



In Confidence

Putting in Place a Trade Secret Protection Program

BY P. KANDIAH





Trade secrets

- Useful and valuable commercial information not known to the public, especially competitors





Includes...

- **Process of manufacture**
- **List of customers/clients and their purchasing patterns**
- **List of suppliers and their prices**
- **Sales, marketing, advertising strategies**





Includes...

- **Internal management programmes**
 - **Training schemes/programs/materials**
- **Details on new product launch, advertisement strategy, management strategy**
- **Any information which gives commercial advantage to your competitors**





How to manage?

- **Information flow strictly controlled**
- **Info given on a need-to-know basis**
- **Party receiving confidential information (CI) agrees in writing to keep it confidential**
- **Non-disclosure agreements (NDAs)**





How to manage?

- **Service companies, sub-contractors and suppliers all sign confidentiality agreements**
- **Restricted entry to selected areas in the business premises / production area**
- **Undertaking by new employees**
- **Reminder to resigning employees**





Important documents

- **e.g., Contract agreements**
Technical drawings
Production information

all marked trade secret or confidential

- **Distribution, photocopy controlled, signs on register**

- **Customer list, supplier list may contain “red-herrings” to monitor use of data**





Manufacturer of ceramic product

- Lost valuable info to competitor
- Lessons to be learned

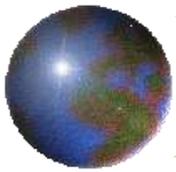




Supplier of medical equipment

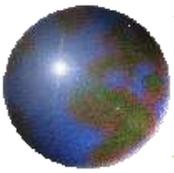
- Conspiracy by employees
- Lessons to be learned





“party relying on the confidential information MUST establish the exact nature and extent of the confidential information”





Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

- Complex case: Plaintiff sued 8 Defendants for breach of confidence, infringement of copyright and design
- Plaintiff (PLL) manufactured contact lenses for one of the Defendants (AVCL) using a patent license owned by a shareholder/director (GG) in the Defendant company
- In the Purchase and Supply Agmt between PLL and AVCL, there was a term that stated that PLL was the sole and exclusive owner of the “confidential and proprietary information” but phrase was not defined in agmt
- There was a min. purchase order requirement
- Relationships between the parties deteriorated and AVCL decided to set up its own manufacturing facility



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

- AVCL used PLL's drawings on microfilm for the purpose of designing and ordering some of the equipment
- Significant number of PLL's senior employees left and joined AVCL
- PLL ceased supplying lenses to AVCL
- PLL sued: Alleged following info was copied
 - design of PLL equipment and lenses
 - processes and materials used
 - software which was written to help management of PLL's business

...cont'd



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

- PLL's Lens Design Booklet, a compilation of the detailed dimensions of the range of the PLL's lenses and the Lens Design Program, which was written by AG (GG's son) and enabled a manufacturer, by inputting lens design information, to generate a complete set of finished (wet) lens configuration, dry lens specifications and etc.
- PLL's definition of "confidential information" in its suit encompassed more or less EVERYTHING.
 - including instructions on how to operate third parties' standard equipment, trivial instructions related to personal health and cleanliness



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

➤ Court held:

1 *PLL's claim on lens design and dimensions failed.*

Tens of thousands of lenses had been placed on the market over the years and there has been no attempt to justify confidentiality in relation to most of the dimensions.

2 *PLL's Lens Design Booklet – comprised of a list of individual design features of individual lenses which were readily available to those in the art. A mere non-selective list of publicly available information should not be treated as confidential (even if putting them together required some time and effort).*



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

3 *PLL's claim for confidentiality in the design of the tooling for the equipment were "recklessly wide" but as the detailed dimensions were confidential, and not in the public domain, the copying of the drawings with the dimensions was a breach of confidence.*

4 *PLL's detailed designs for the mould and metal parts used for making the moulds were confidential and the use of that information was a breach of confidence.*



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

5 *Use of derivative work that was created from confidential information is acceptable if the derivative work does not directly disclose or incorporate the confidential information.*

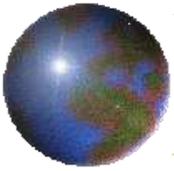
6 *Where at the date of judgment, the information is no longer confidential but it was so at the time AVCL's equipment was made, the continuing activity of AVCL did not constitute breach of confidence – thus, remedy here was not an injunction but the imposition of a financial penalty.*



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

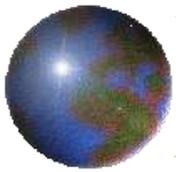
7 *Essential that the Plaintiff gives full and proper particulars of all confidential info relied on because (i) plaintiff is usually seeking an injunction and unless the confidential information was properly identified, the injunction would be uncertain in scope & might be difficult to enforce and (ii) absence of proper particulars could compromise a defendant's ability to defend himself.*

8 *It is an abuse of process to give particulars of information which was not confidential because a claim based in part on wide and unsupportable claims of confidentiality could be used as an instrument of oppression or harassment.*



Ocular Sciences Ltd & Anor v Aspect Vision Care Ltd & Ors

9 *A Competitor or Ex-employee is entitled to copy non-confidential material.*



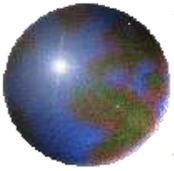
*The information **MUST** be
confidential in nature*





Coco v A.N Clark (Engineers) Ltd

- Plaintiff designed a moped engine and sought the assistance of Defendants in its manufacture
- Plaintiff supplied information, drawings and other aids such as the list of possible suppliers for the parts for the machine to the Defendant
- The Plaintiff brought the prototype to the Defendant and parties have discussions over the next 3 months
- After the Plaintiff had disclosed to the Defendants all the details of his designs and proposals for its manufacture, the parties fell out and the Defendants decide to manufacture their own engine



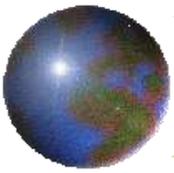
Coco v A.N Clark (Engineers) Ltd

- Plaintiff sued the Defendants for misusing information communicated to them in confidence solely for the purpose of the joint venture
- The Defendants denied that the information provided was confidential
- The issue in this case was whether the information given to the Defendants by the Plaintiff was confidential?



Coco v A.N Clark (Engineers) Ltd

- Both parties have common experience and common knowledge of these types of machines. That they knew a lot was shown in the correspondences that took place between them
- The facts are against inferring a confidence between the parties. The Defendant's engine components can be purchased on the open market in the same way the Plaintiff's design can be purchased in the market
- Plaintiff's expert evidence was not convincing. It seemed that ideas and similarities between the design and components in the Plaintiff's and Defendant's mopeds were common to the moped world



Coco v A.N Clark (Engineers) Ltd

➤ Court held:

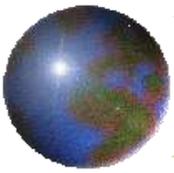
1 *Of the three elements essential to the cause of action of breach of confidence, only one condition was met (that the information was communicated in circumstances importing an obligation of confidence). Other two, i.e. that info was confidential in nature and there was unauthorized use of the info, were not met.*

2 *Evidence adduced by the Plaintiff failed to reveal that the similarities between the Defendant's engine and its own engine were achieved using the confidential information or that his engine had original qualities that would amount to confidential information.*



Employees cannot be prevented from using their “own general skills and knowledge”





Faccenda Chicken Ltd v Fowler & Others

- Plaintiff (P) is involved in the business of breeding, slaughtering and marketing fresh chickens
- 1973, P employed F as its sales manager and at his suggestion adopted a method of selling fresh chickens from refrigerated vans which travelled through particular routes within a defined area
- Each vans salesman received sales information regarding the customers' names and addresses, the general limits of the routes, the quantity and quality of goods sold and the prices charged
- 1980, F left and started his own business providing the exactly same services, in the same area as P



Faccenda Chicken Ltd v Fowler & Others

- 5 of P's van salesmen and 3 other employees from P joined F
- Van sales division dropped when F left but when 8 experienced staff left, the division was less profitable
- P sued F and the 8 ex-employees for misappropriating the following sales information:
 - the names and addresses of the customers
 - the most convenient route to be taken to reach the individual customers
 - the usual requirements of individual customers
 - the days of the week and the times of the day when deliveries are usually made to customers
 - the prices charged to the individual customers

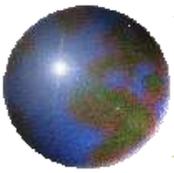


Faccenda Chicken Ltd v Fowler & Others

➤ Court of Appeal (affirming HC) held (after 39 days of trial):

1 *Confidential information that is revealed to employees can be restricted from usage after they leave employment only if the information is treated as a “trade secret”.*

2 *To determine whether the information is trade secret, it is necessary to consider (1) the nature of the employment (e.g., employee regularly handled confidential information and recognised it as such or information was only handled*



Faccenda Chicken Ltd v Fowler & Others

by a restricted number of employees, (2) the nature of the information, (3) whether the employer had stressed the confidentiality of the information and (4) whether the relevant information could easily be isolated from other non-confidential information which was part of the same package of information.

3

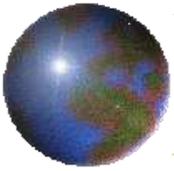
Applying those tests, neither sales information as a whole nor the information about prices charged by the plaintiffs fell within the classification of “trade secret”. Though the information about the sales prices is of some value to the competitor, it could not be regarded as plainly secret or sensitive.



Faccenda Chicken Ltd v Fowler & Others

4 *Sales information was within the knowledge of F and the ex-employees of the Plaintiff and the use of the information was merely use of their general skills and knowledge gained from a previous employment.*

5 *The Defendants are not entitled to take a copy of the Plaintiff's instructions away with them but insofar as the instructions cannot be called trade secrets and he carried them in his head, he is entitled to use them for his own benefit or the benefit of any future employer.*



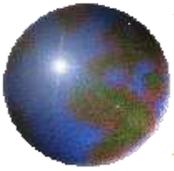
Faccenda Chicken Ltd v Fowler & Others

6 *Specific trade secrets so confidential that, even though may necessarily have been learnt by heart and even though the employee may have left the service, cannot lawfully be used save for the employer's benefit.*



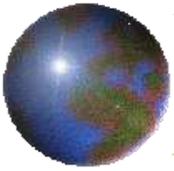
Use of names lingering in mind due to “years of experience” not breach of confidence





Coral Index Limited v Regent Index Limited & Anor

- Plaintiff carried on a business of accepting wagers concerning movement of the Financial Times share index
- Second Defendant, K, after being employed for 5 years as the Plaintiff's office manager, resigned and assisted with the establishment of a new rival business, the First Defendant
- K sent literature to several of Plaintiff's customers and the literature was similar to that of Plaintiff's



Coral Index Limited v Regent Index Limited & Anor

- Plaintiff sued with three causes of action:
 - (i) breach of confidence (K took away customer list or memorised the list)
 - (ii) Literature was copied
 - (iii) Use of similar company name would suggest an association with the Plaintiff (passing off)

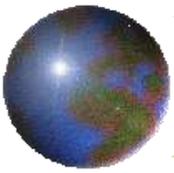


Coral Index Limited v Regent Index Limited & Anor

➤ Court held:

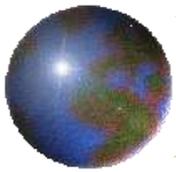
1 *Difficult to infer that K walked away with the customer list. He was working there for 5 years and impossible to suppose that he did not get to know a large number of customers well. Even if he had an average memory for people's names, he could not fail to carry away a considerable number of names and even addresses, without any conscious attempt to make a mental list of them.*

2 *Literature is similar to that of Plaintiff's and copyright infringement is established.*



Coral Index Limited v Regent Index Limited & Anor

3 *For the passing off action, the only similar word is the word “INDEX” and as that word is descriptive of the business done, the First Defendant cannot be said to mislead the public. The word Regent and Coral are different.*



Local Front: Malaysia





Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

- Plaintiff was the employer to 1st to 4th Defendants and dealt in the sale of certain scientific equipment to hospitals, universities, research centres, etc for which it was the exclusive distributor in Malaysia.
- The 4 Defendants incorporated a company, the 5th Defendant, and approached 3 of the Plaintiff's customers offering the same products sold by the Plaintiff but for a lower price. One of the customers eventually purchased from the 5th Defendant.



Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

- The 5th Defendant also approached the overseas principal/supplier of the equipment and was appointed as a distributor for the products in Malaysia. By doing that, the distributorship agreement with the Plaintiff was made non-exclusive.
- Plaintiff sued the Defendants for breach of duty of fidelity and good faith and breach of confidence.

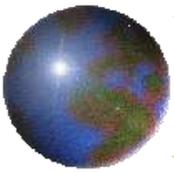


Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

➤ Court held:

1 *The duty of good faith or fidelity prohibits an employee from using any confidential information during and post-employment.*

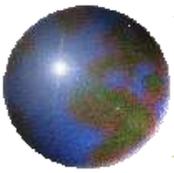
2 *Where there is a confidential relationship between 2 parties, the Court can infer an implied contract arising from that relationship.*



Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

3 *Plaintiff had evidence to prove that the 4th Defendant had printed out information relating to the Plaintiff's customer database, suppliers and cost prices and this evidence was not refuted by Defendants.*

4 *Method of compilation of the list of customers, their specific needs and cost prices was confidential even if the method of arriving at the selling price of the equipment was neither a unique intellectual work nor ingenious.*



Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

5 *Similarity of the quotation sent out by Plaintiff to its customers and the quotation sent out by the Defendants allows the Court to infer that confidential information was used. Especially since the Defendant had no evidence to prove otherwise.*

6 *Defendants claimed that they obtained the product specifications from the market (from suppliers and customers) but there was no evidence of this.*



Schmidt Scientific Sdn Bhd v Ong Han Suan & Ors

7 *Defendants claim that it's a restraint of trade failed as the Plaintiff does not intend to restrain the Defendants from entering the same trade but it's the Plaintiff's intention to restrain the use of its confidential information to the detriment of the Plaintiff.*

8 *Defendants claimed that they obtained the product specifications from the market (from suppliers and customers) but there was no evidence of this.*



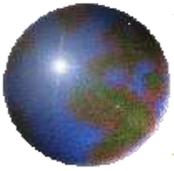
*Duty of good faith
and fidelity*





Svenson Hair Care Center Sdn Bhd v Irene Chin Zee Ling

- The Plaintiff, whose business was in providing skin and beauty care services under the name Bella Beauty Centre, employed the Defendant
- The Defendant was the Centre Manager for the PJ Branch of the Plaintiff's beauty centre
- When she resigned the Defendant joined another beauty centre and started contacting the previous customers of the Plaintiff asking them to discontinue their treatment contracts with the Plaintiff and asked them to try the new beauty centre, Marique Wellness



Svenson Hair Care Center Sdn Bhd v Irene Chin Zee Ling

- The Defendant sought an injunction to restrain the Defendant from contacting or corresponding with all or any of the present customers of the Plaintiff.

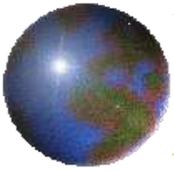


Svenson Hair Care Center Sdn Bhd v Irene Chin Zee Ling

➤ Court held:

1 *Customer lists and details are clearly confidential in this case as it was expressly mentioned in one of the clauses in the Employment Agreement.*

2 *Plaintiff's customers' name list and details could not become part of the Defendant's "own skill, knowledge and business experience" as the Defendant had submitted as there was evidence to show that the Defendant had taken possession of the customers' treatment cards during the period of her termination notice.*



Svenson Hair Care Center Sdn Bhd v Irene Chin Zee Ling

3 *Defendant's claim that her livelihood will be affected if injunction is granted was not accepted as the Defendant is an employee in the new beauty centre and earns a salary and commission.*



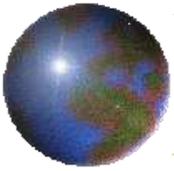
*“Inference of copying
is too strong to resist”*





Electro Cad Australia Pty Ltd v Ors

- 1st and 3rd Plaintiffs developed and sold anti car-theft product, Stopcard Auto Theft Device (“Stopcard”)
- 2nd Plaintiff was granted a license to use the trademark “Stopcard” in licensed territories including Malaysia
- 2nd Defendant was the director and shareholder of the 2nd Plaintiff and was under a duty of confidence as required by the clause in the license agreement
- 2nd Defendant resigned from the 2nd Plaintiff company and entered into employment with the 4th Defendant
- The 4th Defendant launched a similar product called “Stopcar”



Electro Cad Australia Pty Ltd v Ors

- Plaintiffs sued, claiming breach of confidence, breach of fiduciary duties, passing off, etc.
- Defendants denied using confidential information and claimed that the product was derived from their own technology and that it was already on the market prior to the Stopcard product



Electro Cad Australia Pty Ltd v Ors

➤ Court held:

1 *While the Plaintiffs took about two years to develop their product, the 1st Defendant was able to do so in a short time. The inference that the 1st Defendant had copied the Plaintiff's product was too strong to resist.*

2 *By virtue of his position as a director, Lai owed certain fiduciary duties to the 2nd Plaintiff. The duties of a director are those fiduciary duties owed by senior officials of the company and as such are higher than those owed by employees and managers.*



Electro Cad Australia Pty Ltd v Ors

3 *Case dealt with trade secrets which was information which any reasonable employee would recognise as secret to his employer's business. The Defendants who were privy to the said information were able to develop a product similar to the Plaintiff's product.*

4 *The Springboard Doctrine does not apply here as in this case it was not possible to reverse engineer the product because the idea was in the chip.*



To sum it up, here are the 3 things you should leave this room with today ...



IDENTIFY YOUR TRADE SECRET/CONFIDENTIAL INFORMATION



PREPARE THE APPROPRIATE CLAUSES IN THE RELEVANT AGREEMENT/CREATE A SENSE OF "SECRECY" AROUND THE INFORMATION



IMPLEMENT & MONITOR STRICT POLICIES ON THE USAGE OF THE INFORMATION



Any
Questions?

Thank You



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