burden of proof, in *AG Sys., Inc. v. United Decorative Plastics Corp.*, 55 F.3d 970 (4th Cir. 1995), the plaintiff challenged a jury instruction that referred to a preponderance of the evidence standard rather than the "substantial evidence" standard appearing in the NCTSPA. *See id.* at 972-73. The appellate court held that the error was harmless, since the plaintiff failed to object to the instruction at trial, and invited the mistake by proposing the wrong wording himself. *See id.*

178. *See FMC Corp.*, 899 F. Supp. at 1481.

179. *See id.*

180. *See id.*

181. *See id.*; *see also* Pat K. Chew, *Competing Interests in the Corporate Opportunity Doctrine*, 67 N.C. L. REV. 435, 439 (1989) (arguing that courts should give more protection to the interests of former employees by using a reasonable expectation test to evaluate claims that pursuit of a business opportunity by the ex-employee violated a fiduciary duty).

182. Those jurisdictions are Alaska, the District of Columbia, Hawaii, Idaho, Kansas, Montana, Nevada, New Mexico, and South Carolina. *See* ABA SURVEY, *supra* note 51, at 24, 195, 247, 363, 557, 584, 630, 817.

183. *See supra* note 15; *supra* notes 143-54 and accompanying text.

184. *See supra* notes 125-42 and accompanying text (discussing North Carolina's interpretation of "trade secrets").

misappropriation,<sup>185</sup> and none of those cases departs radically from trade secrets legal principles in North Carolina.<sup>186</sup>

In California, for instance, an employee must actually solicit customers on a trade secret list before liability will be imposed; merely announcing to those clients that he works for a new employer is not enough.<sup>187</sup> Delaware's statute requires that a third party receiving misappropriated information know or have reason to know that the trade secret was acquired by improper means.<sup>188</sup> A court interpreting that statute held that, in order to defeat a claim of misappropriation, the purchaser of a product may rely on the seller's assurance that it owned the technology without further investigation.<sup>189</sup> In Rhode Island, misappropriation of a trade secret is analyzed in the context of breach of confidence and fiduciary duty, with a focus on egregiousness of conduct.<sup>190</sup> Regarding proof of such conduct, a Virginia court, interpreting the laws of that state, found that a former employer had not proven misappropriation based on evidence that artwork was missing after the former employee left work because such evidence did not adequately rebut the former employee's affidavit that he did not remove the art.<sup>191</sup>

### C. *Information That is Protected*

In addition to discovering how the courts handle "trade secrets" and "misappropriation," knowing the specific types of protected information facilitates the comparison of trade secret law in existence

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185. See *infra* notes 187-91 and accompanying text.

186. See *supra* notes 155-81 and accompanying text.

187. See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 521-22 (9th Cir. 1993) (holding that a former employee misappropriated a customer database by calling and personally visiting the customers with proposals for them to affiliate with the new corporation); accord *Am. Credit Indemnity Co. v. Sacks*, 262 Cal. Rptr. 92, 101 (Cal. Ct. App. 1989) (concluding the same upon similar facts).

188. See 6 DEL. CODE ANN. § 2001(2) (1982).

189. See *Cabot Corp. v. Thai Tantalum, Inc.*, No. 12580, 1992 WL 172678, at \*4 (Del. Ch. July 22, 1992, as revised July 27, 1992).

190. See *E. Container Corp. v. Craine*, 624 A.2d 833, 835 (R.I. 1993) (*analyzing Abbey Med./Abbey Rents, Inc. v. Mignacca*, 471 A.2d 189, 193-94 (R.I. 1984), and *Rego Displays, Inc. v. Fournier*, 379 A.2d 1098, 1101-03 (R.I. 1977), cases that predated the passage of Rhode Island's trade secrets act). These cases are applicable because they are based on common law, which the state acts codified.

Likewise, Tennessee law—despite its not having a trade secrets act—declares that agents have a fiduciary duty not to use confidential information for personal benefit and must reimburse the principal for such misuse, even where the employer suffered no harm. See *Pinehurst, Ltd. v. Jarratt*, No. 01-A-01-9106-CH-00208, 1991 WL 241184, at \*3 (Tenn. Ct. App. Nov. 20, 1991) (citing *Carpenter v. United States*, 484 U.S. 19, 27-28 (1987)).

191. See *Reynolds and Reynolds Co. v. Hardee*, 932 F. Supp. 149, 155-56 (E.D. Va. 1996).

throughout the nation. North Carolina cases deal with several types of information, most of which echo cases from other jurisdictions.<sup>192</sup> Eight cases deal with scientific or computer knowledge,<sup>193</sup> and six address business or customer information.<sup>194</sup>

### 1. Scientific or Computer Information in North Carolina

The eight published opinions on the NCTSPA that have addressed scientific or computer information are discussed briefly below to provide the complete picture of North Carolina's case law on these subjects. First, in *Merck*,<sup>195</sup> a case discussed earlier for its analysis of misappropriation,<sup>196</sup> the court held that the projected launch dates and marketing plan for a new drug were competitively valuable information, not generally known, and sufficient to enjoin disclosure by a former employee to his new employer, the plaintiff's competitor.<sup>197</sup> The plaintiff asserted that the revelation of its trade secret would cause it to lose a significant portion of its market share, since Merck's Pepcid (R) AC and Glaxo's Zantac (R) 75 were in direct competition.<sup>198</sup> According to Merck, if Glaxo were to discover the nature of one of Merck's supply agreements, the projected launch dates of various Pepcid (R) AC line extensions, and the 1996 Canadian Pepcid (R) AC marketing launch plan, it would receive an immediate advantage. The court agreed, stating that such information were trade secrets.<sup>199</sup>

Conversely, the court in *FMC Corp. v. Cyprus Foote Mineral Co.*<sup>200</sup> held that the plaintiff had not presented sufficient evidence that its processes were trade secrets because the defendant indicated that it could purchase the same products elsewhere.<sup>201</sup> In *FMC*, the manufacturer of battery-quality lithium products sued a competitor and former employee seeking to prohibit the employee from disclosing trade secrets to the competitor in breach of a confidentiality agreement. FMC asserted that its Anderson cell was a trade secret, but the defendant showed it was available on the market

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192. See *infra* notes 195-291 and accompanying text.

193. See *infra* notes 195-253 and accompanying text.

194. See *infra* notes 254-91 and accompanying text.

195. 941 F. Supp. 1443 (M.D.N.C. 1996).

196. See *supra* notes 158-62 and accompanying text.

197. See *Merck*, 941 F. Supp. at 1459.

198. See *id.* at 1456-57.

199. See *id.* at 1457.

200. 899 F. Supp. 1477 (W.D.N.C. 1995).

201. See *id.* at 1481.

from three or four other vendors.<sup>202</sup> FMC also claimed that its dry room and special packaging techniques were secrets, but the defendant responded that it had operated a dry room for about seventeen years and had also employed vacuum packaging.<sup>203</sup> The laminating of current-collecting metals with lithium was also claimed to be a trade secret, but again the defendant countered that it used the same processes.<sup>204</sup> FMC further argued that its ultra-thin foil and special winding capacity were not known, yet the defendant said it had the same technology.<sup>205</sup> FMC's other claims included having superior extrusion technology, unique battery production, particular manufacturing efficiencies, exceptional alloy production, and better tolerance in the alloys.<sup>206</sup> The court was skeptical about FMC's claim that it had trade secrets in almost every stage of production of battery-quality lithium metals and found the support for those allegations to be too unspecific.<sup>207</sup> In fact, the court commented that it was not certain what it was being asked to enjoin the defendant employee from disclosing, for the competing corporations seemed to have almost identical technologies.<sup>208</sup> The court considered the similarity in innovation quite foreseeable, given the nature of their products.<sup>209</sup> Thus, the *FMC* court refused to find that the plaintiff had established trade secrets in need of protection.<sup>210</sup>

The court also refused to find a trade secret in *Glaxo, Inc. v. Novopharm, Ltd.*<sup>211</sup> Because Glaxo's choice of solvent system, pH, temperature, and seeding, which was used to determine the polymorphic form of a ranitidine hydrochloride crystal, was generally known, it could not be a secret.<sup>212</sup> The court declared that testimony

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202. *See id.*

203. *See id.*

204. *See id.*

205. *See id.*

206. *See id.*

207. *See id.* at 1482.

208. *See id.*

209. *See id.* Moreover, the plaintiff and defendant in this case were the only two producers of battery-quality lithium products in the United States. *See id.* at 1479.

210. *See id.* at 1483. The court explained that FMC sought a broader remedy than one offered under the NCTSPA, namely an injunction to keep its former employee from performing any research and development for the competitor in the seven general areas in which he worked for FMC. *See id.* at 1482-83. The court said that remedy is typically obtainable with a covenant not to compete, which was not present in this case. *See id.*

211. 931 F. Supp. 1280, 1302 (E.D.N.C. 1996), *aff'd*, 110 F.3d 1562 (Fed. Cir. 1997). However, the court stated that where a real trade secret exists, it should avoid discussion of the particular secret so as not to deprive the plaintiffs of the rights they sought to vindicate by filing suit. *See id.* at 1299.

212. *See id.* at 1300. The court explained that, while different methods for

by Glaxo witnesses that those crystallization factors were not generally known in this field was not credible, especially in light of the fact that such information was made public by Glaxo in a previous trial.<sup>213</sup>

The relative overtness of the matters Glaxo sought to protect, rather than the nature of the information, defeated its bid for establishing a trade secret.<sup>214</sup> Glaxo contended that the scientific community would not investigate trial transcripts, court exhibits, or the Federal Supplement, and that the information contained therein was still confidential, but the court disagreed.<sup>215</sup> Glaxo also argued unsuccessfully that Novopharm created the disclosure by its patent infringement in the previous case and should not benefit from that misdeed.<sup>216</sup> In any event, the court found that knowledge of the variables influencing ranitidine hydrochloride crystallization was well known to chemists in that field and, therefore, qualified as readily discoverable.<sup>217</sup>

Five years earlier, the court of appeals in *S.E.T.A. UNC-CH, Inc. v. Huffines*<sup>218</sup> analyzed whether animals could be treated as trade

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manufacturing crystals are available, ranitidine hydrochloride is produced by a solvent system process. *See id.* at 1299-1300. Some amount of ranitidine base is dissolved into a "solvent system," a liquid which may be composed of various solvents in varying proportions. *See id.* Hydrochloride is then added to facilitate crystallization, and ranitidine crystals precipitate from the solution, usually aided by a reagent. *See id.* The court continued that while the molecular behavior during crystallization is not well understood, it is apparent that subtle manipulation of the solution during the process can profoundly affect the type of crystal that forms. *See id.* at 1300. The crystallization factors relevant to the case included the choice of solvent system, pH level, temperature, and the degree of "seeding," which is the practice of adding crystals to the solution to influence the formation of crystals of the same type. *See id.* at 1300 n.20.

213. *See id.* In fact, the court noted that Glaxo made some of the information known as early as 1984, with the publication of an article titled *Spectroscopic Studies on Ranitidine—Its Structure and the Influence of Temperature and pH*. *See id.*

214. *See id.* at 1300-02.

215. *See id.* at 1300. The court agreed that scientific research generally misses legal libraries and courthouses but maintained that the pharmaceutical industry had an interest in this litigation. *See id.* Indeed, copies of trial transcripts had been purchased by several researchers, numerous visitors examined the trial exhibits from the first case, and representatives from both pharmaceutical companies had attended both trials. *See id.*

216. *See id.* at 1300-02. The court responded that, although a party responsible for divulging the trade secret of another may not benefit from that act, Glaxo is responsible for its own dissemination. *See id.* at 1300. The court quoted the NCTSPA to find that the owner of the secret has an affirmative duty to maintain secrecy and, regardless of testimony indicating that Glaxo was dutiful at its facilities, that the failure occurred somewhere between the laboratory and the courthouse. *See id.* at 1301. That is, Glaxo failed to take the legal steps—such as sealing the exhibits and conducting an in-camera hearing—required to maintain secrecy during trial. *See id.*

217. *See id.* at 1302.

218. 101 N.C. App. 292, 399 S.E.2d 340 (1991).

secrets. In that case, a student organization named Students for the Ethical Treatment of Animals sued an experimentation group for disclosure of documents that the researchers alleged were trade secrets.<sup>219</sup> The court responded that what type and how many animals will be used in a particular research project is not a trade secret, nor is whether surgery would be performed or the type of anesthesia to be used.<sup>220</sup> Pre- and post-operative procedures were not trade secrets either, according to the court, and neither was information about how an animal's pain could be minimized nor the method of euthanasia.<sup>221</sup> The court reasoned that the students wanted only a brief discussion of the justification for the research and its objectives. The court reviewed these in camera and determined that they were not trade secrets.<sup>222</sup>

In *Moore v. American Barmag Corp.*,<sup>223</sup> the U.S. District Court for the Western District of North Carolina held that an inventive thread path design and yarn processing method may constitute a trade secret under North Carolina law for purposes of surviving a motion for summary judgment.<sup>224</sup> The court stated that the plaintiff had submitted evidence that at the time he disclosed his invention to the defendant, the information may have fit the definition of a trade secret because it was a device that conferred a business advantage

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219. See *id.* at 296, 399 S.E.2d at 343. The researchers also argued that the information was protected as confidential and proprietary in order to ensure the safety and security of the researcher. A "chilling effect" would doom university research, the scientists argued; however, the court noted that the applications were so general in nature, revealing little information, that this effect should not occur. See *id.* at 295 (citing *Univ. of Pennsylvania v. Equal Employment Opportunity Comm'n*, 493 U.S. 182, 197 (1990)). In response to that concern, the court of appeals concluded that public policy did require redaction from the researchers' federal applications of their names, addresses, telephone numbers, experience, and department. See *S.E.T.A. UNC-CH*, 101 N.C. App. at 296, 399 S.E.2d at 343. The scientists also argued that their federal applications could not be made public because they were protected under the First Amendment, which they contended creates an academic exception for disclosure of documents. See *id.* at 297, 399 S.E.2d at 343. However, the same United States Supreme Court case rejected that argument after the trial court in *S.E.T.A. UNC-CH* had ruled. See *id.* at 297, 399 S.E.2d at 343-44 (citing *Univ. of Pennsylvania*, 493 U.S. at 197).

220. See *S.E.T.A. UNC-CH*, 101 N.C. App. at 296, 399 S.E.2d at 343.

221. See *id.* The court did not identify the precise reasons why such information failed to satisfy the definition of trade secret under the NCTSPA but thought they were too general to be trade secrets. See *id.* at 297, 399 S.E.2d at 343.

222. See *id.*; see also *ASPCA v. State Univ. of N.Y. at Stony Brook*, 556 N.Y.S.2d 447, 450 (N.Y. App. Div. 1990) (holding that questions asked regarding justification and objective of research on an application from the Institutional Animal Care and Use Committee—the same application as that used in *S.E.T.A. UNC-CH*—were not trade secrets under state law, which does not include a trade secrets protection act).

223. 710 F. Supp. 1050 (W.D.N.C. 1989).

224. See *id.* at 1059-60.



over competitors.<sup>225</sup> Moreover, the plaintiff satisfied the statutory definition under the NCTSPA, according to the court, and the court declared that one who wrongfully uses that secret shall be liable for the misdeed.<sup>226</sup>

Similarly, in *Travenol Labs, Inc. v. Turner*,<sup>227</sup> a pre-NCTSPA case, the North Carolina Court of Appeals held that the modification of a widely known manufacturing method may constitute a trade secret.<sup>228</sup> In that case, a pharmaceutical manufacturer sued a former employee and competitor to protect its trade secret and to limit the former employee's new employment.<sup>229</sup> The employee, who voluntarily left his former job, spent his career in production positions, was a skilled manager, and had some technical knowledge that he had acquired ancillary to his production skills.<sup>230</sup> Specifically, he knew about a mechanical modification of a particular type of centrifuge that other competitors had unsuccessfully attempted to duplicate.<sup>231</sup> However, his former employer's competitor hired him in production, not research and development.<sup>232</sup> The court of appeals held that he could be enjoined from disclosing confidential information but could not be precluded from working for the competitor altogether.<sup>233</sup>

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225. See *id.* The court cited *Water Services, Inc. v. Tesco Chems., Inc.*, 410 F.2d 163, 171 (5th Cir. 1969), to support its conclusion.

226. See *id.* at 1060-61. Borrowing time-tested holdings from *Booth v. Stutz Motor Car Co. of Am.*, 56 F.2d 962, 968-69 (7th Cir. 1932), and *Hoeltke v. C.M. Kemp Mfg. Co.*, 80 F.2d 912, 922-23 (4th Cir. 1935), the *Moore* court supported its decision to permit the plaintiff to proceed with its evidence. See *Moore*, 710 F. Supp. at 1060-61. The premise for that ruling was that the plaintiff had not disclosed his invention to anyone other than two employees who assisted him in making the prototype of the invention at his former workplace and only then disclosing it in confidence. See *id.* at 1058. Before disclosing the knowledge to the defendant, the plaintiff asked for and received assurances that the corporation would compensate him for using the information, but the defendant disclosed the invention to the public and began using it on its own machines, rejecting the plaintiff's demand for compensation. See *id.* The defendants did not contradict these averments. See *id.*

227. 30 N.C. App. 686, 228 S.E.2d 478 (1976).

228. See *id.* at 694-95, 228 S.E.2d at 485.

229. See *id.* at 687, 228 S.E.2d at 480.

230. See *id.* at 688-89, 228 S.E.2d at 481-82.

231. See *id.* at 694-95, 228 S.E.2d at 485. The court rejected the plaintiff's claim, however, that its former employee had other valuable information about the plasma fractionation process, whereby human blood components are extracted and processed. See *id.* at 695, 228 S.E.2d at 485. The reason was that most industries in the same business use a standard process in their plasma fractionation operations, and the plaintiff failed to show how its process was unique other than by using its modified centrifuge. See *id.* at 695, 228 S.E.2d at 485.

232. See *id.* at 688-89, 228 S.E.2d at 481.

233. See *id.* at 694, 696, 228 S.E.2d at 484-86.

Like the centrifuge in *Travenol*, a computer program may be protected under North Carolina law if reasonable efforts are made to maintain the secrecy of the program, according to the court in *Barr-Mullin, Inc. v. Browning*.<sup>234</sup> The defendants in *Barr-Mullin* argued that the disputed software named COMPU-RIP was not a trade secret because it was not subject to reasonable efforts to maintain its secrecy and it had been reverse engineered.<sup>235</sup> The latter allegation was rejected abruptly for its lack of evidence, but in order to determine the effort to maintain secrecy, the court investigated the nature of the computer program.<sup>236</sup> The COMPU-RIP software was contained in the form of "programmable read-only memory chips" (PROMS) embedded in the COMPU-RIP machinery.<sup>237</sup> The PROMS contained the "object code" version of the program which is "read" by the computer's machinery.<sup>238</sup> Computer programmers, however, write software in "source code," later to be translated into object code for the computer to execute its program functions.<sup>239</sup> The COMPU-RIP software was sold in PROM form, so the source code was unavailable to the public.<sup>240</sup> Two experts stated that distribution in object code form renders alteration of the software "practically impossible."<sup>241</sup> Furthermore, the plaintiff's president stated by affidavit that access to the software was limited to the plaintiff's employees and consultants.<sup>242</sup> The court was satisfied that reasonable efforts were expended to maintain secrecy of the COMPU-RIP software.<sup>243</sup>

The final science-related trade secrets case in North Carolina is *Mirafi, Inc. v. Murphy*.<sup>244</sup> In *Mirafi*, the court gave two reasons for holding that the defendant did not have knowledge of a trade secret at the time he left his former employer.<sup>245</sup> First, there existed no business or technical information relating to a prefabricated

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234. 108 N.C. App. 590, 424 S.E.2d 226 (1993).

235. See *id.* at 595, 424 S.E.2d at 229.

236. See *id.*

237. *Id.*

238. See *id.*

239. See *id.*; see also Brown, *supra* note 25, at 979 n.14 (explaining the process of translating the object code into source code).

240. See *Barr-Mullin*, 108 N.C. App. at 595, 424 S.E.2d at 229.

241. *Id.* at 595-96, 424 S.E.2d at 229.

242. See *id.* at 595, 424 S.E.2d at 229; see also *Q-CO Indus., Inc. v. Hoffman*, 625 F. Supp. 608, 617-18 (S.D.N.Y. 1985) (holding that secrecy for computer programs is not compromised when only the object code version is distributed to customers).

243. See *Barr-Mullin*, 108 N.C. App. at 596, 424 S.E.2d at 229.

244. 14 U.S.P.Q.2d 1337 (W.D.N.C. 1989).

245. See *id.* at 1349.

drainboard that derived actual or potential commercial value from not being generally known in the industry.<sup>246</sup> Second, the court found that the former employer had not exerted reasonable efforts to maintain the secrecy of any information relating to the drainboard.<sup>247</sup>

Several years prior to the *Mirafi* appellate decision, the plaintiff sold only one prefabricated drainboard, known then as Miradrain and later as Miradrain 4000, that was used almost exclusively in large construction projects.<sup>248</sup> The product had dimples protruding from both sides of a plastic core, creating a "waffle" design and providing flow channels on both sides for liquid.<sup>249</sup> Its successor, the Miradrain 6000, was more functional, cheaper, and easier to fabricate than the earlier model.<sup>250</sup> However, there were a number of competitive products available in the marketplace that looked almost identical to the Miradrain 6000, including Aquadrain 15X, Amerdrain, and Bradley Filter Drain.<sup>251</sup> In fact, the plaintiff sold the Miradrain 6000 product to a competitor who resold the product under its private label and did not recognize the plaintiff as the product's original creator.<sup>252</sup> Moreover, the fact that the plaintiff failed to conduct exit interviews or any equivalent conversation for any of the six or more employees who had worked on the product before leaving the company resulted in the holding that secrecy of the product had not been reasonably maintained.<sup>253</sup>

## 2. Business Information in North Carolina

The six North Carolina cases addressing trade secrets claims in conjunction with business information or customer lists, rather than with scientific pursuits, are summarized below to present the entirety of North Carolina's case law on business information. First, in *Wilmington Star-News, Inc. v. New Hanover Regional Medical Center*,<sup>254</sup> the North Carolina Court of Appeals found that negotiated price lists in a contract between a public hospital and a private health maintenance organization could be "trade secrets" under the NCTSPA.<sup>255</sup> That ruling was based on the importance of

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246. See *id.*

247. See *id.*

248. See *id.* at 1340.

249. See *id.*

250. See *id.*

251. See *id.* at 1343.

252. See *id.*

253. See *id.* at 1342.

254. 125 N.C. App. 174, 480 S.E.2d 53 (1997).

255. See *id.* at 182, 480 S.E.2d at 57.

confidentiality in maintaining competition among HMOs, the HMO's protection of the lists at issue, and the difficulty competitors would endure to obtain the materials.<sup>256</sup> The court held nonetheless that the lists were not protected from disclosure as trade secrets because the Public Records Act<sup>257</sup> applies only to trade secrets belonging to private persons, not government agencies.<sup>258</sup>

In *North Carolina Electric Membership Corp.*, introduced above in the context of misappropriation,<sup>259</sup> the court found a similar trade secret. The plaintiff was a cooperative electric membership corporation that provided electric energy at wholesale prices to twenty-seven members, who in turn supplied electricity to approximately 500,000 North Carolina retail customers.<sup>260</sup> Electric membership corporations such as the plaintiff are required by statute to apply for funding through the defendant, the North Carolina Department of Economic and Community Development, rather than directly to federal agencies.<sup>261</sup> Duke Power Company requested to see the documents that the plaintiff had filed with the defendant over a period of years, alleging that they were public records and "must be

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256. *See id.* at 179-82, 480 S.E.2d at 55-57. The court found that disclosing the financial terms of the contract between an HMO and a hospital would be valuable to the competitors of that HMO and that "each HMO member of the North Carolina HMO Association considers the financial terms of its agreements with health care providers to be confidential trade secrets." *Id.* at 181, 480 S.E.2d at 55-57. Second, it held that divulging the financial terms between HMOs and health care providers would be detrimental to industry competition, that it "would impair the ability of HMOs to control the rising costs of health care," and that "'secret pricing'" is more important to vigorous competition in a concentrated market. *Id.* The court further stated that the defendants were in a concentrated market, "that HMOs in North Carolina and nationally view price terms of their contracts with health providers as extremely important to keep secret," and that the defendant advised the hospital that the prices were confidential at the start of negotiations. *Id.* at 181, 480 S.E.2d at 57. Last, the court found that the contract specified the parties agreed to maintain its confidentiality, that the price lists were accessible only to a small number of individuals, that physicians were blocked from the lists, and that a competing organization would be troubled to generate the information. *See id.* at 181-82, 480 S.E.2d at 57.

257. N.C. GEN. STAT. §§ 132-1 to -10 (1995).

258. *See id.* at 182, 480 S.E.2d at 57. The court recognized that its holding might disadvantage public hospitals in their competition with non-governmental entities but deferred that problem to the legislature; the court quoted a federal court which stated that "[d]isclosure of prices charged the Government is a cost of doing business with the Government." *Id.* (quoting *Racal-Milgo Gov't Sys. v. Small Bus. Admin.*, 559 F. Supp. 4, 6 (D.D.C. 1981)).

259. *See supra* notes 167-71 and accompanying text.

260. *See North Carolina Elec. Membership Corp. v. North Carolina Dep't of Econ. and Community Dev.*, 108 N.C. App. 711, 714, 425 S.E.2d 440, 442 (1993).

261. *See id.*

disclosed pursuant to North Carolina's Public Record Act."<sup>262</sup> The documents contained data concerning the plaintiff's Long Range Financial Forecast and Member Rate Forecast for Mobile Substation Programs, a summary of feasibility studies in support of a deficiency loan for participation in a county, and a financial forecast for that county which had been designated "Confidential" when submitted.<sup>263</sup> Supplementing its motion for a preliminary injunction, the plaintiff submitted an affidavit of its consultant and a verified complaint.<sup>264</sup> Taken together, the court found reason to believe that the documents in question contained valuable business information, namely the plaintiff's projections for sales to its members and its methodologies for forecasting price information.<sup>265</sup> Additionally, the court recognized that such information would be of "actual value" to Duke Power Company and to other competitors and would "cause irreparable harm" to the plaintiff.<sup>266</sup> Thus, the evidence was adequate to show a likelihood that the plaintiff would prevail on the trade secret issue in court.<sup>267</sup>

The court held in *McCoy*, however, that a business plan that could be divined by another creative person in the field is not a trade secret.<sup>268</sup> In that case the plaintiff had conjured a business idea and promoted it with brochures.<sup>269</sup> His unqualified dissemination—and personal practice in his travel agencies—of the concept further voided any claim for trade secret protection.<sup>270</sup>

With regard to customer lists, the North Carolina Supreme Court first granted trade secret protection while applying Illinois law in *United Laboratories, Inc. v. Kuykendall*.<sup>271</sup> The defendant had procured a sales representative position with the plaintiff corporation in 1971, and after a temporary interlude working for a competitor followed by three years working as a manager for the plaintiff, he remained a sales representative until his resignation in 1985.<sup>272</sup> He then joined a competing chemical manufacturer in the same capacity

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262. *Id.*

263. *See id.* at 715, 425 S.E.2d at 442.

264. *See id.* at 718, 425 S.E.2d at 444.

265. *See id.*

266. *Id.*

267. *See id.*

268. *See supra* notes 1-12 and accompanying text (discussing the case).

269. *See Bank Travel Bank v. McCoy*, 802 F. Supp. 1358, 1358 (E.D.N.C. 1992), *aff'd sub nom.* *Amariglio-Dunn v. McCoy*, 4 F.3d 984 (4th Cir. 1993).

270. *See id.* at 1360.

271. 322 N.C. 643, 370 S.E.2d 375 (1988).

272. *See id.* at 644-46, 370 S.E.2d 377-78.

and approached the customers he had serviced prior to his resignation.<sup>273</sup> The supreme court distinguished the Illinois case upon which the court of appeals had exclusively relied, holding that the plaintiff had a near-permanent relationship with its customers and that the defendant acquired confidential information about them.<sup>274</sup> Had he worked elsewhere, the court said the defendant would not have known such information as the customers' requirements, "the cyclical nature of their buying habits, the prices each was willing to pay, and any specialized product formulations," all of which the plaintiff's competitors did not know.<sup>275</sup> The defendant in *United Laboratories* had been employed by the plaintiff for approximately fourteen years, throughout which the plaintiff enjoyed a long-term relationship with its customers, and the defendant had not known the customers before his employment with the plaintiff.<sup>276</sup> Thus, the defendant's customer lists were trade secrets under Illinois law.<sup>277</sup>

In *Consolidated Textiles, Inc. v. Sprague*,<sup>278</sup> the trial court similarly enjoined a former employee from further disclosure of trade secrets.<sup>279</sup> The injunction forbade the defendant from contacting or disclosing to third parties his former employer's customers who had been actively solicited within one year prior to his resignation.<sup>280</sup> The court of appeals refused to hear an appeal, holding that the defendant's substantial rights had not been affected by the preliminary injunction.<sup>281</sup> The plaintiff had moved under the NCTSPA to prevent the defendant from breaching his non-competition agreement, and the fact that the defendant was restricted from only three hundred of the several thousand remaining potential customers meant that no substantial right had been frustrated, according to the court.<sup>282</sup>

Finally, in *Drouillard v. Keister Williams Newspaper Services*,

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273. See *id.* at 646, 370 S.E.2d at 378.

274. See *id.* at 656-57, 370 S.E.2d at 384.

275. *Id.* at 657, 370 S.E.2d at 384.

276. See *id.*

277. See *id.*

278. 117 N.C. App. 132, 450 S.E.2d 348 (1994).

279. See *id.* at 133, 450 S.E.2d at 349.

280. See *id.* at 134, 450 S.E.2d at 349.

281. See *id.*

282. See *id.* But see *Milner Airco, Inc. v. Morris*, 111 N.C. App. 866, 870, 433 S.E.2d 811, 814 (1993) (finding a substantial right affected because the injunction prevented the defendants from installing air-conditioners during the prime season); *Masterclean of N.C. v. Guy*, 82 N.C. App. 45, 52, 345 S.E.2d 692, 697 (1986) (finding a substantial right affected where an injunction prevented the defendant from doing his job in five states).

*Inc.*,<sup>283</sup> the former General Manager of the defendant publishing company was familiar with the bidding and pricing of printing contracts, had access to pricing information, and had contacted the company's customers.<sup>284</sup> Before he resigned to work for a competitor, he assisted his newly hired replacement in overbidding an account that he himself later acquired by bidding lower from his new place of employment.<sup>285</sup> Surprisingly, the former manager initiated the lawsuit, to which the defendant counterclaimed alleging interference with contractual and business relationships, misappropriation of trade secrets, and unfair and deceptive trade practices.<sup>286</sup> The defendant's motion for summary judgment, which reserved all its counterclaims, was granted in its entirety by the trial judge.<sup>287</sup> The court of appeals held that the customer lists and pricing and bidding formulae were trade secrets under the NCTSPA, but the court provided only indirect reasoning for its holding.<sup>288</sup> Specifically, the court stated that the trial court's findings supported that court's conclusion identifying trade secrets.<sup>289</sup> In addition, the court was unable to answer whether the evidence was sufficient to support the lower court's findings because the plaintiff failed to provide a verbatim transcript of the proceedings consistent with the state rules of appellate procedure.<sup>290</sup> Therefore, the court of appeals refrained from speculation and assumed that the findings of fact were supported by competent evidence.<sup>291</sup>

### 3. Information That is Protected in Other States

Other states also have found trade secrets in both scientific and business information.<sup>292</sup> Scientific trade secrets include knowledge about computer software, the health industry, specialized manufacturing processes, and ordinary household items.<sup>293</sup> Business

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283. 108 N.C. App. 169, 423 S.E.2d 324 (1992).

284. *See id.* at 170, 423 S.E.2d at 325.

285. *See id.*

286. *See id.* at 171, 423 S.E.2d at 325.

287. *See id.* at 174, 423 S.E.2d at 327.

288. *See id.*

289. *See id.* at 173, 423 S.E.2d at 327.

290. *See id.*

291. *See id.* The court's more legally meaningful holding was that if a violation of the NCTSPA also satisfied the three-pronged test for a violation under the state statute prohibiting unfair and deceptive trade, *see* N.C. GEN. STAT. § 75-1.1 (1994), then the same conduct would indeed violate both statutes. *See Drouillard*, 108 N.C. App. at 172, 423 S.E.2d at 326. This is regardless of the fact that no part of the NCTSPA specifies that, when it is violated, the unfair and deceptive trade statute may also be violated. *See* N.C. GEN. STAT. §§ 66-152 to -157 (1992).

292. *See infra* notes 296-357 and accompanying text.

293. *See infra* notes 296-330 and accompanying text.

information includes customer lists, sales and pricing information, and other documents such as proposals and customer complaint records.<sup>294</sup> Nine states, however, have not specifically addressed what items merit protection under their state trade secrets act.<sup>295</sup>

With regard to scientific knowledge as a trade secret, several courts have addressed computer and software disputes, much like in *Barr-Mullin*.<sup>296</sup> For instance, a Florida case held that the owner of a source code for a video game program that had been developed for Nintendo was not required to produce the code during discovery because it was a trade secret.<sup>297</sup> A court in Nevada held that where a computer program is offered to the public, "its contents may not be deemed a trade secret unless access to it is actually treated as a secret."<sup>298</sup> Moreover, the federal district court in a New Mexico case implicitly held that computer software programs could be trade secrets,<sup>299</sup> and an Oklahoma court held that a computer program allowing buyers to transmit insurance claims electronically was a trade secret under its act.<sup>300</sup>

The health industry also accounts for a large number of trade secrets suits nationwide, most of which are consistent with the rationales surrounding the health-related cases of *Merck*, *Glaxo*, and *Travenol*.<sup>301</sup> For instance, Illinois courts have held that a manufacturing process used to produce contact lens material may be

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294. See *infra* notes 331-57 and accompanying text.

295. Alaska, the District of Columbia, Hawaii, Kentucky, Nevada, Rhode Island, South Carolina, West Virginia, and Wyoming have very little or no case law on what specific items will be afforded trade secrets protection. See ABA SURVEY, *supra* note 51, at 23-24, 193-95, 244-47, 373, 583-84, 801-02, 816-17, 935-36, 978-79.

296. See *supra* notes 234-43 and accompanying text (discussing the case).

297. See *Rare Coin-It, Inc. v. I.J.E., Inc.* 625 So. 2d 1277, 1278-79 (Fla. Dist. Ct. App. 1993). In fact, a few trade secrets acts, such as Montana's, specifically include computer programs as trade secrets. See MONT. CODE ANN. § 30-14-402(4) (1993).

298. *Videotronics, Inc. v. Bend Elecs.*, 564 F. Supp. 1471, 1476 (D. Nev. 1983). This was Nevada's only case specifying a particular type of information that could be protected under trade secrets law prior to the passage of its trade secrets act in 1993. See ABA SURVEY, *supra* note 51, at 583-84.

299. See *Centurion Indus., Inc. v. Warren Steurer & Assocs.*, 665 F.2d 323, 325-26 (10th Cir. 1981). Texas courts agree, although that state does not have a civil trade secrets protection act. See, e.g., *Electronic Data Sys. Corp. v. Powell*, 508 S.W.2d 137, 139 (Tex. Civ. App. 1974) (assessing covenant not to compete as applying to computer systems).

300. See *Micro Consulting, Inc. v. Zubeldia*, 813 F. Supp. 1514, 1534-35 (W.D. Okla. 1990), *aff'd*, 959 F.2d 245 (10th Cir. 1992). Similarly, a Utah court held, prior to the enactment of its trade secrets act, that an accounts receivable computer program is a secret and, thus, worthy of legal protection. See *J & K Computer Sys., Inc. v. Parrish*, 642 P.2d 732, 735 (Utah 1982).

301. See *supra* notes 195-99, 211-17, 227-33 and accompanying text (discussing the cases).



protected,<sup>302</sup> and before its trade secrets act was adopted in 1989, Maryland afforded trade secret protection to processes for manufacturing oxygen-breathing hoses, including blue prints and a training manual.<sup>303</sup> A Kansas court found a trade secret in a case that predated its trade secrets act because the methods, research information, patents, and machines necessary to create the plaintiff's process of separating chemicals were unique and intricate, although generally known.<sup>304</sup> Oregon law has afforded protection to a drug formula outside the context of an employment agreement,<sup>305</sup> but Tennessee courts will not protect a formula for a drug or anything else that is disclosed to a non-employee unless the parties entered into a confidentiality agreement.<sup>306</sup>

In addition to cases related to computers and the health industry, trade secrets cases often involve specialized processes or obscure methods of manufacturing such as those in *FMC* and *Mirafi*.<sup>307</sup> For example, Alabama has held that engineered drawings of rotary mining drills<sup>308</sup> and a process of coating aluminum pipe to produce a superior, cheaper product<sup>309</sup> may qualify for protection as a trade secret. Under Alaska's trade secrets act, oil well data has been held a trade secret.<sup>310</sup> The design of production machines used to grind extruded rubber into handgrips for sporting equipment, motorcycles, and tools has been held to be worthy of protection under Arkansas's act.<sup>311</sup> A Connecticut court, however, held that a generally known manufacturing process for making C-seals was not esoteric or complex and could not be a trade secret.<sup>312</sup> Illinois courts have stated

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302. See *Syntex Ophthalmics, Inc. v. Novicky*, 745 F.2d 1423, 1433-34 (Fed. Cir. 1984) (applying Illinois substantive law).

303. See *Space Aero Prods. Co. v. R.E. Darling Co.*, 208 A.2d 74, 81 (Md. 1964).

304. See *Koch Eng'g Co. v. Faulconer*, 610 P.2d 1094, 1104 (Kan. 1980).

305. See *Myers v. Williams*, 819 F. Supp. 919, 921 (D. Or. 1993).

306. See *Turner v. Great Am. Opportunities, Inc.*, 716 S.W.2d 40, 43 (Tenn. Ct. App. 1986). Tennessee does not have a civil trade secrets act. See *supra* note 15.

307. See *supra* notes 200-10, 244-53 and accompanying text (discussing the cases).

308. See *Drill Parts & Serv. Co. v. Joy Mfg. Co.*, 439 So. 2d 43, 48-49 (Ala. 1983). This case was decided before the 1987 Act and had limited validity according to the court in *Allied Supply Co. v. Brown*, 585 So. 2d 33, 36 (1991).

309. See *Saunders v. Florence Enameling Co.*, 540 So. 2d 651, 654 (Ala. 1989).

310. See *State Dep't of Nat. Resources v. Arctic Slope Reg'l Corp.*, 834 P.2d 134, 139 (Alaska 1991). Alaska courts have not heard any other trade secret case. See *ABA SURVEY*, *supra* note 51, at 23.

311. See *Allen v. Johar, Inc.*, 823 S.W.2d 824, 826 (Ark. 1992). In the same case, the court held that customer lists and information can constitute a trade secret irrespective of whether the lists were transcribed or memorized. See *id.* at 827; *ABA SURVEY*, *supra* note 51, at 50.

312. See *Pressure Science, Inc. v. Kramer*, 413 F. Supp. 618, 629 (D. Conn. 1976). But see *Allen Mfg. Co. v. Loika*, 144 A.2d 306, 310 (Conn. 1958) (holding otherwise for a warm

that schematics of electronic analog circuitry may be trade secrets.<sup>313</sup> However, a fifty-eight step manufacturing process for a fuel nozzle seal on jet engines was held not a trade secret in *Junkunc v. S.J. Advanced Technology & Manufacturing Corp.* In that case, the nephew of the plaintiff's business partner had been taught openly the process that he used for twenty years on the job.<sup>314</sup> Missouri has protected knowledge about special methods for manufacturing tools used by workers who handle "hot" electrical wires,<sup>315</sup> a method of internal culling of chickens,<sup>316</sup> and a formula for a non-corrosive protective coating.<sup>317</sup> Oregon law has afforded protection to improvements on a biomass extruder device for making fireplace logs,<sup>318</sup> engineering drawings,<sup>319</sup> and improvements to garbage truck bodies<sup>320</sup> but has denied it to similar items. The state of Washington protected blueprints for cockpit windows in jet aircraft,<sup>321</sup> but refused protection where information regarding aftermarket replacement of airplane brakes was readily ascertainable and did not have independent economic value.<sup>322</sup>

Products familiar to the public and ordinary household items,

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heading process). Both cases predated and were incorporated into the 1983 enactment of Connecticut's trade secrets act.

313. See *Televation Telecommunication Sys., Inc. v. Saindon*, 522 N.E.2d 1359, 1366 (Ill. App. Ct. 2d 1988).

314. See *Junkunc v. S.J. Advanced Tech. & Mfg. Corp.*, 498 N.E.2d 1179, 1184 (Ill. App. Ct. 1986).

315. See *A.B. Chance Co. v. Schmidt*, 719 S.W.2d 854, 858 (Mo. Ct. App. 1986). But see *Neil & Spencer Holdings, Ltd. v. Kleen-Rite, Inc.*, 479 F. Supp. 164, 171 (E.D. Mo. 1979) (holding that the design of a dry-cleaning machine was not a trade secret because the design was "embodied" in or ascertainable from the apparatus itself, or "contained in the patent or operating manual"); *National Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 18-19, 26 (Mo. 1966) (stating that coin rejection machines could be duplicated from existing machines, albeit with some difficulty, and were not kept secret by their manufacturer, so therefore they were not trade secrets).

316. See *Ultra Life Lab. v. Eames*, 221 S.W.2d 224, 233-34 (Mo. Ct. App. 1949).

317. See *Carboline Co. v. Jarboe*, 454 S.W.2d 540, 555 (Mo. 1970).

318. See *Holland Devs. Ltd. v. Mfrs. Consultants*, 724 P.2d 844, 849-50 (Or. App. 1986) (coming before the state trade secrets act was enacted).

319. See *Rexnord, Inc. v. Ferris*, 637 P.2d 619, 621 (Or. App. 1981), *rev'd on other grounds*, *Rexnord, Inc. v. Ferris*, 657 P.2d 673 (1983). But see *Elle v. Babbitt*, 488 P.2d 440 (Or. 1971) (denying protection for the design of a pipe mill).

320. See *Kamin v. Kuhnuau*, 374 P.2d 912, 922 (Or. 1962). But see *E.V. Prentice Dryer Co. v. Northwest Dryer & Mach. Co.*, 424 P.2d 227 (Or. 1967) (refusing to protect improvements in the design of a plywood veneer dryer).

321. See *Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 684 (Wash. 1987) (en banc) (noting that the drawings contained approximately 500 critical tolerances, dimensions, specifications, and material requirements).

322. See *Machen, Inc. v. Aircraft Design, Inc.*, 828 P.2d 73, 79 (Wash. App. 1992) (couching its holding in a confidentiality covenant context).

such as the yarn in *Moore*,<sup>323</sup> are the subjects of trade secret protection as well. Maryland protected methods for manufacturing skis<sup>324</sup> and a process for making shaving cream.<sup>325</sup> Massachusetts reached the same result in a case disputing a method for manufacturing a one-piece, two-tone cultured marble sink top and bowl,<sup>326</sup> although Massachusetts has not adopted a civil trade secrets act to date. Missouri has protected a formula for chicken feed,<sup>327</sup> but a Nebraska court held that a food manufacturing process was not a trade secret where it was generally known throughout the industry, was not subject to secrecy, was not particularly valuable, had not been developed at great expense, and would not be very difficult to duplicate.<sup>328</sup> A judge in a New Hampshire products liability case protected the disclosure of the relative proportions of the ingredients used in an underarm deodorant,<sup>329</sup> yet a court in Minnesota refused trade secret protection for a researcher who, according to the court, developed new products by improving on old ones using matters of common knowledge.<sup>330</sup>

In the area of business information, a myriad of cases address customer lists that are taken from an employer and used without his consent, such as in *United Laboratories* and *Consolidated Textiles*.<sup>331</sup> In Delaware, sources of customer contacts have long been recognized as trade secrets, and a list of a particular, small pool of prospective applicants for work in a specific industry may constitute a trade secret if the candidates would be difficult to identify without the list.<sup>332</sup>

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323. See *supra* notes 223-26 and accompanying text (discussing that case).

324. See *K-2 Ski Co. v. Head Ski Co.*, 506 F.2d 471, 474 (9th Cir. 1974) (protecting method to manufacture fiberglass skis); *Head Ski Co. v. Kam Ski Co.*, 158 F. Supp. 919 (D. Md. 1958) (protecting method to manufacture metal skis).

325. See *Carter Prods., Inc. v. Colgate-Palmolive Co.*, 130 F. Supp. 557, 580 (D. Md. 1955), *aff'd sub nom. Colgate Palmolive Co. v. Carter Prods., Inc.*, 230 F.2d 855 (4th Cir. 1956).

326. See *Eastern Marble Prods. Corp. v. Roman Marble, Inc.*, 364 N.E.2d 799, 802 (Mass. 1977) (relying simplistically on prior cases stating that "manufacturing processes are entitled to protection as trade secrets.").

327. See *Germo Mfg. Co. v. Combs*, 240 S.W. 872, 883 (Mo. Ct. App. 1922). But see *Godefroy Mfg. Co. v. Lady Lennox Co.*, 134 S.W.2d 140, 147 (Mo. Ct. App. 1939) (holding that the formula for black hair dye was not a trade secret because its two main ingredients were generally known in the hair-dyeing profession).

328. See *Wilson Certified Foods, Inc. v. Fairbury Food Prods., Inc.*, 370 F. Supp. 1081, 1087 (D. Neb. 1974) (deciding the case 20 years before Nebraska adopted the UTSA).

329. See *Farnum v. Bristol-Myers Co.*, 219 A.2d 277, 280 (N.H. 1966) (predating the state trade secrets act by 24 years).

330. See *Surgidev Corp. v. Eye Tech., Inc.*, 648 F. Supp. 661, 690 (D. Minn. 1986), *aff'd*, 828 F.2d 452 (8th Cir. 1987).

331. See *supra* notes 271-77, 278-82 and accompanying text (discussing those cases).

332. See *Meyer Ventures, Inc. v. Barnak*, No. 11502, 1990 WL 172648, at \*4 (Del. Ch.

Although Michigan does not have a civil trade secrets act, it has held that a customer list may be a trade secret if the list contains a substantial amount of the employer's customer base.<sup>333</sup> In another customer list case, a Mississippi court considered evidence that most of the customers solicited by the defendant were his friends, neighbors, or relatives who likely would have ceased patronizing the former employer's business anyhow.<sup>334</sup> A Pennsylvania case stated that a customer list will be refused protection if it may be generated readily and easily from trade journals or telephone book listings, among other references.<sup>335</sup> And a federal court in South Dakota noted that the protection afforded to customer lists extends beyond the writing and includes other information about the customers.<sup>336</sup>

Secret sales and pricing information, when it reaches a non-employee's hands, is also hotly contested nationwide, as it was in *Wilmington Star-News, North Carolina Electric Membership Corp., and Drouillard*.<sup>337</sup> New Jersey, without a civil trade secrets act, has granted protection to sales information that is in "continuous use" in the business, such as discount codes, rebates, price lists, or catalogues, and methods of bookkeeping or office management.<sup>338</sup> A potentially contradictory New York case has held that pricing information cannot constitute a trade secret if it is "disseminated openly to the public through widely distributed catalogues" and that unpublished pricing information is not a secret if it "would be outdated and of

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Nov. 2, 1990); see also *Delmarva Drilling Co. v. American Well Sys., Inc.*, No. 8521, 1988 WL 7396, at \*7 (Del. Ch. Jan. 26, 1988) (protecting customer lists); *Wilmington Trust Co. v. Consistent Asset Management Co.*, No. 8867, 1987 WL 8459, at \*4 (Del. Ch. Mar. 25, 1987) (protecting the same).

333. See *Chem-Trend, Inc. v. McCarthy*, 780 F. Supp. 458, 462 (E.D. Mich. 1991) (noting, however, that injunctions will not bar defendants from contacting customers who are already their own, for in such cases the "plaintiff is trying to slam the door of the barn after the horses are long gone").

334. See *Empiregas, Inc. v. Bain*, 599 So. 2d 971, 976 (Miss. 1992).

335. See *Mettler-Toledo, Inc. v. Acker*, 908 F. Supp. 240, 247 (M.D. Pa. 1995) (citing *Bell Fuel Corp. v. Cattolico*, 544 A.2d 450, 461 (Pa. Super. 1988)).

336. See *Overholt Crop Ins. Serv. Co. v. Travis*, 941 F.2d 1361, 1369 (8th Cir. 1991); see also *1st Am. Sys., Inc. v. Rezzatto*, 311 N.W.2d 51, 58-59 (S.D. 1981) (finding trade secrets in customer information other than simple listings). When discussing an insurance agency's customer list, the court in *1st Am. Sys., Inc.* said that "the expiration and renewal dates, personal customer data and customer names and addresses within [the] . . . files . . . in light of the contract's express creation of confidentiality comprise a trade secret even though separately each item may not rise to that level." *1st Am. Sys., Inc.*, 311 N.W.2d at 58-59.

337. See *supra* notes 254-58, 259-67, 283-91 and accompanying text (discussing those cases).

338. See, e.g., *Boost v. Faunce*, 80 A.2d 246, 249 (N.J. Super. Ct. Ch. Div. 1951), *aff'd*, 17 N.J. Super. 458, 86 A.2d 283 (N.J. Sup. Ct. App. Div. 1952).

little value over a year later."<sup>339</sup> Bid pricing information, as well as unit price information voluntarily provided by a government contractor and included in its bid, has been accorded trade secret status in Virginia.<sup>340</sup> Moreover, Pennsylvania, still without a civil trade secrets act, has held that a price list is not protected as a trade secret where its contents can be discovered through legitimate means, such as by contacting suppliers directly.<sup>341</sup>

The protection of business documents and information extending beyond customer lists and sales information, such as the travel bank idea in *McCoy*,<sup>342</sup> has been disputed in other state courts as well. For instance, a form of sales contract prepared by an attorney at a cost of \$2000 for use in sales of master tapes from artists and recording studios was held in Arizona not to be novel enough to merit trade secret protection.<sup>343</sup> Similarly, a Georgia newspaper publisher's intended name for a new newspaper, the "Carrollton Connection," was not a trade secret for lack of originality and worthiness of protection.<sup>344</sup> Perhaps using a conflicting rationale, an Indiana court held that, although the initial identification of oil reserve locations was not a new invention, product, or technology, it represents a unique discovery of a valuable natural resource and should be afforded trade secret protection.<sup>345</sup> A host of articles of information were protected as trade secrets in a New York case, including the plaintiff's "financial outlook, marketing strategies, future plans for the genetic evaluation of cattle and new methods of technician training and development."<sup>346</sup>

Alabama has found a trade secret even where documents containing proposals to customers, customer complaints, and price

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339. *Ivy Mar Co., Inc. v. C.R. Seasons Ltd.*, 907 F. Supp. 547, 558 (E.D.N.Y. 1995) (deciding without the benefit of a civil trade secrets act).

340. See *Environmental Tech., Inc. v. Environmental Protection Agency*, 822 F. Supp. 1226, 1229 (E.D. Va. 1993) (basing its ruling on the Freedom of Information Act); *Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387, 1390-91 (4th Cir. 1971) (predating the state trade secrets act). But see *Acumenics Research & Tech. v. Dep't of Justice*, 843 F.2d 800, 808 (4th Cir. 1988) (holding that unit price information was subject to disclosure).

341. See *Tyson Metal Prods., Inc. v. McCann*, 546 A.2d 119, 122 (Pa. Super. 1988).

342. See *supra* notes 1-12, 268-70 and accompanying text (discussing that case).

343. See *Master Records, Inc. v. Backman*, 652 P.2d 1017, 1022 (Ariz. 1982) (en banc) (predating the enactment of the state's trade secrets act).

344. See *Leo Publications, Inc. v. Reid*, 458 S.E.2d 651, 652 (Ga. 1995) (following *Multiple Reality, Inc. v. Multiple Listing Serv., Inc.*, 139 S.E.2d 326, 328 (Ga. 1964), which stated that a geographical, descriptive name is readily available to the public and belongs to the public as a whole).

345. See *Amoco Prod. Co. v. Laird*, 622 N.E.2d 912, 921 (Ind. 1993).

346. *Eastern Artificial Insemination Coop. v. La Bare*, 619 N.Y.S.2d 858, 860 (N.Y. App. Div. 1994).

lists have been discarded in a garbage receptacle rather than shredded.<sup>347</sup> Moreover, California courts have even found that a company's unsuccessful marketing strategies may be "negative research," valuable as having tested what not to pursue, and thus entitled to protection.<sup>348</sup> The Supreme Court of Iowa found that sales and real estate lease information could be a trade secret if it had economic value,<sup>349</sup> yet in Louisiana, a court found that a company's profit and loss statements did not satisfy the state act's definition of a trade secret.<sup>350</sup> A Maine court held that a newly established company's plan to purchase a piece of used equipment for less than ten percent of the cost of a new machine and to enter the metal vacuum coating business was not a trade secret because it was not reasonably kept secret.<sup>351</sup> In Ohio, general business information<sup>352</sup> and broad marketing concepts<sup>353</sup> are not protected as trade secrets, but systems of manufacturing<sup>354</sup> and sources of supply<sup>355</sup> may be. Finally, Wisconsin courts have held that information continuously used in the operation of a business is a trade secret,<sup>356</sup> yet the information must be developed as an end in itself and not as a mere by-product of the daily activities.<sup>357</sup>

#### D. Relief

The fourth category of case law analyzed in Part III of this Comment is how relief is granted or refused under the trade secrets act in North Carolina and in other jurisdictions.<sup>358</sup> Because monetary recovery—either in lost profits, attorneys' fees, or in compensatory,

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347. See *Soap Co. v. Ecolab, Inc.*, 646 So. 2d 1366, 1372 (Ala. 1994) (Houston, J., concurring specially in part and dissenting in part) (stating in the dissent that the plaintiff had failed to maintain the documents' secrecy).

348. *Courtesy Temp. Serv., Inc. v. Camacho*, 222 Cal. App. 3d 1278, 1287-88 (Cal. Ct. App. 1990); accord *Morton v. Rank Am., Inc.*, 812 F. Supp. 1062, 1073 (C.D. Cal. 1993).

349. See *U.S. West Communications, Inc. v. Office of Consumer Advocate*, 498 N.W.2d 711, 714-15 (Iowa 1993) (holding that the economic value was not proved).

350. See *Autocount, Inc. v. Automated Prescription Systems, Inc.*, 651 So. 2d 308, 312 (La. Ct. App. 1995).

351. See *Northeast Coating Techs., Inc. v. Vacuum Metallurgical Co., Ltd.*, 684 A.2d 1322, 1324 (Me. 1996).

352. See *HCCT, Inc. v. Walters*, 651 N.E.2d 25, 27 (Ohio Ct. App. 1994) (discussing information about a hair styling salon).

353. See *Richter v. Westlake*, 529 F.2d 896, 900 (6th Cir. 1976).

354. See, e.g., *CPG Prod. Corp. v. Mego Corp.*, 214 U.S.P.Q. 206, 213 (S.D. Ohio 1981).

355. See, e.g., *Seifried v. Macox*, 14 Ohio Dec. 536, 540-42 (Super. Ct. 1904).

356. See *Wisconsin Elec. Power Co. v. Public Serv. Comm'n*, 329 N.W.2d 178, 181-82 (Wis. 1983) (preceding the enactment of the state trade secrets act).

357. See *Gary van Zeeland Talent, Inc. v. Sandas*, 267 N.W.2d 242, 250 (Wis. 1978).

358. See *infra* notes 360-95 and accompanying text.

nominal or punitive damages—is typically dictated by the precise language in trade secrets acts, judicial interpretation of relief in this Comment involves injunctive relief only.<sup>359</sup> The fact patterns of five cases previously described illustrate best how relief is granted or refused in North Carolina and are addressed below only in that context.<sup>360</sup> Cases from other states largely echo the law in North Carolina, which in essence allows injunctive relief where a plaintiff can prove that a valuable, clearly identified, and narrowly defined secret is being or will be misused.<sup>361</sup> For a preliminary injunction, the plaintiff must prove further that she is likely to succeed on the merits of her case and that she would suffer irreparable harm without the injunction.<sup>362</sup>

Before its use will be enjoined, a trade secret must be clearly defined, specifically identifiable, and valuable. In *Merck*, which concerned marketing information for Pepcid (R) AC, the court declared that a threatened misappropriation of information based on a former employee's inevitable disclosure can be enjoined where the injunction is limited to protecting trade secrets that are specifically defined, clearly identified, and of significant value.<sup>363</sup> The plaintiffs had shown that the projected launch dates and marketing for the drug were competitively valuable information, not generally known, and sufficient to enjoin disclosure by the former employee to his new employer, a major pharmaceutical competitor.<sup>364</sup> Moreover, the court held that the injunction urged by the plaintiffs was sufficiently narrow where the plaintiffs produced evidence of the precise nature of at least some of the information they claimed was a trade secret and only sought to prevent the employee from working on a particular competitor's product.<sup>365</sup>

Additionally, a party moving for a preliminary injunction must prove that it is likely to succeed on the merits of the case and that

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359. See *supra* note 15. The state acts do not instruct courts on granting injunctions but may provide direction with regard to some form of monetary recovery, such as attorneys' fees. See *id.*

360. See *infra* notes 363-79 and accompanying text.

361. See *infra* notes 380-95 and accompanying text (providing the law in other states).

362. See *infra* notes 366-70 and accompanying text (providing North Carolina's law on preliminary injunctions).

363. See *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1460 (M.D.N.C. 1996). The court continued that a showing of bad faith or underhanded dealing by the former employee or new employer is not a necessary prerequisite under the doctrine. See *id.*

364. See *id.* at 1461. However, the fact that the plaintiffs did not seek a non-competition agreement from the employee "weigh[ed] heavily against entering an injunction." *Id.*

365. See *id.*

without the injunction it would suffer irreparable harm.<sup>366</sup> For instance, the plaintiff in *Consolidated Textiles* had moved under the NCTSPA for a temporary restraining order and both a preliminary and permanent injunction to prevent the defendant from further divulging trade secrets.<sup>367</sup> The trial court allowed the temporary order and later granted the preliminary injunction, finding a substantial likelihood that the defendant had or would breach an agreement not to contact certain customers.<sup>368</sup> The court issued the injunction because the defendant could maintain financial security by contacting other customers.<sup>369</sup> The two-pronged test for whether a court could exercise its sound discretion in issuing a preliminary injunction is: (1) whether the plaintiff shows a likelihood of success on the merits, and (2) whether the plaintiff would sustain an irreparable loss without an injunction, even if the loss might occur during litigation.<sup>370</sup>

Generally, where a potential misappropriator has not given signs that he will misuse secret information, he will not be enjoined from using it without a showing of underhandedness. *FMC*, which involved battery-quality lithium products, held that an employee will not be enjoined from working for the competitor under the doctrine of "inevitable discovery" unless the employee acts in an underhanded manner or is employed by a technologically inferior business where misappropriation can be inferred.<sup>371</sup> The inevitable discovery

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366. See *infra* notes 367-70 and accompanying text.

367. See *Consolidated Textiles, Inc. v. Sprague*, 117 N.C. App. 132, 134, 450 S.E.2d 348, 349 (1994).

368. See *id.*

369. See *id.*

370. See ABA SURVEY, *supra* note 51, at 686; see also *Bank Travel Bank v. McCoy*, 802 F. Supp. 1358, 1360 (E.D.N.C. 1992) (expressing that an injunction may not issue without a showing of imminent harm from the defendant's misuse, quoting from the Federal Court of Appeals for the Fourth Circuit and the United States Supreme Court), *aff'd sub nom. Amariglio-Dunn v. McCoy*, 4 F.3d 984 (4th Cir. 1993). A loss during litigation could occur where, for instance, litigants argue whether a purported trade secret is generally known to a certain industry and, through the courtroom litigation, vital information becomes public knowledge for all industry competitors to hear even though it had not been publicly known previously. See *supra* notes 172-74 and *infra* notes 374-76 (describing the plaintiff's loss during litigation in *Glaxo*).

371. *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1483 (W.D.N.C. 1995). The court stated also that the plaintiff had failed to show a likelihood of irreparable harm to justify injunctive relief, for even if the plaintiff were harmed, the NCTSPA affords a wide range of relief including royalties, actual and punitive damages, and attorneys' fees. See *id.* For this case, the court said, those calculations were not impossible. See *id.* When only two corporations share any market, the loss to one will be evident in its dip in market share and will be fairly easy to link to the proliferation of its technology, the court reasoned. See *id.*



doctrine asserts that an employee who has certain valuable knowledge will inevitably use it when working for the competitor.<sup>372</sup> The court in *FMC* rejected it primarily because the employee said he had no intention of revealing secret information about his old employer to his new one, and no evidence was offered to suggest otherwise.<sup>373</sup>

In some cases, a plaintiff may feel reluctant to litigate the loss of her trade secret for fear of further dissemination as the information becomes publicly available in the courtroom. The court in *Glaxo* discussed the policies underlying the ancillary relief of protecting trade secrets during litigation.<sup>374</sup> The court stated that discussions of particular "real" secrets obviously should be avoided in courts so as not to subvert the plaintiff's objective in bringing suit.<sup>375</sup> That statement was balanced, however, with a warning that protective steps taken in court should be narrowly tailored in order to avoid "needlessly encroach[ing] upon the strong public interest in maintaining open courts."<sup>376</sup>

Finally, North Carolina allows a party to recover under the unfair and deceptive trade practices act if an NCTSPA violation also satisfies the elements of that statute—a rule announced in *Drouillard*.<sup>377</sup> After the former employee had misled his replacement by suggesting that he make a bid for an account that was sufficiently high for him to underbid it at his new employment, the former employer advanced claims for unfair and deceptive trade practices as

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372. See *id.* at 1482.

373. See *id.* at 1483.

374. *Glaxo, Inc. v. Novopharm, Ltd.*, 931 F. Supp. 1280, 1299 (E.D.N.C. 1996), *aff'd*, 110 F.3d 1562 (Fed. Cir. 1997).

375. See *id.*; cf. *Nixon v. Warner Communications, Inc.*, 435 U.S. 589, 598 (1978) ("[C]ourts have refused to permit their files to serve . . . as sources of business information that might harm a litigant's competitive standing.").

376. *Glaxo*, 931 F. Supp. at 1299; see also *Nixon*, 435 U.S. at 597-98 (delineating the scope of public access to judicial records); *Littlejohn v. BIC Corp.*, 851 F.2d 673, 677-78 (3d Cir. 1988) (affirming the existence of a common law right to inspect judicial records); *Matter of Continental Illinois Securities Litigation*, 732 F.2d 1302, 1308-09 (7th Cir. 1984) (explaining that the public's right to monitor the courts ensures quality, honesty, and respect for the legal system).

377. See N.C. GEN. STAT. § 75-1.1 (1994); *Drouillard v. Keister Williams Newspaper Servs., Inc.*, 108 N.C. App. 169, 172, 423 S.E.2d 324, 326 (1992). The Unfair Competition Act states that unfair methods of competition in or affecting commerce are unlawful. See N.C. GEN. STAT. § 75-1.1(a) (1994). "Commerce" includes all business activities other than professional services rendered by a member of a learned profession. See § 75-1.1(b). An express exception for professions involving the dissemination of advertisements is included, see § 75-1.1(c), and any party claiming such an exemption has the burden of proof. See § 75-1.1(d).

well as misappropriation of trade secrets.<sup>378</sup> The court held that the former employer would be entitled to relief under the unfair trade practice act if a NCTSPA violation satisfied the statutory test.<sup>379</sup>

Other states are generally in accord with the law evinced by the foregoing North Carolina cases. They too require specificity, value, and narrowness of a trade secret before it will be enjoined, and then do so only if the plaintiff also has a strong case on the merits and will suffer irreparable harm without the injunction.<sup>380</sup> A few states have set out general tests paralleling the guidelines set by the court in *Merck*.<sup>381</sup> For example, Georgia's four-step test requires the plaintiff to show a substantial likelihood of success on the merits, a threat of irreparable injury, that the threatened injury is weightier than any harm to the defendant, and that an injunction will not frustrate the public interest.<sup>382</sup> Connecticut's test for the granting of a preliminary injunction requires a "sufficiently serious question on the merits" coupled with a "balance of hardships," inquiring as to which party's position is graver, tipping decidedly in the former employer's favor.<sup>383</sup> On the question of balancing hardships, a Delaware court said it should consider the effect an injunction will have on unrepresented third parties and on the public generally.<sup>384</sup>

Most commentaries from other state courts address the type of harm that may result from not issuing an injunction, which was stressed in *Consolidated Textiles*.<sup>385</sup> For example, in California, injunctive relief is proper in order to eliminate a commercial advantage that might result from the misappropriation of a trade secret but only as long as the trade secret is vital.<sup>386</sup> Colorado has

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378. See *Drouillard*, 108 N.C. App. at 170, 423 S.E.2d at 325.

379. See *id.* at 172, 423 S.E.2d at 326.

380. See *infra* notes 381-95 and accompanying text (providing other states' laws on injunctions).

381. See *supra* notes 363-65 and accompanying text (explaining *Merck*'s guidelines).

382. See *Coca-Cola Co. v. Reed Indus.*, 10 U.S.P.Q.2d 1211 (N.D. Ga. 1988). In fact, some courts will provide injunctive relief even when the plaintiff does not request or try to prove the need for it. See *Universal Stampings, Inc. v. Plexus Indus., Inc.* 439 N.W.2d 644, 644 (Wis. 1989).

383. *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909, 913 (D. Conn. 1996).

384. See *Wilmington Trust Co. v. Consistent Asset Management Co.*, No. 8867, 1987 WL 8459, at \*10 (Del. Ch. Mar. 25, 1987). Many other states include this consideration. See, e.g., *Merrill Lynch Pierce Fenner & Smith v. Bradley*, 756 F.2d 1048, 1054 (4th Cir. 1985) (applying Virginia law); *American Elec. v. Singarayay*, 530 So. 2d 1319, 1324 (Miss. 1988).

385. See *supra* notes 367-70 and accompanying text (discussing that case).

386. See *Vacco Indus., Inc. v. Van Den Berg*, 5 Cal. App. 4th 34, 53 n.21 (Cal. Ct. App. 1992) (quoting a section of the civil code that authorized an injunction); see also *ABBA Rubber Co. v. Seaquist*, 235 Cal. App. 3d 1, 22 (Cal. Ct. App. 1991) (holding that actual or

expressed that a preliminary injunction is an "extraordinary remedy" to be used "sparingly, if at all"<sup>387</sup> and that a showing of irreparable harm is perhaps the most important precondition for its issuance.<sup>388</sup> By the same token, one of Illinois's threshold requirements for an injunction is that no other remedy at law would suffice to correct the alleged misappropriation of trade secrets.<sup>389</sup>

Some state courts have addressed other issues related to requests for injunctions, ranging from the appropriate scope of the injunction to the suitable burden of proof. Whereas New York's state legislature recently clarified its relevant law,<sup>390</sup> nine states have not heard judicial comment on the law of injunctions with regard to trade secrets.<sup>391</sup> Massachusetts law provides that the scope of an injunction depends on a comparative appraisal of all the facts of a case, where reasonableness is to be determined from those facts.<sup>392</sup> Courts in New Jersey, when determining the length of an injunction, are interested in the savings in research development costs to another corporation and the time it would take to develop the same secrets without resort to the protected information.<sup>393</sup> The Louisiana Court of Appeals found that injunctive relief under that state's trade secrets act did not apply to discovery in civil actions and allowed a former employee to be used as an expert witness against his corporation.<sup>394</sup> In Nebraska, the

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threatened misappropriation of trade secrets may be enjoined).

387. *Religious Tech. Ctr. v. F.A.C.T. Net, Inc.*, 901 F. Supp. 1519, 1523 (D. Colo. 1995).

388. *See Bishop & Co. v. Cuomo*, 799 P.2d 444, 447 (Colo. App. 1990).

389. *See IDS Fin. Servs. Inc. v. Smithson*, 843 F. Supp. 415, 419-20 (N.D. Ill. 1994) (holding that a former employer had demonstrated that it was at an economic advantage by having secret information that its former employee copied before leaving and, upon losing the information, the harm would be irreparable).

390. *See Independent Health Ass'n, Inc. v. Murray*, 649 N.Y.S.2d 616, 617-18 (N.Y. App. Div. 1996). New York's civil trade secrets act is the only one not codified in a single act or chapter. *See supra* note 15.

391. The states are Alaska, Hawaii, Idaho, Maine, Montana, Nevada, New Mexico, South Carolina, and West Virginia. *See ABA SURVEY, supra* note 51, at 24-25, 247-48, 258-59, 415, 557, 585, 630, 817-18, 936.

392. *See Jillian's Billiard Club, Inc. v. Beloff Billiards, Inc.*, 619 N.E.2d 635, 638 (Mass. App. Ct. 1993). Massachusetts does not have a civil trade secrets act. *See supra* note 15.

393. *See, e.g., Raven v. A. Klein & Co., Inc.*, 478 A.2d 1208, 1211 (N.J. App. Div. 1984). Texas has granted perpetual permanent injunctions, however. *See, e.g., Molex, Inc. v. Nolen*, 759 F.2d 474, 477 (5th Cir. 1985) (applying Texas law to grant the perpetual permanent injunction); *Zoecon Indus. v. American Stockman Tag Co.*, 713 F.2d 1174, 1180 (5th Cir. 1983) (applying Texas law to issue the same); *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 280 (Tex. Ct. App. 1988) (applying Texas law to grant the perpetual permanent injunction).

394. *See Stork-Werkspoor Diesel V.V. v. Koek*, 534 So.2d 983, 985 (La. Ct. App. 1988). *But see Uniroyal Goodrich Tire Co. v. Hudson*, 873 F. Supp. 1037, 1050 (E.D. Mich. 1994), *aff'd*, No. 95-1130, 1996 U.S. App. LEXIS 25322, at \*10 (9th Cir. Sept. 12, 1996) (per curiam, applying Michigan and Ohio law) (holding that an employee of the plaintiff's

appellate court considers the factual questions surrounding injunction actions de novo, and the plaintiff must prove every element by a preponderance of the evidence.<sup>395</sup>

In the four general areas explored above—how trade secrets are defined, how misappropriation is proven, what types of items have received trade secrets protection, and how remedies are granted—North Carolina's ten cases molding law on the NCTSPA are conceptually in accord with most of the law of other states.<sup>396</sup> For example, establishing the true secrecy of information to find a trade secret or requiring irreparable harm for an injunction to issue are fairly accepted legal tenets across America. A major deviation from the UTSA's principles or a body of case law that significantly departs from the general national trends might suggest a flaw in the NCTSPA. Indeed, assuming trade secrets law is generally a sound legal construct, this Comment asserts that the NCTSPA is not flawed based on the absence of a fundamental difference in how the NCTSPA operates and the similarity between North Carolina's and other state courts' treatment of trade secrets law.<sup>397</sup> Because research identified no crucial discrepancy in North Carolina, either with regard to the language of its trade secrets act or its resulting case law, this Comment looks to other reasons that might explain its lack of visibility in published opinions. The next logical step in the examination is to study non-competition covenants in North Carolina, which achieve a result similar to trade secrets protection and are the subject of litigation in far more published opinions.<sup>398</sup>

#### IV. NON-COMPETITION COVENANTS IN NORTH CAROLINA: AN ALTERNATE LEGAL SOLUTION

The sheer abundance of published opinions on covenants not to compete in North Carolina and relative absenteeism of NCTSPA cases raises the question of whether parties choose to litigate trade

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could be permanently enjoined from testifying as an expert witness against his own corporation).

395. See *Richdale Dev. Co. v. McNeil Co.*, 508 N.W.2d 853, 855 (Neb. 1993), *modified* by 510 N.W. 312 (Neb. 1994); *Selection Research, Inc. v. Murman*, 433 N.W.2d 526, 531-33 (Neb. 1989). But see *Mead Corp. v. Lane*, 560 N.E.2d 1319, 1324 (Ohio App. 1988) (requiring clear and convincing evidence to enjoin a party in an Ohio trade secrets case).

396. See *supra* notes 121-395 and accompanying text (exploring those four areas of trade secrets law).

397. Telephone interviews with leading trade secrets attorneys in North Carolina support this conclusion. See *infra* notes 465-84 and accompanying text.

398. At least 52 published opinions since 1981 involve covenants not to compete. Search of Westlaw, North Carolina Cases Library (April 8, 1999).

secrets disputes more often as a contract breach than as a statutory violation. An answer to that question requires a discussion of the policies underlying trade secrets law to determine whether North Carolina law on covenants not to compete is sufficiently similar to provide the conceptual overlap required for alternateness.<sup>399</sup> To be sure, proving that trade secrets acts and actions on non-competition covenants can be alternative legal options provides only the foundation for an argument that trade secrets claims are litigated as contract disputes rather than violations of the Act. Additional support for the argument is available by asking practicing trade secrets attorneys their views on whether one body of law is more promising or favorable for obtaining a remedy. These views are documented in Part V.<sup>400</sup>

States adopting the UTSA have implicitly espoused the policy that was its genesis. According to the Commissioners' Comments to the UTSA, the maintenance of commercial ethics standards is one of the underlying premises behind trade secrets law.<sup>401</sup> Prior to the drafting of the UTSA, however, courts decided trade secrets cases on theories ranging from implied contract breach or unjust enrichment to property or tort law. The contract theory is that the trade secret owner has disclosed information to another in confidence, with the implied or express agreement that the beneficiary may not divulge the knowledge to anyone else or for any other market or purpose.<sup>402</sup> The property view is that the plaintiff's exclusive use of and right to exclude others from his intellectual property has been infringed. This is a credible notion given that property rights may exist in intangibles yet be inadequate because courts usually consider the relationship of the parties as an important indicator of a breach of confidence.<sup>403</sup> The

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399. See *infra* notes 419-64 and accompanying text (summarizing North Carolina law on covenants not to compete).

400. See *infra* notes 465-84 and accompanying text (presenting the attorneys' views).

401. See UNIF. TRADE SECRETS ACT, 14 U.L.A. 438 (1990); *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

402. Indeed, trade secret theory includes the property right to exclude others from wrongful possession. See HENRY H. PERRITT, JR., *TRADE SECRETS: A PRACTITIONER'S GUIDE* 1 (1994) [hereinafter PERRITT]. The United States Supreme Court has stated that confidential information acquired by a corporation in the course of business is the corporation's exclusive property to be protected by courts through injunctions or by other means. See *Carpenter v. United States*, 484 U.S. 19, 26 (1987) (citation omitted); PERRITT, *supra*, at 5-6. The limitation on the contract theory is that only the parties to the agreement are bound, and gaps in privity will defeat a claim. See *id.* at 6-7. For instance, in a non-contractual setting where negotiations fall through but during which confidence has been exchanged, the contract view of trade secrets law will not provide a remedy that justice requires.

403. See PERRITT, *supra* note 402, at 7-9. Professor Milgrim argues that the concept of

tort theory is that a breach of confidence under trade secrets law should be interpreted as an embryo tort, analogous to conversion or trespass, so that liability lies in common law damages as of right with the additional possibility of equitable relief.<sup>404</sup> Another more obscure interpretation is the confidential relationship view, which emphasizes only the secrecy without regard to the content of the secret matter.<sup>405</sup>

Regardless of the proper conceptual framework for classifying trade secrets law, the Restatement of Torts undoubtedly was the leading reference on trade secrets law nationwide prior to the UTSA.<sup>406</sup> Unfortunately, it did not address all of the issues that arose in trade secrets cases, such as the proper statute of limitations.<sup>407</sup> Recognizing these inadequacies, as well as the conceptual problems mentioned above, the Restatement (Second) of Torts omitted the

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a trade secret begins with a property view; he draws analogies between the loss of a trade secret when it is divulged and the loss of a tract of land through adverse possession. See 2 ROGER MILGRIM, *MILGRIM ON TRADE SECRETS* § 2.01[2], at 2-10 (1999). Recent cases support Professor Milgrim's argument. See, e.g., *Imed Corp. v. Systems Eng'g Assocs.*, 602 So. 2d 344, 346 (Ala. 1992) (explaining that trade secrets involve individual property rights); *Bridgestone/Firestone, Inc. v. Superior Court*, 9 Cal. Rptr. 2d 709, 711-12 (Cal. Ct. App. 1992) (characterizing a trade secret as property to determine whether it was privileged); *American Tobacco Co. v. Evans*, 508 So. 2d 1057, 1057 (Miss. 1987) (finding a security interest in the property right of a trade secret, and deciding that information was discoverable even though the trade secret was involved in a wrongful death case against a tobacco company).

404. See JAMES POOLEY, *TRADE SECRETS* § 1.01[2] (1998) [hereinafter POOLEY]; Richard H. Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 GEO. WASH. L. REV. 927, 937-38 (1974); see also *Union Carbide Corp. v. Tarancon Corp.*, 742 F. Supp. 1565, 1580 n.6 (N.D. Ga. 1990) (intimating the tort characterization because a special relationship between the parties created liability rather than willfulness, akin to vicarious liability in tort or liability to those injured on the premises of another, where the relationship is key). However, the *Union Carbide* case also represents a property view in that it eliminates an actual fault requirement. See PERRITT, *supra* note 402, at 8 n.15. See generally GALE R. PETERSON, *TRADE SECRET PROTECTION IN AN INFORMATION AGE* 4-3 to 4-31 (1997) [hereinafter PETERSON] (delineating the nature of the trade secrets right as either a property right or a tortious breach of faith).

405. See PERRITT, *supra* note 402, at 7; *Den-Tal-Ez Inc. v. Siemens Capital Corp.*, 566 A.2d 1214, 1228 (Pa. Super Ct. 1989) (stating that Pennsylvania law under *Van Prods. Co. v. General Welding & Fabricating Co.*, 213 A.2d 769, 780 (Pa. 1965), rejects Justice Holmes's confidential relations view). Holmes's view is illustrated by *E.I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917), in which he stated that the starting point for a trade secrets case is an assessment of a confidential relationship between the parties and not the property at issue or concerns about the due process of law. See *E.I. DuPont*, 244 U.S. at 102.

406. See POOLEY, *supra* note 404, § 2.02 [1].

407. See RESTATEMENT (FIRST) OF TORTS §§ 757-59 (1939); Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 306-09 (1980) (discussing the statute of limitations).

entire field of trade secrets law.<sup>408</sup> Its drafters considered trade secrets law an independent body of law, and this further supported a need to unify the law under a common rule.<sup>409</sup> Consistent among trade secrets cases was the idea that an entrepreneur's interest in her private, valuable knowledge deserves protection, a notion that is the oldest strain of intellectual property protection.<sup>410</sup> State judges created the law on trade secrets, which served those whose ideas were not patented,<sup>411</sup> whereby liability was premised on misconduct rather than ownership of the secret and arose when an individual misappropriated information.<sup>412</sup> With this background, the UTSA was drafted.<sup>413</sup>

Two main limitations to the law of trade secrets exist under both the UTSA and common law. First, the protection disappears when the protected knowledge is released unless the disclosure is restricted contractually.<sup>414</sup> Second, under the UTSA, only malfeasants are forbidden from having the trade secret.<sup>415</sup> In North Carolina, the

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408. See RESTATEMENT (SECOND) OF TORTS 1 (1965).

409. See *id.*; Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 380-81 (1971). Trade secrets law is indeed a class of tort law, however. See PERRITT, *supra* note 402, at 1. The Restatement (Third) of Unfair Competition, published by the American Law Institute in 1995, proposes that a trade secret is property, but that misappropriation triggers court intervention. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 (1995). The legal root of trade secrets protection is probably less important than its broad implications, which fill the gaps between the narrower fields such as patent law and center on the "prevailing public policy in fair dealing in business relationships." ARTHUR H. SEIDEL & DAVID R. CRICHTON, WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT TRADE SECRETS AND EMPLOYMENT AGREEMENTS 12-13 (3d ed. 1995) [hereinafter SEIDEL & CRICHTON]; see also PETERSON, *supra* note 404, at 2-16 (stating that the definitions and comments in the Restatement (Third) of Unfair Competition probably will not have much effect on the law in states that have adopted the UTSA).

410. See 2 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES §§ 14.01-.05 (Altman rev. ed. 1982); PERRITT, *supra* note 402, at 1. The drawback is that innovations can be "locked up," undermining competition and technological advancement, a side effect that the patent system averts. See PERRITT, *supra* note 402, at 1.

411. The first cases in the United States were *Kendall v. Winsor*, 62 U.S. 322 (1859), and *Peabody v. Norfolk*, 98 Mass. 452 (1868), cited in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 492 n.23 (1974). Like patents, however, trade secrets law protects the idea conjuring the physical invention rather than the invention itself. See PERRITT, *supra* note 402, at 1.

412. See RESTATEMENT (FIRST) OF TORTS § 757 comment a; 2 CALLMANN, *supra* note 410, at § 14.01. However, the legal interest attaches automatically, with a broad scope, except that it allows independent innocent discovery of the same knowledge. See PERRITT, *supra* note 402, at 1.

413. See Root & Blynn, *supra* note 13, at 828-29.

414. See PERRITT, *supra* note 402, at 1.

415. See *id.*

second restriction has been lifted, for the NCTSPA does not require wrongful conduct on the part of the individual who takes the trade secret in order to establish liability.<sup>416</sup> Nevertheless, those two limitations apply to almost every other trade secrets case in America.

Trade secrets law also necessarily requires courts to make at least two policy decisions. First, a court must draw a line to differentiate between the fruits of an employment experience that an employee may transfer to the next job and the information an employee learns at work that remains the intellectual property of the employer because it was disclosed to the employee in confidence.<sup>417</sup> Another policy choice centers on the degree to which a trade secret holder should escape liability on the ground that he contributed something new to the innovative knowledge.<sup>418</sup>

Despite the availability of the NCTSPA, research on trade secrets in North Carolina reveals that the vast majority of cases may be couched as contract actions, because often the absence of a covenant not to compete will be mentioned in a trade secrets case.<sup>419</sup> For protection, businesses often request that some of their employees sign contracts in which they promise not to divulge private, valuable information—either expressly specified or generally assumed—both during and subsequent to the employment relationship.<sup>420</sup> Covenants not to compete in North Carolina are governed by a state statute providing that they must be in writing and signed by the person who agrees not to compete.<sup>421</sup> They will be enforced when they are “reasonably necessary to protect the covenantee’s business

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416. See *supra* notes 38-50 and accompanying text (explaining the difference between the NCTSPA and UTSA regarding improper conduct). Apparently, this distinction led a limited number of observers to exclude North Carolina from their lists of states adopting the UTSA. See, e.g., PETERSON, *supra* note 404, at 2-9 to 2-10 n.10 (1997); SEIDEL & CRICHTON, *supra* note 409, at 181. But see ABA SURVEY, *supra* note 51, at 677 (stating that North Carolina “adopted its version of the Uniform Trade Secrets Act”).

417. See PERRITT, *supra* note 402, at 16.

418. See *id.*

419. See, e.g., *Merck & Co. v. Lyon*, 941 F. Supp. 1443, 1461 (M.D.N.C. 1996); *FMC Corp. v. Cyprus Foote Mineral Co.*, 899 F. Supp. 1477, 1482 (W.D.N.C. 1995). For older commentary on covenant-not-to-compete law in North Carolina, see John Reid Parker, Jr., *Injunctive Russian Roulette and Employment Noncompetition Cases*: AEP Indus., Inc. v. McClure, 63 N.C. L. REV. 222, 222-40 (1984); W. Thomas Roy, *Covenants Not to Compete*, 38 N.C. L. REV. 395, 395-403 (1959-60).

420. For a summary of American law on covenants not to compete, including particular differences in Alabama, California, Illinois, Louisiana, New York, and Texas, see JERRY COHEN & ALAN S. GUTTERMAN, *TRADE SECRETS PROTECTION AND EXPLOITATION* 165-85 (1998).

421. See N.C. GEN. STAT. § 75-4 (1994).



interest."<sup>422</sup> The two distinct, legitimate circumstances where restrictive covenants<sup>423</sup> may be enforced in an employment relationship are when the employee will have personal contact with the employer's customers or when the employee must acquire valuable knowledge about the nature and character of the business.<sup>424</sup> Indeed, one of the principal purposes of a non-competition contract is to protect the relationship between an employer and its customers,<sup>425</sup> although the interests requiring such protection need not be trade secrets.<sup>426</sup>

To be enforceable, courts have said a covenant not to compete in North Carolina must be written,<sup>427</sup> "reasonable as to time and territory,"<sup>428</sup> incorporated in the employment contract, supported by valuable consideration,<sup>429</sup> and "designed to protect a legitimate business interest of the employer."<sup>430</sup> Some courts also include the requirement that the covenant not contravene public policy.<sup>431</sup>

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422. *Beasley v. Banks*, 90 N.C. App. 458, 460, 368 S.E.2d 885, 886 (1988) (citation omitted).

423. The term "restrictive covenant" denotes a "covenant not to compete" or a "non-competition covenant" for purposes of this Comment.

424. See *United Labs., Inc. v. Kuykendall*, 322 N.C. 643, 650-51, 370 S.E.2d 375, 380 (1988) (citing *A.E.P. Indus. v. McClure*, 308 N.C. 393, 408, 302 S.E.2d 754, 763 (1983); *Asheville Assocs. v. Berman*, 255 N.C. 400, 403, 123 S.E.2d 593, 595 (1981)).

425. See *Hartman v. W.H. Odell & Assocs., Inc.*, 117 N.C. App. 307, 311-12, 450 S.E.2d 912, 917 (1994).

426. See *Young v. Mastrom, Inc.*, 99 N.C. App. 120, 124-25, 392 S.E.2d 446, 449 (1990). The *Young* court explained that "customers developed by an employee" belong to the employer and merit protection through a covenant not to compete. *Id.* (citing *Whittaker Gen. Medical Corp. v. Daniel*, 324 N.C. 523, 379 S.E.2d 824 (1989)); *United Labs*, 322 N.C. at 652, 370 S.E.2d at 382.

427. See *Young*, 99 N.C. App. at 122-23, 392 S.E.2d at 448 (1990) (citing *A.E.P. Indus. v. McClure*, 308 N.C. 393, 403-04, 302 S.E.2d 754, 760-61 (1983)); *Hartman v. W.H. Odell & Assocs., Inc.*, 117 N.C. App. 307, 311, 450 S.E.2d 912, 916 (1994).

428. *Young*, 99 N.C. App. at 122-23, 392 S.E.2d at 448 (1990).

429. See *id.*

430. *Id.*

431. See *Nalle Clinic Co. v. Parker*, 101 N.C. App. 341, 344, 399 S.E.2d 363, 366 (1991) (holding covenant unenforceable as against public policy); *Triangle Leasing Co. v. McMahon*, 96 N.C. App. 140, 147, 385 S.E.2d 360, 365-66 (1989) (holding that enforcement of a covenant barring competition in vehicle leasing and rental throughout the entire state was against public policy); *Whittaker Gen. Medical Corp. v. Daniel*, 324 N.C. 523, 528, 379 S.E.2d 824, 828 (1989) (noting that the unreasonable portion of the contract may be removed if it is separable); *Forrest Paschal Mach. Co. v. Milholen*, 27 N.C. App. 678, 685, 220 S.E.2d 190 (1975) (including the policy consideration as a requirement for a valid covenant); *Wilmar, Inc. v. Corsillo*, 24 N.C. App. 271, 275, 210 S.E.2d 427, 433 (1974) (stating that a salesman's employment contract prohibiting competition within the territory he had sold employer's goods for one year after leaving was not injurious to the public); *Orkin Exterminating Co. v. Griffin*, 258 N.C. 179, 181, 128 S.E.2d 139, 141 (1962) (same); *Kadis v. Britt*, 224 N.C. 154, 159, 29 S.E.2d 543, 546 (1944) (declaring that covenant was unenforceable because it contravened public policy).

Regarding the public policy condition, the courts have said that when a contract is defective and attempts to stifle normal competition, the public's interest in preserving one's "ability to earn a living" exceeds the interest in protecting employers from competition.<sup>432</sup> If the covenant is truly part of the overall agreement, it must be agreed upon at the same time and as part of the contract of employment,<sup>433</sup> and if the covenant comes later, a new exchange of consideration is required for it to be valid.<sup>434</sup>

In North Carolina, the signing of a covenant not to compete at the time of hiring provides sufficient consideration to support the contract.<sup>435</sup> In fact, even if the covenant is part of an original verbal employment contract, it will be considered to have valuable consideration.<sup>436</sup> As long as the covenant is agreed upon at that time, it may be executed in writing after the employee begins work; otherwise, additional consideration is required.<sup>437</sup> A change in the terms and conditions of employment, such as a raise in salary or a new job assignment, will provide adequate consideration to support a covenant not to compete that is formed after the employment has

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432. *Electrical S. v. Lewis*, 96 N.C. App. 160, 165, 385 S.E.2d 352, 355 (1989) (quoting *Kadis*, 224 N.C. at 159, 29 S.E.2d at 546). For the medical profession, the following factors are considered: the shortage of specialists in the field in the restricted area; the plaintiff's impact in establishing a monopoly of a particular practice in the area, including the impact of fees in the future and the constant availability of an emergency doctor; and the public interest in having a choice in selecting a physician. See *Statesville Medical Group P.A. v. Dickey*, 106 N.C. App., 669, 673-74, 418 S.E.2d 256, 259 (1992) (citing *Iredell Digestive Disease Clinic v. Petrozza*, 92 N.C. App. 21, 30-31, 373 S.E.2d 449, 454-55 (1985), *aff'd*, 324 N.C. 327, 377 S.E.2d 750 (1989)). Additionally, courts have considered whether a restraint would interfere with a patient's ability to obtain multiple opinions. See *id.*

433. See *Statesville Medical*, 106 N.C. App. at 672, 418 S.E.2d at 258 (quoting *Iredell Digestive Disease Clinic*, 92 N.C. App. at 26, 373 S.E.2d at 452).

434. See *Milner Airco, Inc. v. Morris*, 111 N.C. App. 866, 869, 433 S.E.2d 811, 813-14 (1993).

435. See *id.* (involving covenants created subsequent to hiring); *Safety Equip. Sales & Serv. v. Williams*, 22 N.C. App. 410, 413, 206 S.E.2d 745, 748 (1974) (same).

436. See *Young v. Mastrom, Inc.* 99 N.C. App. 120, 123, 392 S.E.2d 446, 448 (1990) (deciding that three covenants were not part of the employee's original verbal contracts); see also *Stevenson v. Parsons*, 96 N.C. App. 93, 97, 384 S.E.2d 291, 293 (1989) (holding that the terms of an oral covenant "must have been agreed upon at the time of employment" in order for later execution to be enforceable without some consideration other than employment); *Robbins & Weil v. Mason*, 70 N.C. App. 537, 542, 320 S.E.2d 693, 694 (1984) (finding that a non-competition covenant formed at the time of hiring and as part of the employment contract was supported by valuable consideration, even where the covenant was not executed in writing until later).

437. See *Young*, 99 N.C. at 123, 392 S.E.2d at 448 (citing *Stevenson*, 96 N.C. App. at 97, 384 S.E.2d at 293); see also *Seaboard Indus. v. Blair*, 10 N.C. App. 323, 333, 178 S.E.2d 781, 787 (1971) (holding that the covenant was part of the original contract of employment, even though the signing of a written agreement was delayed in order for the employee to participate in a more favorable stock option plan).

begun.<sup>438</sup> Modifying an employee's method of compensation from straight salary to base-plus-incentive will suffice, but the change must be linked to the employee's signing the covenant.<sup>439</sup> The changes must not be illusory<sup>440</sup> or conditioned on an improved economy,<sup>441</sup> but they need not be stated in writing.<sup>442</sup>

A North Carolina court will consider various factors in determining whether the temporal and geographic restrictions in a covenant are reasonable, and the interrelatedness of those restrictions allows a court to offset one against the other to determine reasonableness.<sup>443</sup> The restrictions must be no broader in scope than necessary to protect the employer's business from losing customers,

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438. See *Worth Chem. Corp. v. Freeman*, 261 N.C. 780, 781, 136 S.E.2d 118, 119 (1964) (per curiam) (cited in *Whittaker Gen. Med. Corp. v. Daniel*, 324 N.C. 523, 527, 379 S.E.2d 824, 827 (1989) (finding that an employee's promotion, salary increase, and automobile allowance, all given at the time she signed the covenant not to compete, were sufficient consideration)); cf. *Young*, 99 N.C. App. at 123, 392 S.E.2d at 448 (holding that covenants that had been discussed vaguely, if at all, during interviews, were unsupported by consideration where the employees received no salary increase or other benefit for signing them four days after being hired); *Collier Cobb & Assocs. v. Leak*, 61 N.C. App. 249, 253, 300 S.E.2d 583, 585 (1983) (stating that no consideration supported covenants that were signed by employees who had worked twenty-two years and three months, respectively, before being asked to sign them and who did not receive increased pay or a change in duties); *Mastrom, Inc. v. Warren*, 18 N.C. App. 199, 202, 196 S.E.2d 528, 530 (1973) (finding that a promise to pay additional compensation in the future was illusory and did not comprise consideration for a non-competition covenant that was signed after the employee had begun work and had not changed job responsibilities).

Continued employment will not provide sufficient consideration. See *Forrest Paschal Mach. Co. v. Milholen*, 27 N.C. App. 678, 687, 220 S.E.2d 190, 196 (1975) (citation omitted); *Young*, 99 N.C. App. at 123, 392 S.E.2d at 448 (citing *Greene Co. v. Kelley*, 261 N.C. 166, 168, 134 S.E.2d 166, 167 (1964)).

439. See *Young*, 99 N.C. App. at 124, 392 S.E.2d at 448.

440. See *id.* (finding that the employer's promise involving unspecific changes in the method of compensation, expense reimbursements, and vacation and sick leave, all to be in the discretion of the Board of Directors, were illusory). The *Young* court also stated that changing a provision from stating that 30 days' notice "shall be given" by the employee before leaving to "may be given" did not afford the employee one month of extra pay, especially where the employer did not pay it. *Id.* at 124. Moreover, the court rejected an employer's claim that consideration for a covenant not to compete was supplied by the alteration of the type of employment from at-will to term, since the paragraph stating that either party "may" terminate the contract on 30 days' notice was essentially a severable notice provision giving consideration only to that paragraph. See *id.*

441. See *Milner v. Airco, Inc.*, 111 N.C. App. 866, 870, 433 S.E.2d 811, 813, 814 (1993).

442. See *Brooks Distrib. Co. v. Pugh*, 324 N.C. 326, 326, 378 S.E.2d 31, 31 (1989) (per curiam) (affirming the court of appeals dissent, *Brooks Distrib. Co. v. Pugh*, 91 N.C. App. 715, 722, 373 S.E.2d 300, 305 (1988) (Cozort, J., dissenting in part), that accepted consideration not in writing).

443. See *Jewel Box Stores v. Morrow*, 272 N.C. 659, 665, 158 S.E.2d 840, 844 (1968) (citation omitted) (quoted in *Triangle Leasing v. McMahon*, 96 N.C. App. 140, 149, 385 S.E.2d 360, 365 (1989), *aff'd in part, rev'd in part*, 327 N.C. 224, 393 S.E.2d 854 (1990)).

which is measured by considering the type of position the employee had and the skills or knowledge he or she obtained under employment.<sup>444</sup> The party seeking enforcement of the covenant not to compete has the burden to prove that its terms are reasonable.<sup>445</sup>

Regarding a time restriction, one North Carolina court has stated that a five-year period running from the date of termination could be justified only by extreme conditions and that a covenant that could last for more than five years was "patently unreasonable."<sup>446</sup> Several promises not to compete for two years or fewer have been held to be reasonable.<sup>447</sup> As for geography, the North Carolina Court of Appeals in 1994 stated that for a limitation to be reasonable an employer must show where its customers are located and that the boundary in the covenant is necessary to maintain those customer relationships.<sup>448</sup> If the territory encompassed is broader than necessary to secure the protection of the business or goodwill, then the entire covenant fails because equity refuses to enforce or reform an overreaching covenant.<sup>449</sup> The six factors to consider are: (1) the

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444. See *Manpower v. Hedgecock*, 42 N.C. App. 515, 521-22, 257 S.E.2d 109, 114-15 (1979) (citation omitted).

445. See *Hartman v. W.H. Odell & Assocs., Inc.*, 117 N.C. App. 307, 311, 450 S.E.2d 912, 916 (1994) (holding that the former employer failed to satisfy its burden); *Hartwell Enter., Inc. v. Heim*, 6 N.C. App. 548, 552, 170 S.E.2d 540, 543 (1969), *aff'd in part, rev'd in part*, 376 N.C. 475, 173 S.E.2d 316 (1970).

446. *Hartman*, 117 N.C. App. at 317, 450 S.E.2d at 918-19. But see *Welcome Wagon Int'l v. Pender*, 255 N.C. 244, 250, 120 S.E.2d 739, 743 (1961) (allowing a five-year covenant in the city where the employee had worked and stating that restrictive covenants have been approved for periods ranging from one to twenty years).

447. See, e.g., *United Labs., Inc. v. Kuykendall*, 322 N.C. 643, 656, 370 S.E.2d 375, 388 (1988), *rev'g on this issue*, 87 N.C. App. 296, 361 S.E.2d 292 (1987) (lasting one and a half years); *Keith v. Day*, 81 N.C. App. 185, 194, 343 S.E.2d 562, 567 (1986) (lasting two years); *Amdar, Inc. v. Satterwhite*, 37 N.C. App. 410, 416, 246 S.E.2d 165, 167 (1978) (lasting one year); *Forrest Paschal Mach. v. Milholen*, 27 N.C. App. 678, 682, 220 S.E.2d 190, 197 (1975) (lasting two years); *Safety Equip. Sales & Serv. v. Williams*, 22 N.C. App. 410, 414, 206 S.E.2d 745, 748 (1974) (lasting two years).

448. See *Hartman*, 117 N.C. App. At 316, 450 S.E.2d at 917 (quoting *Manpower*, 42 N.C. App. at 523, 257 S.E.2d at 115 (1979)).

449. See *Hartman*, 450 S.E.2d at 917 (quoting *A.E.P. Indus., Inc. v. McClure*, 308 N.C. 393, 408, 302 S.E.2d 754, 763 (1983), and *Beasley v. Banks*, 90 N.C. App. 458, 460, 368 S.E.2d 885, 886 (1988)). The court in *Whittaker Gen. Medical Corp. v. Daniel* expanded on this idea:

If a contract by an employee in restraint of competition is too broad to be a reasonable protection to the employer's business it will not be enforced. The courts will not rewrite a contract if it is too broad but will simply not enforce it. *If the contract is separable, however, and one part is reasonable the courts will enforce the reasonable provision.*

*Whittaker*, 324 N.C. at 528, 379 S.E.2d at 828 (emphasis added) (citation omitted) (holding that the covenant provision which employer sought to enforce was separable from the allegedly over-broad provision which the employer did not attempt to enforce, and was

area or scope of the restriction; (2) the area assigned to the employee; (3) the area where the employee actually worked or was subject to work; (4) the area in which the employer operated; (5) the nature of the business involved; and (6) the nature of the employee's duty and his knowledge of the employer's business operation.<sup>450</sup> If the key issue in litigation is the employee's knowledge of the customers, the territory should be carved to the areas in which the employee made actual customer contacts.<sup>451</sup> In fact, a court will allow a customer restriction to substitute for or complement a geographic restriction.<sup>452</sup>

In order to obtain a preliminary injunction to enforce a restrictive covenant, a plaintiff must show: (1) the likelihood of success on the merits of the case; and (2) the likelihood of suffering irreparable loss unless the injunction is issued.<sup>453</sup> The employer establishes a likelihood of success by making a *prima facie* showing of the prerequisites to the enforceability of the covenant, namely the

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reasonable and enforceable); *see also* *Electrical S. v. Lewis*, 96 N.C. App. 160, 165, 385 S.E.2d 352, 356 (1989) (declining to determine whether covenant had a grammatically divisible portion that could be enforceable); *Schultz & Assocs. of the S.E. v. Ingram*, 38 N.C. App. 422, 429, 248 S.E.2d 345, 351 (1978) (finding divisible "areas of activity"). *Compare* *Welcome Wagon Int'l v. Pender*, 255 N.C. 244, 257, 120 S.E.2d 739, 748-49 (1961) (holding that a provision for a citywide restriction was reasonable, but that a grammatically severable provision restricting competition in any American city or town where the employer intends to do business was not, and enforcing only the former), *with* *Triangle Leasing Co. v. McMahon*, 96 N.C. App. 140, 147, 385 S.E.2d 360, 364 (1989) (noting that the failure of the parties to make divisions of territory precluded a court of equity from enforcing only the reasonable territorial restrictions).

450. *See Hartman*, 117 N.C. App. at 316-17, 450 S.E.2d at 917.

451. *See id.* (quoting *Manpower*, 42 N.C. App. at 521, 257 S.E.2d at 114).

452. *See Whittaker*, 324 N.C. at 526, 379 S.E.2d at 826 (1989) ("[C]ustomers developed by a salesperson are the property of the employer and may be protected by a contract under which the salesperson is forbidden from soliciting those customers for a reasonable time after leaving his or her employment.").

453. *See A.E.P. Indus. v. McClure*, 308 N.C. 393, 401, 302 S.E.2d 754, 759-60 (1983) (quoting *Investors, Inc. v. Berry*, 293 N.C. 688, 701, 239 S.E.2d 566, 574 (1977)); *Nalle Clinic Co. v. Parker*, 101 N.C. App. 341, 343-44, 399 S.E.2d 363, 365 (1991); *Iredell Digestive Disease Clinic, P.A. v. Petrozza*, 92 N.C. App. 21, 24-25, 373 S.E.2d 449, 450-51 (1988), *aff'd*, 324 N.C. 327, 377 S.E.2d 750 (1988). Only after the movant establishes its likelihood of success may the court consider the plaintiff's position if an injunction were denied. *See Triangle Leasing*, 96 N.C. App. at 146, 385 S.E.2d 360 at 363 (citing *Robins & Weil v. Mason*, 70 N.C. App. 537, 540-41, 320 S.E.2d 693, 696 (1984)).

In order to establish a reasonable apprehension of irreparable injury, the plaintiff must show a high likelihood of disclosure, a finding for which the court may consider "the circumstances surrounding the termination of employment," the importance of the former employee's job, the type of work performed, "the kind of information sought to be protected," and the competitor's need for the information. *See Masterclean of N.C. v. Guy*, 82 N.C. App. 45, 51, 345 S.E.2d 692, 696 (1986) (citation omitted). The trial court must make specific findings of fact with respect to the harm that the former employer seeks to avoid, and the record on appeal must reveal evidence to support that conclusion. *See Nalle Clinic*, 101 N.C. App. at 345, 399 S.E.2d at 366.

reasonableness of its temporal and territorial conditions.<sup>454</sup> Or, the court may issue an injunction if it deems its issuance necessary to protect the plaintiff's rights during litigation.<sup>455</sup> Furthermore, the inclusion of a liquidated damages clause does not preclude injunctive relief.<sup>456</sup> The standard of review on appeal of a trial judge's decision following a preliminary injunction hearing or on the enforcement of a covenant not to compete is one of error, or de novo.<sup>457</sup> A former employer can obtain an injunction even if she dismissed the employee,<sup>458</sup> but a preliminary injunction is appealable if it deprives the defendant of a substantial right that she would lose absent a review prior to a final adjudication on the merits of the case.<sup>459</sup>

A review of the rules and principles of the law of covenants not to compete in North Carolina reveals that its purpose is closely aligned with the policy objectives underlying trade secrets law.<sup>460</sup> Both legal tools aim to protect the creator or holder of valuable information from the wrongful use by another, creating a substantial conceptual overlap. That overlap is not complete, however, for trade

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454. See *Electrical S. v. Lewis*, 96 N.C. App. 160, 165, 385 S.E.2d 352, 355 (1989) (citing *A.E.P. Indus.*, 308 N.C. at 402-03, 302 S.E.2d at 761). If the covenant was made after employment began and had insufficient consideration, a former employer does not have a likelihood of success on the merits. See *Milner Airco, Inc. v. Morris*, 111 N.C. App. 866, 868, 433 S.E.2d 811, 813 (1993) (dissolving a preliminary injunction enforcing covenants).

455. See *Nalle Clinic*, 101 N.C. App. at 343-44, 399 S.E.2d at 365; *A.E.P. Indus.*, 308 N.C. at 401, 302 S.E.2d at 759-60 (1983) (quoting *Investors*, 293 N.C. at 701, 239 S.E.2d at 574); *Iredell*, 92 N.C. App. at 25, 373 S.E.2d at 451.

456. See *Iredell*, 92 N.C. App. at 25, 373 S.E.2d at 451 (denying an injunction for public policy reasons rather than for the presence of a liquidated damages clause).

457. See, e.g., *Nalle Clinic*, 101 N.C. App. at 345, 399 S.E.2d at 366; *Statesville Medical Group, P.A. v. Dickey*, 106 N.C. App. 669, 672, 418 S.E.2d 256, 258 (1992) (quoting *A.E.P. Indus.* and *Iredell* to explain that the appellate court is not "bound by the [trial court's] findings, but may review and weigh evidence and find facts for itself" to determine whether the plaintiff has met its burden of showing a likelihood of success on the merits). But see *Young v. Mastrom, Inc.*, 99 N.C. App. 120, 122, 392 S.E.2d 446, 448 (1990) (stating that "factual findings made in a nonjury trial have the force and effect of a jury verdict and, if supported by competent evidence, are conclusive on appeal" even in the face of contrary evidence).

458. See *Masterclean*, 82 N.C. App. at 47, 345 S.E.2d at 694 (inferring that the employer's firing the employee could have enforced the covenant not to compete had its terms been reasonable). A court, however, presumably would observe the general rule that a party will be excused from the obligation to perform if the other party committed the first material breach. See *Mills Constr. Co. v. Fairfield Sapphire Valley*, 86 N.C. App. 506, 513, 358 S.E.2d 566, 570 (1987).

459. See *Masterclean*, 82 N.C. App. at 47, 345 S.E.2d at 694; see also *Milner Airco*, 111 N.C. App. at 869, 433 S.E.2d at 813 (concluding that the inability to do a seasonal business during a particular affects a substantial right).

460. See *supra* notes 419-59 and accompanying text (describing North Carolina's law of covenants not to compete).

secrets law is not confined to employment applications,<sup>461</sup> and in the same respect some restrictive covenant cases may not have trade secrets implications. Nevertheless, the vast majority of trade secrets cases originate from the employment relationship,<sup>462</sup> and trade secrets are found in all sorts of objects of dispute.<sup>463</sup> Thus, the probability that both legal claims could apply to the same case is very high. Thus it is quite probable that many potential NCTSPA cases are couched as contract actions, given their heightened visibility in published law. Legal research provides a foundation for that argument but cannot validate it. Consequently, this Comment solicits the views of North Carolina's top trade secrets attorneys to verify the conclusion that a contract action probably is the preferred legal option and to provide any other ideas for why the NCTSPA has seldom appeared in judicial opinions since its enactment in 1981.<sup>464</sup>

#### V. TRADE SECRETS ATTORNEYS' VIEWS ON WHY THE NCTSPA LACKS VISIBILITY

Several observers in North Carolina agree that the NCTSPA is not flawed and is indeed effective, at least in straightforward cases.<sup>465</sup>

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461. For example, an unpublished and early trade secrets case on the NCTSPA, from Orange County, enjoined a person posing as a student working on a research paper from using, in a competing business, information he obtained in an interview with an officer of a corporation. Telephone Interview with Susan Olive, Vice President and Member of Olive & Olive, P.A., and chair of the North Carolina Intellectual Property Law Committee at the time the NCTSPA was drafted (Oct. 28, 1998) [hereinafter Olive Interview]. Ms. Olive has served several terms on the North Carolina General Statutes Commission. See *id.*

462. See, e.g., ABA SURVEY, *supra* note 51, at 11-13, 23-24, 35-38, 53-60, 85-91, 123-30, 144-46, 171-76, 193-95, 208-10, 228-31, 244-47, 256-58, 286-300, 318-20, 338-42, 359-63, 373, 386-88, 410-14, 431-32, 447-49, 473-78, 503-09, 526-28, 540-45, 554-57, 572-74, 583-84, 595-96, 609-11, 628-30, 655-63, 684-86, 699-700, 718-21, 738-41, 760-62, 779-82, 801-02, 816-17, 829-30, 839-40, 853-55, 871-73, 879-80, 895-97, 917-18, 935-36, 955-68, 978-79.

463. See *supra* notes 195-357 and accompanying text (providing a plethora of items and subjects for which trade secrets have been claimed or established).

464. See *infra* notes 465-84 and accompanying text (providing the attorneys' views).

465. See Olive Interview, *supra* note 461 ("The Act is effective in black and white cases."). She remarked also that employers usually win cases on the NCTSPA. See *id.*; see also Telephone Interview with William Rikard, Partner at Parker, Poe, Adams & Bernstein, L.L.P. and five-time teacher of the continuing legal education course on trade secrets (Oct. 14, 1998) [hereinafter Rikard Interview] (stating that the NCTSPA is especially useful when the enforceability of a non-competition agreement is questionable); Telephone Interview with Henry B. Ward III, Partner at Alston & Bird L.L.P., Charlotte (Oct. 14, 1998) [hereinafter Ward Interview] (mentioning that he did not find a problem with the Act the last time he dealt with it). But see Telephone Interview with Charles Johnson, Partner at Kilpatrick, Stockton, Charlotte (Oct. 14, 1998) [hereinafter Johnson Interview] (stating that the NCTSPA is not very effective in preventing competition and that proving a violation is difficult unless, for instance, the stolen documents are

To the best memory of the chairperson of the subcommittee that drafted the NCTSPA and long-time member of the North Carolina General Statutes Commission, not one letter requesting amendment of the statute has been received.<sup>466</sup> The most commonly litigated issue in the cases, according to an attorney who has considerable experience with the NCTSPA, is whether the alleged trade secret could be known from sources other than the party claiming it.<sup>467</sup> In any case, the trade secrets question is seldom the subject of published law, its visibility possibly obscured by the abundance of covenant not to compete cases that seek the same objective for a client.<sup>468</sup> Yet not

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produced). Mr. Johnson stated that he once caught someone with twelve boxes of drawings and formulae, and promptly recovered them for his client. *See id.* Mr. Johnson believes that he and Mr. Rikard have handled a significant number of trade secrets cases against each other. *See id.*

466. *See* Olive Interview, *supra* note 461 (noting that frequently an attorney will write a letter requesting a change in a statute). Ms. Olive added that she thought the NCTSPA was well written for terminating a business venture immediately—basically, that the remedies are effective and sufficiently harsh—which is often the plaintiff's wish. *See id.* Noting that companies "are not great about keeping secrets," she said that covenants not to compete are valuable in cases where the secrecy of information is debatable. *See id.* Knowledge can be very valuable even if not a secret—for example, information that can be duplicated by collecting fifteen phone books. *See id.*; *see also* Telephone Interview with Guy Blynn, Vice President of R.J. Reynolds and co-author of the only other law review piece, *see* Root & Blynn, *supra* note 13, on the NCTSPA (Oct. 13, 1998) [hereinafter Blynn Interview] (saying that the NCTSPA is not tougher than other acts for recovery, yet one might assume it was because of the few written opinions about it).

467. *See* Johnson Interview, *supra* note 465. Mr. Johnson continued that the North Carolina Court of Appeals decision finding customer lists to be trade secrets is often challenged when cited in other cases because that case was not vigorously defended. *See id.*; *see also* Rikard Interview, *supra* note 465 (stating that proving the existence of a trade secret is a point of difficulty and that the case law is not consistent, for example, on customer lists).

468. *See* Ward Interview, *supra* note 465. Mr. Ward clarified that the NCTSPA may still be claimed in most trade secrets cases, but a contract claim will be pursued as primary grounds for recovery if the facts in a specific case might not satisfy the statutory elements. *See id.* Opting to sue on a contract rather than the statute might be an attempt by lawyers either to avoid the dubious task of satisfying statutory elements, or to provide the judge with something "concrete" upon which to rule, namely the contract. *See* Johnson Interview, *supra* note 465. Mr. Johnson believes that the NCTSPA is less effective relief than a contract because the statutory requirements are very difficult to establish. *See id.* Mr. Rikard agrees with Mr. Johnson, but notes that covenants may not be enforceable, forcing reliance on the Act. *See* Rikard Interview, *supra* note 465.

Mr. Johnson stated that suing on a non-competition agreement is preferred over suing under the NCTSPA because the contract is something concrete to show the judge, its breach is easier to establish, and the effect of injunctive relief is more severe—it blocks the employment rather than ordering silence. *See id.*; *see also* Rikard Interview, *supra* note 465 (stating that more covenant cases exist because a contract is more "clear-cut" and can be appealed more easily). "The proof is the contract itself," Mr. Rikard said, qualifying his remark by mentioning the legal restrictions governing covenants not to compete. *See id.* He also stated that a trade secrets lawsuit might be cast as a breach of



all businesses utilize non-competition agreements, so those employers cannot rely on covenants not to compete in a trade secrets case.<sup>469</sup>

Some employment law practitioners have offered further insight into why the NCTSPA is largely a hidden law. First, they agree that the NCTSPA appears in several complaints but is not litigated because most cases settle.<sup>470</sup> One reason for settlement is that the company receiving the alleged trade secrets fears an injunction.<sup>471</sup> Another reason to compromise is that trade secrets cases typically involve a corporation suing an individual, where the defendant fears financial ruin and the corporation could do without a monetary award.<sup>472</sup> Settlement may also occur because litigating trade secrets cases is costly and unpleasant.<sup>473</sup>

Second, even if a case does not settle, in a practical sense it is decided before trial, which obviates a published judicial opinion.<sup>474</sup> If

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fiduciary duty or unfair competition, which could avoid mention of the NCTSPA. *See id.* Ms. Olive stated that the end results under a covenant not to compete and under the Act are not very different and that "there is no gap in coverage that needs to be filled [between the two legal devices]." *See Olive Interview, supra* note 461.

Mr. Blynn explained that major metropolitan areas are more apt to enforce covenants, whereas North Carolina courts are loathe to enforce them, especially at non-executive levels. *See Blynn Interview, supra* note 466. The reason, he said, is that North Carolina judges are more receptive to arguments that, for instance, someone who has spent years marketing cigarettes will not be skilled in marketing hair products. *See id.* He said that judges remember themselves as former general practitioners in law, and recall that they might not have been competent to handle specialized cases in an unfamiliar field. *See id.* Mr. Blynn believes that judges in major cities are more commercially wise, and would understand that most employees can switch jobs—while remaining in the same general field—with ease. *See id.*

469. *See Johnson Interview, supra* note 465 (mentioning that the NCTSPA is discussed when a corporation wants to silence a former employee, but no covenant was signed). Statistics on the number of businesses utilizing non-competition agreements were not found. Mr. Johnson said, however, that engineers and software and computer specialists often will be hired even if they resist signing a covenant not to compete. *See id.* He expressed surprise that physicians sign them so often and wondered whether they have more market leverage than they think. *See id.* Mr. Johnson also mentioned that not every state forbids lawyers from signing them, but North Carolina does. *See id.* According to him, although some salespeople sign covenants not to compete, most general bankers and middle managers do not. *See id.* More employers do not insist on the covenants, he surmised, and some are unenforceable. *See id.*

470. *See Johnson Interview, supra* note 465; Ward Interview, *supra* note 465.

471. *See Ward Interview, supra* note 465.

472. *See id.*; Olive Interview, *supra* note 461 (noting that employees who are enjoined are even less financially able to appeal because they are no longer profiting from the information they acquired).

473. *See Johnson Interview, supra* note 465. Perhaps the least pleasant experience is calling customers to testify in court for both parties. *See id.*

474. *See Blynn Interview, supra* note 466 (stating that, despite the many trade secrets claims in complaints, they are often not in written opinions because preliminary injunction hearings dispose of them). Ms. Olive recently handled three trade secrets cases, all of

the trial judge enjoins the individual who misappropriated the information from using it, that individual would either concede or settle on other terms<sup>475</sup> because proving damages is very difficult for a plaintiff. If the plaintiff does not succeed in enjoining the defendant, the information is released and the original aim for the lawsuit is destroyed.<sup>476</sup> Furthermore, any appeal on a trade secrets case is difficult because the cases are fact-specific and appellate judges are hesitant to disturb the factual findings made by a trial judge.<sup>477</sup>

A third reason for the dearth of cases may be simply that trade secrets incidents occur less frequently than other types of intellectual property disputes, such as copyright, patent, and trademark infringement.<sup>478</sup> In fact, one attorney thought that many of his

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which were disposed of at the preliminary injunction hearing. See Olive Interview, *supra* note 461.

475. For example, the parties might agree that the employee will work in the shipping department for one year before starting work in the research laboratory. See Rikard Interview, *supra* note 465.

476. Mr. Johnson believes that the NCTSPA is "often raised in litigation, but rarely appealed." Johnson Interview, *supra* note 465. Mr. Rikard agrees. See Rikard Interview, *supra* note 465. Mr. Johnson stated that one of three scenarios is likely: (1) the plaintiff will get a temporary restraining order—which is easier to get in state court than federal court and should be sought there even if diversity exists—at which time the case is over because proving damages is so difficult; (2) the plaintiff is denied an injunction, whereupon the plaintiff will abandon the case due to the many disincentives to appeal; or (3) many plaintiff's lawyers encourage clients to settle a case to prevent disclosure of the trade secret because the court will not prohibit an employee from working for the new employer absent a contract. See Johnson Interview, *supra* note 465.

477. See Olive Interview, *supra* note 461. Contrast that with non-competition contract cases, in which each party has an incentive to appeal. See *id.* She said in those cases the employer has money, the employee has public policy on his or her side, and the cases are cheaper. See *id.* Also, the appellate judge can construe the contract just as well as a trial court judge can, so deference to the trial court is less pronounced. See *id.* Additionally, the contract cases are simpler because sometimes the covenants will specify whether information is a trade secret, which is "significant evidence" for a finding that such information is or is not in fact a trade secret. See *id.*

478. See Ward Interview, *supra* note 465. During his three years at the firm, Mr. Ward has handled less than five pure trade secrets cases, which he says is understandable given that trademark, patent, and copyright claims are more powerful and certainly more prevalent. See *id.* But see Olive Interview, *supra* note 461 (noting that some companies opt not to patent their ideas because policing the patent can be difficult, particularly for process or method patents—competitors may have "KEEP OUT" signs on the premises). Mr. Blynn considers copyright law to be a more powerful remedy than the NCTSPA and the preferred legal strategy. See Blynn Interview, *supra* note 466.

To understand how trade secrets law interacts with other forms of intellectual property law, see MICHAEL A. EPSTEIN AND MICHAEL S. OSTRACH, *TRADE SECRETS, RESTRICTIVE COVENANTS & OTHER SAFEGUARDS FOR PROTECTING BUSINESS INFORMATION* (1986). Mr. Blynn listed four general fact patterns where trade secrets policies arise. See Blynn Interview, *supra* note 466. First are cases involving thieves, who outright steal information, for example, by electronic eavesdropping. See *id.* These cases

colleagues were unfamiliar with the NCTSPA and believed that others might consider a client whose employee had misappropriated information to be without recourse if no covenant in the employment contract existed.<sup>479</sup> Regardless, more than one attorney interviewed mentioned that lawyering in trade secrets practice requires more planning and counseling than advocating and enforcing because corporations seek to prevent complications before they arise.<sup>480</sup>

The fact that businesses fear losing more than they would gain in trade secrets litigation is a fourth reason the cases on appeal are scarce.<sup>481</sup> The hiring competitor might learn more from the courtroom than from its new employee.<sup>482</sup> Moreover, the conflicting testimony of expert witnesses regarding reverse engineering of the information can be confusing and expensive.<sup>483</sup> By the time the parties are prepared for court, the emergency situation that triggered the lawsuit may have passed.<sup>484</sup>

## VI. CONCLUSION

Regardless of the actual reasons why the NCTSPA is absent

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are rare, he said, because good spies do not get caught, and those who are caught cannot be defended, so they settle out of court. *See id.* Second, Mr. Blynn described cases where two parties arrange an agreement to work together, such as through merger, but the plan falls through. *See id.* Here the acquiring party knows everything about how the other party works, and the other party may be entitled to relief, but only a few such cases have arisen in North Carolina, he said. *See id.* The third category of cases is where employees leave to work in the very same job for the competitor, and in computer cases the legal strategy should be copyright law—a more powerful remedy—if it is available. *See id.* Yet cases about customer information must be treated as trade secrets, and the plaintiff usually will not prevail unless the information is very specialized. *See id.* Finally, Mr. Blynn referred to high-level executive cases, a few of which he had in the advertising and furniture fields, whereby the executive divulges information that is usually transitory in nature, such as new marketing strategies. *See id.* He said a loss at the injunction hearing spells doom, because an appeal will take six months and all the secrets are lost. *See id.* However, sometimes a corporation will agree to keep the executive from making decisions for a year as part of a settlement. *See id.*

479. *See* Rikard Interview, *supra* note 465.

480. *See, e.g.,* Ward Interview, *supra* note 465. Often an attorney will advise a manager on the substance of an exit interview, for example, where the non-competition agreement should be discussed again. *See id.*

481. *See* Rikard Interview, *supra* note 465. Mr. Rikard said a business would not want to tell a competitor exactly what it had revealed to its former employee. *See id.* The employee may be piecing together his or her memory of information from the former place of employment, and litigation may facilitate that process. *See id.* Also, litigating whether a concept can be reverse engineered requires testimony explaining exactly how to create the secret concept by other means. *See id.*; Olive Interview, *supra* note 461.

482. *See* Rikard Interview, *supra* note 465.

483. *See id.*

484. *See* Olive Interview, *supra* note 461.

from most of the employment law cases in North Carolina where its policies are implicated, this Comment concludes that the Act itself is not flawed because neither its unique construction nor its case law deviates fundamentally from the UTSA or trade secrets acts in other states.<sup>485</sup> Apparently many trade secrets cases are litigated as breaches of covenants not to compete, given the conceptual overlap between the two legal options and the greater abundance of cases dealing with the non-compete agreements.<sup>486</sup> Other reasons enunciated by practicing trade secrets attorneys probably contribute to the paucity of NCTSPA references in published law.<sup>487</sup> In any event, research on the statute and its resulting case law demonstrates that the NCTSPA is an effective legal device for recovering or retaining the commercial value of knowledge that has been or will be misappropriated.

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485. *See supra* notes 35-398 and accompanying text (exploring the NCTSPA and its case law in contrast to the UTSA and trade secrets acts in other states).

486. *See supra* notes 399-464 and accompanying text (comparing covenant not to compete law with trade secrets law).

487. *See supra* notes 465-84 and accompanying text (investigating the NCTSPA through the eyes of the attorneys who use it).

