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Tennessee Uniform Trade Secrets Act—A Primer for Trade Secret Holders

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The Tennessee Uniform Trade Secrets Act (TUTSA) was enacted by the Tennessee General Assembly to provide protection to individuals and businesses who possess trade secrets. Thus, Tennesseans who have trade secrets should be guided by the Act and the case law interpreting the Act.

What is a "trade secret"?
The Act defines a "trade secret" to be information which is "technical, nontechnical, or financial data, a formula, pattern, compilation, program, device, method, technique, process, or plan" that: (1) derives independent economic value from not being generally known; and (2) would provide economic value to others from its disclosure. In addition, the information must be (3) subject to "reasonable" efforts to maintain its secrecy. Tenn. Code Ann. §47 25 1702(4). While "absolute secrecy is not required, there must be a substantial element of secrecy." (*Hickory Specialties v. B & L Labs, Inc*., 592 S.W.2d 583 (Tenn. Ct. App. 1979)). To "constitute a trade secret, it must be difficult for anyone outside the confidential relationship to acquire the information by proper means." *Wright Med. Tech., Inc. v. Grisoni*, 135 S.W.3d 561 (Tenn. Ct. App. 2001).

Even information that is in the public domain, and thus having no independent economic value, can be protectible to the extent that it is combined with other non-public information to form a trade secret. *Wright Med. Tech., Inc. v. Grisoni*, 135 S.W.3d 561 (Tenn. Ct. App. 2001) (if portions of information are publicly known, the integration of those portions into a unitary whole may still be protectible). As one commentator has put it, "[t]he fact that some or all of the components of the trade secret are well known does not preclude protection for a secret combination, compilation, or integration of the individual elements." The Connecticut Supreme Court in *Elm City Cheese Co. v. Federico*, 752 A.2d 1037 (Conn. 1999), determined that a "plaintiff's ability to combine these elements into a successful . . . process, like the creation of a recipe from common cooking ingredients is a trade secret entitled to protection."

Trade secret protection is not limited to just "technical" information such as secret formulas or computer programs. Business information can also be a trade secret. Note that TUTSA provides coverage for things such as "nontechnical, or financial data." *See, e.g., Int'l Security Mgmt. Group, Inc. v. Sawyer, et al*, 2006 WL 1638537 (M.D. Tenn. Jun. 6, 2006) (pricing information). *See also Cam Int'l L.P. v. Turner*, 1992 WL 74567 (Tenn. Ct. App. Apr. 15, 1992) ("information concerning customers' specialized requirements, need and product preferences" may be entitled to protection) (decision prior to enactment of TUTSA).

Misappropriation of a Trade Secret
Generally, there are three elements necessary to prove misappropriation of a trade secret: "(1) the existence of a trade secret; (2) misappropriation of the trade secret by the defendant; and (3) resulting detriment to the plaintiff." *Partylite Gifts, Inc. v. Swiss Colony Occasions*, 2006 WL 2370338 (E.D. Tenn. Aug. 15, 2006). Liability for trade secret misappropriation is determined in part by Tenn. Code Ann. §47 25 1702(2) which defines various types of "misappropriation."

In basic terms, misappropriation can include not only the acquisition of the trade secret by improper means, but also the disclosure or use of the trade secret. Of critical importance, a third party – not the initial "misappropriator" – can be liable for misappropriation if the third party uses the trade secret and knows or

should have known that the trade secret has been improperly acquired. For example, in *PMC, Inc. v. Kadisha*, 78 Cal. App. 4th 1368 (2000), a California court held that once the defendants knew or had reason to know of the use of misappropriated trade secrets, they were liable for the misappropriation even though they did not take part in the initial misappropriation: “[M]isappropriation is not limited to the initial act of improperly acquiring trade secrets; the use and continuing use of the trade secrets is also misappropriation.” *Id.* (citing California statute identical to Tenn. Code Ann. §47 25 1702). Courts in Wisconsin and Pennsylvania have held likewise. Therefore, a trade secret holder need only show that a defendant either acquired trade secrets through improper means or disclosed or used the trade secrets of another under one of the listed conditions in the statute.

Improvements or Modifications to a Trade Secret

As a general principle, a party may not use another's trade secret, even with independent improvements or modifications, so long as the product or process is substantially derived from the trade secret. *American Can Co. v. Mansukhani*, 742 F.2d 314 (7th Cir. 1984); *Atochem North America v. Gibbon*, 1991 WL 160939 (D.N.J. Aug. 15, 1991) (“[S]light modifications or improvements of a trade secret will not defeat the misappropriation claim.”); *Olson v. Nieman's LTD*, 579 N.W.2d 299 (Iowa 1998) (minor modification is not a defense to trade secret misappropriation).

Relief Under TUTSA

Under Tennessee's adoption of the Uniform Trade Secrets Act, a plaintiff may recover *both* monetary and injunctive relief. Tenn. Code Ann. §§ 47 25 1703 and 1704.

- **Injunctive Relief**
  An injunction can issue for both “actual” and “threatened” misappropriation. At the outset of a lawsuit, a trade secret owner can seek a preliminary injunction to prevent the alleged misappropriator from using or disclosing the trade secret while the lawsuit is pending. At the conclusion of trade secret cases, courts have granted two types of permanent injunctions: (1) a permanent “use” injunction (to protect the trade secret) and (2) a “head start” injunction (to eliminate any commercial advantage improperly gained by defendant's misappropriation). *See Chemetall GMBH v. ZR Energy, Inc.*, 138 F. Supp.2d 1079 (N.D. Ill. 2001); and *Gen. Elec. v. Sung*, 843 F.Supp. 776 (D. Mass. 1994).
- **Monetary Relief**
  TUTSA provides that “[d]amages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss.” Tenn. Code Ann. §47-25-1704. Moreover, damages may be measured by “a reasonable royalty” where appropriate. *Id*.
  TUTSA also provides for discretionary exemplary damages “in an amount not exceeding twice” the amount awarded for, in essence, compensatory (or “actual loss”) damages. Tenn. Code Ann. §47 25 1704(b). Courts have awarded exemplary damages in double the amount of actual damages, resulting in a total award of *three times* the amount of actual damages. These damages can be sought when the misappropriator is found to have acted willfully and maliciously.