

TRADE SECRETS: THE FUNDAMENTAL IP RIGHT

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TRADE SECRETS ARE BROAD AND VAGUE

- Any secret and useful information
- Potentially permanent, although non-exclusive
- Legal rules based on business ethics
- By far the most used form of IP
- Usually defined only in litigation

EXAMPLES

- Secret process and formulas
- Designs and machines
- R&D, including failed experiments
- Business and financial plans
- Bid packages
- Vendor data

TRADE SECRET CIVIL LITIGATION

- Intensely emotional, like a divorce
- Expensive and distracting
- Difficult to predict outcomes
- Misappropriation can be indirect
- Damage theories and awards are generous

HIRING

- New employees are primary source of infection
- Temporary workers are riskier
- Consultants present highest risk
- Careful intake is first step to protection
- Continuing education sets the tone

THE “MAKE vs BUY” CONUNDRUM

- R&D wants to make it; marketing wants to buy it
- Management suggests looking around
- Problem: the team includes R&D folks
- NDAs are signed without thinking through
- Result: project stalled, lawsuit filed

CRIMINAL EXPOSURE

- State laws since early 1960s
- Federal Economic Espionage Act 1996
- Fines up to \$5M, 10 years prison
- Example: Avant!: \$195M, jail for execs
- Compliance plans lower risk of infection and of indictment

TRADE SECRETS AROUND THE WORLD

- Owning information: a cultural disconnect
- Local laws varied enormously
- Harmonization (GATT TRIPs)
- The “wax fruit” problem
- Even in modern economies, lack of “discovery” system inhibits
- Result: police, politicians, local lawyers

TRANSACTION STRATEGIES

- Know the export regulations
- Check local compulsory licensing reg's
- Check time limits set on confidentiality
- Check local limits and taxes on technology transfers and licenses
- Penalty clauses for breach of confidence
- Consent to U.S. venue for disputes

PRACTICAL STEPS

- Choose markets and factory sites carefully
- Check out licensees thoroughly
- Choose overseas managers carefully
- Use localized NDA's for key employees
- Monitor licensees and business partners for confidentiality compliance
- Share only what they need to know

PRACTICAL STEPS (cont'd)

- Contract limits on information exposure
- Specify security measures for foreign facilities and communication systems
- Prominently mark sensitive records
- Avoid local telephones, use encryption
- Use electronic countermeasures
- Separate information into modules

CONCLUSIONS

- It's a jungle out there
- Legal processes provide limited protection
- Risk of loss and risk of infection
- Look before you leap into a foreign market
- Vigilance and prevention are key