

# **The Critique of Negative Knowledge and Unfair Competition in Taiwan**

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## **Abstract**

Trade secret cases pose special problems distinct from other intellectual property lawsuits because alleged trade secrets are rarely defined in advance of litigation. Perhaps the strangest theory of trade secret law is the concept of negative know-how, a theory under which an employee who resigns and joins a different business can be liable for not repeating the mistakes and failures of his or her former employer. The boundaries of the negative knowledge concepts have not been well articulated in the case law. This article first reviews the Taiwan (ROC) Statutes and theories, especially in Fair Trade Law. There is a growing debate between the proponents of negative knowledge and unfair competition. Broad application of the negative know-how theory then would create new restrictions on employee mobility and allow employers to obtain court-created non-competition covenants against former employees based on their knowledge of failures and errors.

**Keywords: Intellectual Property Rights, Trade Secret, Internet, Negative knowledge, Unfair Competition, Post-Employment Non-Competition.**

## INTRODUCTION

In recent years, the protection of trade secret has been greatly concerned. Usually, employees who leave their companies are asked to sign a non-compete agreement, since employers may worry that those employees may disclose the confidential information or business strategies of the company against the policy. If "negative knowledge" is disclosed, it may be amended, added or deleted by other competitors for R&D of competitive products, it would result in threat to the original company. Therefore, asymmetric treatment of positive and negative knowledge may affect the investor's assessment on corporate value, which may lead to unfair competition.

Before the establishment of specific laws concerning the protection of trade secret, countries tend to punish the violation of fair competition<sup>1</sup>; there are studies criticizing such a theory in the United States<sup>2</sup>. This paper aims to explore the following issues: the definition of the term "negative knowledge", its impact on protection of trade secret, whether it is unfair competition when the doer improperly using non-trade secret business information<sup>3</sup>, servant's right to choose job and public benefits, in order to encourage corporate innovation and development, trade-off employer's information by former employees in an employment relation. According to the maintenance of fair competition and protection of intellectual property rights, both should be balanced. The next sections will discuss the legislative cases in Taiwan and the United States, as well as the latest practical developments in the United States. Finally, conclusions and suggestions to industrial application in Taiwan are proposed.

## □. Negative Knowledge

At present, practical trade secrets leak and commercial espionage often occur among staffs, especially those who are job hopping or head hunted, causing competition against the original company. If an employer questions the staff's loyalty and exit movements, he would be reluctant to exert great efforts to train or provide better welfare and promotion, in turn, the staffs' efforts in R&D of new technologies or products would be relatively reduced, as well as the job opportunities, which is more unfavorable for the employer. Also, if the leaving employee does not report the prior knowledge or experience to the new employer, he may be blamed by the new company for not informing; but if he reports fully, he may face lawsuit from the former employer for violating the intellectual property rights, that is, leakage of related trade secrets.

As to prohibition of leaving employee turnover to competitors, apart from preventing positive trade secrets being leaked, but also may be worried about "negative knowledge" has been fully interpreted, and thus develop into an adverse business strategy to the original employer; even it is through the modification<sup>4</sup> by leaving employee, it may still be classified as "misappropriation of trade secrets", so it would be a serious threat to the leaving ones. If the aforementioned theory is implemented, whether positive or negative knowledge, whether report to the new employer, he would still have the responsibility, and the employer may be bound to restrict leaving ones' occupation freedom.

Broadly speaking, when negative knowledge is related to R&D of new products or technologies, it is difficult to measure the value, as most are private with a high degree of uncertainty. Moreover, the company managers would avoid or not repeat the above-mentioned shortcomings, as they know company's R&D plan, which affects the company's cash flow or net profit manipulation, resulting in a direct impact on company value. Therefore, it not only can avoid the unnecessary waste of money and human resources in the R&D process or outcome, but also accelerate the R&D products.

When a leaving employee with the negative knowledge which is not publicly accessible, as his employment relationship ends, he would have the fiduciary duty in fiduciary relationship<sup>5</sup>. The employer should remind him the confidentiality obligations periodically, usually a confidentiality contract is signed. However, the employee often did not carefully read, or even forgot about the terms, so the periodic reminding would help avoiding future problems, particularly when his new job has close correlation with the previous company's secrets. Such contract can remind both the employer and employee, while trade secret cases often have serious consequences through unintentional disclosure. The nature of the trust relationship is: one party places trust in the other party who is in dominant position<sup>6</sup>, it is difficult to define "negative knowledge" known by employee and its scope, the following explained the case in California Court of Appeal.

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In *Courtesy Temp. Serv., Inc. V. Camacho* case<sup>7</sup>, the plaintiff had "negative knowledge" failed to attract buyers. In the discussion on the reason that the client cannot become the buyer; if seller made his utmost efforts to provide services, but not be able to attract buyers, that cannot be included in "customer list", but also bet a lot of effort of the plaintiffs. Therefore, the plaintiff may argue that such information should be protected trade secrets. *Cinebase Software, Inc. v. Media Guar. Trust, Inc.*<sup>8</sup>, which also cited the opinion from *Camacho* case, considered the "negative research" could be regarded as trade secrets and be protected, that is, it could be made available to the industry to avoid business failure. UTSA was enacted in 1979, the definition of trade secrets continues to apply the explanation in Article 757 of the U.S. Restatement of Torts<sup>9</sup>.

The protection of private information is applicable to unfair competition theory, which is built on the concept of common law and tort restatement. Restatement of Torts<sup>10</sup> provided the responsibility of improper possession of trade secrets, that is, if a natural person receives the trade secrets from the third person, regardless of knowing that it is a

secret, this natural person should not be punished according to the Restatement, unless it is in bad faith knowingly; if the natural person is ignorant of the situation, or not knowing it contains trade secrets, he does not bear the responsibility until informed of confidentiality matters and continue to use the secret<sup>11</sup>.

Earlier, the protection of trade secrets or confidential information may use unfair competition theory, which is provided in Article 759 of the Restatement<sup>12</sup>: if an individual (natural person) obtains or knows the secret information through improper means or methods for reap commercial benefits, he should take the responsibility; the focus lies in access to and use of the property of the person involved, leading to competitive practices. The legislative intent is to avoid theft or unauthorized abuse, crime does not necessarily subject to trade secrets.

Restatement of Unfair Competition amended in 1995 regarded trade secret as the information for business or operation management, it was valuable and secret, which could provide actual or potential economic benefits to others<sup>13</sup>; The main purpose of using such information is to compete with competitors, not simply for their own profit or creating business opportunities, for example, in the same industry, in order to combat the competitors, some steal raw materials, ingredients, recipes and even business methods, business plans, customer lists ... and other related information.

However, as Restatement of Torts was completed in 1939, which was summarized from the early case and law, its normative content is too abstract and cannot cope with the rapidly changing business activities; therefore, when ALI of the United States passed the Restatement of Torts in 1978, the above-mentioned provisions relating to trade secrets<sup>14</sup> were deleted, but the court still cited them, as they are of highly legal value .

American Bar Association formulated Uniform Trade Secrets Act (UTSA) in 1966<sup>15</sup>; before that, in order to upgrade the protection of trade secrets and proprietary information, the United States Code of Federal Regulations had relevant provisions of statute law on trade secret<sup>16</sup>, and Trade Secrets Act (TSA) was collocated in June, 1948; after subsequent amendments, in the Section 18, Code of Federal Regulations, Article 1905, 1906, 1907 and 1909<sup>17</sup> were provisions for the protection of private trade secrets and criminal responsibility<sup>18</sup>. TSA is different from the other legislative norms, but it still provides a basic model legislation for the protection of trade secrets, which is also servants or agents' model to comply with<sup>19</sup>.

Before the mid-1960s, the states of the U.S. still remained in the stage that protect trade secrets with common laws, followed by the Law Association of the United States established the National Conference of Commissioners on Uniform State Laws, and it passed full text of UTSA in 9, August 1979. Until 1980, the states adopted UTSA by way of legislation<sup>20</sup>, thus the common laws of all states had to recognize and protect trade secrets, but because of the states are based on different theories, therefore the protection of trade secrets are of varying degrees, causing a number of companies and industrial problems. UTSA targets mainly at civil procedure relief, it had no effective prevention from the physical damage from violations of trade secrets or cannot inhibit the theft of trade secret; UTSA is now the most important legislative reference for trade secret in the United States<sup>21</sup>.

UTSA has been amended in 1985, it is not standardized by all states, only enacted by the National Committee on Uniform State Laws; the states according to their specific circumstances to take its definition<sup>22</sup>; although there are only 12 provisions in UTSA, it defined and provided trade secrets, violation patterns and civil relief, which also affected certain provisions in the Economic Espionage Act, we can see its importance; for the information that is still under laboratory or in development, UTSA lists it in trade secrets with " potential independent economic value"; even for the market survey used once, or still under development, the new products of pilot phase, are all have legal protection as trade secrets.

As to the past trade secret disputes in UTSA and unfair competition law, the most commonly used is the Restatement of Torts, after several amendments, although the definition in current provisions on trade secrets is different from the past, it still includes that: any disclosure of process, method, device, formula and other information owned by individuals or enterprises can increase the advantage over our competitors<sup>23</sup>, however, UTSA did not expressly pointed out the definition of "negative knowledge"; in one article, it defined that it must have independent economic value; in 1985 legislative advice discussion, the information with commercial value was considered from the negative perspective, e.g. a certain manufacturing process or method is proved to be no use through long-term efforts and spending, if the competitors know that, they will reduce R&D<sup>24</sup> time and money, of course, this can be considered one of trade secrets .

## II. Formation and Countermeasures of Unfair Competition

Patent, copyright or trademark rights can be achieved through the registration, as long as obtain registration protection, even if the secret is lost due to public, it will continue to enjoy the registration protection and not miss the "technology value" ; when the company's technology has not yet achieved the registration protection, but it is leaked by leaving employee, the potential economic value and competitive advantage of the technology may be soon lost<sup>25</sup> ; and trade secret claims often depend on the victim's (plaintiff) defense counsel against the leaving ones, allegation not to use confidential information; therefore, the protection of the rights is totally different from general intelligence property rights<sup>26</sup> , something not included in UTSA is: if people deliberately make use of litigation against impinging trade secret by competitors, through such malicious litigation, employees have to struggle with such litigation and strike a balance when transferring to a new post or launching a new career, the plaintiff take this to fight against the defendant to achieve the purpose of unfair competition<sup>27</sup> , which is not reasonable.

In diversified management subjects of intellectual property rights, take what law to regulate is worth looking into, whether it is market research or the definition of market demand, from the R&D flow, definition of user requirements, or design specifications, to logic design and testing, which are all related to trade secrets. As a commercial competition means, it must be able to directly create corporate profitability, or else the costs of a huge intellectual property rights management system will make most companies hesitate; a good planning of the intellectual property rights management system should be able to control the cost in a reasonable scope, and it can inhibit and eliminate the possibility of crime in advance, avoiding the enormous litigation costs and caseloads in future.

At present, as the general use of the Internet and related information technology, competitions among industries become more seriously; in order to maintain competitive edge, avoid other know the relevant information and become competitors, defense and information industries<sup>28</sup> request for confidentiality strictly, including foreign visitation of process-related projects or access to any confidential information, they must sign confidentiality clause; so the domestic industry exhibition will take some measures as restrictions on visits, but it ignores the necessary confidentiality measures at source of the production design; once the secrets are open, they are no longer secrets, therefore, other relevant intellectual property, such as trademark law, patent law, copyright law, or Integrated Circuit Layout Protection Act and other laws ... to protect their products, or otherwise legal means, such as use litigation or customs procedures to prevent plagiarism and counterfeit products from listing<sup>29</sup>.

Because of technology updates and special nature of the industry, the traditional intellectual property rights cannot respond to new objects, such as micro-organisms patents, chip design, software, and trade secrets; and therefore avoiding the destruction of economic espionage before obtaining such patents or trademarks, expanding the protection of intellectual property are necessary, so as to let the industry be willing to bet money and effort, including technical personnel, research and development or experiment, also to solve the obstacles to industrial upgrading.

With the advent of the information age, a wide range of information, including technology and R&D information, production and manufacturing information, quality control and maintenance information, marketing and sales information, as well as internal financial and operating information, are likely to have unlimited economic value, thereby affecting the success or failure of an enterprise.

Therefore, at present practical operation proposed that, the non-compete agreements both in employment contract or leaving the company should set out the definition of trade secrets, such as high-tech industries' R&D results, the original raw materials and formula which can be analyzed through the reverse engineering; so a detailed description, definition and connotation of the types of trade secrets is necessary; also, the penalties in

leakage of trade secrets, including relevant provisions on criminal liability or a fine should be detailed, so as to achieve prevention function. As to the employee's information or skills, which is known or learned during employment, if the employer consider it belonging to confidential, then the former shall take the responsibility not to tell others.

#### A. Laws and Regulations in Taiwan

The 548th interpretation of Council of the Grand Justice in Taiwan, is about the principle in prohibition from the abuse of power being used to the field of intellectual property rights, the Fair Trade Law Article 45 stipulates that "proper conduct to exercise rights in accordance with copyright law, trademark law or patent law is not suitable for the provisions of this Act." Do the above contain trade secrets law? What conduct is proper, and which belongs to the abuse of power<sup>30</sup>? In mandatory provisions, leaving employees must not only comply with the norms of competition, even "negative knowledge" is also protected the interests of original employers, which deters the competitors and restricts competition, is it feasible? How to judge with Taiwan laws, the following examined the Taiwan Trade Secret Act, relevant provisions of non-compete and the Fair Trade Law, followed by re-examined whether the laws of the United States can be reference in theory and practice.

##### 1. Trade Secret Law

Taiwan's trade secrets law was announced for implementation by the President on January 17, 1996, its legislative intent is "to protect trade secrets, maintain industry ethics and competitiveness order, and reconcile the social and public interests"<sup>31</sup>; according to the provisions of Article 2 in the Law, trade secret means methods, techniques, processes, formulas, procedures, designs or other information can be used for production, marketing or business, and they conform to the following:

- (1) Not known by common people involved in such information;
- (2) With actual or additional economic value because of its secrecy;
- (3) Owner has taken reasonable security measures.

So the "invention", "creation" in patent protection, "the meaning of the expression" in copyright protection, as well as the "layout" in Integrated Circuit Layout Protection Act<sup>32</sup>, even the so-called know-how and the production and marketing information, were covered, including all of the information from design, production, sale, sales management, operation in industry and commerce. Therefore, the Law may cover more fields, like services, manufacturing industries.

As the scope of trade secret is very wide, therefore the most important key is to take appropriate measures to maintain secrecy, that is, must take reasonable security measures; and the trade secrets with legal protection must have actual or additional economic value, that is, trade secret itself can be directly or indirectly input to industrial and commercial activities, and generate economic benefits<sup>33</sup>. Industry person can prompt the development of high-tech for Taiwan's industrial upgrading, and no longer rely on foreign technical assistance, so as to enable Taiwan's economy be more developmental.

##### 2. Fair Trade Law

Taiwan Fair Trade Law was announced by the President on February 4, 1991, went into effect on February 4, 1992, had a latest amendment until February 6, 1992, the legislative intent was "to maintain trading order and the consumers' interests, ensure fair competition, promote economic stability and prosperity."<sup>34</sup> Fair Trade Law Article 19, paragraph 5<sup>35</sup>, provides the type of coercion, inducement or other improper methods to obtain the trade secrets, the type is clearly inadequate; when consumers dealing with different types of information, If they are involved in negative knowledge, causing negative efforts, and so extend the time for consumers to judge, making opportunities for competitors.

If A is both Company A's salesman and the shareholder of Company B, when he represents Company A and negotiates with potential new customers, he deliberately increases the prices, and introduces the Company B to the customer, is this behavior reasonable in a fair trade? When the client does not know A, B Company's actual prices, A Company's higher price is a negative effect, through "business judgment", the customer will choose Company B, resulting in unfair competition<sup>36</sup>.

The Fair Trade Law only protect "business" trade secrets (Trade Secret Law, paragraph 2), the trade secret of a natural person without "business" of is not protected, it is significantly insufficient to maintain the foregoing fair competition, business ethics, and other purposes; Article 36 and Article 41 of the Fair Trade Law provide the criminal penalty and administrative penalty, the Fair Trade Commission didn't impose sanction against the first time infringing trade secret, which was not appropriate<sup>37</sup>.

In Article 15 of Administrative Penalty Law announced on February 5, 1995, if private legal person's director or other person with representation right infringes the Administrative Penalty Law when doing the director's duties, the doer should be subject to punishment if there is intent or gross negligence. If legal person's staff, servants or employees are against the Law due to duties, both the legal person and staff should be subject to punishment due to willful or gross negligence. The fines are not more than \$ 1 million NTD. But for the one with benefits more than \$ 1 million NTD, impose a fine according to the amount.

In Article 19, paragraph 5 of Fair Trade Law, obtaining the business secret of others is prohibited, trade secret protection is limited to the "business" referred to in Fair Trade Law Article 2, such as companies, wholly-owned or partnership commerce and industry enterprises, trade associations, and others group of people providing goods or services transaction; and the "counterparty" of transaction in Article 3 is relatively inferior to natural person engaged in research and invention simply<sup>38</sup>.

The criminal penalty and administrative penalty provisions take cease and desist orders from Fair Trade Commission for violations as the elements, not imposing sanction against the first time infringing trade secret is not appropriate<sup>39</sup>. As to the protection object, the Article lists "marketing secrets, transaction counterparty data" as protection objects, and "other relevant technical secrets act" is regarded as a general protection matters, the definition or the scope of trade secret is not detailed, only limited to literal explanation; "technical secrets" and other related matters as the scope of protection, which is narrower than the scope of the Trade Secret Law later.

### 3. Criteria of Negative Information

Taiwan's definition<sup>40</sup> of trade secret targeted at economic espionage or theft of trade secrets in the past, which was in accordance with Fair Trade Law Article 19, paragraph 5: "get other's production and marketing secrets, counterparty data or other relevant technical secrets through coercion, inducement or other improper methods." That is, the behavior against fair competition is prohibited, hide "negative knowledge" and not report, that should belong to the Fair Trade Law Article 24, within the scope of acts prohibiting unfair competition. E.g. Company A restricts its leaving employee, that he cannot disclose any relevant Company A's "negative knowledge" during working in Company B, is it reasonable?

If the acts that are of the nature of unfair competition cannot be regulated in accordance with the provisions in Fair Trade Law, view the availability of the provisions in Article 24. The so-called unfair competition, means the act has the criticism of commercial competition ethics, and commercial competition is in violation of social ethics, or against the central essence of fair competition on price, quality and service; usually, the leaving employee is required to comply with non-compete agreement is reasonable, whether Company A's restrictions are in line with the situation in Fair Trade Law Article 24, however, the actual violations are judged by the Fair Trade Commission.

According to "Reference manual for signing non-compete"<sup>41</sup> announced by Council of Labor Affairs, the non-compete agreement is in the principle of contract freedom, the employer shall not forced or coerce new labor to sign, as the new one has job need and without experience. Worse still, except the period in-service, even the period after the employment relationship is restricted, it is true that "negative knowledge" in Taiwan may be relatively a new concept; this paper argued that "negative knowledge" may be attributed to the broad trade secrets.

### B. Taiwan's Cases<sup>42</sup>

Non-compete agreement in general is to protect business interests without jeopardizing the restricted one's economic viability, which is within the scope of legal norms, e.g. as semiconductors, wafer industries, and other high-techs are the core of Taiwan's economic development, enterprises often invest a lot of money in human capital for R&D, so the protection of trade secrets and talents retention are of extreme importance; employers fear the leaving one disclose business secrets on manufacturing technology and so on, so they reach an agreement of non-compete, if there is a violation, leaving one shall hold liable for damages.

To avoid increasing the transaction costs and maintain workplace ethics, when employers and employees enter into employment contracts, they usually sign a non-compete agreement, so as to protect trade secrets and avoid acts of economic espionage. However, if non-compete agreement only protects employers' interests, although the future ownership of trade secrets could avoid, for the vulnerable employee in economically weak, or even the new grads, they would easily sign the employment contract (including the non-compete agreement) for a new job, but their future developments are often restricted to the original signed contract, which even leads to a very high compensation, such cannot achieve the original purpose of dispute settlement of non-compete agreement, but arises more disputes and disputes between the two sides.

In general, Taiwan business owners often provide a non-compete agreement in the employment contract: "agree not to join any competing until one year after leaving, if in violation of the provisions, refund any training costs of the company before leaving and all year-end bonuses as the minimum amount of damages"<sup>43</sup> It is generally believed that: such non-compete provisions are because labor has the obligation not to use or reveal the trade secrets or confidential information in former employment, so as to avoid the competitors have the opportunity to crack down on the original company; however, it limits the employee's employment and freedom of occupation, therefore, there must have some "compensation clauses"<sup>44</sup>, or else it will have an impact on the economy.

The existing laws regarding non-compete mainly relate to managers and directors in civil law and company law<sup>45</sup>, even if the non-compete agreement has compensation clauses already, under the existing procedural law framework, proof should be given that employee has a significant breach of trust or breach of good faith acts, so as to claim damages based on non-compete agreement; otherwise, the non-compete agreement will have no use. When determining whether the non-compete agreement is valid, the court will consider whether the leaving employee has a significant breach of trust or breach of good faith, so that employers face a high threshold of the burden of proof, the non-compete agreement may be tantamount to dead letter<sup>46</sup>, and thus restricting and impacting their employment opportunities.

Whether to pay compensation is determined by former employer, one-sided increase the responsibility of a employee, which is disadvantageous, in violation of the principle of good faith, public order and good customs; in the absence of other compensation provisions, the effectiveness of non-compete agreement has no reason. At present, enterprises non-compete agreement must be signed by both parties, and then goes into effect, the reasonable limits should take into account the competitiveness of both enterprises and employees; it is necessary to stress that this consideration is already

included in salary or special allowance, or in exceptional circumstances, agree to pay non-compete compensation. If the leaving one deliberately steals company's customers and intelligence substantially, he is out of protection, of course without compensation.

### 1. Syscom Case

April 2007, the Supreme Court entered a judgment: Syscom asked for its business manager to compensate the damages of \$ 2.25 million NTD<sup>47</sup>; in this case, the manager held Imperva's shares and served as its representative during his term of office, which was not in line with Article 32 of the Company Act: manager shall not act as business manager of other companies at the same time, it is obvious that he was in violation of non-compete agreement.

As Syscom's business manager was in breach of its faithful labor obligations, he didn't inform the company of the bid from Feng Chia University, resulting in failure to tender, so the company asked for damages, the Supreme Court decided that although Imperva won the \$ 7.5 million NTD bid, even it got a net profit of \$ 2.25 million NTD from it, it didn't mean that the manager could earn the net profit of \$ 2.25 million NTD. So it could not confirm whether the computer indeed had a loss of \$ 2.25 million NTD net profit, and therefore could not determine the manager's substantial harm to the company, the damages were considered as invalidated.

When signing a contract, it is clear that if employee violates non-compete agreement and causes damages to, he shall hold the liability. Standing on a business perspective, the manager was not responsible, there was a clear violation of non-compete agreement, so he should hold liable for damages. However, that manager had his labor obligations, hiding the bid and not informing just lost the bid, without causing substantial damage to the company, it is not sure whether the case is fair according to Fair Trade Law Article 24, this case illustrates the cognitive difference between two sides.

### 2. Atergi Technology Case

On May 1, 2007, the Taiwan High Court entered a judgment: Atergi Technology required its assistant manager and Chun Yi Co. to compensate damages<sup>48</sup>, in that case, there were not reasonable compensatory measures (compensation measures) when signing non-compete agreement, which was in the violation of property rights, public order, good customs and the spirit of the Constitution, it should be null and void. Even if the non-compete agreement in job contract was considered as a valid, but the assistant and engineering manager set up their own company and had never used working time to operate it, there were no breach of trust, so no need to hold the responsibility. Again, Chun Yi Co. directors' investment was purely personal conduct, without any prejudice to Atergi.

After signing the non-compete agreement in job contract, Atergi Technology's assistant manager and engineering manager' salary or allowance was improved, and Atergi Technology defended that its compensatory measures were included in the wages, but there was no real evidence. This showed that the company did not compensate the staff's loss for the non-compete provisions, so the non-compete agreement was invalid.

### C. Discussion on the relevance of case and the compensation amount<sup>49</sup>

In pursuit of economic interests, enterprises often resort to all means to achieve; proper ways enable the industry has healthy competition, but there are many unfair competitions infringing servant's job freedom and survival right; when enterprises unilaterally restrict employees with high break-up fees and contract, more disputes between companies and employees are caused; through the discussion on relevance of case and the compensation amount, this paper illustrated the impact of unfair competition on the society.

### 1. Case data and descriptive statistics

Case data sources were from the Law Bank website, data type was yearly data, mainly aimed at relevance of non-compete case and compensation amount in Taiwan, the study period was from January 1, 1996 to February 29, 2008, a total of 421 pieces.

Table 1 Number of non-compete related cases

	Non-compete	Payment of liquidated damages	Damages	Total
Number of related cases	22	151	248	421
%	5.2%	35.9%	58.9%	100%
	Local court	High court	Supreme court	
Non-compete	16	5	1	
Payment of liquidated damages	104	39	8	
Damages	166	66	16	
Total	286	110	25	
%	67.93%	26.13%	5.94%	

Source: Plotted based on the historical data of the Law Bank website.<sup>50</sup>

According to Table 1 about the proportion of non-compete cases in Taiwan, non-compete cases were 22 pieces, accounting for 5.2%; 151 cases were payment of liquidated damages, accounting for 35.9%; 248 cases were damages as high as 58.9%; after signing non-compete agreement, when enterprises or employees' rights and interests are jeopardized, the damages claimed are the main dispute, which originally is company costs to protect the enterprise and employees' freedom of contract, but now damages arising from disputes, in which the unfair competition would result in waste of business and social costs.

Table 2 Distribution of court for non-compete related cases

Unit: piece

	Local court	High court	Supreme court
Non-compete	16	5	1
Payment of liquidated damages	104	39	8
Damages	166	66	16
Total	286	110	25
%	67.93%	26.13%	5.94%

Source: Plotted based on the historical data of the Law Bank website.

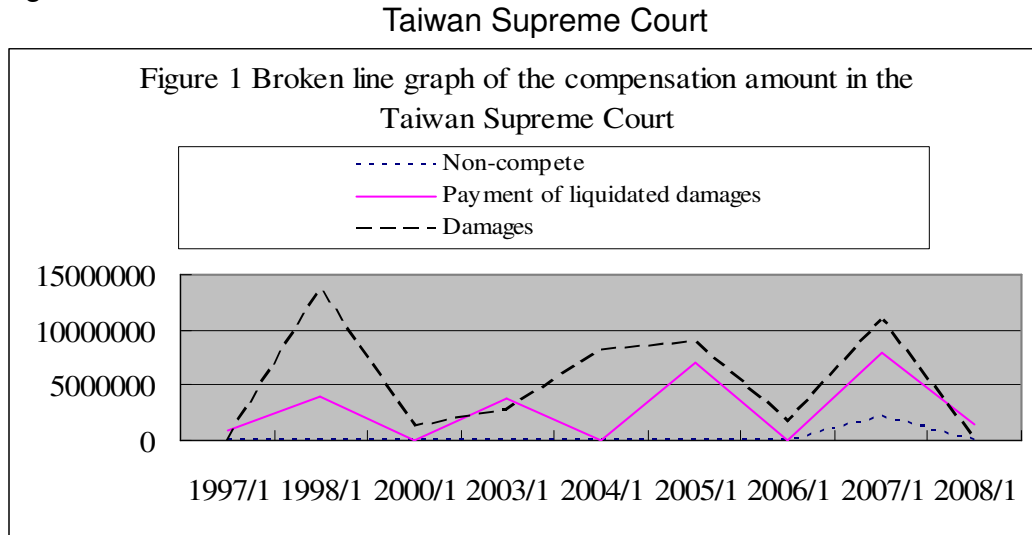
Based on Table 2 about the distribution of court for non-compete related cases, as unfair competition is derived from the non-compete cases, litigation disputes are often appealed, including appeal to the High Court, which is 110 pieces of cases, accounting for 26.13%; and the Supreme Court were 25, accounting for 5.94%, which indicates an average of 32.07% disputes arising from unfair competition will result in a waste of social resources due to continued litigation costs. In the legal theory, it is for the sake of fairness and justice, but it cannot make efficient use of social resources, which should be taken into account thoroughly.

2. The relevance of case and the compensation amount

In view of the analysis on non-compete Taiwan-related cases, usually the one appeal to the High Court and Supreme Court mainly dissent from the amount of compensation; after the verdict from High Court and the Supreme Court, most cases are dismissed or defeat suits, so the appeal case and compensation amount were done the correlation analysis.

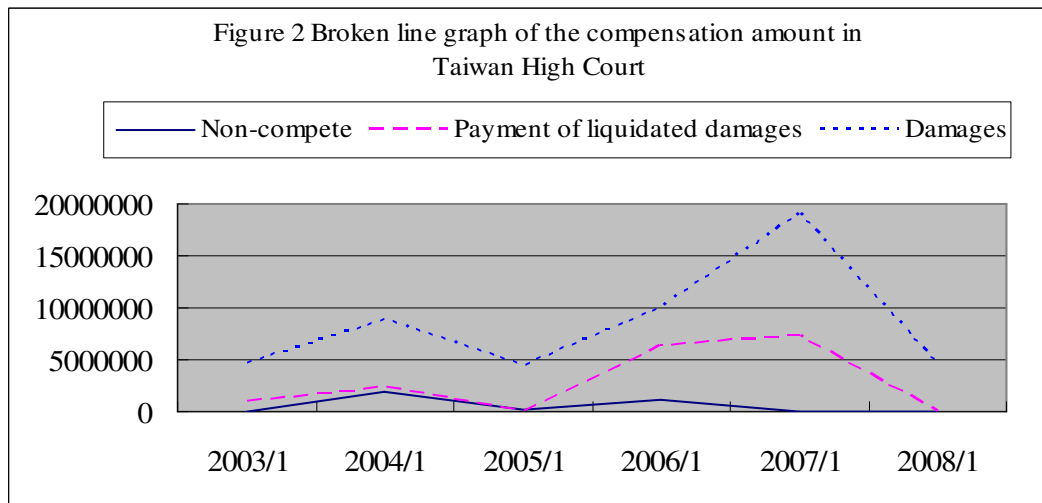
According to Figure 1, starting in 1997, among the non-compete cases in the Supreme Court, to the amount of damages is highest, with a total of \$ 46914677 NTD, and the payment of liquidated damages is \$ 25243748 NTD, which yearly increases; the amount of non-compete is \$ 2250000 NTD, it shows that it has been noticed in recent years. Based on the case content analysis, when the amount of damages requested by unfair competition is too high, its judgments are rejected and become defeat suits.

Figure 1



Source: Plotted based on the historical data of the Law Bank website.

Figure 2 Taiwan High Court



Source: Plotted based on the historical data of the Law Bank website.

According to Figure 2, as the Copyright Law, Intellectual Property Law and other relevant laws and regulations were implemented in Taiwan in 2002, the amount of relevant cases appeal to the High Court has gradually enhanced, the number of domestic-related cases and compensation amount show increasing rising trend from 2003 to 2006, it means that enterprises attach rising importance to unfair competition and damages gradually.

## □. Practices in the United States

In the restatement of unfair competition amended in 1995, trade secret is regarded as the information, which can be used for business or operation and management, it is valuable and of secrecy, providing other actual or potential economic benefits<sup>51</sup>; the main purpose is to beat the competitors mainly, not simply for one's own profit or to create business opportunities, one will even take improper means like theft or leakage of business secrets, such as raw materials, ingredients, recipes and even business methods, business plans, customer lists and other related information. The doer obtains and knows others' secret information through improperly ways, so as to obtain the benefits, such as the case of *Rehabilitation Specialists, Inc. v. Koering*<sup>52</sup>, the Court held that unfair competition was not narrow-defined infringement act. The theory of unfair competition prevention is based on stopping the doer looting the victim's property, such as the case of *Roy Export Co. Establishment of Vaduz v. Columbia Broadcasting Sys., Inc.*<sup>53</sup> The scope of Unfair Competition Law is broader than that of Trade Secret Law, even if the information content does not constitute a trade secret, it can still be protected, such as the case of *Flexitized Inc. v. Nat 'l Flexitized Corp*<sup>54</sup>.

There are different standards to determine whether it constitute trade secrets in different cases, there is general knowledge or public information or combination on trade secret; for example, recipes of fried chicken are very similar, the composition and raw materials are feasible by everyone, trade secret protection is for the unique proportion, the order or special ingredients<sup>55</sup>; although most are not regarded as the trade secrets in practice<sup>56</sup>, it is necessary to integrate individual elements in the public domain into trade secrets, unlike the generally known, and likewise the protection of "negative knowledge", otherwise the servant's motive of invention and innovation will be restricted.

In California, the United States, the leaving employees are prohibited to serve in similar work – so the secret information not constitute trade secrets; different from the past California tort law, Business and Professions Code section 16600 was expressly enacted; unlike the aforementioned UTSA, this law protects the secret information which not forms trade secrets yet, so as to strengthen the protection of his former employer; so legislation stipulates that a servant has the freedom to choose a job and use their professional knowledge and technology, but the former employer should not be harmed or be faced to unfair competition.

In the case of *Novell Inc. V. Timpanogos Research Group Inc. (TRG)*<sup>57</sup> by Utah District Court in 1998, the court accepted the plaintiff's request to grant the injunction. In that case, the defendants were employed by the plaintiff, working as procedures design, project planning and dismantling the secret information, so they were required to sign a confidentiality contract; the plaintiff bet quite a substantial amount of money and manpower to develop relevant technologies, and it made reasonable efforts to protect its trade secrets; and secondly, the plaintiff strictly controlled the channels and means to obtain trade secrets by the general people.

According to Utah Supreme Court's verdict<sup>58</sup>, value of trade secrets lies in – cannot open, that is, once open, the value is lost, the plaintiff will suffer irreparable damage<sup>59</sup>; to prohibit the defendant to use secret business information relevant to the plaintiff, and do not violate the protection of the public "know" right<sup>60</sup>; in this case, "negative knowledge" application was involved, the defendant had cleared the mistakes made by plaintiffs, of course, he avoided repetition in the new company, so "negative knowledge" played an important role in this case, not to mention the goods of two companies will form competitive relationship; ultimately, the Court issued an injunction to the plaintiff, so as to prohibit the defendant to use any secret information related to plaintiff in the nine-month

period, so it didn't not prejudice the defendant's freedom to use his professional and technical knowledge, nor his choice of employment was not affected.

The use of non-compete agreement can protect the industry person from the unauthorized use of secrets, but the duty of confidentiality may be ended because of the termination or discharge of the employment contract, and employees will no longer be bound by the confidentiality clause, or the staff uses the secrets from his original career, resulting in damages. As confidentiality clause cannot prevent the damage from employee turnover, the valid and effective non-compete clause can be able to further ensure the original employer's competitive advantage, and prevent malignant job-hopping and headhunt, so as to further protect secrets and the competitive advantage effectively.

In recent years, the enforcement power of restrictive clauses is no longer regarded as a matter of course by the Court of the United States; currently, whether servant's right of choice and signing non-compete agreement are respected, taking into consideration the reasonableness of the agreement<sup>61</sup>, in general, "good faith" or "fiduciary duty" is used to restrain persons in employment, but often limited during the period of employment, especially in high-tech industries, the employer has invested huge capital in the plant, hardware equipment and personnel training, if the servant switches to rival companies with his professional knowledge, it is not only unfair for the former one, but also forming unfair competition<sup>62</sup>; so it is appropriate to sign non-compete agreement.

Non-compete agreement is to protect the employer's interests, which are worthy of the protection, namely to maintain the original employer's goodwill, confidential information or trade secrets. Pennsylvania courts consider such as customer lists<sup>63</sup>, pricing information and delivery information<sup>64</sup>, chemical process, manufacturing process, machine, operation mode<sup>65</sup>, customer credibility<sup>66</sup>, special training methods, recipes or other mechanical data or related knowledge, system operation mode<sup>67</sup>, all belonging to the interests of employer worth protection; while others such as the information derived from reverse engineering, workers' attitude, technology or general knowledge, or messages provided by the general supplier, are not within the scope of protection<sup>68</sup>. In different cases, Courts are often faced with the definition problem, so the Pennsylvania Court held that:

(1) The information constitutes a secret for all in essence, and can have a competitive value.

(2) Whether it is of technical value, or simply commercial information, may constitute benefits worthy of protection.

(3) On a case-by-case basis<sup>69</sup>. This paper considered that "negative knowledge" consistent with the above-mentioned elements, the following described its use in Taiwan.

#### IV. Reference Value for Application of "Negative Knowledge" in Taiwan

There is no standardized written law on "negative knowledge" in Taiwan at present. The laws of the United States can make judgments based on the facts of individual cases, in the case of *Pepsi Co, Inc. V. Redmond*<sup>70</sup>, it pointed out that "If leaving employee should inevitably use the trade secrets before in new job employment, then it cannot be regarded that he works for the competitor." This ruling has affected the subsequent employment relationship deeply, as the leaving one knows the mistakes made by the former company and its process, even beverages such as Coca-Cola's ingredients may be weighed, its formula is still the trade secrets; "negative knowledge" from the leaving servant may also constitute the former employer's trade secrets inevitably<sup>71</sup>; when converting work, if in the same fields, it is almost impossible to avoid the use of skills and experience from its previous work, even if the employee has no intention of misappropriation of the former employer's trade secrets, they can easily be exposed, this is the so-called inevitable disclosure theory<sup>72</sup>.

At present, trade secrets to become an important asset of each company, which bet a large sum of money, manpower and R&D to accumulate competitive advantages, when the employee leaves, the company has faced the threat of leakage of trade secrets. Practically, if the former employer wishes to restrict leaving employees, who may not work in the relevant field with their professional skills, an appropriate compensation must be given; if restricting with non-compete agreement, "compensatory measures" should be given in employment period, so as to take care of employees' job choice, and without prejudice to their trade-off measures for livelihoods.

Government should not restrict any use of the general knowledge, skills, or experience known during tenure, as well as job-hopping willing, or else hurt the overall economic development. Therefore, when the employer hope to hire competitors' leaving employees, he inevitably may involve the trade secrets, employer can reach an agreement with the staff not use and expose former trade secrets, and inform of that is illegal, otherwise he would hold civil liability for damages.

If the secret is very valuable, and the employee's job is the same or similar with the former one, employer should be very cautious in some related activities involved in trade secrets, let servant deliberately avoided, a cautious company should be all of its reasonable efforts, and make sure the inevitable danger will not lead to exposing trade secrets. He may even recognize with the servants' former employer which secret deserve to be protected, and his good faith to avoid infringement of trade secrets; servant's manager all has the responsibility, he must remind that not easily use the trade secrets belonging to others.

The points can be used for reference and learned by Taiwan in the application of the United States were discussed here. In the case of *FMC Corp. V. Varco International, Inc.*<sup>73</sup>, the defendant served as a mechanical manager in the plaintiff company, which had high-tech industrial technologies, he was also asked to sign a confidentiality contract; and then he switched to the plaintiff's competitors, which had many similar products with the plaintiff, wanted to dismantle products through reverse engineering, so the defendant was hired; followed by the considerations from Fifth Circuit Court of Appeals for the case: 1) the reason for the defendant employed was to restore and dismantle plaintiff's products;<sup>74</sup> 2) the new company didn't limit the defendant using secret of the former company<sup>74</sup>, the defendant and the plaintiff did not sign any "non-compete clause", the court decision implemented the "inevitable exposure theory", the plaintiff lost.

As the leaving employee knows the mistakes made by the former company in R&D and the reasons for them, if competitors aware of this knowledge, they may reduce their time and financial resources in that project, so the negative knowledge constitutes trade secrets, such as the case of *Winston Research Corp. V. Minnesota & Manufacturing Co.*<sup>75</sup>: the plaintiff was a tape manufacturer, the defendant and other people were employed by the

plaintiff company originally, the latter left and worked at plaintiff's competing company, which developed similar products with technology informed by the defendant<sup>76</sup>; in the first instance, the court held that the accused persons known well about errors and problems in manufacturing process of plaintiff company, so competing company's problems and obstacles were avoided, production time, costs and R&D expenditures were reduced, and therefore the knowledge can be attributed to the plaintiff's trade secrets<sup>77</sup>; however, the Court of Appeal did not consider negative knowledge may constitute a trade secret<sup>78</sup>.

In the Case *Hurst v. Hughes Tool Co.* in 1981<sup>79</sup>, the Court considered the plaintiff's failure reason and experience only made one not repeat the same mistakes, not enough to form a trade secret. Additionally, in the case of *SI Handling Sys., Inc. V. Heisley*<sup>80</sup>, the Court questioned Pennsylvania law used the Restatement of Torts to define trade secrets<sup>81</sup>, whether also admitted negative knowledge was trade secret, the attitude was uncertainty, because there were not many practical cases, more space was left for future development and discussion.

In the discussion of restrictions on the use of "negative knowledge", employer's biggest concern is: leaving staff uses the message derived from work experience to form competitive advantage, which greatly reduce new company's depletion and expenditure; therefore, if the new employers take availability investigation of such information in advance, the compensation and disputes can be reduced in future; however, the employer eagers to let the new staff show up, and even through head hunting, this makes the new one be more dependence on the past work experience; how to make the new staff use his talent fully, but also avoid the "unfair competition " created by new employer deliberately, it is very important for high-tech or biochemical industries, which relies on specialized technology and professional performance; it is recommended to avoid the use of highly sensitive "negative knowledge" or take the initiative to inform, so as to reduce the time in prevention and investigation.

Advocating that "negative knowledge" is the " common knowledge " easily know by general people or industry-specific people, which may be used for defense by the new employer<sup>82</sup>, so as not to infringe the former employer's trade secrets; it is difficult to classify trade secrets into single, individual or combination trade secret, if it is public information, any person have the right to use it; it is recommended that new employer do proper information classification for "negative knowledge", so as to clarify the scope and authority, and avoid the burden of proof and caseloads.

## CONCLUSIONS

People exert themselves actively in introducing advanced technology of science and technology, including computer information, medical and biochemical aspects, or through technology licensing, technical cooperation, corporate mergers and acquisitions, as well as cash purchase, etc., with a view to strengthen the existing level of technology R&D, enhance business profitability and operating pattern. After this effort, it poses a threat to competing countries in international markets; with an increasingly competition in industrial and commercial society, information technology acquisition has become the key to winning; enterprises suffer serious losses due to the unauthorized use of intellectual property rights, the past non-performance of contract, unfair competition, infringement act or UTSA only requests civil damages, no special provisions of civil penalties; if the employee leaves the original company, switching to competitor, whether he should be punished criminally, so the employer with strong economic status will easily bring charge against employee turnover and fight against competitors.

This paper proposed to view whether "negative knowledge" would create unfair competition through following means: 1) whether the leaving employee's "negative knowledge" can cause competition, namely, the causal relationship between the two must be clear and specific; 2) assess the value constituted by "negative knowledge" and its impact on the overall benefits; 3) whether the information owner prohibit to use "negative knowledge" is a malicious idea, that is, his main motivation is for exclusive use of information and forming unfair competition; 4) whether the leaving employee can prove that his "negative knowledge" was known through hard work and personal experience, which has nothing to do the former employer's secret information; even if there is connection, the sources and methods for independent access to information are not affected. If want to prove that the use of "negative knowledge" by leaving one affects the former enterprise's competitive advantage, the burden of proof is on former employer, which calculates the value of trade secret cases, including R&D technology, time, relative manpower input; therefore, burden of proof must be done by the former employer indeed<sup>83</sup>, this paper considered that the most difficult to clarify was the burden of proof in such proceedings.

Before the victim (plaintiff) sues, first he should confirm his loss is a trade secret, or be consistent with the elements of trade secret; and secondly, the information contents of "negative knowledge" advocated not to use should be described in detail. When the court makes the decision in favor of the plaintiff, of course it will request the defendant to stop using information content proposed by the plaintiff; the court is based on the plaintiff's request, so the plaintiff's claim for damages must be in good faith, if it is malicious and only for monopolizing the market and information, it naturally should not be protected, so as to avoid unfair competition, affecting the overall interests of the society.

The attention to the protection of trade secrets in today's society is far more than the past; the implementation and practice of the concept should usually go through years of accumulation and the test of time, with the needs of diversification of industry and information-based society, plagiarism of others wisdom essence reduces R&D costs, even the time and process of theft can be shortened through scientific and technological tools; in the past, trade secret protection issues are mostly positive business messages, which can create wealth, such as customer lists, raw material, manufacturing process, formula, recipes and trade secrets; the protection of "negative knowledge" is the new direction of thinking now and the future. This paper discussed the status of Taiwan laws and the practices in the United States, with a view to protect intellectual property rights, and at the same time, to avoid unfair competition, so that competitors can start trading based on fairness and mutual benefits, so as to reach fairer deal and activate the market, protect the investor and consumer's demands specifically, and stimulate the economy toward virtuous circle.

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<sup>1</sup>Other countries such as both Germany and Japan have "Unfair Competition Prevention Law"; China has "Anti-Unfair Competition Law." Article 4, Paragraph 9, 2004 Germany Unfair Competition Prevention Law provides that, any person engages in the following acts would constitute the unfair competition: the provision of imitation goods or services of competitors, and (a) arising from the consumers' confusion about the source of goods or services; (b) inappropriate use of or impairment of the imitation goods or services' good comment (good reputation), or (c) obtain the knowledge or basis necessary to imitation with dishonest methods. Also, according to the provisions of in Article 17 and 18 of the Law, any who impinges on the other's trade secret should bear the criminal responsibility. Based on the U.S. Trade Secret Protection Act and Germany Unfair Competition Prevention Law, Japan took one cultural policy for the Japanese economy and the environment, but Japan did not upgrade trade secret as the right, only as the benefits of business, which are protected with Unfair Competition Prevention Law. Japan adopted similar laws from the U.S. and three elements in TRIPS Article 39, and known as (1) secret management; (2) usefulness; (3) non-publicity, which are not essentially different from those of the United States. See Huang, "New system of trade secret protection," *Taiwan Bar Journal*, Issue 11, Vol. 8, 2007.

<sup>2</sup> See Charles Tait Graves, "The Law of Negative Knowledge: A critique", 15 *Tex. Intell. Prop. L. J.* 387-416 (Spring 2007). This paper explored the problem proposed by above author mainly; however, the implications, definitions and language were finished by the author of this paper, who will take the responsibility of them. The following are cited the legislative cases of other countries as well as practical cases in the United States for illustration.

<sup>3</sup>Tait Graves, "Non public Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes under the Uniform Trade Secrets Act," *UCLA J. L. & Tech.* 1 (2006). This paper noted the California tort law and adopted Uniform Trade Secrets Act (UTSA), which are the scope and limitations for the people of California using non-public information.

<sup>4</sup> See Charles Tait Graves, "The Law of Negative Knowledge: A critique", *Tex. Intell. Prop. L. J.*, 15, 388(2007). that paper called this modification as "the modification rule".

<sup>5</sup> This paragraph referred to Graves's text, and personal opinions of the authors were collating.

<sup>6</sup> See Restatement (Second) of Torts § 874 (a) (1978), and trans. By Chao, HW, Yang, CJ, (2006) Anglo-American Tort Law, 204, Taipei: Wunan. The translation version cited lawyers and clients relations, the relationship between doctors and patients, this paper thought that the employee had the faithful secrecy obligations for employee.

<sup>7</sup> 222 Cal. App. 3d 1278, 1287 (Cal. Ct. App. 1990).

<sup>8</sup> No. C98-1100EMS, 1998 WL 661465, at\*12 (N.D. Cal. Sept. 22, 1998).

<sup>9</sup> See Restatement (First) of Torts, 757 cmt.b.(1939). Restatement of Torts was completed by The American Law Institute in 1939. The notes from paragraph 757 to 759 of Chapter provide the definition of trade secrets and torts, which had high reference value. According to Note B, Restatement of Torts, 757 (1939), the definition of trade secrets is: "trade secrets can cover any formula, model, design or data compilation, which give the competitors the opportunity to obtain an advantage; it can be the formula of a chemical mixture; methods to treat and preserve materials; the mechanical model or customer lists. Unlike other trade secret information, trade secrets are not single or short-lived information for dealing with business, e.g. a secret tender's amount of bid or other conditions, specific servant's salary, securities investments, the date of announcing a new policy or sample. Trade secrets, refer to procedure or method continuously used by business operation, and it usually associates with goods production, such as the machine or formula; or involves the sale or operation of goods, such as the price decision or directory of discounts or other concessions code, the list of specialized customers, bookkeeping or other office management methods.

<sup>10</sup> Restatement (Third) of Unfair Competition (1995).

<sup>11</sup> The Restatement (Third) of Unfair Competition and Potential Impact on Texas, at 5, <http://www.utexas.edu/law/journals/tiplj/volumes/vo14iss3/meier.html> (last visited 2003/8/6).

<sup>12</sup> Restatement (First) of Torts §759 (1939) & §759 cmt. b.

<sup>13</sup> Restatement (third) of Unfair Competition 39 (1995).

<sup>14</sup> Feng, C.Y., About trade secret – theory and practice of trade secret, 309, 1997.

<sup>15</sup> Uniform Trade Secrets Act, 14 U.L.A. 369 (1985 & Supp. 1989).

<sup>16</sup> 15 U.S.C. § 1776, 18 U.S.C. § 112, 19 U.S.C. § 1335.

<sup>17</sup> 18 U.S.C. § 1905, 1906, 1907 & 1909.

<sup>18</sup> 18 U.S.C. § 1905 (2000), in this provision, the offender will be punishable by fine or limited imprisonment of less than one year.

<sup>19</sup> Jerry Cohen, "Federal Issues in Trade Secret Law", 2 *J. High Tech. L.* 1 (2003).

<sup>20</sup> Yeh, M.L, Su, H.W., Li, D.H., Protection of trade secrets and tactics - practice and examples of contract applications, , 29, Yung Rang, 1996.

<sup>21</sup> Brandon B. Cate, "Saforo & Associates, Inc. v. Porocel Corp.; The Failure of the Uniform Trade Secrets Act to Clarify the Doubtful and Confused Status of Common Law Trade Secret Principles", 53 *Ark. L. Rev.* 687, 697-699 (2000); Robert Unikel, "Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets", 29 *Loy. U. Chi. L. J.* 841, 843 (1998).

<sup>22</sup> Article 1, Paragraph 4 in UTSA states: "Trade secret means information, including prescription, model, compilation, program, design, methods, techniques or processes, and (1) its independent real or potential economic value is not public way and others cannot know easily, and its leak or usage can make others

obtain economic value. (2) has made reasonable efforts to maintain its secrecy ". See Yang, CS, "United States law of trade secret protection", *Chung Hsing Law Review*, Issue 23, 306, 1986. After analysis, its elements are as follows: 1) novelty; 2) materialization of elements; 3) independent substance or potential value; 4) cannot be easily achieved; 5) reasonable efforts to maintain secrecy. See Hsu, YL, "the protection of trade secrets - the Fair Trade Law and Intellectual Property Law II", 24-27, 1993, the Act only provided the civil liability of violating trade secrets, criminal responsibility is still provided by the states on their own.

<sup>23</sup> Restatement (first) of Torts, 757 cm. b (1982).

<sup>24</sup> See Unif. Trade Secrets Act § 1, Commissioners' Comment (amended 1985).

<sup>25</sup> Wang, CC, "choice of trade secrets and patents", *MOEA Intellectual Property Monthly*, Issue 111, 127, 2008.

<sup>26</sup> Charles Tait Graves & Brian D, Range, "Identification of Trade Secret Claims in Litigation: Solutions for a Ubiquitous Dispute", 5 *NW. J. Tech. & Intell. Prop.* 68 (2006).

<sup>27</sup> supra note, at 83.

<sup>28</sup> E.g. before launch of Intel's Pentium II chip, all companies and manufacturers cooperated with were required to sign confidentiality agreements, until the public of the product. Feng, Understanding of trade secrets law - theory and practice of trade secrets law , pp. 23-24, 1997.

<sup>29</sup> E.g. Japanese popular electronic pet tamagotchi is an example. The product was listed in November 1996 in Japan, because the structure core was just a circuit board, LCD and control procedures, it is not difficult to imitate, so domestic manufacturers launched similar chickens, dogs, dinosaurs and so on through reverse engineering in April 1997 in Taiwan. Feng, same as above, pp. 25-26.

<sup>30</sup> See Feng, C.Y., "Digital content protection and technology protection measures – considerations of law, industry and policy", *The Taiwan Law Review*, Issue 105, 92, 2004.

<sup>31</sup> See Article 1, Trade Secret law.

<sup>32</sup> "Integrated Circuit Layout Protection Act" was worked out by the Bureau of Standards, Metrology and Inspection, enacted on February 11, 1996

<sup>33</sup> See Attorney Feng, B.S., "How to effectively use trade secrets and ensure the rights and interests", 14th edition of "intellectual property rights column series (2)"

<sup>34</sup> See the Fair Trade Law Article 1.

<sup>35</sup> Fair Trade Law Article 19, paragraph 5, the conduct that obtain others' secrets of production and marketing, the transaction data or other relevant technical secrets through coercion, inducement or other irregular methods

<sup>36</sup> Wang, WY, "Directors' non-compete obligation", *The Taiwan Law Review*, No. 61, 20, 2000.

<sup>37</sup> See Wen, YC, "Infringement of trade secrets and its legal responsibility", master's thesis, Graduate Institute of Law, National Chung Cheng University, p. 2, 1994.

<sup>38</sup> See Hsu, Y.L., *The protection of trade secrets*, San Min Books, p. 54, 1993.

<sup>39</sup> See the Fair Trade Law Article 36 and Article 41

<sup>40</sup> Some commentators believe that "negative knowledge" is the trade secret, but according to the definition of trade secrets in the U.S. Restatement of Torts in P757 of 1939 Version, it should conform to (A) information owner has taken reasonable measures to ensure its secrecy; (B) Not known by common people involved in such information; (C) has some independent economic value; "negative knowledge" in this paper can be summarized into a broad sense of business secret. See Tzeng, SC, "Discussion on attribution of trade secret rights (Part II)", *The Law Monthly*, Vol. 56, Issue 2, 94-95, 2005.

<sup>41</sup> Published by Council of Labor Affairs, Executive Yuan, 2003.

<sup>42</sup> Here thanks Mr. Ren-bang Chian at Graduate Institute of Finance, Ling Tung University (Taiwan) for collecting and collating documents

<sup>43</sup> Taiwan Taipei District Court Judgment (2002) Lao-Su-Tze-Di#129.

<sup>44</sup> According to the former case, Taipei District Court thought the non-compete compensation provisions were: "if party A's (the defendant) reasonable employment opportunities are affected due to this non-compete restrictions, A should inform of party B (the plaintiff), which considers lifting restrictions, or providing a proper compensation." However, the above situation is too subjective, the violation of the principle of integrity and fairness is easy; in accordance with Civil Code, Article 247, paragraph 1, 2 to 4 and 72 provide that the one with violations of public order should be invalid provisions. Although the compensation exists, in form, its essence lies in the employer's arbitrary. So it is invalid; and there is no other term of compensation, the original stability and fairness should be maintained

<sup>45</sup> Please refer to the Companies Act Article 32, 54, 108, 115.

<sup>46</sup> Song, YM, the protection of trade secrets in the court decision, the protection and use of intellectual property rights in cross-strait, pp.458, 2002.

<sup>47</sup> Supreme Court Judgment(2007) Tai-Shang-Tze-Di # 923. Syscom Taichung branch company business managers, who engaged in the design of computer software programs, system design engineering, computer hardware maintenance and other related business marketing and customer visitation, signed a contract with the company on November 1, 1996, if there was violation of non-compete agreement causing damage to the company, they would take the damages. However, its business manager privately held 41 thousand, 2500 shares of Imperva without the company's approval, his term was from March 8, 2000 to March 7, 2003, he has already operated or invested in similar business affairs before leaving, forming the violation of the non-compete agreement. Imperva won the bid of Feng Chia University with \$ 7.5 million NTD,

Syscom believed that the manager had in breach of its faithful obligations, concealed the bid messages and did not report, causing the company a loss of about \$ 2.25 million NTD.

<sup>48</sup> Taiwan High Court Judgment(2005) Shang-Tze-Di # 124. Atergi Technology accused its business assistant and engineering manager against the contract clauses 8, 9, 11 in non-compete agreement during serving the company after signing a work contract, the agreement provided: within one year after leaving, he shall not engage in the same business with the company or employed by competing companies. But he founded Chun Yi Co. with other factory during that period, which engaged in the same electronic components manufacturing, it was a clear breach of trust act. Based on work contract, the manager shall compensate Atergi \$ 1.5 million NTD, and the directors of the company should be held jointly and severally liability as unfair means and competition.

<sup>49</sup> Study on the relevance of case and the compensation amount, the documents were also provided by Mr. Ren-bang Chian at Graduate Institute of Finance, Ling Tung University

<sup>50</sup> The cases and resources were found on the website of The Law Bank, the study period was from January 1, 1996 to February 29, 2008, <http://db.lawbank.com.tw/Eng/List.asp>.(

<sup>51</sup> Restatement (third) of Unfair Competition 39 (1995).

<sup>52</sup> 404 N. W. 2d 301, 305 (Minn. Ct. App. 1987).

<sup>53</sup> 672 F. 2d 1095, 1105 (2d Cir. 1982), others such as Computer Assocs. Int'l, Inc. v. Computer Automation, Inc., 678 F. Supp. 424, 429 (S.D.N.Y. 1987). In the theoretical basis of unfair competition in New York state law, the doer should maliciously use others' services or property results, leading to consumer's confusion with the original products, affecting the purchase wishes; Advanced Magnification Instruments, Ltd. V. Minuteman Optical Corp., 522 NYS 2d 287, 290 (App. Div. 1987), employee's invalid use or reproduction of employer's confidential information or documents also constitutes unfair competition; Another example, El DuPont DeNemours & Co. v. Christopher, 431 F. 2d 1012 , 1016 (5th Cir. 1970), rampant industrial espionage make American business and industry unable to grow in free competition trade and good faith of employment relations.

<sup>54</sup> 335 F. 2d 774, 781 (2d Cir. 1964). The past norms of unfair competition must have competitive behavior of property or merchandise, but today's scope is broader, including the labor of others, technology improper abstracting. Ecolab Inc. v. Paolo, 753 F. Supp. 1100, 1111 (EDNY 1991), even if the information content does not constitute a trade secret, but a servant leak, unauthorized use internal documents and information for the future development, also forming unfair competition.

<sup>55</sup> See Hutchison v. KFC Corp., 833 F.Supp.517, (D . Nev. 1993), aff 'd Hutchison v. KFC Corp., 51F.3d 280 (9th Cir 1995).

<sup>56</sup> See Tait Graves & Alexander Macgillivray, Combination Trade Secrets and the Logic of Intellectual Property, 20 Santa Clara Computer & High Tech. L. J. 270 (2004).

<sup>57</sup> 1988 WL 177721 (Utah Dist. Ct.), 46 U.S.P.Q. 2d 1197.

<sup>58</sup> Microbiological Research Corp. v. Muna, 625 P. 2d 690, 696 (Utah 1981).

<sup>59</sup> See Autoskill v. National Educ. Support Sys., Inc., 994 F. 2d 1476, 1498 [26 USPQ 2d 1828] (10th Cir. 1993).

<sup>60</sup> Above had referred to UTSA as Model Act, its contents are adopted and deleted by the states themselves, Utah has adopted UTSA also.

<sup>61</sup> See Huntington Eye Assoc., Inc. v. LoCascio, 553 S.E.2d 773, 780 (W. Va. 2001) , the prohibition terms in this case were invalid, because the intention of impeding a employee was larger than protecting the interests of employer.

<sup>62</sup> See William Lynch Schaller, Jumping Ship: Legal Issues Relating to Employee Mobility in High Tech. Indus., 17 Lab. Law 25 (2001) ; for the technology update or reform are often costly, employer invests numerously, but if the competitor easily steals and transfers trade secrets, he will not spend any R&D costs, so his costs are lower, leading to low prices, which is unfair competition; as to more serious results, one will have no motive betting new inventions and providing job opportunities, and ultimately be of no help on the economic development of the United States.

<sup>63</sup> Bohler-Uddeholm, Am. Inc. v. Ellwood Group, Inc., 247 F.3d 79, 107 (3d.Cir. 2001). However, if the servant himself edits a client list through his own service, the Court didn't consider constituting trade secret, as another case in Pennsylvania: Renee Beauty Salons, Inc. v. Blose-Venable, 652 A.2d 1345, 1349 (Pa. Super. 1995).

<sup>64</sup> *Id.*

<sup>65</sup> SNA, Inc. v. Array, 51 F. Supp. 2d 554, 567 (E.D. Pa. 1999).

<sup>66</sup> Vector Sec., Inc. v. Stewart, 88 F.Supp.2d 395, 400 (E.D. Pa. 2000).

<sup>67</sup> SI Handing, Inc. v. Heisley, 753 F.2d 1244, 1258 (3d Cir. 1985).

<sup>68</sup> Christopher M's Hand Poured Fudge, Inc. v. Hennon, 699 A.2d 1275 (Pa. Super. 1997).

<sup>69</sup> *Id.*

<sup>70</sup> 54 F. 3d 1262 (7th Cir. 1995).

<sup>71</sup> For the same viewpoint, see Nathan Hamler, "The Impending Merger of the Inevitable Disclosure Doctrine and Negative Trade Secrets: Is Trade Secrets Law Headed in the Right Direction?" 25 *J. Corp. L.* 385 (2000)

<sup>72</sup> As early as 1980 in the cases of FMC Corp. V. Varco International Inc., 677 F. 2d 500 (5th Cir. 1982) and Union Carbide Corp. V. UGI Corp., 731 F. 2d 1186 (5th Cir. 1984), this theory was proposed; if the plaintiff can prove that the defendant's new employer will inevitably invoke the trade secrets misappropriated by

defendant, the court will agree to issue an injunction against the defendant, the burden of proof lies in the proof of (defendants) willingness to misuse.

<sup>73</sup> 677 F.2d 500(5th Cir. 1982).

<sup>74</sup> Id. At 505.

<sup>75</sup> 350 F.2d 134 (9th Cir. 1965), the case had long controversy, but the court investigated the trade secrets posed by negative knowledge directly, so it is also useful.

<sup>76</sup> Id. at 136-37.

<sup>77</sup> Id. at 143.

<sup>78</sup> Id.

<sup>79</sup> 634 F.2d 895, 899 (5th Cir. 1981).

<sup>80</sup> 753 F.2d 1244, 1262 (3d Cir. 1985).

<sup>81</sup> The Restatement (First) of Torts (1939).

<sup>82</sup> See Tait Graves & Alexander Macgillivray, Combination Trade Secrets and the Logic of Intellectual Property, 20 Santa Clara Computer & High Tech. L. J. 269 (2004).

<sup>83</sup> In the mixed composition of trade secrets, such as A, B, C respectively is establishment element of trade secrets, then the value of combination trade secret should be higher than their respective values, that is, (A + B + C ) must be greater than (A) + (B) + (C), see Keystone Plastics, Inc. v. C & P Plastics, Inc., 506 F.2d 960, 964 (5th Cir. 1975). Employer should prove that employee uses "negative knowledge" in new company, which significantly reduces its costs, or prove the development costs and funding invested, so as to demonstrate the value of "negative knowledge ".