Legal Environment

Randy Canis

CLASS 7

Corporate Financial Structure; Qualification of Corporations in Foreign Jurisdictions and Piercing the Corporate Veil; Corporate Merger, Consolidation, and Termination; Metatags and Keywords; Trade Secrets;
Corporate Financial Structure

• Ch. 13

Equity Securities

• **Common stock** – right to dividends (profits), right to vote (# of shares), and right to assets of corporation on dissolution

• **Preferred stock** – typically no voting rights, receive dividends first, receive dissolution assets of corporation first

Debt Securities

• **Bonds** - a debt security whereby the company, in exchange for borrowed money, agrees to pay back investors holding the bonds a set amount of interest either periodically or at the end of the bond's term, and then the principal amount at the bond's maturity.
Debt Securities

• Debenture – a long-term, unsecured debt instrument that is based on a corporation’s general credit standing
• Note – a short-term debt security with a maturity of five years or less.

Qualification of Corporations in Foreign Jurisdictions and Piercing the Corporate Veil

• Ch. 14

Organizational Jurisdiction

• The geographical area and legal field within which a given governmental entity has power.
Operating in a Jurisdiction

- **Domestic corporation** – doing business in its state of creation; needs authorization to do business in another state as a foreign corporation

Piercing the Corporate Veil

- The corporation must look and act like a corporation in order to keep corporate benefits such as limited liability
- Must maintain separate assets and corporate records; officers must act as management
- When veil is pierced, liability goes to personal assets of officers, directors, and shareholders

Piercing the Corporate Veil

1. A party is tricked or misled into dealing with the corporation rather than the individual.
2. The corporation is set up never to make a profit or always to be insolvent, or it is too “thinly” capitalized
3. The corporation is formed to evade an existing legal obligation.
4. Statutory corporate formalities, such as holding required corporation meetings, are not followed.
5. Personal and corporate interests are mixed together, or commingled, to the extent that the corporation has no separate identity.
Patrick v Koepke Const., Inc. v. Paletta

- 2003 Mo.Ct.App
- Issue
  - Appeal of the judgment denying a petition asking the court to declare a fraudulent transfer, pierce the corporate veil

Patrick v Koepke Const., Inc. v. Paletta

- K provided work in 1988 on property owned by P but was never paid
- K attempted unsuccessfully to execute on the judgment against P

Patrick v Koepke Const., Inc. v. Paletta

“The circumstances in which Missouri courts will pierce the corporate veil to hold the corporation's owner liable for its debt are narrow, and courts do not take this action lightly. ... The plaintiff must show:
1) Control, not mere majority or complete stock control, but complete domination, not only of finances, but of policy and business practice in respect to the transaction attacked so that the corporate entity as to this transaction had at the time no separate mind, will or existence of its own; and
Patrick v Koepke Const., Inc. v. Palettal

2) Such control must have been used by the corporation to commit fraud or wrong, to perpetrate the violation of statutory or other positive legal duty, or dishonest and unjust act in contravention of plaintiff's legal rights; and

3) The control and breach of duty must proximately cause the injury or unjust loss complained of. … Undercapitalization or stripping corporate assets to avoid the demands of creditors may justify piercing the corporate veil.”

Patrick v Koepke Const., Inc. v. Palettal

• “Taking unspecified amounts of money in the form of shareholder distributions and salary at unspecified times is not clear and convincing evidence of a conveyance done with the intent to defraud. Even if the circumstances surrounding the distributions and salary in 1989 were suspicious, Koepke failed to show that any particular transaction was made under those circumstances with fraudulent intent. Nor is this non-specific evidence of Paletta’s salary and distributions, without proof of its effect on the corporation’s assets, sufficient evidence that Paletta used his control to strip the corporation’s assets to avoid creditors. The trial court’s conclusion not to declare a fraudulent transfer or pierce the corporate veil was supported by substantial evidence and was not against the weight of the evidence.”

Corporate Merger, Consolidation, and Termination
Merger/Consolidation

- Merger
  - legal combination of two or more corporations
- Consolidation
  - two or more corporations combine so that each corporation ceases to existing and a new one emerges
- Share Exchange
  - Some or all of the shares of one corporation are exchanged for some or all of the shares of another corporation, but both corporations continue to exist

Reasons for Corporate Acquisitions

- Synergy
  - Acquirer will use the assets of the target more productively than current management
  - Horizontal economies of sale
  - Scope economies of product
  - Vertical integration

Reasons for Corporate Acquisitions

- Gains in restructuring
  - Changes in target’s capital structure (e.g., leveraged management buyout)
  - Better incentives for managers to maximize profits and improved shareholder monitoring
  - Reduce agency costs
Restrictions

- U.S. Department of Justice and the FTC have issued guidelines that constrain and may prohibit some mergers

Premerger Notification

- "The Hart-Scott-Rodino Act established the federal premerger notification program, which provides the FTC and the Department of Justice with information about large mergers and acquisitions before they occur. The parties to certain proposed transactions must submit premerger notification to the FTC and DOJ. Premerger notification involves completing an HSR Form... with information about each company's business. The parties may not close their deal until the waiting period outlined in the HSR Act has passed, or the government has granted early termination of the waiting period."
- http://www.ftc.gov/enforcement/premerger-notification-program

Successor Liability

- Acquiring corporation will be held to have assumed both the assets and liabilities of the selling corporation:
  1. When the purchasing corporation impliedly or expressly assumes the seller's liabilities.
  2. When the sale transactions is, in effect, a merger or consolidation of the two companies
  3. When the purchaser continues the seller's business and retains the same personnel
  4. When the sale is entered into fraudulently for the purpose of escaping liability
Tender Offers

- Tender offer
  - Proposal to buy shares of stock from a target corporation’s shareholders either for cash or from some type of corporate security of the acquiring company
- Response from Board
  - Favorable – recommend the shareholders accept it
  - Opposes – self tender, media campaign, issue additional stock, etc.

MO Secretary of State Website

- http://www.sos.mo.gov/
- You can file for a LLC online
- You can also check the corporate status of businesses
- You can search for a MO business online

MO Close Corporation

- “Missouri’s close corporation law is designed to make it easier for a corporation with a small number of shareholders to operate. Under this law, a close corporation can choose not to have a board of directors, annual meetings or bylaws if so stated in its articles of incorporation.”
MO Foreign Corporation

- “Foreign corporations ‘transacting business’ in Missouri must first register with the Secretary of State. Because a foreign corporation has already filed its articles of incorporation in another jurisdiction, it does not file articles of incorporation in Missouri; instead, it obtains a certificate of authority to do business in Missouri.”

Metatags

Introduction to Metatags

- Metatags – text used in the header of an HTML web page used by search engines to determine or describe the content of the particular webpage
- Content – a list of words that indicates the type of content on a particular web page
- Description – a human readable sentence intended to be displayed by a search engine when a particular page of a web site is presented in search engine results
Playboy Enterprises v. Terri Welles

Factual Background

• Plaintiff Playboy Enterprises, Inc. (PEI) is an international publishing and entertainment company. PEI has established two websites. According to Plaintiff, its free website, http://www.playboy.com, has become one of the most popular sites on the Web and is used to promote its magazine, goods, and services. Its other website, called the "Playboy Cyber Club," http://www.cyber.playboy.com, is devoted to promoting current and former PEI models.

• PEI owns federally registered trademarks for the terms Playboy, Playmate, Playmate of the Month, and Playmate of the Year. The term Playmate of the Year is sometimes abbreviated "PMOY." PEI does not have a federally registered trademark in the abbreviation "PMOY," although PEI argues that "PMOY" is worthy of trademark protection because it is a well-known abbreviation for the trademark Playmate of the Year.

Playboy Enterprises v. Terri Welles

Factual Background

• Defendant Terri Welles is a self-employed model and spokesperson, who began her modeling career with Playboy magazine in 1980. In May of 1980, Ms. Welles appeared on the cover of Playboy magazine and was subsequently featured as the "Playmate of the Month" in the December 1980 issue. Ms. Welles received the "Playmate of the Year" award in June of 1981. Since 1980, Ms. Welles has appeared in no less than thirteen (13) issues of Playboy magazine and eighteen (18) newsstand specials published by PEI. Ms. Welles claims that since 1980 she has always referred to herself as a "Playmate" or "Playmate of the Year" with the knowledge of PEI.

Playboy Enterprises v. Terri Welles

• How is Welles using the mark on her website?
  – Headlines and banner advertisements
  – Metatags
  – Wallpaper
**Playboy Enterprises v. Terri Welles**

Nominative Use Test:
- "First, the product or service in question must be one not readily identifiable without use of the trademark;
- second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and
- third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.
- We noted in New Kids that a nominative use may also be a commercial one."

**Playboy Enterprises v. Terri Welles**

Conclusions:
- Headlines and banner advertisements → nominative
- Use of the terms in the metatags for Welles' website → nominative
- Use in the wallpaper of the website, not nominative (and remand for a determination of whether it infringes on a PEI trademark).

Let's look at the decision to determine how the court came to this decision.

---

**Promatek Industries, Ltd. v. Equitrac Corp.**

Factual Background
- Promatek and Equitrac are competitors in selling cost-recovery equipment.
- Equitrac's marketing department advised its web designer that certain words and phrases should be used as metatags for Equitrac's website.
- In response, the web designer placed the term "Copitrack" in the contents of Equitrac's website as a metatag.
- Equitrac used the term as a metatag because it provides maintenance and service on Copitrak equipment, a product used in the cost-recovery business.
- Promatek holds the trademark for Copitrak, and once it learned of Equitrac's use of the term Copitrack in the metatag, it brought suit.
- After learning of Promatek's suit, Equitrac contacted all of the search engines known to it and requested that they remove any link between the term Copitrack and Equitrac's website.
- Equitrac also removed the Copitrack metatag from its website.
Promatek Industries, Ltd. v. Equitrac Corp.

• The mark "Copitrak" is a registered trademark of Promatek Industries, Ltd., which can be found at www.promatek.com or www.copitrak.com.

• Equitrac appeals the issuance of the injunction, arguing that the ordered language will not only inform consumers of its competitor, Promatek, but will encourage people to go to Promatek's website. Promatek counters that without this language, Equitrac will continue to benefit, to Promatek's detriment, from consumer internet searches containing the word Copitrack.

Promatek Industries, Ltd. v. Equitrac Corp.

• "In assessing the likelihood of consumer confusion, we consider: (1) the similarity between the marks in appearance and suggestion, (2) the similarity of the products, (3) the area and manner of concurrent use of the products, (4) the degree of care likely to be exercised by consumers, (5) the strength of the plaintiff's marks, (6) any evidence of actual confusion, and (7) the defendant's intent to palm off its goods as those of the plaintiff's. Ty, 237 F.3d at 897-98. None of these factors are dispositive and the proper weight given to each will vary in each case. Id. However, the similarity of the marks, the defendant's intent, and evidence of actual confusion are of particular importance. Id."

Promatek Industries, Ltd. v. Equitrac Corp.

• Why does Promatek have a fair likelihood of succeeding on the merits?
  – The marks Copitrack and Copitrak similar (Equitrac admits that it meant to use the correct spelling of Copitrak in its metatag)
  – Equitrac's use of Copitrack refers to Promatek's registered trademark, Copitrak.
  – Equitrac and Promatek are direct competitors in the cost-recovery and cost-control equipment and services market.
  – The degree of care to be exercised by consumers
Promatek Industries, Ltd. v. Equitrac Corp.

• “Although Equitrac claims that it did not intend to mislead consumers with respect to Copitrak, the fact remains that there is a strong likelihood of consumer confusion as a result of its use of the Copitrack metatag. The degree of care exercised by consumers could lead to initial interest confusion.

Promatek Industries, Ltd. v. Equitrac Corp.

• What is initial interest confusion?
  – Initial interest confusion, which is actionable under the Lanham Act, occurs when a customer is lured to a product by the similarity of the mark, even if the customer realizes the true source of the goods before the sale is consummated. Dorr-Oliver, Inc. v. Fluid-Quip, Inc., 94 F.3d 376, 382 (7th Cir. 1996).”

• What if the consumers that viewed the website knew right away that the website was not associated with the trademark owner?

Promatek Industries, Ltd. v. Equitrac Corp.

• “The Ninth Circuit has dealt with initial interest confusion for websites and metatags and held that placing a competitor's trademark in a metatag creates a likelihood of confusion. ... Equitrac's placing the term Copitrack in its metatag, consumers are diverted to its website and Equitrac reaps the goodwill Promatek developed in the Copitrak mark. Id. That consumers who are misled to Equitrac's website are only briefly confused is of little or no consequence. In fact, "that confusion as to the source of a product or service is eventually dispelled does not eliminate the trademark infringement which has already occurred." Forum Corp. of N. Am. v. Forum, Ltd., 903 F.2d 434, 442 n.2 (7th Cir. 1990).”
Promatek Industries, Ltd. v. Equitrac Corp.

- “What is important is not the duration of the confusion, it is the misappropriation of Promatek’s goodwill. Equitrac cannot unring the bell. As the court in Brookfield explained, “using another’s trademark in one’s metatags is much like posting a sign with another’s trademark in front of one’s store.” Brookfield, 174 F.3d at 1064. Customers believing they are entering the first store rather than the second are still likely to mill around before they leave. The same theory is true for websites. Consumers who are directed to Equitrac’s webpage are likely to learn more about Equitrac and its products before beginning a new search for Promatek and Copitrak. Therefore, given the likelihood of initial consumer confusion, the district court was correct in finding Promatek could succeed on the merits.”

Promatek Industries, Ltd. v. Equitrac Corp.

- Holding
  - We conclude that the district court was correct in finding Promatek would suffer a greater harm than Equitrac if corrective measures were not taken, and we affirm the grant of the preliminary injunction.

Jurisdiction from Keywords

- Is use of a competitor’s trademark in the metatags of your website sufficient to cause you to be subject to personal jurisdiction in competitor’s forum state?
1-800 Contacts v. WhenU.com

- Defendant WhenU – creator of software that provides Internet users with “pop-up ads” relating to the users Internet activity
- Plaintiff 1-800 Contacts – distributor that sells contact lenses and related products by mail, telephone and web

1-800 Contacts v. WhenU.com

- To what behavior of the Defendant has Plaintiff objected?
- “When the SaveNow software recognizes a term, it randomly selects an advertisement from the corresponding product or service category to deliver to the C-user's computer screen at roughly the same time the website or search result sought by the C-user appears. ... Each type of ad appears in a window that is separate from the particular website or search-results page the C-user has accessed.”
- How easy is it for the Internet user to uninstall the software?
1-800 Contacts v. WhenU.com

• What are the causes of actions?
• 1114(1) – registered trademarks
• 1125(a)(1) – unregistered trademarks
• "a plaintiff must establish that (1) it has a valid mark that is entitled to protection under the Lanham Act, and that (2) the defendant used the mark, (3) in commerce, (4) 'in connection with the sale . . . or advertising of goods or services,' 15 U.S.C. § 1114(1)(a), (5) without the plaintiff's consent."

1-800 Contacts v. WhenU.com

• How did the district court hold with respect to use in commerce?
  – Causing pop-up advertisements for Defendant to appear when users of the Software have specifically attempted to access Plaintiff's website
  – Includes Plaintiff's website address and trademark in Defendant's directory of terms that triggers pop-up advertisements
• How did prior courts rule?

1-800 Contacts v. WhenU.com

SaveNow Directory
• Court's analysis focuses on the differences between use of a trademark and a URL:
  "... a WhenU pop-up ad cannot be triggered by a C-user's input of the 1-800 trademark or the appearance of that trademark on a webpage accessed by the c-user."
1-800 Contacts v. WhenU.com

SaveNow Directory
• “In contrast to some of its competitors, moreover, WhenU does not disclose the proprietary contents of the SaveNow directory to its advertising clients nor does it permit these clients to request or purchase specified keywords to add to the directory. …
• A company's internal utilization of a trademark in a way that does not communicate it to the public is analogous to an individual's private thoughts about a trademark. Such conduct simply does not violate the Lanham Act, which is concerned with the use of trademarks in connection with the sale of goods or services in a manner likely to lead to consumer confusion as to the source of such goods or services.”

1-800 Contacts v. WhenU.com

Pop-up Advertisements
• “The fatal flaw with [concluding that placement of pop-up ads] is that WhenU's pop-up ads do not display the 1-800 trademark.”
• “[T]he appearance of WhenU's pop-up ad is not contingent upon or related to 1-800's trademark, the trademark's appearance on 1-800's website, or the mark's similarity to 1-800's website address.”

1-800 Contacts v. WhenU.com

• Why does the court compare the activity to product placement at drug stores?
1-800 Contacts v. WhenU.com
Distinguished from past decisions because:
• Does not alter source website
• Does not divert or misdirect users away from source website
• Does not "sell" keyword trademarks to its customers or otherwise manipulate which category-related advertisement will pop up in response to any particular terms on the internal directory
  – does not link trademarks to any particular competitor's ads, and a customer cannot pay to have its pop-up ad appear on any specific website or in connection with any particular trademark.

1-800 Contacts v. WhenU.com
• “We hold that, as a matter of law, WhenU does not "use" 1-800's trademarks within the meaning of the Lanham Act, 15 U.S.C. §1127, when it (1) includes 1-800's website address, which is almost identical to 1-800's trademark, in an unpublished directory of terms that trigger delivery of WhenU’s contextually relevant advertising to C-users; or (2) causes separate, branded pop-up ads to appear on a C-user's computer screen either above, below, or along the bottom edge of the 1-800 website window. Accordingly, we reverse the district court's entry of a preliminary injunction and remand with instructions to (1) dismiss with prejudice 1-800's trademark infringement claims against WhenU, and (2) proceed with 1-800's remaining claims.”

Playboy v. Netscape
• “Defendants have various lists of terms to which they key advertisers' banner ads. Those lists include the one at issue in this case, a list containing terms related to sex and adult-oriented entertainment. Among the over-400 terms in this list are two for which PEI holds trademarks: ‘playboy’ and ‘playmate.’ Defendants require adult-oriented companies to link their ads to this set of words. Thus, when a user types in ‘playboy,’ ‘playmate,’ or one of the other listed terms, those companies’ banner ads appear on the search results page.”
Playboy v. Netscape

- What are Keywords and how are they used in searching?
- What are banner advertisements and sponsored links?
- What is at stake in this case?

Playboy v. Netscape

- Trademark infringement
- Direct or Contributory? - "We conclude that defendants are potentially liable under one theory and that we need not decide which one."
- Likelihood of Confusion - We conclude that a genuine issue of material fact does exist regarding the likelihood of consumer confusion resulting from defendants' use of PEI's marks.
- Affirmative Defenses? – "We conclude that no defenses apply."

Playboy v. Netscape

- "Initial interest confusion is customer confusion that creates initial interest in a competitor's product. Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the goodwill associated with a mark and is therefore actionable trademark infringement."
Playboy v. Netscape

- Initial Interest Confusion theory
- “Because banner advertisements appear immediately after users type in PEI’s marks, PEI asserts that users are likely to be confused regarding the sponsorship of unlabeled banner advertisements. In addition, many of the advertisements instruct users to ‘click here.’ Because of their confusion, users may follow the instruction, believing they will be connected to a PEI site. Even if they realize immediately upon accessing the competitor’s site that they have reached a site ‘wholly unrelated to PEI’s,’ the damage has been done. Through initial consumer confusion, the competitor ‘will still have gained a customer by appropriating the goodwill that [PEI] has developed in its mark.’”

Google Adwords

- Adwords enables paid advertisements that match specific keywords
- Adwords has different trademark usage in advertising content v. usage as keyword

Content v. Keyword

- Content
  - Descriptive Fair Use
  - Nominative Fair Use
  - Authorized to sell under the trademark
  - Does not sell products that compete directly with products sold under the trademark
- Keywords
  - No trademark restrictions
Possible Cause of Actions

- Trademark Infringement
  - Initial Interest Confusion
- Trademark Dilution
- False Advertising
- Unfair competition

1-800 Contacts v. Lens.com

- “We must resolve whether the Lanham Act was violated by an advertiser’s use of keywords that resembled a competitor’s service mark. For the most part, we hold that there was no violation.”

1-800 Contacts v. Lens.com

- Parties
  - 1-800 Contacts
    - Replacement contact lens
  - Lens.com
    - Competitor of 1-800 contacts
1-800 Contacts v. Lens.com

• History
  – 1-800 Contacts determined usage of marks as keywords and tried to settle
  – Sued for trademark infringement D.C. Utah
    • Trademark infringement through initial interest confusion
    • Secondarily liable (agency and contributory infringement) through affiliates conduct
  – D.C. awarded summary judgment to Lens.com on all claims

1-800 Contacts v. Lens.com

• Adwords
  – Organic results
  – Sponsored links with advertising copy
    • Above or to the right of the organic results
    • Notice of sponsored links
    • Shading to set them apart
  – Advertisers pay per impression

1-800 Contacts v. Lens.com

• Direct confusion – when consumers believe that P is source of D goods or services
• Reverse confusion – when consumers believe that D is source of P goods or services
• Initial interest confusion – lured to the product of a competitor through use of a trademark
1-800 Contacts v. Lens.com

• "[A] consumer enters a query for ‘1-800 Contacts’ on Google; sees a screen with an ad for Lens.com that is generated because of Lens.com’s purchase of one of the nine Challenged Keywords; becomes confused about whether Lens.com is the same source as, or is affiliated with, 1-800; and therefore clicks on the Lens.com ad to view the site.”

1-800 Contacts v. Lens.com

• "[I]nitial-interest confusion occurred at most 1.5% of the time that a Lens.com ad was generated by a Challenged Keyword in those eight months. This number cannot support an inference that Lens.com’s keyword activity was likely to ‘lure[]’ consumers away from 1-800.”

1-800 Contacts v. Lens.com

• “[T]he Ninth Circuit considered ‘the labeling and appearance of the advertisements and the surrounding context on the screen displaying the results page’ to be a critical factor in finding no likelihood of confusion in a case in which the alleged infringer used a competitor’s mark as a keyword.”
Other Cases

- Rosetta Stone v. Google
  - Settled out of court
- Infostream Grp. Inc. v. Avid Life Media Inc. (C.D.CA 2013)
  - Use of trademarks to trigger ads in search engine without more was not trademark infringement

Trade Secrets

- Issue
  - What type of protection is afforded to a discovery or development that is kept secret?
Trade Secrets

- What is a Trade Secret?
  - Generally speaking, a trade secret is any information that has not been published and that could give a company a competitive advantage.

- Is Trade Secret Law Protected by State or Federal Law?
  - Trade Secret law is protected by state law and varies from state to state.

- How about some good news?!
  - Trade secrets are cheap (sort of); no filing fee but...
  - Duration – perpetual unless it is no longer a trade secret...

What are the Primary Categories of Trade Secrets?

- The various categories of trade secrets include financial information, organization information, marketing information and technical information.
- Financial information may include profit margins, overhead costs, material costs and supplier discounts.
- Organizational information may include expansion plans, key employee acquisitions, record-keeping information and methods of operation.
- Marketing information includes customer lists, terms of licenses, new product developments and contracts and contract negotiations.
- Technical information includes formulas for producing products, computer software, chemical formulas and processes and methods of manufacture.

Primary Sources

- What are the primary sources for the definitions of trade secrets that are adopted by states and used by courts?
  - The three main trade secret definitions are derived from the Restatement of Torts, the Restatement of the Law Third, Unfair Competition, and the Uniform Trade Secrets Act.
Definitions

- Definition from Restatement of Torts (First)
  - The Restatement of Torts §757 provides that "[a] trade secret may consist of any formula, device, pattern or compilation of information ... used in one's business and which gives [the holder] an opportunity to obtain an advantage over competitors who do not know or use it."

- Definition from Restatement of the Law, Third Edition
  - "[A]ny information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

- Definition from the Uniform Trade Secrets Act
  - The Uniform Trade Secrets Act (USTA) §1(4) defines a trade secret as any "information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

Factors/Elements

- What Factors May Be Used to Determine Whether a Trade Secret Exists?
  - The degree to which the information is known outside the claimant’s business;
  - The degree to which the information is known by the claimant’s employees;
  - The degree of measures taken by the claimant to guard the secrecy of the information;
  - The value of the information to the claimant and its competitors;
  - The amount of effort or money expended by the claimant in developing the information; and
  - The ease with which others could acquire the information.

- What are the Elements of a Trade Secret Cause of Action?
  - The elements of a cause of action for violation of trade secret are (i) a trade secret, (ii) a confidential relationship between plaintiff and person revealing the information to a third party, and (iii) an intentional unauthorized disclosure to third party. There is no relief for accidental disclosure, reinvention, or reverse engineering.

- When can the Use of Trade Secret Information by Former Employees be Restricted?
  - The use of trade secret information by former employees can be restricted only if there is a legally protectable trade secret and the employee has either (i) covenanted not to disclose the information or (ii) acquired the information under a confidential relationship.

Protection of Trade Secrets

- Enter into non-disclosure agreements with third parties before disclosing confidential information
- Cover at least key employees with non-compete, confidentiality, and intellectual property agreements
- Secure access to physical files containing confidential information
- Implement network and other electronic security measures to limit internal and external access to files
- Monitor employee communications
Disclosure

• What happens if a trade secret is disclosed—does trade secret protection still exist?

Trade Secret Law in Missouri

Starting Point - http://www.moga.state.mo.us/

417.453. As used in sections 417.450 to 417.467, the following terms mean:

(1) “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) “Misappropriation”:

(a) Acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means;

(b) Disclosure or use of a trade secret of a person without express or implied consent by another person who:

a. Used improper means to acquire knowledge of the trade secret; or

b. Before a material change of position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake; or

c. At the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:

i. Derived from or through a person who had utilized improper means to acquire it;

ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;

iii. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.

(3) “Person”, a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, governmental subdivision or agency, or any other legal or commercial entity, whether for profit or not for profit;

(4) “Trade secret”, information, including but not limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, or process, that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

417.461. An action for misappropriation shall be brought within five years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

- Parties
- **Defendants** – involved with commodities market; Rollet Bros. Logistics, Inc., is a freight broker that arranges for the hauling of commodities for customers from one point to another.
- **Plaintiff** - dispatcher, responsible for finding loads for trucks to haul by contacting established and prospective customers on a daily basis. He was also responsible for finding trucks that were available to haul a customer’s load.


- P and D had a covenant not to compete that included a confidentiality clause
- Aug 05 – P submitted a resignation to
- Sept 05 – P began working as a dispatcher ECO Logistics
- Nov 05 – attorneys D sent a letter to ECO Logistics threatening legal action; Eco Logistics then terminated P


- Plaintiff filed suit and won at district court

• Covenants Not Compete
  – "Generally, because covenants not to compete are considered to be restraints on trade, they are presumptively void and are enforceable only to the extent that they are demonstratively reasonable."


• Non-Compete Agreement
  – "[A] noncompete agreement is reasonable if it is no more restrictive than is necessary to protect the legitimate interests of the employer."
  – Reasonable in scope—place and time
  – "enforceable only to protect certain narrowly-defined and well-recognized interests, specifically, customer contacts and trade secrets."


• "The goodwill that develops from customer contacts between the salesman or business partner and the company's customer is essential to the company's success and is the reason the employee or the business partner is remunerated. The goodwill that develops results in sales of the company's product or services. Therefore, an employer has a protectable right in both customers and goodwill."

• “An employer must show that the employee had contacts of the kind enabling him to influence customers.”


• “In this case, there was substantial evidence to support implied findings that defendants' brokerage business did not become associated in a customer's mind with plaintiff and plaintiff did not possess the degree of influence over any customers that would justify enforcement of the Agreement under a “customer contacts” theory.”


• “Some factors to be considered in determining whether certain information is a trade secret are:
  1. The extent to which the information is known outside of his business;
  2. The extent to which it is known by employees and others involved in his business;
  3. The extent of measures taken by him to guard the secrecy of the information;
  4. The value of the information to him and to his competitors;
  5. The amount of effort or money expended by him in developing the information;
  6. The ease or difficulty with which the information could be properly acquired or duplicated by others.”

• "Matters of public knowledge or information that is generally known within a given industry cannot be appropriated as a trade secret."


• Was the customer list a trade secret?
  • "Customer lists are protectable as trade secrets only when they represent a selective accumulation of information based on past selling experience, or when considerable time and effort have gone into compiling it. However, "to be protected, a customer list must be more than a listing of firms or individuals which could be compiled from directories or other generally available sources."


• "Defendants argue that their customer list was a trade secret because there was evidence that it was produced over a twenty-year period with significant time and resources, was maintained as confidential, and, in a fast-paced industry, it reduced the time required for its employees to find a customer's contact information. While there was evidence that the list met these criteria, there was substantial evidence to support an implied finding that the customer list was nothing more than a listing of firms or individuals that could be compiled from generally available sources."

• “This evidence was sufficient to demonstrate that the information in defendants' customer list could be compiled from other, generally available sources.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• At Issue
  – information about the repair and overhaul of helicopter engines

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• AvidAir sought a declaration that the repair information was not protected by trade secret law.
• DC – most information protected by trade secret, 350K in actual damages, and permanent injunction
AvidAir Helicopter Supply v. Rolls-Royce Corp.

• How did third party overhaul shops come about?
• How and why do you certify an engine for return to service?
• How was information exclusively provided to Authorized Maintenance Centers (AMCs)?
  – “Allison executed agreements with each AMC that specified the proprietary nature of this technical information, prohibited the AMCs from disseminating this information, and required the AMCs to return all proprietary documents at the end of their relationship. Allison also began including a proprietary rights legend on the front page of its DOILs.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• How and why did AvidAir obtain a copy of DOIL 24, Revision 13 without Rolls-Royce’s permission?
  – RR C&D to stop using Doil 24
  – FAA inspection; AvidAir not following DOIL 24, R13
  – AvidAir obtained a copy of DOIL 24, Revision 13 with RR’s permission and changed its overhaul procedure

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• Who filed suit?
  – AvidAir filed seeking a declaratory judgment in WD MO that DOILs were not trade secrets
  – Rolls-Royce filed its own suit in S.D. of Indiana for trade-secret violations
AvidAir Helicopter Supply v. Rolls-Royce Corp.

• Existence of trade secret is question of law
• Trade Secret Definition
  – information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• Can compilations be protected as trade secrets?
  – Compilations are specifically contemplated in the UTSA definition of a trade secret, and the fact that some or even most of the information was publicly available is not dispositive of the first factor in the UTSA definition. Compilations of non-secret and secret information can be valuable so long as the combination affords a competitive advantage and is not readily ascertainable.

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• “E]xistence of a trade secret is determined by the value of a secret, not the merit of its technical improvements. Unlike patent law, which predicates protection on novelty and nonobviousness, trade secret laws are meant to govern commercial ethics.”
AvidAir Helicopter Supply v. Rolls-Royce Corp.

• “Trade secret protection does not shield an idea from "infringing" other uses of the idea; instead it protects valuable information from being misappropriated despite reasonable efforts to keep it secret.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• What does readily ascertainable mean?
  – “The fact that information can be ultimately discerned by others—whether through independent investigation, accidental discovery, or reverse engineering—does not make it unprotectable.”
  – “[T]he court must look at whether the duplication of the information would require a substantial investment of time, effort, and energy.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• How did AvidAir go wrong?
  – “Instead of obtaining FAA approval based on an independent investigation of changes to the approved procedure, AvidAir simply appropriated the documents it knew were claimed to be trade secrets and then certified that its procedure was in compliance with the updated documents.”
AvidAir Helicopter Supply v. Rolls-Royce Corp.

• “Reasonable efforts to maintain secrecy need not be overly extravagant, and absolute secrecy is not required.”

• “The use of proprietary legends on documents or the existence of confidentiality agreements are frequently-considered factors in establishing or denying a trade secret claim.”

• Though AvidAir claims the documents were ‘freely available’ in the industry, it failed to present any evidence that Rolls-Royce actually distributed them to a party not bound by confidentiality agreements. We agree with the district court that these were reasonable efforts to maintain secrecy. … The fact that a trade secret was successfully misappropriated does not defeat the fact that there were reasonable efforts to maintain its secrecy.”

Theft of Trade Secrets

• Theft of trade secrets for commercial or economic purposes is a federal crime
Discussion

• Can a defendant can be liable for misappropriation of a trade secret which is admittedly embodied in source code, based upon the act of executing, on his own computer, executable code allegedly tainted by the incorporation of design features wrongfully derived from the plaintiff's source code?