

1985 Wisconsin Act 236

AN ACT to renumber and amend 893.51; to amend 16.955 (2), 19.36 (5), 94.68 (4), 94.70 (3) (b), 133.13 (2), 147.08 (2) (c), 227.09 (7) (b), 804.01 (3) (a) 7 and 905.08; to repeal and recreate 943.205 (2) (e); and to create 134.90, 196.14 (3) and 893.51 (2) of the statutes, relating to misappropriation of trade secrets.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

PREFATORY NOTE: This bill, recommended by the legislative council's special committee on uniform trade secrets act, places the uniform trade secrets act (act), prepared by the national conference of commissioners on uniform state laws, into Wisconsin statutory form. The bill incorporates proposed amendments to the act presently before the commissioners and also amends various state statutes relating to trade secrets.

The conference of commissioners on uniform state laws established a special committee on uniform trade secrets protection act in February of 1968. The first reading of a proposed draft was held before the conference on August 10, 1972. After a period of inactivity, the special committee presented a tentative draft of a proposed bill at the 1978 annual meeting which, because of the lapse of time, was considered a first reading. The draft at that time was proposed for final reading and adoption at the 1979 annual meeting and, at the 1979 annual meeting, the act was approved and recommended for enactment in all the states.

According to the commissioners' prefatory note to the act, the act codifies the basic principles of common law trade secret protection in a manner which preserves its essential distinction from patent law. The prefatory note states:

"Like traditional trade secret law, the Uniform Act contains general concepts. The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law."

The act, according to the commissioners' comments, also codifies the results of the better reasoned cases concerning the remedies for trade secret misappropriation.

The act permits a court to enjoin actual or threatened misappropriation of a trade secret and, if necessary, to continue this injunction after the trade secret has ceased to exist, in order to eliminate any commercial advantage from the misappropriation. Where the court determines that it would be unreasonable to prohibit future use, the court may condition future use on payment of a royalty. The court may also compel affirmative acts to protect a trade secret.

The court may also award damages for actual loss and unjust enrichment. If wilful and malicious misappropriation exist, the court may also award punitive damages not exceeding twice the award for actual loss and unjust enrichment. The court is also authorized to award reasonable attorney fees to the prevailing party if a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith or wilful and deliberate misappropriation exist. The act requires that an action for misappropriation of trade secrets must be brought within 3 years after the misappropriation is discovered or should have been discovered by the exercise of reasonable diligence.

This bill differs in some respects from the act; several sections have been added and various current statutes have been amended to be consistent with the terms of the act. Where these variations occur, they are referenced in the NOTE after the provision.

In addition, sections 9, 10 and 12 of the act are not included in the bill. Section 9 is not included because the legislative reference bureau discourages the inclusion of "short titles" in bill drafting. Section 10, a severability clause, is not included in the bill because s. 990.001 (11) is a general severability provision for all Wisconsin statutes. Section 12 of the act is not included in the bill because it is not necessary to repeal any existing Wisconsin statutory provision.

SECTION 1. 16.955 (2) of the statutes is amended to read:

16.955 (2) INFORMATION TO BE CONFIDENTIAL. All information furnished under sub. (1) shall be considered a confidential ~~trade secret~~ and may be compiled or published only for purposes of general statistical comparison. The information may be disclosed to agencies of the state or of the federal government, under the same or similar rules of confidentiality.

NOTE: Current law provides that in the case of an emergency declared by the governor under s. 16.955 (1), the state may compel the disclosure of information to the department of administration. Under s. 16.955 (2), this information "shall be considered a confidential *trade secret* and may be compiled or published only for purposes of general statistical comparison". This amendment deletes the term "trade secret" and treats the information as "confidential".

SECTION 2. 19.36 (5) of the statutes is amended to read:

19.36 (5) TRADE SECRETS. An authority may withhold access to any record or portion of a record containing information qualifying as a ~~common law trade secret~~ as defined in s. 134.90 (1) (c).

NOTE: Wisconsin law currently permits the withholding of access to any record or portion of a record under the public records statute if it contains information qualifying as a *common law trade secret*. This amendment deletes the reference to common law trade secret and substitutes a cross-reference to the definition of trade secret in this bill in s. 134.90 (1) (c).

SECTION 3. 94.68 (4) of the statutes is amended to read:

94.68 (4) The department may require a person licensed under sub. (1) to submit to the department any information which is needed in the administration of ss. 94.67 to 94.71 or ch. 160. The licensee may designate any information submitted under this subsection as a trade secret as defined in s. 134.90 (1) (c). The department may require the licensee to substantiate

that the information is in fact a trade secret. Any information which the department determines to be a trade secret shall be kept confidential by the department. The department may enter into agreements with any person to allow for the review of trade secret information if the department ensures that the trade secret information will be kept confidential. The department may require a licensee to submit a summary of trade secret information for the purpose of providing information to the public.

NOTE: This amendment defines the term "trade secret", as used in the current statutes relating to pesticide regulations, by cross-reference to the definition in this bill in s. 134.90 (1) (c).

SECTION 4. 94.70 (3) (b) of the statutes is amended to read:

94.70 (3) (b) Use for personal advantage or reveal, other than to federal or state agencies, the courts, physicians, pharmacists or other persons requiring the information for the performance of their duties, any information relative to formulas acquired in the administration of ss. 94.67 to 94.71 which may be confidential under the federal act or otherwise constitute a trade secret as defined in s. 134.90 (1) (c).

NOTE: This amendment defines the term "trade secret", as used in the current statutes relating to pesticide regulations, by cross-reference to the definition in this bill in s. 134.90 (1) (c).

SECTION 5. 133.13 (2) of the statutes is amended to read:

133.13 (2) Any person providing information under this section may designate the information as confidential business information or a trade secret as defined in s. 134.90 (1) (c). The department of justice shall notify the person providing the information 15 days before any information designated as confidential or trade secret is disclosed to the legislature, a state agency, a local unit of government or any other person. The person furnishing the information may seek a court order limiting or prohibiting the disclosure. In such cases the court shall weigh the need for confidentiality of the information against the public interest in the disclosure. Confidentiality is waived if the person providing the information consents to disclosure or if disclosure is authorized by a court.

NOTE: This amendment defines the term "trade secret", as used in the statutes relating to interrogatories under the anti-trust statute, by cross-reference to the definition of the term in this bill in s. 134.90 (1) (c).

SECTION 6. 134.90 of the statutes is created to read:

134.90 Uniform trade secrets act. (1) DEFINITIONS.
In this section:

(a) "Improper means" includes espionage, theft, bribery, misrepresentation and breach or inducement of a breach of duty to maintain secrecy.

(b) "Readily ascertainable" information does not include information accessible through a license agreement or by an employe under a confidentiality agreement with his or her employer.

(c) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique or process to which all of the following apply:

1. The information 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. The information is the subject of efforts to maintain its secrecy that are reasonable under the circumstances.

NOTE: Subsection (1) of the bill is derived from section 1 (1) and (4) of the act.

Subsection (1) (a) differs from the act proposed by the national conference of commissioners on uniform state laws by deleting the words "through electronic or other means" following the word "espionage". The deleted words are unnecessary since it appears that the drafters of the act intended that all forms of espionage be included in the definition of "improper means".

The commissioners' comments to section 1 indicate proper means to discover a trade secret include:

1. Discovery by independent invention;
2. Discovery by "reverse engineering"; that is, by starting with a known product and working backward to find the method by which it was developed;
3. Discovery under a license from the owner of the trade secret;
4. Observation of the item in public use or on public display; and
5. Obtaining the trade secret from published literature.

The supreme court of Wisconsin has adopted the trade secret provisions contained in the American Law Institute's, *Restatement of the Law of Torts*. [See *Restatement of the Law of Torts* (1939), American Law Institute, ss. 757 and 758, hereafter "*Restatement*".] The *Restatement* comments define a trade secret as a secret consisting of any formula, pattern, device or compilation of information which is used in a business and which gives the owner of the secret an opportunity to obtain an advantage over competitors who do not know or use the secret. A trade secret:

"... Differs from other secret information in a business ... in that it is not simply information as to single or ephemeral events in the conduct of a business A trade secret is a process or device for continuous use in the operation of a business." [See *Restatement*, s. 757, comment (d).]

The condition of "continuous use" specifically has been adopted by the Wisconsin supreme court in *Abbott Laboratories v. Norse Chemical Corporation*, 33 Wis. 2d 445, 147 N.W. 2d 529 (1967), and *Wisconsin Electric Power Company v. Public Service Commission*, 100 Wis. 2d 530, 329 N.W. 2d 178 (1973). The commissioners' comment to the definition of trade secret in the act provides, in part, that:

"The definition of 'trade secret' contains a reasonable departure from the Restatement of Torts (first) definition which required that a trade secret be 'continuously used in one's business'. The broader definition in the proposed act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. The definition includes information that has commercial value from a negative viewpoint, for example, the result of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor."

The special committee considered adding several examples to the definition of trade secrets, in s. 134.90 (1) (c), to expressly provide that items such as new biological products

are eligible for trade secret status under this bill. After deliberation, the special committee concluded that the term "information", as used in this bill, is broad enough to include "biological materials" and "materials embodying information". The special committee specifically directed that the NOTE reflect this conclusion, as well as the intent that the definition be construed as including, *but not be limited to*, those items specifically named. This reflects the special committee's intent that the list in s. 134.90 (1) (c) (intro.) be treated as examples and not as a comprehensive listing of items eligible for trade secret status.

A definition of "readily ascertainable" has been added to clarify that information that is obtained through a license agreement or by an employee under a confidentiality agreement with that employee's employer is not considered to be "readily ascertainable" under s. 134.90 (1) (c) 1. This clarification is intended to avoid the assertion, for example, that information available through a licensing agreement is not eligible for trade secret status because it *is* "readily ascertainable" by "proper means".

The definition of "person" contained in section 1 (3) of the act is deleted from this bill. Section 990.01 (26), stats., defines "person" to include all partnerships, associations and bodies politic or corporate. The statutory definition includes all of those persons or entities listed in section 1 (3) of the act which reads:

"'Person' means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity."

However, because a regulatory statute will not be construed to apply to the state unless the statute expressly so provides, a provision expressly applying s. 134.90 to the state appears in s. 134.90 (2) (intro.), below. [See *State ex rel. Department of Public Instruction v. Department of Industry, Labor and Human Relations*, 68 Wis. 2d 677, 299 N.W. 2d 591 (1975).]

The definition of "misappropriation" in the act contains substantive material. It is Wisconsin drafting practice to exclude substantive material from definitions contained in the statutes. Consequently, the material relating to misappropriation appears in s. 134.90 (2), below.

(2) MISAPPROPRIATION. No person, including the state, may misappropriate or threaten to misappropriate a trade secret by doing any of the following:

(a) Acquiring the trade secret of another by means which the person knows or has reason to know constitute improper means.

(b) Disclosing or using without express or implied consent a trade secret of another if the person did any of the following:

1. Used improper means to acquire knowledge of the trade secret.

2. At the time of disclosure or use, knew or had reason to know that he or she obtained knowledge of the trade secret through any of the following means:

a. Deriving it from or through a person who utilized improper means to acquire it.

b. Acquiring it under circumstances giving rise to a duty to maintain its secrecy or limit its use.

c. Deriving it from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.

d. Acquiring it by accident or mistake.

NOTE: Subsection (2) is derived from section 1 (2) of the act. This subsection transforms the definition of "misappropriation" in the act into a substantive provision of s. 134.90.

(3) INJUNCTIVE RELIEF. (a) 1. A court may grant an injunction against a person who violates sub. (2). Chapter 813 governs any temporary or interlocutory injunction or ex parte restraining order in an action under this section, except that no court may issue such an injunction or restraining order unless the complainant makes an application which includes a description of each alleged trade secret in sufficient detail to inform the party to be enjoined or restrained of the nature of the complaint against that party or, if the court so orders, includes written disclosure of the trade secret. The complainant shall serve this application upon the party to be enjoined or restrained at the time the motion for the injunction is made or the restraining order is served, whichever is earlier.

2. Except as provided in subd. 3, upon application to the court, the court shall terminate an injunction when a trade secret ceases to exist.

3. The court may continue an injunction for a reasonable period of time to eliminate commercial advantage which the person who violated sub. (2) otherwise would derive from the violation.

(b) In exceptional circumstances, an injunction granted under par. (a) may condition future use of a trade secret by the person who violated sub. (2) upon payment of a reasonable royalty by that person to the owner of the trade secret for no longer than the period of time for which the court may enjoin or restrain the use of the trade secret under par. (a). Exceptional circumstances include a material and prejudicial change of position, prior to acquiring knowledge or reason to know of a violation of sub. (2), that renders an injunction inequitable.

(c) In appropriate circumstances, the court may order affirmative acts to protect a trade secret.

NOTE: Subsection (3) is derived from section 2 of the act.

Section 134.90 (3) (a) 1 differs from the act in that additional provisions have been added governing the issuance of injunctions and restraining orders. The new provisions require that these actions be taken in accordance with the general procedures in ch. 813, except that any application for an injunction or order must include a detailed written disclosure of all the alleged trade secrets for which protection is being sought. The special committee considered, but did not adopt, a requirement that a *complete* written description of each trade secret be provided. The intent of the provision is to allow the defendant to bring in evidence early in the process as to whether the information is a trade secret and allow the plaintiff an opportunity to respond to specific allegations. In addition, the party to be enjoined or restrained must receive a copy of the application at the time the motion for the injunction is made or at the time the restraining order is served, whichever is earlier. Under the general provisions of the bill in both s. 134.90 (3) and (5), the court is authorized to take actions to protect a trade secret.

(4) DAMAGES. (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of a violation of sub. (2) renders a monetary recovery inequitable, a court may award damages to the complainant for a violation of sub. (2). A court may award damages in addition to, or in lieu of, injunctive relief under sub. (3).

Damages may include both the actual loss caused by the violation and unjust enrichment caused by the violation that is not taken into account in computing actual loss. Damages may be measured exclusively by the imposition of liability for a reasonable royalty for a violation of sub. (2) if the complainant cannot by any other method of measurement prove an amount of damages which exceeds the reasonable royalty.

(b) If a violation of sub. (2) is wilful and malicious, the court may award punitive damages in an amount not exceeding twice any award under par. (a).

(c) If a claim that sub. (2) has been violated is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or a violation of sub. (2) is wilful and deliberate, the court may award reasonable attorney fees to the prevailing party.

NOTE: Subsection (4) is derived from sections 3 and 4 of the act.

(5) **PRESERVATION OF SECRECY.** In an action under this section, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting a protective order in a discovery proceeding, holding an in-camera hearing, sealing the record of the action and ordering any person involved in the action not to disclose an alleged trade secret without prior court approval.

NOTE: Subsection (5) is based on section 5 of the act.

(6) **EFFECT ON OTHER LAWS.** (a) Except as provided in par. (b), this section displaces conflicting tort law, restitutionary law and any other law of this state providing a civil remedy for misappropriation of a trade secret.

(b) This section does not affect any of the following:

1. Any contractual remedy, whether or not based upon misappropriation of a trade secret.
2. Any civil remedy not based upon misappropriation of a trade secret.
3. Any criminal remedy, whether or not based upon misappropriation of a trade secret.

NOTE: Subsection (6) is based on section 7 of the act.

(7) **UNIFORMITY OF APPLICATION AND CONSTRUCTION.** This section shall be applied and construed to make uniform the law relating to misappropriation of trade secrets among states enacting substantially identical laws.

NOTE: Subsection (7) is based on section 8 of the act.

SECTION 7. 147.08 (2) (c) of the statutes is amended to read:

147.08 (2) (c) Any records or other information furnished to or obtained by the department in the administration of this chapter, including effluent data, shall be a public record as provided in subch. II of ch. 19. Any records or other information, except effluent data, provided to the department may be treated as confidential upon a showing to the secretary that said records or information is entitled to protection as a trade secret as defined in s. 134.90 (1) (c). Nothing

herein shall prevent the use of any confidential records or information obtained by the department in the administration of this section in compiling or publishing general analyses or summaries, if such analyses or summaries do not identify a specific owner or operator.

NOTE: This amendment defines the term "trade secret", as used in current law, relating to pollution discharge elimination, by cross-reference to the definition in this bill in s. 134.90 (1) (c).

SECTION 7m. 196.14 (3) of the statutes is created to read:

196.14 (3) Any trade secret, as defined in s. 134.90 (1) (c).

SECTION 8. 227.09 (7) (b) of the statutes is amended to read:

227.09 (7) (b) In this subsection, "trade secret" has the meaning given under specified in s. 943.205 (2) (e) ~~134.90 (1) (c)~~.

NOTE: Currently, s. 227.09 (7) (a) permits a hearing examiner to take protective measures to protect the trade secrets of parties to an administrative hearing. Section 227.09 (7) (b) currently defines "trade secret" by a cross-reference to the definition in the criminal code, s. 943.205 (2) (e). This amendment defines "trade secret" by a cross-reference to the term in this bill in s. 134.90 (1) (c).

SECTION 9. 804.01 (3) (a) 7 of the statutes is amended to read:

804.01 (3) (a) 7. That a trade secret, as defined in s. 134.90 (1) (c), or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way;

NOTE: Wisconsin law currently permits a court to make an order that a trade secret not be disclosed or that a trade secret be disclosed only in a designated way. This amendment defines the term "trade secret", as used in the current statutes relating to protective orders, by cross-reference to the definition in this bill in s. 134.90 (1) (c).

SECTION 10. 893.51 of the statutes is renumbered 893.51 (1) and amended to read:

893.51 (1) ~~An~~ Except as provided in sub. (2), an action to recover damages for the wrongful taking, conversion or detention of personal property shall be commenced within 6 years after the cause of action accrues or be barred. The cause of action accrues at the time the wrongful taking or conversion occurs, or the wrongful detention begins.

NOTE: See s. 893.51 (2) in this bill.

SECTION 11. 893.51 (2) of the statutes is created to read:

893.51 (2) An action under s. 134.90 shall be commenced within 3 years after the misappropriation of a trade secret is discovered or should have been discovered by the exercise of reasonable diligence. A continuing misappropriation constitutes a single claim.

NOTE: Section 893.51 (2) is based on section 6 of the act. It provides that a trade secret action must be commenced within 3 years after the misappropriation of a trade secret is discovered or should have been discovered by the exercise of reasonable diligence.

SECTION 12. 905.08 of the statutes is amended to read:

905.08 Trade secrets. A person has a privilege, which may be claimed by ~~him~~ the person or ~~his~~ the person's agent or employe, to refuse to disclose and to prevent other persons from disclosing a trade secret as defined in s. 134.90 (1) (c), owned by ~~him~~ the person, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice. When disclosure is directed, the judge shall take such protective measure as the interests of the holder of the privilege and of the parties and the furtherance of justice may require.

NOTE: Wisconsin law currently provides that a person has a privilege to refuse to disclose and to prevent other persons from disclosing a trade secret owned by the person, under certain circumstances. This amendment defines the term "trade secret", as used in the current statutes relating to the trade secret evidentiary privilege, by cross-reference to the definition in this bill in s. 134.90 (1) (c).

SECTION 13. 943.205 (2) (e) of the statutes is repealed and recreated to read:

943.205 (2) (e) "Trade secret" has the meaning specified in s. 134.90 (1) (c).

NOTE: Currently, "trade secret" is defined in the criminal code [s. 943.205 (2) (e)] as follows:

SECTION 15. **Cross-reference changes.** In the sections of the statutes listed in Column A, the cross-references shown in Column B are changed to the cross-references shown in Column C:

| A | B | C |
|------------------|----------------------------------|----------------------|
| Statute Sections | Old Cross-References | New Cross-References |
| 946.82 (4) | 943.20 (3)(b) to (d), 943.205 | 943.20 (3)(b) to (d) |

NOTE: Under current law, theft of a trade secret under s. 943.205 is defined as "racketeering activity" under s. 946.82 (4) in the Wisconsin organized crime control act. This provision deletes the reference to s. 943.205 from the list of felonies included in the definition of "racketeering activity".

SECTION 16. **Initial applicability.** The treatment of sections 134.90 and 893.51 of the statutes and the creation of section 893.51 (2) of the statutes by this act first apply to actual or threatened misappropriation of

(e) "Trade secret" means the whole or any portion or phase of any scientific, technical, laboratory, experimental, development or manufacturing information, equipment, tooling, machinery, design, process, procedure, formula or improvement, or any business information used or for use in the conduct of a business, which is manifestly intended by the owner not to be available to anyone other than the owner or persons having access thereto with the owner's consent and which accords or may accord the owner a competitive advantage over other persons.

This amendment repeals this definition of "trade secret" and replaces it with the definition of the term contained in s. 134.90 (1) (c).

SECTION 14. **Nonstatutory provisions.** The treatment of sections 134.90 and 893.51 of the statutes and the creation of section 893.51 (2) of the statutes by this act apply to a continuing misappropriation of a trade secret which begins prior to, on or after the effective date of this SECTION.

NOTE: This SECTION is derived from section 11 of the act. However, as currently drafted, the act would *not* apply to a continuing misappropriation of a trade secret which began *before* the effective date of the act. This provision provides that the bill *does* apply to the continuing misappropriation of a trade secret which began *before* the effective date of the bill.

trade secrets occurring on the effective date of this SECTION.

NOTE: This SECTION is derived from section 11 of the act.