



Section 11-1207 has been mentioned at least twice by the Court of Special Appeals in reported decisions.<sup>5</sup> But, insofar as this court can discern, § 11-1207 has not been the subject of a holding by a Maryland appellate court in a reported case. This case presents the occasion for an examination and application of the statute's displacement provision.

The defendant has moved to dismiss counts IV through VII of the complaint. The court held a hearing on December 7, 2018. For the reasons set out below, the court concludes that counts IV through VII of the plaintiff's complaint are displaced by § 11-1207 of the statute and, for that reason, will be dismissed.

#### Background<sup>6</sup>

The plaintiff, Omni Direct, Inc. ("Omni Direct") is a direct marketing company that targets and serves the Hispanic market. Omni Direct is a Florida Corporation, with its principal office in Miami, Florida.

The defendant, Creative Direct Response, Inc. ("CDR"), is a Maryland corporation, with its principal office in Bowie, Maryland. CDR provides direct-mail marketing services for charities and other non-profit organizations. In other words, CDR helps non-profit organizations raise money.

Omni Direct and CDR personnel first met at a direct marketing industry trade show in California in May 2016. Later that year, CDR approached Omni Direct about three existing CDR non-profit clients that were considering direct marketing fundraising campaigns targeting

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<sup>5</sup> *First Union National Bank v. Steele Software Systems Corp.*, 154 Md. App. 97, 148-49 & n. 18 (2003), cert. denied, 380 Md. 619 (2004); *Bond v. Polycycle, Inc.*, 127 Md. App. 365, 377 n. 2 (1999).

<sup>6</sup> The court's decision is on the defendant's motion to dismiss. Consequently, the facts discussed in this decision are drawn from the plaintiff's complaint, with every reasonable inference being afforded to the pleader. *Heavenly Days Crematorium, LLC v. Harris, Smariga & Assoc., Inc.*, 433 Md. 558, 568 (2013); *Pendleton v. State*, 398 Md. 447, 458-59 (2007).

Hispanic markets. On July 29, 2016, the parties signed a non-disclosure agreement (“NDA”), with a term of two years. According to the NDA, it was executed to facilitate discussions regarding “a contemplated transaction between the Parties regarding Hispanic Marketing business development collaboration (the ‘Contemplated Transaction’).” Among other things, each signatory acknowledged that there would be disclosure to each other of “confidential information,” which was a defined term in the NDA.<sup>7</sup>

Each party agreed to use the other’s “confidential information” solely to facilitate business discussions between the parties and to limit the disclosure of such information only to those employees who “needed to know.” Omni Direct also agreed not to solicit business from any CDR customer during the term of the NDA, and for one year thereafter. There is no reciprocal restriction on CDR.

Omni Direct claims that CDR engaged in a wholesale, multi-year breach of the NDA, and that CDR lured Omni Direct into signing the NDA with false promises of a long-term business collaboration. Omni Direct alleges that CDR assured it, repeatedly, that CDR did not have its own Hispanic marketing plan and had no intention of starting such a business. However, some two years after working with CDR, Omni Direct learned that CDR planned to launch its own, in-house Hispanic marketing program and that CDR had done so. Omni Direct claims that CDR did all of this under the shelter of, and using information it otherwise would not know, but for Omni Direct’s sharing of information under, the NDA

#### Discussion

Maryland’s statute, the MUSTA, is derived from the Uniform Trade Secrets Act. That Act was adopted by the Commissioners on Uniform State Laws at their 1979 annual conference.

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<sup>7</sup> Exhibit A to the Complaint, at ¶ 1.

In 1985 the Conference made important amendments to the Act.<sup>8</sup> As the Prefatory Note to the Uniform Act explains, trade secret law had developed unevenly among the states and there was “undue uncertainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret.”<sup>9</sup> What the Uniform Act provided was “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.”<sup>10</sup>

Trade secrets under the MUSTA are not restricted to high-tech secrets like computer or software programs. Section 11-1201(e) defines a trade secret to mean any information, “including a formula, pattern, compilation, program, device, method, technique, or process” that has “independent economic value.”<sup>11</sup> In short, low-tech secrets like “customer lists, pricing information, financial information marketing strategies, and methods of doing business” are covered.<sup>12</sup>

The required degree of secrecy is that the matter to be protected not be generally known, and secrecy “efforts that are reasonable under the circumstances.”<sup>13</sup> The MUTSA provides for

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<sup>8</sup> Uniform Trade Secrets Act with 1985 Amendments (Annual Conference, August 2-9, 1985).

<sup>9</sup> Uniform Trade Secrets Act with 1985 Amendments, Prefatory Note, p. 1 (Annual Conference, August 2-9, 1985).

<sup>10</sup> *Id.* at 2.

<sup>11</sup> Md. Code Ann., Com. Law § 11-101(e) (2013 Rep. Vol.).

<sup>12</sup> Milton E. Babirak, 31 U. Balt. L.F at 191.

<sup>13</sup> Md. Code Ann., Com. Law § 11-1201(e)(2) (2013 Rep. Vol.).

both legal<sup>14</sup> and equitable<sup>15</sup> remedies in the event of a misappropriation, as well as for attorney's fees under certain circumstances.<sup>16</sup>

Pertinent to this case is the construction of Section 7 of the Uniform Act, the source of the displacement provision. Maryland adopted the 1985 amended version of the Uniform Act, including the amended Section 7. Maryland codified this provision at § 11-1207 of the Commercial Law Article. The only change made by the General Assembly was the addition of language regarding the preservation of sovereign immunity for the State and the limitations of the Maryland Tort Claims Act. Otherwise, Section 7 was adopted verbatim.<sup>17</sup>

By its terms, § 11-1207(a) of the MUTSA “displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.”<sup>18</sup> According to the General Assembly, the MUTSA “shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this subtitle among the States enacting it.”<sup>19</sup> Under the MUSTA, as adopted, unaffected are “[c]ontractual remedies, whether or not based on misappropriation of a trade secret,” and “[o]ther civil remedies *that are*

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<sup>14</sup> Md. Code Ann., Com. Law § 11-1203 (2013 Rep. Vol.). Several measures of compensatory damages are specified, § 11-1203(b) & (c), along with punitive damages of up to twice the amount of compensatory damages. § 11-1203(d).

<sup>15</sup> Md. Code Ann., Com. Law § 11-1202 (2013 Rep. Vol.). Both actual and threatened misappropriation may be enjoined and affirmative acts to protect a trade secret may be compelled by court order.

<sup>16</sup> Md. Code Ann., Com. Law § 11-1204 (2013 Rep. Vol.).

<sup>17</sup> Peter B. Swann, Maryland Uniform Trade Secrets, 49 Md. L. Rev. at 1056 n. 2.

<sup>18</sup> Md. Code Ann., Com. Law. § 11-1207(a) (2013 Rep. Vol.).

<sup>19</sup> Md. Code Ann., Com. Law § 11-1208 (2013 Rep. Vol.). Uniformity of construction of a body of law enacted among the States is an important consideration, along with regular principles of statutory construction. *Blitz v. Beth Isaac Adas Israel Congregation*, 352 Md. 31, 43-44 (1998).

not based upon misappropriation of a trade secret.”<sup>20</sup> The Comment to the 1985 Amendments to the Uniform Act clarify that the displacement provision, Section 7, “does not apply to a duty imposed by law that is not dependent upon the existence of competitively significant secret information, like an agent’s duty of loyalty to his or her principal.”<sup>21</sup>

Notwithstanding the laudable goals of uniformity, clarity and consistency in the law, the displacement provision of the Uniform Act has divided courts into a variety of camps regarding its scope. Some courts have decided that if something is or is alleged to be a trade secret in the complaint, then all common law claims, however styled or configured, except for those specifically saved by statute, such as contract-based remedies, are displaced. This is the case whether or not the information sought to be protected ultimately rises to the level of a trade secret.<sup>22</sup>

Some courts occupy what appears to be a middle ground. For those courts, where the common law claims alleged in the complaint “seek civil remedies based *solely* on the alleged misappropriation of a trade secret” the common law claims are displaced.<sup>23</sup> Due to the vagaries

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<sup>20</sup> Criminal remedies are expressly exempted from the displacement language. Md. Code Ann., Com. Law § 11-1207(b)(iii) (2013 Rep. Vol.) (emphasis added).

<sup>21</sup> Uniform Trade Secrets Act with 1985 Amendments, p. 14 (Annual Conference, August 2-9, 1985).

<sup>22</sup> E.g., *BlueEarth Biofuels, LLC v. Hawaiian Electric Co., Inc.*, 235 P.3d 310, 323 (Haw. 2010); *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 663 (N.H. 2006); *New South Equipment Mats. LLC v. Keener*, 989 F. Supp. 2d 522, 533-35 (S.D. Miss. 2013); *Firetrace USA, LLC v. Jesclard*, 800 F. Supp.2d 1042, 1047-48 (D. Ariz. 2010) (collecting cases). See also *HDNET, LLC v. North American Boxing Council*, 972 N.E.2d 920, 922-26 (Ind. App. 2012) (the displacement language of the Indiana statute is stronger than that found in either the 1979 or 1985 versions of the UTSA).

<sup>23</sup> E.g., *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002) (emphasis added). Compare *Atlantic Medical Specialists, LLC v. Gastroenterology Associates, P.A.*, No. CFV N15C-06-245CEB, 2017 WL 1842899 at \*16 (Del. Super., April 20, 2017) (tortious interference with contract claims not displaced) with *Alarm.com Holdings, Inc. v. ABS Capital Partners, Inc.*, No. CV 2017-05083-JL, 2018 WL 3006118 at \*11 (Del. Ch., June 15, 2018) (common law claim for misappropriation of confidential information is displaced).

of pleading, however, it is not always simple to determine whether or not a particular claim is based solely upon the misappropriation of trade secrets.

Other courts take a more stringent approach to displacement, holding that only claims which are actually trade secrets are displaced.<sup>24</sup> In that circumstance, if the information at issue does not ultimately rise to the level of a statutorily defined trade secret, a plaintiff is free to pursue other civil remedies in the same lawsuit based on that same information.<sup>25</sup> Unfortunately, this approach leads to exactly what was sought to be avoided by the Uniform Act: pleading in the alternative that something both is and is not a trade secret in the same complaint, and then adding nearly every conceivable common law count to the same set of operative facts which also constitutes the misappropriation of trade secrets. In other words, the complaint says that defendant stole my trade secrets, but if it turns out that what they took were not trade secrets, then the defendant committed every other tort known at common law, all based on the same core set of facts. That is what we have in this case.

It is not entirely clear which approach the Court of Special Appeals will adopt. In *Bond*, the issue was not squarely presented. The court's language however, is suggestive of the middle camp. The court in *Bond* said: "Thus, a claim for usurpation of a corporate opportunity, if based solely on misappropriation of a trade secret, cannot survive once a remedy under the MUTSA is

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<sup>24</sup> Some courts say this cannot, or should not, be done prior to the summary judgment stage. This court disagrees. One purpose of § 11-1207 is to avoid costly and time-consuming discovery on claims that cannot go to trial because of statutory displacement. Some 80% of the cost of business litigation is pre-trial preparation.

<sup>25</sup> *Orca Communications Unlimited, LLC v. Noder*, 337 P.3d 545, 549-50 (Ariz. 2014); *Burbank Grease Services, LLC v. Sokolowski*, 717 N.W.2d, 781 (Wis. 2006); *LendingTools.com, Inc. v. The Banker's Bank, N.A.*, 426 P.3d 538 (Kan. App. 2018).

obtained.<sup>26</sup> This language in Bond is *dicta* because the court, in the same paragraph said it “need not address” the argument, although the court did make the statement recited above.

In *First Union*, the intermediate appellate court seemed to take a broader view of displacement under the MUTSA, again, albeit in *dicta*. In that case, the court made the following observation:

3S chose not to bring its action under the Maryland Uniform Trade Secrets Act (“MUTSA”). Indeed, it repeatedly renounced any claim that First Union stole or misappropriated trade secrets. These renouncements constituted a strategic decision not to subject the claim to the limitations contained in MUTSA. . . . MUTSA remedies displace “conflicting tort, restitutionary, and other laws of this State providing Civil remedies for misappropriate of a trade secret.” . . . except for contractual remedies. *Thus, a claim under MUTSA would have precluded 3S’s claim for fraud.* 3S elected to disclaim and MUTSA claim, and sued for breach of contract and fraud.<sup>27</sup>

Count I of the complaint filed in this case alleges that CDR violated the NDA, a breach of contract claim that is specifically preserved by Section 11-1207(b)(1)(i) of the MUTSA. Counts II and III of the complaint claim that CDR stole trade secrets belonging to Omni Direct in violation of the MUTSA and its federal counterpart.<sup>28</sup> The remaining counts, IV through VII plead a variety of causes of action, all based, in this court’s view on the same set of operative facts, that is, CDR’s alleged misappropriation of trade secrets.

This parties’ relationship in this case was an arm’s-length business transaction. There was no special or fiduciary relationship between the parties. Omni Direct has not directed the court’s attention to any specific facts pled in the complaint that would give rise to liability for its

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<sup>26</sup> 127 Md. App. at 377 n. 2.

<sup>27</sup> 154 Md. App. at 148-49 n. 16 (emphasis added).

<sup>28</sup> 18 U.S.C. § 1836 (2016).



common law claims without also constituting the misappropriation of trade secrets under the MUTSA. Instead, “it has simply offered vague speculation that such facts might exist.”<sup>29</sup> All of the claims Omni Direct alleged in the complaint are grounded in the same core of operative facts. All are pegged to the misappropriation of Omni Direct’s trade secrets by CDR.

Omni Direct cites several decisions by federal judges in the District of Maryland, which hold that certain common law claims are not displaced.<sup>30</sup> The court has considered these cases but concludes that these decisions are not persuasive authority. The court in those cases did not explore the intent of the drafters of the Uniform Act or discuss the rationale for the displacement provision. Each case gave relatively brief treatment to the displacement provision, in the context of the decision.

In any event these cases are distinguishable. For example, in *Swedish Civil Aviation v. Project Management Enterprises, Inc.*,<sup>31</sup> the court held that a common law breach of confidential relationship claim was not displaced. Notably, the plaintiff in that case had not claimed that the confidential information appropriated by the defendant was a trade secret.<sup>32</sup> In this case, by contrast, Omni Direct alleged that all of the business information misappropriated by CDR was a

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<sup>29</sup> *3AComposites USA, Inc. v. United Industries, Inc.*, No. 5:14-CV-5147, 2015 WL 5437119 at \*7 (W.D.Ark., Sept. 15, 2015) (footnote omitted); see *Yeiser Research & Development, LLC v. Teknor Apex Co.*, 281 F. Supp.3d 1021, 1049-51 (S.D. Cal. 2017) (finding displacement under Delaware law where claims were based on same set of core facts).

<sup>30</sup> *E.g.*, *Telogis, Inc. v. Insight Mobile Data, Inc.*, No. PWG-14-563, 2014 WL 73366768 at \*4-\*5 (D. Md., Dec. 19, 2014); *Structural Preservation Systems, LLC v. Andrews*, No. CIV.A. MJG-12-1850, 2013 WL 3820023 (D. Md., July 23, 2013). In *Telogis*, for example, the plaintiff claimed both (*i.e.*, at the same time) that the information stolen both was and was not a trade secret. 2014 WL 7336678 at \*5. The court rejected the defendant’s displacement argument on the ground that pleading in the alternative is allowed in federal courts. Alternative pleading also is allowed in Maryland, but that is not a cogent reason to disregard an express statutory displacement provision.

<sup>31</sup> 190 F. Supp.2d 785 (D. Md. 2002).

<sup>32</sup> *Id.* at 802.

trade secret.<sup>33</sup> There are no different facts pleaded with respect to the nature of the information misappropriated. In other words, Omni Direct has said that everything stolen was a trade secret but, if it was not, we want to pursue common law tort claims. This is exactly what Section 7 of the Uniform Act was designed to eliminate.

Omni Direct seeks to differentiate its fraudulent inducement claim, pled in count V, by contending it has properly plead the elements of common law tort of fraudulent inducement to enter into a contract, not simply misuse of its trade secrets. That is, Omni Direct alleges that CDR entered into the NDA with the intent of stealing Omni Direct’s confidential information and falsely promised Omni Direct a long-term business collaboration to induce Omni Direct to sign the NDA and then reveal its trade secrets. Omni Direct asks this court to follow those cases that have avoided the displacement language of the statute by permitting a plaintiff to bring common law claims that allege “extra” facts; that is, facts in addition to those alleged in the trade secrets count.<sup>34</sup>

This court disagrees with this approach. It allows a claimant with a trade secrets claim to hedge its bets, and then some. If it is proven at trial that trade secrets were misappropriated, the claimant obtains all of the benefits of the statute. If the proof at trial falls short of showing the misappropriation of a trade secret, the claimant then defaults to the common law claims based on essentially, if not identically, the same core set of operative facts – “you lied to us to get our trade secrets and you have misused them.” In this court’s view, this was one of the major problems that the drafters of the Uniform Act sought to eliminate.

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<sup>33</sup> Complaint at ¶¶ 73-83.

<sup>34</sup> See *Miller UK Ltd v. Caterpillar Inc.*, 859 F. Supp. 2d 921, 945-47 (N.D. Ill. 2012) (fraudulent inducement claims not displaced); See also *New Lenox Industries, Inc. v. Fenton*, 510 F. Supp. 2d 893, 908 (M.D. Fla. 2007).

Further, Omni Direct loses nothing by this court's construction of the displacement clause (except, perhaps, litigation leverage). Assuming that what Omni Direct has pled in count II of the complaint is true, this fact pattern would constitute the misappropriation by CDR of trade secrets by "improper means" under the MUSTA and entitle Omni Direct to damages. Under the statute, the concept of improper means "includes theft, bribery, *misrepresentation*, breach of inducement of a duty to maintain secrecy, or espionage through electronic or other means."<sup>35</sup> Omni Direct expressly alleged in count V that its secrets were obtained by improper means. Omni Direct's rights are adequately protected, therefore, by allowing it to attempt to prove that CDR acquired its trade secrets through the precise improper means it has alleged in count V of its complaint – fraudulently entering into the NDA – which, if proven to be true, resulted in the misappropriation of Omni Direct's trade secrets by CDR.<sup>36</sup>

In this case, all of Omni Direct's common law claims are grounded in the same facts that support Omni Direct's trade secret claims. There are no theories of relief that are supported by facts unrelated to the misappropriation of trade secrets claim.<sup>37</sup> This being the case, the court holds that they are preempted by § 11-1207 of the MUTSA.

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<sup>35</sup> Md. Code Ann., Com. Law § 11-1201(b) (2013 Rep. Vol.) (emphasis added). The use of the word "includes" means that the methods of violating the statute are not limited to those specifically stated. *See Transdes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 657 (4<sup>th</sup> Cir. 1993).

<sup>36</sup> Md. Code Ann., Com. Law § 11-1201(c)(1) (2013 Rep. Vol.).

<sup>37</sup> *See Trident Prod. & Servs. LLC v. Canadian Soiless Wholesale, Ltd.*, 859 F. Supp. 2d 771, 782 (E.D. Va. 2012).

Conclusion

For the reasons set out above, CDR's motion to dismiss counts IV through VII of the complaint (DE # 12), is granted. It is so ordered this 18th day of December 2018.

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Ronald B. Rubin, Judge