Podcast Transcript

Trade Secret Litigation: The Power of Protection

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Lee: If, as the saying goes, an ounce of prevention is worth a pound of cure, then the insight provided by our Trade Secret Litigation team is weighty counsel that clients are wise to heed. Our attorneys' understanding of the strength of nondisclosure agreements has led to successful litigation for business owners while outcomes in certain jurisdictions highlight the misappropriation of ideas claim as an alternative winning route. In BakerHostetler's inaugural IP Perspectives Thought Leadership piece, the Intellectual Property Practice Group highlights myriad IP-related topics that are at the forefront of industry developments inspired by client wins and current challenges and trends. I'm Leeann Lee, and you're listening to BakerHosts.

On today's episode, we discuss the importance of nondisclosure agreements for business owners and how the absence or insufficiency of nondisclosure agreements may lead to the end of trade secrets. To provide us with insight into this topic, we have Kevin Kirsch, a partner in the Intellectual Property Group at BakerHostetler. Kevin is co-leader of the Patent Litigation team and is the Columbus Intellectual Property leader. Registered to practice before the U.S. Patent and Trademark Office and having represented companies in more than 150 patent litigation matters venued in more than a dozen states, Kevin is deeply familiar with the environment in which clients operate, making him a strong advocate for their patent litigation needs. Kevin also has extensive experience representing companies in high-stakes trade secret cases and other intellectual property matters. So, welcome to the show, Kevin.

Kirsch: Hi, Leeann. I'm looking forward to our discussion.

Lee: First, let's discuss NDAs. Does a trade secret need to be 100% safeguarded against disclosure?

Kirsch: No. So, it definitely would have to take reasonable measures to keep the information a secret, but the way the courts view this is a little bit like lawyers' favorite words, it depends. So, it depends on the circumstances and the nature of the business, the amount of employees you have, all sorts of different factors. But you just have to take reasonable measures under the circumstances to keep the information a secret.

Lee: Okay, so, what are some reasonable measures to safeguard a trade secret?

Kirsch: Well, as I mentioned before, there aren't any exact rules, but some examples of things that can be done which are very effective is making sure that the company is limiting access to a need-to-know basis, especially with respect to highly proprietary trade secrets, marking the information as trade secret or confidential on documents, requiring employees to sign confidentiality agreements, requiring business partners, including manufacturers and suppliers, to sign confidentiality agreements, requiring employees to delete information from their laptops when they leave the company, don't post it in the public domain. I'll tell you a story about that in a moment. And then treat it as more confidential than your typical business records.

So, the public domain story is, I was once representing a very, very large company based in Seattle on a TRO hearing, and the plaintiff was trying to get a TRO against that company. And they were basically suggesting that that company had taken pricing information and product information, which was a trade secret to the company, and utilizing it improperly. And when we went through the hearing, they asked how was it acquired, and apparently the information was acquired by scraping the data from the internet. At which point I basically informed the judge that the motion was moot because the information had been put in the public domain, so it couldn't possibly be a trade secret. So, try to avoid those type of things, like placing information in public domain.

And then another one is, we had another case where a party was asserting 41 different trade secrets and ideas, but they had provided those trade secrets and ideas to a Chinese manufacturer without an NDA in place or without any agreement to keep it confidential. Those are the kind of things that can cause a company to lose their trade secrets. One thing I highly recommend for all companies is to conduct audits. So, make sure that the company actually audits both the protocols they have to protect the trade secrets, and then the implementation of those protocols to make sure that the protocols are actually being followed.

Lee: Okay, great. So, is an NDA actually necessary to maintain a trade secret?

Kirsch: It is strongly encouraged. Especially, again, when you're dealing with vendors or suppliers or manufacturers, different entities, they're going to be looking at these trade secrets in order to create products or to sell products, but they are not part of your corporate family. And so, in those type of events, it is really important that you get an NDA. Verbal agreement, in some instances, can suffice, especially if you're dealing with a long-term relationship between the parties, but an NDA is much more preferable than a verbal agreement, and the absence of a verbal agreement or an NDA may be the death knell.

But sometimes you'll have situations, too, where a company may have three- or four-hundred customers, each of which needs to have access to their trade secrets, and each of which you do want to sign an NDA. And in that type of instance you don't have to be perfect. It is desirable to have an NDA in each of those instances, but the law doesn't require perfection. It just requires reasonable measures. So, you try to get it in every instance. You try to get the best language you can in every instance. But you may be able to survive a challenge to it if you have in fact taken those reasonable measures.

Lee: Sure, I think that makes sense. So now, let's pivot and talk about the misappropriation of idea claim. How is a misappropriation of idea claim different than a claim for patent infringement?

Kirsch: Yeah, on its face, one, from a patent attorney, the idea of having a claim such as misappropriation of ideas seems counterintuitive to patent law, because patent laws protect ideas. But there is a body of case law in various jurisdictions throughout the United States that allows for these type of claims of misappropriation of idea. It is not a misappropriation of trade secret. It is not patent infringement. It is a separate claim for misappropriation of ideas. And some of the differences between a misappropriation of idea claim and a patent infringement claim would be, for example, if patents require substantial financial commitment, years to obtain, you might not be able to get a patent for six, seven years from the date that you applied for that patent. Well, a misappropriation of ideas claim forms the minute the idea is formed. So basically, you don't have to go through that vetting process with the USPTO. If you had that idea and it was misappropriated, then you can move forward with the claim.

The misappropriation of idea claim also requires some type of fiduciary or contractual relationship between the parties. Basically, you have to have a quasi-contract, an actual contract, or implied contract, or some type of fiduciary relationship that would support that the individual who misappropriated it really should not have done it. They'd be doing it in violation of that contract or that fiduciary duty. In the patent context, there is no such requirement. Patent trolls, or non-practicing entities if you're on the plaintiff side of things, file lawsuits every single day against companies all over the world that they've never had any interaction with whatsoever, just basically asserting that the claims of their patents read on an accused product.

Also, another difference is that patents expire. So, you have a certain period of time from the date that you first apply for or the priority date from which you're claiming priority to an earlier filed application, until the date that the patent expires, and it is 20 years from whatever that date is you're claiming priority to. Whereas the misappropriation of ideas claim is not going to expire, but there is a statute of limitations for a misappropriation of ideas claim, whereas a patent infringement claim does not. A patent infringement claim, you can go 6 years back from the date of filing of the complaint, even if the alleged infringing activity occurred 15 years ago. There could be some estoppel issues associated with that, but there is no express statute of limitations.

Lee: Let's dig into that a little bit more. Is the misappropriation of idea claim recognized in all states?

Kirsch: It is not. For example, New York law recognizes property rights and ideas, but California law does not. So, I was involved in a case a few years ago that was a fairly significant case where they pled and maintained a case for misappropriation of ideas. But that same claim could not have been brought in California because plaintiffs in California courts must assert that their idea theft claims arise out of a breach of express or implied contract, as opposed to this quasi-concept of a misappropriation of idea.

Lee: And one final question, why aren't claim for misappropriation of ideas preempted by patent, trade secret, or copyright law?

Kirsch: So again, as a patent practitioner, as a member of the patent bar, my first reaction when I saw a misappropriation of idea claim was immediately to think that it would be preempted by patent law. But jurisdictions have treated misappropriation of ideas claims differently than patent claims and have allowed them to exist. Part of it is, I think, lies in the fact that there is that extra requirement of the fiduciary duty or contractual obligation giving rise to a misappropriation of idea claim. So, it is not just that you have a novel and concrete idea, but you also have to have that relationship, which doesn't exist in patent law. And so, there is this concept in preemption law that many trying to survive a preemption argument will use, which is the idea that there is an extra element to the cause of action that doesn't exist in patent law.

And so, some jurisdictions are pretty vigilant about enforcing preemptions, such as Texas. There is actually a split of authority within Texas. But in Texas you can have a situation where a certain court will think that any information really needs to be covered by trade secret law. So, if you're claiming an idea that is information, that really belongs under a trade secret claim as opposed to a misappropriation of idea claim or any other type of claim. And other jurisdictions have taken similar-type views in the context of patent where they think a misappropriation of idea claim really belongs in the context of patent or potentially trade secret.

Lee: Well, this has been a fantastic conversation, Kevin.

Kirsch: Well, thank you.

Lee: Thank you, Kevin. If you have any questions for Kevin, his contact information is in the show notes. For more information on the BakerHostetler inaugural IP Perspectives Thought Leadership piece, we encourage you to download the document on bakerlaw.com. As always, thanks for listening to BakerHosts.