What Copyright Might Teach Trade Secrecy

Author : Pamela Samuelson

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Joseph P. Fishman & Deepa Varadarajan, *Similar Secrets*, **167 U Penn. L. Rev. __** (forthcoming 2019), available at SSRN.

When an employee has had lawful access to her firm's trade secrets and later uses them when working for a new employer or when starting her own firm, the former employer may well sue her for trade secret misappropriation. Disputes in such cases routinely focus on identifying the secrets at issue, examining the process by which the alleged misappropriation occurred, and assessing what advantages the employee may have gotten from use of those secrets.

Should courts also consider how much similarity exists between the plaintiff's and the defendant's products, processes, or services? And should courts also consider whether the defendant's new firm and the old firm directly compete or operate in different and arguably unforeseen markets? *Similar Secrets* says the answer to both questions should be yes. Its thesis is that defendants should not be liable for misappropriation of lawfully acquired trade secrets unless later-developed products or methods incorporate material elements from those secrets and use those elements in the same market in which the plaintiff firm competes, or in an adjacent market into which it is reasonably foreseeable that the plaintiff firm might enter.[1]

Two considerations seem to underlie the authors' recommendations: The first is employee mobility. No one, the authors argue, should have to get a frontal lobotomy when they change jobs, especially in technical fields. Employees should be able to continue to use knowledge they acquired on the job when they move on. Secondly, society will benefit if experienced employees can build on the knowledge they acquired on their previous jobs by developing new products in different market sectors.

Trade secrecy law, Fishman and Varadarajan argue, currently gives rightsholders more control over adaptive uses of their intellectual property than either copyright or patent law would do. Courts in copyright cases, for example, take into account how much similarity exists between the plaintiff's work and the alleged infringer's work, how transformative the second use was, and whether the adaptation operates in the same or reasonably foreseeable markets. The less similar the two works, the more transformative, and the more unforeseen or remote the second comer's market segment, the more likely the adaptive use will be found noninfringing.

Patent law also allows more adaptive uses of earlier innovations than trade secrecy law does. Infringement cannot be found, for instance, unless all elements of the patent claims "read onto" the alleged infringer's product. Second comers are thus free to use some elements of the invention, though not all. Moreover, a second comer's innovation that builds on a patented invention can itself be patented, and that later patent will prevent the owner of the underlying patent from exploiting the improvement without the later patentee's permission. In addition, the reverse doctrine of equivalents means that a product that seemingly literally infringed a patent will be held nonnfringing if it operates on a sufficiently different principle.

Fishman and Varadarajan would have trade secret adjudicators learn several other lessons from copyright. They recommend that courts in trade secret cases use a copyright-like methodology for

judging misappropriation: first, a factual inquiry into whether the defendant used the plaintiff's secret (akin to the probative similarity step in copyright to decide whether the defendant copied something from the plaintiff's work), and second, a normative inquiry about whether the taking was sufficiently substantial to justify liability.

The authors would also borrow from copyright law the concept of filtering out unprotectable elements, as the Second Circuit directed in *Computer Associates Int'l, Inc. v. Altai*. A creative combination of public domain elements may infringe a copyright or constitute a protectable trade secret, but the larger the quantum of unprotectable elements, the less likely a court should find misappropriation, the authors argue. It is useful to recognize that trade secrets, like copyrights, may sometimes provide "thick" protection (e.g., the recipe for Coca Cola) and sometimes "thin" protection (e.g., customer lists). A higher degree of similarity should be required if trade secrets, like some copyrights, are eligible for only "thin" protection.

Trade secrecy law might also usefully borrow from copyright the idea that a defendant's intermediate uses of protected subject matters should be given little or no weight if the product the defendant ships is not substantially similar in its use of copyrights or trade secrets.

As for foreseeability, Fishman and Varadarajan argue that migrating a secret from the plaintiff's market to unforeseen or unforeseeable markets cannot harm the trade secret claimant. A plaintiff's decision to invest in developing particular secrets was presumably based on its plans to exploit the secrets in foreseen markets. Use of the secrets (again, only those that were lawfully acquired) in unforeseen or remote markets won't undermine the initial developer's incentives to invest. Moreover, second comers also need incentives to invest in developing products in different markets that draw upon the secret but use it in different ways. The analogy is to copyright's breathing space for transformative uses that operate in unforeseen markets. *Similar Secrets* offers examples of secrets that were reused in unforeseen markets that the authors think should be free from trade secrecy liability.

Fishman and Varadarajan suggest that the best way to implement their recommended adaptations of trade secrecy law would be for courts to consider the similarity and foreseeability factors in deliberations about whether misappropriation had occurred. But similarity and unforeseeability could also be affirmative defenses or affect remedies that should be imposed in trade secret cases. Legislation would not be needed to effectuate these changes.

While I will not hold my breath waiting for any of these changes to be adopted by courts in trade secret cases, the analysis in *Similar Secrets* was surprisingly persuasive. At least as a thought experiment, its thesis that trade secrecy law should not be in a bell jar, but open to learning useful lessons from other forms of IP law, struck me as sound. The adaptations recommended may not impact trade secrecy law as much as some practitioners might fear, as a great deal of misappropriation arises from wrongful acquisition or disclosure of trade secrets or from former employees or licensees who wrongfully use the secrets in direct competition with the trade secret claimant. But for the cases in which the adaptations the authors recommend might apply, why not inject more innovation policy considerations in trade secrecy misappropriation cases?

1. Fishman and Varadarajan do not recommend consideration of these factors in cases involving unlawful acquisition and disclosure of trade secret cases. But the recommendations may apply to former licensees as well as former employees.

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