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## A Failure of Uniform Laws?

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## ESSAY

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### A FAILURE OF UNIFORM LAWS?

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MICHAEL RISCH<sup>†</sup>

#### INTRODUCTION

The Uniform Trade Secrets Act (UTSA) has been adopted in forty-six states<sup>1</sup> over its thirty year existence. Uniform laws like the UTSA serve at least two important purposes. First, they provide a consistent set of rules to provide settled expectations for interstate activities. The Uniform Commercial Code and Uniform Child Custody Jurisdiction Act are good examples of this purpose. Buyers, sellers, and parents cannot avoid important legal rules by changing states, therefore helping to reduce forum shopping. Second, uniform laws allow state legislators to adopt sister-state statutory interpretations when they enact the law. The UTSA illustrates this purpose.<sup>2</sup> Each state's UTSA case law should theoretically apply in every other state adopting it—an im-

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<sup>1</sup> 1 MELVIN F. JAGER, TRADE SECRETS LAW § 3:29 (2010).

<sup>2</sup> See, e.g., W. VA. CODE ANN. § 47-22-8 (LexisNexis 2010) (stating that the West Virginia Trade Secrets Act “shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this act among states enacting it”). The UTSA also provides consistent rules for interstate commerce, especially for employers with employees in multiple states.

portant benefit for small states that do not have enough litigation activity to generate substantial trade secret case law of their own.<sup>3</sup>

Testing how well the UTSA serves as a source of extraterritorial precedent is difficult, however. First, many states had their own trade secret common law to draw on prior to passage of the UTSA. Second, even if a court uses persuasive authority from another state, the court might then further shape the law to its liking. Third, measuring the impact of extraterritorial precedent is difficult because judicial opinions might import law on some issues and not on others.

West Virginia's UTSA experience provides an answer to these measurement difficulties. An examination of West Virginia law reveals a curious fact: a complete absence of state court trade secret case law, both before and after passage of the UTSA. This characteristic makes West Virginia the perfect test case of a small state with insufficient litigation activity to generate its own trade secret law.

The dearth of trade secret opinions may seem surprising because West Virginia plaintiffs are no shrinking violets. While the state has an undeserved reputation for proplaintiff litigation,<sup>4</sup> plaintiffs are certainly willing and able to file trade secret misappropriation lawsuits.

However, the absence of judicial opinions is not necessarily surprising. West Virginia has no mandatory appellate court; all appeal requests are made to the Supreme Court of West Virginia, which has discretionary jurisdiction.<sup>5</sup> As a result, if the West Virginia Supreme Court does not hear any trade secret cases, then there will be no state court decisions interpreting the statute.<sup>6</sup>

Despite a lack of state supreme court guidance, trade secret cases are adjudicated in West Virginia. The interesting uniformity question is whether lower courts in West Virginia rely on extraterritorial judicial decisions for guidance and whether such guidance is based on the UTSA.

Thus, West Virginia provides a natural experiment to test the role of the UTSA in providing uniformity because there is no cross conta-

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<sup>3</sup> Such uniform laws are not without their costs. To the extent that different states implement their laws differently, each state might need to consider additional information to sort out how it will enforce the law.

<sup>4</sup> See Elizabeth G. Thornburg, *Judicial Hellholes, Lawsuit Climates and Bad Social Science: Lessons from West Virginia*, 110 W. VA. L. REV. 1097, 1122-26 (2008) (pointing out that very few West Virginia small businesses have been sued in the past ten years, and that even fewer were subject to "frivolous" suits).

<sup>5</sup> W. VA. CONST. art. VIII, § 3; W. VA. CODE ANN. § 58-5-1 (LexisNexis 2010).

<sup>6</sup> As discussed below, West Virginia trial court opinions are not published or otherwise readily available.

mination of authority by West Virginia precedent. This Essay measures how West Virginia federal courts use the UTSA and the case law of other states to make legal decisions. It then reports the empirical results of this experiment and discusses how we might learn from it. This Essay is the first foray into this question; ongoing work will consider federal law from every UTSA state. However, West Virginia's natural experiment makes the initial question worth considering on its own.

Part I discusses application of the law in West Virginia's state and federal courts. Despite nearly twenty-five years under the UTSA, not a single state court decision has been issued applying or interpreting the statute. Furthermore, there are virtually no common law trade secret opinions available.

Part II describes the experiment that West Virginia's lack of state precedent allows. Federal courts in West Virginia have considered trade secret issues, and the lack of state authorities forces them to look to out-of-state authorities. This Essay examines whether courts considered out-of-state authorities and if so, which.

Part III describes the results of the analysis. In short, West Virginia federal courts do not look to UTSA cases from other states, or even state court decisions in other states. Instead, they tend to rely on federal precedent based on older common law trade secret principles.

Part IV discusses the implications of these findings for the uniformity of trade secret law. While there may be uniformity in the application of law, such uniformity does not appear to emanate from the UTSA, but instead from application of common law principles that the UTSA supposedly displaced.<sup>7</sup> Further, cases that do not directly confront trade secret misappropriation are poor sources of interpretation of the UTSA.

The Essay concludes by discussing the implications of this study on uniform statutes in general, and discusses the next avenue of research to answer important questions about the role of uniform laws.

## I. TRADE SECRETS IN WEST VIRGINIA

### A. *Adoption of the UTSA*

West Virginia was a relatively early adopter of the UTSA. The National Conference of Commissioners on Uniform State Laws first pro-

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<sup>7</sup> See W. VA. CODE ANN. § 47-22-7 (LexisNexis 2010) (“[T]his article displaces conflicting tort, restitutionary and other law of this state providing civil remedies for misappropriation of a trade secret.”).

posed the UTSA in 1979 and a revision in 1985.<sup>8</sup> West Virginia adopted the UTSA in 1986;<sup>9</sup> it was the ninth state to do so.<sup>10</sup>

West Virginia's version of the statute varies slightly from the Uniform Act. The primary difference relates to damages. The Uniform Act allows both actual damages and disgorgement of the misappropriator's profit, but limits disgorgement to an amount that fully compensates the trade secret owner.<sup>11</sup> West Virginia's implementation, however, allows both actual damages and disgorgement without limit. Though this change might fuel a negative perception of West Virginia as a plaintiff's haven,<sup>12</sup> allowing heightened unjust enrichment disgorgement may actually be a more efficient rule that serves to discourage trade secret misappropriation.<sup>13</sup>

### B. State Case Law

Searches for "trade secret(s)" in both Lexis and Westlaw reveal several opinions by the West Virginia Supreme Court. However, none of these cases relates to a claim of trade secret misappropriation. Each of the reported cases, both before and after the passage of the UTSA, relates to trade secrets in collateral form:<sup>14</sup> noncompetition agreements,<sup>15</sup> Freedom of Information Act requests,<sup>16</sup> protective or-

<sup>8</sup> UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 529 (Supp. 2006).

<sup>9</sup> W. VA. CODE ANN. § 47-22 (LexisNexis 2010); Lisa A. Jarr, Note, *West Virginia Trade Secrets in the 21st Century: West Virginia's Uniform Trade Secrets Act*, 97 W. VA. L. REV. 525, 526 (1995).

<sup>10</sup> JAGER, *supra* note 1, at app. A2.

<sup>11</sup> UNIF. TRADE SECRETS ACT § 3, 14 U.L.A. 529 (Supp. 2006).

<sup>12</sup> See generally Thornburg, *supra* note 4, at 1100-03 (documenting West Virginia's reputation as a "hellhole" for tort defendants).

<sup>13</sup> See Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQ. INTELL. PROP. L. REV. 1, 59 (2007) ("[T]he law disgorges the additional benefit in order to reduce the competitor's incentive to focus more resources on appropriation.").

<sup>14</sup> See Risch, *supra* note 13, at 19-21 (describing cases in which trade secrets were treated as "collateral property"—i.e., where defining a trade secret as property triggered a constitutional or statutory right).

<sup>15</sup> See, e.g., *Wood v. Accordia of W. Va., Inc.*, 618 S.E.2d 415 (W. Va. 2005); *Huntington Eye Assocs., Inc. v. LoCascio*, 553 S.E.2d 773 (W. Va. 2001); *Cutright v. Metro. Life Ins. Co.*, 491 S.E.2d 308 (W. Va. 1997); *Weaver v. Ritchie*, 478 S.E.2d 363 (W. Va. 1996); *Voorhees v. Guyan Mach. Co.*, 446 S.E.2d 672 (W. Va. 1994); *Moore Bus. Forms, Inc. v. Foppiano*, 382 S.E.2d 499 (W. Va. 1989); *Appalachian Labs., Inc. v. Bostic*, 359 S.E.2d 614 (W. Va. 1987) (per curiam); *Torbett v. Wheeling Dollar Sav. & Trust Co.*, 314 S.E.2d 166 (W. Va. 1983) (pre-UTSA); *Helms Boys, Inc. v. Brady*, 297 S.E.2d 840 (W. Va. 1982); *Reddy v. Cmty. Health Found'n of Man*, 298 S.E.2d 906 (W. Va. 1982) (pre-UTSA); *Env'tl. Prods. Co., Inc. v. Duncan*, 285 S.E.2d 889 (W. Va. 1981) (pre-UTSA); *PEMCO Corp. v. Rose*, 257 S.E.2d 885 (W. Va. 1979) (pre-UTSA); *Household*

ders,<sup>17</sup> and other disputes.<sup>18</sup> None of these collateral rulings settles a disputed question of law about West Virginia's trade secret statute. Instead, these cases primarily settle questions of law about the underlying dispute or factual questions about whether a particular piece of information is a trade secret.

While trade secret questions have arisen, a court's statements about trade secret law in collateral cases are not terribly helpful as precedent for the lower courts of a state. First, the rhetoric in collateral cases might favor a stronger view of trade secrets than the court might apply when misappropriation damages are at stake.<sup>19</sup> For example, in *Ruckelshaus v. Monsanto Co.*, the United States Supreme Court interpreted trade secret law as creating a property interest subject to the Fifth Amendment's Takings Clause,<sup>20</sup> despite a running scholarly debate about whether trade secrets are truly property—a debate that might be best resolved by individual state courts.<sup>21</sup>

Second, such collateral cases rarely delve into the factual questions that often animate close questions of trade secret law, such as whether information is “readily ascertainable.” Instead, decisions tend to focus on the broad definition of a trade secret and anything close to that definition qualifies for protection. For example, in the

*Fin. Corp. v. Sutton*, 43 S.E.2d 144 (W. Va. 1947) (pre-UTSA); *Hommel Co. v. Fink*, 177 S.E. 619 (W. Va. 1934) (pre-UTSA).

<sup>16</sup> See, e.g., *State ex rel. Brooks v. Zakaib*, 609 S.E.2d 861 (W. Va. 2004); *Daily Gazette Co. v. W. Va. Dev. Office*, 482 S.E.2d 180 (W. Va. 1996); *AT&T Commc'ns, Inc. v. Pub. Serv. Comm'n of W. Va.*, 423 S.E.2d 859 (W. Va. 1992); *Queen v. W. Va. Univ. Hosps., Inc.*, 365 S.E.2d 375 (W. Va. 1987); see also W. VA. CODE ANN. § 29B-1-4(a)(1) (LexisNexis 2010) (exempting trade secrets from the West Virginia Freedom of Information Act provisions).

<sup>17</sup> See, e.g., *Lovell v. State Farm Mut. Ins. Co.*, 584 S.E.2d 553 (W. Va. 2003); *State ex rel. Westbrook Health Servs., Inc. v. Hill*, 550 S.E.2d 646 (W. Va. 2001); *Keplinger v. Va. Elec. & Power Co.*, 537 S.E.2d 632 (W. Va. 2000); *State ex rel. Garden State Newspapers, Inc. v. Hoke*, 520 S.E.2d 186 (W. Va. 1999); *State ex rel. W. Va. Fire & Cas. Co. v. Karl*, 505 S.E.2d 210 (W. Va. 1998); *Bartles v. Hinkle*, 472 S.E.2d 827 (W. Va. 1996); *State ex rel. Arrow Concrete Co. v. Hill*, 460 S.E.2d 54 (W. Va. 1995); *State ex rel. Shroades v. Henry*, 421 S.E.2d 264 (W. Va. 1992); *State ex rel. Johnson v. Tsapis*, 419 S.E.2d 1 (W. Va. 1992); *Veltri v. Charleston Urban Renewal Auth.*, 363 S.E.2d 746 (W. Va. 1987); *State ex rel. McGraw v. W. Va. Judicial Review Bd.*, 264 S.E.2d 168 (W. Va. 1980) (pre-UTSA).

<sup>18</sup> See, e.g., *Barlow v. Hester Indus.*, 479 S.E.2d 628, 634-35 (W. Va. 1996) (affirming that an employee did not breach a confidentiality agreement in a discrimination case in which the employer counterclaimed that the employee divulged company trade secrets).

<sup>19</sup> See Risch, *supra* note 13, at 19-20 (arguing that the definition of trade secrets matters more when damages are at issue).

<sup>20</sup> 467 U.S. 986, 1003-04 (1984).

<sup>21</sup> See Risch, *supra* note 13, at 20-21 (discussing the differing conceptions of trade secrets, and information generally, as property).

post-UTSA case *State ex rel. Johnson v. Tsapis*,<sup>22</sup> the West Virginia Supreme Court referred to a 1975 Southern District of New York case<sup>23</sup> to determine whether allegedly confidential information should be protected in litigation discovery.<sup>24</sup> The 1975 case, in turn, relied on Section 757 of the First Restatement of Torts,<sup>25</sup> which was the primary pre-UTSA trade secret law. The UTSA was not completed until 1979, and New York still has not enacted it.

The question is why the *Tsapis* court eschewed sister-state UTSA law in favor of a preempted<sup>26</sup> definition of trade secret that is marginally different from the UTSA definition.<sup>27</sup> The likely answer is simple: the choice of common law interpretation did not matter and the Restatement definition was close enough for the purposes facing the court. The parties may not have even briefed the UTSA issues. Had the parties been litigating misappropriation related to subjects where the Restatement differs from the UTSA, the court may well have looked to sister-state UTSA decisions. Courts will not always fail to consider the appropriate law in collateral cases;<sup>28</sup> however, even when they do so, they are considering only one sliver of trade secret law.

It is unclear whether the lack of trade secret opinions is due to a lack of litigated disputes or a lack of interest by the West Virginia Supreme Court. A cursory review implies that the answer is unlikely to be a lack of court interest. First, Petitions for Appeal dating to 2000 reveal only a single request to consider a trade secret misappropriation issue, but the case was resolved on other grounds.<sup>29</sup> A second

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<sup>22</sup> 419 S.E.2d 1, 3 (W. Va.1992).

<sup>23</sup> *United States v. Int'l Bus. Mach. Corp.*, 67 F.R.D. 40 (S.D.N.Y. 1975).

<sup>24</sup> *Tsapis*, 419 S.E.2d at 3.

<sup>25</sup> *Int'l Bus. Mach. Corp.*, 67 F.R.D. at 46-47.

<sup>26</sup> See W. VA. CODE ANN. § 47-22-7 (LexisNexis 2010) (preempting all common law trade secret definitions). To be fair, this section only applies to trade secret misappropriation actions, and *Tsapis* related to a discovery dispute.

<sup>27</sup> Risch, *supra* note 13, at 8 (describing differences between UTSA and Restatement definitions of trade secrets).

<sup>28</sup> See, e.g., *O'Grady v. Superior Court*, 44 Cal. Rptr. 3d 72, 112-13 (Cal. Ct. App. 2006) (criticizing property-like protection for trade secrets in a discovery matter).

<sup>29</sup> Appellant Brief of A.T. Massey Coal Co., Inc. at 64, *A.T. Massey Coal Co., v. Caperton*, 679 S.E.2d 223 (W. Va. 2008) (No. 33350) ("[T]he dispute at issue does not involve trade secrets . . . and as such, there was no need for the court to offer instructions on trade secrets . . ."). Interestingly, this case was recently decided by the United States Supreme Court regarding the duty of elected judges to recuse. *Caperton v. A. T. Massey Coal Co., Inc.*, 129 S. Ct. 2252, 2265 (2009). On remand, *Caperton* was finally reversed on procedural grounds and the judgment, which relies in part on trade secret misappropriation, was not reviewed. *Caperton v. A.T. Massey Coal Co.*, 690 S.E.2d 322, 328 (W. Va. 2009).

case involved a trade secret dispute appealed on other grounds, and in that case, too, the lower court's order was reversed on procedural grounds.<sup>30</sup> The West Virginia Supreme Court maintains a published list of issues considered during conferences where the justices vote on petitions for review, dating back to 1998. That list of issues reveals no other petition relating to trade secret misappropriation.

Additionally, the court has taken several cases with collateral trade secret issues, implying that if unsettled trade secret questions were presented, such questions would get consideration. For example, a recent case involved retention of business records, but the court decided the issue based on agency.<sup>31</sup> Additionally, the court agreed to hear a case relating to breach of contractual confidentiality provisions,<sup>32</sup> though the case later settled prior to hearing. Finally, neither a former justice (term 1996–2008) nor the court clerk (who joined the court in 1998) could recall any petition primarily relating to theft of trade secrets.<sup>33</sup>

The absence of requests for review despite the existence of business litigation is interesting. Because the cost of filing a petition is relatively low, one would expect that the losing party in a trade secret case of any value would file such a petition. There is also no reason to believe that differences from the Uniform Act affect the number or type of cases brought in West Virginia. Differences from the Uniform Act are common,<sup>34</sup> and West Virginia's implementation has not received any publicity. Further, given that the modifications increase the amount of damages available, one would expect the differences to encourage rather than discourage trade secret litigation.

Some might argue that the state has an undeveloped information-based economy and, therefore, employees and competitors have no valuable information to misappropriate. This explanation is unlikely for a variety of reasons.

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<sup>30</sup> *Rashid v. Tarakji*, 674 S.E.2d 1, 4 (W. Va. 2008).

<sup>31</sup> *Timberline Four Seasons Resort Mgmt. Co. v. Herlan*, 679 S.E.2d 329, 338 (W. Va. 2009).

<sup>32</sup> See Supreme Court of Appeals of West Virginia Motion Docket, May 22, 2007, available at [http://www.state.wv.us/wvsc/calendar/may22\\_07md.htm](http://www.state.wv.us/wvsc/calendar/may22_07md.htm) (accepting appeal in *Eagle Research Corp. v. Emerson Elec. Co.*, No. 070374).

<sup>33</sup> Telephone Interviews with Rory Perry, Clerk of Court, in Morgantown, W. Va. (2009–2010); interviews with the Hon. Larry V. Starcher (ret.), in Morgantown, W. Va. (2009–2010).

<sup>34</sup> See Risch, *supra* note 13, at 54 (discussing California's rule regarding "readily ascertainable" information); Jarr, *supra* note 9, at 544–45 (noting changes to uniform code in West Virginia's implementation).



First, evidence implies that there are at least some trade secret cases in West Virginia. As noted above, two appeals involved cases with at least one trade secret misappropriation claim. Further, at least one trade secret case was reported on by the defendant, the *Pittsburgh Post-Gazette*.<sup>35</sup> Other state filings have been reported as well.<sup>36</sup> Unfortunately, little additional data could be gathered with any efficiency. The circuit courts in West Virginia do not keep any electronic record of the types of cases before them, and the state's supreme court has no comprehensive electronic (or other) record of cases heard prior to 2000.

Second, there have been several trade secret cases heard in federal court. This implies that there are trade secret cases at the state level that do not involve diversity jurisdiction or pendant claims in federal question cases involving, for example, copyright or patent infringement.

Third, an inability to find trade secret cases does not mean that they do not exist. For example, Professor Lerner's study of trade secret litigation in California revealed 199 final court decisions from 1990–2006.<sup>37</sup> One would expect there to have been many more such cases in California over that period of time. For example, the author was personally involved in at least twenty California cases including at least one trade secret claim from 1998–2007, nearly ten percent of the total reported decisions in far less time.<sup>38</sup> Most of these cases settled without any final decision, and only one case resulted in an appellate opinion relating to trade secrecy, despite the presence of an appellate court with mandatory jurisdiction. Using a similar ratio, a single appellate opinion in West Virginia may represent twenty cases, or even more, given West Virginia's discretionary appellate jurisdiction.

Fourth, perhaps the best explanation is that trade secret misappropriation cases have not been particularly necessary. One normative justification for the enforcement of noncompetition agreements is that they reduce the costs of enforcing trade secret misappropriation

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<sup>35</sup> Teresa F. Lindeman, *Mylan Inc. Files Suit Against the Post-Gazette*, PITTSBURGH POST-GAZETTE, Aug. 20, 2009, at A1; see also Jeffrey V. Mehalic, *Pittsburgh Post-Gazette Responds to Mylan Suit*, W. VA. BUS. LITIG., Sept. 30, 2009, <http://www.wvbusineslitigationblog.com/articles/intellectual-property> (discussing the Post-Gazette's response to Mylan's complaint).

<sup>36</sup> See Complaint at 3–5, *Job Squad, Inc. v. Champion Indus.*, No. 08-C-1123 (W.Va. Cir. Ct., June 10, 2008) (alleging misappropriation of a company's confidential information).

<sup>37</sup> Josh Lerner, *Using Litigation to Understand Trade Secrets: A Preliminary Exploration* 20 (unpublished manuscript), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=922520](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=922520).

<sup>38</sup> *Id.*

claims where defining tacit knowledge is difficult.<sup>39</sup> As a result, Professor Gilson posits that noncompete agreements reduce the need to determine trade secret misappropriation.<sup>40</sup> Given that the court has decided several restrictive covenant cases, noncompete agreements may be the preferred mode of protecting trade secrets in West Virginia, rendering misappropriation litigation unnecessary.<sup>41</sup>

## II. A NATURAL EXPERIMENT

West Virginia provides a rare opportunity to examine the extrajurisdictional effects of a uniform law. Because the West Virginia Supreme Court has not interpreted the UTSA, the primary—and perhaps only—guidance available to lower courts comes from other jurisdictions.

Thus, studying how West Virginia courts apply trade secret law in the absence of guidance from the state's supreme court might provide valuable information about the UTSA. For example, its code provisions may be self-revealing, such that appellate guidance is unnecessary. Alternatively, the courts of other states may provide guidance as to how particular code sections should be interpreted.

### A. *The Data: Federal Application of the UTSA*

Inaccessible data makes a study of lower state court decisions difficult, but federal courts are a useful substitute. Federal courts must apply state law, and trade secret law is a state question.<sup>42</sup> West Virginia's federal courts must look *somewhere* for guidance in the absence of any state judicial authority at any level. The source of guidance for

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<sup>39</sup> See WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 360 (2003) ("Such covenants . . . are a common device for protecting trade secrets because it is easier to determine whether a former employee is competing with his former employer than whether he is competing with him with the aid of his former employer's trade secrets."); Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 613 (1999) (explaining that covenants not to compete are useful when trade secret protection is lacking).

<sup>40</sup> Gilson, *supra* note 39, at 613 ("Covenants not to compete are said to provide employers critical additional protection in Massachusetts precisely because trade secret protection of tacit knowledge is ineffective.").

<sup>41</sup> This is not to say that the current law is optimal for West Virginia's economy. See Gilson, *supra* note 39, at 606-09 (discussing the value of knowledge spillovers where restrictive covenants are unenforceable); see also ALAN HYDE, *WORKING IN SILICON VALLEY: ECONOMIC AND LEGAL ANALYSIS OF A HIGH-VELOCITY LABOR MARKET* 29-35 (2003) (arguing that innovation is improved through sharing information).

<sup>42</sup> *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1003-04 (1984).

federal courts may be a reasonable proxy for the sources to which West Virginia's circuit courts might look.<sup>43</sup>

Searches in Westlaw, Lexis, and PACER revealed more than 100 opinions and orders that bore any relation to trade secrets.<sup>44</sup> However, many orders were not from misappropriation cases, but instead related to protective orders in discovery. Others did not address any trade secret issues. Thus, twenty opinions were trade secret misappropriation decisions, though some cases involved several issues. Another six considered trade secret issues, but not in misappropriation cases. These decisions were issued by district courts and the United States Court of Appeals for the Fourth Circuit.

While this sample is small, it is the entirety of the available data. There is no reason to believe that federal opinions that could not be located are any different than those that could be located. The data is fully representative of West Virginia's federal experience at the very least. The application of this limited sample to other states is discussed below.

### B. *The Null Hypothesis*

While this study is only quasi-empirical, it is useful to identify the null hypothesis that one might try to reject. The discussion above identifies two different assertions that could be tested:

*Hypothesis 1: The UTSA is self-revealing, and lower courts need no appellate guidance in interpreting its terms.*

It may be that the UTSA is clear and unambiguous, and lower courts simply understand and apply it on its own terms. Testing this hypothesis should not be difficult—courts either look to case law, or they do not.<sup>45</sup>

*Hypothesis 2: In the absence of home-state law, lower courts do not look at sister-state UTSA precedents.*

This hypothesis is framed in the negative: testing the UTSA requires testing whether the uniform law changes the status quo assumption that non-uniform laws do not allow courts to look to their

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<sup>43</sup> See generally David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 311-12 (2010) (discussing federal district courts' citation of "persuasive" out-of-state authorities in trade secret cases).

<sup>44</sup> Full-text searches of unpublished cases dated back to 2003, with some earlier cases. Complaints located in Westlaw and Lexis were used to identify which cases to manually search in PACER. Search terms included "TRADE SECRET" and "MISAP-PROPI".

<sup>45</sup> Future testing might compare opinions from different states.

sister states for guidance. It is more difficult to prove this hypothesis cleanly, as courts might very well look to sister states, even when interpreting non-uniform laws. After all, many states did so before passage of the UTSA.

Nonetheless, this hypothesis should be sufficient for the purposes of determining the role of the UTSA. For example, given the UTSA, one would expect that lower courts would look to other UTSA states rather than Restatement states for guidance. One might also test an alternative hypothesis: that federal courts *do* look to sister-state UTSA precedent for guidance.

### III. DATA ANALYSIS

The case analysis reveals some surprises. Unsurprisingly, Hypothesis 1 is rejected: West Virginia's federal courts refer to case law to interpret the UTSA. Surprisingly, Hypothesis 2 cannot be rejected: the cases that federal courts rely on are *not* sister-state UTSA opinions. Implications of these findings are discussed in Part IV.

#### *A. Hypothesis 1 Is Rejected: The UTSA Is Not Self-Revealing*

The cases quite clearly reveal a reliance on common law interpretation of the UTSA by federal courts. Out of the twenty-six court determinations considered, only six were resolved without citation to some judicial authority somewhere. This result is not surprising, as one might expect courts to routinely look to case law.

The following table summarizes the issues and cases. For each legal issue, the table shows the number of federal court decisions considering the issue (N Opinions), how many of those decisions cite the statute (Cite Statute), how many cite case law (Cite Cases),<sup>46</sup> how many cite both statutes and cases (Cite Both), and how many consider the issue in a proceeding unrelated to trade secret misappropriation (Collateral). The same opinion might have considered multiple issues.

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<sup>46</sup> The source of these cases is discussed below.

**Table 1: Reliance on Case Law**

Issue	N Opinions	Cite Statute	Cite Case(s)	Cite Both	Collateral
Definition of Trade Secret	12 <sup>47</sup>	3	2	6 <sup>48</sup>	6
Definition of Misappropriate	3 <sup>49</sup>	0	1	1	0
Injunction: Public Interest	2	1	1	0	0
Injunction: Irreparable Harm	2	0	2	0	0
Attorneys' Fees	4	1	2	1	0
Reasonable Precautions	3 <sup>50</sup>	0	2	0	0
Total	26	5	10	8	0

Out of the twenty-six issues considered by various opinions, thirteen cited the statute and eighteen looked to some case law. Five looked to the statute only, ten looked to cases only, eight cited both the statute and cases, and three looked to neither.<sup>51</sup> Thus, about two-thirds (69.2%) of the cases looked to authorities other than the statute.

The null hypothesis that courts do not look to case law might lead to a range of expected citations to cases. If the expected citations were 1%, then the z-score would be 34.97, significant to well below .0001. If the expected citations were 20%, the z-score would be 6.27, which is still significant at the same level. These results are sufficient to reject the hypothesis that courts do not look outside the statute under any conceivable statistical test.

<sup>47</sup> One opinion cited neither the statute nor case law.

<sup>48</sup> One opinion also cited the Restatement definition after citing the statute.

<sup>49</sup> One opinion cited neither the statute nor case law.

<sup>50</sup> One opinion cited neither the statute nor case law.

<sup>51</sup> Of the twelve cases defining "trade secret," one cited neither the statute nor case law, and one cited the Restatement definition after citing the statute. Of the three cases defining "misappropriate," one cited neither the statute nor case law; of the three cases citing "reasonable precautions," one cited neither the statute nor case law.

These results indicate that the statute is not self-defining. While there may be some issues that are more self-revealing than others, by and large, courts must interpret the statute and look to other decisions that have done so.

Of course, some judge, at some point in time, must have interpreted the statute without any precedent. Of the precedents cited, nearly all were appellate cases, where multiple judges weighed in on the issue. A couple of collateral cases relied primarily on other district court rulings relating to discovery orders, presumably because there are far fewer appellate opinions relating to discovery.

While the conclusion that lower courts look for guidance appears robust, it is subject to a few limitations. The first is potential bias in the data. It may be that written opinions occur only in cases with more difficult trade secret issues; perhaps simple cases are disposed of without opinion or citation to case law. Nonetheless, there is reason to doubt a bias. Opinions were gathered from both published and unpublished federal district court dockets, and federal judges will often write opinions on the merits even for relatively clear claims. For example, the data above includes one appellate opinion that cites the statute, but then affirms based on the district court's analysis—a "simple" case but still with citation. Further, two opinions excluded from the data are summary reviews of prior written opinions in the same case. Neither case nor statute is cited in those "simple" reviews, but the lower court opinions reviewed do cite several cases. There is no reason to believe that any unlocated or unreviewed rulings would exclude citation to case law; even jury instructions are based in part on case law.<sup>52</sup>

Even if there were a bias, however, the conclusion still has merit: in difficult cases, the statute is not self-revealing and courts must look to other authorities. This is still an important observation.

A second potential limitation is whether one case dominated the results, for example, by citing many cases on many issues while other cases cited only the statute. This is not a likely problem. There were some cases that considered multiple issues, but on some issues only the statute was cited. For other issues, the court cited cases only, or both statutes and cases. In other words, courts appeared to refer to case law when deeming it necessary and did not refer to case law when it was apparently unnecessary.

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<sup>52</sup> See, e.g., JUDICIAL COUNCIL OF CAL., CIVIL JURY INSTRUCTIONS, §§ 4400–12 (2010), available at [http://www.courtinfo.ca.gov/jury/civiljuryinstructions/documents/caci\\_20091215.pdf](http://www.courtinfo.ca.gov/jury/civiljuryinstructions/documents/caci_20091215.pdf) (citing case law as a basis for trade secret jury instructions).

A third potential limitation is a selection effect. For example, close cases may settle without an opinion at a greater frequency. Additionally, cases involving noncompetition agreements may settle more often. Selection effects do not alter the findings here, as close cases would be expected to require *more* citation rather than less, strengthening the conclusion that courts must consider case precedent. Further, settled noncompetition agreements need not have an effect on the complexity of underlying issues one way or the other.

A fourth potential limitation is whether West Virginia federal courts differ from other courts. This concern is discussed in detail below.

*B. Hypothesis 2 Cannot Be Rejected: Courts Ignore Sister-State Law*

Somewhat surprisingly, the data does not warrant rejection of Hypothesis 2. While the decisions studied routinely cite to precedential authorities, they do not consider sister-state opinions interpreting the UTSA.

The following table summarizes the results. For each legal issue, the table lists the number of decisions that cited a precedent (N Citing), the number of precedents cited (Precedents Cited), the number of such precedents that were state court authorities (State Precedent), and the number of authorities that were grounded in UTSA principles (UTSA Law). For example, a state court precedent may not have been grounded in the UTSA or a federal court precedent may have been based on the UTSA.

**Table 2: Consideration of Sister-State Authority**

Issue	N			
	Citing	Precedents Cited	State Precedent	UTSA Law
Definition of Trade Secret	8	31	8	6
Definition of Misappropriate	2	2	0	0
Injunction: Public Interest	1	1	0	0
Injunction: Irreparable Harm	2	7	0	1
Attorneys' Fees	3	2	1	1
Reasonable Precautions	2	4	1	1
Total	18	47	10	9

Of the forty-seven authorities cited, only ten were state court precedents (21%), and only nine were UTSA-based precedents (19%). Further, there was no overlap: *none* of the state court precedents was grounded in the UTSA and *only* federal court opinions relied on the UT-

SA. This result is not terribly surprising given that all of the state court precedents were from collateral cases decided in West Virginia—the federal decisions reviewed did not look to state court opinions of other states at all,<sup>53</sup> so they could not have looked to UTSA-based state precedent.

Some precedents failed to rely on the UTSA because they were issued before the passage of the UTSA in the relevant jurisdiction. Other precedents failed to rely on the UTSA even though the UTSA was the prevailing law. None of the West Virginia federal opinions studied explicitly discussed whether the precedent cited was based on the UTSA or not.

If the null hypothesis is interpreted to mean that 1% of the precedents cited are sister-state UTSA cases, the z-score is 12.5, which is significant to a probability of .0001. That is, the courts do *sometimes* cite to UTSA law. However, if the null hypothesis is interpreted to mean that 20% of the precedents cited are sister-state UTSA cases, the z-score is -0.14, which is not statistically significant. As a result, the null hypothesis that courts do not look to sister-state UTSA cases can be rejected in its strictest form, but cannot be rejected under the more realistic hypothesis that a court sitting in a state subject to the UTSA will cite to UTSA cases 20% of the time.<sup>54</sup>

In fact, the alternative hypothesis—that courts *do* look to sister-state UTSA cases 80% (or even 50%) of the time—would be *rejected* at the .0001 confidence level with respective z-scores of -10.42 and -4.23. While the studied courts seek guidance to interpret trade secret law, they do not do so by specially considering sister-state UTSA precedent.

The above tests were for citation to *any* UTSA precedent, including federal district and appellate court opinions. If the tests were for *state court* UTSA precedent only, the result would be zero, not even meeting the 1% hypothesis level.

One potential bias in the data is the citation of the same case multiple times. This did occur with respect to one case, *Tsapis*, which was cited four times. *Tsapis* accounts for nearly half of the state precedents cited on any issue, but adds no UTSA-based precedents because it is not based on the UTSA. Thus, multiple-citation bias is in favor of

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<sup>53</sup> Many of the cited cases were from the United States Court of Appeals for the Fourth Circuit (which includes West Virginia) or from district courts within that circuit. However, cases were cited from several other courts, such as the Courts of Appeal for the Seventh and Tenth Circuits.

<sup>54</sup> Even 20% is a relatively low percentage. One might expect courts sitting in non-UTSA states to cite UTSA based precedent 20% of the time based solely on overlapping UTSA and Restatement legal principles. A simple test of this hypothesis would be New York citations to case law from UTSA states.



state court citation rather than against it. Additionally, the bias further illustrates the failure of the UTSA to guide decisionmaking. As discussed above, when faced with a question about how to define trade secrets, the state court in *Tsapis* looked to non-UTSA law. Moreover, *Tsapis* accounts for only four of the forty-seven precedents, which does not substantially affect the conclusion that the decisions studied fail to cite state court or UTSA cases.

A further potential bias is a difference between West Virginia federal courts and those of other states; this bias is discussed below.

#### IV. A FAILURE OF UNIFORMITY?

In many ways, West Virginia's experience is not unique. Many state courts will look to the decisions of other states for guidance.<sup>55</sup> This is, after all, the purpose of a uniform statute. West Virginia extends the principle to the extreme, by applying *only* the laws of other states. This allows the state to act as a de facto control group to test various aspects of the uniform law. It appears, however, that the UTSA fails the test of uniformity because it is not being used as a source of case law precedent. Instead, older common law is being used.

##### A. *Non-Uniformity*

The West Virginia experience implies that the UTSA fails as a uniform source of precedent for sister states that adopt it. When faced with a lack of home-state-court guidance, West Virginia federal courts look to out-of-state precedent based on the Restatement (Second) of Torts, the primary source of trade secret common law. Indeed, when faced with collateral trade secret questions, such as litigation discovery protective orders, West Virginia's own Supreme Court also looked to non-UTSA precedent.

As discussed above, one might argue that West Virginia courts are somehow different from other federal courts. This potential source of bias seems unlikely for two reasons.

First, there is no reason to believe that West Virginia federal judges are somehow less qualified to assess foreign precedent than other federal judges. West Virginia district court judges are expe-

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<sup>55</sup> See Almeling, *supra* note 43, at 311-12 (finding that federal courts often cite to cases from other jurisdictions). Almeling does not look at each precedent to determine whether the precedent is applying the UTSA.

rienced, their opinions reviewed were well-reasoned, and the precedents they cite are factually analogous—just not based on the UTSA.

Second, the non-UTSA cases cited in the opinions were themselves issued by federal courts in UTSA states. While not every case fell into this category, enough did to imply that it is not only federal courts in West Virginia that apply non-UTSA common law. Of course, a full study of other federal courts will answer the question.

Third, there may be issues presented in cases from other states that were not addressed by West Virginia's courts. To the extent those issues related to legal issues unique to the UTSA, like "independent economic value" or whether a secret is "readily ascertainable," courts of other states may rely on UTSA precedent to a greater degree than the decisions studied here. Any further study must compare citations not only in the aggregate, but also with respect to each legal issue.

Finally, the results of this study should not be overstated. While it appears that the UTSA has not yet contributed to uniformity, the law may still provide uniformity. Trade secret law has a long and rich history, including the Restatement of Torts. While the UTSA was intended to unify variable state laws, it may be that the Restatement principles still do so—at least in states with little state court precedent applying the UTSA.

In fact, a likely reason for the observed citation pattern is that the litigating parties (or the courts themselves) seek out analogous factual patterns rather than UTSA-specific interpretations. Because many analogous factual patterns may have arisen under the Restatement, courts will cite them. The failure, if there is one, appears to be leaving out a discussion about why such factual patterns *also* apply under the UTSA. This may reflect desire on the part of the parties of the litigation to rely on fact patterns or inexperience with the nuances of trade secret law. While the UTSA purports to preempt the common law, drafters of uniform laws might be better served by explicitly identifying the common law rules that are superseded by the statute. The UTSA does, in fact, do this to some extent in the comments, but if inexperience is the issue then statutory exclusions might be helpful.

### *B. The Role of Collateral Cases*

Finally, this analysis reinforces the assertion above that collateral cases are not the most helpful sources of trade secret law. All three of the trade secret definition opinions that failed to cite the statute (or any authority at all) were collateral cases.

This result might mean that the UTSA is more self-revealing than the full set of opinions implies. When collateral cases are excluded, the number of opinions citing just cases or both the statute and cases decreases by four. Further, all the precedent cited in collateral cases is non-UTSA based. This observation implies that in collateral cases, the UTSA does not adequately answer questions on its own and courts are not looking to UTSA judicial opinions to clarify the issues.

However, this trend is little different than noncollateral cases where courts also failed to cite UTSA or state court precedent. Thus, there is no reason to believe that federal courts are ignoring UTSA case law any more in collateral cases than they are in direct misappropriation actions.

Nonetheless, the evidence implies that collateral cases are not a good basis for UTSA analysis. For example, it may be that collateral cases can be properly decided without reference to the UTSA. The collateral cases studied were nearly all related to the definition of a trade secret for issuing a protective order under the Federal Rules of Civil Procedure.<sup>56</sup> While it might be preferable to use underlying state law to determine whether information is a trade secret deserving of protection in discovery, it is foreseeable that common law should be used to interpret what a “trade secret” is under the federal rules.

This confirms that collateral cases should not be used as substantive law precedent. *Tsapis*, for example, was a protective order case, which followed non-UTSA federal law to define trade secrets, presumably based on the reasons discussed here. However, the case has since been used in noncollateral cases as a basis for defining trade secrets in a misappropriation action. This failure to distinguish between collateral and noncollateral cases leads to further non-uniformity.

## CONCLUSION

This brief study has demonstrated an apparent failure of the UTSA to provide a uniform body of precedent to be used in all the states adopting it. While the evidence presented here could be limited to just one state’s experience, at least some of the findings here will likely apply to some—if not many—other states. This Essay is an introduction to an ongoing research project categorizing opinions from all UTSA states designed to extend this study’s findings.

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<sup>56</sup> See FED. R. CIV. P. 26 (allowing for a protective order “requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way”).

Future research also should consider whether the citation pattern described above is unique to federal courts—something that could not be tested in this study. For example, federal courts might generally cite to federal precedent that is not based on the UTSA, while state courts might cite to state precedent that is based on the UTSA. If this were true, then federal courts may be creating federal common law based on the Restatement rather than the UTSA.

More generally, this Essay provides the basis for further study of uniform laws in other legal areas. By comparing the results of this study with analysis of other uniform laws, a more comprehensive picture of whether uniform statutes achieve the goal of providing uniform case law will emerge.

At the very least, this study shows the importance of a state court's interpretation of its own implementation of uniform statutes. In this sense, the availability of uniform laws may have actually contributed to West Virginia's nonreliance on the UTSA. Because there was no incentive for locally developed jurisprudence, lower courts were left with uncertainty about the law. Had there been some state court precedent, West Virginia's federal courts would have surely looked to those precedents first. The result may not have been uniformity with other states, but federal opinions would have been consistent with state law interpretation of the statute.

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