



# LITIGATION NEWS

**VSB**

PUBLISHED BY THE LITIGATION SECTION OF THE VIRGINIA STATE BAR FOR ITS MEMBERS.

VOLUME VIII NUMBER 3

SUMMER 2001

## The Litigation Settlement: When Is a Deal a Deal?

by Paul M. Black

**Compromise**, *n.* Such an adjustment of conflicting interests as gives each adversary the satisfaction of thinking he has got what he ought not to have, and is deprived of nothing except what was justly his due.

Ambrose Bierce, *The Devil's Dictionary* (1911).

**H**ow often has this happened? Two parties in hotly contested litigation agree prior to trial to compromise their dispute. Settlement terms are reached, and the court is so advised. However, due to the complexity of the settlement, the location of the parties or simply lack of time, the settlement documents are not prepared and executed before the case is dismissed or the trial date released. Then, through "buyer's remorse" or otherwise, one of the parties decides he wants out of the settlement. Even worse, he says his attorney had no authority to settle or dismiss his case. What happens next? Because there was no executed agreement, is there a settlement? If there was a settlement, and the settlement was breached, what can you enforce? The old deal? The new deal? Did the attorney have the authority to settle or dismiss the case in the first place? The Virginia Supreme Court has recently shed light on some of these issues.

As a general proposition, Virginia law "favors compromise and settlement of disputed claims."<sup>1</sup> However, Virginia law also says that the essential elements of a valid contract must exist to support a binding settlement, and ultimate resolution of the

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question whether a binding settlement was made turns on the parties' intent, as objectively manifested.<sup>2</sup> Case law shows resolving this issue is often easier said than done.

In *Golding v. Floyd*,<sup>3</sup> the Virginia Supreme Court recently addressed the failed sale of a business that ended up in litigation and, subsequently, mediation. At the conclusion of the mediation, the parties signed a handwritten document entitled "Settlement Agreement Memorandum" which provided in pertinent part as follows: "This memo of settlement agreement contains the highlights of the terms and conditions and the parties agree to execute [sic] is subject to execution of a formal agreement consistent with the terms herein."<sup>4</sup> Thereafter, further negotiations failed, and a formal agreement was never executed. One of the defendants filed a motion to confirm the settlement agreement and to dismiss the action. In response, the adverse party moved for

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## Letter from the Chair

Over the past year, between the determination of death row inmate Earl Washington's innocence, the Timothy McVeigh case, and the controversy regarding Virginia's 21-day rule, capital punishment has received a lot of media attention. During this time even some of Virginia's most ardent conservatives have called for a review and/or moratorium on the death penalty in the Commonwealth.

The death penalty, however, remains the law of Virginia and, according to opinion polls, has broad public support. If capital punishment is unlikely to go away, the question arises, does Virginia need to review the system it has in place? For that matter, will federal legislation such as the Innocence Protection Act lay the groundwork for added safeguards in state and federal death cases?

I confess to being troubled by several aspects of capital punishment litigation. First, death penalty appeals are fraught with dangerous traps, which too often result in findings that trials were flawed, but that life-saving appeal points were waived. These rules contribute to unusually low reversal rates in death penalty litigation arising in the Commonwealth.

In recent years the "reliability" of death sentences has also grown increasingly suspect. Nationally, an "epidemic" of death row exonerations has occurred as DNA testing has become more widely available. Also troubling are statistics that suggest that minorities receive a disproportionately high percentage of death sentences. Notably, in Virginia the likelihood of receiving the death penalty is astronomically higher if the killer's victim is white.

I write not to advocate for or against the death penalty, but to point out that there are important issues facing Virginia's litigators today. While the death penalty is currently garnering media coverage, other "legal hot topics" abound, including: the future of multidisciplinary practice, the rising call for more "open" disciplinary procedures, and the inadequacy of court appointed criminal fee rates, to name a few. It is the Litigation Section's job to represent, and meet the needs of, its section members. To do our job successfully, we need to know how section

members feel about these and other controversial topics. The Litigation Section's Board also wants to learn more about the demographics of our membership. To assist us, we ask that you take a moment to fill out the survey that appears in this newsletter and to fax your responses

to us at (804) 775-0501.

Our newsletter always contains a full listing of the Section's Board members and how to contact them. Call, write or e-mail us and let us know what issues are important to you. Do you want attorney disciplinary hearings to be more public? Do you favor expansion of multidisciplinary practice? We want to represent you well, but we need your input to do so.

I am grateful for the opportunity to chair the Litigation Section this year. I hope to live up to the high standards set by outgoing Chair Glenn Pulley, to whom we all owe thanks for a job well done. I look forward to hearing from you.

Frank K. Friedman  
Chair, Litigation Section

**If capital punishment is unlikely to go away, the question arises, does Virginia need to review the system it has in place?**

# An Overview of the Virginia Uniform Trade Secrets Act<sup>1</sup>

by Milton E. Babirak, Jr.

*"To promise not to do a thing is the surest way in the world to make a body want to go and do that very thing."*<sup>2</sup>

The Uniform Trade Secrets Act (hereinafter "Uniform Act")<sup>3</sup> originally was proposed in the United States by the National Conference of Commissioners on Uniform State Laws over twenty years ago and now has been enacted in 42 of the individual states. The Virginia Uniform Trade Secrets Act (hereinafter "Virginia Act")<sup>4</sup> was enacted in Virginia, with some modifications to the Uniform Act, and became effective on July 1, 1986. In light of this brief<sup>5</sup> historical perspective and the seemingly ever-increasing application of the Virginia Act in contemporary litigation, it is appropriate at this time to review and partially assess the Virginia Act. The purpose of this article is to: (1) critically summarize the significant provisions of the Virginia Act, including a discussion of a few unusual and controversial features of the Virginia Act; and (2) review some of the significant published case law in Virginia concerning the Virginia Act. This article does not cover the 1996 federal Economic Espionage Act<sup>6</sup> nor the very interesting "inevitable disclosure" doctrine.<sup>7</sup>

## The Virginia Uniform Trade Secrets Act

### *Definition of Misappropriation*

The initial language of Virginia's Act, which defines the misappropriation of a trade secret, exactly follows Section 1 of the Uniform Act. Section 59.1-336 of the Code of Virginia defines misappropriation as the "...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 the disclosure or use of a trade secret of another without express or implied consent..." There is nothing remarkable in defining the misappropriation of a trade secret of another to mean a disclosure or use of a trade secret of another. In fact, both the Virginia Act and

the Uniform Act also define misappropriation by improper means to include "...theft, bribery, misrepresentation, breach of a duty or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." However, it is interesting that both Acts also define misappropriation as the mere acquisition of a trade secret. In so doing, the drafters of the Uniform Act and the Virginia General Assembly recognized a reality. The United States District Court for the Eastern District of Virginia, Alexandria Division, has addressed whether the mere acquisition of a trade secret of another by improper means is a misappropriation under the Virginia Act. In *Smithfield Ham and Products Company, Inc. v. Portion Pac, Inc.*,<sup>8</sup> the Court held that mere acquisition is sufficient.

The Virginia Act continues its definition of misappropriation to include the 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 or who at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret was:

1. Derived from or through a person who had used improper means to acquire it;<sup>9</sup>
2. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;<sup>10</sup>
3. Derived from or through a person who had a duty to the person seeking relief to maintain its secrecy or limit its use;<sup>11</sup> or
4. Acquired by accident or mistake.

A common example of the misappropriation of a trade secret is when an employee, who properly obtains a trade secret during the course of his employment and subsequently departs from such employment, uses the trade secret for his own benefit.

The above statutory provision concerning the acquisition of a trade secret by accident or mistake is interesting and problematic because it required the General Assembly to balance the rights of the trade secret owner with the rights of another who innocently obtained the trade secret by accident or mistake. In such a case, the Virginia definition of misappropriation prohibits the use or disclosure 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 his knowledge of the trade secret was acquired by mistake or accident. *A priori*, if a person discovered that his acquisition of a trade secret was

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## Trade Secrets

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accidental or mistaken after he disclosed or used it, there is no misappropriation of a trade secret.<sup>12</sup>

There does not appear to have been much litigation concerning the accidental or mistaken acquisition of trade secrets and, in fact, there does not appear to be any such case reported in Virginia. However, this provision of the Virginia Act may create an unintended opportunity for misappropriators that can be problematic for a trade secret owner. A misappropriator can falsely argue that he did not use improper means to acquire a trade secret (for example, that he found it or obtained it "innocently" from another) and it was not until after he used it that he discovered that he had acquired the trade secret by accident or mistake. By so doing, the misappropriator may get off the hook because it will be difficult for the trade secret owner to contest the misappropriator's allegation that he did not know he had acquired a trade secret by mistake or accident until after he used or disclosed it.

### Definition of "Trade Secret"

"[A]n exact definition of a trade secret is not possible."<sup>13</sup> In recognition of this difficulty, the Uniform and Virginia Act's definition of a trade secret is not specific. In Section 59.1-336 of the Virginia Act, a trade secret is defined as "information, including but not limited to, a formula, pattern, compilation, program, device, method, technique or process."<sup>14</sup> This definition does not cover only high tech secrets. In fact, the Virginia Act is frequently used to protect "low tech" secrets. Some common examples of low tech trade secrets that appear in published cases include: customer lists, business leads, financial information, marketing strategies, sales techniques and methods of conducting business.<sup>15</sup> In patent law, the definition of a trade secret does not require that the information exist in some tangible format. In fact, the information need not be more than an idea, theory or concept. Further, this definition of a trade secret does not require that the trade secret be novel.<sup>16</sup> Several courts have held that novelty is not a requirement, but that maintaining its secrecy is necessary.<sup>17</sup> In addition, and also unlike patent law, the definition does not impose any limit on the length of time that a trade secret can be protected. Although patents may be protected by statute for twenty years, trade secrets may be protected as long as their secrecy is maintained, they are not generally known and they are not readily ascertainable. The Virginia Act and the

Uniform Act do not require a profit motive for the misappropriation.<sup>18</sup> Significantly under the Virginia Act and the Uniform Act, the right to a trade secret need not be exclusive. Two entities, which concurrently but independently develop the same trade secret, may both acquire rights to it.

### Requirement that Trade Secret Not Be Generally Known

The Virginia Act and Uniform Act definition of a trade secret further requires that the trade secret not be generally known. This does not mean not generally known to the public, but instead means not generally known to those in the relevant industry or trade.<sup>19</sup> In trade secrets cases, the requirement that the information not be generally known is often a vigorously contested issue and it can be a close factual issue for a judge or jury to decide. For example, consider whether a particular method of selling a product or service is or is not generally known. A company may argue that it has developed a method of selling a product or service on which it has spent considerable money, time and effort to develop its particular sales method, trained its employees to use it and maintained the secrecy of the method. On the other hand, a departing employee of that company who wants to use the method for her own benefit may argue that the method is most certainly generally known because you can simply read a book at your local public library on sales or marketing to find information on almost any sales method. Further, a departing employee may also contend that the sales method is generally known because several of the competitors of the company use the same or a similar method. This scenario is not unlikely in a mature competitive industry.

Perhaps one of the country's more interesting trade secret cases concerning the meaning of "not generally known" is the Virginia case of *Religious Technology Center v. Lerma*,<sup>20</sup> involving the Church of Scientology. The U.S. District Court for the Eastern District of Virginia held that Church documents were not trade secrets because they were in an open court file available to the public and they were posted on the Internet.

In the more recent case, *Hoechst Diafoil Co. v. Nan Ya Plastics Corp.*,<sup>21</sup> the U.S. Court of Appeals for the Fourth Circuit took a different position with regard to trade secrets filed in an open court file but not posted on the Internet. In that case, a party had filed documents, which it alleged were trade secrets, in another court proceeding. The documents had been in the open court file for several months. The Fourth

