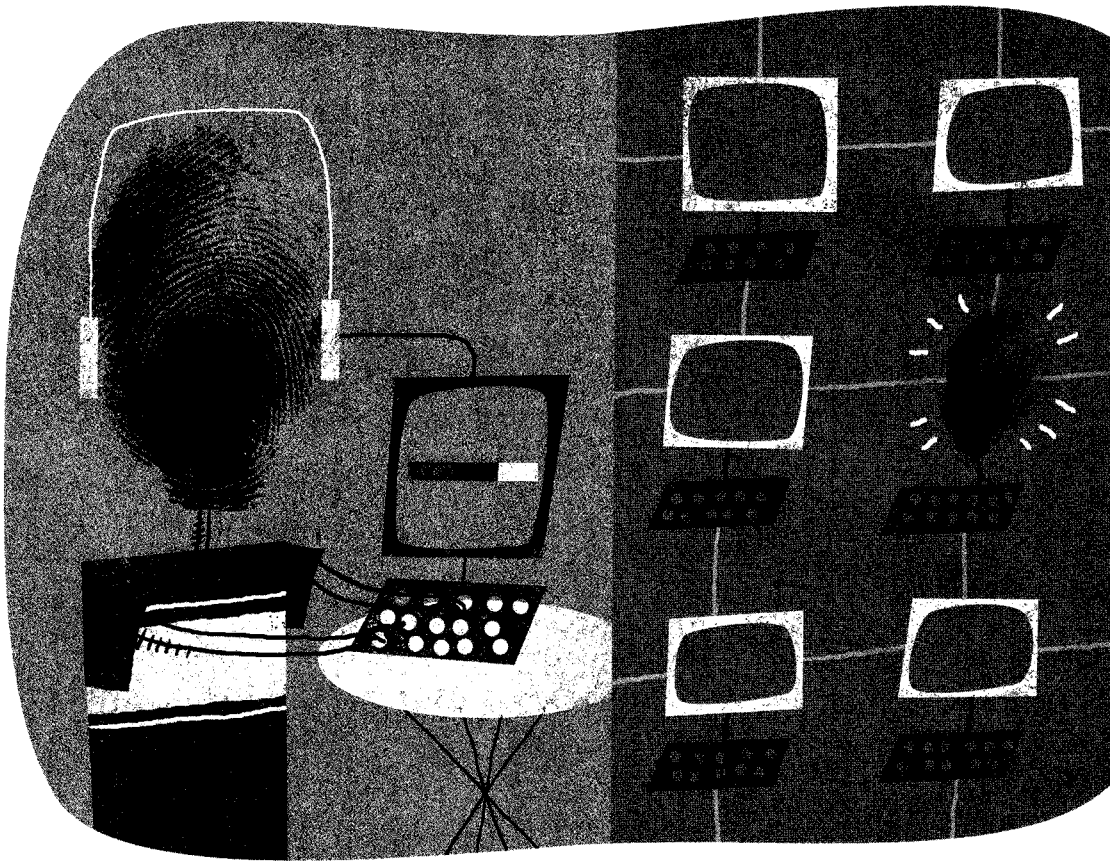
IP theft: THE POTENTIAL FOR INTELLECTUAL PROPERTY (IP) THEFT HAS GROWN IN THE DIGITAL ERA, AND PROTECTING IT IS OF CRITICAL CONCERN, WRITES WILLIAM MULHOLLAND

The lure of forbidden (digital) fruit



IN LIGHT OF THE TECHNOLOGICAL developments of the digital age, the fight to stem intellectual property (IP) theft, and protect corporate goodwill between businesses, former employees and executives is becoming one of the largest areas of commercial disputes and litigation relating to confidentiality and commercial law.

We are hearing more terms such as "literary larceny" and "open piracy" in connection with the development, use and ultimate misappropriation of IP by individuals from enterprises. These terms are increasingly used by commentators and courts alike to stigmatise activities associated with infringers of IP rights. Given that IP is central to every modern business enterprise today, IP theft by employees or former staff remains a pressing issue, and the question of protecting IP remains a critical commercial concern.

The potential and opportunity for IP theft has been assisted by rapid technological advances. The increasing and ever-growing reliance of enterprises on technology means the opportunity for IP theft will continue to grow and become even more sophisticated and difficult to prevent. Various forms of modern digital media enable electronic storage and retrieval of data and communication at unprecedented levels.

Added to this is a workforce equipped with hardware (notebooks, iPods, BlackBerrys, mobile phones, flash drives, external hard drives) that, when combined with the right opportunity and software, means that it is easy for employees to misappropriate IP and trade secrets.

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IP theft can span a range of sins, from the alleged copying of works (details of an inventory management project, internet sites, manuscripts, submissions) to the passing off of a business name or infringing a registered trademark.

Though the range of potentially unlawful and even illegal activity is wide, a common defining element is the misappropriation of IP belonging to another. One judge even evoked the commandment "Thou shalt not steal" in a recent judgement involving a case of breach of copyright.

Statistical evidence bears out the increasing tendency of employees to seek the spoils and benefits of

this potentially lucrative but forbidden fruit.

A recent UK study of 400 businesses by forensic specialists found that nearly 70 per cent of business professionals had stolen some form of corporate IP from their employer when leaving a job. The main forms of IP identified by the study included email addresses, sales proposals/presentations and customer databases/contact lists and information.

Recent Australian cases relating to IP theft (or alleged theft) illustrate the growing incidence of litigation in this area. They have included disputes over:

- The ownership of customer database lists and confidential information relating to distributors and suppliers
- Breaches of confidential information where senior executives emailed to their private email addresses trade secrets, customer lists and sensitive financial information
- Restraint-of-trade clauses involving former employees leaving to join competitors across a range of industry sectors, including IT, financial services, manufacturing and the services sector
- Allegations of misappropriation of the ideas and architecture of an original copyrighted work
- The use and abuse of corporate promotional brochures and copyright
- Unauthorised copying of PowerPoint presentations and content
- The use of another enterprise's trading name and breach of its trademark
- The theft of operational guidelines relating to a logistics initiative in the supermarket sector.

The rough practical test the courts have adopted has been, "What is worth copying is prima facie worth protecting".

There are some areas that any enterprise should look to as part of an IP audit or protection strategy to minimise the risk of exposure to IP theft. These include brand protection, copyright, confidential information, trade secrets, patent and design registration, service agreements and restraint of trade.

A brand may be almost anything that can be used to distinguish the goods or services of one business or trader from those of another. Many people tend to focus on brand protection narrowly by confining their approach to the question of trademark registration. Though this is fundamental, in the era of the digital age it is only part of a comprehensive brand-protection strategy. An effective brand-protection strategy needs to encompass many facets of an overall IP strategy, but needs also to address the increasing exposure that enterprises have on the internet.

It includes selection and registration of appropriate trademarks, a consideration of business names exposure and risk, ongoing and timely reviews of all key contractual documents (including "terms and conditions" and related supplier-client agreements), as well as other IP-related areas.

Copyright is an area of IP law that is increasingly coming before the courts. The function of copyright is to offer protection and reward for authors in relation to putting an original idea into material form.

Copyright is essentially a bundle of economic rights that belong to an author. Copyright rights subsist in many types of works, including written works, pictures, photographs, music, films and computer programs.

The general rule is that ownership of copyright vests in the person who is the author of the work. If the work is jointly authored, then ownership of the copyright will also be joint.

Confidential information can take many forms. It can consist of financial reports and analysis, resumes, client reports, financial information, strategic business development plans, contents of business documents including lists of customers or suppliers, and tender or pitching documents. In one sense there is no limit to the form that

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confidential information can take in relation to the operation of a commercial enterprise. In order to protect confidential information, the courts have established a three-stage test. However, there are active steps any enterprise can take to further protect its confidential information.

There is a growing list of cases coming before the courts where employers are seeking to prevent former employees or their new employers from using their trade secrets, know-how and other proprietary information in competition against them.

New employers need to be mindful and need to seek guidance as to the obligations that former employees continue to bear.

Many cases can be averted if employers seek appropriate legal advice. This is a complex area of the law, and knowing the appropriate legal steps to take from both sides of the legal fence is essential.

Unlike copyright, in Australia the registration of designs and inventions are both "registrable rights", and with recent changes being introduced in the legislation relating to patent and design registration, enterprises should seek legal advice in relation to effectively protecting these two fundamental areas of IP rights.

When working under contract, many executives and employees are subject to service agreements. These agreements set out the terms and conditions of the employment between the parties, including confidentiality and restraint of trade. Many modern-day agreements contain restraint clauses that seek to limit the time (and sometimes location) in which a former employee can work within a geographic area or with a competitor.

These clauses are subject to the common-law doctrine of restraint of trade, which proscribe undue interference with the freedom of trade, including the right to sell one's personal labour.

In the employment context, a post-employment covenant will be generally unenforceable unless the employer is seeking to protect trade secrets or to prevent the solicitation of established customers by an employee who has had personal contact with those customers.

In light of IP theft, there clearly has been a shift in the direction that many enterprises have taken when confronted with the realities of the digital age. Many have traditionally considered threats from outside the organisation by hackers and other unidentified IT assaults, but a need has clearly emerged to make an assessment and take appropriate steps from the exposure from risks within.

Clearly, the potential lure for employees of unlawfully appropriating an enterprise's forbidden IP fruit is on the rise. When thinking of IP protection, enterprises and managers should keep in mind the judge who said, "Thou shalt not steal", and take necessary steps to address this growing problem. ■

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