

## UNIT-4

# TRADE SECRETS LAW

### INTRODUCTION:

- The type of information that must be kept confidential in order to retain its competitive advantage is generally called a “Trade Secret”
  
- A trade secret is any information that can be used in the operation of a business or other enterprise that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.
  
- Restatement (Third) of Unfair Competition § 39 (1995).
  
- A recipe, a formula, a method of conducting business, a customer list, a price list, marketing plans, financial projection, and a list of targets for a potential acquisition can all constitute trade secrets.
  
- Generally, to qualify for trade secret protection, information must
  - ✓ be valuable;
  - ✓ not be publicly known; and
  - ✓ be the subject of reasonable efforts to maintain its secrecy
  
- The rapid pace of technology advances the ease with which information can now be rapidly disseminated and the mobility of employees require businesses to devote significant effort to protecting their trade secrets.
  
- If trade secrets were not legally protectable, companies would have no incentive for investing time money and effort in research and development that ultimately benefits the public at large.

- Trade secrets law not only provides an incentive for companies to develop new methods and processes of doing business but also, by punishing wrongdoers, discourages improper conduct in the business environment.

### **The Law Governing Trade Secrets:**

- Trademarks, copyrights, and patents are all subject to extensive federal statutory schemes for their protection, there is no federal law relating to trade secrets, and no registration is required to obtain trade secret protection.
- Most trade secret law arises from common law principles, namely, judge-made case law.
- The first reported trade secret case in the United States was decided in 1837 and involved manufacturing methods for making chocolate.
- In 1939, the Restatement of Torts (a wrongful act or an infringement of a right) adopted a definition of a trade secret, and many states relied on that in developing their body of case law, leading to greater consistency in the development of trade secrets law.
- Additionally 1979, the National Conference of Commissioners on Uniform State laws drafted the uniform Trade Secrets Act (UTSA) to promote uniformity among the states with regard to trade secrets law.
- The UTSA was amended in 1985.
- The following definition of trade secret has been adopted by the UTSA:

Trade secret means information, including a formula, pattern, compilation, program, device, method, technique or process that:

- ✓ 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

- ✓ is the subject of efforts that are reasonable under the circumstance to maintain its secrecy.

### **DETERMINATION OF TRADE SECRET STATUS:**

Restatement of Torts (a wrongful act or an infringement of a right) §757 cmt.b lists six factors to be considered in determining whether information qualifies as a trade secret. Courts routinely examine these factors to determine whether a company's information constitutes a trade secret.

#### **The extent to which the information is known outside the company:**

- Although information may be known to other outside the company and still qualify as a trade secret, the greater the number of people who know the information, the less likely it is to qualify as a trade secret.
- Secrecy need not be absolute.

#### **The extent to which the information is known within the company:**

- Although an employer or company is permitted to disclose confidential information to those with a demonstrated "need to know" the information.
- If the information is widely known within the company, especially among those who have no business need to know the information, it may not qualify as a trade secret.

**The extent of the measures taken by the company to maintain the secrecy of the information:**

- One claiming trade secret protection must take reasonable precautions to protect the information.
- Courts are unlikely to protect information a company has not bothered to protect.
- A company is not obligated to undertake extreme efforts to protect information, but reasonable precautions are required.
- Some experts predict that courts will likely require advanced security measures to protect trade secrets transmitted via e-mail, including encryption and protocols to ensure confidentiality.

**The extent of the value of the information to the company and its competitors:**

- If information has little value either to its owner or to the owner's competitors, it is less likely to qualify as a trade secret.
- Conversely, information that is valuable to a company, such as the recipe for its key menu product, and that would be of great value to the company's competitors is more likely to be protectable trade secret.

**The extent of the expenditure of time, effort, and money by the company in developing the information:**

- The greater the amount of time, effort, and money the company has expended in developing or acquiring the information, the more likely it is to be held to be a protectable trade secret.

**The extent of the ease or difficult with which the information could be acquired or duplicated by other:**

- If information is easy to acquire or duplicate, it is less likely to qualify a trade secret.
- Similarly if the information is readily ascertainable from observation or can be easily reproduced, it is less likely to be a trade secret.
- On the other hand, if it can be reverse engineered only with significant expenditures of time, effort, and money, the product may retain its status as a trade secret.

**LIABILITY FOR MISAPPROPRIATION OF TRADE SECRETS:**

Misappropriation of a trade secret occurs when a person possesses, discloses, or uses a trade secret owned by another without express or implied consent and when the person

- ✓ used improper means to gain knowledge of the trade secret;
- ✓ knew or should have known that the trade secret was acquired by improper means; or
- ✓ Knew or should have known that the trade secret was acquired under circumstances giving rise to a duty to maintain its secrecy.

The term *improper* means includes bribery, theft, and misrepresentation, breach of duty to maintain secrecy, or espionage (the practice of spying or of using spies, typically by governments to obtain political and military information) or other means.

Thus, misappropriation occurs either when a trade secret is lawfully acquired but then improperly used or when the trade secret is acquired by improper means.

### **Absence of Written Agreement:**

- A written agreement prohibiting misappropriation of trade secrets can be enforced through an action for breach of contract; a company's trade secrets can be protected against misappropriation even in the absence of any written agreement between the parties.
- A party owning trade secrets can bring an action in tort for breach of the duty of confidentiality, which duty can arise even without an express agreement.
- Courts will impose a duty of confidentiality when parties stand in a special relationship with each other, such as an agent-principal relationship (which includes employer-employee relationship) or other fiduciary (involving trust, especially with regard to the relationship between a trustee and a beneficiary) or good faith relationship
- Courts have consistently held that employees owe a duty of loyalty, fidelity, and responsibility to their employers.
- In fact, more trade secret cases are brought in tort for breach of confidentiality than in contract for breach of written agreements.

**For example:** If XYZ company is attempting to make a sale to Jones and informs Jones that the XYZ product is superior to that of competitors because it involves a new breakthrough in technology and explains the trade secret, courts would likely find that Jones is subject to a duty not to disclose the information. Similarly, if XYZ co., explains its trade secrets to its bankers in an attempt to obtain financing, the bankers would likely be precluded from disclosing or using the information. Such implied contracts to protect the information generally arise when the parties' conduct indicates they

intended the information to be kept confidential or impliedly agreed to keep it confidential.

### **Misappropriation by Third Party:**

A number of other parties may also have liability for misappropriation of trade secrets if they knew or should have known they were the recipients of protected information.

#### ***For example:***

1. Assume Lee is employed by XYZ co., In course of time Mr.Lee learns valuable trade secret information. If Mr.Lee resigns jobs and begins working for new company and it prohibited for both in using the information. He may not misappropriate the information because he was in an employee-employer relationship with XYZ company. New company should not use the information if Mr Lee reveals, if it happen so, then XYZ Company would generally prefer to sue New Company inasmuch as it is far likelier to have deep pockets, meaning it is more able to pay money damages than is an individual such as Lee.
2. If New Company has no reason to know the information was secret or that Mr. Lee may not reveal it, New Company would not have liability for such innocent use of the information. Similarly, if trade secret information were innocently obtained by New Company by mistake, New Company would have no liability for subsequent use or disclosure of the information.

## **Written Agreement:**

Employers are generally free to require employee, independent contractors, and consultants to sign express agreements relating to the confidentiality of information. These agreements are usually enforced by courts as long as they are reasonable. The agreements usually include four specific topics:

- Ownership of Inventions
- Non-disclosure Provisions
- Non-solicitation Provisions
- Non-competition Provisions
  - ✓ Purpose
  - ✓ Reasonableness
  - ✓ Consideration

## **PROTECTION FOR SUBMISSION:**

### **Submission to Private Parties:**

- In many instances individuals wish to submit an idea for an invention, process, game, or entertainment show to a company or business in the hope that the company or business in the hope that the company will market and develop the idea and the individual will be compensated for the idea?
- Idea submission disputes frequently arise in the entertainment industry. In one case an individual claimed that the producers of the Cosby Show (American comedian) misappropriated her idea for a television program portraying a wholesome and loving African American family. A court held there were no people and the idea was so general as to lack the element of concreteness to be protectable.
- ❖ The solution to such a dilemma is for the “inventor” to submit the idea pursuant to an evaluation agreement, or submission

agreement, whereby the other party agrees to evaluate the idea only for the purpose of considering a future transaction between the parties and further agrees not to circumvent the submitter or to disclose the idea to others.

### **Submission to Government Agencies:**

- Private companies that present bids to government agencies in the hope of obtaining a government contract are often required to disclose confidential or trade secret information to the agency.
- Under freedom of information act (both at the state and federal levels), the proposal might later be released to any member of the public requesting the document, thus resulting in loss of confidential information to possible competitors.
- The protected information is usually blocked out.
- If a government agency discloses trade secret information, the owner may have a cause of action for an unconstitutional taking of private property and may be awarded compensation if the owner had a reasonable expectation of confidentiality.

### **REMEDIES FOR MISAPPROPRIATION:**

A trade secret owner may request a variety of remedies from a court. Among them are the following:

**Injunctive relief:** In many cases, a trade secret owner is more interested in ensuring the defendant cease use of the trade secret (or is precluded from commencing use) than in recovering damages. In cases in which money damages are not sufficient to protect a trade secret owner, a court may issue an injunction. A court may also issue an injunction to compel the defendant to surrender or destroy trade secret information. In

fact, courts may issue injunctions' to prevent inevitable disclosure, reasoning that even if a former employer cannot show a particular secret has been taken, it is inevitable that key employees will eventually disclose what they know to a new employer.

- **Money damages:** A trade secret owner whose information has been misappropriated may recover money damages from the defendant. The Plaintiff may recover its lost profits as well as the profits made by the defendant. Alternatively, the plaintiff may seek and recover a reasonable royalty arising from defendant's use of the trade secret. Punitive damages may also be awarded in cases in which the defendant's conduct is reckless, willful, and intentional. The USTA provides that punitive damages not exceed more than twice the compensatory damages awarded.
  
- **Attorneys' fees and costs:** In most cases, the parties bear their own attorneys' fees and costs. The UTSA, however, provides that reasonable attorneys' fees and costs may be awarded to the prevailing party if bad faith or willfulness is shown.

### **TRADE SECRET LITIGATION:**

- If a trade secret is disclosed in violation of a written confidentiality agreement, and the parties cannot resolve the dispute themselves, an action for breach of contract may be brought, similar to any other breach of contract action.
  
- The plaintiff may add other causes of action as well, for example, for misappropriation in violation of a state trade secret law. If no written agreement exists, the plaintiff must rely upon case law or state statutes protecting trade secrets, or both.

- To protect itself against a lawsuit by another alleging trade secret violation, companies should require new employees who will have access to confidential information to acknowledge in writing that accepting employment with the new company does not violate any other agreement or violate any other obligation of confidentiality to which the employee may be subject.
- If grounds for federal jurisdiction exist (the parties have diverse citizenship and the claim exceeds \$75000), the action may be brought in federal court.
- The UTSA [Uniform Trade Secrets Act] provides that an action for misappropriation must be brought within three years after misappropriation is discovered or reasonably should have been discovered.
- In federal court, the action will be governed by the Federal Rules of Civil Procedure relating to federal civil actions generally.
- Most states have rules relating to civil procedure that are modeled substantially after the Federal Rules of Civil Procedure and likewise govern the litigation.
- If the defendant has a cause of action to assert against the plaintiff relating to the trade secret, it must be asserted by way of a counterclaim in the litigation so that all disputes between the parties relating to the information can be resolved at the same time.

- After the complaint, answer, and counterclaim have been filed, various motions may be made. Discovery will commence. The plaintiff and defendant will take depositions to obtain testimony from those who may have information about the case.
- Ultimately, if the matter cannot be resolved by private agreement, it will proceed to trial. The trade secret owner must prove misappropriation by a preponderance of the evidence. Either party may request a jury trial; otherwise, a judge will render the decision. Appeals may follow.
- One of the difficult issues in trade secret litigation arises from the fact that the trade secret sought to be protected often must be disclosed in the litigation so the judge or jury can evaluate whether the information is sufficiently valuable that it affords its owner a competitive advantage.
- Similarly, the owner's methods of protecting the information often must be disclosed so the fact-finder can determine whether the owner has taken reasonable measures to protect the alleged trade secrets.
- The dilemma faced by trade secrets owner is that they must disclose the very information they seek to protect.
- As technology progresses and the value of certain communication and entertainment inventions increases, trade secret litigation is becoming an increasingly common and high-stakes occupation

### **TRADE SECRET PROTECTION PROGRAMS:**

Trade secrets are legally fragile and may be lost by inadvertent disclosure or failure to reasonably protect them, companies should

implement trade secret protection programs to safeguard valuable information. Because trade secret protection can last indefinitely, businesses should devote proper attention to the methods used to ensure confidentiality of information. Developing programs and measures to protect trade secrets is an easy way to demonstrate to a court that an owner values its information and takes appropriate measures to maintain its secrecy.

### **Physical protection**

There are a variety of tangible measures a company can implement to protect trade secrets, including the following:

- Safeguarding information under lock and key;
- Protecting the information from unauthorized access;
- Forbidding removal of protected information from the company premises or certain rooms;
- Retaining adequate security during evening and weekends either through alarm systems
- Ensuring tours of the company premises do not expose outsiders to valuable processes or information;
- Using check-out lists when valuable equipment or information is removed from its normal location;
- Monitoring employees' use of e-mail and the Internet to ensure confidential information is not being disseminated;
- Using encryption technology and antivirus protection programs to protect information stored on computers;
- Educate employees on trade secrets and protection of trade secrets;
- Ensuring information retained on computers is available only on company networks so that access can be easily tracked.

Most companies will not need to implement all of the measures described above. Courts do not require absolute secrecy or that extreme measure be taken to protect information. Rather, reasonable measures will be sufficient to protect the status of information as trade secrets.

## **Contractual Protection**

- Another method of protecting trade secrets is by contract, namely, requiring those with access to the information to agree in writing not to disclose the information to other or use it to the owner's detriment.
- Similarly, in licensing arrangements, trade secret owners should ensure the license agreements contain sufficient protection for trade secret information.
- Employers should use noncompetition agreements to ensure former employees do not use material gained on the job to later compete against the employer.
- With the advent of the Internet and the increased ease of electronic communications, employers have become concerned about the loss of trade secrets through dissemination over the Internet.
- It has been held that "once a trade secret is posted on the Internet, it is effectively part of the public domain, impossible to retrieve".

## **Contractual Protection**

Companies can also rely on other complementary methods of protection to safeguard trade secrets. Any material that qualifies for copyright protection should be protected by registration, or at a minimum, by ensuring a copyright notice is placed on the material or document to afford notice to other of the owner's right and interest in the material.

# UNFAIR COMPETITION

## INTRODUCTION:

The law of unfair competition is based upon the notion that individuals should be protected from deceptive (looking down) and improper conduct in the marketplace. The law of unfair competition is found in case law, in state statutes prohibiting unfair business practices, in specific federal statutes, and in regulations promulgated by the FTC (Federal Trade Commission), the federal regulatory agency charged with protecting consumers from unfair or deceptive acts and practices.

The law of unfair competition continues to evolve as new methods of conducting business arise, such as electronic offers and sales through telemarketing, television infomercials, and the Internet. There are a number of theories and actions that can be used by injured parties to protect against unfair competition. In many instances, actions for unfair competition will be combined with other actions (such as those alleging trademark, copyright, or patent infringement) to provide a plaintiff a wide array of possible remedies.

**For Example:** a designer of scarves imprinted with fanciful designs may decide against applying for a design patent due to the expense involved and the short life cycle of fashion products. Protection against copying of the design may thus be available under the umbrella of unfair competition rather than under design patent law.

Section 43 of the Lanham Act (15 U.S.C § 1125) provides a federal cause of action to protect consumers against unfair competitive business practices. Moreover, section 43(a) protects unregistered marks and names, such as those that do not qualify for federal trademark registration because they are descriptive or perhaps used only in intrastate commerce.

The most common types of unfair competition are discussed more fully in this chapter but can be briefly summarized as follows:

- Passing off (or palming off), “Passing off” occurs when one party attempts to pass off or sell his or her goods or services as those of another.
- Misappropriation
- Right of Publicity
- False advertising
- Dilution, Either tarnishing another’s mark or causing it to lose its distinctiveness through “blurring” is actionable as dilution
- Infringement of trade dress, adopting the overall concept of another’s distinctive packaging or product image, generally called its “trade dress”, so as to deceive consumers is an infringement of trade dress.

Generally, injured parties notify the wrongdoer prior to initiating litigation.

#### **MISAPPROPRIATION:**

- The doctrine of misappropriation first arose in *International News Service V. Associated Press*, 248 U.S. 215 (1918), in which the Supreme Court held that an unauthorized taking of another’s property, in that case, news information, that it invested time and money in creating was actionable as misappropriation of property.
- In *INS*, news information originally gathered by the Associated Press relating to World War I was pirated by International News Service and sold to its customers.
- Because the news itself, as factual matter, could not be copyrighted, the plaintiff could not sue for copyright

infringement.

- Instead it alleged that its valuable property right had been taken or misappropriated by the defendant.
  
- The Supreme Court agreed, noting that the defendant was “endeavoring to reap where it has not sown, and is appropriating to itself the harvest of those who have sown. “Id. At 239-40. Because the defendant was not attempting to convince its subscribers that its news reports were from the plaintiff, an action for passing off would not lie. The defendant was misappropriating rather than misrepresenting.

### **RIGHT OF PUBLICITY:**

- The right of publicity gives individuals, not merely celebrities, the right to control commercial use of their identities or personas.
  
- The right of publicity protects a commercial interest, the vast majority of cases involve celebrities inasmuch as they can readily show economic harm when their names, photographs, or identities are used to sell products or suggest a sponsorship of merchandise.
  
- Publicity rights are governed by state law.
  
- The right of publicity has evolved from the right of privacy, which protected against unreasonable invasions upon another person’s solitude and provided remedies for the disclosure of private information.
  
- The right of publicity allows individuals to protect the marketability of their identities and punishes those who would unjustly enrich themselves by appropriating another’s fame for profit-making purposes.

- Unpermitted commercial exploitation of an individual's persona would dilute the value of the persona, making it more difficult for the individual to commercialize his or her identity. Thus, remedies for infringement include injunctions to prevent further exploitation and monetary relief to compensate the individual whose right of publicity has been appropriated (including damages for injury to reputation recovery of the defendant's profits, and punitive damages in extreme cases)
  
- Courts have articulated a number of reasons for upholding an individual's right to publicity, including the need to protect against confusion that would arise if consumers were led to believe individuals sponsor or approve products when they do not, the need to incentivize performers who provide entertainment and benefit to society and should thus be provided with a protectable proper right in their identities.
  
- The right of publicity does not apply to non commercial uses; using another's name, likeness, or identity for news reporting, scholarship, or research is permissible.

### **NEW DEVELOPMENTS IN THE RIGHT OF PUBLICITY**

- As is common with intellectual property rights in today's society, some of the new issues relating to the rights of publicity stem from increasing technological advances.
  
- Without prior permission one should not appear in the digital technology used movie.
  
- The international Trademark Association has proposed amending the U.S. Trademark Act to create a federal right of publicity with postmortem rights (although such rights would be limited to some specific period of duration after death).

- Similarly, names, gestures, and likenesses are unprotectable under copyright law because they are titles or ideas rather than expressions.
- Thus, in some instances, federal copyright law may control a plaintiff's rights, while in other instances; only the right to publicity will provide protection.
- **California recently passed** the Astaire Celebrity Image Protection Act (Cal.Civ.Code § § 3344-3346) to allow heirs of celebrities to block commercial uses of deceased celebrities' likenesses while allowing a "safe harbor exemption" to artistic uses, such as the digital insertion of President Kennedy's image into the movie Forrest Gump, or uses for news, public affairs, and so forth.

#### **FALSE ADVERTISING:**

- In 1943, the federal trademark law, the Lanham Act, was passed.
- Section 43(a) of the act (15 U.S.C. § 1125) prohibited false designations of origin, namely, descriptions or representations tending falsely to describe or represent goods or services.
- It was not an effective vehicle to use when a party made misrepresentations relating to the nature or quality of goods or services.  
Moreover, until the passage of the Lanham Act, Plaintiffs, an element that was often difficult to demonstrate
- Although the individual states enacted statutes prohibiting false advertising, these statutes varied from state to state and were often ineffective to prohibit false advertising that was national in scope.
- The expansive language of section 43 of the Lanham Act, however, soon began to be used to protect not only against

unregistered trademarks but also against nearly all forms of false advertising.

- In 1989 Congress amended the Lanham Act and broadened the scope of section 43 for infringement of trademarks (both registered and unregistered marks) and trade dress, while the other portion of the statute allows the assertion of claims for false advertising and trade libel.

Under section 43(a), whoever uses a false or misleading description or representation of fact or false designation of origin in commercial advertising or promotion or misrepresents the nature, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities is liable to any person likely to be injured by such act (if the act is committed in interstate commerce)

***For Example:***

- a failure to disclose that advertised prices did not include additional charges;
- a statement that a pregnancy test kit would disclose results in "as fast as ten minutes" when a positive result would appear in ten minutes but a negative results might take thirty minutes;
- a claim that a certain motor oil provided longer life and better engine protection than a competitor's product when that claim could not be substantiated;
- a false claim that automobile antifreeze met an automobile manufacturer's standards;
- covering up a label stating "Made in Taiwan" that appeared on goods

**INTERNATIONAL PROTECTION AGAINST UNFAIR COMPETITION:**

- The United States has assumed certain obligations under international agreements in the arena of unfair completion, chiefly under the Paris Convention.
- The Paris Convention seeks to afford citizens of each of the more than 160 member nation's protection against unfair

competition and trademark infringement and requires that member nations provide the same level of protection against unfair competition to citizens of other member nations as they do for their own citizens.

- The Paris Convention expressly prohibits acts that create confusion by any means with a competitor, false allegations that discredit a competitor, and indications that mislead the public in regard to the nature or characteristics of goods.
- Section 44 of the Lanham Act (15 U.S.C§ 1126) implements the Paris Convention and expressly provides that any person whose country of origin is a party to any convention or treaty relating to the repression of unfair competition, to which the United States is also a party, is entitled to effective protection against unfair completion.