FOR MORE INFORMATION

HAWKINS PARNELL
Atlanta, GA
www.hpylaw.com

Robert S. Thompson
rthompson@hpylaw.com

# ALABAMA

## 1. What is the statutory authority for trade secret protection in your state?

The Alabama Trade Secrets Act, Ala. Code §§ 8-27-1, *et. seq.*

## 2. What are the elements of a trade secret claim in your state, and are any unique?

Under Alabama Code § 8-27-3 (1993), a person who discloses or uses the trade secret of another, without privilege to do so, is liable for misappropriation of the trade secret if:

(1) That person discovered the trade secret by improper means;

(2) That person's disclosure or use constitutes a breach of confidence reposed in that person by the other;

(3) That person learned the trade secret from a third person, and knew or should have known that (i) the information was a trade secret and (ii) that the trade secret had been appropriated under circumstances which violate the provisions of (1) or (2) above; or

(4) That person learned the information and knew or should have known that it was a trade secret and that its disclosure was made to that person by mistake.

## 3. How specific do your courts require the plaintiff to be in defining its "trade secrets?" (This could include discussing discovery case law requiring particularity.)

Under Alabama law, a "trade secret" is information that:

a. Is used or intended for use in a business;

b. Is included or embodied in a formula, pattern, compilation, computer software, drawing, device, method, technique or process;

c. Is not publicly known and is not generally known in the trade or business of the person asserting that it is a trade secret;

d. Cannot be readily ascertained or derived from publicly available information;

e. Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy; and

f. Has significant economic value.

Ala. Code § 8-27-2(1):

What constitutes a trade secret is a question of fact for the trial court. *Public Systems, Inc. v. Towry*, 587 So. 2d 969, (Ala. 1991). The definition retains the Restatement of

Torts, Section 757 (1939) view that a trade secret, first, must relate to a trade or business, and, second, must be secret. While trade secret law should reach secrets not yet in use, it should not reach all secrets regardless of their nature or the purpose for which they are kept. The Alabama Trade Secrets Act is not an all-purpose privacy statute. To qualify as a trade secret the secret must be used, or, if not used, intended for use in a trade or business. The terms "trade" and "business" are not limited to businesses for profit but may include a variety of other activities that take on the characteristics of a trade or business. The burden is on the Plaintiff to show that the alleged trade secret is included or embodied in one of the categories listed in subparagraph b. The categories listed should be construed broadly to encourage the development of ideas.

4. What is required in your state for a plaintiff to show it has taken reasonable measures to protect its trade secrets? (Preferably answer with practical, factual requirements from decisions.)

Ala. Code § 8-27-2(1)(e) requires that the purported "trade secret" be the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The burden is on the party asserting trade secret protection to show that reasonable steps were taken to protect secrecy. The party asserting a trade secret bears the burden of showing that the information meets each of the ATSA's elements—"a through f." *Estate of Wilson v. Herbert*, 262 So. 3d 1180, 1186 n.4 (Ala. 2018). So although information like detailed client lists "may, in proper circumstances, be afforded the protection of a trade secret," the ATSA's element (e) requires the claimant to prove that it treated such information as secret. *Public Systems, Inc. v. Towry*, 587 So. 2d 969, 973 (Ala. 1991).

In *Allied Supply Co., Inc. v. Brown*, 585 So. 2d 33 (Ala. 1991), the Alabama Supreme Court identified actions that failed to show reasonable efforts at secrecy under the ATSA. There, the Court found *no* reasonable secrecy as to the company's client lists when:

> "At least 10 Allied employees had free access to the lists. . . . the lists were not marked "confidential"; the lists were taken home by employees; multiple copies of each list existed; and the information on the lists was contained in the receptionist's Rolodex file." *Id.* at 36.

Likewise, a federal court in A found no reasonable secrecy when (1) employees who needed to know secret information had free access to it; (2) the company did not lock filing cabinets containing the information; (3) the company did not mark the information as "confidential"; and (4) the company did not require its employees to execute confidentiality agreements. *Alagold Corp. v. Freeman*, 20 F. Supp. 2d 1305, 1315 (M.D. Ala. 1998).

On the other hand, courts have identified two efforts at secrecy that typically meet the mark under the ATSA. The first is the company's requirement that employees sign a confidentiality agreement. In one case, the Alabama Supreme Court found reasonable secrecy based solely on confidentiality and non-solicitation agreements explicitly prohibiting employees' use of trade secrets. *See Ex parte W.L. Halsey Grocery Co.*, 897 So. 2d 1028, 1034 (Ala. 2004); *see also Alagold Corp.*, 20 F. Supp. 2d at 1315 (finding no secrecy, in part because of lack of confidentiality or non-compete agreement); *Docrx, Inc. v. Consulting*, No. CA 10-0364-C, 2012 U.S. Dist. LEXIS 204327, 2012 WL 13049365, *20 (S.D. Ala. Oct. 31, 2012) (same). The second act is the company's practice of marking the allegedly trade secret information as "confidential". *See Unisource Worldwide, Inc. v. S. Cent. Ala. Supply, LLC*, 199 F. Supp. 2d 1194, 1209 (M.D. Ala. 2001).

5. Does your state apply the inevitable disclosure doctrine? If so, how is it applied?

No.

6. How have courts in your state addressed the defense that an alleged trade secret is "reasonably ascertainable?" What needs to be shown to prevail on that theory?

Not only must the information not be generally known, but it must not be readily ascertainable or derivable from information that is publicly available. Ala. Code § 8-27-2(1)(d) of is intended to disallow from trade secret protection information that is readily available and does not require substantial research investment to obtain.

7. What are the most recent "hot button" issues addressed by courts in your state regarding trade secret claims?

There are no specific "hot button" issues.

8. How does your state's Trade Secret law differ from the DTSA, as the latter is applied in your Circuit?

The courts treat the Alabama Trade Secrets Act (ATSA) and the DTSA are very similar. To plead a violation of the DTSA, a plaintiff must allege that he "'(i) possessed information of independent economic value' that (a) 'was lawfully owned by' the plaintiff, (b) for which the plaintiff 'took reasonable measures to keep secret,' and (ii) the defendant 'used and/or disclosed that information' despite (iii) 'a duty to maintain its secrecy.'" *Resnick v. City of Troy*, 2019 U.S. Dist. LEXIS 79881, 2019 WL 2092567, *5 (M.D. Ala. May 13, 2019) (quoting *Trinity Graphic, USA, Inc.*, 320 F. Supp. 3d at 1293). Similarly, under the ATSA, "in order to hold any defendant liable for misappropriating trade secrets, [a plaintiff] must first establish that it maintained trade secrets, as defined in the ATSA, and that those secrets are at issue in [the] case." B*ell Aerospace Servs., Inc. v. U.S. Aero Servs., Inc.*, 690 F. Supp. 2d 1267, 1273 (M.D. Ala. 2010); Ala. Code. § 8-27-2(1); *see Parker v. Petrovics*, 2020 U.S. District Lexis 123029 (Northern Dist. Alabama July 14, 2020). The District Courts have not noted any distinct differences in applying the elements of the ATSA versus the DTSA.