

**CHAPTER 9**  
**MISAPPROPRIATION OF TRADE SECRETS<sup>1</sup>**  
“Your secret is your property.”<sup>2</sup>

**9.1 INTRODUCTION**

The Uniform Trade Secrets Act (Uniform Act)<sup>3</sup> was originally proposed in the United States over 30 years ago by the National Conference of Commissioners on Uniform State Laws and has now been enacted in most states.<sup>4</sup> The Virginia Uniform Trade Secrets Act (Virginia Act)<sup>5</sup> was enacted in Virginia with some modifications to the Uniform Act and became effective on July 1, 1986.

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The purpose of this chapter is to (i) briefly review the historic background of trade secret law; (ii) critically summarize the significant provisions of the Virginia Act; (iii) identify some differences between the Virginia Act and the Uniform Act; and (iv) review some of the significant case law concerning the Virginia Act.<sup>6</sup> This chapter does not cover the federal 1996 Economic Espionage Act,<sup>7</sup> criminal penalties for the theft of a trade secret,<sup>8</sup> or the Inevitable Disclosure Doctrine,<sup>9</sup> which has been specifically rejected in Virginia,<sup>10</sup> Maryland,<sup>11</sup> and some other jurisdictions.

<sup>1</sup> This chapter is derived in part from a law review article entitled *The Virginia Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 5 Va. J.L. & Tech. 15 (Fall 2000), and a speech entitled *The Uniform Trade Secrets Act in the United States*, given by the author in Kitzbuhel, Austria on March 21, 2000, at a *Conference on the International Protection of Intellectual Property*, which was sponsored by the Center for International Legal Studies and co-sponsored by the American Bar Association's Section on International Law. The chapter is also derived in part from a law review article entitled *The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 32 U. Balt. L. Rev. 181 (Spring 2002). This chapter was updated with the help of Joshua Killinger.

<sup>2</sup> *Proverbs, Maxims and Phrases of All Ages* (Robert Christy ed., G.P. Putnam's Sons 1996) (quoting Rothschild).

<sup>3</sup> Unif. Trade Secrets Act, 14 U.L.A. 437 *et seq.* (1985).

<sup>4</sup> New York and North Carolina have not adopted the uniform trade secrets act, Massachusetts has its own trade secrets act, although multiple bills have been proposed in the state legislature to enact the UTSA over the years and the governor recently made its enactment part of his economic development bill.

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<sup>5</sup> Va. Code §§ 59.1-336 to -343.

<sup>6</sup> A sample complaint for violation of the Virginia Uniform Trade Secrets Act and other related claims is included in Appendix 9-1.

<sup>7</sup> Electronic Espionage Act, Pub. L. No. 104-294. See J. Derek Mason et al., *The Economic Espionage Act: Federal Protection for Corporate Trade Secrets*, 16 No. 3 Computer L. at 14 (Mar. 1999).

<sup>8</sup> Nevada has added a section to its trade secrets act imposing criminal penalties for theft of a trade secret. Nev. Rev. Stat. § 600A.035 (2000). South Carolina has done the same. S.C. Code Ann. § 39-8-90 (Law. Co-op. 1999).

<sup>9</sup> See *Inevitable Disclosure Through an Internet Lens: Is the Doctrine's Demise Truly Inevitable*, 45 Wm. & Mary L. Rev. 395 (2003).

<sup>10</sup> *Government Tech. Servs., Inc. v. IntelliSys Tech. Corp.*, 51 Va. Cir. 55 (Fairfax 1999).

<sup>11</sup> *LeJeune v. Coin Acceptors, Inc.*, 849 A.2d 451 (Md. 2004); *Padco Advisors, Inc. v. Omdahl*, 179 F. Supp. 2d 600, 611 (D. Md. 2002).

## 9.2 HISTORICAL DEVELOPMENT

Epigraphical and literary sources clearly establish that trade secrets have commonly existed for a very long time. Early businesses had trade secrets such as customer lists, secret formulas (dyeing), methods of production (pottery), and vital business and financial records. Since their trade secrets conferred a competitive advantage, those early businessmen must have attempted to protect them.

Surprisingly, however, the law of trade secrets does not itself seem to have a long history. There is a debate amongst classical Greek and Roman scholars as to whether there was any legal protection of trade secrets even in that era when sophisticated Greek and Roman businesses flourished and traded throughout the then-known world.<sup>12</sup> One commentator, who cites Justinian and Gaius, makes the argument that under Roman law during the time of the late Republic and early Empire, there was a specific Roman cause of action named *actio servi corrupti*, which prohibited a slave from stealing a trade secret of a master and giving it to a competitor.<sup>13</sup> As late as the Middle Ages in Europe, there does not appear to be any protection of trade secrets through the application of any unified body of trade secret law.<sup>14</sup> At that time, trade secrets were protected, if at all, through the application of unfair competition laws.

Trade secret law only began to develop with the newfound mobility of labor during the Industrial Revolution in Europe.<sup>15</sup> A few early trade secret cases were published in the 19th Century in England.<sup>16</sup> In the 1851 case of *Morison v. Moat*,<sup>17</sup> the plaintiff sought and was granted an injunction to restrain the defendant from using a secret for compounding a medicine known as “Morison’s Universal Medicine,” which was not the subject of a patent, and to restrain the sale of this medicine by the defendant, who acquired knowledge of the secret in violation of a contract and in breach of “trust and confidence.” The vice-chancellor who rendered the opinion noted that by 1851 the court had already heard trade secret cases, stating “[t]hat the Court has exercised jurisdiction in cases of this nature does not, I think, admit of any question.”<sup>18</sup>

Possibly the first reported American case involving trade secrets was the 1837 case of *Vickery v. Welch*.<sup>19</sup> It is a simple but fundamental case involving the sale of a chocolate mill. In the sales agreement for the mill, the seller agreed to sell the mill, convey to the buyer the secret as to how to make the chocolate, and deliver a written assurance that he would not give the secret to anyone else, all for the consideration of \$2,000 and eight annual payments of \$7,500. Two or three other persons in the company had knowledge of the seller’s secret, but they had given a written oath not to divulge it. The buyer tendered the money, but upon advice of counsel, the seller refused to tender to the buyer the written promise not to convey his secret or art to others.

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<sup>12</sup> A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupti*, XXX Colum. L. Rev. 837, 838 & nn. (1930).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> For a discussion of the relationship between current trade secret law and the mobility of employees, see Edmund Kitch, *The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem for the Law*, 47 S.C. L. Rev. 659 (1996).

<sup>16</sup> For a brief discussion of some of these cases, see Jerry Cohen & Alan S. Gutterman, *Trade Secrets Protection and Exploitation* (BNA Books 1998).

<sup>17</sup> 68 Eng. Rep. 492, 9 Hare 241 (1851).

<sup>18</sup> *Id.* at 498.

<sup>19</sup> 36 Mass. 523, 19 Pick. 523 (1837).

The seller argued that if he so bound himself, it would be an unlawful restraint of trade. The court upheld the terms of the contract and ordered the seller not to disclose the secret to others. The court reached the conclusion that there was no restraint of trade in this case since it was “of no consequence to the public whether the secret art be used by the plaintiff or defendant.”<sup>20</sup>

Possibly the earliest reported case in Virginia involving a trade secret was decided in 1940 on the basis of contract law. In *American Chlorophyll, Inc. v. Schertz*,<sup>21</sup> the inventor of a process to extract chlorophyll, carotene, and xanthophyll from vegetable leaf matter licensed the process to a company for a royalty of five percent of net sales, payable quarterly. Thereafter, the company refused to pay him any royalty. The inventor did not notify the defendant of the breach of the contract as required by the license agreement. Instead, he published an article disclosing the process in a trade journal known as the “Industrial and Engineering Chemistry.” The court simply applied traditional contract law and concluded that the plaintiff had elected to continue the contract by not exercising his right under the contract to terminate it. Since the contract remained in effect, his disclosure of the trade secret constituted a violation of the license agreement since the agreement contained a specific provision prohibiting disclosure.

Throughout these early cases, courts attempted to formulate a unified comprehensive legal theory to justify the protection of trade secrets. In *Morison*,<sup>22</sup> the English court was already focusing on the theoretical basis for the protection of trade secrets:

Different grounds indeed have been assigned for the exercise of that jurisdiction. In some cases it has been referred to property, in others to contract, and in others, again, it has been treated as founded upon trust or confidence, meaning, as I conceive, that the Court fastens the obligation on the conscience of the party, and enforces it against him in the same manner as it enforces against a party to whom a benefit is given the obligation of performing a promise on the faith of which the benefit has been conferred; but, upon whatever grounds the jurisdiction is founded, the authorities leave no doubt as to the exercise of it.

Even today, there does not appear to be any singular underlying legal theory to justify the protection of trade secrets. While the need for the protection of these secrets is virtually uncontroverted in most western countries, the several legal theories used to justify trade secret legislation do so only partially and inadequately. Early trade secret cases, and even some current cases, justify the protection of trade secrets as a property right of the owner of the trade secret. But this theory does not work in all cases. For example, trade secret law provides that the owner of a trade secret has no right to protect it if that secret is acquired by others who develop it on their own by proper means. Also, protection of a trade secret will be lost, and others will be able to exploit it, if the secret is inadvertently or even improperly disclosed to the public or enters the public domain. Clearly, these examples are inconsistent with the concept of protection of a trade secret based on a property right in the trade secret.

Another theoretical basis advanced for the protection of trade secrets is contract theory. But this theory has very limited applicability. In many cases, there is no written contract between the trade secret owner and the misappropriator of the trade secret. A frequent example involves a

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<sup>20</sup> *Id.* at 527.

<sup>21</sup> 176 Va. 362, 11 S.E.2d 625 (1940).

<sup>22</sup> 68 Eng. Rep. at 498.

departing employee who misappropriates a trade secret from an employer and who has not executed a nondisclosure of proprietary information agreement. Recognizing the obvious inadequacies of the use of the property theory and the contract theory to justify the protection of trade secrets, law professors and jurists advanced the theory that the protection of trade secrets is justified on the basis of a general duty of good faith. That is, it is fair to protect someone who has a trade secret from someone who misappropriates it by improper or unlawful means. Finally, it has been argued that trade secret protection is justified, like patents, to encourage inventors and investors to create, innovate, and develop new technologies by protecting their inventions and investments and allowing them to profit thereby.

Regardless of the absence of a comprehensive underlying theory justifying the protection of trade secrets, by the early 20th century the number of trade secret cases had begun to increase substantially in the United States. Concurrently, prominent American professors of law and jurists published the *Restatement (First) of Torts (1939)*, in which they set forth what they regarded to be general principles of law to foster uniformity among the laws of the various states. In recognition of this growing body of trade secret case law, the Restatement included an important new definition of a trade secret. It defined a trade secret as any formula, pattern, process, device, or compilation of information used in a business that gives the user an opportunity to obtain an advantage over nonusers.<sup>23</sup>

This definition was widely applied by the judiciary in ever-increasing numbers of trade secret cases in the United States. In light of the success of this definition, a consensus began to develop that there was a need for a unified, distinct, and comprehensive trade secrets law. In 1969, the United States National Conference of Commissioners on Uniform State Laws (the Conference) organized a committee to develop a uniform trade secrets act. The committee considered the definition<sup>24</sup> of a trade secret used in the Restatement and formulated its own definition of a trade secret by relying heavily on the Restatement's definition. In 1979, the Conference adopted the Uniform Trade Secrets Act (the Uniform Act), and in 1985 it made important amendments to the Uniform Act.

The Uniform Act quickly became widely and favorably recognized in the various states as a model for legislation. Currently, 48 of the 50 states and the District of Columbia have enacted, each with some variations, a version of the Uniform Act.<sup>25</sup> Since the Uniform Act's

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<sup>23</sup> See *Restatement (First) of Torts*, ch. 36, § 757 cmt. b (1939).

<sup>24</sup> For a discussion of the evolution of the various definitions of trade secrets in the Restatements since the 1939 First Restatement, see Kitch, *supra* note 15, at 660-63.

<sup>25</sup> The effective dates of each of the state statutes and their citations are: Alabama Code §§ 8-27-1 to -6 (1987) (effective Aug. 12, 1987); Alaska Stat. §§ 45.50, 910-45 (Michie 1994) (effective Sept. 12, 1988); Ariz. Rev. Stat. §§ 44-401 to -407 (2000) (effective Apr. 11, 1990); Ark. Code Ann. §§ 4-75-601 to -607 (Michie 1999) (effective Mar. 12, 1981); Cal. Civ. Code Ann. § 3426 *et seq.* (Deering 2000) (effective Jan. 1, 1985); Colo. Rev. Stat. Ann. § 7-74-101 *et seq.* (West 2000) (effective July 1, 1986); Conn. Gen. Stat. Ann. §§ 35-50 to -58 (1999); Del. Code Ann. tit. 6, §§ 2001-2009 (effective Apr. 15, 1982); D.C. Code Ann. § 48-50 *et seq.* (2000) (effective Mar. 16, 1989); Fla. Stat. ch. 688.001 to -.009 (2000) (effective Oct. 10, 1988); Ga. Code Ann. §§ 10-1-760 to -767 (effective July 1, 1990); Haw. Rev. Stat. §§ 482B-1 to -9 (2000) (effective July 1, 1989); Idaho Code §§ 48-801 to -807 (Michie 1999) (effective 1989); Ill. Comp. Stat. Ann. 1065/1 to /9 (West 2000) (effective Jan. 1, 1988); Ind. Code §§ 24-2-3-1 to -8 (1998) (effective Feb. 25, 1982); Iowa Code §§ 550-1 to -8 (1999) (effective Apr. 27, 1990); Kan. Stat. Ann. §§ 60-3320 to -3330 (1999) (effective July 1, 1981); Ky. Rev. Stat. Ann. §§ 365-880 to -900 (Michie 1998) (effective Apr. 6, 1990); La. Rev. Stat. Ann. §§ 51:1431 to :1439 (West 2000) (effective July 19, 1981); Me. Rev. Stat. Ann. tit. 10 §§ 1541-48 (West 1999) (effective May 22, 1987); Md. Code Ann., Com. Law § 11-201 *et seq.* (1999) (effective July 1, 1989); Mich. Comp. Laws Ann. §§ 445.1901 to -.1910 (West 2004) (effective Oct. 1, 1998); Minn. Stat. §§ 325C.01 to -08 (1999) (effective Jan. 1, 1981); Miss. Code Ann. §§ 75-26-1 to -19 (2000) (effective July 1, 1989); Mo. Rev. Stat. §§ 417.450 to -.467 (1999) (effective Oct. 6, 1995); Mont. Code Ann. §§ 30-14-401 to -409 (1999) (effective 1985); Neb. Rev. Stat. Ann. §§ 87-501 to -507 (2000) (effective July 8, 1988); Nev. Rev. Stat. §§ 600A.010 to -.100 (2000) (effective Mar. 15, 1987); N.H. Rev. Stat. Ann. §§ 350-B.1 to -.9 (2000) (effective Jan. 1, 1990); N.J. Stat. Ann. § 56:15-1 to -9 (2011) (effective Jan. 5, 2012); N.M. Stat. Ann. §§ 57-3A-1 to -7 (Michie 2000) (effective April 3, 1989); N.D. Cent. Code §§ 47-

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adoption by the Conference and enactment by various states, courts of the various enacting states have decided and published numerous cases interpreting the various provisions and enhancing our understanding of the Act.

Other countries have also adopted some form of trade secrets law.<sup>26</sup> [Canada<sup>27</sup> and other countries](#) [have enacted trade secret statutes which follow the](#) format and concepts of the Uniform Act.<sup>28</sup> By contrast, the United Kingdom, does not protect their citizens' trade secrets by a distinct and unified body of law such as our Uniform Act. They have simply applied their existing unfair competition laws to protect trade secrets. Further, while it is frequently said that there is no international treaty concerning the protection and exploitation of trade secrets, the United States is a signatory to the World Trade Organization's *Agreement on Trade-Related Aspects of Intellectual Property Rights*<sup>29</sup> (the Agreement), which requires each signatory to enact legislation for the protection of information. The Agreement describes the required legislation using language very similar, if not identical in some respects, to the Uniform Act. The Agreement is the only international treaty concerning the protection and exploitation of trade secrets, but this is likely to change as modern trade secrets law matures. Governments of industrial countries with multinational businesses engaged in transnational transactions and foreign governments of less developed countries that desire to promote investments in their country all have good reasons to seek the international protection of trade secrets.

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### 9.3 VIRGINIA UNIFORM TRADE SECRETS ACT

**9.301 In General.** The Virginia Uniform Trade Secrets Act (the Virginia Act) took effect on July 1, 1986. It is codified in sections 59.1-336 *et seq.* of the Virginia Code.

The Virginia Act does not violate the United States Constitution. While patents, trademarks, and copyrights are regulated by federal law, the Court of Appeals for the Fourth Circuit has found that state regulation of trade secrets does not violate the supremacy clause. In *Sears v. Gottschalk*,<sup>30</sup> relying on *Kewanee Oil Co. v. Bicron Corp.*,<sup>31</sup> the court concluded that "the

25.1-01 to -08 (2000) (effective July 1, 1983); Ohio Rev. Code Ann. §§ 1333.61 to -69 (Anderson 2000) (effective July 20, 1994); Okla. Stat. tit. 78, §§ 85-94 (1999) (effective Jan. 1, 1986); Or. Rev. Stat. §§ 646.461 to -475 (1999) (effective Jan. 1, 1988); 12 Pa. C.S. §§ 5302-5308 (effective April 19, 2004); R.I. Gen. Laws §§ 6-41-1 to -11 (2000) (effective July 1, 1986); S.C. Code Ann. §§ 39-8-10 to -120 (Law. Co-op. 1999) (effective May 21, 1997); S.D. Codified Laws § 37-29-1 to -11 (Michie 2000) (effective July 1, 1988); [Tex. Civ. Prac. & Rem. Code Ann. § 134A.001 to -008 \(2013\) \(effective Sept. 1, 2013\)](#); Utah Code Ann. §§ 13-24-1 to -9 (2000) (effective May 1, 1989); Va. Code §§ 59.1-336 to -343 (2000) (effective July 1, 1986); Vt. Stat. Ann. tit. 9, §§ 4602-4609 (2000) (effective July 1, 1996); Wash. Rev. Code Ann. §§ 19.108.010 to -.060, 19.108.900 to -.940 (West 2000) (effective Jan. 1, 1989); W. Va. Code Ann. §§ 44-22-1 to -10 (Michie 2000) (effective July 1, 1986); Wis. Stat. § 134.90 (1999) (effective Apr. 24, 1986); Wyo. Stat. §§ 40-24-101 to -110 (effective July 1, 2006).

<sup>26</sup> Cf., e.g., Yuan Cheng, *Legal Protection of Trade Secrets in the People's Republic of China*, 5 Pac. Rim L. & Pol'y J. (1996), with Anuja Rajbhandary, *Protecting Trade Secrets Through Family Businesses: A Case Study on Nepal*, 16 Int'l Rev. L. & Econ. 483 (1996).

<sup>27</sup> [Uniform Trade Secrets Act adopted by the 1989 Uniform Law Conference of Canada.](#)

<sup>28</sup> For example, the Czech and Slovak Republics have enacted trade secret laws closely following the Uniform Act. See Jennifer Felicia Swiller, *The Secrets of Success: Confidential Business Information in the Czech and Slovak Republics*, 7 Transnat'l Law. 497 (1994).

<sup>29</sup> 33 I.L.M. 1197, 1212 (entered into force Jan. 1, 1995). Article 39 of this Agreement requires the United States and other signatories to provide legal protection for undisclosed information of private parties when disclosed or used contrary to "honest commercial practices." Since the uniform trade secrets acts of the various states of the United States are state and not federal law, United States compliance with the Agreement is based on state, not federal, law.

<sup>30</sup> 502 F.2d 122, 132 (4th Cir. 1974).

<sup>31</sup> 416 U.S. 470, 485 (1974).

states may protect trades secrets, and we perceive no violation of the fifth amendment in federal forbearance to permit that power to be exercised.”

**9.302 Definition of “Trade Secret.”** Commentators to the Restatement clearly recognized that “an exact definition of a trade secret is not possible.”<sup>32</sup> In recognition of this difficulty, the Uniform Act’s and the Virginia Act’s definitions of a trade secret are not specific. In section 59.1-336 of the Virginia Code, a trade secret is defined as “information, including but not limited to, a formula, pattern, compilation, program, device, method, technique or process.”<sup>33</sup> Obviously, this definition is very broad and is very similar to the definition found in the Restatement, which defined a trade secret as any “formula, pattern, device or compilation of information used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”<sup>34</sup>

Significantly, the definitions in the Virginia Act, the Uniform Act, and the Restatement are not limited to high-tech secrets. In fact, the Virginia Act is frequently used to protect “low-tech” secrets. Some common examples of low-tech trade secrets are (i) customer lists;<sup>35</sup> (ii) pricing information;<sup>36</sup> (iii) business leads; (iv) financial information;<sup>37</sup> (v) marketing; (vi) strategies; (vii) sales techniques; (viii) methods of conducting business;<sup>38</sup> and even (ix) artwork.<sup>39</sup> Some courts have even said that a trade secret can be “just about anything” under the right circumstances.<sup>40</sup>

These definitions are important in several other respects as well. The information need not exist in some tangible format, as is required in patent law. It can be a computer file.<sup>41</sup> In fact, the information need not be more than an idea, theory, or concept. Further, these definitions do not require that the trade secret be novel.<sup>42</sup> Several courts have stated that novelty is not a requirement for a trade secret but that maintaining its secrecy is necessary.<sup>43</sup>

In addition, the Uniform Act and the Virginia Act do not require continuous use of the trade secret in business or even any use at all (unlike the Restatement’s definition). This protects the trade secret of an owner who has not yet begun business, not yet had the opportunity or

<sup>32</sup> Restatement (First) of Torts, § 757 cmt b (1939).

<sup>33</sup> The Uniform Act does not contain the words “but not limited to.” Virginia, Illinois, Maine, Missouri, Tennessee, and West Virginia have all added this phrase. Alabama requires that the information specifically fit within one of its designated categories.

<sup>34</sup> Restatement (First) of Torts, § 757 cmt b (1939).

<sup>35</sup> American Sales Corp. v. Adventure Travel, Inc., 862 F. Supp. 1476 (E.D. Va. 1994); Alan J. Zuccari, Inc. v. Adams, 42 Va. Cir. 132 (Fairfax 1997); Physicians Interactive v. Lathian Sys., 2003 U.S. Dist. LEXIS 22868, 69 U.S.P.Q.2d (BNA) 1981 (E.D. Va. Dec. 5, 2003).

<sup>36</sup> International Paper Co. v. Gilliam, 63 Va. Cir. 485 (Roanoke City 2003).

<sup>37</sup> Eden Hannon & Co. v. Sumitomo Trust & Banking Co., 914 F.2d 556 (4th Cir. 1990).

<sup>38</sup> See Religious Tech. Ctr. v. Lerma, 897 F. Supp. 260 (E.D. Va. 1995).

<sup>39</sup> Reynolds & Reynolds Co. v. Hardee, 932 F. Supp. 149 (E.D. Va. 1996).

<sup>40</sup> Trident Products & Servs., LLC v. Canadian Soiless Wholesale, Ltd., 859 F. Supp. 2d 771, 778 (E.D. Va. 2012) (citing MicroStrategy, Inc. v. Business Objects, S.A., 331 F.Supp.2d 396, 416 (E.D.Va.2004)).

<sup>41</sup> Avtec Sys., Inc. v. Peiffer, 805 F. Supp. 1312 (E.D. Va.), *aff’d in part and vacated in part*, 21 F.3d 568 (4th Cir. 1994).

<sup>42</sup> Sperry Rand Corp. v. Electronic Concepts, Inc., 325 F. Supp. 1209; Avtec Sys., Inc. v. Peiffer, 21 F.3d 568 (4th Cir. 1994); Dionne v. Southeast Foam Converting & Packaging, Inc., 240 Va. 297, 397 S.E.2d 110 (1990); Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

<sup>43</sup> See Avtec Sys., Inc., 21 F.3d 568; Dionne, 240 Va. 297, 397 S.E.2d 110; Kewanee Oil Co., 416 U.S. 470.

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acquired the means to put the trade secret to use, has temporarily stopped use, or has determined that the secret process or method does not work and wants to protect that negative information as a trade secret. While patents may be protected by statute for 20 years, trade secrets may be protected as long as their secrecy is maintained, they are not generally known, and they are not readily ascertainable. The Virginia Act and the Uniform Act do not require a profit motive for the misappropriation.<sup>44</sup>

The right to a trade secret, unlike a patent, need not be exclusive. It seems that this concept has been accepted from the very beginning of trade secret case law. Even the 1851 English case *Morison v. Moat*<sup>45</sup> refers to the non-exclusivity of trade secrets. Non-exclusivity means that two entities that concurrently but independently develop the same trade secret may both acquire rights to it. The plaintiff has the burden of proving a trade secret claim by a preponderance of the evidence; therefore, defendants are not required to prove that a competing trade secret was independently derived.<sup>46</sup> If at some point, however, the secret becomes known to more and more people to the point of becoming generally known, the right to protect the secret is lost.<sup>47</sup> Similarly, if the secrecy of the trade secret is not maintained or if the trade secret becomes readily ascertainable, the right to protect the secret is lost.

In many if not most trade secret cases, the size of the trade secret is not a factor since the trade secret at issue is specific, singular, and limited, such as a manufacturing process,<sup>48</sup> computer software,<sup>49</sup> source code, object code,<sup>50</sup> new technology,<sup>51</sup> or a customer or patient list.<sup>52</sup> But many trade secret owners would like to maximize the amount of information they can protect from departing and competing employees. Franchisor-franchisee trade secret cases are illustrative, as they sometimes involve large amounts of information, even whole franchise systems. In *ServiceMaster v. Pletcher*,<sup>53</sup> the plaintiff, a large national franchisor of cleaning businesses claimed its whole “business system” was a trade secret. ServiceMaster required its franchisees to use this business system to conduct their cleaning business. The business system was composed of dozens of three-inch, three-ring manuals, altogether consisting of thousands of pages of text and numerous videotapes. The business system also included numerous magazines and newsletters, technical bulletins, training materials, training seminars, workshops, promotional materials, advertising materials, marketing materials, sales materials, invoices, and even correspondence with third parties. These materials covered virtually every aspect of forming,

<sup>44</sup> See *American Sales Corp. v. Adventure Travel, Inc.*, 862 F. Supp. 1476 (E.D. Va. 1994); see also *American Sales Corp. v. Adventure Travel, Inc.*, 867 F. Supp. 378 (E.D. Va. 1994).

<sup>45</sup> 68 Eng. Rep. 492, 500, 9 Hare 241, 259 (1851).

<sup>46</sup> *MicroStrategy Inc. v. Li*, 268 Va. 249, 265 (2004).

<sup>47</sup> See *Young Design, Inc. v. Teletronics Intern., Inc.*, 2001 WL 35804500, 9 (E.D. Va. 2001).

<sup>48</sup> *Dionne v. Southeast Foam Converting & Packaging, Inc.*, 240 Va. 297, 397 S.E.2d 110 (1990) (compressed packaging material).

<sup>49</sup> *Avtec Sys., Inc. v. Peiffer*, 805 F. Supp. 1312 (E.D. Va.), *aff'd in part and vacated in part*, 21 F.3d 568 (4th Cir. 1994).

<sup>50</sup> *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655 (4th Cir. 1993) (regarding software to dig tunnels).

<sup>51</sup> *Swedish Civil Aviation Admin. v. Project Mgmt. Enters., Inc.*, 190 F. Supp. 2d 785 (D. Md. 2002) (regarding new technology to transmit aircraft location).

<sup>52</sup> *American Sales Corp. v. Adventure Travel, Inc.*, 862 F. Supp. 1476, 1481 (E.D. Va. 1994) (regarding a list of customers).

<sup>53</sup> Civ. Action No. 00-942-A (E.D. Va. 2001) (no confidentiality clause in the settlement agreement and mutual release executed).

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operating, and maintaining a cleaning business. They covered not only how to clean things but also how to keep business books and records, run an office, and even administer first aid.<sup>54</sup>

Such broad systems can be put on a password-protected website that is available only to franchisees. Not only does this dramatically reduce the cost of assembling and distributing the alleged trade secret, it also allows the franchisor to argue that they have taken reasonable measures to maintain the secrecy of such a large body of information.

There are substantial legal arguments to support the interpretation that all such information should be protected as a trade secret. The statute defines a trade secret as any “information” and does not limit the amount of information that may be a trade secret. Further, the statutory definition specifically provides that “compilations” can be trade secrets. There is a great deal of case law holding that compilations and combinations of even generally known information, readily ascertainable information, or both can be a trade secret. In *Q-CO Industries v. Hoffman*,<sup>55</sup> the court stated, “[i]t is a well settled principle ‘that a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process and operation of which, in unique combination, affords a competitive advantage and is a protectable secret.’”<sup>56</sup> In *Motor City Bagels, L.L.C. v. American Bagel Co.*,<sup>57</sup> the court found that a business plan was a trade secret even though the business plan contained some facts ascertainable from the marketplace and some public information. In this case, two recent M.B.A. graduates were investigating and negotiating the purchase of a bagel franchise and prepared an extensive business plan assessing its viability. The franchisor with whom they were negotiating disclosed the plan to other prospective franchisees. The court held that while the business plan at issue did contain some public information and facts ascertainable from the marketplace, it also included personal insights and analysis brought to bear through diligent research and by marshaling a large volume of information. The court found that an attempt to independently duplicate the plaintiff’s efforts would be an onerous task. While the Maryland Act is clear that information that is generally known or readily ascertainable cannot be a trade secret, combinations of generally known information, combinations of readily ascertainable information, and combinations of both can be trade secrets.

In *BBA Nonwovens Simpsonville, Inc. v. Superior Nonwovens, LLC*,<sup>58</sup> BBA Nonwovens and other manufacturers brought an action against a competitor, Superior Nonwovens, alleging trade secret misappropriation and patent infringement as a result of Superior’s manufacture of

<sup>54</sup> See also *Precision Tune Auto Care, Inc. v. Pinole Auto Care, Inc.*, No. 00-1748-A, 2001 U.S. Dist. LEXIS 24840 (E.D. Va. Oct. 15, 2001) (Former franchisee retained and refused to return trade secrets in franchisor policy and procedure manual after franchise agreement terminated.); *Big O Tires, Inc. v. Granada Enters. Corp.*, No. CV98-2298DT (C.D. Cal. 1990) (Business Franchise Guide (CCH) ¶ 11,607; upholding the plaintiff’s claim that its whole “Big O System,” comprised of “techniques, systems, details as to the Big O system, theory and practices, supplier lists, equipment standards, special uses of equipment and equipment supplier lists” is a trade secret); *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907 (Colo. Ct. App. 1997) (A franchisor developed a comprehensive system for setting up and operating an advertising circular business. This system was compiled in an apparently voluminous manual. The plaintiff sought to enforce its written covenant not to compete against the defendant in Colorado, which statutorily voids such agreements unless to protect a trade secret. The court held that the whole manual was a trade secret.).

<sup>55</sup> 625 F. Supp. 608, 617 (S.D.N.Y. 1985) (quoting *Imperial Chem. Indus. Ltd. v. National Distillers & Chem. Corp.*, 342 F.2d 737, 742 (2d Cir. 1965)). See also *Avtec Sys., Inc. v. Peiffer*, 805 F. Supp. 1312 (E.D. Va.), *aff’d in part and vacated in part*, 21 F.3d 568 (4th Cir. 1994).

<sup>56</sup> See, e.g., *Decision Insights, Inc. v. Sentia Group, Inc.*, 311 Fed.Appx. 586, 593-594 (4th Cir. 2009); see also *Decision Insights, Inc. v. Sentia Group, Inc.*, 416 Fed.Appx. 324, 329-330 (4th Cir. 2011).

<sup>57</sup> 50 F. Supp. 2d 460 (D. Md. 1999).

<sup>58</sup> 303 F.3d 1332 (Fed. Cir. 2002) (applying South Carolina law).

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certain spunbond nonwoven fabric. After a jury trial in which the court found in favor of the plaintiffs, the defendants appealed, arguing that because most if not all of the elements of the plaintiffs' process were in the public domain, they could not be considered a trade secret. The Federal Circuit rejected that argument and instead followed the widely held rule that "a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable trade secret." Thus, by combining or compiling information, the amount of information that can be protected as a trade secret can be maximized.

It is interesting to note that while compilations of information may be trade secrets, combinations of numbers and or letters such as passwords are not trade secrets. In *State Analysis, Inc. v. American Financial Services Assoc.*,<sup>59</sup> the Court found that collections of numbers and/or letters, whose only value is to access other potentially valuable information, do not by themselves have independent economic value. Alternatively, there are legal arguments to challenge such a broad interpretation of the amount of information that may be considered a trade secret. It is a well-recognized public policy in Virginia<sup>60</sup> and other local jurisdictions<sup>61</sup> to permit the free mobility of employees. Nearly 40 years ago, one court said that

[a]n employer who discloses valuable information to his employee in confidence is entitled to protection against the use of these secrets in competition with him. But the employee who possesses the employer's most valuable confidences is apt to be highly skilled. The public is interested in the reasonable mobility of such skilled persons from job to job in our fluid society, which is characterized by and requires mobility of technically expert persons from place to place, from job to job and upward within the industrial structure. And the employee himself must be afforded a reasonable opportunity to change jobs without abandoning the ability to practice his skills.<sup>62</sup>

A broad interpretation of the scope of trade secret protection can effectively interfere with this public policy of free mobility of employees. If the volume of information alleged to be a protectable trade secret is large, it may mean that an employee cannot leave a job to continue to work in the same industry since the employee will necessarily use or disclose trade secret information of the previous employer. It is also a well recognized public policy to allow an employee to depart from employment with general knowledge and skills. A broad interpretation of the scope of trade secret protection can effectively interfere with this public policy as well.

Such a broad interpretation can also arguably result in a constructive and an unlawful prohibition on competition. The Virginia Act does not have any geographic or temporal limit on the protection of a trade secret. But in order for a non-compete agreement to be enforceable in Virginia, it must have reasonable limitations as to the breadth of the activity being restricted,

<sup>59</sup> 621 F. Supp. 2d 309 (E.D. Va. 2009).

<sup>60</sup> *County of Giles v. Wines*, 262 Va. 68, 546 S.E.2d 721 (2001); *Town of Vinton v. City of Roanoke*, 195 Va. 881, 80 S.E.2d 608 (1954).

<sup>61</sup> *Szaller v. American Nat'l Red Cross*, 293 F.3d 148 (4th Cir. 2002); *Parker v. Penske Truck Leasing Corp.*, 18 Fed. Appx. 148 (4th Cir. 2001).

<sup>62</sup> *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 259 (E.D. La. 1967).

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time, and geography.<sup>63</sup> In practice, the protection of a large volume of information could function as the equivalent of an unlawful non-compete agreement without reasonable restraints on time or geography. The employee would not be able to reenter the same business, trade, or profession since virtually everything that the departing employee would do would disclose or use the information in the voluminous alleged trade secrets of the employer.

**9.303 Definition of “Misappropriation.”** Section 59.1-336 of the Virginia Code defines misappropriation of a trade secret as follows:

1. Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
2. Disclosure or use of a trade secret of another without express or implied consent by a person who
  - a. Used improper means to acquire knowledge of the trade secret; or
  - b. At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
    - (1) Derived from or through a person who had utilized improper means to acquire it;
    - (2) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
    - (3) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
    - (4) Acquired by accident or mistake.<sup>64</sup>

The United States District Court for the Eastern District of Virginia addressed the issue of whether the mere acquisition of a trade secret of another by improper means is a misappropriation under the Virginia Act in *Smithfield Ham & Products Co. v. Portion Pac, Inc.*<sup>65</sup> The court held that mere acquisition is sufficient, explaining its holding by applying property theory to justify the protection of the trade secrets:

[T]he VUTSA [Virginia Uniform Trade Secrets Act] prohibits the improper acquisition of a trade secret, whether or not the trade secret is used in direct competition with the rightful owner. Va. Code Ann. Section 59.1-336; see *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 665 (4th Cir.) (interpreting the Maryland UTSA, and citing cases) cert. denied, 114 S.Ct. 443, 126 L.Ed.2d 377 (1993). This is so because the value of the trade secret

<sup>63</sup> *Simmons v. Miller*, 261 Va. 561, 544 S.E.2d 666 (2001). See also *Devnew v. Flagship Group, Ltd.*, No. CH05-3173, 2006 Va. Cir. LEXIS 291 (Norfolk Dec. 29, 2006) (holding that an employment, confidentiality, and noncompete agreement was enforceable against the former employee who used former employer's proprietary information at his new place of employment).

<sup>64</sup> See, e.g., *Tao of Systems Integration, Inc. v. Analytical Services & Materials, Inc.*, 299 F.Supp.2d 565, 574-576 (E.D. Va. 2004).

<sup>65</sup> 905 F. Supp. 346 (E.D. Va. 1995).

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as an asset of the company is diminished by its disclosure, whether or not the person acquiring it uses it competitively.<sup>66</sup>

“Improper means” is a critical term used in this definition of misappropriation. It is defined in section 59.1-336 of the Virginia Code as “theft,<sup>67</sup> bribery, misrepresentation, breach of a duty or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”<sup>68</sup> There is no actionable misappropriation if the trade secret is acquired by proper means.<sup>69</sup> In *Scheduled Airlines Traffic Offices, Inc. v. Objective, Inc.*,<sup>70</sup> a provider of travel management services (SATO), contracted with Objective to produce a software system to assist SATO in providing travel management services to its prospective customers. In the contract, Objective granted SATO “the right and license to use, reproduce, sublicense, prepare derivative works, distribute copies, publicly perform and display such Proprietary Components for use in connection with the [software] System.” SATO paid Objective in full for the software. Objective did not, however, complete the work in full. As a result of uncorrected defects in Objective’s software, SATO never used the Objective programmed software but instead constructed its own system using a different programming tool. Objective claimed that this was a misappropriation of its trade secrets by SATO. The court, however, concluded that Objective contractually granted SATO unrestricted permission to use its software system via the following provision: “Developer hereby assigns and conveys to Customer all of Developer’s proprietary rights in and to the System and all ‘System Updates’ and ‘System Enhancements.’” In addition, Objective agreed in the contract to execute any documents required to evidence SATO’s ownership of trade secrets in the system. Under the terms of the contract, therefore, there was no misappropriation by SATO since there was no acquisition by improper means.

Similarly, there is no actionable misappropriation if the trade secret is obtained inadvertently. In the case of *Tryco v. U.S. Medical Service, LLC*,<sup>71</sup> Brian Thomas worked for Tryco, providing computer knowledge and performed computer maintenance work. Thomas left Tryco to work for U.S. Medical Source, L.L.C., a direct competitor. After leaving Tryco, Thomas found a flash drive containing two documents titled “Lackland Contracts” and “Bank and Trades,” which contained names of buyers and their contact information, as well as a vendor list Tryco had created to open accounts with new vendors. Thomas asserted that the drive stayed at his home unused and that he returned it to Tryco upon discovering it. In this case, the Court was influenced by the fact that the documents were already known to Mr. Thomas, that he took no other Tryco documents when he left, that he did not use these two documents during the few days he had them, and that he did not disclose them to anyone.

*Peace v. Conway*<sup>72</sup> is frequently cited for the proposition that it is not an “improper means” to memorize something. Although this probably should be taken with a grain of salt, in the absence of an agreement to the contrary, after the termination of employment, an employee

<sup>66</sup> See also *Marsteller v. ECS Federal, Inc.*, 2013 WL 4781786 (E.D. Va. 2013).

<sup>67</sup> *E.I. DuPont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970) (holding that aerial photography of plant construction to determine competitor’s process for producing methanol constituted “improper means”).

<sup>68</sup> *Tryco, Inc. v. U.S. Medical Source, L.L.C.*, 80 Va. Cir. 619 (Fairfax Co. 2010) (inadvertent appropriation is not improper).

<sup>69</sup> For a discussion of proper means, see paragraph 9.306 of this chapter.

<sup>70</sup> 180 F.3d 583 (4th Cir. 1999).

<sup>71</sup> 80 Va. Cir. 619 (2010)

<sup>72</sup> 246 Va. 278, 435 S.E.2d 133 (1993).

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may use general information concerning the method of business of the employer and the names of the employer's customers retained in the employee's memory, if not acquired in violation of any duty to the employer. The Fourth Circuit used the *Peace* case as support in the case of *Phoenix Renovation Corp. v. Rodriguez*<sup>73</sup> in which the Court held that plaintiff's confidentiality agreements with the defendant subcontractors, prohibiting the subcontractors' use of any trade secret or confidential or proprietary information", including "the identity and requirements of customers and clients" did not prohibit a competitor's use of the subcontractor's memories of addressees at which they performed work for the contractor in targeting the competitor's marketing.

In the case of an employee who has misappropriated a trade secret from a former employer, such an employee's new employer may be vicariously liable for the employee's misappropriation of a trade secret of the former employer under the doctrine of respondeat superior.<sup>74</sup>

As is the case for most pleadings, a plaintiff's complaint must allege facts, rather than conclusory statements, when establishing a misappropriation claim. A mere recitation of the elements of misappropriation will not suffice.<sup>75</sup> A sample complaint for violation of the Virginia Uniform Trade Secrets Act and other related claims is included in [Appendix 9-1](#).

**9.304 Requirement of Independent Economic Value.** The definition of a trade secret in the Restatement requires that the trade secret give the user an opportunity to obtain an advantage over nonusers. The Virginia Act's definition requires that the secret information derive "independent economic value, actual or potential."<sup>76</sup> This quoted phrase as used in the Virginia Act and the Uniform Act, while seemingly unfathomable, has been interpreted by courts to simply mean that the trade secret information must give the owner of the secret some actual or potential competitive advantage.<sup>77</sup> The Virginia and Uniform Acts do not state that the independent economic value has to be substantial or significant, but the economic value has to be more than de minimis.

Usually, proving this element is not an issue. But it was an issue in *Padco Advisors, Inc. v. Omdahl*,<sup>78</sup> in which the plaintiff mutual fund company fired the defendant, a regional sales manager, who then went to work for a competing company. The plaintiff sued the defendant for violation of the Maryland Uniform Trade Secrets Act, alleging he had memorized a list of registered investment advisors compiled by his former employer. The employee had not physically copied the list. The plaintiff obtained a temporary restraining order and a preliminary injunction. The court found that because the information had been memorized and over two years had passed since he had been fired, it was doubtful that the defendant would remember anything useful because the information on the list was constantly changing. The court held that the list

<sup>73</sup> 258 F. App'x 526 (4th Cir. 2007).

<sup>74</sup> *MicroStrategy v. Business Objects, S.A.*, 331 F.Supp.2d 396, 418 (E.D. Va. 2004) (citing *Newport News Indus. v. Dynamic Testing, Inc.*, 130 F. Supp. 2d 745 (E.D. Va. 2001)).

<sup>75</sup> See *E. W. LLC v. Rahman*, 873 F. Supp. 2d 721 (E.D. Va. 2012); *Othentec Ltd. v. Phelan*, 526 F.3d 135 (Va. Ct. App. 2008).

<sup>76</sup> *Trvco, Inc. v. U.S. Medical Source, L.L.C.*, 80 Va. Cir. 619 (Fairfax Co. 2010) (outdated documents and information whose value comes only from providing access to other potentially valuable information do not have independent economic value).

<sup>77</sup> *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 900 (Minn. 1983).

<sup>78</sup> 179 F. Supp. 2d 600 (D. Md. 2002).

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Moved [1]: A sample complaint for violation of the Virginia Uniform Trade Secrets Act and other related claims is included in Appendix 9-1.

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was not a trade secret because the plaintiff had not shown that the list had any continuing value to competitors.<sup>79</sup>

This element was also an issue in *Marsteller v. ECS Federal, Inc.*<sup>80</sup> The plaintiff was terminated from an executive position at the defendant's firm. In the period between the notification of termination and actual termination, the plaintiff copied numerous internal files of the defendant's onto an external storage device without authorization. The plaintiff argued that the defendant did not derive independent economic value from the copied documents because they largely only had informational value internal to the firm. The court, however, held that the misappropriated documents would allow a competitor to know the defendant's business development plans, among other things, such that the information contained in the documents had independent economic value sufficient for the purposes of the Act.

As noted above, combinations of numbers and or letters such as passwords are not trade secrets. In *State Analysis, Inc. v. American Financial Services Assoc.*, the Court found that collections of numbers and/or letters, whose only value is to access other potentially valuable information, do not by themselves have independent economic value.

**9.305 Requirement That Trade Secret Not Be Generally Known.** The Virginia Act's definition of a trade secret further requires that the trade secret not be generally known. The drafters of the Uniform Act and the courts are clear that "not generally known" does not mean not generally known to the public. It means not generally known to those who are in the relevant industry or trade.<sup>81</sup> In trade secret cases, this requirement that the information not be generally known is often a vigorously contested issue, and it can be a close factual issue for a judge or jury to decide. A company may argue that it has developed a secret method of selling a product or service and that it has spent much money, time, and effort to develop its particular sales method, train its employees to use it, and maintain the secrecy of the method. On the other hand, a departing employee of that company who wants to use the method for his or her own benefit may argue that the method is most certainly generally known since one can simply read a book at the local public library on sales or marketing to find out about almost any sales method. Further, a departing employee may also contend that the sales method is generally known since several of the competitors of the company use the same or similar method. This is not unlikely in a mature competitive industry.

One way to make something generally known is to post it on the Internet. It is surprising how frequently companies post critical information on their websites. Courts have held that posting works on the Internet makes them generally known and that once a trade secret is posted online, it is effectively part of the public domain and impossible to retrieve.<sup>83</sup> In *Religious Technology Center v. Lerma*,<sup>84</sup> the Church of Scientology sued a disgruntled former member, who then filed embarrassing church documents in the open court file. Before the documents were sealed, the defendant published them via the Internet and mailed them to *The Washington Post*. The *Post* also sent a reporter to the court and obtained a copy of the documents from the open

<sup>79</sup> See also *Audio-Video Group, LLC v. Green*, 2014 WL 793535 (E.D. Va. 2014); *Am-Cor.Com, Inc. v. Stevens*, 56 Va. Cir. 245 (Warren Co. 2001).

<sup>80</sup> 2013 WL 4781786 (E.D. Va. 2013).

<sup>81</sup> Unif. Trade Secrets Act § 1, 14 U.L.A. at 439 cmt.

<sup>83</sup> *Religious Tech. Ctr. v. Lerma*, 908 F. Supp. 1362 (E.D. Va. 1995).

<sup>84</sup> *Id.*

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court file even though the church had been checking the file out and holding it all day, every day, so no one could see it. The *Post* published an article about the church and the documents. The church sued the *Post* for copyright infringement and trade secret misappropriation. The court found that the documents could not be trade secrets since they were in an open court file for over 28 months and, therefore, in the public domain. They were also published via the Internet for 10 days. The court found that the person originally posting the documents online may have misappropriated them, but the party downloading them via the Internet cannot be liable for misappropriation.

One would think that another way to make something generally known would be to make it public by putting it in the court record. In *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*,<sup>85</sup> the United States Court of Appeals for the Fourth Circuit took a different position about trade secrets filed in an open court file but not posted on the Internet. In that case, a party had filed documents, which they alleged were trade secrets, in another court proceeding. They had been in the open court file for several months. The court reached a result different from that in the Scientology case, stating that

[i]n holding that the [Church's] works were not trade secrets when the *Post* acquired them, the court specifically relied on both of these factors [documents in an open court file for 28 months and published on the Internet]. First, it noted that the documents' extended presence in the court's public files, from which the *Post* had obtained its own copy, made them no longer a secret. Importantly, though, the court reasoned that the documents' posting on the Internet was "[o]f even more significance" than their extended presence in public records: "posting works to the Internet makes them "generally known" at least to the relevant people interested in the news group." As a result, the court correctly found that the information which had been both disclosed in public court files and made "generally known" by Internet publication had lost its trade secret status. In this case, there is no suggestion that the . . . [d]ocument was published [on the Internet], only that it was present in the district court's public files. We hold that, under the Act, this presence in the district court's public files, in and of itself, did not make the information contained in the document "generally known" for purposes of the Act.<sup>86</sup>

In *MicroStrategy Inc. v. Business Objects, S.A.*, the Eastern District of Virginia, citing the *Hoechst* decision, held that documents outlining trade secrets in unsealed public court files do not destroy their secrecy without evidence of further publication.<sup>87</sup> The court also took issue with the fact that the documents discussing the trade secrets were never presented to the public or the jury in enough detail for something of value to have been revealed.<sup>88</sup>

**9.306 Requirement That Trade Secret Not Be Readily Ascertainable.** The Virginia Act also requires that a trade secret not be readily ascertainable by proper means. Improper means

<sup>85</sup> 174 F.3d 411 (4th Cir. 1999).

<sup>86</sup> *Id.*

<sup>87</sup> 331 F.Supp.2d 396, 418-419 (E.D. Va. 2004).

<sup>88</sup> *Id.* at 418.

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are defined in the Virginia Act and the Uniform Act and have already been discussed.<sup>89</sup> The Commentary to the Uniform Act lists several proper means,<sup>90</sup> including:

1. Discovery by independent invention;
2. Reverse engineering;<sup>91</sup>
3. Discovery under a license;
4. Observing the product or service on public use or display; and
5. Review of publicly available literature.<sup>92</sup>

There is no bright line defining when information is readily ascertainable; this is an often-litigated factual issue. A common example is a departing employee who takes a customer list when leaving to work at a competing business, which may even be the employee's own start-up company. The former employer will argue that its customer list was developed only after many years of effort and great expenditures on advertising, client development, and salaries. On the other hand, the departing employee will argue that the list constitutes information that is readily ascertainable through common business sources such as [the Internet](#), trade magazines, and published industry information sources.

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The nature of this requirement was simply but eloquently described in [the 1922 case of \*Fulton Grand Laundry Co. v. Johnson\*](#).<sup>93</sup> Apparently, [back then](#), laundry was picked up and delivered by [a driver on a horse-drawn carriage](#). [The driver followed a route with his carriage, knowing the identity and location of the customers along the route. It was critical to the laundry that the driver kept this information secret from its competitors. In this case, the defendant, laundry carriage driver left his employment at the Fulton Grand Laundry and started his own laundry business. He solicited the customers on his previous laundry route. The court found that the identity and location of the laundry customers on the laundry route was not a trade secret since those identities and locations could be readily ascertained by merely observing the driver on his laundry route. The information was readily ascertainable by proper means.](#)

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Some trade secret cases discussing whether a trade secret is readily ascertainable involve reverse engineering. In *DSC Communications Corp. v. Pulse Communications Inc.*,<sup>94</sup> a manufacturer of plug-in channel cards for use in a telecommunications digital switching system lawfully purchased through an agent a competitor's system on the open market with the specific intent to reverse engineer the card. The court held that since the card was purchased lawfully, the trade secret was not obtained by improper means as defined in the Virginia Act, even though it was purchased with the intent to reverse engineer the card and even though it was purchased indirectly through an agent. On appeal, this ruling was reversed, the Federal Circuit holding that

<sup>89</sup> See *supra* ¶ 9.303; Unif. Trade Secrets Act § 1, 14 U.L.A. 439 (1990).

<sup>90</sup> *Id.* (Commissioners' comment).

<sup>91</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475 (1974).

<sup>92</sup> Unif. Trade Secrets Act § 1, 14 U.L.A. 439 cmt. (1990). *Tao of Sys. Integration, Inc. v. Analytical Servs. & Materials, Inc.*, 299 F. Supp. 2d 565 (E.D. Va. 2004) (motion to dismiss granted where alleged trade secrets were information contained in published patent).

<sup>93</sup> 117 A. 753 (Md. 1922).

<sup>94</sup> 976 F. Supp. 359 (E.D. Va. 1997), *rev'd*, 170 F.3d 1354 (Fed. Cir. 1999).

there was sufficient evidence to raise a triable issue of fact as to whether there was a trade secret violation.<sup>95</sup>

**9.307 Requirement of Reasonable Efforts to Maintain Secrecy.** Section 59.1-336 of the Virginia Code provides that a trade secret is protectable only if it “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”<sup>96</sup> There are no qualifications or exceptions to this requirement. But it is also clear from this provision that complete secrecy is not required. Sensibly, trade secret protection is not lost if the trade secret is disclosed in confidence to those who need to know it, such as employees, agents, suppliers, subcontractors, and others.<sup>97</sup> But courts have also interpreted the Act as requiring a trade secret owner to demonstrate that the owner pursued an active course of conduct to keep the information secret.<sup>98</sup> Doing nothing is not enough, even though doing nothing has been good enough in the past to protect a secret. While the trade secret owner must be able to demonstrate that he or she has pursued an active course of conduct to protect the secret, heroic measures are not necessary. Whether reasonable efforts to maintain secrecy have been taken for the purposes of the Virginia Act is “fact intensive.”<sup>99</sup>

Generally speaking, if trade secret information is disclosed to outsiders or to the public, trade secret protection is lost. In *Advanced Computer Services of Michigan, Inc. v. MAI Systems Corp.*,<sup>100</sup> the court simply stated the basic concept that “[t]rade secrets rights do not survive when otherwise protectable information is disclosed to others, such as customers or the general public, who are under no obligation to protect [its] confidentiality.”<sup>101</sup>

Sometimes in early trade secret cases, courts held that not much was required to protect information as a trade secret. In *Dionne v. Southeast Foam Converting & Packaging, Inc.*,<sup>102</sup> the Virginia Supreme Court upheld the circuit court’s decision that the company had used reasonable efforts to maintain the secrecy of the trade secret, referring only to the fact that the company had required confidential information agreements from all its “employees, suppliers, customers, contractors and other plant visitors.”<sup>103</sup>

In many cases, however, courts have looked much more closely at the facts of the case to determine whether reasonable efforts were used to maintain secrecy. In *Trandes Corp. v. Guy F. Atkinson Co.*,<sup>104</sup> the developer and owner of a software program used to design subway tunnels sued a licensee and its contractor for misappropriation of that trade secret. The defendants argued that the information was not a trade secret since the software was widely disclosed and mass marketed and its existence and its abilities were not secret. The defendants argued that the plaintiff software owner even offered a demonstration version of the software for \$100. But the

<sup>95</sup> *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, 170 F.3d 1354 (Fed. Cir. 1999).

<sup>96</sup> Unif. Trade Secrets Act § 1(4)(ii), 14 U.L.A. 439 (1990); *Secure Servs. Tech., Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354 (E.D. Va. 1989).

<sup>97</sup> *Dionne v. Southeast Foam Converting & Packaging, Inc.*, 240 Va. 297, 397 S.E.2d 110 (1990) (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475 (1974)).

<sup>98</sup> *Jet Spray Cooler, Inc. v. Crampton*, 282 N.E.2d 921, 925 (Mass. 1972).

<sup>99</sup> *Young Design, Inc. v. Teletronics Intern., Inc.*, 2001 WL 35804500, 6 (E.D. Va. 2001).

<sup>100</sup> 845 F. Supp. 356 (E.D. Va. 1994).

<sup>101</sup> *Id.* at 370 (citing *Secure Services Tech., Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354, 1361 (E.D. Va. 1989)).

<sup>102</sup> 240 Va. 297, 397 S.E.2d 110 (1990).

<sup>103</sup> *Id.* at 300, 390 S.E.2d at 111-12.

<sup>104</sup> 996 F.2d 655, *cert. denied*, 510 U.S. 965 (1993).

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court looked closely at the facts and found that only six or seven persons had inquired about the demonstration version and that no copies were sold. The court found that the owner took measures that were reasonable under the circumstances to protect the secrecy of the software. The court found that the company licensed only two object code versions of its software and that they were licensed under a confidentiality agreement, the company used a password to prevent access to the program in-house and for licensed versions, and no other unauthorized person had ever obtained a copy of the software.

Efforts that are reasonable under the circumstances will vary among cases. Some examples include:

1. Classifying and labeling certain documents as trade secrets;
2. Restricting access to certain materials or areas;
3. Limiting disclosures within the company to those individuals who need the trade secrets in order to perform their jobs properly;
4. Implementing badge or other electronic monitoring systems;
5. Advising employees of the existence of trade secrets and conditioning employment on signing confidentiality agreements;
6. Requiring consultants, customers, vendors, and ancillary service providers to sign confidentiality agreements;
7. Implementing periodic internal review procedures regarding inventions, periodicals, marketing materials, and government filings;
8. Restricting access to computers, copiers, fax machines, and trash receptacles;
9. Performing security checks of employees, visitors, and others with access to trade secrets; and
10. Using protective orders when disclosing trade secrets in the course of litigation.<sup>105</sup>

There is much to be done as lawyers advise and assist clients in trade secret cases. Today's numerous trade secret lawsuits are *ad hoc* testimonials to the fact that many companies still do not take measures that are reasonable under the circumstances to protect their trade secrets. A trade secret owner should consider the implementation of a trade secret protection program, designed by counsel, to protect secrets from disclosure and to increase the owner's probability of success in future litigation involving the misappropriation of the secret.<sup>106</sup>

It should be mentioned that a trade secret must meet all of the above requirements (see paragraphs 9.304 - 9.307) and elements (see paragraph 9.302) to qualify as a trade secret under

<sup>105</sup> Cohen & Gutterman, *supra* note 16, at 89-90.

<sup>106</sup> See Richard C. McCrea, Jr., *Protecting Trade Secrets & Confidential Business Information (with Forms)*, 44 Prac. Law. 71 (1998).

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the Act.<sup>107</sup> It is not necessary to allege or prove that the parties are competitors in a claim for misappropriation of trade secrets under the Act.<sup>108</sup> Further, experts can be very helpful or may be required to prove or defend the factual issues in a t/s case. For example, expert testimony is probably necessary for a plaintiff if it requires specialized knowledge to prove that a t/s is not generally known or independently discoverable.<sup>109</sup>

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### 9.308 Other Provisions of the Virginia Act.

**A. Injunctive Relief.** Because of the nature of trade secrets cases, money damages may be inadequate and injunctive relief may be necessary. In recognition of this, section 59.1-337 of the Virginia Code specifically provides that a court may order an injunction in a case of actual or threatened misappropriation.<sup>110</sup> The court order imposing the injunction can specify that the injunction terminates when the trade secret has ceased to exist, or the court may continue the injunction for a longer period in order to eliminate any commercial advantage that otherwise would be derived from the misappropriation.<sup>111</sup> In Virginia, courts have upheld the use of the Virginia Act to enjoin threatened misappropriation. In *Dionne v. Southeast Foam Converting & Packaging, Inc.*,<sup>112</sup> the court granted an injunction against the misappropriating son, prohibiting him from the threatened use or disclosure of a secret manufacturing process. Absent threatened misappropriation, however, injunctions must be limited in scope to prohibiting action involving specific documents identified in the litigation and may not enjoin future misappropriation.<sup>113</sup>

Because the Virginia Act authorizes injunctive relief, the plaintiff does not have to prove irreparable injury or inadequacy of money damages to obtain an injunction as might otherwise be required for injunctions in Virginia. Virginia case law clearly states that where a statute specifically authorizes an injunction, the moving party does not have to prove irreparable injury or inadequacy of money damages.<sup>114</sup> The moving party only has to show that there has been actual or threatened misappropriation.

One of the amendments that the Commissioners adopted in 1985 added language to subpart b of section 2 of the Uniform Act concerning injunctive relief in the case of "exceptional circumstances."<sup>115</sup> This new language was also added to the Virginia Act and provides that

[i]n exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances include,

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<sup>107</sup> *MicroStrategy Inc. v. Bus. Objects, S.A.*, 331 F. Supp. 2d 396, 418 (E.D. Va. 2004).

<sup>108</sup> *Collelo v. Geographic Services*, 283 Va. 56 (2012).

<sup>109</sup> *Trident Products & Servs., LLC v. Canadian Soiless Wholesale, Ltd.*, 859 F. Supp. 2d 771, 776-77 (E.D. Va. 2012).

<sup>110</sup> *Zuccari v. Adams*, 42 Va. Cir. 132 (Fairfax 1997); *Motion Control Sys., Inc. v. East*, 262 Va. 33, 546 S.E.2d 424 (2001); *Datatel, Inc. v. Rose & Tuck, LLC*, 2005 WL 1668020 (E.D. Va. 2005).

<sup>111</sup> *MicroStrategy, Inc. v. Bus. Objects, S.A.*, 369 F. Supp.2d 725 (E.D. Va. 2005).

<sup>112</sup> 240 Va. 297, 397 S.E.2d 110 (1990).

<sup>113</sup> *MicroStrategy Inc. v. Bus. Objects, S.A.*, 331 F. Supp. 2d 396, 430-31 (E.D. Va. 2004).

<sup>114</sup> *Environmental Def. Fund, Inc. v. Lamphier*, 714 F.2d 331 (4th Cir. 1983); *Hart v. Riverside Hosp., Inc.*, 899 F. Supp. 264 (E.D. Va. 1995); *Virginia Beach S.P.C.A., Inc. v. South Hampton Rds. Veterinary Ass'n*, 229 Va. 349, 329 S.E.2d 10 (1985); *E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 894 F. Supp. 2d 691 (E.D. Va. 2012).

<sup>115</sup> Unif. Trade Secrets Act § 2(b), 14 U.L.A. 450, 456 cmt. (1990).

but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.<sup>116</sup>

Under rare circumstances, the court may grant broad production injunctions, enjoining those that misappropriate trade secrets from competing with the plaintiff. In only a small number of cases, federal courts have recognized that production injunctions are necessary when circumstances render more traditional “use injunctions” insufficient, particularly in cases where the misappropriated trade secrets are “inextricably connected” to the defendant’s manufacturing process.<sup>117</sup> An “inextricable connection” exists when the defendant would not be able to manufacture or design a comparable product without the plaintiff’s trade secret. Courts will often look at evidence of bad faith or maliciousness in determining the appropriateness of a production injunction, considering such findings as evidence of the defendant’s future noncompliance with a use injunction.<sup>118</sup> In *Autopartsource v. Bruton*, the court imposed a sourcing injunction, a variation on a production injunction in which the defendant is enjoined from hiring the same third party as the plaintiff to manufacture a product.<sup>119</sup> In both the production and sourcing injunction context, the injunctions must be geographically and temporally reasonable.<sup>120</sup>

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## B. Damages.

**1. Actual Loss, Unjust Enrichment, and Reasonable Royalty.** With regard to damages, the exact language of the Uniform Act and the Virginia Act differs somewhat. Section 3 of the Uniform Act provides that damages can include damages for actual loss and damages for unjust enrichment that is not taken into account in computing damages for actual loss. Damages can also be measured by a reasonable royalty in lieu of any other damages. Under the Virginia Act, damages can be measured by actual loss or unjust enrichment as in the Uniform Act, but damages can be measured by a reasonable royalty only “[i]f a complainant is unable to prove a greater amount of damages by other methods of measurement.”<sup>121</sup> Since plaintiffs are always seeking the highest damages, the difference in practice between the Uniform Act and the Virginia Act on this point may be small. One commentator has also argued that the Racketeer Influenced and Corruption Organizations Act (RICO) is applicable to causes of action based on the misappropriation of trade secrets.<sup>122</sup> RICO provides for treble damages and legal fees.<sup>123</sup>

<sup>116</sup> Va. Code § 59.1-337(B).

<sup>117</sup> See *Autopartsource, LLC v. Bruton*, 2013 WL 3766524, \*14 (E.D. Va. 2013); *E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 894 F. Supp. 2d 691 (E.D. Va. 2012).

<sup>118</sup> *Id.* (defendant company was essentially formed to capitalize on plaintiff’s trade secrets and one of its employees broke into plaintiff’s office to delete files containing trade secrets off of a computer, both facts of which contributed to the court’s determination that defendant would not comply with a use injunction and a modified production injunction was more appropriate).

<sup>119</sup> *Id.* at \*15.

<sup>120</sup> *Id.* (requested worldwide injunction was limited to the two countries at issue, the US and China, and the plaintiff’s request for a seven-year injunction was also limited to three years, as the court found that sufficient to counteract the unfair advantage defendant received due to misappropriation).

<sup>121</sup> Va. Code § 59.1-338.

<sup>122</sup> Thomas P. Heed, *Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action That Works*, 30 J. Marshall L. Rev. 207 (1996).

<sup>123</sup> 18 U.S.C. § 1964(c).

Virginia's law before the Virginia Act was that damages could be awarded for the plaintiff's actual loss or the defendant's unjust enrichment but not both.<sup>124</sup>

Courts carefully consider the proof of actual loss and unjust enrichment in trade secret litigation. In *Autopartsorce* on a default judgment, the U.S. District Court for the Eastern District of Virginia held an evidentiary hearing for the proof of damages, recognizing the Court's independent duty to ensure that the damages awarded are justified. The Court's Memorandum Opinion carefully reviewed the proof and granted relief for actual loss and unjust enrichment after a detailed analysis.<sup>125</sup>

A thoughtful discussion of proof of damages for actual loss, unjust enrichment and reasonable royalty in trade secret cases may be found in the partial dissent and partial concurrence by Justice McClanahan in the case of *Collelo v. Geographic Services*.<sup>126</sup> In the dissent, the Justice argued that plaintiff did not present evidence sufficient to submit its claims for trade secrets damages for actual loss, unjust enrichment and reasonable royalty to a jury. With regard to actual loss, one of plaintiff's experts testified on *voir dire* examination for qualification as an expert that he was not offering an opinion on actual loss for misappropriation. The same expert made two valuations, one valuing the company and the other valuing the company taking into consideration the risk of loss of the trade secret on cash flow, but admitted both valuations were done as of one date before the employee was even hired by plaintiff and that the valuation did not take into account "real world events" or whether plaintiff gained any customers or contracts following the departure of the employee. Plaintiff's other expert testified as to actual loss but testified to the cost of developing the trade secret and that its value had decreased. The dissenting Justice pointed out that the expert did not testify on the actual value of the trade secret or the actual loss of value of the trade secret. Development costs are not the same as the actual value of a trade secret. Further, one employee of plaintiff testified that plaintiff had not lost any money. With regard to unjust enrichment, one of plaintiff's experts testified that she multiplied the total amount of revenue billed by the new employer for their work involving the trade secret after the arrival of the new employee times the new employer's profit margin (12%). The Justice pointed out that two-thirds of those contracts were in place before the employee worked at the new employer. This is not the same as the new employer's earnings received due to the misappropriation of the trade secret. With regard to proving a reasonable royalty, the Justice pointed out that plaintiff's expert used a "rule of thumb" which was a "25% rate" for the royalty. This rate was multiplied by the unjust enrichment amount calculated by the expert. The Justice argued that since the unjust enrichment calculation was flawed, so was the reasonable royalty calculation. The Justice may also have been implying that there was not evidentiary support for the 25% rule of thumb. While the Justice's dissent is not a ruling, it may be illustrative of best practices for plaintiff's counsel when proving damages in a trade secret misappropriation case.

Measuring damages by a royalty amount instead of actual loss or unjust enrichment may be advantageous for some plaintiffs. Plaintiffs may not be able to easily determine their actual losses because the defendant has kept the misappropriation secret and the plaintiff may not be aware of or be able to reasonably calculate the effects of the defendant's misappropriation on the plaintiff's business. Also, plaintiffs may not be able to calculate the

<sup>124</sup> *American Sales Corp. v. Adventure Travel, Inc.*, 862 F. Supp. 1476, 1479 (E.D. Va. 1994) (citing *Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387 (4th Cir. 1971), cert denied, 405 U.S. 1017 (1972)).

<sup>125</sup> *Autopartsorce, LLC v. Bruton*, 2013 WL 3766524 (E.D. Va. 2013).

<sup>126</sup> 283 Va. 56 (2012).

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defendants' unjust enrichment because the defendant may not fully disclose the amount the defendant has profited by the misappropriation. A royalty amount may be much easier for the plaintiff to prove since the plaintiff has the information concerning the trade secret and may already be aware of its value. However, if a plaintiff is unable to show that it incurred costs in developing the trade secret or that those costs were attributable to a third-party not involved in the litigation, it may not be entitled to a royalty.<sup>127</sup> From a defendant's point of view, measuring damages by a royalty amount may be disadvantageous. The defendant may have only had the secret for a short time, may not have been able to use it to its full potential, and may not have generated much money from it because it was wrongfully obtained. Also, the defendant may not have all of the facts concerning the secret to be able to disprove the alleged value the plaintiff attributes to the secret.

One of the few reported cases awarding a reasonable royalty as damages arose in Virginia. In *American Sales Corp. v. Adventure Travel, Inc.*,<sup>128</sup> a multilevel marketing company had previously licensed its customer list to one of its suppliers. After the supplier's contract with the marketing company terminated, the supplier took the customer list and used it to start a competing business. There was no substantial, actual loss to the plaintiff since the defendant did not disclose the list to others and there was little unjust enrichment to the defendant since the defendant only had gross sales from the subject list in the amount of \$1,178. But the court found that the lack of significant profits did not insulate the defendant from an obligation to pay for what it had wrongfully obtained.<sup>129</sup> The court decided to award a reasonable royalty. It attempted to define a reasonable royalty as an approximation of the actual value of the infringed secret to the defendant, relying on the fiction that a license was granted at the time of the beginning of the infringement and then determining what the value of the license would have been if both parties had been reasonably trying to reach an agreement.

**2. Punitive Damages.** Under section 59.1-338(B) of the Virginia Code, a court may award punitive damages "in an amount not exceeding twice any award made under subsection A of this section, or \$350,000 whichever amount is less." Some states do not have a punitive or exemplary damages provision in their state uniform trade secrets act.<sup>130</sup> Of those states that do, Virginia is the only one that sets a cap on damages. As many Virginia trial lawyers know, Virginia law does not favor punitive damages and reserves them for only the most egregious conduct.<sup>131</sup> Virginia law also allows the awarding of both punitive and treble damages, even though they are both compensatory, so long as they are based on separate claims involving different legal duties and injuries.<sup>132</sup>

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<sup>127</sup> See *Check 'n Go of Virginia, Inc. v. Laserre*, 2005 WL 1926609 (W.D. Va. 2005) (plaintiff's parent company incurred costs of developing the trade secret, thus plaintiff was not entitled to a reasonable royalty without evidence of incurring those costs itself).

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<sup>128</sup> 862 F. Supp. 1476 (E.D. Va. 1994). See also 867 F. Supp. 378 (E.D. Va. 1994).

<sup>129</sup> 862 F. Supp. at 1479-80 (citing *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974)).

<sup>130</sup> Arkansas, Michigan, Mississippi, and Nebraska do not have punitive or exemplary damage provisions in their state uniform trade secrets acts.

<sup>131</sup> *American Sales Corp. v. Adventure Travel, Inc.*, 862 F. Supp. 1476, 1481 (E.D. Va. 1994) (citing *Owens-Corning Fiberglas Corp. v. Watson*, 243 Va. 128, 142-44, 413 S.E.2d 630, 639 (1992), in which the court did not find the requisite willfulness and maliciousness even where the defendant's president said he wanted to "destroy" the plaintiff).

<sup>132</sup> *21st Century Sys., Inc. v. Perot Sys. Gov't Servs., Inc.*, 284 Va. 32, 46 (2012) (court allowed treble damages for a business conspiracy claim and punitive damages under the trade secret claim).

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In *E.I. DuPont De Nemours & Co. v. Kolon Indus., Inc.*,<sup>133</sup> defendant had willfully and maliciously misappropriated 149 trade secrets. Does the Virginia punitive damages cap of \$350,000 apply 149 times (\$52,150,000) in this case or just once? The Court found that the Virginia cap of \$350,000 on punitive damages applies to the entire trade secret case, not to each individual trade secret that was misappropriated in the case.

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**3. Attorney Fees.** Section 59.1-338.1 of the Virginia Code provides that if the court determines that (i) a claim of misappropriation is made in bad faith or (ii) willful and malicious misappropriation exists, the court may award reasonable attorney fees to the prevailing party.<sup>134</sup> “Willful and malicious” and “bad faith” are two different standards, but the use of different standards may be appropriate since the types of acts and actors are different. Both “bad faith” and “willful and malicious” are interpreted by the courts to require egregious conduct of a similar degree.<sup>135</sup> Although attorneys’ fees and punitive damages are allowed under the Act, they are both generally disfavored in Virginia as they both require a showing of malice.<sup>136</sup> However, if a court decides that it is appropriate to award attorneys’ fees, a court will look closely at the fees and how they were calculated.<sup>137</sup>

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DuPont filed an action against Kolon, a South Korean company, in 2009 for misappropriation of 149 of its trade secrets related to Kevlar, a high strength para-aramid fiber. After two years of discovery and a seven week jury trial, the jury returned a verdict finding that Kolon willfully and maliciously misappropriated 149 DuPont trade secrets and awarded DuPont \$919.9 million in damages. This case was appealed by Kolon to the Fourth Circuit and the Court of Appeals held that district court abused its discretion and acted arbitrarily in excluding evidence derived from prior litigation between DuPont and different competitor.<sup>138</sup> The Fourth Circuit vacated and remanded the case. Prior to this decision on appeal, the U.S. District Court for the Eastern District issued a Memorandum Opinion on DuPont’s Motion for \$18.9 Million Attorneys’ Fees based on the violation of the Virginia Uniform Trade Secrets Act. The U.S. District Court found that the Act’s provision allowed for attorneys’ fees at the discretion of the Court but the Act and Uniform Act did not provide any guidelines as to the exercise of that discretion. The Court used four factors to make this decision; (1) closeness of the case; (2) tactics of counsel; (3) flagrant or good faith character of the parties’ conduct; and (4) other factors. The Court also found that the Act requires that the attorneys’ fees be reasonable but the Act and Uniform Act do not give the Court any standards to determine reasonableness. The Court found that it would use state law to determine reasonableness and identified the Virginia standards that may be used by the fact finder to determine reasonableness;

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<sup>133</sup> No. 3:09cv58, 2011 BL 297176 (E.D. Va. Nov. 22, 2011).

<sup>134</sup> *Young Design, Inc. v. Teletronics Int'l, Inc.*, 38 Fed. Appx. 994 (4th Cir. 2002); see also *Autopartsources, LLC v. Bruton*, 2013 WL 3766524 (E.D. Va. 2013). The Uniform Act also allows for attorney fees if a motion to terminate an injunction is made or resisted in bad faith. The Virginia Act has no such provision.

<sup>135</sup> For egregiousness for punitive damages, see *American Sales Corp.*, 862 F. Supp. 1476. See also 867 F. Supp. 378 (E.D. Va. 1994). For egregiousness in bad faith cases, see *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, cert. denied 598 A.2d 465 (Md. 1991).

<sup>136</sup> See *MicroStrategy Inc. v. Bus. Objects, S.A.*, 331 F. Supp. 2d 396, 430 (E.D. Va. 2004).

<sup>137</sup> *Autopartsources, LLC v. Bruton*, 2013 WL 3766524 (E.D. Va. 2013).

<sup>138</sup> *E.I. Dupont De Nemours & Co. v. Kolon Industries, Inc.*, 2014 WL 1317700 (4th Cir. 2014).

the time and effort expended by the attorney, the nature of the services rendered, the complexity of the services, the value of the services to the client, the results obtained, whether the fees incurred were consistent with those generally charged for similar services, and whether the services were necessary and appropriate.” *Schlegel v. Bank of Am., N.A.*, 271 Va. 542, 628 S.E.2d 362, 369 (2006); *West Square, LLC v. Communication Technologies, Inc.*, 274 Va. 425, 649 S.E.2d 698, 702 (2007).

Note that the Act only authorizes reasonable attorneys’ fees. It does not authorize the reimbursement of costs.<sup>139</sup>

In *American Sales Corp. v. Adventure Travel, Inc.*,<sup>140</sup> after the plaintiff was awarded reasonable royalty damages, it sued for attorney fees.<sup>141</sup> The court awarded attorney fees but refused to do so under the Virginia Act. It awarded them based on an indemnity clause in the contract between the parties. The court refused to find the requisite willfulness and maliciousness even though the defendant’s representative admitted that he wanted to “destroy” the plaintiff.

It is not uncommon that a defendant in a trade secrets case has an employment agreement and a non-disclosure agreement with the plaintiff former employer. In such a case, both agreements may have differing provisions on the award of attorney fees. Which provision applies? In *Collelo v. Geographic Services*,<sup>142</sup> the Virginia Supreme Court found that the attorney fee provision in the non-disclosure agreement was the controlling provision for a prayer for attorney fees based on a claim for misappropriation of a trade secret.

**C. Preservation of Secrecy.** Section 59.1-339 of the Virginia Code requires a court to preserve the secrecy of any alleged trade secret by reasonable means during the course of a court proceeding. Section 59.1-339 sets forth some examples, including (i) protective orders during discovery; (ii) in camera hearings; (iii) sealing records; and (iv) ordering persons not to disclose the information.

Litigants may protect their trade secrets from public disclosure when those trade secrets are set forth in a complaint or other pleading by moving that those portions of the pleadings be sealed. Sealing such records is specifically permitted by the Act but the party seeking the protection must file a Motion to File under Seal with the court. The sealing of a record is an extraordinary measure that must be specifically authorized by the court even if the motion is not opposed in order to preserve the First Amendment and common law right to access public records.<sup>143</sup>

The parties and the court can also protect the secrecy of discoverable information by stipulation<sup>144</sup> or by a motion for a protective order.<sup>145</sup> Frequently in trade secret litigation, the

<sup>139</sup> *E. I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 911 F. Supp. 2d 340 (E.D. Va. 2012).

<sup>140</sup> 862 F. Supp. 1476 (E.D. Va. 1994).

<sup>141</sup> 867 F. Supp. 378 (E.D. Va. 1994).

<sup>142</sup> 283 Va. 56 (2012)

<sup>143</sup> *RegScan, Inc. v. Bureau of Natl. Affairs, Inc.*, No. 1:11cv1129, 2011 BL 280461 (E.D. Va. Nov. 1, 2011).

<sup>144</sup> Va. R. 4:4.

<sup>145</sup> Va. R. 4:1(c).

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alleged trade secrets of both the plaintiff and the defendant are discoverable. In such cases, counsel for both parties may negotiate, prepare, and submit to the court a stipulated protective order, applicable to all parties, restricting the disclosure of information in discovery, depositions, hearings, and at trial. These protective orders may have provisions allowing (i) limited disclosure of specified information to counsel and parties and (ii) limited disclosure of other specified information to counsel only or special masters only. In these cases, all parties have a significant interest in reaching an agreement to protect their information, and such an agreement can help to minimize legal fees and court time.

In *ActiveVideo Networks, Inc. v. Verizon Communications, Inc.*,<sup>146</sup> the defendants filed a motion for several of its in-house attorneys to have access to confidential information otherwise preserved by the plaintiff's protective order. The court held that the question of access to confidential information must be made on a counsel-by-counsel basis, primarily focusing on the extent to which counsel is involved in competitive decisionmaking with its client.<sup>147</sup> The court explains competitive decisionmaking as situations that would involve counsel's advice and participation in the client's decisions made in light of information about a competitor. None of Verizon's lawyers were considered to be involved in competitive decisionmaking, despite the fact that some of them were high-level executives, regularly met with or corresponded with actors involved in such decisionmaking, or both. The court also stated that "high-altitude oversight" of decisionmaking does not meet the level of required involvement and that the extreme sensitivity of confidential information does not factor into the "involved in competitive decisionmaking" inquiry.

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D. [A sample Confidentiality Stipulation and Protective Order is attached as Appendix 9-2](#), **Statute of Limitations.** Section 59.1-340 of the Virginia Code sets forth a statute of limitations of three years, which begins to run from the date the misappropriation is discovered or should have been discovered by the exercise of reasonable diligence.<sup>148</sup> The District of Columbia and Maryland have three-year statutes. Two other states have four- and five-year statutes of limitations.<sup>149</sup>

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**E. Protection of Trade Secrets in Whistleblowing Suits.** In *JDS Uniphase Corp. v. Jennings*,<sup>150</sup> the District Court for the Eastern District of Virginia held that a company can successfully prohibit employees from breaching trade secret protection agreements even in cases where an employee may be a whistleblower. The defendant employee was terminated and thereafter retained several documents and materials containing the proprietary information of the plaintiff employer in spite of a Proprietary Information Agreement (PIA) between the employee and the employer.

<sup>146</sup> 274 F.R.D. 576 (E.D. Va. 2010).

<sup>147</sup> *Id.* at 579.

<sup>148</sup> See *Objective Interface Sys. v. Garrett*, No. 1:06cv540, 2006 U.S. Dist. LEXIS 79722 (E.D. Va. 2006) (holding that the statute of limitations for a misappropriation of trade secrets claim began to run upon plaintiff's discovery of defendant's participation in the misappropriation of plaintiff's licensed software).

<sup>149</sup> Illinois and Maine have five- and four-year statutes of limitations, respectively. Unif. Trade Secrets Act § 6, 14 U.L.A. 462 cmt. (1990).

<sup>150</sup> 473 F. Supp. 2d 697 (E.D. Va. 2007).



The defendant sought to defend his breach of the PIA by declaring that he necessarily retained the proprietary information in order to effectively function as a whistleblower against his employer and that the public policy favoring protection of whistleblowers deemed the PIA unenforceable. The court held that although public policy does protect whistleblowers, this policy does not “invalidate confidentiality agreements [or] authorize whistleblowers to steal or convert their employer’s proprietary documents.”<sup>151</sup> The court stated that in cases of whistleblowing, employees are certainly able to obtain proprietary documents through the appropriate legal discovery processes, and whistleblowing simply does not provide a license to breach confidentiality and trade secret agreements.

**F. Trade Secret Protection Agreements With Foreign Parties: Ensuring Agreement’s Enforceability in Virginia Courts.** When Virginia companies enter into business transactions with foreign parties, it is necessary to take additional precautions to ensure the enforceability of their trade secret protection agreements. In *Consulting Engineers, Inc. v. Geometric Software Solutions*,<sup>152</sup> the District Court of the Eastern District of Virginia denied a Virginian company’s misappropriation claim for failure to establish personal jurisdiction over the defendant company, whose principal place of business was in India. The plaintiff and the defendant had entered into a contractual agreement as well as a nondisclosure agreement designed to protect plaintiff’s trade secrets and prohibit the defendant from hiring the plaintiff’s employees who possessed the company’s trade secret information.

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The defendant company proceeded to hire one of the plaintiff’s employees in breach of the nondisclosure agreement. That employee then provided the defendant with access to the plaintiff’s trade secrets.

Although the plaintiff had taken the precautionary steps to protect its trade secrets in a nondisclosure agreement, Virginia courts could not enforce the terms of the agreement because of the lack of personal jurisdiction over the defendant. The court took several factors into account, including: (i) the location of the agreement’s negotiations in India; (ii) the location of the agreement’s execution in India; (iii) the location of the misappropriation and tortious conduct, which occurred in India; and (iv) the location of the proposed business arrangement, set to take place in India. The court found that a simple Virginia choice of law provision was inadequate to establish personal jurisdiction over the defendant, and the plaintiff’s claims were dismissed.

Virginia companies seeking to enforce their trade secret protection agreements under the Virginia Uniform Trade Secrets Act against foreign companies should take note of *Consulting Engineers, Inc.* Although providing a Virginia choice of law provision is a necessary first step, Virginia companies should also take the other measures suggested by the district court to ensure the enforceability of their trade secret protection agreements against foreign defendants. These precautionary measures include negotiating the terms of protection agreements in Virginia, executing these agreements in Virginia, storing trade secret information in Virginia, and limiting trade secret knowledge to those employees based in the company’s Virginia offices. If taken, any one of these steps can help to ensure that personal jurisdiction is established over a non-Virginia defendant should the Virginia plaintiff need to initiate trade secret litigation.

**G. Effect on Other Law.** Section 59.1-341 of the Virginia Code provides:

<sup>151</sup> *Id.* at 702.

<sup>152</sup> No. 5:05cv203DCB-JCS, 2007 U.S. Dist. LEXIS 49398 (E.D. Va. July 6, 2007).

A. Except as provided in subsection B of this section, this chapter displaces conflicting tort, restitutionary, and other law of this Commonwealth providing civil remedies for misappropriation of a trade secret.

B. This chapter does not affect:

1. Contractual remedies whether or not based upon misappropriation of a trade secret; or

2. Other civil remedies that are not based upon misappropriation of a trade secret; or

3. Criminal remedies, whether or not based upon misappropriation of a trade secret.

The Commentary to the Uniform Act specifically states that the Uniform Act is not intended to affect the law concerning contractual provisions not to disclose trade secrets and covenants by employees not to compete against their employers.<sup>153</sup>

In trade secret litigation, it is unusual for the complaint to only allege a misappropriation of a trade secret. Frequently, the alleged facts support a number of causes of action, including but not limited to:

- a. Duty of loyalty;
- b. Unfair competition;
- c. Lanham Act violations;<sup>154</sup>
- d. Fraud;
- e. Constructive fraud;
- f. Waste of corporate assets;
- g. Breach of director's duty;
- h. Breach of fiduciary duty;
- i. Business conspiracy;<sup>155</sup>
- j. Tortious interference;

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<sup>153</sup> Unif. Trade Secrets Act § 7, 14 U.L.A. 463 cmt. (1990). See also *Smithfield Ham & Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346 (E.D. Va. 1995).

<sup>154</sup> See *Buffalo Wings Factory, Inc. v. Mohd*, No. 1:07cv12 (JCC), 2007 U.S. Dist. LEXIS 91324 (E.D. Va. 2007) (full discussion of Lanham Act violations; business conspiracy; and tortious interference claims where defendant employees left their employment at Buffalo Wings Factory and used their knowledge of the employer's specialty wings sauces to recreate their own sauce in their own restaurant).

<sup>155</sup> For a very interesting and useful article on this cause of action, see J. Scott Sexton, *What's In a Word? The Tortured Life of the Virginia Conspiracy Statute, VA Code Sections 18.2-499 and -500*, XI Litigation News 1 (VSB Spring 2004).

- k. Trade or service mark infringement;
- l. Violation of copyright;
- m. Patent infringement;
- n. Breach of contract;
- o. Unjust enrichment,<sup>156</sup>
- p. Promissory estoppel; and
- q. Breach of confidentiality agreement.

Since pleading in the alternative is specifically permitted by court rule,<sup>157</sup> pleading numerous counts in trade secrets law suits has been standard practice. This practice was brought into issue in *Stone Castle Financial, Inc. v. Friedman, Billings, Ramsey & Co.*<sup>158</sup> and other recent cases.<sup>159</sup> In *Stone Castle*, the plaintiff, a California financial investment company, hired the defendant, an investment banking firm in Alexandria, Virginia, to assist the plaintiff in the purchase of a loan processing software design company to integrate loan processing software into the plaintiff's system. The plaintiff disclosed to the defendant information concerning the acquisition and the plaintiff's business plan to "revolutionize" the Internet mortgage industry. The defendant signed the plaintiff's confidentiality agreement. The plaintiff alleged that the defendant gave the confidential information to a competitor of the plaintiff. The competitor purchased the software design company itself. The plaintiff pled six counts in its complaint: (i) intentional interference with prospective business advantage; (ii) misappropriation of trade secret; (iii) breach of fiduciary duty; (iv) fraud; (v) breach of confidentiality agreement; and (vi) conspiracy to injure a business. The defendant moved to dismiss, contending that counts (i), (iii), (iv), and (vi) were preempted by the Virginia Act because they are all predicated on the general allegation that the defendant misappropriated the plaintiff's trade secrets. The plaintiff argued that because it could not be certain that its confidential information would be found to be a trade secret, it should be able to assert alternative theories of recovery. The plaintiff also alleged that some of the tort claims involved additional elements beyond those necessary to prove a misappropriation claim. The court held that there was a "common thread" in prior case law: where courts have found preemption on a motion to dismiss, they have repeatedly established that the information at issue—as alleged—constitutes a trade secret before reaching the preemption question.

Indeed, we do not agree that the UTSA provides blanket preemption to all claims that arise from a factual circumstance possibly involving a trade

<sup>156</sup> See *Frident Products & Servs., LLC v. Canadian Soiless Wholesale, Ltd.*, 859 F. Supp. 2d 771 (E.D. Va. 2012) (plaintiff's unjust enrichment claim was preempted by the Act because the claim relied on the same set of facts as the plaintiff's misappropriation claim).

<sup>157</sup> Va. R. 1:4(k), *E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 688 F. Supp. 2d 443 (E.D. Va. 2009).

<sup>158</sup> 191 F. Supp. 2d 652 (2002). See also *Smithfield Ham & Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346 (E.D. Va. 1995); *H.E.R.C. Prods., Inc. v. Turlington*, 62 Va. Cir. 489 (Norfolk 2003).

<sup>159</sup> *Lucini Italia Co. v. Grappolini*, 231 F. Supp. 2d 764 (N.D. Ill. 2002); *Swedish Civil Aviation Admin. v. Project Mgmt. Enters., Inc.*, 190 F. Supp. 2d 785 (D. Md. 2002). See also *First Union Nat'l Bank v. Steele Software Sys. Corp.*, 838 A.2d 404 (Md. Ct. Spec. App. 2003); *Brodeur & Co., CPAs, P.C. v. Charlton*, No. X04CV0101245195, 2003 WL 21214140 (Conn. Super. Ct. May 9, 2003); *H.E.R.C. Prods., Inc. v. Turlington*, 62 Va. Cir. 489 (Norfolk 2003); *Callaway Golf Co. v. Dunlop Slazenger Group Ams., Inc.*, 295 F. Supp. 2d 430 (D. Del. 2003).

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secret. . . unless it can be clearly discerned that the information in question constitutes a trade secret, the Court can not dismiss alternative theories of relief as preempted by the VUTSA.<sup>160</sup>

#### 9.4 CONCLUSION

The Virginia Uniform Trade Secrets Act was enacted just as many high-tech businesses were starting up in or moving to Virginia. ~~Almost 30~~ years after its enactment, a critical review of the Act and much of the reported Virginia trade secrets case law suggests that the Virginia Act currently meets the needs of both the high-tech and low-tech trade secret litigants for a unified and comprehensive body of law governing this subject matter area without the apparent need for substantial amendment or supplementation by the General Assembly. The increasing volume of case law under the Act reflects the continuing need for this unified and comprehensive body of law. This case law also suggests that many Virginia businesses are not making efforts that are reasonable under the circumstances to maintain the secrecy of their trade secrets. Accordingly, Virginia lawyers should advise their clients as to the need for a comprehensive and demonstrable program to identify and protect trade secrets.

#### APPENDICES

- [1. Appendix 9-1. Form Complaint](#)
- [2. Appendix 9-2. Form Confidentiality Stipulation and Protective Order.](#)

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<sup>160</sup> See also *AWP, Inc. v. Commonwealth Excavating, Inc.*, 2013 WL 3830500, 6-8 (W.D. Va. 2013) (holding that a preemption defense was premature until the plaintiff had proven entitlement to relief under the Virginia Act); see also *E.I. DuPont de Nemours and Co. v. Kolon Industries, Inc.*, 688 F.Supp.2d 443, 452 (E.D. Va. 2009) (holding the VUTSA only preempts a claim eligible for preemption if it is "entirely" predicated on the defendant's alleged misappropriation of the plaintiff's trade secrets (quoting *Combined Ins. Co. of Am. v. Wiest*, 578 F.Supp.2d 822, 834 (W.D.Va. 2008)); *Marsteller v. ECS Federal, Inc.*, 2013 WL 4781786 (E.D. Va. 2013) (VUTSA does not preempt if the pleadings do not establish all requirements for a trade secret).

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