It Doesn't Take Much: Familiarity With a Competitor's Trade Secrets Can Doom Your Reverse Engineering Project to Legal Limbo

By Joel Leeman, Partner

Reverse engineering can be a perfectly legitimate way to acquire the trade secrets embodied in a company's product. Alternatively, it can result in legal liability for misappropriation of those trade secrets if a person who once had confidential access to the company's confidential information participates – even in a minor role – in the reverse engineering.

"Clean room" design is evidence of independent invention and therefore can insulate a reverse-engineering project from a trade secret lawsuit. The recent case of Faiveley Transport Malmo AB v. Wabtec Corp. warns that the chastity of a clean-room approach is lost unless *all* members of the team are innocent of knowledge of the plaintiff's trade secrets.

Faiveley, a Swedish maker of railway systems, took exception to Wabtec's manufacture and sale of a brake unit that was suspiciously similar to its own highly innovative design. Faiveley's ire was further stoked by the fact that Wabtec had an exclusive contract to supply these brake units to the New York City subway system.

Although the parties had submitted their trade secret dispute to arbitration in Sweden, Faiveley asked a federal judge in New York to enjoin Wabtec from carrying out its subway contract. As with all seekers of preliminary injunctions, Faiveley argued that, since it was likely to prevail on the merits, it would be irreparably harmed unless Wabtec were prevented from profiting from Faiveley's trade secrets in the interim.

Unquestionably, the parties' pre-lawsuit relationship determined the outcome of the case. Faiveley (actually, a predecessor company) had once licensed Wabtec to use its technology to make certain products. In the course of that relationship, Faiveley supplied Wabtec with confidential design drawings for the brake unit.

After a 12-year relationship, Faiveley declined to renew the license. Wabtec promptly endeavored to reverse-engineer the brake unit. To direct this project, Wabtec designated two of its engineers and hired two outside firms, none of whom had been exposed to the design drawings that represented Faiveley's trade secrets.

However, a third Wabtec engineer, one Roland Moore, also participated in the project. Moore had had frequent contact with the Faiveley drawings when the license was in force.

The judge stated that, even if one were to believe Moore's protestations that he had a minor role and that he never consulted the drawings during the reverse-engineering exercise, his one-time familiarity with their details could not be erased from his mind. "Consciously or not, Moore was making important use of Faiveley's trade secrets," said the court.

The court agreed that Faiveley was likely to prevail on the merits of its case, because Wabtec could not show that its reverse engineering was "fully independent from any past access to Faiveley trade secrets."

The court was not, however, convinced that Faiveley would suffer irreparable harm without an injunction. First, Faiveley was not itself in a position to sell brake units to the New York City Transit. Second, Wabtec's fulfillment of its subway contract posed no risk that Faiveley's drawings or confidential know-how would be disseminated to anybody.

As a result, the trade secrets were in no danger of being "lost forever," the court's prerequisite for granting injunctive relief. The judge reasoned that, since Faiveley could be adequately compensated with money damages, it was not entitled to the extraordinary relief that an injunction represents. Wabtec avoided a devastating injunction only because of these unusual factors.

Reverse-engineering someone else's product can be a wholly legitimate exercise where the goal is to test the strength of the product, to understand how it operates, to establish a basis for an improved design, or even to audit its security. The U.S. Supreme Court itself has opined that reverse engineering is "an essential part of innovation."

On the other hand, if one seeks to take apart a competitor's design for purposes of making and selling a similar product, beware! A reverse-engineering project that is tainted by even the whisper of familiarity with the competitor's trade secrets might never legally make it to market. A little knowledge, the Faiveley case reminds us, can indeed be a dangerous thing.

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