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**MISAPPROPRIATION OF TRADE SECRETS**

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Trade secrets are the intellectual property's hidden gems, quietly driving innovation and economic growth. While patents, trademarks, and copyrights often take the spotlight in discussions of intellectual property, trade secrets operate silently behind the scenes to protect sensitive knowledge, formulas, techniques, methods, and other valuable intangible assets. The reason patents, trademarks, and copyright laws are often so well known amongst the public is because they require disclosure and registration whereas trade secrets maintain the principle of secrecy. The legal framework for trade secrets includes international standards, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), as well as national laws and regulations. It establishes requirements for maintaining secrecy, sets standards for misappropriation, and provides remedies for violations.

Effective trade secret protection necessitates businesses taking reasonable measures to guard their proprietary information, such as implementing strict confidentiality agreements, physical and digital security measures, and employee education programs. The definition of World Intellectual Property Organisation (WIPO) defines the term “Intellectual Property” or “IP” as creations of the mind, such as inventions, literary and artistic works, designs, symbols, and names and images used in commerce and overlooks the recognition of Trade Secrets in Intellectual Property Law. However, the international definition of Trade-Related Aspects of Intellectual Property Rights (TRIPS) has provided a definition of Trade Secrets which states in their Articles that the member countries must protect trade secrets or “undisclosed information” that is secret; has commercial value because it is secret; and has been subject to reasonable steps to keep it secret. The TRIPS Agreement was the first international agreement to protect trade secrets expressly. The approach laid out in the TRIPS Agreement is based on the notion that protection against unfair competition should include protection for undisclosed information.<sup>1</sup>

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<sup>1</sup> SCHULTZ AND LIPPOLDT, APPROACHES TO PROTECTION OF UNDISCLOSED INFORMATION 7 (2014)

Trade secrets are crucial for protecting confidential information and maintaining a competitive edge. They offer firms exclusive control over their proprietary information without official registration or disclosure, enabling flexibility in innovation and commercialization. Trade secrets, unlike other intellectual property like patents or trademarks, do not require formal registration or public disclosure, allowing businesses to develop and operate discreetly, preventing competitors from replicating their success.

### **DISTINCTION BETWEEN TRADE SECRETS AND PATENTS:**

Trade secrets offer perpetual protection for confidential information, enabling companies to invest in new technology, procedures, and strategies, contributing to the long-term sustainability of businesses where innovation and commercialization are the key. This enduring nature ensures companies can continue benefiting from their proprietary knowledge and practices without risk of expiration or loss of exclusivity. This contrasts with other forms of intellectual property, such as patents, which have limited durations.

A patent is an intellectual property right that grants exclusive rights to the inventor for up to 20 years. During this time, the inventor controls the use, manufacture, and sale of the patented invention, preventing unauthorized use. Once the patent term ends, the invention enters the public domain, making it freely available without obtaining consent or royalties. Trade secrets, on the other hand, do not require registration or public disclosure but must be kept confidential through reasonable efforts. Trade secret protection can last indefinitely if the information meets the criteria for trade secret status. However, if the information is no longer confidential, trade secret protection is lost.

Patents provide a broader scope of protection, encompassing the specific invention claimed in the patent. On the other hand, trade secrets protect against the misappropriation of confidential information, such as theft, unauthorized access, or breach of confidentiality. It focuses on preserving the secrecy of the information rather than preventing others from using similar ideas which they independently discover or develop. One of the most renowned trade secrets in history is the recipe for Coca-Cola. For almost 130 years, the formula has remained a closely guarded secret, as no one has successfully deciphered it. The Coca-Cola Company takes extensive measures to protect the formula, with rumors suggesting that it is divided into various parts stored in different locations, ensuring that no single individual possesses the complete

recipe. The value of this trade secret to Coca-Cola is immeasurable, and any potential loss of the formula would likely result in significant financial repercussions, amounting to millions of dollars or even more.

### **INFRINGEMENT OF TRADE SECRET:**

Infringement of Trade Secrets is known as “Misappropriation.” It refers to an unauthorized acquisition, use, or disclosure of confidential information that is protected as a trade secret. It occurs when someone gains access to or exploits valuable proprietary information without the consent or authorization of the trade secret owner.<sup>2</sup> Misappropriation also occurs when someone discloses or uses a trade secret without consent when, at the time of disclosure, he or she had reason to know that knowledge of the trade secret was:

- Derived from someone who obtained it through improper means;
- Obtained under circumstances that gave rise to maintaining its secrecy or limiting its use; or
- Derived through a person who owed a duty of confidentiality to the trade secret owner.<sup>3</sup>

Misappropriation of trade secrets can have significant negative impacts on businesses. It can lead to the loss of competitive advantage, erosion of market share, damage to innovation efforts, and financial harm. As a result, trade secret owners must take proactive measures to protect their confidential information, such as implementing robust security measures, enforcing non-disclosure agreements, and educating employees about the importance of safeguarding trade secrets. To establish a claim of misappropriation of trade secrets, the trade secret owner must typically demonstrate that the information qualifies as a trade secret, that reasonable efforts were made to maintain its confidentiality, and that the alleged infringer wrongfully acquired, used, or disclosed the trade secret. Once it's proved that misappropriation has occurred, trade secret owners can seek legal remedies to enforce their rights.

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<sup>2</sup> wipo, [https://www.wipo.int/tradesecrets/en/tradesecrets\\_faqs.html](https://www.wipo.int/tradesecrets/en/tradesecrets_faqs.html), (last visited July 2, 2023)

<sup>3</sup> Justia BLOG, <https://www.justia.com/intellectual-property/trade-secrets/infringement/#:~:text=Trade%20secret%20infringement%20is%20called,through%20a%20mistake%20or%20accident.>, (last visited July 02, 2023)



### SOME OF THE FAMOUS TRADE SECRETS:

Apart from the Coco cola recipe, some of the well-known trade secrets are:

- Google search algorithm
- McDonald's Big Mac Special sauce
- KFC's Original Recipe
- Lena Blackburn's Baseball Rubbing Mud
- New York Times Bestseller List
- Krispy Kreme Doughnut Recipe

### THREATS LEADING TO INFRINGEMENT:

Proof of a "trade secret" precedes "misappropriation." If there is no "trade secret" then there can be no "misappropriation." This error is often fatal to the plaintiff's trade secret misappropriation claim.<sup>4</sup> The existence of a "trade secret" is a prerequisite for establishing a claim of "misappropriation." However, it is important to note that threats to trade secrets can still exist, even if a trade secret has not been established or proven. These threats can increase the risk of potential infringement or misappropriation, highlighting the need for proactive measures to protect confidential information. While the lack of a valid trade secret may hinder a successful trade secret misappropriation claim, businesses should not overlook the potential risks and threats they face in relation to their confidential information. These threats can include:

- *Insider Threats:* Even in the absence of a trade secret, insiders with access to sensitive information can still pose risks. They may disclose or misuse valuable proprietary information, leading to financial loss or damage to the business.
- *Cybersecurity Breaches:* Weak information security practices can make a company vulnerable to cyberattacks and data breaches, regardless of whether a trade secret has been established. Unauthorized individuals can gain access to confidential information and exploit it for personal gain or competitive advantage.<sup>5</sup>
- *Industrial Espionage:* Competitors or malicious actors may attempt to gather valuable information through illicit means, regardless of whether it meets the legal definition of a

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<sup>4</sup> R. Mark Halligan, *The Existence And Misappropriation Of Trade Secrets*, REUTERS (last visited July 02, 2023), <https://www.reuters.com/legal/legalindustry/existence-misappropriation-trade-secrets-2022-06-07/>

<sup>5</sup> Andrew Froehlich, DEFINITION insider threat, techtarget, (July. 01, 2023, 9:29 PM), <https://www.techtargget.com/searchsecurity/definition/insider-threat>

trade secret. Industrial espionage can involve tactics such as surveillance, hacking, or social engineering to obtain sensitive business data.

- *Third-Party Risks:* Collaborating with third parties, such as suppliers, partners, or contractors, can introduce risks to confidential information. Insufficient contractual protections or inadequate security measures by these parties can lead to unauthorized disclosure or misuse of sensitive data.
- *Employee Mobility:* Even in the absence of a trade secret, departing employees may take valuable proprietary information to their new employers, potentially leading to unfair competition or the loss of competitive advantage.<sup>6</sup>

While these threats may not necessarily result in trade secret misappropriation claims if a valid trade secret is absent, they still pose risks to a business's confidential information. Therefore, it remains crucial for businesses to implement robust security measures, employee training programs, and contractual safeguards to protect their sensitive information, regardless of the legal classification of a trade secret. By proactively addressing these threats and implementing appropriate safeguards, businesses can reduce the risk of infringement or unauthorized disclosure, regardless of the presence or absence of a trade secret.

#### **ACCOUNTABILITY FOR THE TRADE SECRET MISAPPROPRIATION:**

The liability for the misunderstanding of a trade secret can depend on the circumstances and the parties involved. While it is essential to consult legal professionals for specific advice, the following parties may potentially be held liable for the misunderstanding of a trade secret:

- *Employees or Insiders:* If an employee or an insider misunderstands a trade secret and discloses or misuses it, they may be held liable for breaching their duty of confidentiality and potentially face legal consequences. This can include employees who have access to trade secrets through their employment or individuals who were previously associated with the company but no longer have authorized access.
- *Contractors and Business Partners:* Contractors or business partners who are entrusted with confidential information as part of their contractual agreements may also be held

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<sup>6</sup> shatyoki.bhattacharjee shatyoki.bhattacharjee, Third-Party Cyber Risk: Understanding the cyber threat landscape of third parties, signalx.ai, (July. 02, 2023, 9:29 PM), <https://signalx.ai/blog/third-party-cyber-risk/>

liable if they misunderstand or improperly use trade secrets. Their obligations to maintain confidentiality and protect trade secrets should be outlined clearly in contractual agreements.

- *Competitors:* In certain cases, if a competitor gains access to a trade secret through unlawful means, such as industrial espionage or theft, they may be held liable for misusing or exploiting the misunderstood trade secret. Competitors engaging in unfair competition practices can face legal action and potential liability.
- *Third Parties:* Depending on the circumstances, third parties who receive or inadvertently come into possession of a misunderstood trade secret may also face liability if they fail to take reasonable measures to maintain confidentiality or if they misuse the information for their own benefit.
- *Former Employees:* Former employees who had access to trade secrets during their employment but no longer have authorized access can be held liable if they misunderstand and subsequently misuse or disclose the trade secret. In a lot of cases, the employers are even superstitious to hire the competitor's former employees who have stolen the trade secret due to the reason that, there are higher chances that they might steal the trade secret in this position too.<sup>7</sup>

#### **DEFENSES TO TRADE SECRET INFRINGEMENT:**

Defenses to trade secret misappropriation are legal arguments that can be presented to challenge or mitigate liability in cases where trade secrets have been allegedly misappropriated. When faced with allegations of trade secret infringement, defendants have the opportunity to present various defenses to challenge the claim and mitigate potential liability. These defenses serve to counter the assertion that the defendant unlawfully acquired, used, or disclosed the plaintiff's trade secret.<sup>8</sup> The possibility of the defendant's success in these defenses working varies depending on the jurisdiction and specific circumstances of each case. However, these defenses serve as powerful tools to safeguard confidential information and assert a lawful position. They aim to establish that the defendant's actions were lawful, independent, or justified, thereby refuting allegations of trade secret misappropriation. This may be sufficient to say that the

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<sup>7</sup> *Bimbo Bakeries USA, Inc. v. Botticella* 613 F.3d 102 (3d Cir. 2010).

<sup>8</sup> justia, <https://www.justia.com/intellectual-property/trade-secrets/infringement/>, (last visited July. 6, 2023).



burden of proof falls on the plaintiff to prove that 1) it has some valuable business information that it has kept secret; (2) the information is not generally known; and (3) the defendant has used that secret.<sup>9</sup>

However, when it comes to the defendants proving that the allegations made against them are false, the defenses that can be used against the alleged Misappropriation of the Trade Secret include:

- *Independent Development:* One of the most common defenses that an alleged wrongdoer might argue is that it independently developed the trade secret.<sup>10</sup> This defense aims to establish that you arrived at the trade secret through your own separate and distinct efforts, without any access or reference to the plaintiff's trade secret. By presenting compelling evidence such as laboratory notebooks, computer code, or experimental research results, you can demonstrate the independent process you undertook to discover or develop the trade secret information.<sup>11</sup> To successfully employ the defense of independent development, it is crucial to establish a clear timeline for your research and innovation efforts. This can be achieved by providing detailed records, documentation, and any available proof that substantiate the dates and steps involved in your independent development process. The key objective of this defense is to establish that your research, experimentation, or discovery predates the alleged misappropriation claimed by the plaintiff. By demonstrating that the defendant independently arrived at the trade secret information, without any reliance on or access to the plaintiff's trade secret, they can undermine the plaintiff's claim of misappropriation.
- *Reverse Engineering:* This defense is based on the premise that if you lawfully obtain a publicly available product or information, you have the right to analyze, study, or deconstruct it to understand its underlying construction, functionality, or processes. By independently reverse engineering a product, you aim to demonstrate that you arrived at the same or similar information without relying on the plaintiff's trade secret.<sup>12</sup> The

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<sup>9</sup> Yoches and Lu, *Defending Trade-Secret Misappropriation Allegations*, FINNEGAN (last visited on July 9, 2023)

<sup>10</sup> Molo Lamken LLP News, <https://www.mololamken.com/knowledge-what-is-trade-secret-misappropriation#:~:text=Trade%20secret%20misappropriation%20occurs%20when,to%20be%20kept%20a%20secret>. (last visited July 02, 2023)

<sup>11</sup> mololamken, <https://www.mololamken.com/knowledge-what-is-trade-secret-misappropriation>, (last visited July. 6, 2023).

<sup>12</sup> in.indeed, <https://in.indeed.com/career-advice/career-development/what-is-reverse-engineering>, (last visited July. 6, 2023).



defense asserts that this independent analysis and understanding constitute a legitimate means of acquiring knowledge, even if it involves uncovering elements that may be considered trade secrets. In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*,<sup>13</sup> the US Supreme Court has confirmed that the “public at large remained free to discover and exploit the trade secret through reverse engineering of products in the public domain or by independent creation.” Considering that it was through reverse engineering, several factors shall be considered are:

- The person lawfully got access to the product or information
  - That the reverse engineering process was conducted independently, without any access or reference to the plaintiff's trade secret
  - The reverse engineering occurred before the claimed date of misappropriation
  - The knowledge obtained was independently developed and not derived
- 
- *Breach of Secrecy:* Breach of secrecy is a powerful defense strategy in trade secret litigation. It involves demonstrating that the plaintiff failed to take reasonable precautions to maintain the confidentiality and secrecy of the information claimed as a trade secret. By establishing that the plaintiff did not adequately protect the trade secret, this defense challenges their claim of misappropriation and seeks to undermine their legal position. The breach of secrecy defense aims to challenge the validity of their trade secret claim, hence it asserts that their own actions or omissions contributed to the loss of secrecy, thus negating their ability to claim misappropriation.
  - *Public Information:* The defense of public information is a compelling strategy, as it asserts that if the alleged trade secret was already publicly available before the claimed date of misappropriation, it cannot be considered a protected trade secret. By demonstrating that the information was already in the public domain, this defense challenges the plaintiff's assertion of misappropriation and asserts that the trade secret is, in fact, public information. To support the defense, it is also crucial to show that the alleged trade secret was not subject to any confidentiality restrictions or reasonable efforts to maintain its secrecy. This includes highlighting instances where the information was openly discussed, disclosed without restrictions, or accessible to the public through

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<sup>13</sup> 489 U.S. 141, 155 (1989)

common industry knowledge or practices. This defense is that the information lacks the essential element of secrecy required for trade secret protection.

### **REMEDIES AVAILABLE IN CASE OF MISAPPROPRIATION OCCURS:**

Remedies for trade secret misappropriation are vital in protecting the rights of trade secret owners and ensuring that appropriate action is taken against those who unlawfully acquire, use, or disclose confidential information. The court concluded in the case of *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*,<sup>14</sup> that a trade secret is information that, if given to a competitor, is likely to cause real or serious injury to the owner of the secret. It can thus include not just formula for product manufacturing, but also, in appropriate cases, the identities of clients and the things they purchase. Hence, when trade secrets are misappropriated, owners have various legal remedies available to seek redress and obtain appropriate relief. The remedies for trade secret misappropriation typically aim to restore the trade secret owner's rights and compensate for the damages incurred. They can vary depending on jurisdiction and the specific circumstances of each case. Some common remedies include:

- *Injunctive Relief:* Injunctive relief, such as preliminary and permanent injunctions, can be sought to prevent further use or disclosure of the trade secret. Injunctions are court orders that prohibit the defendant from continuing their unauthorized activities and help protect the confidentiality of the trade secret.
- *Monetary Damages:* Trade secret owners may seek monetary damages to compensate for the losses suffered due to the misappropriation. Damages can include actual damages, which encompass the economic harm caused by the misappropriation, as well as potential damages, which account for the potential economic benefits the trade secret owner could have gained if the misappropriation had not occurred.
- *Exemplary or Punitive Damages:* In some jurisdictions, exemplary or punitive damages may be awarded to punish the wrongdoer for their intentional or malicious misappropriation. These damages are meant to deter others from engaging in similar misconduct and provide a stronger deterrent against trade secret misappropriation.

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<sup>14</sup> 1995 PTC (15) 278

- *Reasonable Royalties:* Trade secret owners can also seek reasonable royalties as a form of compensation for the unauthorized use or disclosure of their trade secrets. This remedy aims to provide an equitable payment to the owner based on the value of the misappropriated trade secret.
- *Seizure and Destruction:* In certain circumstances, a court may order the seizure and destruction of the misappropriated trade secret or any products derived from it. This remedy ensures that the misappropriated information is eradicated and prevents further unauthorized use or dissemination.
- *Injunctive Relief against Employees and Third Parties:* In addition to injunctive relief against the misappropriating party, trade secret owners may seek injunctive relief against employees or third parties who have knowledge of the misappropriation or are aiding in its continuation. This helps prevent the dissemination of the trade secret beyond the initial misappropriation.

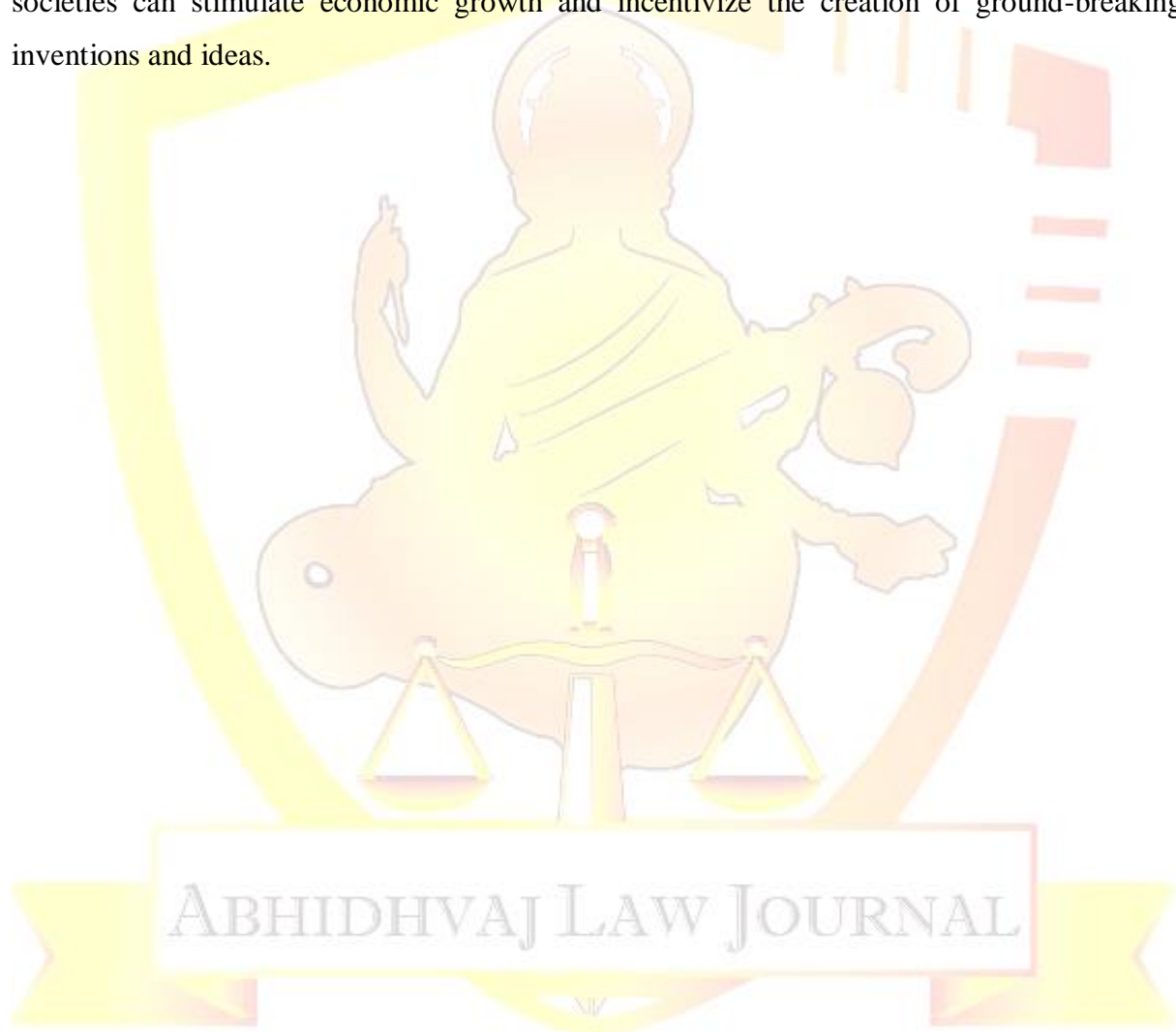
## CONCLUSION:

Trade secrets are crucial in securing important and confidential information that gives organizations a competitive advantage. The confidentiality of trade secrets is critical to their sustained economic value and success. However, trade secret misappropriation is a serious threat since unauthorized acquisition, use, or disclosure of these secrets can cause significant harm to legitimate owners. Misappropriation can result in significant financial losses, a loss of competitive advantage, reputational damage, and hampered innovation. To counteract trade secret misappropriation, legal frameworks provide trade secret owners with strong protection and remedies. The availability and scope of remedies, however, may differ depending on jurisdiction, but their objective remains consistent: to protect the rights of trade secret owners and to maintain the value of confidential knowledge.

Preventing and addressing trade secret misappropriation requires a proactive approach. Trade secret owners must implement comprehensive security measures, including confidentiality agreements, restricted access, employee education, and monitoring systems. Regular trade secret audits can identify vulnerabilities and ensure effective protection strategies.



Moreover, trade secret misappropriation cases often involve complex legal proceedings, requiring the expertise of specialized attorneys well-versed in trade secret laws. Seeking legal counsel is essential to navigating the intricacies of trade secret litigation, understanding available remedies, and developing a strong legal strategy. Ultimately, the protection of trade secrets and the enforcement of remedies for misappropriation are crucial for fostering innovation, encouraging investment in research and development, and promoting healthy competition in the business world. By upholding the value and integrity of trade secrets, societies can stimulate economic growth and incentivize the creation of ground-breaking inventions and ideas.



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