

Unit - 4

Trade Secrets Law - Status - Liability for misappropriation of Trade Secrets - protection for Submitters
Trade Secret litigation.

unfair competition:- misappropriation right of publicity
False advertising.

Trade Secrets means any valuable business information which gives certain advantages over competitors. Trade Secrets must be protected by their owner from unauthorized persons. Release or dissemination of the information to others may cause economic hardship to the owner & sometimes total elimination of the first owner from the business. If properly protected they may last forever.

Many employers require their employees to sign agreements promising to keep key information confidentially. Employees who learn trade secrets while in the scope of their employment cannot be misappropriated those secrets, even after termination of their employment. Trade secrets are also protected

From being misappropriated by means of the infringement, spoliage etc. If trade secrets are misappropriated, the company may seek injunctive relief to prohibit further use or disclosure of the information and money damages.

Ex: - The formula & recipe for Coca-Cola is locked in a vault with no one person having access. It indicates that, the information that is proprietary to a co., and gives certain advantages over competitors must be protected. Not only recipes, formulas, business methods, a customer list, a price list, marketing plans, financial projections, etc. constitute trade secrets.

Even negative information like, a process & a technique which is not effective, product which is not profitable etc. also qualify for protection as trade secrets. So to qualify for trade secret protection, information must -

- ① be valuable
- ② not publicly known
- ③ be the subject of reasonable protection as secret.

The rapid developments in technology facilitates the rapid dissemination of information, and its mobility

of employees require businesses to devote efforts to protect their trade secrets. If trade secrets were not legally protectable, companies would have no incentive for investing time, money, and efforts in R&D that ultimately benefits the public.

Trade secrets law provides incentives to the businesses to develop new methods and processes, and also discourages improper business conduct by punishing the wrongdoers.

The Law Governing Trade Secrets : - Trademarks, copyrights, patents are all subjected to extensive federal statutory protection, but there is no federal law relating to trade secrets. No registration is required to obtain trade secret protection. Trade secret law arises from common law principles.

The first reported Trade Secret Case in the U.S. was decided in 1837, involved manufacturing ^{method} of chocolates *Vickery vs. Welch* and many states relied on that, in developing their own body of case laws, leading to greater consistency in the development of trade secrets law.

In addition to state statutes and cases

that provide a body of Trade Secrets Law. (9)
protection is often gained through contractual arrangements.
companies that enter into business relationships
with employees and other businesses, generally
require contractual confidentiality agreements
to ensure that crucial information is not
misappropriated. This is called non disclosure agreement.

Determination of Trade Secrets Status: - There
are several factors to be considered in determining
whether information qualifies as a Trade Secret
or not. Courts balance these factors and weigh
them against each other in determining whether the
information qualifies for protection. There are different
factors and they are as follows.

(a) The extent to which the information is known outside
the company: - Though information is known to others
outside the company, still it qualifies as a trade secret
but if it is known to so many people, it is less
likely to get protection. The owner of a trade secret
may without losing protection, can disclose it others,
if it is made in confidence. However the courts
are less likely to protect the widely disseminated info.
publication of info on the internet will cause a loss of trade
secret status.

(b) The extent to which the information is known within the company: - Although an employer is permitted to disclose confidential information to those with a "need to know" the information to discharge their business duties. If the information is widely known within the Co. especially to those who have no business need to know it, it may not qualify as a trade secret. So only limited dissemination information is required to get protection.

(c) The extent of the measures taken by the company to maintain the secrecy of the information: - One claiming ~~the~~ Trade Secret protection must take reasonable precautions to protect the information. Courts are unlikely to protect information, when the company has not bothered to protect it. Companies should take reasonable precautions to protect secrets. They can take signatures of the employees on nondisclosure statements, can keep confidential information in locked rooms, restrict access to unauthorized persons etc.

Courts require advanced security measures especially when trade secrets passed electronically.

including encryption, protocols, authentication
Source of the messages etc.

(d) The extent of the value of the information to the company and its competitors:- If the information has little value either to its owner or to the competitors, it is less likely to qualify as a Trade Secret. If the information is more valuable to the Co: it is more likely to be protected. Even non-profit entities can also claim protection for their economically valuable information.

(e) the extent of the expenditure of time, effort, and money by the Co: in developing the information:- the greater the amount of time, effort and money the Co: has expended in developing & acquiring the information, the more likely it is to be held as a protectable Trade Secret.

(f) the extent of the ease & difficulty with which the information could be acquired & duplicated by others:- If the information is easy to acquire & duplicate it is less likely to qualify as a Trade Secret. Similarly if the information is readily ascertainable from observation and can be reproduced easily it is less likely to get protection. Reverse engineering

Concepts can not be protected. If the reverse engineering is with significant expenditures of time, effort, and money, the products may retain its status as a Trade Secret.

Liability for Misappropriation of Trade Secrets

Misappropriation of a Trade Secret means, when a person possesses, discloses & uses a crucial information of another person & a Co. without their consent. In simple terms if ~~any~~ any persons uses the crucial information of other person, for his commercial use it is called misappropriation of Trade Secrets.

The term improper means, it includes bribery, theft, misrepresentation, breach of duty to maintain secrecy & espionage through electronic & other means. Misappropriation occurs when a trade secret is lawfully acquired but then improperly used. Ex: Trade secrets obtained through proper means include independent inventions, discovery by reverse engineering & ~~obtaining~~ obtaining the Trade Secret from published material. Misappropriation of Trade Secrets in the —

- (i) Absence of written agreement - For prohibiting misappropriation of trade secrets, parties must enter into written agreement.

These agreements ~~are~~ ^{will be} enforced through an act of breach of Contract. Even in the absence of an agreement, Trade Secrets can be protected from misappropriation. 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 relationships), partner relationships, relationships with directors, companies, officers etc.

Courts held that employees have a duty of loyalty and responsibility to their employers. Parties had an implied contract arising out of their common understanding.

Ex: - ABC Co. is making a sale to Jones and informs that its product is superior to that of competitors and explains the new technology which he has used, which is Trade Secret. Courts held that Jones is having a duty not to disclose this information to any other person. Sometimes Co.s explain their Trade Secrets to Bankers to obtain financing and the Bankers are having duty of ~~conf~~ Confidentiality from disclosing and using this information. All these are implied contracts which are enforceable.

(P.T.O)

II Misappropriation by third parties: - A no. of other parties may also have liability for misappropriation of Trade Secrets if they know the protected information. ~~For ex~~ Mr. Lee is employed by XYZ Co. In the course of his employment Lee learns valuable Trade Secrets information. If Lee leaves this Company and begins working for a new Co: ABC. Both Lee and the new Co: ABC are prohibited from using this information. In case of any misappropriation XYZ Co: prefer to sue ABC Co: ^(rather than Lee) because it will have deeper pockets. That means the Co: can pay more money than an individual as Lee.

If Trade Secret information is involuntarily used by new Co: by mistake, then it has no liability. A mistake or accident that is caused by a lack of reasonable precautions will always destroy Trade Secret status.

If the new Co: mistakenly uses this information, and incurs great expenses in building new plant, ~~and~~ & complex manufacturing processes, in such cases courts often attempt fashion relief to both the parties, by directing the new Co: (ABC) to pay Royalty or license fee to XYZ Co: and allow continued use of information.

III Employer - Employee Relationships:- Ownership of Trade Secrets in the absence of written agreements

Use & disclosure of Trade Secrets by employees and former employees is quite common. So employers usually require employees who will have access to Trade Secrets to sign agreements promising not to disclose the information.

In the absence of non-disclosure agreement also, employees will have implied ~~obligation~~ duty not to use the employer's information learned by him within the scope of employment.

Senior executives, engineers, scientists are typically subjected to a higher duty of trust and confidence than the junior employees. Thus the higher the level of expertise, the more will be the Confidential Relationship ~~betw.~~ employer and employee. There will be an implied agreement to maintain the Trade Secrets.

If the invention is made during the course of employment, the employer will be the owner, during & after the employee's employment. If the invention is made in the personal time of the employee, it belongs to the employee and he will become the owner, as long as

he will not become a competitor to his employer. In order to avoid future conflicts, usually the employer requires their employees to sign nondisclosure agreements. The agreements usually include four specific parts.

- ① ownership of inventions
- ② Nondisclosure provisions
- ③ Nonsolicitation provisions
- ④ Noncompetition provisions.

These provisions can be separate agreements & they may be included as part of a more comprehensive employment agreement. These provisions will be as follows.

- ① Ownership of inventions: - Most agreements expressly state that any information, inventions, & material created by the employee in the course of employment are owned by the employer. Even some agreements go further and state that, the inventions made during the period of employment - and made some period after the employment - also belongs to the employer.
- ② Nondisclosure provisions: - The agreement should prohibit the employee from using & disclosing the employer's trade secrets whether during & after the employment. The agreement should describe the information that is to be protected.
- ③ Nonsolicitation provisions: - Most agreements prohibit the employer from encouraging other employees from leaving.

the employer's business and from attempting to poach clients & customers of the employer. This clause must be reasonable and should be limited in scope.

- (i) Non competition provision: - Most agreements include provisions prohibiting employees from competing against the employer both during and after the term of employment. These agreements are enforceable if they are reasonable because sometimes it restricts the employee earning a livelihood and it can be detrimental to an employee. A variety of factors should be taken into account in determining whether they are enforceable or not.

(i) Purpose: - Courts often consider whether the restriction is related to a legitimate business purpose of the employer.

Ex: - A restriction by Mc Donald's Corp. that its food handlers could not later work for any other restaurants is not enforceable, because it does not serve ^{any} legitimate business purpose. Ex: - (2)

Another example that United Airlines restricted that its senior engineers could not work later for other competitive airlines is enforceable because they spend a lot of time and money in selecting and training them and teaching their business techniques and processes. So the competitor can not reap the benefits.

(ii) Reasonableness: - The restriction must be reasonable in regard to scope, duration and geographical area.

Ex: - United Airlines prohibition that its senior engineers could not work for any other airlines in the U.S. for 20 years is too long in the fast-paced and dynamic technology sector. so it must carefully ~~design~~ define the period and scope.

- (ii) consideration: - Many states require that the employee not to compete must be supported by adequate consideration. Employers award bonuses & salary hikes to the employees. The above mentioned factors should be kept in mind while drafting the agreements for employees.

protection for Submission of ideas

- I. Submission to Private parties - In many instances individuals wish to submit an idea for an invention, process, game & entertainment show, to a Co. in the hope that the Co. will market and develop the idea and the inventor will be compensated for the creative idea.

Ex: - Sanders has developed an idea for a new game which has a great potential. Because he can not mass-produce and mass-market the game, he decides to submit the idea to Milton-Bradley, a well known Co. in the game and entertainment field. Because ideas are not protected under copyright law now Sanders faces a dilemma whether to disclose his idea or not. To pick Milton's interest, he must

describe the game in detail. By describing it
he gives the gist that Milton will develop
cutting Sanders out of the picture.

Idea Submission disputes frequently arise
in the entertainment industry. The solution to such
problems is for the "inventor" to submit the idea
pursuant ^{to an evaluation} to a submission agreement,
whereby the other party agrees to evaluate the idea
only for the purpose of considering a future transaction
between the parties and agree not to disclose idea to
others.

If the recipient decides to develop and use
the idea, the parties negotiate compensation to the
submitter. A person who discloses an idea without
first seeking protection has only himself to blame.
Some courts find an implied contract exists that the
submitter should be compensated. But the only way for
a submitter to be assured protection for an idea is
by written agreement.

II Submission to Government-agencies - private cos
that submit bids to govt agencies in the hope of
obtaining govt contract are often required to disclose
confidential or secret information to the agencies.
Under Freedom of Information Act the proposal may be

released to public requesting the document. This results in loss of Confidential information to public and competitors. So the parties can designate certain information as a Trade Secret and thus prevent its release. The protected information is usually labeled out. If a govt. agency discloses Trade Secret information, the owner can take action and can get compensation for loss of valuable information.

Defences to Trade Secret misappropriation: - A variety of defences may be raised by a party accused of misappropriating another's Trade Secrets. The most common defences are.

(a) Lack of Secrecy: - A defendant may argue that the owner of the Trade Secret failed to take reasonable measures to protect the valuable information, thus it has entered the public domain. Courts will examine the measures taken by the owner to protect it. If the owner did not take measures courts are likely to hold that the owner has lost his rights.

(b) Independent creations: - Independent creation of information that is a Trade Secret of another is permissible. As long as a party did not breach a duty of Confidentiality or an agreement to hold it secret, and did not use improper means in acquiring the information, independent creation will be a defense. Reverse

Engineering is the inspection and analysis of product to determine the method by which it developed is generally a protected form of independent creation, as long as the product is lawfully acquired.

III Privilege: - A party may be compelled to disclose a trade secret in the course of some judicial & administrative actions, such disclosure is nonactionable. Many agreements require that one called to testify about a trade secret provide notice to the owner so he can protect it ^{by} excluding the media and the other people from the courtroom during disclosure.

IV Unclean hands ^{blacks}: - A defendant may assert that the trade secret owner conduct is so reprehensible and his unclean hands bars any recovery. And the defendant may argue that the owner has so delayed in bringing the action ~~and~~ and it can be barred.

Remedies for misappropriation: - A trade secret owner may request a variety of remedies from a court. They are as follows.

(a) Injunctive relief: - Injunction means, prohibiting a party from further using or disclosing the information or to ensure the party does not begin to use the information. In some cases if money damages are not sufficient to protect a trade secret owner, the court may issue injunction. The length of the injunction is difficult to calculate.

Money damages:- A Trade Secret owner whose information has been misappropriated may recover money damages from the defendant. He can recover lost profits as well as the profits made by the defendant. punitive damages may also be awarded in cases in which the defendant's conduct is reckless, willful and malicious. Sometimes damages can run into the millions.

(c) Attorney's fees and Costs:- In most cases, the parties bear their own attorneys' fees and costs. However, PTO 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 confidentiality agreement, and the parties can not resolve the disputes themselves, an action for breach of contract may be brought in court. If no written agreement exists, the plaintiff must rely upon case laws and state laws.

If the action involves Copyright or patent, it must be brought in federal court, otherwise the action will be brought in state court. The action must be brought in 3 yrs after misappropriation.

is discovered, After the complaint is filed, will respond by filing the answer, usually that misappropriation has occurred. Discovery commence. Interrogatories may be served on each party to obtain information. The claim must be proved with evidence. Judge will render the decision and appeals may follow. Damages run in millions sometimes.

Trade Secret Protection

As Trade Secrets are most valuable information Companies should implement protection programs to safeguard these secrets. There are three imp. protection programs.

- ① Physical protection
- ② Contractual protection
- ③ Intellectual property protection.

① Physical protection: - There are a variety of tangible measures a company can implement to protect trade secrets including the following.

- (a) Safeguarding the information under lock and key.
- (b) protecting it from unauthorized access.
- (c) conducting background checks of employees who will have access to key information
- (d) Removal of protected information from companies premises & certain rooms. (P.T.O)

- ① Maintaining adequate security during nights and ~~at~~ weekends either through alarm systems or security services.
- ② Do not expose valuable processes & information to outside.
- ③ Marking the material stamps such as "Confidential" etc.
- ④ Using checkout lists when valuable information is removed from its normal location.
- ⑤ Monitoring activities of former employees who had access to confidential information.
- ⑥ Implementing inventory control system i.e. retaining a log showing which employee received which document.
- ⑦ Securing Computers with password & encryption protection.
- ⑧ Designating a person to be responsible for trade secret information.
- ⑨ Monitoring employees e-mails and the internet to ensure confidential information is not being disseminated.
- ⑩ Conducting exit interviews with employees to remind them of their obligations not to disclose co. information.
- ⑪ Ensure that the information is received by a person to whom it is directed.
- ⑫ Using encryption technology and antivirus protection programs to protect info in computers.
- ⑬ Make sure the information is wiped off before they are disposed off.
- ⑭ Educating the employees on trade secrets and their protection programs.
- ⑮ Visitors must be required to sign in & wear badges.
- ⑯ Information must be available only co. networks.

2) Contractual protection:- Another method of protecting trade secret information is by contract. It requires those with access to crucial information ~~to sign~~ in writing not to disclose the information to others or use it to defeat the owner. Similarly in license agreements, trade secrets owner should ensure that trade secrets contain protection. Employers also enter into agreements with employees to protect the secret.

With the advent of internet and the increased ease of electronic communication, employers have become concerned about the loss of information over the internet. Once it is posted on the internet, it will fall in public domain and it is difficult to retrieve. So employers should monitor their employees internet activities and they must be informed in this regard.

3) Intellectual property protection:- Any material that qualifies for copyright protection should be protected by registration. Inventions may be subjected to patent protection and trademarks must be protected by applying for registration.

Unfair competition

The term unfair competition is a broad term covering a wide variety of deceptive practices in the market place. The law of unfair competition

is based on the fact that the individuals should be protected from deceptive and unfair conduct in the market place. This Law often protects intellectual property rather than real property & personal property and promotes well-functioning of market place.

Section 43 of the Lanham Act provides action against unfair competition and provide a wide range of remedies to plaintiffs.

The most common types of unfair competition are as follows:

- ① passing off - Reverse passing off (palming off)
- ② Misappropriation
- ③ Right of publicity
- ④ False advertising
- ⑤ Product disparagement
- ⑥ Dilution
- ⑦ Infringement of Trade Dress

① passing off - Reverse passing off :- It occurs when one party attempts to sell goods under the others' brand name. usually inferior goods will be sold off by using well established brand names. It is called passing off.

Reverse passing off occurs when one party buys the goods of well established companies, and removes

The trade mark and then sells the item with
own mark & with no mark at all. Sometimes
adopt trade mark which is ^{so} similar to the estab-
lished brand names or copies features of the others goods.
In all these cases consumers will be deceived about
the source of the product and services. It is the
earliest form of unfair competition. It is prohibited by
Sec. 43 of the Lanham Act. The plaintiff can recover
damages and attorney fees etc.

(2) Misappropriation: - It means unauthorized taking
of another's property and information for commercial
purpose is called misappropriation.

(3) Right of publicity: - This right gives individual
not merely celebrities the right to control commercial
use of their identities or personal information.
Publicity laws are governed by state laws.

The right of publicity has evolved from
the right of privacy, which provides remedies
for the disclosure of private information. It protects
the marketability of their identities and punishes
who would unjustly use it for profit making.

Remedies for infringement include injunction
to prevent further use and monetary compensation to
those whose right of publicity has been appropriated.

The right of publicity does not apply to non-commercial uses: Such as using another's name, likeness & identity for news reporting, scholarship, & research is permissible as long as there is no defamation.

Meaning of appropriation of identity: - Unauthorized use of a nickname, voice, likeness, portrait, signature appearance, personal attributes such as customary gestures, clothing & hairstyle etc. is prohibited if they are used to identify a particular person.

If one's identity is used without permission is sufficient to take action for misappropriation. The following are the ways in which right of publicity is actionable.

(i) Phrases and Nicknames: - A court prohibited a portable toilet co. from using the phrase "Here's Johnny" in connection with advertising its services, holding that the phrase is sufficiently identified with the entertainer Johnny Carson, though his full name is not disclosed. The use of the word "Crazylegs" for a moisturizer has been prohibited because it refers to the football player "Crazylegs Hirsch". Varying few letters will not protect the defendant.

(ii) Likeness: - Look-alike photographs including a

Variety of physical features is protectable as unauthorized use like drawing cartoons etc. For ex: Woody Allen was able to prohibit the use of his look-alike picture on ~~any~~ video rental stores, because the advertisement falsely suggests that Woody Allen is sponsoring video rental services.

(iii) Voice: - Voice also can not be imitated. For ex: The Ford Motor Co. used the vocal style of Bette Midler in its advertisement for Ford cars was held unlawful and prohibited. The distinctive voices of professional signers are deliberately imitated for commercial use it is actionable.

(iv) Roles and associated objects: - Imitating a distinctive performing style of a person is actionable. The role of Charlie Chaplin is prohibited from imitation.

Duration and Descendability of Right of publicity:

The duration of the right of publicity is subjected to much variation. Some states do not provide any protection for deceased individuals and provide protection only for living individuals.

But majority of states recognized that the right of publicity is an economic property and it can be passed to heirs like other properties. It will survive of death. It is just like a property right.

and even it can be licensed also. Usually this right survives 70 yrs after the death of the person.

Defences in Right of publicity: - (1) One defense is

that plaintiff is not readily identifiable by the usage. (2) Another defense is that the usage is protected speech under the first amendment. News reports using a person's name or identity are protected by the First Amendment's freedom of speech as long as it is a newsworthy event and does not cross limits.

(3) Use in connection with research and scholarship is allowed because it is not commercial use, is permissible.

(4) Use of a person's name, identity & likeness for purpose of satire, commentary & parody is protected as "fair use". (5) Celebrities, athletes often grant

licenses to use their names, likeness, signatures to others, then the defendant argue that the use is authorized.

There are the defenses available to defendants.

(4) False advertising: -

False advertising means making false & deceptive representations about the nature of one's goods & services. It is actionable under Lanham Act.

Under Section 43 (a) of Lanham Act, whoever is a false or misleading description or representation of fact or false designation of origin, misstatement of value, quality etc. are actionable. (5)

In many cases surveys of consumers are used to prove that the message conveyed even if literally true, is deceptive to the public at large.

Many cases involve comparative advertising claims in which one party claims its products are superior or equivalent to those of a competitor. In this type of advertisements, a plaintiff must prove that the claimed product is inferior or not equivalent.

Defenses to False advertising:- (1) The defendant has to prove himself the consumers are not misled.

(2) Another defense available is puffing. Puffing means an exaggerated and highly subjective statement upon which no reasonable person would rely. Courts hold that 'puffing' is vague and is opinion only than misrepresentation and is thus not actionable. They will be used for boasting the product.

(3) Another defense is that, the speech involved in false advertising is protected speech under the First amendment Act. (I.T.O.)

⑤ Product disparagement:- Making intentional and untrue statements about another company & its products & services, that cause monetary harm to the ~~co~~: is called product disparagement. Here putting does not give rise to product disparagement. Similarly, merely expressing a negative opinion & about a company in an internet chat room does not constitute disparagement. Finally specific economic harm must be caused and proved.

⑥ Dilution:- It is another form of unfair competition. Dilution occurs when a famous trademark loses or likely to lose its distinctive quality due to tarnishing & blurring. Federal Trade Mark Dilution (FTDA) Act provides remedies for the dilution of famous marks. Under this Act, the famous trademark owner has a right to an injunction against one who uses his mark which causes dilution.

Ex: - The use of "Tiffany" for a restaurant was prohibited as it diluted the famous "Tiffany®" mark used in connection with jewelry. The goodwill of the mark will be diluted if it is used by juniors even on unrelated goods. Dilution can occur in 2 ways. One is blurring and

the other one is tarnishing.

Blurring occurs when it is used for similar goods.

Tarnishing occurs when it is used for inferior goods.

One of the difficult tasks is, to determine, ~~for~~ what constitutes a 'famous' mark. Court takes into account, the extent of sales, publicity of the mark, the degree of recognition etc. Use of famous mark in news, parody etc. is not actionable.

- (7) Infringement of Trade dress: - The overall image of a product or service is protectable as its "trade dress". Trade dress includes, packaging, logo, colours, ^{shape} etc. of a product. Trade dress protection does not extend to functional aspects of a product. Ex: 1 - Supreme Court held that the "trade dress" of a Mexican restaurant is protectable against infringement by another restaurant that used confusingly similar decor and design elements. The plaintiff must show that its trade dress is valid and protectable, that it is nonfunctional.