

An Epic battle against TCS: The growing significance of trade secret protection

Companies



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New Delhi: Last week witnessed an important decision from the United States Court of Appeals for the Seventh Circuit on trade secrets involving Tata Consultancy Services (TCS) and its fully owned subsidiary in the US. The Appeals Court held that the punitive

damages of \$280 million awarded in 2017 by the District Court against TCS in the case filed by Wisconsin based Epic Systems was constitutionally excessive, and brought down the damages to \$140 million.

The allegation against TCS was that its employees had accessed the web portal of Epic without the latter's permission during the period 2012-14 and downloaded over 6,000 documents totalling over 150,000 pages. Thereafter TCS used some of this information to develop "comparative analysis"—a spreadsheet comparing TCS's health-record software called 'Med Mantra' to Epic's software. TCS contended that access to these documents was very much required to complete the project for a mutual client and thus the information was not subjected to any improper use by the company and consequently denied stealing any confidential information from Epic.

In 2016, a Wisconsin based jury ruled in Epic's favour on all claims and then awarded Epic \$140 million in compensatory damages towards the benefit TCS received from using the comparative-analysis spreadsheet; \$100 million towards the benefit TCS received from using Epic's other confidential information; and \$700 million towards punitive damages for TCS's conduct.

Subsequently in 2017, ruling on TCS's motions for judgment as a matter of law, the Court of Western District of Wisconsin affirmed the \$140 million compensatory award, but set aside the \$100 million award. Thereafter the district court reduced the punitive-damages award to \$280 million, which was consistent with Wisconsin's statutory punitive-damages cap. Against the order of the district court both the parties appealed before the Court of Appeals for the Seventh Circuit which pronounced its judgment on 20th August 2020.

The Appeals Court noted that TCS's conduct consisted of a repeated course of wrongful actions spanning multiple years which was also intentional and deceitful, that justified punishment, though not in the amount of a \$280 million punitive damages award. According to the court the facts and circumstances of this case did not justify awarding \$280 million in punitive damages.

In a filing before the Indian stock exchanges TCS informed that it was exploring all the available options as it believed that there was no evidence of misuse of Epic's information and it would vigorously defend its position before the relevant court. Under the US law, decisions of the federal court of appeals can be challenged before the US Supreme Court by way of a "writ of certiorari" requesting the Supreme Court to review the case.

Protection of trade secrets is attracting lot of attention all over the world. Trade Secrets are categorised as protectable subject matter under various international trade agreements like the World Trade Organisation's TRIPS Agreement, that deals with the protection of Intellectual Property Rights (IPR). The TRIPS Agreement requires that protection must apply to information that is secret, that has commercial value because of its secrecy and that has been subject to reasonable steps to keep it secret. Even though TRIPS Agreement does not require undisclosed information to be treated as a form of property, it stipulates that holder of the information must have the possibility of

preventing it from being disclosed to or used by others in a manner contrary to honest commercial practices.

In the US, the Uniform Trade Secrets Act (UTSA) codifies the basic principles regarding common law trade secret protection, with a total of forty eight states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands following the UTSA with some variation. UTSA is primarily to harmonise the various state laws dealing with trade secret protection. For a considerable period of time trade secret protection in the US was governed by different state laws.

However, in 2016 with the passage of the Defend Trade Secrets Act (DTSA) the first federal law in US to create a national system to deal with trade secret misappropriation became operational. Unlike other IPRs like patents, trademarks and copyrights, most of the countries including India do not have any specific law to protect trade secrets. Parties mostly rely on contract law or misappropriation doctrine to protect trade secrets. Indian courts have followed a proactive approach and have imposed an implied duty to maintain confidentiality even when there is no clear provision in the contract to maintain confidentiality.

Many recent studies including the one conducted by European Commission point out that businesses, irrespective of size, consider secrecy to be as important as patents and other forms of IPR like trademarks. Trade secrets are also relied upon by small and medium-sized enterprises to safeguard their innovations for a plethora of reasons like no subject matter limitations; no time consuming or expensive procedures like registration, renewal etc. Even though patents and trade secrets are both classified as IPR, numerous differences exist between them.

In the case of a patent the term of protection is generally for twenty years from the date of filing the patent application while trade secret protection is there for ever. But trade secret protection is always vulnerable to risks posed by reverse engineering while patents are not affected by such acts.

Companies all over the world are taking the fight for protecting IPR as seriously as the fight to gain significant market share. As more and more Indian companies establish their footprint around the globe such battles are going to get more intense. Indian companies especially those who have large subsidiaries in developed markets should be very sensitive about the framework involving IPR protection and thus be very careful while dealing with IPR owned by others. Indian companies should also use this opportunity to create a robust framework for protecting its trade secrets which shall include the right mixture of access restrictions and creation of awareness amongst its employees.

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