The Law of Trade Secrets

Swapna Sundar

What is a Trade Secret?

- Trade secrets are intellectual property (IP) rights on confidential information which may be sold or licensed.
- **What qualifies as a trade secret?** In general, to qualify as a trade secret, the information must be:
  - **commercially valuable** because it is secret,
  - be known only to a **limited group of persons**, and
  - be subject to **reasonable steps taken** by the rightful holder of the information to keep it secret, including the use of confidentiality agreements for business partners and employees.

What is a trade secret?

UNITED STATES PATENT AND TRADEMARK OFFICE

Information that

- has either actual or potential **independent economic value** by virtue of **not being generally known**,
- **has value to others** who cannot legitimately obtain the information, and
- is subject to reasonable **efforts to maintain its secrecy**.

All three elements are required; if any element ceases to exist, then the trade secret will also cease to exist. Otherwise there is **no limit** on the amount of time a trade secret is protected.

A Trade Secret is defined as

Any information

- with commercial value
- which is not available in the public domain and
- the disclosure of which would cause significant harm to the owner

Delhi High Court, Burlington Home Shopping Pvt. vs Rajnish Chibber on 20 October, 1995

Citations: 1995 IVAD Delhi 732, 61 (1995) DLT 6, 1995 (35) DRJ 335, (1996) 113 PLR 31

Facts

- Plaintiff is a mail order service company – publishes catalogues which are posted to the select list of the plaintiff's clients.
- The plaintiff has developed a list of clientele/customers database over a period of three years - an expensive and gradual process of compilation. The database was a guarded secret.
- Defendant was an employee – nature of duties had nothing to do with compilation & development of the database.
- On severing relationship with the Plaintiff, the defendant established himself as a competitor by entering into mail order shopping business, with a copy of the database.
- A court appointed commissioner found word-by-word slavish imitation. Prima facie case of copyright infringement.

What can be protected as Trade Secrets

- **Confidential Business Information** which provides **an enterprise** a **competitive edge** and **is unknown to others** may be protected as a trade secret. Trade secrets encompass
  - **Technical information**, such as information concerning manufacturing processes, experimental research data, software algorithms and c
  - **Commercial information** such as distribution methods, list of suppliers and clients, and advertising strategies.
- A trade secret may be also made up of a combination of elements, each of which by itself is in the public domain, but where the combination, which is kept secret, provides a competitive advantage.
- Other examples of information that may be protected by trade secrets include financial information, formulas and recipes and source codes.

Legal protection for Trade Secrets

- Depending on the legal regime:
    a. General concept of protection against **unfair competition** or
    b. Based on **specific provisions** or case law on the protection of **confidential information**.
- Since trade secrets are not made public, unlike patents, they do not provide “defensive” protection, as being prior art.
- While a final determination of whether trade secret protection is violated or not depends on the circumstances of each individual case.
- Unfair practices in respect of secret information include:
    - **breach of contract**
    - **breach of confidence** and
    - **industrial or commercial espionage**.
- A trade secret owner cannot stop others from using the same technical or commercial information, or protecting it as a patent, if they acquired or developed such information independently by
    - their own R&D,
    - reverse engineering or
    - marketing analysis, etc.

Protection of trade secrets

Economic Espionage Act of 1996 criminalizes trade theft on two grounds:

- theft of a trade secret "intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent."
- theft of trade secrets "that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret." These crimes are prosecuted by the Department of Justice and are punishable by imprisonment and/or fines.

Defend Trade Secrets Act of 2016 (DTSA) amended the Economic Espionage Act to establish a private civil cause of action for the misappropriation of a trade secret. This cause of action provides trade secret owners with a uniform, reliable, and predictable way to protect their valuable trade secrets anywhere in the country. The DTSA does not preempt existing state trade secret law, thus giving trade secret owners the option of state or federal venues.

How are Trade Secrets useful

- Patent protection eliminates the need to maintain secrecy
- Patents expire; complementary information can be kept secret
- Profitability; competitive advantage; core business technology
- The "inevitable disclosure" doctrine. The doctrine allows a court to enjoin a former employee from working for a competitor because the nature of the new job and the knowledge of the employee makes it inevitable that the trade secrets of the former employer will be disclosed.

- Financial, business, scientific, technical, economic, or engineering information, incl patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing

How are Trade Secrets protected?

- It is the responsibility of businesses to identify and secure their own trade secrets.
- The owner should have taken reasonable measures to keep such information secret.
- Owner is the person or entity in whom rightful legal or equitable title to, or license in, the trade secret reposes.
- Trade secrets are protected without registration. A trade secret can be protected for an unlimited period of time, unless it is discovered or legally acquired by others and disclosed to the public.

Measures for protecting trade secrets

- **Non-disclosure agreement (NDA):** employees and business partners should sign a non-disclosure agreement that prevent them from disclosing a company's confidential information.
- **Non-compete agreement (NCA):** employers should ask employees, contractors and consultants to sign a non-compete agreement to prevent them from entering in competition when their employment/service agreement ends.
- **Robust IT security infrastructure**
- **Controlling the accessibility** of important documents

Securing Trade Secrets – on Priority

- Creating agreements, policies, procedures and records to establish and document protection;
- Establishing physical and electronic security and confidentiality measures;
- Assessing risks to identify and prioritize trade secret vulnerabilities;
- Establishing due diligence and ongoing third-party management procedures;
- Instituting an information protection team;
- Training and capacity building with employees and third parties;
- Monitoring and measuring corporate efforts;
- Taking corrective actions and continually improving policies and procedures.

Section 27 of Indian contract Act, 1972 -

"Agreement in restraint of trade, void – Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.

- Exception 1.- Saving of agreement not to carry on business of which goodwill is sold.-One who sells the goodwill of a business may agree with the buyer to refrain from carrying on a similar business, within specified local limits, so long as the buyer, or any person deriving title to the goodwill from him, carries on a like business therein, provided that such limits appear to the Court reasonable, regard being had to the nature of the business."
- BLB institute of Fncl markets. V Ramkumar Jha (2008) – Jha was appointed as faculty member to develop study material and teaching methodology. After resigning, in 2008 he indicated that he was joining another fncl edn inst, contrary to NCA dated 2006 and breach of NCA undertaking of 2007. Period of agreement 5 years.
- Percept D'Mark v Zaheer Khan – 2006 SCC – held restrictive covenants beyond term of agreement are void.

Bombay Dyeing V Mehar Karan Singh 2008

- The Defendant was the whole time Director of the Plaintiff-Company appointed under the Agreement of employment dated 22.8.2005 – NCA & NDA, for the period 24.7.2004 to 23.7.2009.
- When his services were terminated, he forwarded to the competitor a tendering process, encapsulated in an ERP oracle system. He further stated that he would discuss the programme with the officers.
- He also poached employees
- Not stricto sensu Trade Secrets.

PatientPoint Network Solutions, LLC v. Contextmedia, Inc., District Court for the Southern District of Ohio – 2014

Plaintiff hired Hayes as Executive VP, Business Development Specialist in May 2012. Before PPN, Hayes worked for WebMD and developed a spreadsheet template – Opportunity Tracking Report (OPR), that he took with him to Healthcare Regional Marketing, and then to PPN. He wanted to move out. July 2013, CFO asked Hayes to sign an NDA & NCA. In Aug. 2013, he was terminated without reason. When he wanted his medical premium payment, he was asked to sign a separation agreement with NCA, NDA and Non-solicitation. Subsequently, there was another version of the sepn agreement.

At no point was he asked to return the laptop or destroy PPN docs. He used OPR with some of PPN's clients for his marketing with Context, however, the sponsor brands that worked were through his personal contacts. Irreparable harm – ***Abney V Amgen 2006*** – must show actual and imminent harm; ***Overstreet v. Lexington-Fayette Union County*** – cannot be fully compensated by monetary damages.

Schalk v. The State of Texas, Court of Criminal Appeals of Texas, En Banc, 1991

Schalk and Leonard were employees of Texas Instruments (TI) and were convicted of theft of trade secrets. Both men had doctoral degrees and specialized in the area of speech research at TI. Schalk resigned his position with TI in April 1983 to join a newly developed company, Voice Control Systems (VCS). In February 1985, Leonard and several TI employees eventually joined VCS.

In April 1985 Sam Kuzbary, a former TI employee at VCS, noticed some information proprietary to TI stored in the memory of the computer he was using. Kuzbary contacted TI and agreed to serve as an "informant". He then searched the premises of VCS and photographed materials which he recognized. A TI internal investigation revealed that a few hours prior to departure, each appellant, utilizing TI computers, copied the entire contents of the directories respectively assigned to them.

- TI failed to take "measures to prevent [the information] from becoming available to persons other than those selected by the owner.“
- Considerable disclosure of speech research information, "academic environment" of the lab as encouraging the sharing of information, rather than maintaining secrecy.
- Programs were not listed in the TI register of trade secrets & TI was lax in implementing SOPs for notifying employees of trade secrets.
- Measures – NDA, exit interviews, plant security, ID badges for authorized access, security guards and CCTV, restricted access to speech lab, print outs and hard copies protected, night-time security checks, computer passwords and access codes, special Trade secret registry for speech processing.
- Whether negates TS protn - disclosure for ad/promotion (Dickerman v Tiverton, 1984), whether use of software by a few customers (J&K Computer systems v Parris, 1982), seminars and conferences – authorized dislcosure

MBL (USA) corp. v Diekman, Appellate Court of Illinois, 1983

- MBL asserted that its TS and prop info was being misappropriated and disclosed to 3rd parties by defendant in violation of NDA and Defdt's fiduciary duty.

Chemi-Flex divn of plaintiff had developed a molding process for manufacturing urethane belts Defdt helped the development. Diekman was a former employee and had signed an employer-employee agreement with NDA & NCA when he first joined. Rehired in 1979, he refused to sign agreement. Following his 2nd tenure defdt formed two companies and began to design centrifugal molding machines and designs for other belt-producing equipment. Failure to insist on NDA.

Plaintiffs employees were not aware of TS and confidential info. Only some employees signed NDA. Plans, designs and customer data were not locked up; customer names and orders were not marked confidential; process formulas and machines were shown, without restriction, to employees, outside consultants and others; no licensing or confidentiality agreements were signed by outside parties with access to the process and formulas; and the entire process, formula and machinery were open to a team of engineers from a stockholder corporation of plaintiff. Customer names and specifications were on orders and requisitions located in various places in the plant. The use of plaintiffs process was known in the industry, although the process is not specifically discussed in any industry literature.

- Employee may not take confidential info or particularized plans or processes; however, he can take general skills and knowledge acquired during former employment (Packard instruments v. Reich 1980).

John Richard Brady and Ors V. Chemical Process Equipments Pvt. Ltd. and Anr (1987) – Delhi High Court

In 1972, Brady developed the idea of FPU for growing grass for livestock in a compact unit irrespective of external climatic conditions. He started a phased program to manufacture FPU in India for both domestic and export sales, and sought quotations from the defendant for the supply of thermal panels.

To enable the Defendants to send their quotations, all the technical material, detailed know-how, drawings and specifications were shared under NDA, wherein defendants agreed that during the pendency of the agreement, defndt would not manufacture 3rd party or disclose the specs. As Defdt was unable to supply the component, no order was placed with them. Defdt visited Pltf's FPU locations. Subsequently, pltf learned that the defdt had built a similar FPU.

Pltf alleged that the defdt had committed a breach of confidence by wrongfully converting and misappropriating know how, information, drawings, designs, and specifications of the plaintiff disclosed under the confidentiality agreement. Not copyright, but TS.

'Spring-Board Theory' – Defdt could not provide justification for independent devt of the FPU.

Obligations and Responsibilities

- Before employment – background check, interview, NDA
- During employment – SOPs, access measures, identify and inform TS
- After employment – exit interview, clearing particulars and details by changing departments, return of documents and laptops, termination of access, undertaking of obligations to maintain confidentiality
- Pollack v skinsmart – professional client list. Shawe and Badawi had lists of the patients assigned to them in the clinic and reached out to them, earning USD 700,000. General skill and capability v trade secrets and patient lists

Understanding trade secrets further

- Applying Abbot v Norse (1966) factors –
  - Extent of knowledge of info outside the business;
  - extent of knowledge internally;
  - extent of measures taken to guard secrecy;
  - value of information to him and competitors;
  - amount of money spent on developing info;
  - difficulty or ease with which others can acquire or duplicate the info

Forest Laboratory v Pillsbury (1971) –

- Pillsbury purchased the assets of Tidy House Corporation on June 1, 1960.
- The trade secret - a process for packing effervescent sweetener tablets so as to lengthen their shelf life - had been divulged by Forest to Tidy House on a confidential basis.

- No new corporation emerged from consolidation. Not a merger. Tidy House continued its corporate existence.
- No evidence that Pillsbury assumed liabilities and obligations of Tidy. Not successor of Tidy House.
- One person, Dr. Julian Stein stated that he had informed Pillsbury officers.

E. I. du Pont deNemours & Co. v. Christopher - (1970)

- Photographers were hired by an unknown third party to take aerial photographs of new construction at a company's plant. The company subsequently filed suit against the photographers for misappropriation of trade secrets and alleged that the photographers had wrongfully obtained photographs revealing plaintiff's trade secrets, which they then sold to the undisclosed third party.
- Was aerial photography, from whatever altitude, an improper method of discovering trade secrets exposed during construction of a company's plant?
- Proper method of discovering and appropriating trade secrets?

Questions

swapna@ipdome.in

9841282396

www.ipdomeglobal.com