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Recent Developments: Optic Graphics, Inc. v. Agee: Maryland Court Defines "Trade Secret" and Determines When Sanctions Are Appropriate for Bad Faith Claim under Maryland Uniform Trade Secret Act

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Brandt argued that public policy demanded that major corporations should not be permitted " to purchase only the benefits in an asset purchase transaction, while denying its attendant liabilities to the consuming public." *Id.* Nissen countered that the asset purchase agreement was a valid and fully negotiated contract in which the burden of liability for injuries caused by defective products had been expressly allocated to the predecessor corporation. *Id.* Nissen urged the court to adopt the general rule with only the four traditional exceptions, because the rule balanced the " rights of creditors and successor corporations," as well as " maintain[ed] adequate protection for the interests of consumers . . . from fraudulent and unjust corporate transactions." *Id.* at 568.

Before reaching its decision, the court of appeals considered the doctrine of strict liability and its concept of fault. *Id.* The court acknowledged that public policy concerns for shifting the financial risk of loss to those better able to bear it was a policy consideration in adopting the doctrine into Maryland law. *Id.* at 569 (citing *Phipps v. General Motors Corp.*, 363 A.2d 955, 963 (Md. 1976)). The court, however, emphasized that the thrust of strict liability actions was that the sellers of products were at fault when they put a defective or unreasonably dangerous product on the market and a user was injured. *Id.* at 569. The court found that a corporate successor " [was] not a seller," and therefore, not involved in " bringing the product and the user together." *Id.* In addressing the present case, the court stated that it would be " unfair to require a party to bear the cost of unassumed and uncontemplated products liability claims primarily because it [was] still in business and [was] perceived as a 'deep pocket.'" *Id.*

The court lastly reviewed the holdings from a minority of states who have adopted the continuity of enterprise theory. *Id.* at 571-73. In analyzing these cases, the court failed to find a compelling reason to deviate from the traditional corporate successor liability rule. *Id.* at 573. The court concluded that the adoption of the continuity of enterprise theory would be inconsistent with Maryland law, because it would require the court to abandon its fundamental principle that there must be fault to impose tort liability. *Id.* at 574. Thus, the court of appeals expressly rejected the continuity of enterprise theory. Because Brandt's claim rested solely upon the court's adopting that theory as a fifth exception, the court affirmed the trial court's decision granting Nissen's motion for summary judgment. *Id.*

In *Nissen Corp. v. Miller*, the Court of Appeals of Maryland formally adopted the general rule of nonliability of successor corporations, together with its four traditional and well-recognized exceptions. The rule and the four exceptions were found to be sufficient to protect both the interests of the consumer and business in products liability cases. With the court's decision, Maryland joined the majority of states adhering to a traditional rule of non-liability of successor corporations with its four exceptions.

- Linda M. Googins

Optic Graphics, Inc. v. Agee: MARYLAND COURT DEFINES " TRADE SECRET" AND DETERMINES WHEN SANCTIONS ARE APPROPRIATE FOR BAD FAITH CLAIM UNDER MARYLAND UNIFORM TRADE SECRET ACT.

For the first time ever, an appellate court has examined the terms of the Maryland Uniform Trade Secret Act of 1989. In *Optic Graphics, Inc. v. Agee*, 591 A.2d 578 (Md. Ct. Spec. App. 1991), the Court of Special Appeals of Maryland held that Maryland's Uniform Trade Secret Act protects a broader scope of information as trade secrets than the Restatement of Torts. The court noted, however, that the Restatement should still serve as a guide in determining what information qualifies as a trade secret. The court also upheld the part of Maryland's Uniform Trade Secret Act providing for sanctions against parties who initiate or maintain a claim in bad faith or without reasonable justification, but only if the claim was entirely without color and imputed egregious behavior.

Co-defendant Ross Agee worked for Optic Graphics ("Optic"), an established vinyl looseleaf binder manufacturer with a work force of nearly 375 people and annual revenues of $27 million. Agee's responsibilities initially included estimating costs related to printing jobs for which Optic intended to bid. Agee's duties required that he have access to certain information which Optic considered confidential. As with all of its employees, the company maintained a personnel file on Agee which included a confidentiality agreement.

Agee and his co-defendant, Michael Zanella, made efforts over a number of years to join resources and buy a printing business. In June, 1989, without Optic's knowledge, Agee and Zanella took the opportunity to buy a looseleaf bindery business and formed what eventually became the third and final co-defendant in this case, A to Z Looseleaf, Inc. (" A to Z"). In order to obtain financing for the deal, Agee and Zanella prepared a formal business plan including, among other things, a marketing strategy. By October, 1989, they had secured a loan which would lead to the settlement of their new business venture in February, 1990.

Optic first found out about the forthcoming A to Z when Agee resigned from his position with Optic in December, 1989. At this time, A to Z had no contracts, assets, customers, or raw material orders. On January 24, 1990, Optic filed suit alleging that Agee had misappropriated Optic's trade secrets and breached a confidentiality agreement. Specifically, Optic contended that Agee relied on pricing and marketing information from his estimating job to develop the A to Z business plan and, in doing so, breached the confidentiality agreement by disclosing the information to third parties without Optic's consent. The law suit effectively stalled Agee's and Zanella's efforts to get A to Z into operation.

Once settlement efforts failed, both parties prepared for trial. During his deposition, Agee questioned the authenticity of his signature on a photocopy of the confidentiality agreement. Agee's counsel hired a handwriting expert who determined that the signature on the photocopy of the agreement was a forgery. On March 13, 1990, Agee's counsel informed Optic that it had expert testimony attesting to the forged signature. Despite the validation of the forgery and its fatal effect on Optic's claim, Optic refused to meet Agee's and Zanella's demand for dismissal.

At the close of trial, the court found that, because the pricing and marketing information in this case was not a trade secret, no misappropriation took place. The trial court imposed sanctions on Optic to pay Agee's court costs and attorney expenses accruing from the time Agee made Optic aware of the forgery, and Optic appealed.

The court of special appeals first considered whether the pricing and marketing information was trade secret material, the parameters of which the court had never established under the Maryland Uniform Trade Secret Act (" the Act"), Md. Com. Law Code Ann. § 11-1201 to 1209 (1990). The court recognized that, under the Act, the information must meet two requirements in order to be protectable as a trade secret. *Optic Graphics*, 591 A.2d at 587. First, the information must derive " independent economic value" from not becoming generally known or ascertainable by those who stand to benefit from the information's disclosure and use. *Id.* Second, the party claiming the information as a trade secret must have taken " reasonable efforts" to maintain its secrecy. *Id.*

The court recognized the rudiments of trade secret law in Maryland. Before the Act came into law, Maryland courts followed the Restatement of Torts section 757 (1939) as the authority on whether certain information qualified as a trade secret. *Optic Graphics*, 591 A.2d at 585. The Restatement lists both a definition for trade secret and six factors for determining if certain information is protectable as a trade secret. *Id.*

The court compared the requirements of both the Restatement and the Act and considered that the most distinct difference between the two authorities involves the use of the information in business. *Optic Graphics*, 591 A.2d at 585 n.13. The court emphasized that, while the Act does not require that the information have a purpose in business, such a requirement is necessary in the Restatement, making the scope of the Act much broader in coverage. *Id.* at 585. The court, therefore, held that the Act encompasses the Restatement of Torts. The court emphasized the importance of the Restatement as sound guidance in establishing meaning of the terms within the Act. *Optic Graphics*, 591 A.2d at 585.

While the court of special appeals recognized that pricing and marketing information can be a trade secret, the information involved in *Optic Graphics* was not a trade secret. The court affirmed the trial court's findings that: (1) the pricing and marketing information contained too many variables that reduced its value to Optic's competitors; (2) the information was so easily obtainable that it did not constitute a trade secret; and (3) A to Z would have been so small in comparison to Optic that the information would have been of no value to the defendants. *Id.* at 585-86.

The court of special appeals then interpreted the meaning of section 11-1204, " Award of Attorney's Fees," in the Act providing for the distribution of legal costs between parties in a trade secret case, such as *Optic Graphics*. *Id.* at 587. In so doing, the court separated the trade secret misappropriation claim and the breach of the confidentiality agreement claim and decided that section 11-1204 applied only to the former. The court noted that section 11-1204 of the Act provides that a court may award attorney's fees if the opposing party makes a misappropriation claim in bad faith. *Id.* The court reviewed similar case law dealing with Maryland Rule of Procedure 1-341 regarding the imposition of sanctions. The court posited that, in discouraging egregious behavior by applying sanctions, a court should not be so harsh as to dissuade parties from asserting colorable claims. *Id.* at 589-90. The court emphasized that sanctions should not apply unless there is " clear evidence" that a party initiated or continued an action that was " entirely without color and taken for other improper purposes amounting to bad faith." *Optic Graphic*, 591 A.2d at 590 (quoting *Needle v. White*, 568 A.2d 856, 861 (Md. Ct. Spec. App. 1990)).

In light of the court's earlier finding that pricing and marketing information is generally protectable as a trade secret, the court of special appeals viewed the evidence as suggesting that Optic may have had reason to believe its misappropriation claim was colorable. *Optic Graphics*, 591 A.2d at 590. The court, therefore, found that Optic was rightfully exercising its free access to the courts regardless of whether or not it could win its case, and that the trial court erred in relying solely on Agee's trial memoranda and application for sanctions to find that Optic initiated the claim in bad faith. *Id.*

As for Optic's breach of contract claim regarding Agee's confidentiality agreement, the court affirmed the trial court's finding that Optic continued the suit in bad faith after learning of the forgery. *Id.* The court held that the evidence of both the forged signature on the agreement and Optic's awareness of the forgery on March 13, 1990, may have carried the requisite weight for the trial court to find that Optic continued the suit in bad faith. The court remanded the case with the view that the fees and expenses from the misappropriation claim may be severable from those associated with the breach of contract claim, depending on what the trial court finds on remand. *Id.* at 590.

The decision of the court of special appeals in *Optic Graphics* offers the Maryland legal community some insight as to the direction lower courts may take in deciding disputes under the Maryland Uniform Trade Secret Act. While courts must regard the Restatement of Torts as a guide in defining terms within the Act, they shall look specifically to the Act for settling such disputes. Furthermore, the Maryland legal community can expect courts to look to general provisions under Maryland Rules of Procedure and Maryland case law when sanctioning parties who bring bad faith trade secret misappropriation claims under the Maryland Uniform Trade Secret Act. As for the ambitious employees who decide to branch off on their own from the powerful, more established employer, the court of special appeals has interpreted the Act to fully protect those daring souls and their former employers who act in good faith.

- Michael E. Muldowney

Mitchell v. Maryland Casualty Co.: FOR THE PURPOSES OF ASBESTOS-RELATED DISEASES UNDER A GENERAL LIABILITY INSURANCE POLICY, "BODILY INJURY" OCCURS WHEN THE VICTIM IS INITIALLY EXPOSED TO THE HAZARDOUS CONDITION.

In *Mitchell v. Maryland Casualty Co.*, 595 A.2d 469 (Md. 1991), the Court of Appeals of Maryland held that, for the purposes of insurance claims involving asbestos, "bodily injury" occurs when asbestos fibers are inhaled and retained in the lungs, even if no diagnosable disease has manifested itself. If the period of coverage has expired under a general liability insurance policy for an installer of asbestos products, claims for diseases which are caused by exposure to asbestos fibers during the policy coverage will be defended by the indemnifier as if the resulting disease had manifested itself during the period of coverage.

Until 1976, Lloyd E. Mitchell was involved in the sale, distribution and installation of products which contained asbestos. During the period of 1965 to at least January 1, 1977, Mitchell was covered by a general liability insurance policy from Maryland Casualty Company. The policy required that Maryland Casualty defend and indemnify Mitchell from all claims resulting from asbestos-related bodily injuries which occurred during the insurance policy period. The policy defined "occurrence" as "an accident, including continuous or repeated exposure to conditions, which results in bodily injury . . . neither expected nor intended from the standpoint of the insured." The policy additionally defined "bodily injury" as "bodily injury, sickness, or disease sustained by any person which occurs during the policy period."

After his insurance coverage had lapsed, Mitchell was sued by several individuals who had been exposed to asbestos in his products. He sought to have Maryland Casualty defend against the claims, arguing that, because the people were injured from products installed during the period of coverage, he should be defended and indemnified from those claims. In support of this contention, Mitchell introduced the affidavit of Dr. John Craighead, a physician and pathologist. It stated that asbestos fibers injure the lungs upon inhalation, and the resulting injury leads to a variety of lung diseases. The exposure, in his opinion, is the direct cause of the diseases and, therefore, *inhalation* constitutes the point of "bodily injury." *Mitchell*, 595 A.2d at 471.

Maryland Casualty disagreed with Mitchell. It believed that because Mitchell's policy coverage had lapsed, all asbestos-related disease claims against Mitchell were no longer covered by Maryland Casualty. It felt that unless the disease has manifested itself during the policy coverage, there was no obligation to defend or indemnify. In support, Maryland Casualty introduced the affidavit of Dr. Paul Epstein, a clinician, which stated that exposure to asbestos does not always result in disease and that several events must occur in conjunction with asbestos exposure before it can progress to bodily injury. Therefore, in his opinion, *diagnosis* of the disease would be the proper point at which to measure "bodily injury." *Id.*

Both parties filed for declaratory judgment in the Circuit Court for Harford County. After the complaints were filed, each party also moved for summary judgment claiming that no material facts were in dispute. The trial court ruled in favor of Maryland Casualty's motion, finding that the point of "bodily injury," for the purposes of insurance coverage, should be measured by the point of manifestation of the asbestos-related disease. Mitchell appealed, and the Court of Appeals of Maryland granted certiorari before consideration by the court of special appeals.

The appellate court considered two issues. The first issue was whether, under a comprehensive general liability insurance policy, coverage is triggered at the point of initial exposure or when an asbestos-related disease first manifests itself to a clinically detectable degree. Second, the court considered whether the circuit court erred in adopting the "manifestation" theory in finding for Maryland Casualty when, pathologically, damage to the body from asbestos could occur upon expo-