

Chapter III

TRADE SECRECY

A. INTRODUCTION

In the early days of software, trade secrets were the primary means of protection. Three major changes affecting the use of trade protection occurred in the 1980s. As demonstrated in the previous chapters, copyright and patent law developed into significant forms of protection for computer technology. Personal computer manufacturers discovered that hardware sales depended upon software availability for their computers, and that software developers needed extensive access to technical data about the computers and operating systems for which they were developing software. The incredible growth of personal computer ownership made it impossible to negotiate traditional, signed trade secret contracts with every purchaser of hardware and software. These three factors resulted in a major, but not complete shift, from trade secrecy to copyright and patents in the software and computer industries. Currently the software industry is lobbying for passage of the Uniform Computer Information Transactions Act (UCITA), which would allow it to impose "contractual" trade secrecy requirements without obtaining traditional signed contracts.

Mainframe manufacturers and custom software houses continue to use trade secrecy as they have since the 1960s. Software developers nearly always keep the "source code" secret when they sell "object code" to the general public or license "object code" to individual users. Developers often keep new products secret until they are released, to delay market entry by competitors. Because of the need to test new products and adapt software for them, developers do, however, distribute advance versions to trusted organizations, but require those organizations to sign trade secrecy agreements. Due to the high demand for and resulting job-hopping by technology professionals, and the resulting high turnover rate in the late 1990's, non-compete and non-disclosure agreements in employment contracts are widely used. However, in some states, particularly California, there are serious legal restrictions upon the enforceability of non-compete contracts.

B. PROTECTING TRADE SECRETS AGAINST TAKING BY "IMPROPER MEANS"

Over 40 states have enacted trade secrecy legislation, generally patterned on the Uniform Trade Secrets Act. The trade secret provisions

of Restatement (Third) of Unfair Competition (which superseded the trade secret provisions of Restatement (Second) of Torts) largely track the provisions of the Uniform Trade Secrets Act. The Act and the Restatement provide protection against outright theft of trade secrets but they do not govern contracts safeguarding of trade secrets. Courts have been using Restatement (Third) of Unfair Competition to complement and supplement decisions involving existing trade secrets statutes. See *Ed Nowogroski Insurance, Inc. v. Rucker*, 137 Wash. 2d 427, 971 P.2d 936 (1999); *Flotec Inc. v. Southern Research Inc.*, 16 F.Supp.2d 992 (S.D.Ind., 1998). In 1996 Congress passed the Economic Espionage Act, 18 U.S.C. 90, which provides severe criminal penalties for trade secret theft.

UNIFORM TRADE SECRETS ACT

14 U.L.A. 433 (1990).

© 1990 National Council of Commissioners on
State Laws; reprinted with permission.

§ 1. Definitions

As used in this [Act], unless the context requires otherwise:

(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) "Misappropriation" means:

(i) 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

(ii) 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

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its ()secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

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

(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

§ 2. Injunctive Relief

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) In 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, 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.

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

§ 3. Damages

(a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by the imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

§ 4. Attorney's Fees

If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful

and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

§ 5. Preservation of Secrecy

In an action under this [Act], a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

§ 6. Statute of Limitations

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

§ 7. Effect on Other Law

(a) Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of trade secret.

(b) This [Act] does not affect:

(1) Contractual remedies, whether or not based upon misappropriation of a trade secret;

(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.

§ 8. Uniformity of Application and Construction

This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it. * * *

ECONOMIC ESPIONAGE ACT OF 1996

18 U.S.C. § 1831.

§ 1839—Definitions

(3) the term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public; and

(4) the term owner, with respect to a trade secret, means the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.

Note

Note that the trade secret definition in the Economic Espionage Act is broader than the definition in the Uniform Trade Secrets Act. It is wise to include a broad definition of trade secrets in an employment contract to minimize eventual disputes over whether or not particular information was a trade secret.

RELIGIOUS TECHNOLOGY CENTER v. LERMA

United States District Court, E.D. Virginia, 1995.
908 F.Supp. 1362.

BRINKEMA, DISTRICT JUDGE.

Before the Court is the Motion for Summary Judgment filed by defendants, The Washington Post, and two of its reporters, Marc Fisher and Richard Leiby (hereinafter referred to collectively as "The Post"). * * * [T]he Court finds that summary judgment should be entered in favor of the defendants.

I. UNDISPUTED FACTS

The essential facts are not in dispute. In 1991, the Church of Scientology sued Steven Fishman, a disgruntled former member of the Church of Scientology, in the United States District Court for the Central District of California. *Church of Scientology Int'l v. Fishman*, No. CV 91-6426. On April 14, 1993, Fishman filed in the open court file what has come to be known as the Fishman affidavit, to which were attached 69 pages of what the Religious Technology Center ("RTC") describes as various Advanced Technology works, specifically levels OT-I through OT-VII documents. Plaintiff claims that these documents are protected from both unauthorized use and unauthorized disclosure under the copyright laws of the United States and under trade secret laws, respectively.

In California, the RTC moved to seal the Fishman affidavit, arguing that the attached AT documents were trade secrets. That motion was denied and the Ninth Circuit upheld the district court's decision not to seal the file. *Church of Scientology Int'l v. Fishman*, 35 F.3d 570 (9th Cir.1994). The case was remanded for further proceedings and the district court again declined to seal the file, which remained unsealed until August 15, 1995.