

# Pennsylvania

## TRADE SECRETS

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## 1. Statutory or common law protections for trade secrets

### **Has Pennsylvania adopted a version of the Uniform Trade Secrets Act?**

Yes. Pennsylvania adopted the Uniform Trade Secrets Act (PUTSA) in 2004 (effective April 19, 2004). Currently, there is very little case law interpreting the PUTSA given its recent enactment.

### **Where is the state Act codified?**

The Pennsylvania Uniform Trade Secrets Act is codified at 12 Pa. C.S. §5301–08.

### **Does the state Act have any major differences from the UTSA?**

The Pennsylvania Uniform Trade Secrets Act includes a definition of “willful and malicious” to mean “[s]uch intentional acts or gross neglect of duty as to evince a reckless indifference of the rights of others on

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the part of the wrongdoer, and an entire want of care so as to raise the presumption that the person at fault is conscious of the consequences of his carelessness.”<sup>1</sup> The UTSA lacks such a definition.

Unlike the UTSA, the PUTSA does not consider a continuing misappropriation as a single claim for purposes of the limitation period.<sup>2</sup>

### **Does Pennsylvania recognize a common law or different (*i.e.*, non-UTSA) statutory scheme for protecting trade secrets?**

Pennsylvania no longer recognizes a common law scheme for protecting trade secrets. The PUTSA preempts all other law providing civil remedies for misappropriation of trade secrets.<sup>3</sup> However, courts will sometimes allow other claims to proceed until the court determines whether the information at issue is actually a trade secret.<sup>4</sup>

Several statutes provide criminal penalties for improperly using or revealing trade secrets that were obtained pursuant to that chapter.<sup>5</sup>

## **2. Definition of trade secrets**

### **How does the state Act define the term “trade secrets”?**

In 12 Pa. C.S. §5302, the term “trade secrets” is broadly defined as information that meets the following criteria:

- (1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.
- (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

### **What types of information have been protected as trade secrets?**

Although the vast majority of the cases in Pennsylvania dealing with trade secrets were decided prior to the enactment of the PUTSA, the Pennsylvania courts continue to look to those cases for guidance in determining what types of information constitute trade secrets.<sup>6</sup>

#### *Scientific data?*

Yes. Various forms of scientific data, from formulas to manufacturing processes to configurations of parts, have been protected as trade secrets.<sup>7</sup>

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<sup>1</sup> 12 Pa. C.S. §5302.

<sup>2</sup> See 12 Pa. C.S. §5307; *compare*, Uniform Trade Secrets Act §6.

<sup>3</sup> 12 Pa. C.S. §5308; *Youtie v. Macy’s Retail Holding, Inc.*, 653 F. Supp. 2d 612,619–23 (E.D. Pa. 2009); *Firsttrust Bank v. DiDio*, 2005 Phila. Ct. Com. Pl. LEXIS 376, at \*2–3 (2005).

<sup>4</sup> See, e.g., *Youtie*, 626 F. Supp. 2d at 523.

<sup>5</sup> See, e.g., 3 Pa. C.S. §5111(d); 3 Pa. C.S. §6723(b); 3 Pa. C.S. §6920(b); 35 P.S. §6022.211(d).

<sup>6</sup> See *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 109 (3d Cir. 2010); see also, *Parsons v. Pennsylvania Higher Education Assistance Agency*, 910 A.2d 177, 185 (Pa. Cwlth. 2006) (quoting definition of trade secret in 12 Pa. C.S. §5302 and applying pre-PUTSA factors to determine whether information is a trade secret).

<sup>7</sup> See, e.g., *Felmler v. Lockett*, 466 Pa. 1, 9, 351 A.2d 273 (1976) (chemical formula for plastic is protected); *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 110 (3d Cir. 2010) (code books and formulas for products); *SI Handling Systems, Inc. v. Heisley*, 753 F.2d 1244, 1256 (3d Cir. 1985) (equipment configuration, modification, and running

*Business information?*

Yes. For instance, in *Dibble v. Penn State Geisinger Clinic, Inc.*, 806 A.2d 866, 870–71 (Pa. Super. 2001) documents containing an HMO’s business information were found to constitute trade secrets. “The documents contained the HMO’s compensation plans and procedures for its physicians and clinical staff as well as detailed salary histories of various individual physicians and financial data for various clinical departments including financial statistics and breakdowns used for in-house evaluative and planning purposes.”<sup>8</sup>

Other examples include the following:

- *Christopher M’s Hand Poured Fudge v. Hennon*, 699 A.2d 1272, 1275 (Pa. Super. 1997) (Recipe for fudge was determined to be a trade secret.)
- *Air Products & Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114, 1121–22 (1982) (A company’s projected capital spending program, proposed international projects, plans regarding distribution of its product, and bidding procedures were found to be trade secrets.)
- *Fisher Bioservices, Inc. v. Bilcare, Inc.*, 2006 U.S. Dist. LEXIS 34841, at \*50 (E.D. Pa. May, 31, 2006) (The manner and method that a company uses to price its services qualifies as a protected trade secret under the PUTSA.)
- *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 110 (3d Cir. 2010) (Strategies for increasing profitability, business road maps, promotional strategies, and cost positions also can qualify as trade secrets.)
- *Youtie v. Macy’s Retail Holding, Inc.*, 653 F. Supp. 2d 612, 623 (E.D. Pa. 2009) (Cost data from a retail chain store can qualify as a trade secret.)

*Customer or vendor lists?*

Perhaps. Customer lists have been determined to be trade secrets so long as they are both “valuable and strictly maintained.”<sup>9</sup>

*General industry skills and knowledge?*

Probably not. A person’s aptitude, skill, dexterity, manual and mental ability, and other subjective knowledge that is gained in the course of employment are not protectable as trade secrets.<sup>10</sup>

General secrets of the trade are not protectable as trade secrets.<sup>11</sup>

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parameters are trade secrets); *BIEC International, Inc. v. Global Steel Services, Ltd.*, 791 F. Supp. 489, 542 (E.D. Pa. 1992) (settings and parameters for manufacturing, including substrate temperatures, surface roughness parameters, line speeds, thermal cycles, atmosphere control practices, and jet wiper settings, are trade secrets); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 422 (E.D. Pa. 1980) (precise configuration, juxtaposition, and assemblage of components in machine used to produce product found to be a trade secret).

<sup>8</sup> *Id.*

<sup>9</sup> *O.D. Anderson v. Cricks*, 815 A.2d 1063, 1071 (Pa. Super. 2003); *see also*, *Morgan’s Home Equipment Corp. v. Martucci*, 390 Pa. 618, 136 A.2d 838, 843 (1957); *A.M. Skier Agency, Inc. v. Gold*, 747 A.2d 936, 941 (Pa. Super. 2000); *Bro-Tech Corp. v. Thermax, Inc.*, 651 F. Supp. 2d 378, 409–10 (E.D. Pa. 2009).

<sup>10</sup> *Pittsburgh Cut Wire Co. v. Sufirin*, 350 Pa. 31, 38 A.2d 33, 34 (1944).

<sup>11</sup> *Capital Bakers, Inc. v. Townsend*, 426 Pa. 188, 231 A.2d 292, 294 (1967).

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### How may a plaintiff show that the information derives independent economic value from not being generally known by others?

A plaintiff may show that the information derives independent economic value from not being generally known by others through how alleged infringers attempt to use the information. For instance, in *B&B Microscopes v. Armogida*, 532 F. Supp. 2d 744, 756 (W.D. Pa. 2007), the plaintiff was able to demonstrate this factor through the defendant's attempts to patent the trade secret system and through the defendant's sales of products utilizing the trade secret system to other companies.

### What steps must be taken to maintain confidentiality of trade secrets?

The steps necessary to maintain the confidentiality of trade secrets depend on what would be "reasonable under the circumstances."<sup>12</sup> Absolute secrecy is not required, only substantial secrecy.<sup>13</sup>

Electronic data meets this standard when the owner places password protection on it.<sup>14</sup> Documents containing trade secrets are sufficiently protected when they are labeled as "proprietary" or "confidential" on their face, and when the company owning the documents actively pursues legal measures to prevent disclosure.<sup>15</sup> For instance, in *Christopher M's Hand Poured Fudge v. Hennon*, 699 A.2d 1271, 1275 (Pa.S uper. 1997), adequate steps to protect the confidentiality of a recipe were taken when the owner kept only one written copy of the recipe stored off the premises of the business, compartmentalized the manufacturing process so that most employees would only know portions of the recipe necessary for his or her task, and only revealed the full recipe to a few key employees.

### Under what circumstances have Pennsylvania courts refused to protect alleged trade secrets?

The courts have refused to protect alleged trade secrets that were generally known or readily accessible through proper means.<sup>16</sup>

The courts have also refused to protect information that was independently developed by a person who was alleged to have misappropriated the information, or that was known to that person prior to the acquisition of any purported trade secrets.<sup>17</sup>

Trade secrets that are easily discerned from publicly available sources have not been protected.<sup>18</sup>

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<sup>12</sup> 12 Pa. C.S. §5302.

<sup>13</sup> *EXL Labs., LLC v. Egold*, 2010 U.S. Dist. LEXIS 131105, at \*15 (E.D. Pa. Dec. 7, 2010).

<sup>14</sup> *See A.M. Skier Agency, Inc. v. Gold*, 747 A.2d 936, 941 (Pa. Super. 2000).

<sup>15</sup> *Dibble v. Penn State Geisinger Clinic, Inc.*, 806 A.2d 866, 871 (Pa. Super. 2002).

<sup>16</sup> *See, e.g., Hardy v. Trustees of the University of Pennsylvania*, 2008 Phila. Ct. Com. Pl. LEXIS 42 (C.P. Phila. Feb. 21, 2008) (refusing to protect educational program curriculum as a trade secret because the curriculum was widely marketed and easily accessible); *Tyson Metal Products, Inc. v. McCann*, 376 Pa. Super. 461, 546 A.2d 119, 121–22 (1988) (court refused to protect a list of prices charged by a company's suppliers which was used to calculate bids, because a competitor could call the supplier and readily obtain information contained in the list).

<sup>17</sup> *See Fidelity Fund, Inc. v. Di Santo*, 347 Pa. Super. 112, 500 A.2d 431, 438 (Pa. Super. 1985) (the court refused to protect a customer list that was developed individually by a former employee while working for the plaintiff company; moreover, the list was known to a former employee prior to employment with the plaintiff company).

<sup>18</sup> *See SI Handling Systems, Inc. v. Heisley*, 753 F.2d 1244, 1255 (3d Cir. 1985) (formulas that are susceptible to reverse engineering are not protected as trade secrets because the information they contain is easily obtainable).

### 3. What constitutes misappropriation of a trade secret?

The PUTSA spells out “misappropriation,” in 12 Pa. C.S. §5302. The term includes:

- (1) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (2) disclosure or use of a trade secret of another without express or implied consent by a person who:
  - (i) used improper means to acquire knowledge of the trade secret;
  - (ii) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:
    - (A) derived from or through a person who had utilized improper means to acquire it;
    - (B) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (C) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (iii) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been by accident or mistake.

Improper means “[i]ncludes, but is not limited to, theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”<sup>19</sup>

#### Misappropriation by persons in a fiduciary or special relationship

Prior to the enactment of the PUTSA, an allegation of trade secrets misappropriation would generally arise in the context of a former employee who would acquire trade secrets over the course of his or her employment and would later seek to use those secrets to the disadvantage of his or her former employer.<sup>20</sup> Therefore, in order to prevail on a claim for misappropriation, the former employer had to demonstrate, among other things, that the trade secret was communicated to the alleged misappropriator while in a position of trust and confidence. *Id.*

However, the PUTSA does not contain any such requirement. Rather, it only requires that the person who acquires the trade secret know or have reason to know that the trade secret was acquired by improper means.<sup>21</sup>

#### Misappropriation by strangers

Prior to the enactment of the PUTSA, third parties would be held liable for misappropriation only if they induced the disclosure of trade secrets from an employee of the owner, knowing that the disclosure was in violation of the employee’s obligation to the employer.<sup>22</sup> However, the PUTSA only requires that the person who acquires the trade secret know or have reason to know that the trade secret was acquired by improper means.<sup>23</sup>

<sup>19</sup> 12 Pa. C.S. §5302.

<sup>20</sup> *Gruenwalf v. Advanced Computer Applications, Inc.* 730 A.2d 1004, 1012 (Pa. Super. 1999).

<sup>21</sup> 12 Pa. C.S. §5302.

<sup>22</sup> *See Air Products & Chemicals, Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114, 1120 (1982).

<sup>23</sup> 12 Pa. C.S. §5302.

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### 4. Does Pennsylvania recognize the doctrine of inevitable disclosure? Under what circumstances?

Perhaps. Pennsylvania recognizes the ability of a court to issue an injunction when it determines that the disclosure of trade secrets is likely, even if it is not inevitable.<sup>24</sup> While the leading decision in *Air Prods. & Chem., Inc. v. Johnson*, 442 A.2d 1114 (Pa. Super. Ct. 1982) discussing inevitable disclosure predates the PUTSA, it has been followed by post-PUTSA courts on this issue.<sup>25</sup>

### 5. Statutory limitations

**What is the relevant statute of limitations for filing a claim for misappropriation of a trade secret?**

The limitation period for initiating a claim for misappropriation of a trade secret is 3 years.<sup>26</sup>

**When does the statutory period begin to run?**

The statute of limitations begins to run “after the misappropriation was discovered or by the exercise of reasonable diligence should have been discovered.”<sup>27</sup>

### 6. Preservation of alleged trade secrets

**What must a Pennsylvania court consider in determining whether to grant a protective order?**

Pennsylvania follows the federal test for issuing protective orders under Rule 26(c) of the Federal Rules of Civil Procedure.<sup>28</sup> “Once a party establishes that the information sought to be protected is a trade secret, the burden shifts to the requesting party to demonstrate that there is a compelling need for the information and that the necessity outweighs the harm of disclosure.”<sup>29</sup>

**What steps may a court take to protect alleged trade secrets, short of granting a protective order?**

The court may “[hold] *in camera* hearings, [seal] the records of the action and [order] any person involved in the litigation not to disclose an alleged trade secret without prior court approval.”<sup>30</sup>

**What statutes or rules govern the issuance of a protective order?**

The PUTSA authorizes the courts to issue protective orders in a case involving trade secrets.<sup>31</sup> The Pennsylvania Rules of Civil Procedure also provide for the issuance of protective orders in discovery proceedings to protect trade secrets.<sup>32</sup>

<sup>24</sup> *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 110–12 (3d Cir. 2010).

<sup>25</sup> *Bimbo Bakeries*, 613 F.3d at 111–12.

<sup>26</sup> 12 Pa. C.S. §5307.

<sup>27</sup> *Id.*

<sup>28</sup> *Crum v. Bridgestone/Firestone N. Am. Tire, LLC*, 907 A.2d 578, 586 (Pa. Super. 2006) (citations omitted).

<sup>29</sup> *Id.* at 586–87 (citations omitted).

<sup>30</sup> 12 Pa. C.S. §5306.

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

<sup>32</sup> *See* Pa. R.C.P. 4012(a).

## 7. Remedies available for misappropriation of trade secrets

### Injunctive relief

*Is there a statutory or common law right to injunctive relief in Pennsylvania?*

The PUTSA provides a statutory right to injunctive relief.<sup>33</sup>

*What must a successful plaintiff prove to receive injunctive relief?*

Under the PUTSA, in order for the court to issue an injunction, a plaintiff must prove “actual or threatened misappropriation.”<sup>34</sup> If the plaintiff wishes to obtain a preliminary injunction prior to proving misappropriation, the plaintiff must establish the following factors:

- 1) that the injunction is necessary to prevent immediate and irreparable harm that cannot be adequately compensated by damages;
- 2) that greater injury would result from refusing an injunction than from granting it, and, concomitantly, that issuance of an injunction will not substantially harm other interested parties in the proceedings;
- 3) that a preliminary injunction will properly restore the parties to their status as it existed immediately prior to the alleged wrongful conduct;
- 4) that the activity it seeks to restrain is actionable, that its right to relief is clear, and that the wrong is manifest, or, in other words, must show that it is likely to prevail on the merits;
- 5) that the injunction it seeks is reasonably suited to abate the offending activity; and
- 6) that a preliminary injunction will not adversely affect the public interest.<sup>35</sup>

*What statutes or rules are applicable to the question of injunctive relief?*

The PUTSA provides a statutory right to injunctive relief.<sup>36</sup> Rule 1531 of the Pennsylvania Rules of Civil Procedure governs injunctive relief in civil proceedings.

*What period of injunctive relief may be granted?*

Injunctive relief may be granted for as long as the trade secret exists, and “may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”<sup>37</sup>

### Damages

*What must a plaintiff prove to recover damages for misappropriation of trade secrets?*

A plaintiff must prove either actual loss or unjust enrichment caused by the misappropriation, or both.<sup>38</sup> In lieu of these calculations, the plaintiff can establish a reasonable royalty value of the trade secret. *Id.* The

<sup>33</sup> See 12 Pa. C.S. §5303.

<sup>34</sup> *Id.*

<sup>35</sup> *Iron Age Corp. v. Dvorak*, 880 A.2d 657, 662 (Pa. Super. 2005) (quoting *Warehime v. Warehime*, 580 Pa. 201, 860 A.2d 41, 46).

<sup>36</sup> See 12 Pa. C.S. §5303.

<sup>37</sup> *Id.*

<sup>38</sup> 12 Pa. C.S. §5304(a).

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plaintiff must also prove that monetary recovery would not be inequitable due to a “material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation.”<sup>39</sup>

*What types of damages may a successful plaintiff recover?*

A successful plaintiff may recover compensatory damages and punitive damages.<sup>40</sup>

*What must a plaintiff do to recover punitive or exemplary damages?*

Exemplary damages are available upon showing that the misappropriation was willful and malicious.<sup>41</sup> The PUTSA defines “willful and malicious” as “[s]uch intentional acts or gross neglect of duty as to evince a reckless indifference of the rights of others on the part of the wrongdoer, and an entire want of care so as to raise the presumption that the person at fault is conscious of the consequences of his carelessness.”<sup>42</sup>

### **Attorneys’ fees**

*Does a successful party have a statutory or common law right to recover attorneys’ fees?*

A successful party has a statutory right to recover attorneys’ fees under the PUTSA.<sup>43</sup>

*What must a successful party show to recover attorneys’ fees?*

A successful party may recover attorneys’ fees if the party can establish one of the following circumstances:

- (1) a claim of misappropriation is made in bad faith;
- (2) a motion to terminate an injunction is made or resisted in bad faith; or
- (3) willful and malicious misappropriation exists.<sup>44</sup>

### **Are any other remedies available?**

Contractual remedies and criminal remedies are available, “whether or not based upon misappropriation of a trade secret... Other civil remedies are only available if they are not based upon misappropriation of a trade secret.”<sup>45</sup>

A court can also enjoin employment in cases where an individual attempts to work with a competitor.<sup>46</sup>

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<sup>39</sup> *Id.*

<sup>40</sup> 12 Pa. C.S. §5304.

<sup>41</sup> *Id.*

<sup>42</sup> 12 Pa. C.S. §5302.

<sup>43</sup> 12 Pa. C.S. §5305.

<sup>44</sup> 12 Pa. C.S. §5305.

<sup>45</sup> 12 Pa. C.S. §5308.

<sup>46</sup> *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102, 112–14 (3d Cir. 2010).