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## Litigating Computer Trade Secrets in California, 6 Computer L.J. 485 (1985)

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## NOTES

### LITIGATING COMPUTER TRADE SECRETS IN CALIFORNIA\*

Today, every investment decision in computer technology involves weighing the expected return on capital against the probability of piracy. A key factor in making this decision is the certainty that legal protection will be extended to the product. Because the ideas and processes developed in this burgeoning industry have outpaced clear legal delineation of proprietary rights, however, businesspeople and lawyers are uncertain as to how traditional modes of copyright and patent protection apply to new, often intangible, property. These same uncertainties about protection for high technology property create substantial incentives to disregard proprietary rights. Duplication of software or semiconductor chip design is much less expensive than initial development, and the time span between leading edge technology and commercial obsolescence is measured in weeks or months.<sup>1</sup> Engineers employed by major research companies learn valuable secrets, and often start up new companies to develop "their" ideas. Inevitably, this fragile industry built on esoteric, invaluable information has created intellectual property that far outpaces traditional categories of legal protection.

As a result, trade secret litigation, which involves the broadest form of protection, has increased markedly in the past five years.<sup>2</sup> Much of this litigation explosion has occurred in California, the acknowledged source of the "Silicon Revolution." California trade secret law controls not only these suits but also many actions filed in other states, or as ancillary federal claims, through choice of law principles. Therefore, California trade secret law has been, and will continue to be, an influential force in defining proprietary rights in computer-related technology. The recent enactment in California of the Uniform Trade Secrets Act<sup>3</sup>

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\* National First Place, Second Annual Computer Law Writing Competition.

1. See Moore & Susman, *The Semiconductor Chip Protection Act*, COMPUTER LAW., Dec. 1984, at 11.

2. See Dubro, *Keeping Trade Secrets in Silicon Valley*, CALIF. LAW., Sept. 1984, at 43.

3. Uniform Trade Secrets Act, ch. 1724, § 1, 1984 Cal. Legis. Serv. 531 (West) (codi-

provides guidelines for determining proprietary rights, and should limit some of the procedural abuses in current trade secret litigation.

Most litigators agree that, as a practical matter, complying with these procedural aspects of trade secret litigation requires as much attention as establishing the merits of the claim. Educating the non-engineer factfinder, obtaining preliminary relief, managing discovery, and maintaining the secrecy of the disputed information are often more difficult tasks than establishing whether information was used improperly.<sup>4</sup> Therefore, familiarity with procedural strategy in trade secret litigation is as important as understanding the substantive rights involved.

This Note analyzes both substantive and procedural aspects of California trade secret law. Trade secret definitions and remedies under existing case law are contrasted with the provisions of both the California Act and the Uniform Trade Secrets Act approved by the National Conference of Commissioners on Uniform State Laws, upon which the California Act is based.<sup>5</sup> Emphasis is given to the competing employer/employee public policies that are prominently discussed in key California trade secret cases. To the extent that the California Act relaxes definitional requirements for trade secrets, it enhances the policy basis for trade secret law by focusing litigation on important nonprocedural questions.

Additionally, the Note reports the results of a 1984 survey of leading patent, copyright, and trade secret attorneys in California. The survey and follow-up interviews solicited views on proprietary rights in computer-related trade secrets under California law, and on procedural issues that an attorney encounters when litigating these cases. This combined empirical and case law analysis of California trade secret law presents a concise view of the central issues and trends in this leading jurisdiction. The Note advances the proposition that by emphasizing public policy issues based on the parties' relationship, the California courts have adopted a decisional model that promotes equitable resolution of trade secret disputes, and minimizes the inherent technical fact-finding limitations of the courts.

## I. RELATIONSHIP OF TRADE SECRET LAW TO PATENT AND COPYRIGHT LAW

The relationship of trade secret law to patent and copyright law has

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fied at CAL. CIV. CODE §§ 3426-3426.10 (West Supp. 1985)) [hereinafter cited as California Act].

4. See Dubro, *supra* note 2, at 44.

5. UNIF. TRADE SECRETS ACT, 14 U.L.A. 537 (1979) [hereinafter cited as MODEL ACT].

received extensive treatment elsewhere.<sup>6</sup> Briefly stated, any confidential formula, pattern, or information which affords competitive advantage in one's business may be a trade secret.<sup>7</sup> Trade secret law operates to protect commercial ethics as well as to encourage invention.<sup>8</sup> Patent and copyright law encourage the disclosure of inventions and expressions by granting the owner exclusive rights in his or her work.

A patent may issue for any process, machinery, design, or article of manufacture<sup>9</sup> that is novel,<sup>10</sup> non-obvious,<sup>11</sup> has some utility,<sup>12</sup> and is adequately disclosed in the patent application.<sup>13</sup> A patent is a seventeen-year, nonrenewable, exclusive use right,<sup>14</sup> which is enforceable against independent developers.<sup>15</sup>

Copyright law affords protection to seven categories of published and unpublished expression.<sup>16</sup> The 1980 amendments to the 1976 Copyright Act specifically protect computer programs.<sup>17</sup> Copyright protection extends only to expressions, not to underlying ideas.<sup>18</sup> While patent law affords protection only to the means of reducing an inventive idea to practice, copyright law protects only the means of expressing an idea. If the same idea can be expressed in a variety of ways, multiple copyrights can exist.<sup>19</sup>

Trade secret protection is not preempted per se by either copyright or patent law.<sup>20</sup> Describing a design in a patent application or copyright registration, however, may disclose the trade secrets, and effectively

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6. See, e.g., R. MILGRIM, TRADE SECRETS §§ 8.02, 2.06A (Business Organizations Vols. 12-12B, 1985) [hereinafter cited as MILGRIM].

7. RESTATEMENT OF TORTS § 757 comment b at 5 (1939) [hereinafter cited as RESTATEMENT].

8. See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481 (1974).

9. 35 U.S.C. §§ 101, 171 (1982).

10. *Id.* § 102(a).

11. *Id.* § 103.

12. *Id.* § 101.

13. *Id.* § 112.

14. *Id.* § 154.

15. *Id.*

16. 17 U.S.C. § 102(a) (1982).

17. See Act of Dec. 12, 1980, Pub. L. No. 96-517, § 10, 94 Stat. 3015, 3028 (codified at 17 U.S.C. §§ 101, 117 (1982)).

18. See *Apple Computer v. Franklin Computer Corp.*, 714 F.2d 1240, 1252 (3d Cir. 1983) *cert. denied*, 104 S.Ct. 690 (1984) (quoting *Mazer v. Stein*, 347 U.S. 201, 217 (1954)).

19. *Id.* (citing *Dymow v. Bolton*, 11 F.2d 690, 691 (2d Cir. 1926)).

20. As to patents, see *Kewanee Oil*, 416 U.S. at 470. See also *Sinclair v. Aquarius Elecs.*, 42 Cal. App. 3d 216, 116 Cal. Rptr. 654 (1974) (relying on *Kewanee* to hold state trade secret law not preempted by federal patent law). As to copyrights, see cases collected in TRADE SECRET LAW HANDBOOK 277-83 (M. Jager ed. 1983) [hereinafter cited as Jager].

preclude this protection.<sup>21</sup>

## II. BASIC DEFINITION OF A TRADE SECRET

The 1979 meeting of the National Conference of Commissioners on Uniform State Laws produced the Uniform Trade Secrets Act.<sup>22</sup> Several other states passed a version of this Model Act<sup>23</sup> before the California legislature incorporated it into the California Civil Code.<sup>24</sup>

The Commissioners believed that the substitution of a unitary definition of trade secrets was one of the Model Act's most significant contributions.<sup>25</sup> Before passage of the Act, California followed the Restatement of Torts definition of a trade secret:<sup>26</sup>

A trade secret may consist of any 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.<sup>27</sup>

The Model Act, as originally written,<sup>28</sup> defined a trade secret in slightly broader terms:

'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.<sup>29</sup>

The Model Act definition encompasses the traditional trade secret elements of novelty, value, and secrecy. California precedents, how-

21. See Davidson, *Protecting Computer Software: A Comprehensive Analysis*, 23 JURIMETRICS J. 337, 357-58, 400-06 (1983).

22. MODEL ACT, *supra* note 5.

23. See, e.g., ARK. STAT. ANN. §§ 70-1001 to -1007 (Supp. 1985); DEL. CODE ANN. tit. 6, §§ 2001-2009 (Supp. 1984); IDAHO CODE §§ 48-801 to -807 (Supp. 1985); IND. CODE ANN. §§ 24-2-3-1 to -8 (Burns Supp. 1985); KAN. STAT. ANN. §§ 60-3320 to -3330 (1983); LA. REV. STAT. ANN. §§ 51:1431 to :1439 (West Supp. 1985); MINN. STAT. ANN. §§ 325C.01 to .08 (West 1981); N.C. GEN. STAT. §§ 66-152 to -157 (Supp. 1983); WASH. REV. CODE ANN. §§ 19.108.010 to .940 (West Supp. 1985).

24. See California Act, *supra* note 3.

25. MODEL ACT, *supra* note 5, Commissioners' Prefatory Note, 14 U.L.A. at 537-38.

26. *Uribe v. Howie*, 19 Cal. App. 3d 194, 208, 96 Cal. Rptr. 493, 501 (1971).

27. *Id.* at 207, 96 Cal. Rptr. at 500 (quoting RESTATEMENT, *supra* note 7, § 757 comment b at 5).

28. The California version has been modified. See *infra* text accompanying notes 56-60, 66-67.

29. MODEL ACT, *supra* note 5, § 1, 14 U.L.A. at 542.

ever, often "do not provide clear standards for decision"<sup>30</sup> of what factors determine a plaintiff's prima facie case. An analysis of stock issues of a trade secret case under these precedents and under the Model Act supports the view that California courts often focus more on the relationship of the parties, and on issues of public policy, than on whether the plaintiff has established the novelty, value, and secrecy of the information. To the extent that the Model Act relaxes definitional trade secret requirements, it enhances this policy perspective. Despite this emphasis on the parties rather than the information, however, a trade secret case that does not meet these basic criteria cannot succeed in any jurisdiction.

### III. ELEMENTS OF A PRIMA FACIE CASE

#### A. NOVELTY AND VALUE

Novelty and value are usually easily established in a plaintiff's case. Value is satisfied by the use of the trade secret in a trade or business. Evidence supporting the prayer for injunction or damages will undoubtedly establish commercial value by documenting money and time involved in developing the secret.<sup>31</sup>

"Novelty and invention are not requisite for a trade secret as they are for patentability."<sup>32</sup> A trade secret may be merely a mechanical improvement that a good mechanic could make, and can be clearly anticipated in the prior art.<sup>33</sup> Matters which are public knowledge or general knowledge in the industry cannot be trade secrets.<sup>34</sup> Even if each element of a process is known to the industry, however, the combination of known elements or general concepts may well amount to a trade secret.<sup>35</sup>

Computer-related trade secret cases present interesting applications of the novelty standard. In *Cybertek Computer Products v. Whitfield*,<sup>36</sup> the plaintiff sought to enjoin an ex-employee and his new employer from marketing a software program which had substantially the same capabilities as one that the ex-employee had developed for the plaintiff

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30. *Hollingsworth Solderless Terminal Co. v. Turley*, 622 F.2d 1324, 1329 (9th Cir. 1980).

31. See Gilburne & Johnston, *Trade Secret Protection for Software Generally and in the Mass Market*, 3 *COMPUTER/L.J.* 211, 217-18 (1982).

32. *RESTATEMENT, supra* note 7, § 757 comment b at 6-7.

33. *Id.* See also *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 290, 23 Cal. Rptr. 198, 211 (1962).

34. *RESTATEMENT, supra* note 7, § 757 comment b at 6-7.

35. See, e.g., *Winston Research Corp. v. Minn. Mining & Mfg. Co.*, 350 F.2d 134, 139-40 (9th Cir. 1965); *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 159, 329 P.2d 147, 149 (1958).

36. 203 U.S.P.Q. (BNA) 1020 (Cal. Super. Ct. 1977).

for use in the life insurance business. The defendants claimed that the program was independently developed, and that similarities should be expected in programs designed to perform the same function. They argued that such programming techniques were "well known concepts in the computer and data processing industry,"<sup>37</sup> and not trade secrets. The court stated that while general concepts are not protectible per se, the existence of "the specific implementation involving a particular combination of general concepts" may amount to a trade secret.<sup>38</sup> Finding that the particular combination of factors involved in the plaintiff's system did constitute a protectible trade secret, the court then turned to the defendants' claim that their program was independently developed. Attempting to resolve this "extremely close question of fact" by comparing the two programs' highly technical documentation,<sup>39</sup> the court found similar "significant design choices" in the program. Additionally, Whitfield had complete knowledge of the plaintiff's system, and supervised the development of the defendants' system. These factors prevented the defendants from meeting the "heavy burden of persuasion" this defense entails.<sup>40</sup>

The addition of the words "method, technique, process," and "program" to the Model Act definition of a trade secret clearly brings computer technology such as software, chip design processes,<sup>41</sup> and other development technology within the ambit of the statute. Under this definition, a good faith pleading that the information has commercial value, and is a combination of new steps or methods, should meet the threshold novelty and value standards.

## B. RELATIVE SECRECY

California and the Ninth Circuit follow the doctrine of "relative se-

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37. *Id.* at 1024.

38. *Id.* (citing *Winston Research*, 350 F.2d at 134). A well-reasoned federal district court case adopted a standard of assessing a software program's unique "'logic and coherence', as well as [its] speed, accuracy, cost, and commercial feasibility." *Com-Share v. Computer Complex*, 338 F. Supp. 1229, 1234 (E.D. Mich. 1971), *aff'd*, 458 F.2d 1341 (6th Cir. 1972). See also *Telex Corp. v. IBM Corp.*, 367 F. Supp. 258, 357-58 (N.D. Okla. 1973), *rev'd in part on other grounds*, 510 F.2d 894 (10th Cir.), *cert. dismissed*, 423 U.S. 802 (1975).

39. The court noted that "[t]he technical nature of [the] testimony would be mind boggling to the average lay person, as it was to the court . . ." *Cybertek*, 203 U.S.P.Q. at 1024.

40. *Id.* at 1024-25.

41. Semiconductor chips are now separately protected under the Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, Tit. III, 98 Stat. 3347 (codified at 17 U.S.C. §§ 901-914 (Supp. II 1985)). For an analysis and legislative history of the Act, see Moore & Susman, *supra* note 1.

crecy"; absolute secrecy is not required.<sup>42</sup> Under the California Act, the secret must be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy."<sup>43</sup> This language is similar to that of the Restatement,<sup>44</sup> adopted in prior California case law.<sup>45</sup>

Under the doctrine of relative secrecy, the court should assess the plaintiff's overall efforts at maintaining secrecy.<sup>46</sup> Thus, in *Plant Industries v. Coleman*,<sup>47</sup> the court found that "conscientious efforts were made to maintain secrecy" of a fruit-slicing device where several "no trespassing" signs were posted around the plant and the plaintiff had testified that it was difficult to get in to speak to the manager. The court indicated that allowing several women's clubs, children, and customers to walk through the plant did not constitute a failure to maintain secrecy.<sup>48</sup>

In *Digital Development Corp. v. International Memory Systems*,<sup>49</sup> the defendant, by cross-claim, alleged that the plaintiff had copied unique features of a data storage disk unit purchased from the defendant in contemplation of a joint marketing venture. The defendant had sent detailed schematics of the unit which were stamped with a proprietary legend, as part of the instructional manual. The plaintiff claimed that it had developed its unit independently. Further, the plaintiff argued that the defendant had disclosed the secrets of the unit by displaying it at a computer show, by giving "detailed instructions" concerning the unit to the plaintiff's employees, and by leaving the unit and drawings unlocked at the plaintiff's facility.<sup>50</sup>

The court held that the defendant had used "sufficient means at its disposal to maintain the secrecy of its design."<sup>51</sup> First, the defendant had followed an industry standard by furnishing plaintiff with schematics stamped with a proprietary legend.<sup>52</sup> Second, the item was sufficiently complex that its sale or marketing did not destroy its trade secret status, and "unsecret conduct" at the manufacturing plant did not

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42. See *K-2 Ski Co. v. Head Ski Co.*, 467 F.2d 1087 (9th Cir. 1972); *Digital Dev. Corp. v. International Memory Sys.*, 185 U.S.P.Q. (BNA) 136 (S.D. Cal. 1973); *Sarkes Tarzian, Inc. v. Audio Devices*, 166 F. Supp. 250 (S.D. Cal. 1958), *aff'd mem.*, 283 F.2d 695 (9th Cir. 1960), *cert. denied*, 365 U.S. 869 (1961). See also *Jager*, *supra* note 20, at 109, 112.

43. CAL. CIV. CODE § 3426.1(d)(2) (West Supp. 1985).

44. RESTATEMENT, *supra* note 7, § 757 comment b at 6.

45. See *Digital*, 185 U.S.P.Q. at 142.

46. See cases cited *supra* note 42.

47. 287 F. Supp. 636 (C.D. Cal. 1968).

48. *Id.* at 643.

49. 185 U.S.P.Q. at 136.

50. *Id.* at 138-40.

51. *Id.* at 141.

52. *Id.*



destroy the secret element of the product.<sup>53</sup> Finally, the defendant's secrets were protected since the plaintiff and defendant were in a confidential relationship by virtue of the negotiations regarding the product, and the plaintiff was aware that the information was secret. Thus, even if the secret was discoverable, the owner could still recover against one who had gained the information through a breach of a confidential relationship.<sup>54</sup> Therefore, the defendant's secrecy measures were reasonable in the context of its relationship with the plaintiff.

The argument in *Digital* that distribution of a sufficiently complex product does not destroy its trade secret status has been considered in relation to other computer-related products, particularly software.<sup>55</sup> If the length of time needed to reverse engineer the product is weighed against its commercial life span, then the typical software package—which is frequently revised and reissued—could be mass marketed and still retain its trade secret status. Under *Digital*, determining whether each version was a separate “product” would require an evaluation by the court of the significance of the revision. It is questionable whether the limited fact-finding ability of most courts would support such a technical solution to the novelty question.

In fact, while no reported California case has reached these questions, the legislative history of a related change in the California Act suggests that the court's result would draw more on issues of duty and public policy than on the technical features of the product. The Model Act's requirement that a trade secret derive economic value from “not being generally known to, and not being readily ascertainable by proper means by, other persons”<sup>56</sup> was replaced by a requirement that the trade secret not be “generally known to the public or to other persons.”<sup>57</sup> This change was made at the request of the Patent, Trademark, and Copyright section of the California State Bar Association.<sup>58</sup>

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53. *Id.* In high technology industries, simple business security practices will usually satisfy the secrecy requirement. Restricted access to sensitive material, proprietary legends on company material, and employee nondisclosure agreements have all been successfully cited as evidence of reasonable secrecy. See *Telex*, 510 F.2d at 894; *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F. Supp. 1102 (E.D. Mich. 1975); *Com-Share*, 338 F. Supp. at 1229.

54. *Digital*, 185 U.S.P.Q. at 141.

55. See *Gilburne & Johnston*, *supra* note 31, at 229-36. See also *Management Science Am., Inc. v. Cyborg Sys.*, 6 Computer L. Serv. Rep. (Callaghan) 921 (N.D. Ill. 1978) (holding that distribution of a computer program to 600 licensees under a statutory copyright notice with no deposit did not, as a matter of law, bar trade secret status). For a review of these related copyright issues, see Brooks, *Shrink-Wrapped License Agreements: Do They Prevent the Existence of a 'First Sale'?*, *COMPUTER LAW.*, Apr. 1984, at 17.

56. MODEL ACT, *supra* note 5, § 1(4)(i), 14 U.L.A. at 542.

57. CAL. CIV. CODE § 3426.1(d)(1) (West Supp. 1985).

58. See CAL. S. COMM. ON JUDICIARY, 1983-84 Reg. Sess., REPORT ON A.B. 501, at 5 (July 6, 1984).

The bar section questioned whether under the Model Act's definition a user would have an actionable claim against a person who did receive the secret by unauthorized means, but who could prove that a scientist could discover the complex formula involved within six months. The bar section did not want the statute to "invite the parties to speculate on the time needed to discover a secret,"<sup>59</sup> but wanted the statute to focus instead on how the secret was obtained, in keeping with the trade secret definition of the Penal Code.<sup>60</sup>

Another definitional change in the California Act that broadens protection of technical secrets is the deletion of the Restatement requirement that the secret be in "continuous use in the operation of the business."<sup>61</sup> The Commissioners' comment to the Model Act states that the reason for eliminating the requirement is to protect "a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use."<sup>62</sup> Both the Model Act and the California Act more clearly extend protection to research which proves that a certain process is not workable. In the computer industry, where the commercial life of technology is measured in months, the result of researching "blind alleys" is a precious asset. Yet it is not "used" continuously in one's business, and is arguably unprotected under the Restatement definition from misappropriation by an employee who performed that "blind alley" research.

### C. ACQUISITION BY IMPROPER MEANS

Under the California Act, a secret is protectible when it is acquired by a second person in a confidential relationship with the trade secret owner, or by a person who uses "improper means to acquire the trade secret."<sup>63</sup> "Improper means," as the Commissioners' comment indicates, could include otherwise lawful means which are improper under the circumstances, as well as unauthorized disclosure.<sup>64</sup> The owner of a trade secret, unlike the holder of a patent, has no exclusive right to the

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59. *Id.*

60. CAL. PENAL CODE § 499c(a)(9) (West Supp. 1985) (defining a trade secret as "any portion or phase of any scientific or technical information . . . which is secret and is not generally available to the public . . . ." The statute makes inducing any agent to convey trade secrets of his master to another person punishable by one year's imprisonment and/or by a \$5,000 fine. *Id.* at § 499c(c). The statute, enacted in 1967, withstood vagueness and patent preemption challenges in *People v. Serrata*, 62 Cal. App. 3d 9, 133 Cal. Rptr. 144 (1976). Most attorneys surveyed for this Note had not sought criminal charges for trade secret violations.

61. RESTATEMENT, *supra* note 7, § 757 comment b at 5.

62. MODEL ACT, *supra* note 5, § 1 Commissioners' Comment, 14 U.L.A. at 543.

63. CAL. CIV. CODE § 3426.1(b) (West Supp. 1985).

64. MODEL ACT, *supra* note 5, § 1 Commissioners' Comment, 14 U.L.A. at 542. As to "otherwise lawful conduct," the comment cites *E.I. du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir.), *cert. denied*, 400 U.S. 1024 (1970), where aerial recon-

idea that bars others from independently developing the process. A trade secret agreement is effective only between the contracting parties, and does not prevent others from freely copying their versions of the same process.<sup>65</sup>

Reverse engineering, or independent derivation of a secret, is expressly not "improper" under the California Act. This is consistent with the Restatement rule.<sup>66</sup> Note, however, that the fact that a defendant *could* have independently developed a product does not preclude trade secrecy if, in fact, the defendant "gained the information unfairly through a breach of a confidential relationship."<sup>67</sup>

#### D. PUBLIC POLICY

Resolving a claim of misappropriation frequently involves balancing the competing public policies of protecting the employer's initiative and protecting the mobility of the employee. The tension between these policies is the cornerstone of California trade secret doctrine. Two cases reaching opposite resolutions of this tension, *Winston Research Corp. v. Minnesota Mining & Manufacturing Co.*<sup>68</sup> and *Futurecraft Corp. v. Clary*,<sup>69</sup> are frequently cited as sources of the emphasis in California on this policy perspective.

In *Winston*, the court upheld a nondisclosure covenant in an employee's contract that did not exclude information which the employee himself contributed. The court severed this covenant from a provision restricting the employee's right to work for competitors of the employer. Such a clause is expressly void under the Business and Professions Code, which states that "[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."<sup>70</sup> The court drew a distinction between covenants not to compete with the employer, and the implicit obligation of the employee not to use trade secrets of the employer to the employer's detriment. The court further

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naisance was used to determine a competitor's plant layout during construction. *Id.* See also RESTATEMENT, *supra* note 7, comment f at 10-11.

65. See *Sinclair v. Aquarius Elecs.*, 42 Cal. App. 3d 216, 224, 116 Cal. Rptr. 654, 661 (1974).

66. See CAL. CIV. CODE § 3426.1(a) (West Supp. 1985); RESTATEMENT, *supra* note 7, § 757 comment f at 11-12.

67. *Digital*, 185 U.S.P.Q. at 141.

68. 350 F.2d at 134.

69. 205 Cal. App. 2d at 279, 23 Cal. Rptr. at 198.

70. CAL. BUS. & PROF. CODE § 16600 (West 1964). This statute has been construed as invalidating contracts not to compete, except where necessary to protect the employer's trade secrets. See *Gordon Termite Control v. Terrones*, 84 Cal. App. 3d 176, 148 Cal. Rptr. 310 (1978). See also *Cambridge Filter Corp. v. International Filter Co.*, 548 F. Supp. 1301 (D. Nev. 1982) (applying substantive law of California).

distinguished between recognizing a legally protectible interest in the secrecy of industrial information per se, which was too broad, and protecting secrets where the result would further "the integrity of confidential employer-employee relationships."<sup>71</sup> This weighing process was simplified for the court by facts that greatly favored the ex-employer. The process at issue, which reduced speed fluctuations in precision tape recorders, was the result of four years' research, and was duplicated in fourteen months by ex-employees who had signed nondisclosure agreements.<sup>72</sup> The court granted an injunction for a time equal to that which competitors would have required to develop a similar machine after public disclosure of the process.<sup>73</sup>

In the earlier *Futurecraft* case, the court found no implicit agreement between the employer and the employee which would have prevented the employee from disclosing design features of high pressure valves they had developed. Finding for the defendant ex-employee, the court distinguished between trade secrets which the employer had disclosed in trust to the employee, and secrets which the employee had developed. A confidential relationship would protect those secrets which the employee did not previously know. In this case, however, the employee came to the employer already schooled in the trade. The public policy of protecting employee mobility would not allow the court to protect the employer's trade secrets when this would deprive the defendant of the use of knowledge and skill which did not originate with the employer. Trade secrets should be protected only when "the granting of such protection will not unduly hamstring the ex-employee in the practice of his occupation or profession."<sup>74</sup>

*Futurecraft* is frequently cited by defendants seeking the additional protection of public policy. Its holding regarding the distinction between what an employee creates for the employer, and what he or she "acquires" through the employment, appears to contradict Labor Code section 2860, which states that "[e]verything which an employee acquires by virtue of his employment . . . belongs to the employer. . . ."<sup>75</sup>

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71. *Winston Research*, 350 F.2d at 138.

72. *Id.* at 137.

73. *Id.* at 142-43. For a discussion of the theory underlying these "lead time" injunctions, see *infra* text accompanying notes 105-10.

74. *Futurecraft*, 205 Cal. App. 2d at 288, 23 Cal. Rptr. at 210 (emphasis omitted) (citing von Kalinowski, *Key Employees and Trade Secrets*, 47 VA. L. REV. 583, 599 (1961)). von Kalinowski, counsel for the losing plaintiff, "did not cite his article to the court." *Id.*

75. CAL. LAB. CODE § 2860 (West 1971). The Labor Code, however, declares assignments of employee inventions void when the employee does not use the employer's facilities, and the invention either does not relate to the business of the employer, or else does not result from work done by the employee for the employer. *Id.* § 2870 (West Supp. 1985).

In *Hollingsworth Solderless Terminal Co. v. Turley*,<sup>76</sup> a recent case involving customer lists, however, the court noted that "courts protecting information as trade secrets have not relied on section 2860."<sup>77</sup> Further, the court noted that "in many of the cases which have found information confidential one factor considered was whether it was largely the employer's time and efforts that produced the valuable information the employee was then attempting to use."<sup>78</sup>

Attorneys surveyed by this author were asked to comment on this distinction, and to indicate which view was the "correct" law in California. Most respondents believed that section 2860 states the present law. One attorney stated that the *Futurecraft* view survived because it is often difficult for judges to "distinguish, and articulate that distinction, between the employee's 'tool kit' and the fruits of the employer's work, which the employer has bought and paid for." Another respondent stated that *Futurecraft* should be read as holding that where the employee has developed the trade secret, the employer must show circumstances beyond the employment relationship itself that give rise to a duty of nondisclosure. Employees hired specifically for developmental work, for example, would expressly be on notice that their work was confidential. "The case certainly seems at odds with section 2860, and has little to recommend it," he concluded. To avoid controversy, he advises clients to execute express secrecy and assignment agreements that restate the policies of sections 2860 and 2870.<sup>79</sup> To further avoid dispute, some additional consideration should be given for any covenants received from the employee.<sup>80</sup>

The significance of public policy in employer/employee trade secret disputes has been discussed in several cases. In *Diodes, Inc. v. Franzen*,<sup>81</sup> an electrical manufacturing corporation sought to prevent defendants, including ex-directors of the corporation, from manufacturing diodes, "semiconductors rectifying electric current."<sup>82</sup> The court found the plaintiff's pleadings insufficient chiefly because the plaintiff did not

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76. 622 F.2d at 1324.

77. *Id.* at 1330 n.5. See also Comment, *A Balanced Approach to Employer-Employee Trade Secrets Disputes in California*, 31 HASTINGS L. J. 671, 689 n.101 (1980) (noting that "[section 2860] has not been relied upon as the basis of liability in an employer-employee trade secret case. Similarly, although the courts have cited to § 396 of the second Restatement of Agency [defining the agent's duty to not divulge the trade secrets of his master], they have never expressly relied on it.").

78. 622 F.2d at 1332 n.6.

79. See *supra* note 75.

80. See Davidson, *Constructing OEM Nondisclosure Agreements*, 24 JURIMETRICS J. 127, 131-41 (1984); Epstein & Friedman, *Sufficiency of Consideration for an Employee's Covenant Not to Compete*, COMPUTER LAW., June 1984, at 1.

81. 260 Cal. App. 2d 244, 67 Cal. Rptr. 19 (1968).

82. *Id.* at 249, 67 Cal. Rptr. at 22.

aver a specific trade secret, but merely "hint[ed] that it had something to do with the manufacture of diodes."<sup>83</sup> Construing *Winston Research* and *Futurecraft*, the court listed three criteria that a plaintiff employer must satisfy in order to enjoin the use or disclosure of a trade secret by a former employee or agent: the information must meet the definition of a trade secret; it must be disclosed to the defendant under circumstances giving rise to a legal duty not to disclose or use the secret to the detriment of the employer; and public policy must favor the protection of the secret over the employee's interest in using his knowledge to support himself in other employment. Absent deception or fraud by the departing employee, "[t]he interests of the employee in his own mobility and betterment are deemed paramount to the competitive business interests of the employers . . . ."<sup>84</sup>

Absent an express contractual agreement not to reveal trade secrets, an officer's duty not to use trade secrets to the detriment of the corporation can still be pleaded as a breach of business ethics. In *Ungar Electric Tools v. Sid Ungar Co.*,<sup>85</sup> the court affirmed damages and an injunction which prevented the defendant from manufacturing or selling heating units where the defendant had previously occupied a confidential relationship as an employee and director of the plaintiff corporation, and the confidential information was the property of the plaintiff.<sup>86</sup> The court considered it "well established" that a former employee may not use trade secrets learned through his employer to that employer's disadvantage, whether or not such duty is expressed in a contract.<sup>87</sup> The court found that the defendants had "substantially duplicated" the plaintiff's soldering process by utilizing knowledge acquired while employed with the plaintiff. Focusing on the manner in which the secret was obtained, the court stated that the reason it would enjoin the improper use of trade secrets by former employees was "to enforce 'increasingly high standards of fairness or commercial morality in trade.'"<sup>88</sup>

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83. *Id.* at 251, 67 Cal. Rptr. at 23.

84. *Id.* at 255, 67 Cal. Rptr. at 26. See also *Rigging Int'l Maintenance Co. v. Gwin*, 128 Cal. App. 3d 594, 606-07, 180 Cal. Rptr. 451, 458 (1982) ("An employee's skill and knowledge of a particular business constitute the means by which he earns a living, and the courts should not hastily brand them as confidential where this will deprive him of employment opportunities.") (quoting 7 B. WITKIN, SUMMARY OF CALIFORNIA LAW § 88, at 5310 (8th ed. 1974)).

85. 192 Cal. App. 2d 398, 13 Cal. Rptr. 268 (1961), *disapproved in part on other grounds*, *Nichols v. Hast*, 62 Cal. 2d 598, 601, 400 P.2d 763, 765, 43 Cal. Rptr. 641, 643 (1965) (notice of motion for a new trial in *Ungar* was sufficient).

86. *Ungar*, 192 Cal. App. 2d 398, 402, 13 Cal. Rptr. 268, 271.

87. *Id.* at 403, 13 Cal. Rptr. at 272.

88. *Id.* at 404, 13 Cal. Rptr. at 272 (quoting RESTATEMENT OF TORTS ch. 35 introductory note at 540 (1938)).

## E. TRADE SECRETS AND THE COMPUTER EMPLOYEE

1. *The Mobile Employee*

One factual situation that tests the limits of the standard for improper acquisition of a trade secret is the case of the employee who develops a unique process by using knowledge common among those skilled in the trade. In computer-related litigation, establishing facts necessary to prove whether it is the employer or the employee who owns the process presents one of the most difficult challenges an attorney faces. For example, a software programmer considers his or her own knowledge and techniques of computer language to be like a "tool-box," and sees no ethical breach in using that experience to independently develop his or her own programs. As in *Cybertek*,<sup>89</sup> the facts proving "novelty" of the secret may also prove that the secret was not independently developed but was taken improperly. For a judge or jury who lack knowledge of computer language, however, distinguishing proprietary information from common knowledge is a difficult task at best. Attorneys frequently advise clients that, as a planning matter, all projects should have identification assigned as early as possible, including project progress memoranda and notebooks. Once in litigation, expert witnesses, treatises on algorithms, and comparisons of the program in question with the employee's previous work, and with the industry state of the art, can all be persuasive evidence that specific, proprietary information was used in the employee's end product.<sup>90</sup> While employees are free to develop scientific techniques and processes if they do not use the materials or knowledge acquired from employment with the plaintiff, they face a heavy burden of proof in establishing the fact of independent development.<sup>91</sup>

2. *The Innocent Infringer*

The case of the highly mobile employee can lead to situations which test the liability of a person who innocently acquires information that is the trade secret of another. For example, suppose an engineer changes jobs, taking with him a secret process which is the property of his employer. If he then develops the process for a second company, but represents it as his own work, does the first employer have a remedy against the second?

This hypothetical, presented to the survey group, drew widely varied responses. Some attorneys felt that the status of a bona fide purchaser for value could not be conferred in the trade secret context, and

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89. See *supra* text accompanying notes 36-40.

90. See Gilburne & Johnston, *supra* note 31, at 221-27.

91. See *supra* notes 36-40 and accompanying text.

the second employer would therefore be liable. Others felt that the second employer was unjustly enriched, and would be liable on a quantum meruit theory. Still others stated that the first employer would have to prove that the second employer had actual notice of the misappropriation. As one respondent observed, in today's transnational market for computer engineers, the notice requirement presented, "as a practical matter, an insurmountable barrier to recovery." Another view was that the first employer would have to prove an "expectation of benefit" on the part of the second employer. The varied responses to this hypothetical demonstrate the practical problems raised by the quasi-property, quasi-confidential communication basis of trade secrets.<sup>92</sup>

California case law apparently balances equities by not holding a truly innocent infringer liable for any detriment caused to the plaintiff, but liberally construing "notice" based on circumstantial evidence, in keeping with Milgrim's axiom that "one cannot insulate against liability by studiously achieved ignorance."<sup>93</sup> For example, in *Nalley's Inc. v. Corona Processed Foods*,<sup>94</sup> a case involving customer lists, the court inferred that the defendant corporation had notice that it had received trade secrets due to the fact that, after hiring two of the plaintiff's former employees, the defendant began directly soliciting special customers whose identity could be known only through the lists.<sup>95</sup>

In contrast, the Restatement places the burden of guarding the secret on the original owner. A second person who has changed his position in reliance upon the secret, or who has paid value, should be allowed to recoup any losses he has incurred from the first user, or else "enjoy the expectancies of his investment."<sup>96</sup> This result is not widely followed, and would not be reached under the Model Act or the California Act.

The California Act defines "misappropriation" to include actions of a person who knows or has reason to know that his or her knowledge of the trade secret was "derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use."<sup>97</sup> The Commissioners' comment to this section states that the intent of the statute is to "reject the Restatement's literal conferral of absolute immunity upon all third parties who have paid value in good faith for a trade secret misappropriated by another."<sup>98</sup> The comment

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92. See MILGRIM, *supra* note 6, §§ 1.01, 1.08.

93. *Id.* § 5.04[2], at 5-95.

94. 240 Cal. App. 2d 948, 50 Cal. Rptr. 173 (1966).

95. *Id.* at 950, 50 Cal. Rptr. at 175.

96. RESTATEMENT, *supra* note 7, § 758 comment e at 22. See cases cited in MILGRIM, *supra* note 6, § 5.04[2] nn.25-27, at 5-97 to -98.

97. CAL. CIV. CODE § 3426.1(b)(2)(B)(iii) (West Supp. 1985).

98. MODEL ACT, *supra* note 5, § 2 Commissioners' Comment, 14 U.L.A. at 545-46.



then refers to the provisions which authorize the court to order reasonable royalties or "affirmative acts," such as the return of documents.<sup>99</sup>

This wide discretion vested in the trial judge may encourage equitable results in individual cases, but it does not advance a clear rule in this area of sparse law. Several attorneys surveyed expressed the view that the California Act is too broadly written to have a significant impact on delineating proprietary rights in technical property. It does not clarify what factors should influence the court in finding for an employer or an employee. Further, the Act includes only tort theories of recovery, and expressly states that it does not affect actions based on a contract.<sup>100</sup> As the above cases show, the employment contract and the duty of confidentiality implied from it form the basis of the employer's most successful theories for tipping public policy in his favor. Yet these may fall outside the Act, which provides an effective statutory remedy. Thus, plaintiffs can be expected to advance both a case law contract action and a tort suit seeking the exemplary damages and attorney's fees authorized by the Act.<sup>101</sup> The unnecessary complexity that this two-tiered suit will inevitably bring to trade secret litigation is one of the Act's chief limitations.<sup>102</sup>

#### IV. REMEDIES

The Restatement rule did not specify the type of remedies available for the misappropriation of a trade secret, although the comments to section 757 did note that damages, injunction, profit accounting, and surrender of physical things embodying the trade secret should be available if "appropriate under the circumstances."<sup>103</sup> The California Act explicitly provides both injunctive relief and damages when a trade secret has been misappropriated. This clarification of available remedies is one of the most laudable features of the Act. In California, however, as in other jurisdictions, there is no uniform view on the proper measure of damages in a trade secret case.<sup>104</sup> Reported California cases generally focus on the definitional aspects of a trade secret or on the availability of injunctive relief, rather than on the accounting of damages.

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99. *Id.* 14 U.L.A. at 546 (referring to § 2(b),(c)).

100. CAL. CIV. CODE § 3426.7(b) (West Supp. 1985). The code fails to specify whether an action based on a duty of confidentiality arising from employment is a contract or a tort action for the purposes of this statute.

101. See *infra* text accompanying notes 117-21.

102. See MILGRIM, *supra* note 6, vol. 12B, app. A, at A-15 nn.24-25. See also Note, *Trade Secrets and the Skilled Employee in the Computer Industry*, 61 WASH. U.L.Q. 823 (1983).

103. RESTATEMENT, *supra* note 7, § 757 comment e at 10.

104. See *Telex*, 510 F.2d at 930 (stating that "the general law as to the proper measure of damages in a trade secrets case is far from uniform").

Nevertheless, some guidelines do exist concerning damages in California trade secret actions.

#### A. THE PUBLIC POLICY INTERRELATIONSHIP

The interrelationship between the "confidential communication" theory of recovery and the remedies of "lead time" injunctions and damages is illustrated by the result reached in *Winston Research*.<sup>105</sup> There the plaintiff claimed that two of its former employees had developed a precision tape recorder for defendant Winston, using confidential information they had acquired while working on a similar machine for the plaintiff. The district court found that the technology was protectible and had been misappropriated. The court also found that the plaintiff would have disclosed the secrets itself within two years in the ordinary course of business, and that, with that information, Winston could have independently developed the machine shortly thereafter.<sup>106</sup> Winston had sold no machines yet, and had no profits to disgorge. Applying "the rule the California Supreme Court would probably follow,"<sup>107</sup> the district court reasoned that while Winston probably would realize profit from selling its machine after the expiration of the two-year injunction, "these sales and profits . . . would not be tainted by breach of confidence, since Winston could by that time have developed its machine from publicly disclosed information."<sup>108</sup> Based on the confidential communication theory of recovery for trade secret misappropriation,<sup>109</sup> the court specifically limited its award to that use of plaintiff's secret which violated the trust. Therefore, the district court denied the request for damages, but granted an injunction for the period which it concluded would be sufficient both to deny Winston unjust enrichment, and to protect the plaintiff from the wrongful disclosure and use of its trade secrets prior to this public disclosure.<sup>110</sup> This ruling was upheld by the court of appeals.

#### B. DAMAGES

The actual accounting of monetary loss is another issue that has received varied treatment. In a recent Ninth Circuit decision, the court approved a judgment which awarded the plaintiff actual losses plus the misappropriator's unjust enrichment.<sup>111</sup> Another case allowed the same

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105. 350 F.2d at 134.

106. *Id.* at 141.

107. *Id.* at 142.

108. *Id.* at 144.

109. *Id.* at 138.

110. *Id.* at 142.

111. *Tri-Tron Int'l v. Velto*, 525 F.2d 432 (9th Cir. 1975).

items to be counted as both losses and unjust benefits.<sup>112</sup> Punitive damages were sustained in *Components for Research v. Isolation Products*,<sup>113</sup> for the misappropriation of a sophisticated electronics insulation process developed at a cost of \$30,000 by the plaintiff corporation while the defendants were its officers. The court found that "[t]he evidence fully sustains the conclusion that they violated their fiduciary duty to plaintiff" by taking these materials for use in a start-up venture.<sup>114</sup>

The California Act authorizes actual damages and accounting, royalties, and, under certain circumstances, exemplary damages and attorney fees. Actual loss and unjust enrichment may be recovered, but double counting is not allowed.<sup>115</sup> Probably the most significant remedy provided by the Act is the double damage provision for "willful and malicious misappropriation."<sup>116</sup>

An earlier version of the California Act provided for *treble* damages for willful or malicious misappropriation.<sup>117</sup> An attorney who participated as a delegate of the State Bar in the amending process stated that the change to the current wording was motivated by a concern that an either/or standard ("willful or malicious") could produce exemplary awards for conduct that was not oppressive or malicious based on liberal interpretations of "willful."<sup>118</sup> He commented in an interview, "I've seen definitions of willful that would require no more than intentional acts." The different amount of the award was based on the reasoning that twice the actual damages award would result in true treble damages.<sup>119</sup> Whatever the reasoning, the Model Act's exemplary damages provision provides a deterrent against misappropriation that the uncertain common law remedies lacked. Given the relative mobility of today's engineer in the high technology market, such certainty is necessary to offset the ease with which confidential information can be unlawfully obtained.

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112. *Telex Corp.*, 367 F. Supp. at 258.

113. 241 Cal. App. 2d 726, 50 Cal. Rptr. 829 (1966).

114. *Id.* at 729, 50 Cal. Rptr. at 832.

115. CAL. CIV. CODE §§ 3426.3, .4 (West Supp. 1985). See also MODEL ACT, *supra* note 5, § 3 Commissioners' Comment, 14 U.L.A. at 547.

116. CAL. CIV. CODE § 3426.3(c) (West Supp. 1985).

117. A.B. 501, 1983-84 Reg. Sess. (as amended July 6, 1984).

118. See CAL. CIV. CODE § 3294 (West Supp. 1985) (providing for exemplary damages in an action for the breach of an obligation where the defendant has been guilty of "oppression, fraud, or malice").

119. But note that the federal patent damages provision states: "When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to *three times the amount found or assessed.*" 35 U.S.C. § 284 (1982) (emphasis added). The Model Act comments specifically note that its damage provision "follows federal patent law." MODEL ACT, *supra* note 5, § 3 Commissioners' Comment, 14 U.L.A. at 547.

One problem that is not addressed by the exemplary damages provision is the difficulty of proving damages. Future profits from speculative technology are extremely difficult to assess accurately. One commentator has suggested that language be inserted to the effect that exemplary damages may be awarded where the actual damages are small, but the circumstances warrant disproportionate exemplary damages as a meaningful economic deterrent.<sup>120</sup>

### C. BASIS FOR INJUNCTION

Another issue that the California Act reaches is whether an injunction may issue based on a mere threat of misappropriation. The Act provides that "[a]ctual or threatened misappropriation may be enjoined."<sup>121</sup> Prior case law was not as clear on the issue, as the results of the survey reported below indicate.

Under the Code of Civil Procedure, in order for a court to issue an injunction, it must appear that: (1) the plaintiff is entitled to the relief sought in the complaint; (2) the defendant's conduct is continuing and will result in great and irreparable injury to the plaintiff; (3) the acts threatened by the defendant will render the ultimate judgment in favor of the plaintiff meaningless; and (4) monetary compensation is inadequate to remedy the activities complained of, or will be difficult to ascertain.<sup>122</sup> The California courts have interpreted this code section as requiring a balancing of equities of the respective parties. An injunction will be granted if the conduct of the defendant should be regulated or prohibited pending trial, and the trial court concludes that greater injury will result to the plaintiff if a preliminary injunction is denied than to the defendant if it is granted.<sup>123</sup>

The traditional criteria for granting preliminary injunctive relief in federal court are similar: "(1) a strong likelihood of success on the merits, (2) the possibility of irreparable injury to plaintiff if the preliminary relief is not granted, (3) a balance of hardships favoring the plaintiff, and (4) advancement of the public interest (in certain cases)."<sup>124</sup>

Frequently in high technology trade secret cases, an employer claims irreparable injury from a former employee who has utilized priv-

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120. MILGRIM, *supra* note 6, vol. 12B, app. A, at A-12 n.20.

121. CAL. CIV. CODE § 3426.2(a) (West Supp. 1985).

122. See CAL. CIV. PROC. CODE § 526 (West 1979). See also CAL. BUS. & PROF. CODE § 17082 (West 1964) (in actions brought under the California Unfair Practice Act, the plaintiff need not show actual or threatened damage or injury). Disclosure of a trade secret may give rise to an unfair competition action. *Sarkes Tarzian*, 166 F. Supp. at 250.

123. See *People v. Adult World Bookstore*, 108 Cal. App. 3d 404, 408, 166 Cal. Rptr. 519, 521-22 (1980).

124. *Los Angeles Memorial Coliseum Comm'n v. National Football League*, 634 F.2d 1197, 1200-01 (9th Cir. 1980).

ileged information in a new venture. The first issue for the judge to decide is what level of "threat" must be established by the plaintiff to secure an injunction. Here, the judge must balance the policy of maintaining commercial ethics against the competing policy of allowing the employee to use his skills in his chosen trade.<sup>125</sup> Most reported cases do not discuss the propriety of issuing an injunction based solely on the fact that defendant's probable future action will bring about irreparable injury to the plaintiff. Cases such as *Nalley's*,<sup>126</sup> *Winston Research*,<sup>127</sup> and *Diodes*<sup>128</sup> involved former employees who had already committed some act that threatened irreparable injury to the plaintiff. At least one commentator suggests that the term "irreparable injury" adds nothing to, and is synonymous with, the concept of "inadequacy of the legal remedy."<sup>129</sup> To this extent, the standard for irreparable harm would vary with the equities of each case.

A view of the law as it is actually practiced in this area was solicited from the respondents to this author's survey through the following hypothetical question: "Does the law afford a remedy to an employer who has no direct evidence of a specific divulged trade secret, but believes that the nature of the former employee's new business activity is so similar to his former employment tasks that he probably will divulge trade secrets?"

A variety of responses was expected due to the fact-specific nature of the question. By a two to one margin, however, respondents believed that an injunction was possible under the circumstances. Opinions as to the determinative criteria for the judge's decision mirrored the responses to the "third party innocent infringer" question,<sup>130</sup> the new employer's expectation of receiving the information, the notice of misappropriation by the former employee or the new employer, and references to the law of conversion "modified by equity" were all seen as important factors. Those who responded that no injunction should issue at this level of certainty cited the destructive impact of an injunction on a start-up company. "The court should not be used to further anti-competitive strategy," one litigant responded.<sup>131</sup>

While the California Act specifically provides that actual or

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125. See *Winston Research*, 350 F.2d at 137-38.

126. 240 Cal. App. 2d at 948.

127. 350 F.2d at 134.

128. 260 Cal. App. 2d at 244.

129. 6 B. WITKIN, CALIFORNIA PROCEDURE § 254 (3d ed. 1985) (citing RESTATEMENT (SECOND) OF TORTS § 933 reporter's note (1982)).

130. See *supra* text accompanying note 92.

131. See Pooley, *The Trade Secret Lawsuit as an Anticompetitive Tool*, COMPUTER L. REP., May 1983, at 3. The Act's sanctions for bad faith claims should help alleviate this serious problem. See *infra* text accompanying note 148.

threatened misappropriation may be enjoined, the factual determination by the judge of whether an injunction is warranted will probably not be affected by the statute. The conflicting policy considerations, and the potential economic impact of an injunction on the parties, will continue to be the controlling issues.

## V. STATUTE OF LIMITATIONS

The California Act provides a three-year statute of limitations.<sup>132</sup> Before the passage of the Act, California law did not contain a single statute of limitations for the various property, quasi-contractual, and breach of fiduciary duty theories of noncontractual liability utilized under common law. The Restatement of Torts does not suggest a statute of limitations, and its references to both tort and contract theories of recovery for trade secret misappropriation suggest that either could apply.<sup>133</sup> The decision of the Ninth Circuit in *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*<sup>134</sup> has been criticized as misreading California law on the proper statute of limitations, and on the related issue of whether misappropriation of a trade secret is a continuing wrong.<sup>135</sup> Under the Act, "continuing misappropriation constitutes a single claim."<sup>136</sup> This language apparently distinguishes the Act from the rule in *Monolith*, under which the statute of limitations begins to run on the date of the initial misappropriation despite continuing use of the secrets. Another commentator suggests that the language of the Act may operate to allow a plaintiff, in an action timely brought, to recover for all damages from the first act of misappropriation.<sup>137</sup>

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132. "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." CAL. CIV. CODE § 3426.6 (West Supp. 1985).

133. See RESTATEMENT, *supra* note 7, § 757 comment a at 4, comment j at 13 (contract theory); *Id.* comment e at 10, comment h at 12 (tort theory). See also Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 306-07 (1980).

134. 407 F.2d 288 (9th Cir. 1969) (stating that the cause of action for misappropriation of confidential business information arises only once, and rejecting *Monolith's* contention that the statute of limitations did not bar recovery because the action was upon a continuing tort).

135. *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 426 (E.D. Pa. 1980). See also MILGRIM, *supra* note 6, § 7.04[2], at 7-44; Klitzke, *supra* note 133, at 308-09.

136. CAL. CIV. CODE § 3426.6. (West Supp. 1985).

137. See MILGRIM, *supra* note 6, vol. 12B, at A-14 n.23 (emphasis in original). See generally Annot., 79 A.L.R. 3d 820 (1977) (reviewing cases which have considered when the statute of limitations begins to run against an action to recover for the wrongful appropriation of literary property or idea).

## VI. PROCEDURAL CONSIDERATIONS

## A. CHOICE OF FORUM

One section of this author's survey polled litigators' views on choice of forum. Over half of those surveyed preferred to litigate trade secret cases in federal court when possible, by joinder of federal question claims such as copyright or patent infringement,<sup>138</sup> by removal,<sup>139</sup> or through diversity jurisdiction.<sup>140</sup> Reasons cited for this strong preference included the perception that the federal bench is "more knowledgeable" in the general area of intellectual property. The speed of the federal court system was also important to litigators representing plaintiffs, who felt that they could get an injunction more quickly in this forum. The survey indicated that many attorneys who preferred state court represented defendants accused of misappropriating their former employers' trade secrets. These attorneys expressed the general view that state court juries were capable of great sympathy for the "underdog" employee against the corporation—"the trial court version of the public policy solicitous of employee rights expressed in appellate decisions," as one attorney stated. Further, as a partner at a large Los Angeles firm which frequently represents corporations lamented, "If copyright or patent issues are involved, some state court judges lose their nerve," and will not award relief in cases based on technical issues of first impression. Greater exposure to these technical cases will undoubtedly improve the state bench, as was evidenced by the generally favorable review of the Santa Clara County bench, which routinely hears high technology trade secret cases.

Extra-judicial arbitration of these claims has been discussed as an alternative which would avoid the necessity of educating a lay jury or judge about the technology involved.<sup>141</sup> Litigants surveyed were almost unanimous, however, in rejecting this approach. The chief limitation of arbitration is that a preliminary injunction or TRO—the heart of a trade secret case—is not a possible remedy.<sup>142</sup> In addition, severe limits on discovery and protective orders were cited as fatal procedural flaws.

## B. QUALITY OF JUDGES

The survey asked respondents to rate judges' competence to "fairly

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138. See 28 U.S.C. § 1338 (1982).

139. See *id.* § 1441.

140. See *id.* § 1332.

141. See Zinman, *Computer Arbitration: The Program of the Future*, 10 RUTGERS COMPUTER & TECH. L.J. 103 (1984).

142. See Dorr & Eagles, *Resolving Claims to Ownership of Software and Computer-Stored Data—The Importance of Temporary Restraining Orders and Preliminary Injunctions*, 5 COMPUTER/L. J. 1 (1984).

adjudicate issues of computer technology trade secret misappropriation." Most respondents said that judges at both the state and federal level sincerely try to fairly control the litigation, but that many simply lack the expertise or time to become familiar with the technology involved. Given the very general definitions under the current law, this is certainly understandable. A judge faced with adjudicating the propriety of translating a computer program from PL/1 to COBOL will have difficulty applying the law without an understanding of machine languages.

One suggestion to alleviate this technical education gap was the appointment of general assignment or rotation judges who would hear all the highly technical cases, thereby gaining experience in the application of trade secret law to unfamiliar technology. A system which automatically assigned one judge to hear all pretrial and trial arguments in computer trade secret cases would be an improvement over the present California state court system, in which litigants must sometimes reeducate different judges at various stages of the proceedings.<sup>143</sup> Another suggestion was the regular use of special masters with broad powers to control discovery and narrow the issues. In fact, some patent and general courts currently use these factfinding experts. The practical difficulty of this approach, however, is finding people who are qualified in the often esoteric technology involved, who want to spend time reviewing the trial, and to whom the parties would grant access to necessary information. Parties to the lawsuit fear that anyone who could offer an educated opinion as to the similarity of the plaintiff's and defendant's technology could use the information in his or her own employment. Even so, the use of the special master to assist the court's factfinding is an idea that most litigants agreed could solve many of the basic technology-related limitations of trade secret litigation.

A specific complaint about judges that does not turn on their non-engineering background is that many of them do not understand the importance of immediate injunctive relief in a trade secret case. "Judges grant too little time on ex parte TROs and injunctions. Courts do not realize that the whole case turns on this," one Palo Alto attorney responded.<sup>144</sup> The fact that the power to enjoin "threatened misappropriation" is explicitly provided in the California Act should educate judges to this emphasis in trade secret litigation.

### C. DISCOVERY ABUSES

Respondents were asked to name the chief procedural limitation in trade secret litigation. The two most frequent answers were abusive

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143. See CAL. R. CT. 213 (effective Jan. 1, 1985) (presiding judge may, on noticed motion of a party or on the court's own motion, assign any case to one judge).

144. See Dorr & Eagles, *supra* note 142.



discovery practices and inevitable disclosure of the discovered technology.

1. *Failure to Specify the Trade Secret*

The plaintiff in a trade secret case must prove by a preponderance of the evidence that the secret was wrongfully obtained and utilized by the defendant. The evidentiary burden of proving misappropriation with convincing specificity is often framed against defendants and defendants' witnesses who deny all wrongdoing.<sup>145</sup> In this setting, the discovery process is crucial to the plaintiff's case. Plaintiff's counsel seeks to determine what technical information was involved in defendant's business, the chronological history of the technology, and what time, effort, and money were invested in developing it.

While plaintiffs often charge that defendants refuse to document the development of their allegedly independently developed technology, litigants who frequently defend trade secret suits complain of "fishing expeditions," where former employers draft broad interrogatories to find any newly developed technology on which to base the suit, or perhaps even to track the development of competitive technology. Typically, the defendant complains that the plaintiff has failed to identify precisely the technology allegedly being infringed. A partner in a large San Francisco firm responded that "the failure to require the plaintiff to identify early in the litigation precisely what trade secrets are at issue" is a problem significant enough to control his choice of forum. "As a defendant," he wrote, "I prefer to litigate in federal court because a federal judge is much more likely to either grant summary judgment or throw a plaintiff's case out for failure to respond to discovery requests."

While the passage of the California Act does not technically extend the court's authority to limit discovery abuse, it does highlight the discretion available to a judge in a trade secret case. Generally, sanctions are available when frivolous objections are made to a motion for further answers,<sup>146</sup> or when evasive, bad faith answers are given, constituting a willful refusal to answer.<sup>147</sup> Of course, the Code of Civil Procedure compels all plaintiffs to state "the facts constituting the cause of action, in . . . concise language" before commencing discovery.<sup>148</sup> Unfortunately, the California Act does not provide needed definitions of its terms, making it possible for the plaintiff to avoid identifying the allegedly misappropriated secret with particularity. Both the California Act and the Model Act do, however, provide for an award of attorney's fees

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145. See Pooley, *supra* note 131, at 11 n.10.

146. See Frey v. Superior Ct., 237 Cal. App. 2d 201, 46 Cal. Rptr. 747 (1965).

147. See Stein v. Hassen, 34 Cal. App. 3d 294, 109 Cal. Rptr. 321 (1973).

148. CAL. CODE CIV. PROC. § 425.10(a) (West Supp. 1985).

to the prevailing party, if a claim of misappropriation is clearly made or resisted in bad faith.<sup>149</sup> The Commissioners' Comment states that this section of the Model Act is intended to apply to "specious claims of misappropriation, to specious efforts by a misappropriator to terminate injunctive relief, and to willful and malicious misappropriation."<sup>150</sup> Many attorneys surveyed felt that this section of the Act is its most significant contribution to trade secret litigation.

## 2. *Disclosure of Trade Secrets*

Another complaint regarding discovery practices is the lack of effective procedures for obtaining and enforcing protective orders for trade secrets. The information at issue is obviously most sensitive, yet procedures for protecting that information are widely viewed as inadequate. Not only can disclosure of trade secrets cause irreparable harm to a small high technology company, it may also jeopardize the information's "secret" status, and thus the lawsuit itself.<sup>151</sup>

Protective orders limiting access to trade secrets during discovery are available under the California Code of Civil Procedure<sup>152</sup> and under the Federal Rules of Civil Procedure.<sup>153</sup> Some respondents considered it a challenge to obtain a protective order, since it is available only if "a judge is willing to protect information proffered in a public proceeding," as one attorney responded. This involves a consideration of press rights, possible SEC inquiries, and Freedom of Information Act requests.<sup>154</sup> Other protective measures available to litigants include allowing "review but no copying" of material by counsel, negotiating a stipulated protective or gag order, or permitting "attorneys only" review of material. The obvious practical difficulties in successfully negotiating and working within these measures limit their present use. Most litigants agreed, however, that the main obstacle is not obtaining a protective or-

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149. CAL. CIV. CODE § 3426.4 (West Supp. 1985); MODEL ACT, *supra* note 5, at § 4, 14 U.L.A. at 548.

150. MODEL ACT, *supra* note 5, § 4 Commissioners' Comment, 14 U.L.A. at 548.

151. See Annot., 58 A.L.R.3d 1318 (1974); Annot., 69 A.L.R. FED. 892 (1984).

152. CAL. CODE CIV. PROC. § 2019(b)(1) (West 1983). There is no reported California case of a protective order issuing for a trade secret. For procedure regarding obtaining and enforcing protective orders, see 4D R. GROBMAN, CALIFORNIA FORMS OF PLEADING AND PRACTICE IV-12 (1985).

153. FED. R. CIV. P. 26(c)(7).

154. See *Standard & Poor's Corp. v. Commodity Exch.*, 541 F. Supp. 1273 (S.D.N.Y. 1982) (denying special press rights to attend hearings disclosing trade secrets). See also Annot., 69 A.L.R. FED. 892 (1984). There is mounting public pressure to increase access to industrial scientific data in proceedings involving industries which potentially affect public health. See Meyerhoff, *Trade Secrets Hold Chemical Industry in Toxic Shroud*, L.A. Times, Feb. 3, 1985, pt. IV, at 3, col. 1.

der for commercially sensitive information, but rather enforcing the order.

Once obtained, the protective order provides only limited protection of the information involved. Most litigants agreed with a Silicon Valley attorney's response that "a negotiated contract between capable counsel, closely controlled in its implementation" could effectively protect trade secrets. There is, however, a great distrust of court-ordered protection. Disclosure of the technical processes or inventions to the adverse party—a competitive business—could be the most damaging disclosure possible. "Protective orders are not adequate to protect trade secrets during discovery. However, the courts consider them to be adequate protection, and you cannot convince a judge that the other side will violate a protective order," responded a San Francisco attorney.

The California Act provides that "[i]n an action under this title, 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."<sup>155</sup> As with the sections regarding injunctions and bad faith claims and responses, the Act does not create any procedural devices previously unavailable for controlling trade secret litigation. By making explicit the actions a judge may take, however, the Act creates a statutory scheme for litigants which highlights this serious trade secret litigation issue for judges. As the Commissioners suggest, "If reasonable assurances of maintenance of secrecy could not be given, meritorious trade secret litigation would be chilled."<sup>156</sup>

## CONCLUSION

The scope of trade secret protection in California appears to have broadened with the passage of the Uniform Trade Secrets Act. In addition to other improvements over prior decisional law, the Act relaxes definitional requirements for trade secret protection, and helps to prevent discovery abuses. Both of these improvements clarify issues that turn on the technical specifications of the disputed process or information. This, in turn, increases the chance that the case will be decided on other issues. Two issues prominent in prior decisional law are whether the mobile employee should be restrained, and the related question of what the employee's duty is to his or her master. Emphasizing this focus addresses the source of many critical failings of current high technology property litigation: the wide gap in education and perspectives

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155. CAL. CIV. CODE § 3426.5 (West Supp. 1985).

156. MODEL ACT, *supra* note 5, § 5 Commissioners' Comment, 14 U.L.A. at 548.

between the parties who developed the information and the judge or jury who must determine whether the property should be protected. California's emphasis on policy questions arising out of the parties' relationship may be the most practical way to narrow this gap under present modes of intellectual property protection.

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