

Insight

Commercial Dispute Resolution

15 March 2009

Counting the (Court) Cost Of Confidential Information

Trade secrets and confidential information can be a firm's most valuable asset. When that information makes its way into the public domain, it can cause significant damage and remove a company's competitive edge. However, as a recent decision of the Victorian Supreme Court has shown, there is a need to balance the legitimate right of a business to protect its information against the right of an ex-employee to use that 'know-how'.

Confidential Information

Confidential information can take many forms. It is generally those facts or knowledge that are not in the public domain. A person usually obtains confidential information because of a special relationship with the owner of the information - the most common being an employer – employee relationship.

People who receive confidential information are often subject to fiduciary duties to prevent misusing the information for their own advantage. Contracts of employment and company policies and procedures can also dictate what information is confidential and an employee's obligations to retain the confidentiality of that information, even after their employment has ceased. Statutory obligations can also prohibit a person from making improper use of information obtained by virtue of their position (eg the Corporations Act 2001 (Cth)(ss183,184) (3)). Recent action by OPSM has also demonstrated the ability to protect confidential information through exercising a firm's right to protect its trademarked or intellectual property.

Litigating to protect your confidential information

Courts have long recognised that a company has a legitimate interest in commencing proceedings to restrain a person from using (or mis-using) confidential information. Injunctive relief is the most common form of preliminary relief sought by a company attempting to restrain an employee from misusing confidential information. In some circumstances, a firm might also seek orders for damages.

The most common barrier a business finds, when attempting to protect its confidential information, is that the Court's view of what is confidential can sometimes diverge from the business' view. The Courts are also keen to balance the legitimate right of a business to protect its information against the right of an ex-employee to use their 'know-how'. The Courts are also remaining vigilant against attempts by firms to use the law to impede competition.

The cost of getting it wrong

In the case of GSK v Ritchie, the Supreme Court of Victoria was asked to examine the nature of confidential information, the steps taken by GSK to protect that information and ultimately, whether Mr Ritchie was entitled to an order for indemnity costs against GSK for bringing a 'manifestly hopeless' action against him.

Ritchie was a senior scientist in GSK who had worked with the firm from 1996 until his resignation in December 2003. Due to his position, Mr Ritchie was privy to a great deal of extremely valuable information which GSK alleged was confidential. When he resigned from GSK in December 2003, he set up TPI Enterprises Ltd (TPI) – a company that could (subject to a number of regulatory requirements) one day compete with GSK in one of its markets. GSK instituted proceedings claiming that Ritchie and TPI had misused its confidential information, and would continue to do so unless restrained by the Court.

The Court's view of the action

The court said that GSK:

- failed to adequately identify the information that was sought to be restrained and should have concentrated upon information about trade secrets;
- while having a legitimate interest in the protection of its confidential information and did not commence the proceedings for an improper purpose, had an overarching desire to win the litigation and force the withdrawal of TPI from one of its markets;
- tried to stop Ritchie from using his know-how and not GSK's confidential information.

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Confidential information or 'know-how'?

A critical lesson from this case is the difference between 'know-how' and confidential information. Know-how is the general background knowledge and experience of the ex-employee. The court held that Ritchie was perfectly entitled to use and profit from his own know-how even when it had been enhanced during the course of his employment with GSK. It also found that there were significant questions about the 'confidential nature' of information alleged to be used by Ritchie and TPI – particularly given the access that other persons had to that information and the other means by which Ritchie and TPI could have obtained that information.

Cost implications for such actions

The distinguishing feature of the case is the costs order made by Justice Harper. Ritchie and TPI submitted that they were entitled to their costs on an indemnity basis: entitling the defendants to all actual costs incurred by it in defending the proceedings.

The Court awarded indemnity costs because:

- GSK knew before trial or ought to have known that its case was verging on, if not 'manifestly hopeless'
- before the commencement of the trial, almost all the evidence GSK had had was shown to be without sufficient substance in relation to its claims
- alleged breaches of confidence must not be allowed to become inappropriate barriers to competition or the movement of labour, which was held to be the effect of the litigation
- the rejection of settlement offers prior to trial was unreasonable in the circumstances of GSK's initial and repeated refusal to negotiate
- GSK allowed concerns about legitimate competition to sway its judgement when seeking to protect its confidential information.

Key lessons

The decision is not one that should discourage companies from taking legitimate action to protect their businesses. It is, however, a lesson in tempering that desire with the practical and legal realities of attempting to restrain former employees and competitor businesses. Finally, it also demonstrates the need to be clear, quick and decisive, when dealing with a possible breach of confidential information. Companies need to:

- include an appropriately worded confidentiality clause and undertaking in contracts of employment
- seek undertakings from exiting employees (where relevant) regarding confidential information

- when seeking to litigate to protect confidential information, ensure that the confidential information is appropriately identified and gives an ex-employee no uncertainty about what information a firm is seeking to protect
- consider all offers of compromise, accept the reasonable offers and always consider alternative dispute resolution and negotiation
- temper the need to protect confidential information with the reality that employees will leave the business and are entitled to rely on their 'know how' – as distinct from abusing their obligations of confidentiality.

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