

## Client Alert

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## Software development company succeeds in claim against former employees

### Key highlights:

- *Landmark decision impacts IP, Tort and Employment laws.*
- *First judicial assignment of copyright in Malaysia.*
- *One of the first springboard injunctions granted in Malaysia.*
- *Employees who are trusted with greater responsibility owe a higher duty as a fiduciary.*

Confidential information provides a business a competitive advantage. This fact is even more apparent to technology or software companies in today's rapidly accelerated and competitive world. Yet the protection of new invention or intellectual property (IP) assets becomes ever more challenging, as technological advances have moved businesses online and invariably made it easier for employees to have access to sensitive information.

Are existing IP and Employment laws in Malaysia sufficiently adequate in protecting technology companies from such threats?

This client alert outlines a recent judgment by the High Court of Kuala Lumpur in the case of *Juris Technologies Sdn Bhd and Natsoft (M) Sdn Bhd v Foo Tiang Sin & 5 Ors*, which provides clarification of significant developments in IP, Tort and Employment laws in Malaysia that addresses such concerns.

The Plaintiffs – Juris Technologies Sdn Bhd and Natsoft (M) Sdn Bhd – were represented by partners Chew Kherk Ying, who heads our IP and Dispute Resolution practice groups, and Eddie Chuah, a partner in our Disputes practice.

### What happened?

The Defendants had set up a competing business while they were still employees of Juris Technologies (Juris). While under employment, they utilised confidential information from the Plaintiffs' software and built a new suite of competing computer software programmes. When the software was ready and the competing business was growing, they resigned in stages and began competing with the Plaintiffs.

Juris needed to gather substantial evidence rather immediately. Through the execution of ex parte orders, we were able to seize laptops and mobile phones belonging to the Defendants. The discovery which was conducted over the span of two months with the help of forensic experts revealed the unlawful taking of the Plaintiffs' confidential information and retention of the Plaintiffs' software in the Defendants' laptops even after leaving employment. We also extracted incriminating WhatsApp messages from their mobile phones, which established evidence of plotting and conspiring.

### What can employers do to mitigate risks?

1. Review employment contracts and policies on a regular basis to ensure that the agreed terms contain sufficient protection.
2. Review confidentiality clauses in employment contracts to define "confidential information" clearly and according to the current circumstances of the business environment.
3. Remind employees of the severe repercussions that follow from a breach of confidentiality.



Several causes of action were filed, ranging from copyright infringement, software architecture infringement, breach of confidence and fidelity, breach of trust, conspiracy and unlawful interference with trade.

## Impact on Malaysian Laws

On 6 September 2017, the High Court ruled in favour of the Plaintiffs. The learned judge Datuk Wong Kian Kheong JC laid down several important precedents:

1. The judge held that in current times, employees could still be considered to be working "**in the course of employment**" even if any activity was conducted outside of office hours and outside the office premises. This is an important development in view of current working arrangements of employees (part time, working from home, etc) and will have an impact across legal actions founded on tort, IP and employment.
2. The judge held that while not all employees are in a **fiduciary position** (in addition to having a duty of fidelity), employees (not just directors) who are trusted with greater responsibility owe a higher duty as a fiduciary. Subsequently, employers are entitled to the full range of remedies against any such rogue employees, including a claim for secret profit, tracing, an account of any sums made and others.
3. Consequently, the judge directed a **judicial assignment** to the Plaintiffs of all software which the Defendants developed (whether or not they had infringed the Plaintiffs' software) while they were employed with Juris. This is the first time such a judicial assignment of copyright has been ordered in Malaysia.
4. The judge also granted a **springboard injunction** which negates any advantage the Defendants had when they unlawfully took confidential information and the software of their employer. The springboard injunction essentially restrains the Defendants from being involved in a similar type of work as their employer for a few years. This is also one of the first times in Malaysia where a springboard injunction has been granted.
5. The judge also took cognizance of the fact that in the software industry, **IP assets are the main assets** of a company. In view of the ease of copying and transferring of information and software, the judge granted exemplary, aggravated and additional damages against the Defendants, to punish and send the "right" message to the industry. This was over and above the grant of damages, account of profits ordered and permanent injunction granted. This has been one of the most aggressive messages sent by the IP Court.

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