

TRADE SECRET LAW

Trade Secrets are a type of valuable IP (Intellectual Property) that consist of: formulas, Practices, Processes, Designs, Instruments, Patterns, Compilations of information.

Common Characteristics:

1. The information must be secret and it is not public information
2. Their Secrecy provides an economic benefit or Commercial Value to the trade secret holder.
3. Their Secrecy is actively protected by adopting reasonable effort.

Examples of TradeSecrets:

Customer lists, Manufacturing Processes, Recipes, Marketing Plans, Financial Projections, Methods / Techniques of conducting business

Famous TradeSecrets:

1. Google Search Algorithm
2. KFC - Kentucky Fried Chicken
3. Coca Cola
4. Listerine

TRADESECRET LAWS/ACTS GOVERNING TRADE SECRETS:

TradeSecrets are intellectual Property (IP) rights on Confidential information, which may be sold or licensed. In general, to qualify as a trade secret, the information must be:

1. Commercially Valuable because it is Secret.
2. Be known Only to Limited group of people, and
3. be subjected to Reasonable steps taken by the rightful holder to keep the information Secret.

The unauthorized acquisition, use or disclosure of such secret information by others is regarded as Unfair Practice and violation of the trade secret protection.

Depending on the legal system of a Country, the legal protection of trade secrets against Unfair Competition/ Unfair Practices is generally based on: i. breach of Contract ii. breach of Confidence and iii) Industrial or Commercial espionage.

Trade Secrets are legally protected based on: i. Specific State Law ii. Case Law

Trade Secret Law in USA: As a member of the World Trade Organization (WTO) and Party to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement), the United States is obliged to provide Trade Secret Protection.

In the United States, Trade Secrets are protected by:

1. State Common Law: Because of the adoption of the Uniform Trade Secrets Act (UTSA) by 48 states out of 50 states, trade secrets are protected by the Uniform Law Commission (ULC) published as Act in 1979, subsequently amended in 1985, which the individual state adopted to provide protection to trade secret holders.

2. State Criminal Law: Trade Secrets are protected in terms of State Criminal Law of concerned State.

3. Trade secrets are protected under the Economic Espionage Act of 1996, a Federal Law.

4. Amended Defend Trade Secrets Act of 2016 (DTSA): Trade Secret Owners can file civil suits both in State and Federal Courts.

In the United States, Trade Secret Protection is under both State Law and Federal Law through State and Federal Courts.

Protecting Trade Secrets in India:

There is no specific law / Act / legislation in India to protect Trade Secrets and Confidential Information.

Indian Courts have upheld trade secrets protection under Old Common Law Principles -

1. Contract Law
2. Copyright Law
3. Principles of Equity

Generally State Court or Federal Court protects trade secrets if all the three clauses:
1. Secrecy 2. Commercial Value 3. Reasonable effort to maintain Secrecy - - - are maintained
award of Damages, Court Cost, Attorney Fees depending on the merits of individual case.

DETERMINATION OF TRADE SECRET STATUS

Contrary to Patents and trademarks, trade secrets are protected without registration and no procedural formalities are required. A Trade Secret can be protected for an unlimited period of time, unless it is legally acquired or disclosed to the public. There are, however, some conditions required, for the information to be considered a trade secret.

In terms of the article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (commonly referred as TRIPS Agreement), there are three conditions attached to determine the status of Trade Secret to avail legal protection.

1. Secrecy = The information protected must be Secret. Secrecy need not be absolute. Secrecy requires that the information must not be readily publicly accessible to others under any conditions.

2. Commercial Value: Their Secrecy provides economic value or commercial value to their holder.

3. Reasonable Efforts to Maintain Secrecy: It must have been subject to reasonable efforts by the rightful holder of the information to keep it secret through certain steps:

- I. Confidentiality Agreements
- II. Non-Disclosure Agreements
- III. Non-Compete

IV: Infringement Agreement
V: Enforcement

However, the "reasonable" steps depend on the circumstances of each case

In general, trade secret protection confers owners the right to prevent the information lawfully within their control from being disclosed, acquired or used by others without their consent in a manner contrary to honest commercial practice.

LIABILITY FOR MISAPPROPRIATION OF TRADE SECRETS

~~PROTECTION FOR SUBMISSION~~
 Unlike trade secrets or Copyrights or Patents, trade secrets are not publicly disclosed or registered with Government. Trade Secrets represent nothing more than information which can be memorized, scribbled down, emailed or copied into some tangible medium. That's why trade secrets can very easily be misappropriated, once trade secrets fall into the hands of unscrupulous competitor/employee.

Trade Secret infringement is called misappropriation. It occurs when someone improperly acquires a trade secret or improperly discloses or uses a trade secret without consent or with having reason to know that knowledge of trade secret was acquired through a mistake or accident.

Misappropriation need not be intentional. It can happen inadvertently or through negligence.

Misappropriation of Trade Secrets in USA:

Trade Secrets in USA, are governed by two sets of Law to protect the interest of trade secret owners:

1. The Uniform Trade Secrets Act (UTSA)
2. The Defend Trade Secrets Act (DTSA)

The Uniform Trade Secrets Act (UTSA): The Uniform Trade Secrets Act is a piece of legislation created by Uniform Law Commission (ULC), a non-profit making organization.

The UTSA defines trade secrets and describes claim related to trade secrets. Till date 48 States have adopted UTSA.

It is a State Act/ State Common Law.

2. The Defend Trade Secret Act (DTS). It's a Federal law, applicable throughout USA. It became effective from 11-05-2016

Under both the Acts misappropriation happens when a trade secret has been:

(a) acquired by a person who knows or has reason to know that the trade secret was acquired by improper means or (b) disclosed without express or implied consent.

Both acts authorize trade secret owner to seek damages, if trade secrets are misappropriated.

The State Law(UTSA) provides that a party may be awarded Double Damage and Attorney Fees, if Misappropriation is malicious. But the State Law is Tort only - Civil Offence.

Under Federal Act(UTSA), on the other hand exemplary damages and attorney fees may only be recovered if the parties have written Agreements. The Federal Act does not affect contracts before 11th May 2016.

In certain circumstances, Misappropriation of Trade Secrets is not only a TORT (Civil offence), it is also a Federal Crime.

Claims under both the acts, must be brought within three (3) years of when the misappropriation was / or reasonably could have been discovered.

Misappropriation of Trade Secrets in India:

As a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement), India is committed to protect undisclosed information trade secret. But India does not have a specific codified legislation | trade Secret Law to protect trade secrets. In the absence of any codified law, trade secret disputes receive varied treatment by Courts, depending on the facts and circumstances of the disputes.

Although India has no specific trade Secret law, Indian Courts have upheld trade secrets protection under various statutes;

1. Contract Indian Contract Act - Section 27 of the Indian Contract Act bars any person from disclosing any information which he acquires as a result of a contract.

2. Information Technology Act - Section 72 of the Information Technology Act provides for criminal remedies, whereby a person may be punished with imprisonment for a term along with fine in case he is found to have access to any electronic record, book, register, information document etc without consent of the person concerned.

3. The Copyright (Amendment) Act, 2012 - In absence of specific trade secrets Law, the Courts ruled in favor of the proprietor of information as literary work as defined under Copyright Law. Sec 65A & 65B of the Copyright (Amendment) Act, 2012 has provided for Criminal Penalty for

unauthorised access and alteration of rights of management information, usually maintained through Online Contracts.

Indian Trade Secret Law is a judiciary made Law, based on the Principles of Equity, Common Law of action against breach of confidence, contract and copyright Law and Information Technology Act.

TRADE SECRET LITIGATION

With the digitalization of intellectual property (IP) and ongoing competition across industries, companies/ individuals are at elevated/high risk of trade secret theft. In addition to this, there are shifts/ changes in Patent Law, which resulted in weaker form of protection available towards protection of Patents. Consequently, Businesses are increasingly engaged in legal proceedings relating to trade secrets.

Trade Secret litigations have been on the rise and will likely to continue further also. Three factors are particularly evident towards increase in Trade Secret Litigation.

1. Litigation activity will continue to expand due to Defend Trade Secrets Act of 2016 (DTSA). The DTSA not only provides trade secret protections, but also enhanced scopes of remedies in State Court, Federal Court or both.

2. Based on recent decision in Patent litigation, more companies are opting to seek protection of their confidential information through established trade secret practices.

3. Expanding workforce mobility, as well as technological advances and the digitalization of information are in the increasing trend,

These activities are paving the way for increased trade-secret related litigations associated with labour and employment matters.

Trade Secrets are company's valuable assets. Once a trade secret is exposed through employees, former employees or any whistleblower, the company's advantage and commercial value may be compromised, which requires swift actions through IP litigation Lawyer/Attorney Firms/ IP Litigation Teams to work quickly:

- i. to halt further disclosure of the trade secrets
- ii. by obtaining injunctions or restraint orders and
- iii. initiate immediate steps involving unfair competition, espionage, misappropriation keeping in mind the complex cases of litigations.

PRELIMINARY STEPS:

1. Determine/Investigate The Suspected Misappropriation:

A prompt and thorough investigation by experienced electronic forensic analysts of company's:

- i. E-mail
- ii. Desktop and Laptop Computers
- iii. Office files/ Records of office access
- iv. Travel and Expenses Record
- v. Computer and Telephone Logs
- vi. Handheld Electronic Devices etc

is absolutely essential if investigation is to identify the main motto of investigation i.e. suspected whistleblower may be existing employee or former employee or new employer or any organization involved in cyber crime.

2. Sending A Cease And Desist Letter: Depending on the severity of the circumstances, the company can send Cease And Desist Letters to the former employee.

- I. Remind former employees of their contractual obligations to the company
- II. Advise them to cease (stop) and desist from conduct that violates contractual obligations.
- III. In appropriate cases, demand the return of
 - a. Information
 - b. Documents
 - c. Dataetc.

This is just a preliminary step and a less expensive alternative to Court.

3. CONTACTING LAW ENFORCEMENT: Misappropriation of trade secret is a criminal conduct in accordance with Federal Law. When the Company suspects criminal misconduct, it may decide to contact Law Enforcement to investigate and prosecute trade secret theft. Contacting Law enforcement has got three main advantages:

1. The mere threat of criminal prosecution and penalties may encourage employees to explain what happened.
2. Prosecutions are public and publicity may deter other employees, who are contemplating similar acts.
3. If an employee has misappropriated trade secret and left the country, law enforcement can obtain evidence abroad and possibly hold foreign conspirators accountable for their involvement.

4. FINAL LEGAL ACTION: Depending on the availability of the preventive measures by the Company like:

- I. Non-Disclosure Agreement
- II. Confidentiality → etc.
- III. Non-Solicitation

The Company may opt for filing complaint or law suit in Federal or state court.

If the company has concrete evidence of misappropriation, it may file claim under the Defend Trade Secrets Act (DTS) in federal court and join state law claims in the federal action under the court's supplemental jurisdiction.

Violation or Infringement of Intellectual Property rights (IPR) with regards to Patent, Copyright, Trademark or Trade Secret through misappropriation can be a breach of Civil Law or Criminal Law or both, which depends on the type of intellectual property involved, the jurisdiction and the nature of action.

Misappropriation of Patent / Copyright / trademark & trade secret occurs when a person / business entity uses or discloses after acquiring:

- i) by Improper means (theft, trespass etc)
- ii) by engaging agents by Improper means
- iii) by breaching duty of Confidentiality /
- iv) by hacking into Computer System illegally.

PATENT MisAPPROPRIATION: Patent misappropriation is the using or selling of a Patented invention without permission from the Patent holder. Permission is typically granted in the form of a license. In many countries including India & USA, a 'use' is required to be commercial or to have commercial value to avail Patent infringement protection. Patent protection is territorial or confined to one country's law and infringement is only possible in the country, where Patent is in force. For example, a patent granted in the United States prohibits anyone in the United States for making, using, selling or importing the patented item, while people in other countries are free to exploit the patented invention in their country through ~~misappropriation~~.

COPYRIGHT MISAPPROPRIATION: Copyright misappropriation is the use of works protected by Copyright law without the permission of the copyright holder.

Copyright misappropriation or plagiarism typically violates the exclusive rights of the copyright holder:

1. The Right to Reproduce and Make Copies of an original work.
2. The Right to Prepare derivative works based on the original works
3. The Right to Distribute copies to the public ~~person~~
4. The Right to Publicly Perform the work.
5. The Right to Publicly Display the Work
6. The Right to Perform Sound recordings Publicly through Digital Audio Transmission.

TRADEMARK MISAPPROPRIATION: Trademark infringement through misappropriation is a violation of the exclusive rights attached to a trademark without the authorisation of the trademark owner or any licensees of the trademark.

Misappropriation can very easily occur when the infringer or the person involved in the act of misappropriation, uses a trademark owned by another in respect of product or services, which is either identical or confusingly similar to the product or services of owned by other.

In the United States, trademark misappropriation proceedings are Civil Suits covered under State Common Law and since 1946 onwards covered under Lanham Act, a Federal Law, applicable for the whole of USA.

The United States, Japan, Switzerland and the EU (European Union) entered into the ACTA (Anti-Counterfeiting Trade Agreement) trade agreement in May 2011, which paved the way for Criminal Penalties of Copyright and trademark Infringement.

TRADE SECRET MISAPPROPRIATION:⁽³⁾
Companies often attempt to lawfully discover another company's trade secret through Reverse Engineering or employee poaching.
Companies can also engage unlawful means to discover the trade secrets of other companies by hacking into secret computer systems or violating non-disclosure agreements.
A Trade Secret is not deemed to exist unless the owner takes reasonable steps to maintain secrecy.

Misappropriation of trade secrets in US United States, is governed by two sets of law:

1. The Uniform Trade Secrets Act (UTSA)
It is a state act / state common law, covering only civil suits only (TORT) and attorney fees. State Courts can award: Damage/compensation. It is adopted by 48 states.
2. The Defend Trade Secret Act (DTSA)
It is a Federal Law, applicable through out USA. It became effective from 11-05-2016. DTSA is both Civil & Criminal in nature. Claims of Misappropriation under both the acts (UTSA & DTSA), must be brought within three (3) years of when the misappropriation occurred or discovered.

The Misappropriation Doctrine in US Legal System came from a famous decision of US Supreme Court in International News Service v. Associated Press, 248 U.S. 215 (1918), known as INS v AP or in INS Case.

The INS Case, the cornerstone of misappropriation doctrine, arose out of a dispute between two news gathering organizations, the Associated Press (AP) and the International News Service (INS) over reporting World War I news.

The Supreme Court ruled in favour of the AP, because AP has got gathered fresh news at the cost of enterprise, organisation, skill, labour and money, having economic value of the news. The court characterised INS's behaviour as misappropriation.

The Right of Publicity is one of the prominent forms of Unfair Competition in the field of Intellectual Property Rights. In recent years, the right of publicity is attracting wide recognition through out the world.

The right of publicity is "being in various terminology - "Personality rights", "right of persona", "Celebrity rights" etc in different parts of the world".

The Right of Publicity can be defined as the right of an individual to control the commercial use or exploitation of his or her photograph, signature, voice, image or persona - Name, photograph, signature, voice, image nickname or any other identifier or pseudonyms. This right is traditionally associated with celebrities, because the names or images of famous persons are used to sell products or services.

Example - T-Shirts having pictures of Michael Jackson, Madonna, Shah Rukh Khan, Alia Bhatt, Madhuri Dixit

The public image of a celebrity is of immense value and involves tremendous commercial value.

Thus, it become very important for such high profile celebrities to protect their rights so that nobody can exploit or acquire unauthorized gains from it.

The scope for protecting the celebrities under the right of publicity of intellectual

Property Law is gradually gaining its prominence in USA, in India, in UK and throughout the world.

POSITION OF PUBLICITY RIGHTS IN USA: In the United States, there is no federal Law or Case Law, recognizing the right of publicity, although Federal Unfair Competition Law recognizes a related statutory right to protect against False Endorsement, Associations & Affiliations.

Celebrities can resort to two options when it comes to Publicity Rights in the USA:

- I. The Lanham Act of 1946
- II. The State-by-State Laws of Publicity Rights.

I. The Lanham Act of 1946: It is a Federal Statute governing the trademark Laws in the USA. The Lanham Act protects the consumers and provides for a Civil action against a person who uses any word, term, name, symbol or device or any combination. Although the Lanham Act's primary purpose is to protect consumers, the Act's broad interpretation helped celebrities to protect their publicity rights. As a result lot of celebrities registered their names and/or likeness as trademarks.

Although some celebrities have been able to claim Publicity Right Protection under the Lanham Act, still this act does not offer to be successful in all cases, because of the difficult in establishing celebrity followers as consumers. II. The State-by-State Laws of Publicity Rights:

In United States, 14 states have passed Statute regarding Right to Publicity. Under the State Common Law practice, publicity right is a sub-category of Privacy Rights. The standard Common Law Plaintiff must prove:

1. the defendant's use of plaintiff's identity
2. the appropriation of the plaintiff's name or likeness to the defendant's advantage commercially or otherwise
3. the lack of consent and
4. a resulting injury.

Even though there is no unified single approach available to the Right of Publicity, celebrities are usually able to control the commercial use of their identities through the liberal interpretation of the Lanham Act by Courts and the State Courts' willingness to address the Publicity Right directly.

POSITION OF PUBLICITY RIGHTS IN INDIA:

In India, there is no specific law/Act regarding the right of publicity. Celebrities are forced to choose from different legal routes to protect them.

In India, the right of publicity is governed by Common Law only. Indian Courts scrutinise the law governing publicity as Right of Privacy and Property Right.

In India, the South Indian superstar Rajnikant's claim in the year 2005 was the first public claim regarding the Right of publicity. Madras High Court passed an injunction order against the release of a film titled as "Main Hoong Rajnikant", stating that the title violated the superstar's reputation through wrongful use of his name and goodwill. The title of the movie upheld the Publicity Rights.

Publicity Rights are distinct rights and will gain more attention in the coming years. Celebrities are getting aware day by day. Indian Judiciary has recognized these rights as Right to Privacy only. It's time now Indian legislature shall of recognize the commercial importance and formulate Statutory Law. Still today USA is the leader in respect of the Right of Publicity.

False advertising refers to any published claim or material that gives consumer an incorrect understanding or belief about a product or services being offered. It is basically misleading, unproven information and deceptive and illegal in terms of law.

According to the Lanham Act, 15 U.S.C.A.
False advertising is "Any advertising or promotion that misrepresents the nature, characteristics, qualities or geographic origin of goods, services or commercial activities."

Actually false advertising is a mode of promoting a product/ services by means of confusing, misleading, untrue statements on the part of manufacturer/ trader/ seller.

The publishing of advertising, whether on Print, electronic, Online TV/Radio advertisement, is designed to deceive or mislead consumers.

False Advertising occurs in various forms:

1. Inconsistent and Incomplete Comparisons
2. Misleading Illustrations
3. Deceptive Packaging
4. Quality Deceptions
5. Sale/ Price Reduction Deception
6. Hidden Fees, and Surcharges (Pricing based on Deceptions)

7. Manipulation of Measurement Units and Standards.
8. Manipulation of Terms and Conditions.
9. Misleading and Deceptive Claims
10. False Colouring.
11. Photo bleaching - used in Cosmetic and Weight loss commercials.
12. Angel Dusting - Availability of advertised ingredients in insignificant quantity.
13. Organic and Chemical Free
14. Deceptive Guarantee/Warranty

Examples of False Advertising:

1. Duracell — "Lasts even longer"
2. Nivea — "Bio-slim Complex"
3. Listerene — "kills germs that cause Bad Breath, plaque and gum diseases Gingivitis".
4. Splenda — "Made from Sugar so it taste like sugar!"
5. The Airtel 4G fastest Internet Challenge.
6. Maggi Noodle
7. Kellogg's Cornflakes

In order to establish that an advertisement is false it requires proof to the court of law, the plaintiff has to submit proofs that defendant is indulged in false advertising as follows:

1. A false statement of fact has been made about the advertiser's own or others goods or services or commercial activity.

2. The statement either deceives or has potential⁽³⁾ to deceive a substantial portion of its targeted audience | consumer
3. The deception is likely to affect the purchasing decisions of its audience.
4. The advertising involves goods or services in interstate.
5. The deception has either resulted or is likely to result ^{injury} ~~loss~~ to the plaintiff | customer in general.

Remedies of False Advertising: There are three possible remedies available:

1. Injunctive Relief
2. Corrective Advertising
3. Damages.

INJUNCTIVE RELIEF: It is granted by the courts upon fulfilment of following conditions:
i) Plaintiff must demonstrate a likelihood of deception or confusion after buying by the public.
ii) that an irreparable harm has been inflicted to the sales.

CORRECTIVE ADVERTISING: Corrective Advertising can be ruled in two different ways:
1. First, the court can require a defendant to launch a corrective advertising campaign and to make affirmative corrective statement.
2. Second, the court can award plaintiff monetary damages so that the plaintiff

can conduct a corrective advertising campaign to counter defendant's false advertisements.

3. DAMAGES: The Court awards damages if Plaintiff can show that either that some consumers are actually deceived or that the defendant used the false advertising in bad faith.

False Advertising Laws in USA: In the United States, there are State and Federal False Advertising Laws that prohibit various types of deceptive advertising, misleading labelling and similar practices. Both State and Federal False Advertising Laws provide important right for consumers:

Consumers can sue a company | seek monetary damage compensation, in case of false advertising.

Federal False Advertising Law: In the United States, the Federal Govt. regulates advertising through the Federal Trade Commission (FTC). The Federal Trade Commission Act allows the FTC to function in the interest of all consumers to prevent deceptive and unfair acts or practices. Section 5 of the Federal Trade Commission Act defines a representation, omission or practice is deceptive, if it mislead consumers consumer's behaviour or decisions affect about the product or service.

State Unfair Competition and False Advertising Laws: (5)

Every state in the United States has laws against false advertising, which provides remedies to consumers and competitors who have been victimized. Some notable State False Advertising Laws:

1. Uniform Deceptive Trade Practices Act (UDTPA)
2. California's Unfair Competition Law (UCL)
3. California's False Advertisement Law (CFAL)
4. California's Consumers Legal Remedies Act (CLRA)

Advertising Law in India:

There is no statutory agency or uniform legislation regulating the advertising market in India.

The Indian Advertising Market is regulated and controlled by a non-statutory body, the Advertising Standards Council of India (ASCI). Deceptive or misleading advertisements are restricted under various legislations including: 1. The Consumer Protection Act, 1986 2. Cable Television Network Rules, 1994 3. Norms of Journalists' Conduct issued by the Press Council of India Act and ASCI Code.