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The Virginia Uniform Trade Secrets Act: A Critical Summary of the Law and Case Law[1]

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"A person can do a thing in the worst way in the world it seems a fool, want to go and do that very thing."[3]

I. Introduction

The Uniform Trade Secrets Act (hereinafter "UTSA") was originally promulgated in the United States in 1979 and was last revised in 1985.[4] The UTSA has been adopted in 46 states, the District of Columbia, and the Virgin Islands.[5] Virginia was the last state to adopt the UTSA, in 1986.[6] Since then, Virginia courts have decided over 100 cases involving the Virginia Uniform Trade Secrets Act ("VUTSA"), and the Fourth Circuit has decided cases involving the VUTSA in 3 cases.[7] The purpose of this article is to: (1) briefly review the historic background of the UTSA; (2) summarize the substantive provisions of the VUTSA; (3) summarize the Virginia case law interpreting the VUTSA; and (4) compare the Virginia case law with the case law from other UTSA states. This article does not cover the Federal Trade Secrets Act, 18 U.S.C. § 1836 et seq., which was enacted in 1996.[8] This article does not cover Illinois Rev. Stat. 765 ILCS 1065 et seq., which is not based on the UTSA.

II. The Uniform Trade Secrets Act (Generally)

Geographical and literary context established the trade secrets from commonly crowned for a very long time. Commercial secrecy was a matter of concern for merchants and craftsmen of the Middle Ages. Guilds were formed to protect their members' secrets. Apprenticeships were established to pass secrets from generation to generation. Secrecy was a matter of concern for the Renaissance Italian city-states, which established patent systems to encourage the importation of foreign secrets and to induce artisans to disclose their secrets in exchange for legal protection of such secrets and to bar other artisans from practicing their secrets in other jurisdictions. Adam Smith's famous observation that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or some contrivance to raise prices" underscores the importance of trade secrecy in the 18th Century.[9] Trade secrecy was a matter of concern for the United States from its inception. The Constitution authorized the federal government to establish patents, to encourage inventions by securing for limited times to inventors the exclusive rights to their discoveries.[10] Throughout these early years the judiciary attempted to formulate a unified commonlaw legal theory to protect trade secrets. The Restatement of Torts (1939) and the Restatement of Unfair Competition (1942) were the first attempts at a national consensus on the law of trade secrets.[11] The Uniform Law Commissioners (ULC) promulgated the original Uniform Trade Secrets Act in 1979, and last revised it in 1985.[12] The ULC's Prefatory Note to the UTSA states, inter alia, that:

> Trade secrets have been recognized as property in the common law for many years. Protection of a trade secret against misappropriation by others is based on principles of contract, trust, and prevention of unjust enrichment. Trade secrets are also protected against misappropriation by others by the criminal law and by the law of unfair competition. The Restatement of Torts (1939) and the Restatement of Unfair Competition (1942) were the first attempts at a national consensus on the law of trade secrets. Since then, 44 states and the District of Columbia have adopted the Uniform Trade Secrets Act in some form.
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[1] This article is derived from 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, sponsored by the Center for International Legal Studies and co-sponsored by the American Bar Association's Section on International Law.

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[3] MARK TWAIN, THE ADVENTURES OF TOM SAWYER 22 (1876).

[4] Unif. Trade Secrets Act, 14 U.L.A. 437, *et seq.* (1985).

[5] Va. Code Ann. §§ 59.1-336 - 343 (Michie 2000).

[6] 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 LAW, Mar. 1999 at 14.

[7] A. Arthur Schiller, *Trade Secrets and the Roman Law: The Actio Servi Corrupio*, 30 COLUM. L.REV. 837 (1930).

[8] *Id.*

[9] *Id.* at 837.

[10] The relationship between current trade secret law and the mobility of employees is discussed in 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).

[11] For a brief discussion of some of the major cases, *see* JERRY COHEN & ALAN S. GUTTERMAN TRADE SECRETS PROTECTION AND EXPLOITATION (BNA Books 1998).

[12] 68 Eng. Rep. 492, 9 HARE 241 (1851).

[13] *Id.* at 498.

[14] 36 Mass. 523 (1837).

[15] *Id.* at 527.

[16] 11 S.E.2d 625 (Va. 1940).

[17] 68 Eng. Rep. at 498.

[18] *See* RESTATEMENT (FIRST) OF TORTS ch. 36, § 757b (1939).

[19] For a discussion of the evolution of the various definitions of trade secrets in the Restatements since the 1939 First Restatement, *see* Kitch, 47 S.C. L. REV. 660-663.

[20] The effective dates of each of the state statutes and the citation to the act in the state code are: ALASKA STAT. §§ 45.50, 910-45 (Michie 1994) (entered effect Sept. 12, 1988); ARIZ. REV. STAT. §§ 44-401-407 (2000) (entered effect April 11, 1990); ARK. CODE ANN. §§ 4-75-601-607 (Michie 1999) (entered effect Mar. 12, 1981); CAL. CIV. CODE ANN. §§3426 *et seq.* (Deering 2000) (entered effect Jan. 1, 1985); COLO. REV. STAT. ANN. §§ 7-74-101 *et seq.* (West 2000) (entered effect July 1, 1986); CONN. GEN. STAT. ANN. §§ 35-50 to -58 (1999); DEL. CODE TIT. 6, §§ 2001-09 (entered effect April 15, 1982); D.C. CODE ANN. §§ 48-50 *et seq.*(2000) (entered effect March 16, 1989); FLA. STAT. ch. 688.001-.009 (2000) (entered effect Oct. 10, 1988); GA. CODE ANN. §§ 10-1-760 to –767 (entered effect July 1, 1990); HAW. REV. STAT. §§ 482B-1 to –9 (2000) (entered effect July 1, 1989); IDAHO CODE §§ 48-801 to –807 (1999) (entered effect 1989); ILL. COMP STAT. §§ 1065/1 to /9 (West 2000) (entered effect Jan. 1, 1988); IND. CODE §§ 24-2-3-1 to 24-2-3-8 (1998) (entered effect Feb. 25, 2982); IOWA CODE §§ 550.1- 8 (1999) (entered effect April 27, 1990); KAN. STAT. ANN. §§ 60-3320 to –3330 (1999) (entered effect July 1, 1981); KY. REV. STAT. ANN. §§ 365-880 to –900 (Michie 1998) (entered effect April 6, 1990); LA. REV. STAT. ANN. §§51:1431 to :1439 (West 2000) (entered effect July 19, 1981); ME. REV. STAT. ANN. tit. 10, §§ 1541-48 (West 1999) (entered effect May 22, 1987); MD. CODE ANN., COM. LAW I §§ 11-201 *et seq* (1999).; MINN. STAT. §§ 325C.01–08 (1999) (entered effect Jan. 1, 1981); MISS. CODE ANN. §§ 75-26-1 to –19 (2000) (entered effect July 1, 1989); MO. REV. STAT. §§ 417.450 to .467 (1999) (entered effect Oct. 6, 1995); MONT. CODE ANN. §§ 30-14-401 to –409 (1999) (entered effect 1985); NEB. REV. STAT. ANN. §§ 87-501 to –507 (2000) (entered effect July 8, 1988); NEV. REV. STAT. §§ 600A.010 to -.100 (2000) (entered effect Mar. 15, 1987); N.H. REV. STAT. ANN. §§ 350-B.1-.9 (2000) (entered effect Jan. 1, 1990); N.M. STAT. ANN. §§ 57-3A-1 to –7 (Michie 2000) (entered effect April 3, 1989); N.D. CENT. CODE §§ 47-25.1-01 to –08 (2000) (entered effect July 1, 1983); OHIO REV. CODE ANN. §§ 1333.61- 69 (Anderson 2000) (entered effect July 20, 1994); OKLA. STAT. tit. 78, §§ 85-94 (1999) (entered effect Jan. 1, 1988); OR. REV. STAT. §§ 646.461- .475 (1999) (entered effect Jan. 1, 1988); R. I. GEN. LAWS §§ 6-41-1 to –11 (2000) (entered effect July 1 1986); S.C. CODE ANN. §§ 39-8-10 to –120 (1999) (entered effect May 21, 1997); S.D. CODIFIED LAWS §§ 37-29-1 to –11 (Michie 2000) (entered effect July 1, 1988); UTAH CODE ANN. §§ 13-24-1 to –9 (2000) (entered effect May 1, 1989); VA. CODE ANN. §§ 59.336-343 (2000) (entered effect July 1, 1986); VT. STAT. ANN. tit. 9, §§ 4602-4609 (2000) (entered effect July 1, 1996); WASH. REV. CODE ANN. §§ 19.108.010 to .060, 19.108.900 to .940 (West 2000) (entered effect Jan. 1, 1989); W. VA. CODE ANN. §§ 4-22-1 to –10 (Michie 2000) (entered effect July 1, 1986); WIS. STAT. §§ 134.90 (1999) (entered effect April 24, 1986).

[21] *Compare, 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).

[22] 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).

[23] The U.S. is a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights, April 15, 1994, 33 I.L.M. 1197, 1212 (entered into force January 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 secret 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.

[24] 502 F.2d 122, 132 (4th Cir. 1974).

[25] 416 U.S. 470, 485 (1974).

[26] Unif. Trade Secrets Act, § 1(1), 14 U.L.A. 438 (1985); Va. Code Ann. § 59.1-336 (Michie 2000).

[27] 905 F.Supp. 346 (E.D.Va. 1995).

[28] *See e.g.*,Religious Tech. Ctr. v. Lerma, 897 F.Supp. 260, 266 (E.D. Va. 1995); DSC Communs. Corp. v. Pulse Communs., 976 F.Supp. 359. 365 (E.D. Va. 1997).

[29] *See e.g.*, Trandes Corp. v. Guy F. Atkinson Co., 996 F.2d 655 (4th Cir. 1993); Smithfield, 905 F.Supp. 346.

[30] *See* Dionne v. Southeast Foam Converting & Pkg., Inc., 397 S.E.2d 110 (Va. 1990); Comprehensive Tech. Int'l, Inc. v. Software Artisans, Inc., 3 F.3d 730 (4th Cir. 1993).

[31] 397 S.E.2d 110.

[32] *Id.* at 303.

[33] There is no shame in the accidents of chance, but only in the consequence of our own misdeeds. Phaedrus, THE CRIPPLE AND THE BULLY FABLES (1st Century), tr. Thomas James.

[34] Unif. Trade Secrets Act, § 1(2)(ii)(C), 14 U.L.A. 438.

[35] For a fuller discussion and differing views of this doctrine and the related case law, see Terrence P. McMahon *et al., Inevitable Disclosure: Not So Sure In The West*, NAT'L L.J., May 12, 1997, at C35; and Lawrence I. Weinstein, *Revisiting the Inevitability Doctrine: When Can A Former Employee Who Never Signed A Non-compete Agreement Nor Threatened To Use Or Disclose Trade Secrets Be Prohibited From Working For A Competitor?* 21 AM. J. TRIAL ADVOC. 211 (1997).

[36] 192 N.E.2d 99 (Ohio 1963).

[37] 255 F. Supp. 645 (E.D. Mich. 1966).

[38] 200 A.2d 428 (Del. 1964).

[39]*See* Weinstein, 21 AM. J. TRIAL ADVOC. at *n* 72. A California appellate court apparently has also adopted the doctrine. *See* Electro Optical Indus., Inc. v. Stephen White, 53 U.S.P.Q.2d 1206 (1999).

[40] 54 F.3d 1262 (7th Cir. 1995).

[41] *Id.* at 1269 (quoting AMP Inc. v. Fleischhacker, 823 F.2d 1199, 1207 (7th Cir. 1987)).

[42] *See*, Restatement of Torts, § 757, cmt b.

[43] The Uniform Act does not contain the words "but not limited to." Illinois, Maine and West Virginia have added the same phrase as Virginia. Compare Alabama, which requires that information specifically fit within one of its designated categories.

[44] *supra* note 40.

[45] *See* Religious Tech. Ctr., 897 F.Supp. 260.

[46] *See* SperryRand Corp. v. Elec. Concepts, Inc., 325 F. Supp. 1209 (E.D. Va. 1970).

[47] *See* Avtec Sys. v. Peiffer, 21 F.3d 568 (4th Cir. 1994); Dionne, 390 S.E.2d 110; and Kewanee Oil Co., 416 U.S. 470.

[48] *See* Am. Sales Corp. v. Adventure Travel, Inc., 862 F. Supp. 1476 (E.D. Va. 1994). *See also* Am. Sales Corp. v. Adventure Travel, Inc., 867 F. Supp. 378 (E.D. Va. 1994).

[49] 68 Engl. Rep at 500, 9 HARE at 259.

[50] Assume that the differences in linguistic style and sartorial resplendence between the Roanoke and Fairfax clones are unrelated to the cloning technique itself and the technique to create both versions of the clones is the same for both versions.

[51] ElectroCraft Corp. v. Controlled Motion, Inc., 332 N.W.2d 890, 900 (Minn. 1983).

[52] Pepsico, *supra* note 40.

[53] Unif. Trade Secrets Act, § 1, 14 U.L.A. at 439 cmt.

[54] 908 F. Supp. 1362 (E.D. Va. 1995).

[55] *Id.* at 1365.

[56] Religious Tech. Ctr., No. C. 95-20091 RMW (N.D.Cal.) Slip Opinion entered 9/22/95 at 30.

[57] *Id.* at 1368.

[58] 174 F.3d 411 (4th Cir. 1999).

[59] *Id.*

[60] For thoughtful and interesting discussions of trade secrets and the Internet, *see* Victoria A. Cundiff, *Trade Secrets and the Internet: A Practical Perspective*, 14 COMPUTER LAW 6 (1997); Bruce T. Atkins, *Trading Secrets in the Information Age: Can Trade Secret Law Survive the Internet,?* 1996 U. ILL. L. REV. 1151 (1996).

[61] Unif. Trade Secrets Act, § 1, 14 U.L.A. 439.

[62] Unif. Trade Secrets Act, § 1, 14 U.L.A. 439 cmt. (1990).

[63] 976 F.Supp. 359 (E.D. Va. 1997).

[64] Unif. Trade Secrets Act, §1(4) (ii), 14 U.L.A. 439; Secure Serv. Tech., Inc. v. Time & Space Processing, Inc., 722 F.Supp. 1354 (E.D. Va. 1989).

[65] Dionne, 397 S.E.2d at 110 (citing Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475 (1974)).

[66] Jet Spray Cooler, Inc. v. Crampton, 282 N.E.2d 921, 925 (Mass. 1972)

[67] 45 F.Supp. 356 (E.D. Va. 1994).

[68] *Id.* at 370 (citing Secure Serv. Tech., 722 F. Supp. at 1361).

[69] 397 S.E.2d 110.

[70] *Id.* at 300.

[71] 996 F.2d 655 (4th Cir. 1993), *cert. denied* 114 S.Ct. 443, 126 L.Ed.2d 377.

[72] Cohen & Gutterman, *supra* note 11 at 89-90.

[73] *See* Richard C. McCrea, Jr., *Protecting Trade Secrets & Confidential Business Information (with Forms)*, 44 PRAC. LAW. 71 (1998).

[74] Envtl. 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); and Virginia Beach S.P.C.A., Inc. v. S. Hampton Rds. Veterinary Ass'n, 329 S.E.2d 10 (1985).

[75] Unif. Trade Secrets Act, Section 2(b), 14 U.L.A. 450, 456 cmt. (1990).

[76] Va. Unif. Trade Secrets Act, §§ 59.1-339(B).

[77] Unif. Trade Secrets Act, Section 2(b), 14 U.L.A. 450, 456 cmt. (1990).

[78] Va. Unif. Trade Secrets Act, §§ 59.1-338.

[79] Thomas P. Heed, *Misappropriation of Trade Secrets: The Last Civil RICO Cause of Action That Works*, 30 J. MARSHALL L. REV. 207 (1996).

[80] 18 U.S.C. §1964(c).

[81] 862 F. Supp. 1476 (E.D. Va. 1994). *See also* 867 F. Supp. 378 (E.D. Va. 1994).

[82] 862 F. Supp. at 1479-80 (citing Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)).

[83] *Id.* at 1480.

[84] Examples of states that do not have any punitive or exemplary damage provision in their state act are Arkansas, Michigan, Mississippi and Nebraska.

[85] Am. Sales Corp. v. Adventure Travel, Inc., 862 F. Supp. 1476, 1481 (E.D. Va. 1994) (citing Owens-Corning Fiberglass Corp. v. Watson, 413 S.E.2d 630, 639 (Va. 1992).

[86] For egregiousness for punitive damages, see American Sales, 862 F. Supp. 1476 (E.D. Va. 1994). *See also* 867 F. Supp. 378 (E.D. Va. 1994). For egregiousness in bad faith cases, *see* Optic Graphics, Inc. v. Agee, 87 Md. App. 770, *cert. denied* 598 A.2d 465 (1991).

[87] 867 F. Supp. 378 (E.D. Va. 1994).

[88] VA. SUP. CT. R 4:4.

[89] VA. SUP. CT. R 4:1(e).

[90] Illinois and Maine have a 5 and 4 year statute of limitations, respectively. Unif. Trade Secrets Act, § 6, 14 U.L.A. 462 cmt. (1990).

[91] Uniform Trade Secrets Act, § 7, 14 U.L.A. 463 cmt. (1990); *see also* Smithfield Ham & Prod. Co., Inc. v. Portion Pac, Inc., 905 F. Supp. 346 (E.D. Va. 1995).