

The Pacific Northwest (Washington, Idaho & Oregon)

[Uniform] Trade Secret Law



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I. Introduction

Trade secrets law is concerned with the protection of technological and commercial information not generally known in the trade against unauthorized commercial use by others. The policy basis for trade secret protection is the desire to encourage research and development by providing protection to the originator of business information, and to maintain proper standards of business ethics. *See Kewanee Oil Company v. Bicron Corp.*, 416 U.S. 470 (1990). The trade secret owner is not granted exclusivity to the information, but rather is only protected against improper acquisition and/or use of the information. As a result, others are free to discover a trade secret by any fair means.

II. Legal Basis

Until relatively recently, trade secret protection had been based on common law principles; namely, trade secrets had been protected under contract, quasi-contract, and property theories. Protection of trade secrets under contract theories includes instances in which there existed an express contract concerning non-disclosure or use of a trade secret, or there existed a confidential relationship giving rise to a duty not to disclose or use the trade secret, such as an employer-employee relationship. The quasi-contract basis of trade secret protection includes avoidance of unjust enrichment from trade secret misappropriation. Finally, under the property theory, a trade secret is viewed as a property right that is subject to protective restrictions on its use and disclosure.

Perhaps the most widely used common law definition of a trade secret was set forth in the Restatement of Torts, § 757 comment b (1939):

[A trade secret is] [a]ny formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

More recently, the Restatement of Unfair Competition, § 39 (2002), defines a trade secret with a slight difference.

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

Washington State is also one of the few states that recognize the theft of trade secrets as a crime. *See, generally*, RCW § 9A.56.010. There are no reported cases of criminal trade secret theft in Washington.

The Restatement also lists six factors to be considered in determining the existence of a trade secret:

1. the extent to which the information is known outside the business;
2. the extent to which it is known by employees and others involved in his business;
3. the extent of measure taken by the owner to guard the secrecy of the information;
4. the value of the information to the owner and to his competitors;
5. the amount of efforts or money expended by the owner in developing the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.

These factors are “[t]he most-cited listing of the objective criteria for determining the existence of a trade secret.” *M. Jager*, Trade Secrets Law § 5.05 (1995). Note that this definition is still widely used in spite of the decision of the authors of the Restatement (Second) of Torts (1979) to omit any discussion of trade secrets.

In recent years, trade secret law has become largely statutory. The Uniform Trade Secret Act (UTSA) has now been adopted (sometimes with modifications) in 46 states and the District of Columbia. *M. Jager, supra*, at § 3.05 (2001). Washington adopted the UTSA as of January 1, 1982. RCW 19.108 *et seq.* Nonetheless, and despite the UTSA’s widespread adoption, the *Restatement’s* definition retains vitality and is often referred to by the courts during the course of their deliberations in applying the UTSA.

The Oregon State Trade Secrets Act was adopted in 1987 and is also based on the UTSA. *See, generally*, OR. Rev. Stat. §§646.461 *et seq.* (1998).

In slight contrast, the Idaho State Trade Secrets Act is based on the 1985 revised version of the USTA. *See, generally*, Idaho Code §48-801 *et seq.* (2002).

The UTSA defines a trade secret as 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.

III. Elements of a Trade Secret

Under both the old Restatement of Torts and the current statutory definition, to establish the existence of a trade secret one must show that the information or item alleged to be a trade secret is: (1) of an appropriate subject matter to be protected as a trade secret; (2) not a matter of common knowledge in the trade and not readily ascertainable by proper means; (3) of value; and (4) the object of reasonable precautions taken under the circumstances to maintain secrecy.

A. Protectable Subject Matter

Under the common law and the Washington statutory definition, almost any knowledge or information used in conjunction with one's business may be held as a trade secret. Specific examples include:

1. Formulas for chemicals, drugs, cosmetics, foods, et cetera.
2. Industrial Processes. *E.I. du Pont de Nemours & Company, Inc. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970).
3. Know-how, *i.e.*, technical information relating to the practical application of patented or unpatented inventions.
4. Blueprints, such as for a building or machinery.
5. Computer software, to the extent it cannot be reverse-engineered.
6. Sources of supply, pricing information, identity of vendors or suppliers, and customer lists.

In addition and contrary to common belief, trade secrets are not limited to technical items, know-how and related matters, but include a wide variety of business information (*i.e.*, employee benefit information and financial statements and projections). Under the Washington statute, a trade secret can include information that has commercial value from a negative standpoint (*e.g.*, knowledge that a particular process cannot be used to produce a certain product).

B. Not Generally Known or Readily Ascertainable

Trade secret protection is available only for information not generally known (*i.e.*, secret information), and is not available for information, which is common knowledge. In addition to not being generally known, a trade secret must not be readily ascertainable

by proper means. The comments to the UTSA indicate that information is “readily ascertainable” if it is available in trade journals, reference books or other published materials.

Note that secrecy is not lost if the possessor of the information disclosed it to another in confidence or under an express or implied obligation not to disclose it. Thus, information can be disclosed, for example, to prospective purchasers of the trade secret, or to employees involved in a manufacturing process, which utilizes the trade secret, without destroying the trade secret. These types of disclosures comport with commercial reality.

In Washington, trade secrets must be “novel” and not ascertainable from other sources. *Spokane Research & Dev. Found. v. City of Spokane*, 983 P.2d 682 (Wash. App. 1999) (citing *Confederated Tribes of Chehalis Res. v. Johnson*, 135 Wn.2d 734, 749, 958 P.2d 260 (1998) (*en banc*); See also, *Buffets, Inc. v. Klinke*, 73 F.3d 965, 969 (9th Cir. 1996) (recipes denied trade secret protection under USTA because they lacked requisite novelty and economic value).

Another interesting twist in Washington trade secret law is that even memorizing information, such as customer lists, can be considered trade secret misappropriation. *Ed Nowogroski Ins., Inc. v. Rucker*, 88 Wn. App. 350, 356, 944 P.2d 1093, 1096 (1997) (memorized information included insurance agency’s confidential customer lists and other unspecified confidential customer information).

C. Independent Economic Value

To be protectable, the trade secret information must provide a competitive advantage over others who are unaware of the secret information. Earlier decisions required that for a trade secret to have value, the information must be regularly used in the proponent’s business. This requirement, which could post a problem during research and development, has been rejected by the UTSA.

D. Reasonable Efforts to Maintain Secrecy

The requirement that the possessor of a trade secret must make reasonable efforts to maintain secrecy is based on the rationale that if the possessor does not treat the information as a trade secret, then the law also should not. The degree of secrecy required is that which is reasonable under the circumstances and may include:

1. establishing / enforcing clear policies about confidential business information;
2. identifying technological and technical information deemed to be secret;
3. advising / training employees and others of the existence of trade secrets;

4. use of nondisclosure and confidentiality agreements with employees and others;
5. limiting access to trade secrets on a “need-to-know-basis”;
6. controlling access to company files and facility locations;
7. central control of blueprints and engineering drawings;
8. use of security systems and guards;
9. providing locked storage for sensitive information such as laboratory notebooks;
10. implementation of document protection and retention policies; and
11. use of computer passwords and firewalls throughout organization.

IV. Trade Secret Misappropriation

Under the common law, liability for trade secret misappropriation required acquisition by another by improper conduct or unfair means together with the use or disclosure by such person to the trade secret owner’s detriment. Under the UTSA, the definition of misappropriation is much broader; it can include simple acquisition of a trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means no subsequent or impending use of the trade secret is required.

The UTSA specifies that “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. Again, one of the broadly stated policies behind trade secret law is the maintenance of standards of commercial ethics. Thus, improper means could include otherwise lawful conduct which is improper under the circumstances; *e.g.*, an airplane over-flight used as aerial reconnaissance to determine the competitor’s plant layout during construction of the plant. *E.I. du Pont de Nemours & Co., Inc. v. Christopher*, 431 F.2d 1012 (CA5, 1970).

V. Relief Available

A. Injunctive Relief

Once it has been established that a trade secret has been misappropriated, injunctions to enjoin further use of a trade secret generally have been issued by the courts. This remedy is expressly provided under the UTSA. Under the common law, there were several different views concerning the duration of prohibitory injunction. Under one doctrine, the defendant could be permanently enjoined from using the

misappropriated trade secret, even if it later became public knowledge. *Allen-Qualia Co. v. Shellmar Products Co.*, 87 F.2d 104 (7th Cir. 1936). This view was based on the theory that the defendant by her own inequitable conduct had permanently deprived herself of the right to employ the trade secret. Under a second doctrine, the injunction is terminated once the information becomes available to the public. *Conmar Products Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d. Cir. 1949). And under a third doctrine, the duration of the injunction is limited to the period of time it would have taken the defendant either by reverse engineering or by independent development to develop its product or process without the use of the trade secret. *K-2 Ski Company v. Head Ski Co., Inc.*, 506 F.2d 471 (9th Cir. 1974).

UTSA adopts the *K-2* rule; injunctive relief terminates once a trade secret ceases to exist. The injunction, however, may be continued for an additional length of time to eliminate any commercial advantage derived from the misappropriation. As such, the maximum duration of an injunction is the period of time it would have taken the defendant to lawfully discover the trade secret either through independent development or reverse engineering.

B. Damages and Attorney's Fees

The UTSA provides that in addition to or in lieu of injunctive relief, damages of the actual loss caused by the misappropriation may be awarded. In addition to damages, the complainant may recover the unjust enrichment resulting from the misappropriation, provided that such amount is not taken into account in computing the actual loss. If willful or malicious misappropriation is found, the court can award exemplary damages in an amount not to exceed twice the actual damages, together with recovery for unjust enrichment. In such circumstance, the court may also award attorney's fees. The comments to the UTSA indicate that the patent laws of the United States are followed in determining whether attorney's fees should be provided.

C. Statute of Limitations

The UTSA specifies that an action for misappropriation must be brought within three years after the misappropriation is discovered or reasonably should have been discovered.

VI. Economic Espionage Act of 1996

The Economic Espionage Act of 1996 (the "EEA", now codified in 18 U.S.C. §§1831-1839) has created an important change in the law relating to the protection of trade secrets; namely, it provides for trade secret protection at the federal level. Specifically, the EEA was enacted as a federal criminal statute and, as such, it is enforced by the U.S. Department of Justice and its U.S. Attorneys' offices located in each federal district across the country. The EEA does not provide for a private civil right of action. Accordingly, a victim of trade secret theft seeking redress must persuade the federal prosecutor in its judicial district that their particular case is worthy of prosecution.

The EEA contains two operative sections describing the conduct that is prohibited by the law. Section 1831 applies to actors engaged in foreign economic espionage, and requires that the theft of trade secrets benefit a foreign government, instrumentality or agent. Section 1832 is a general criminal trade secrets statute; applicable to anyone engaged in the common misappropriation of trade secrets. Both sections punish one who knowingly: (1) steals or misappropriates trade secrets, (2) receives misappropriated trade secrets, or (3) participates in a conspiracy to misappropriate trade secrets. 18 U.S.C. §§ 1831(a) and 1832(a). The territorial scope of the EEA is essentially limitless: it criminalizes not only acts conducted within the United States, but also foreign acts, provided the actor is a United States resident, 18 U.S.C. § 1837(1), or any “act in furtherance of the offense was committed in the United States.” 18 U.S.C. § 1837(2).

Individuals who violate section 1832 (domestic misappropriation of trade secrets) face penalties of up to ten (10) years in prison and unspecified fines. 18 U.S.C. § 1832(a). (Under federal law, the general maximum fine for felonies is \$250,000.) Corporations or other organizations that violate section 1832 may be fined up to \$5 million. The penalties for engaging in foreign economic espionage in violation of section 1831 (foreign economic espionage) are even greater: the maximum organizational fine is increased to \$10 million and the maximum prison term is raised to fifteen (15) years.

VII. Trade Secret Claims Must Describe the Subject Matter of Its Purported Trade Secret With Sufficient Particularity to Separate It From Matters of General Knowledge in the Trade

To show a “concrete secret,” the plaintiff must, at a minimum, describe the subject matter of the purported trade secret with sufficient particularity to separate it from matters of general knowledge in the trade. *See, e.g., IDX Systems, Inc. v. Epic Systems, Inc.*, 285 F.3d 581, 62 U.S.P.Q.2d 1278 (7th Cir. 2002) (holding that a 43-page description of the methods and processes underlying and the inter-relationships among various features making up [its] software package” provided by the plaintiff simply was not specific enough to adequately identify the trade secrets at issue); *Diodes, Inc. v. Franzen*, 260 Cal.App.2d 244, 67 Cal. Rptr. 19, 22-24 (1968); *Universal Analytics Inc. v. MacNeal-Schwendler Corp.*, 707 F. Supp. 1170, 1177 (C.D.Cal.1989) (plaintiff failed to inform defendant or the court “precisely which trade secret it alleges was misappropriated”), *aff’d*, 914 F.2d 1256 (9th Cir.1990); *Mai Systems, Inc. v. Peak Computer, Inc.*, 991 F.2d 511, 26 U.S.P.Q.2d 1458 (9th Cir. 1993) (vacating judgment in source code case because “a plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist.”); *MBL (USA) Corp. v. Diekman*, 221 U.S.P.Q. 725, 731-32 (Ill. App. 1983) (holding that plaintiff must first establish a prima facie case of misuse of, and the existence of, a trade secret before being allowed to question defendant as to his current methods, techniques and processes); *AMP Inc., v. Fleischhacker*, 3 U.S.P.Q.2d. 1421, 1424-25 (7th Cir. 1987) (finding for defendants upheld because plaintiff failed to specify precisely what trade

secrets it believed to be at risk; plaintiff merely enumerated long list of general areas of information which contained unidentified trade secrets). *Minnesota Mining & Mfg. Co. v. Pribyl*, 259 F.3d at 587, n.4 (7th Cir. 2001) ("The plaintiff must point to concrete secrets."); *Utah Med. Prods., Inc. v. Clinical Innovations Assoc., Inc.*, 79 F. Supp. 2d 1290, 1314 (D. Utah 1999); *Jostens, Inc. v. Nat'l Computer Sys. Inc.*, 318 N.W.2d 691, 699 (Minn. 1982); *ECT Int'l., Inc. v. Zwerlein*, 597 N.W.2d 479, 480 (Wis. Ct. App. 1999); *Litton Systems, Inc. v. Sunstrand Corp.*, 224 U.S.P.Q. 252, 253, 255-56, (Fed. Cir. 1984) (plaintiff required to identify its trade secrets with particularity so that defendant could defend by showing that asserted trade secrets were either not secret or not used by the defendant); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir. 1992).

It is not enough to point to broad areas of technology and assert that something there must have been secret and misappropriated. The plaintiffs must show concrete secrets. *See, e.g., Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161 (9th Cir. 1998); *Composite Marine*, 962 F.2d at 1266, *citing AMP, Inc.*, 823 F.2d at 1203.

In *IDX Systems*, for example, the plaintiff, IDX Systems, sued the defendant, Epic Systems, for trade secret misappropriation. The alleged trade secrets at issue centered on medical business management software and related source code. The trial court granted summary judgment in favor of the defendant because the plaintiff failed to adequately identify its trade secrets with particularity. The plaintiff appealed.

The appeals court for the Seventh Circuit Court of Appeals affirmed in a detailed opinion by Judge Easterbrook. The appeals court held that the, "43-page description of the methods and processes underlying and the inter-relationships among various features making up [its] software package" provided by the plaintiff simply was not specific enough to adequately identify the trade secrets at issue. *Id.* at 584. ("No, it isn't[,]") the appeals court held after reviewing the 43-page description provided by the plaintiff).

The appeals court reasoned that the "43 pages provided by the plaintiff merely, "describe[s] the software; although the document was created for this litigation, it does not separate the trade secrets from the other information that goes into any software package. Which aspects are known to the trade, and which are not? That's vital under the statutory definition. Likewise, [plaintiff's] tender of the complete documentation for the software leaves mysterious exactly which pieces of information are the trade secrets." *Id.* at 585.

Judge Easterbrook reasoned further that, "[a]s we remarked in *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1266 (7th Cir.1992), a plaintiff must do more than just identify a kind of technology and then invite the court to hunt through the details in search of items meeting the statutory definition. *See also AMP Inc. v. Fleischhacker*, 823 F.2d 1199, 1203 (7th Cir.1987). What is more, many of the items that appear in the 43-page description, such as the appearance of data-entry screens, are exceedingly hard to call trade secrets: things that any user or passer-by sees at a glance are "readily ascertainable by proper means." Perhaps screen displays could be

copyrighted, but no copyright claim has been advanced, and a trade-secret claim based on readily observable material is a bust.” *Id.*

Judge Easterbrook further reasoned that, [o]ther details, such as the algorithms that the software uses to do real-time error checking (a vaunted feature of plaintiff’s software), may be genuine trade secrets, but plaintiff has not tried to separate them from elements such as its input and output formats. The court concluded that plaintiff really only identified similarities that “ordinary users of the software could observe.”

Although the *IDX Systems* case is based on the Uniform Trade Secrets Act of Wisconsin, the Uniform Trade Secrets Act, its teachings are applicable here. Failure to identify trade secrets with sufficient specificity renders the Court powerless to enforce a trade secret claim. *Porous Media Corp. v. Midland Brake Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999) (citing *Amp, Inc. v. Fleischhacker*, 823 F.2d 1199, 1123 (7th Cir. 1987); *see also Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 898 (Minn. 1983) (explaining that plaintiff’s lack of specificity was fatal to its trade secret claim); *Hypred S.A. & A.L. Labs, Inc. v. Pochard* 71 U.S.P.Q.2d 1625 (D. Minn. 2004) (“The identification of a trade secret requires more than categorizing information as a ‘formula’ or ‘secret’”); *Storage Tech. Corp. v. Cisco Sys.*, Civ. No. 00-2253 JNE-JGL, 2003 U.S. Dist. LEXIS 17347, *16-17 (D. Minn. 2003 (granting summary judgment where plaintiff failed to identify with sufficient specificity the trade secrets at issue in the case); *International Bus. Mach. Corp. v. Seagate Tech, Inc.*, 941 F. Supp. 98, 100 (D. Minn. 1992) (interpreting Minnesota Trade Secrets Act to require the plaintiff to do more than producing long lists of general areas which may contain unidentified trade secrets).

VIII. Inevitable Trade Secret Misappropriation

A. *Inevitable Disclosure Is Not The Law In Washington*

The only Washington case to mention inevitable disclosure is an unpublished Washington Court of Appeals case, *Solutec Corp. v. Agnew*, 88 Wash. App. 1067, 1997 WL 794496 (Wash. App. 1997) (noting the lack of Washington law on inevitable disclosure) (unpublished).¹ *Solutec* has no precedential value; therefore, it is for this Court to decide whether inevitable disclosure should be considered law in Washington for purposes of this case. *See Wash. Rev. Code Ann.* 2.06.040.

Additionally, inevitable disclosure was not essential to the *Solutec* case. The main issue in that case was whether certain edible wax formulas were trade secrets, because the defendants had *actually threatened* to use the formulas, asserting that they

¹ Washington law is quite clear in stating that unpublished opinions have no precedential value. *See Wash. Rev. Code Ann.* § 2.06.040 (“All decisions of the court having precedential value shall be published as opinions of the court. Each panel shall determine whether a decision of the court has sufficient precedential value to be published as an opinion of the court. Decisions determined not to have precedential value shall not be published.”).

were not trade secrets. *See Solutec* 1997 WL 794496 at *1, 4 (trial court made a specific finding that defendants had threatened to misappropriate plaintiff's trade secrets). The *Solutec* decision also does not discuss the inevitable disclosure doctrine directly, it simply cites favorably to *PepsiCo* in a short two-paragraph discussion.

1. Inevitable disclosure improperly restricts the freedom of individuals to pursue their careers by changing jobs.

Inevitable disclosure operates as a constraint on freedom of employment by allowing employers to enjoin former employees from working for competitors *without* a covenant not to compete. *See PSC Inc. v. Reiss*, 111 F. Supp.2d 252, 256 (W.D.N.Y. 2000) ("in cases that do not involve the actual theft of trade secrets, the court is essentially asked to bind the employee to an implied-in-fact restrictive covenant based on a finding of inevitable disclosure.

Such a constraint on freedom of employment is contrary to Washington's trade secrets and employment laws. In what is easily the most comprehensive case addressing Washington trade secrets law, the Washington Supreme Court, sitting *en banc* in a case subsequent to the unpublished *Solutec* decision, stated that "[a]s a general rule, an employee who has not signed an agreement not to compete is free, upon leaving employment, to engage in competitive employment." *Ed Nowogroski Ins. Inc. v. Rucker*, 137 Wash.2d 427, 437 (Wash. 1999). The court went on to say that former employees remain under a duty not to disclose their former employer's trade secrets and that when those trade secrets are improperly used, then that competitive activity can be enjoined or damages can be awarded. *Id.* at 437-8. Nothing in that opinion indicates that employees can be enjoined from working in their chosen profession under the Washington UTSA absent a showing of actual or threatened misappropriation. While the Washington Supreme Court did not address inevitable disclosure directly,² inevitable disclosure is contrary to the Court's broad proclamation in favor of employee mobility. Indeed, courts that have rejected the inevitable disclosure doctrine have consistently emphasized the constraints it places upon freedom of employment in the absence of a non-compete agreement as a main reason for rejecting the doctrine. *See e.g., Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp.2d 1120 (N.D. Cal. 1999) (stating that applying inevitable disclosure when there is no showing of actual or threatened use or disclosure "creates a de facto covenant not to compete"); *EarthWeb, Inc. v. Schlack*, 71 F. Supp.2d 299, 311 (S.D.N.Y. 1999) ("[c]learly, a written agreement that contains a non-compete clause is the best way of promoting predictability during the employment relationship and afterwards"); and *PSC*, 111 F. Supp.2d at 256-7.

2. Inevitable disclosure gives too much power to employers.

In addition to creating de facto covenants not to compete, inevitable disclosure gives employers a powerful tool by which they can improperly threaten and cower employees into staying with the company. *See EarthWeb*, 72. F. Supp.2d at 310-11

² There was no dispute in *Nowogroski* regarding misappropriation, the issue was whether the information in question was a trade secret or not.

(describing how inevitable disclosure can be a "powerful weapon" in the hands of an employer and how the threat of litigation can have a "chilling effect" on employees' legal right to switch jobs).

In contrast, a non-compete agreement is negotiated in advance, mutually agreed upon, and provides specific guidance regarding prohibited actions. *See EarthWeb*, 71 F. Supp.2d at 310-11 (describing the numerous problems with applying the inevitable disclosure doctrine, which the court described as "fraught with hazards," including the lack of a "frame of reference because there is no express non-compete to test for reasonableness").

With the inevitable disclosure, however, employers can get all of the benefits of a non-compete agreement (including the threat of it, which is perhaps the most important of all) without having to give up or negotiate anything. *See EarthWeb*, 71 F. Supp.2d at 310-11 (stating that the "chilling effect" caused by the "risk of litigation" posed by inevitable disclosure and other "constraints should be the product of open negotiation"). Inevitable disclosure is simply not consistent with Washington law, which supports the rights of employees to freely move between jobs.

3. Adoption Of Inevitable Disclosure Is Contrary To Washington's Public Interest.

Separate and apart from inherent fairness to employees, there is a strong argument that freedom of employee movement helps promote a state or region's economy, especially in the field of technology, and that restrictions on employee movement can impede growth. For example, Professor Ronald Gilson has argued that one of the main reasons for the boom in Silicon Valley, compared to Massachusetts Route 128,³ was due to California's refusal to enforce non-compete agreements, allowing much more employee mobility and consequently, a greater sharing of knowledge. Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U.L. Rev. 575 (1999); *see also* AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128* (1994). Indeed, Gilson specifically argued against the adoption of inevitable disclosure, arguing that it could end California's economic advantage over other regions. *See* Gilson, 74 N.Y.U.L. Rev. at 622-27.

While adoption of inevitable disclosure might have a more dramatic effect on California, due to its general refusal to enforce covenants not to compete, a stronger argument could be made for applying it in California for just that reason. In contrast, Washington enforces reasonable non-compete agreements. *See Knight, Vale and Gregory v. McDaniel*, 680 P.2d 448, 451-52 (Wash. App. 1984) (citing *Sheppard v. Blackstone Lumber Co., Inc.*, 540 P.2d 1373 (Wash. 1975)). If employers want to restrict valuable employees from working for competitors in Washington, then they can negotiate a non-compete agreement with that employee. Similarly, employers have remedies under

³ In 1968, technology employment in Route 128 was triple that of Silicon Valley. Over the next few decades, Silicon Valley surged past Route 128. *See Gilson*, 74 N.Y.U.L. Rev. at 586-87.

traditional trade secrets laws for former employees that actually disclose or threaten to disclose trade secrets. Inevitable disclosure simply gives employers a weapon that they already demonstrated it will use improperly. And as professor Gilson demonstrates, inevitable disclosure is contrary to the interests of the public at large.

In September 2002, a California appellate court ruled that the theory of “inevitable disclosure” is not recognized in California. The decision, *Whyte v. Schlage Lock Co.*, 101 Cal. App.4th 1443 (Cal App. 2002), is important for trade secrets law, even though several federal courts have already rejected the “inevitable disclosure” theory. The *Whyte* court made clear that the “inevitable disclosure” theory conflicts with California’s strong policy in favor of every employee’s right to take the job of his or her choice. It also rejected the idea that the phrase “threatened misappropriation” in California’s Uniform Trade Secrets Act is a proxy for “inevitable disclosure” lawsuits. The critical portions of California’s Uniform Trade Secret laws are exactly the same as Washington’s statutes.

On January 2, 2002 a New York appellate court ruled that the doctrine of inevitable trade secret misappropriation is greatly disfavored and presumably not the law of New York. (*Marietta v. Fabhurst*, 2002, WL 31898398 (N.Y.A.D. Dept. 3 2002)). However, the district court started to change its opinion in 2006. In *Estee Lauder Cos. V. Batra*, for example, the court found “[e]ven where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding that trade secrets will inevitably be disclosed...” *Estee Lauder Cos. V. Batra*, 430 F Supp 2d 158, 174 (S.D.N.Y. 2006). Here are some case notes:

1. *Estee Lauder Cos. V. Batra*, 430 F Supp 2d 158, 174 (S.D.N.Y. 2006) “Even where a trade secret has not yet been disclosed, irreparable harm may be found based upon a finding that trade secrets will inevitably be disclosed, where...the movant competes directly with the prospective employer and the transient employee possesses highly confidential or technical knowledge concerning [marketing strategies, or the like.”
2. *Payment Alliance International, Inc v. Ferreira*, 530 F. Supp. 2d 477, 481(S.D.N.Y. 2007).The court in this case directly discussed *Marietta Corp. v. Fairhurst*, “Thus, while these cases suggest that proof of inevitable disclosure would not provide a basis for injunctive relief independent of an express restrictive covenant. In fact, “a number of recent decisions, principally from federal district court applying New York law, have used proof of inevitable disclosure as a basis for enforcing restrictive covenants.”
3. *IBM v. Mark D. Papermaster*, 2008 WL 4974508, (S.D.N.Y. 2009)->The Court cited *Estee Lauder v. Batra* to support its order that the defendant is enjoined from working for or with direct competitor of plaintiff until further order of the Court.

IX. Trade Secret Audit

Depending on the type of business involved, a business should decide what types of information should be protected as trade secrets. Once this decision has been made, the relevant information must be located within the business. This audit is a helpful step in the process of identifying trade secrets.

One author⁴ indicates, “another technique for identifying trade secrets is to send a memorandum to all department heads asking them to list potentially protectable trade secrets. The memorandum should contain an easily understandable definition of the type of information sought. For example, the memorandum might explain that:

“A trade secret can consist of a formula, pattern, compilation of data, computer program, device, method, technique, process, or other form or embodiment of economically valuable information. A trade secret can relate to technical matters such as the composition or design of a product, a method of manufacture, or the know-how necessary to perform a particular operation or service. A trade secret can also relate to other aspects of business operations such as pricing and marketing techniques or the identity and requirements of customers.”⁵

After the department head has completed the list, the compliance committee or in-house corporate counsel should review it.⁶ The department head should then be interviewed to determine which items on the list should be protected.

Along with the identification process, an attempt should be made to document the time, expense, and investment of the corporation in creating and developing the trade secret information.⁷ Such documentation can especially be important in litigation.⁸ Two of the six factors considered by the Restatement (First) of Torts in ascertaining whether information is entitled to trade secret status relate to value. In particular, the Restatement (First) of Torts considers the value of the information to the trade secret owner and to its

⁴ See 8 *Corporate Compliance Series, Designing An Effective Intellectual Property Compliance Program* (2002).

⁵ See Restatement (Third) of Unfair Competition § 39 cmt d.

⁶ Before this documentation is created, it is wise to consider whether it may be some day discovered in litigation. Therefore, it is suggested that this process occur under in-house corporate counsel’s supervision.

⁷ Jager, *Trade Secrets Law* § 5.05[2] [c][i] (1991).

⁸ *E.g., Modern Controls, Inc. v. Andreadakis*, 578 F.2d 1264, 1269 (8th Cir. 1978) (“Andreadakis claims that he and the persons he was working with developed no confidential business information during his employment that he did not already know. He argues that he left Modern Controls with no more information than he possessed when he left Control Data. The affidavits submitted by Andreadakis do not support this contention. To the contrary, the unrefuted evidence shows that during the time of this employment, the device moved from an unmarketable state to a marketable one and that this transition was accomplished after Modern Controls invested over \$500,000 and utilized approximately one-half, or seventeen, of its employees over a sixteen-month period.” (footnote omitted)).

competitors, and the amount of effort and money expended by the trade secret owner in developing the information.⁹

As a result, accurate records should be kept to reflect the amount of time and money invested by the corporation in the research and development work that results in the trade secrets. The records should document the difficulties encountered in developing the trade secrets including the failed work.¹⁰ Examples of documents to be included in this program include time sheets, diaries, notebooks, computer databases, and logs.¹¹ The information in these materials should include the following:

1. dates and types of efforts;
2. persons involved with or knowledgeable about the project;
3. time and place of any disclosure; and
4. identity and position of all persons who have had access to the information to be protected.”¹²

X. Trade Secrets Posted To Internet

*Religious Technology Center v. Lerma*¹³ dealt with the effect of postings on the Internet. Two postings had been made by a disgruntled former church member ten days before the Church of Scientology obtained a TRO. The Virginia district court found that the Internet posting made the information generally known at least to the relevant people in the new group. The court reasoned that although the person originally posting the information on the Internet may be liable for trade secret misappropriation, a party who merely downloads the information is not liable because there is no misconduct in interacting with the Internet.¹⁴

The dispute over trade secret protection for the religious scriptures of the Church of Scientology continued in *Religious Technology Center v. Netcom On-Line Communication Services, Inc. ("Netcom I")*.¹⁵ As in the *Lerma* case, the defendant Erlich in the *Netcom I* case had posted portions of the religious scriptures of the Church on the

⁹ Restatement (First) of Torts § 757 cmt b (1939) (“ (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information;....”).

¹⁰ Jager, Trade Secrets Law § 5.05[2] [c][i] (1991).

¹¹ Jager, Trade Secrets Law § 5.05[2] [c][i] (1991).

¹² Jager, Trade Secrets Law § 5.05[2] [c][i] (1991).

¹³ *Religious Technology Ctr. v. Lerma*, 908 F. Supp. 1362, 37 U.S.P.Q.2d 1258, 1262 (E.D. Va. 1995) (appeal pending)

¹⁴ 37 U.S.P.Q.2d at 1263.

¹⁵ *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 923 F. Supp. 1231 (N.D. Cal. 1995).

Internet. A preliminary injunction based upon violation of trade secrets was denied initially on the ground that there was no showing of a likelihood of succeeding on the trade secret claim. The court noted that while the Internet "has not reached the status where a temporary posting on a newsgroup is akin to publication in a major newspaper or on a television network, those with an interest in using the Church's trade secrets to compete with the Church are likely to look to the newsgroup. Thus, posting works to the Internet makes them 'generally known' to the relevant people--the potential 'competitors' of the Church."¹⁶

The defendant Erlich in *Netcom I* argued that no trade secret misappropriation had occurred because he did not charge anyone for the materials and thus had not profited from the use of the trade secrets. The court rejected this argument. Nothing in the USTA or the California Act required that the defendant gain an advantage from the disclosure. It was a sufficient "use" by disclosure of a trade secret with actual or constructive knowledge that the secret was acquired under circumstances giving rise to the duty to maintain secrecy under Section 3426.1(2) of the California Trade Secrets Act. In conclusion, the court noted: "Thus Erlich's admitted posting of the information, regardless of any alleged fair use defense or lack of financial motive, may constitute misappropriation of the Church's trade secrets."¹⁷

The court in *Religious Technology Center v. Netcom On-Line Communication Services, Inc. ("Netcom II")*¹⁸ reconsidered and revised its decision with respect to Internet postings in response to a later request for expanded preliminary injunction. During these weak reconsideration proceedings, the Church of Scientology was able to raise serious questions as to whether specific processes and instructions contained in the documents taken by the defendant Erlich qualified as trade secrets. After reviewing its prior decision, the court in *Netcom II* noted:

Nevertheless, the Court believes that its statement in its September 22, 1995 order that "posting works on the Internet makes them 'generally known' to the relevant people" is an overly broad generalization and needs to be revised. The question of when a posting causes the loss of trade secret status requires a review of the circumstances surrounding the postings and consideration of the interest of the trade secret owner, the policies favoring competition and the interest, including First Amendment Rights, of innocent third parties who acquire information off the Internet.

* * *

The relevant inquiry is whether the documents for which trade secret protection is sought are "generally known" to the relevant people--the potential competitors of the

¹⁶ *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 923 F. Supp. 1231, 1256 (N.D. Cal. 1995).

¹⁷ *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 923 F. Supp. 1231, 1257 n.31 (N.D. Cal. 1995).

¹⁸ *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 1997 U.S. Dist. LEXIS 23572 (N.D. Cal. January 3, 1997).

Church. . . . Nevertheless, defendant has not established the extent to which the specific practices and instructions contained in the works are known generally or to potential competitors.¹⁹

The court weighed the balance of hardships, and entered a limited preliminary injunction enjoining the disclosure of the alleged trade secrets.

Other courts have had difficulty in accepting the concept that trade secrets cannot be maintained in this digital age, and that one click of a computer button to post information on the Internet destroys all trade secret rights. In *DVD Copy Control Ass'n v. McLaughlin*,²⁰ the court entered an injunction prohibiting the defendant from posting or otherwise disclosing or distributing on their web sites or elsewhere an encryption program developed by the plaintiff to protect copyrighted materials stored on DVDs. The encryption algorithm and master keys were shown to be the type of proprietary information that would qualify as trade secrets under the California Trade Secrets Act. The alleged defense that the information was obtained by reverse engineering was dismissed, because the defendant was subject to a "click license," which preconditioned installation of the DVD software on an agreement not to reverse engineer. In explaining the grant of a preliminary injunction, the court held:

The Court is not persuaded that trade secret status should be deemed destroyed at this stage merely by the posting of the trade secret to the Internet. *Religious Technology Center vs. Netcom on-Line.com*. To hold otherwise would do nothing less than encourage misappropriators of trade secrets to post the fruits of their wrongdoing on the Internet as quickly as possible and as widely as possible thereby destroying a trade secret forever. Such a holding would not be prudent in this age of the Internet.²¹

The posting of trade secrets on the Internet was also involved in *Ford Motor Co. v. Lane*.²² The District Court found that the defendant Lane had posted strategic marketing and product development plans of Ford on his web site. It also found that Ford presented substantial evidence to support the claim that the defendant violated the Michigan Uniform Trade Secrets Act. However, a preliminary injunction restraining the defendant's publication of these trade secrets was denied on the grounds that it would constitute an invalid prior restraint of speech in violation of the First Amendment.

XI. Comparison with Patent Law

¹⁹ *Religious Technology Center v. Netcom On-Line Communication Services, Inc.*, 1997 U.S. Dist. LEXIS 23572 (N.D. Cal. January 3, 1997).

²⁰ *DVD Copy Control Ass'n v. McLaughlin*, No. CV 786804, 2000 WL 48512 (Super. Ct. Cal. 2000).

²¹ *DVD Copy Control Ass'n v. McLaughlin*, No. CV 786804, 2000 WL 48512 (Super. Ct. Cal. 2000).

²² *Ford Motor Co. v. Lane*, 68 F. Supp. 2d 745, 52 U.S.P.Q.2d 1354 (E.D. Mich. 1999).

PATENT v. TRADE SECRET

	<u>PATENT</u>	<u>TRADE SECRET</u>
SUBJECT MATTER	specific and limited by statute (machines, articles of manufacture, processes, and compositions of matter)	applies to broad range of intellectual property and business information
REQUIREMENTS	must be useful must be novel must not be obvious	must be potentially useful must not be generally known need not be novel or obvious
DEFINITION	defined strictly by language of the “claims”	often difficult to define with equal precision, but can be as broad as the “equities” of a particular case require
DISCLOSURE	required	any disclosure must be limited and controlled
PROTECTION	defined by narrow but specific statute monopoly granted	varies depending upon circumstances and court; based on many theories protection only against “unfair” users; none against those who independently discover or reverse-engineer
DURATION	20 years from filing	potentially unlimited
EXPENSE	procuring policing infringement	protecting from unauthorized disclosure or use
RISK	invalidity	independent discovery or inadvertent disclosure difficult to prove theft
MARKETABILITY	licensing easier	licensing more difficult, and requires policing of licensee security measures

APPENDIX

A. UNITED STATES FEDERAL ECONOMIC ESPIONAGE ACT OF 1996

The United States Federal Economic Espionage Act of 1996, 18 U.S.C. § 1831-1831, is effectively the only federal law of protecting trade secrets per se. In most cases trade secrets are protected under state statutes and common law. The Washington State trade secret act, excerpted below, is based on the Uniform Trade Secret Act, which has also been adopted in some form in most jurisdictions.

Sec. 1831. Economic Espionage

- (a) In General. - Whoever, intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly -
 - (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret;
 - (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret;
 - (3) receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
 - (4) attempts to commit any offense described in any of paragraphs (1) through (3); or
 - (5) conspires with one or more other persons to commit any offense described in any of paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy, shall, except as provided in subsection (b), be fined not more than \$500,000 or imprisoned not more than 15 years, or both.
- (b) Organizations. - Any organization that commits any offense described in subsection (a) shall be fined not more than \$10,000,000.

Sec. 1832. Theft of Trade Secrets

- (a) Whoever, with intent to convert a trade secret, that is related to or included in a product that is produced for or placed in interstate or foreign

commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly –

- (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information;
 - (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information;
 - (3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization;
 - (4) attempts to commit any offense described in paragraphs (1) through (3); or
 - (5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy, shall, except as provided in subsection (b), be fined under this title or imprisoned not more than 10 years, or both.
- (b) Any organization that commits any offense described in subsection (a) shall be fined not more than \$5,000,000.

Sec. 1833. Exceptions to Prohibitions

This chapter does not prohibit -

- (1) any otherwise lawful activity conducted by a governmental entity of the United States, a State, or a political subdivision of a State; or
- (2) the reporting of a suspected violation of law to any governmental entity of the United States, a State, or a political subdivision of a State, if such entity has lawful authority with respect to that violation.

Sec. 1834. Criminal forfeiture

- (a) The court, in imposing sentence on a person for a violation of this chapter, shall order, in addition to any other sentence imposed, that the person forfeit to the United States –

- (1) any property constituting, or derived from, any proceeds the person obtained, directly or indirectly, as the result of such violation; and
 - (2) any of the person's property used, or intended to be used, in any manner or part, to commit or facilitate the commission of such violation, if the court in its discretion so determines, taking into consideration the nature, scope, and proportionality of the use of the property in the offense.
- (b) Property subject to forfeiture under this section, any seizure and disposition thereof, and any administrative or judicial proceeding in relation thereto, shall be governed by section 413 of the Comprehensive Drug Abuse Prevention and Control Act of 1970 (21 U.S.C. 853), except for subsections (d) and (j) of such section, which shall not apply to forfeitures under this section.

Sec. 1835. Orders to preserve confidentiality

In any prosecution or other proceeding under this chapter, the court shall enter such orders and take such other action as may be necessary and appropriate to preserve the confidentiality of trade secrets, consistent with the requirements of the Federal Rules of Criminal and Civil Procedure, the Federal Rules of Evidence, and all other applicable laws. An interlocutory appeal by the United States shall lie from a decision or order of a district court authorizing or directing the disclosure of any trade secret.

Sec. 1836. Civil proceedings to enjoin violations

- (a) The Attorney General may, in a civil action, obtain appropriate injunctive relief against any violation of this section.
- (b) The district courts of the United States shall have exclusive original jurisdiction of civil actions under this subsection.

Sec. 1837. Applicability to conduct outside the United States

This chapter also applies to conduct occurring outside the United States if –

- (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
- (2) an act in furtherance of the offense was committed in the United States.

Sec. 1838. Construction with other laws

This chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret, or to affect the otherwise lawful disclosure of information by any Government employee under section 552 of title 5 (commonly known as the Freedom of Information Act).

Sec. 1839. Definitions

As used in this chapter –

- (1) the term "foreign instrumentality" means any agency, bureau, ministry, component, institution, association, or any legal, commercial, or business organization, corporation, firm, or entity that is substantially owned, controlled, sponsored, commanded, managed, or dominated by a foreign government;
- (2) the term "foreign agent" means any officer, employee, proxy, servant, delegate, or representative of a foreign government;
- (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.

B. WASHINGTON STATE UNIFORM TRADE SECRETS ACT

In most cases trade secrets are protected under state statutes and common law. The Washington State trade secret act, Wash Rev. Code § 19.108.010, et seq. (2000), excerpted below, is based on the Uniform Trade Secret Act which has also been adopted in some form in most jurisdictions.

RCW 19.108.010 - Definitions

Unless the context clearly requires otherwise, the definitions set forth in this section apply throughout this chapter.

- (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:
 - (a) 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
 - (b) Disclosure or use of a trade secret of another without express or implied consent by a person who:
 - (i) Used improper means to acquire knowledge of the trade secret; or
 - (ii) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was (A) derived from or through a person who had utilized improper means to acquire it, (B) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or (C) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - (iii) 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:
 - (a) 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

- (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

[1981 c 286 § 1.]

RCW 19.108.020 - Remedies for misappropriation -- Injunction, royalty

- (1) 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.
- (2) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
- (3) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

[1981 c 286 § 2.]

RCW 19.108.030 - Remedies For Misappropriation -- Damages

- (1) In addition to or in lieu of injunctive relief, a complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
- (2) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (1).

[1981 c 286 § 3.]

RCW 19.108.040 - Award Of Attorney's Fees

If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

[1981 c 286 § 4.]

RCW 19.108.050 - Court Orders To Preserve Secrecy Of Alleged Trade Secrets

In an action under this chapter, 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.

[1981 c 286 § 5.]

RCW 19.108.060 - Actions For Misappropriation -- Time Limitation

An action for misappropriation must be brought within three 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.

[1981 c 286 § 6.]

RCW 19.108.900 - Effect Of Chapter On Other Law

- (1) This chapter displaces conflicting tort, restitutionary, and other law of this state pertaining to civil liability for misappropriation of a trade secret.
- (2) This chapter does not affect:
 - (a) Contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or
 - (b) Criminal liability for misappropriation of a trade secret.

[1981 c 286 § 7.]

RCW 19.108.910 - Construction Of Uniform Act

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

[1981 c 286 § 8.]

RCW 19.108.920 - Short Title

This chapter may be known and cited as the uniform trade secrets act.

[1981 c 286 § 9.]

RCW 19.108.930 - Effective Date -- Application -- 1981 c 286

This chapter takes effect on January 1, 1982, and does not apply to misappropriation occurring prior to the effective date.

[1981 c 286 § 12.]

RCW 19.108.940 - Severability -- 1981 c 286

If any provision of this act or its application to any person or circumstance is held invalid, the remainder of the act or the application of the provision to other persons or circumstances is not affected.

[1981 c 286 § 10.]

NOTE:

Theft of trade secrets: **RCW 9A.56.010 (6), 9A.56.020.**

Idaho Trade Secrets Act: **Idaho Code §48-801 et seq. (2002)**

TITLE 48
MONOPOLIES AND TRADE PRACTICES
CHAPTER 8
IDAHO TRADE SECRETS ACT

48-801. DEFINITIONS.

As used in this chapter unless the context requires otherwise:

- (1) "Improper means" include 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:
 - (a) 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
 - (b) 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 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) "Computer program" means information which is capable of causing a computer to perform logical operation(s) and:
 - (a) Is contained on any media or in any format;
 - (b) Is capable of being input, directly or indirectly, into a computer; and
 - (c) Has prominently displayed a notice of copyright, or other proprietary or confidential marking, either within or on the media containing the information.

- (5) "Trade secret" means information, including a formula, pattern, compilation, program, computer program, device, method, technique, or process, that:
 - (a) 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
 - (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Trade secrets as defined in this subsection are subject to disclosure by a public agency according to chapter 3, title 9, Idaho Code.

48-802. INJUNCTIVE RELIEF.

- (1) 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.

- (2) 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.

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

48-803. DAMAGES.

- (1) 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 imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.
- (2) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (1) of this section.

48-804. PRESERVATION OF SECRECY.

In an action under this chapter, 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.

48-805. STATUTE OF LIMITATIONS.

An action for misappropriation must be brought within three (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.

48-806. EFFECT ON OTHER LAW.

- (1) Except as provided in subsection (2) of this section, this chapter displaces conflicting tort, restitutionary, and other law of this state providing civil liability remedies for misappropriation of a trade secret.
- (2) This chapter does not affect:
 - (a) Contractual remedies, whether or not based upon misappropriation of a trade secret; or
 - (b) Other civil remedies that are not based upon misappropriation of a trade secret; or

- (c) Criminal remedies, whether or not based upon misappropriation of a trade secret.

48-807. SHORT TITLE.

This chapter may be cited as the "Idaho Trade Secrets Act."

Oregon Trade Secrets Act: **OR. Rev. Stat. §§646.461 et seq. (1995)**

TRADE SECRETS

646.461 Definitions for ORS 646.461 to 646.475. As used in ORS 646.461 to 646.475, unless the context otherwise requires:

- (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. Reverse engineering and independent development alone shall not be considered improper means.
- (2) "Misappropriation" means:
 - (a) 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;
 - (b) Disclosure or use of a trade secret of another without express or implied consent by a person who used improper means to acquire knowledge of the trade secret;
 - (c) Disclosure or use of a trade secret of another without express or implied consent by a person who, before a material change of 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; or
 - (d) Disclosure or use of a trade secret of another without express or implied consent by a person, who at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was:
 - (A) Derived from or through a person who had utilized improper means to acquire it;
 - (B) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

- (C) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.
- (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 drawing, cost data, customer list, formula, pattern, compilation, program, device, method, technique or process that:
 - (a) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
 - (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. [1987 c.537 §2]

646.463 Enjoining misappropriation; payment of royalties; affirmative acts.

- (1) Actual or threatened misappropriation may be temporarily, preliminarily or permanently enjoined. Upon application to the court, an injunction shall be vacated 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.
- (2) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for 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 the misappropriation that renders a prohibitive injunction inequitable.
- (3) In appropriate circumstances, the court may order affirmative acts to protect a trade secret. [1987 c.537 §3]

646.465 Damages for misappropriation.

- (1) A complainant is entitled to recover damages adequate to compensate for misappropriation, unless a material and prejudicial change of position by a defendant prior to acquiring knowledge or reason to know of the misappropriation renders a monetary recovery inequitable.
- (2) Damages may 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, but shall not be less than a reasonable royalty for the unauthorized disclosure or use of a trade secret.

- (3) Upon a finding of willful or malicious misappropriation, punitive damages may be awarded in an amount not exceeding twice any award made under subsections (1) and (2) of this section. [1987 c.537 §4]

646.467 Attorney fees.

The court may award reasonable attorney fees to the prevailing party if:

- (1) A claim of misappropriation is made in bad faith;
- (2) A motion to terminate an injunction is made or resisted in bad faith; or
- (3) Willful or malicious misappropriation is found by the court or jury. [1987 c.537 §5]

646.469 Preservation of trade secret by court; methods.

In any action brought under ORS 646.461 to 646.475, the 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 or ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval. [1987 c.537 §6]

646.471 Limitation on commencement of action.

An action for misappropriation must be brought within three 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. [1987 c.537 §7]

646.473 Conflicting tort, restitution or other law providing civil remedies; exclusions for certain other remedies; limited immunity for public bodies and officers, employees and agents.

- (1) Except as provided in subsection (2) of this section, ORS 646.461 to 646.475 supersedes conflicting tort, restitution or other law of Oregon providing civil remedies for misappropriation of a trade secret.
- (2) ORS 646.461 to 646.475 shall not affect:
 - (a) Contractual remedies, whether or not based upon misappropriation of a trade secret;

- (b) Other civil remedies that are not based upon misappropriation of a trade secret;
 - (c) Criminal remedies, whether or not based upon misappropriation of a trade secret; or
 - (d) Any defense, immunity or limitation of liability afforded public bodies, their officers, employees or agents under ORS 30.260 to 30.300.
- (3) Notwithstanding any other provision in ORS 646.461 to 646.475, public bodies and their officers, employees and agents are immune from any claim or action for misappropriation of a trade secret that is based on the disclosure or release of information in obedience to or in good faith reliance on any order of disclosure issued pursuant to ORS 192.410 to 192.490 or on the advice of an attorney authorized to advise the public body, its officers, employees or agents. [1987 c.537 §8]

646.475 Application and construction of ORS 646.461 to 646.475; short title; effect of invalidity.

- (1) ORS 646.461 to 646.475 shall be applied and construed to effectuate their general purpose to make uniform the law with respect to the subject of ORS 646.461 to 646.475 among states enacting them.
- (2) ORS 646.461 to 646.475 may be cited as the Uniform Trade Secrets Act.
- (3) If any provision of ORS 646.461 to 646.475 or its application to any person or circumstances is held invalid, the invalidity shall not affect other provisions or applications of ORS 646.461 to 646.475 which can be given effect without the invalid provision or application, and to this end the provisions of ORS 646.461 to 646.475 are severable. [1987 c.537 §§9,10,11]