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Top 10 Trade Secrets Developments Of 2014: Part 1

Law360, New York (December 16, 2014, 10:00 AM ET) --

The year 2014 brought significant developments in trade secret law, both in the U.S. and abroad. In-house counsel and private practitioners should consider trends that promise to shape further developments in the years ahead. In part 1 of this two-part series, we highlight five in particular: (1) the growing importance of specifically identifying trade secrets early in litigation; (2) increasing support for passage of a federal civil trade secret law; (3) the developing saga of the Bratz case and importance of perseverance; (4) the need to protect trade secrets during litigation, and the potential consequences of not doing so (i.e., the DuPont reversal); and (5) the continuing trend toward large damages awards and settlements in trade secrets cases.

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A "takeaway" summarizing key issues and guidance appears at the end of each topic.

1. The Importance of Identifying Trade Secrets With Particularity

A trend is developing toward specifically identifying trade secrets earlier in litigation, and courts are penalizing plaintiffs for failing to do so. In Purchasing Power LLC v. Bluestem Brands. Inc., the District Court for the Northern District of Georgia granted summary judgment in favor of the defendant because, among other things, it found that the plaintiff failed to adequately identify the trade secrets underlying its claims.[1]

The case arose following discussions between the two companies regarding a potential merger or acquisition. At the time, Bluestem was a national retailer focused on selling consumer products to low-income and credit-constrained customers by allowing them to make a series of payments over time. Purchasing Power was also a retailer but focused on selling "big ticket" consumer products through voluntary payroll deduction. Shortly before entering a nondisclosure agreement as part of the merger discussions, Bluestem undertook an internal effort to develop its own payroll deduction sales model. In doing so, it took steps to segregate that development team from the team that was managing due diligence for a potential transaction with Purchasing Power. After the negotiations fell through and Bluestem launched its Paycheck Direct program, Purchasing Power filed suit, alleging trade secret misappropriation, breach of contract, fraud, and negligent misrepresentation.

On summary judgment, the court explained that "Plaintiff has identified, only vaguely at best, its alleged trade secrets" and that "Plaintiff did not identify any specific information it claims is a trade secret."[2] Noting that Purchasing Power identified 12 general categories of information, the Court reasoned that "[t]hese broad information categories are not sufficient to meet Plaintiff's legal obligation to allege and prove it has a trade secret."[3]

Finally, the court concluded that Purchasing Power's failure to specifically identify the trade secrets "precludes Defendant and the Court from evaluating whether a 'trade secret' exists and, if so, whether it was misappropriated."[4] Finding no genuine issue of fact as to any of Purchasing Power's other claims, the Court granted complete summary judgment in favor of Bluestem.

Once a party identifies one or more trade secrets underlying its claims, it needs to convince the judge and jury that the secrets meet the standards for protection under the uniform trade secrets act or other prevailing law. In Raytheon Co. v. Indigo Systems Corp. et al., a defense contractor accused an imaging and surveillance company,FLIR Systems and its subsidiary, Indigo Systems, of misappropriating its trade secrets.[5] Raytheon filed its complaint in 2007, alleging that Indigo hired former Raytheon employees to obtain trade secrets relating to infrared camera technology used in both military and commercial applications. Raytheon also brought claims for breach of contract and patent infringement.
Leading up to trial, Raytheon identified 31 alleged trade secrets, but a Texas jury recently determined that 27 of those did not qualify as trade secrets. As to the remaining four, the jury concluded that Indigo had not misappropriated the trade secrets, and returned a complete defense verdict. Thus, although identification of one's trade secrets is becoming more important, plaintiffs still need to convince the ultimate fact finder that whatever they have identified actually qualifies as a trade secret under the relevant legal framework.

Takeaway

Courts are trending toward requiring early and specific identification of the trade secrets underlying a plaintiff's claims, and failure to do so can be fatal to a plaintiff's misappropriation claim. At the same time, trade secret plaintiffs should keep the end goal in mind and should refrain from identifying information that it cannot ultimately prove qualifies as trade secrets.

2. The Defend Trade Secrets Act amd The Trade Secrets Protection Act

A pair of bills in the Senate and House would create a federal cause of action — and assure jurisdiction in federal court — for trade secret misappropriation. In April, the Defend Trade Secrets Act was introduced by Sens. Christopher Coons, D-Del., and Orrin Hatch, R-Utah, — both members of the Senate Judiciary Committee — and would substantially enhance trade secret protection by:

- Creating a uniform federal standard: Trade secret litigation is currently governed by state law, which creates inconsistencies in how trade secrets are defined and protected around the country. This bill creates a uniform definition of trade secrets and provides for consistent forms of relief. This uniformity will provide companies with more predictable and cost-efficient methods for protecting trade secrets and enforcing their rights.

- Strengthening remedies for trade secret theft: The bill contains several tools for protecting trade secrets in federal court, including:
    - Ex parte orders to preserve electronic evidence of misappropriation and to seize computers and other property used in misappropriation.
    - Injunctions to protect trade secrets.
    - Money damages for misappropriation, including treble damages if the misappropriation is willful or malicious.
    - A longer, five-year period to seek relief.

- Providing trade secret owners the advantages of federal court: Federal court can give trade secret owners advantages, such as ease in serving discovery on non-party witnesses and swift nationwide service of process. This bill would give trade secret holders access to the same forum as holders of other federally protected intellectual property, such as patents, trademarks, and copyrights.

On May 13, 2014, the Senate Judiciary Subcommittee on Crime and Terrorism held a hearing titled "Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today's Threats." The hearing was led by Chairman Sheldon Whitehouse, D-R.I., and attended by Ranking Member Lindsey Graham, R-S.C., and Sens. Hatch, Coons and Jeff Flake, R-Ariz. Senate Judiciary Chairman Patrick Leahy, D-Vt., also submitted a written statement, available here. Testimony was presented by leaders in the government and private sector.

The remarks and testimony reinforced the need for additional legislation and trade secret protection. Specifically, some of the themes included statements that: (1) federal criminal law enforcement alone cannot protect trade secret misappropriation; (2) a federal standard is required to combat foreign trade secret theft; and (c) a uniform federal standard will result in more consistent and efficient means of protecting trade secrets.

In July, a companion bill was introduced in the House. The Trade Secrets Protection Act of 2014 (H.R.5233) has 18 co-sponsors (11 Republican, seven Democrats) and is similar to the Senate bill with two principal exceptions: the House bill permits only a civil claim for trade secret theft related to interstate or foreign commerce and provides greater limitations on the ex parte provision than the Senate version. On Sept. 17, the House Judiciary Committee approved the bill with a single amendment. The legislation will now move to the full House of Representatives for consideration. Meanwhile, the Senate bill is still under consideration in the Senate Judiciary Committee. A closed door briefing was held on Sept. 4, but no legislative markup has been scheduled to date.

Takeaway

Although it is uncertain whether further action will be taken as the current congressional term winds down, momentum is clearly building and a federal trade secret law may be on the horizon. Stay tuned.

3. The Bratz Case: When Trade Secrets Cases Last for Years

The long-running legal battle between MGA Entertainment Inc., and Mattel Inc., is no doubt familiar to most lawyers practicing in the trade secrets field. The feud began in 2004, when Mattel sued a former

employee over alleged copyright and trade secret violations, claiming he had worked for MGA to develop the line of Bratz dolls while still employed by Mattel. MGA then filed a complaint in intervention and, in 2005, filed a second lawsuit against Mattel in federal court, alleging unfair competition. The cases were consolidated in 2006, and as a result of the consolidation, MGA's complaint in intervention became the operative complaint while Mattel's copyright claim became the counterclaim.

Mattel won that opening skirmish, obtaining a $100 million jury verdict against MGA in California federal court in 2008. But the victory proved fleeting. In July 2010, the Ninth Circuit reversed, holding that MGA had significantly improved the value of the Bratz brand by investing in development and marketing efforts and that it would be inequitable to revoke MGA's ownership of the billion-dollar Bratz line even if the brand grew from a misappropriated idea.[6] As a result, the Ninth Circuit explained that the damages award needed to be vacated and that the entire case would likely need to be retried.

Following the reversal, MGA filed additional claims against Mattel in August 2010, alleging RICO violations and trade secret misappropriation. Rather than amend its complaint to allege these claims, MGA brought them through a "counterclaim-in-reply" to Mattel's copyright counterclaim. MGA's Racketeer Influenced and Corrupt Organizations Act counterclaim was dismissed at summary judgment, but a new jury found in favor of MGA's misappropriation claim in 2011, awarding more than $80 million in damages.

The district court then awarded MGA an equal amount in exemplary damages under the California Uniform Trade Secrets Act, which authorizes exemplary damages for "willful and malicious" misappropriation. The district court also awarded MGA attorneys' fees and costs related to both the trade secret claims and MGA's defense of Mattel's failed copyright claim. In total, MGA's award amounted to approximately $310 million. But the Ninth Circuit flipped the case a second time in 2013, noting that counterclaims-in-reply are permitted only if compulsory and ruling that MGA's counterclaim-in-reply did not rest on the same core facts as Mattel's trade secret claim and was therefore not compulsory.[7] The Ninth Circuit did, however, affirm the award of $137 million in attorneys' fees and costs (totaling approximately $137 million) for MGA's successful defense of the copyright claims brought by Mattel in 2004.

In January of this year, MGA refiled its trade secret claims in California state court, seeking $1 billion in damages. Last month, the California state court rejected Mattel's attempt to dismiss MGA's suit on res judicata grounds. Mattel had argued that MGA's current misappropriation claims were based on the same set of facts as MGA's federal RICO claim, which was dismissed at summary judgment and merged into the Ninth Circuit's ruling dismissing the federal suit. Noting, however, that the Ninth Circuit dismissal was without prejudice, Los Angeles Superior Court Judge Amy D. Hogue rejected Mattel's argument and denied the motion to dismiss, setting the stage for yet another chapter in this epic saga.

Takeaway

Although some trade secrets cases can be resolved relatively quickly in the context of preliminary injunction motions, other trade secrets cases can play out over the course of years. When addressing fast-moving trade secrets cases, it is important to note at the outset that decisions made quickly may well be subject to further scrutiny at a later — sometimes much later — date.

4. The Reversal of a Massive Trade Secret Verdict on the Basis of Disclosure in Prior Litigation

In April, the Fourth Circuit reversed a nearly $1 billion jury verdict on the basis of the lower court's evidentiary ruling. DuPont sued Kolon under the Virginia Uniform Trade Secrets Act, alleging that Kolon

hired former DuPont employees in an effort to acquire its trade secrets related to the production of Kevlar, a proprietary DuPont product.

At trial, Kolon intended to introduce evidence showing that a number of the alleged trade secrets at issue in the case involved publicly available information. Specifically, Kolon sought to demonstrate that DuPont had disclosed the trade secrets in the course of a 1980s intellectual property litigation between DuPont and a competitor called AkzoNobel.

According to Kolon, the Akzo litigation was a "widely publicized patent dispute" in which DuPont "disclosed vast amounts of technical information about the Kevlar manufacturing process — beyond its patent disclosures — in open court and public filings." Kolon contended that 42 of the 149 trade secrets at issue in the present case were wholly or partially disclosed during the Akzo litigation. Although Kolon could not locate the actual trial exhibits due to the passage of time, it relied in part on the trial exhibit list, which suggested that DuPont introduced some trade secret information at the public trial. Additionally, Kolon pointed to two documents in the publicly available Joint Appendix from the appeal of the Akzo litigation, further showing that supposedly trade secret information was disclosed to the public.

DuPont moved in limine to preclude Kolon from presenting this evidence, and the district court granted the motion, holding that "Kolon has produced no evidence that any particular trade secret, much less a trade secret that is at issue in this litigation, was disclosed in the litigation between the plaintiff and Akzo."

The Fourth Circuit reversed, finding that "information disclosed in the Akzo litigation contained details of the Kevlar production process that were strikingly similar to aspects of several of the alleged trade secrets in this case."[8] Finding that the district court's standard — that the disclosed information must be the same as the trade secrets at issue — was too stringent, the court explained that "we think a 'strikingly similar' standard of relevance is enough." That is, "to show the relevance of the evidence, Kolon simply needed to make a plausible showing that, either directly or circumstantially, one or more elements of DuPont's misappropriation claims, e.g., the reasonableness of its efforts to maintain confidentiality was less likely true."[9]

Accordingly, the Fourth Circuit found an abuse of discretion and remanded (to another judge) for further proceedings. The Fourth Circuit was careful to note, however, that it was not holding that all information from the Akzo litigation must be admitted at trial — only that the district court's "blanket exclusion" was inappropriate and reversible error.

Takeaway

In-house and outside should take reasonable efforts to protect the trade secrets during litigation, because unsealed filings and public presentations in the course of past litigation can lead to a finding that the "trade secret" in question is no longer secret in future litigation, costing clients massive judgments. Moreover, parties need to consider sealing the courtroom and court records when evidence of trade secrets is introduced.

5. The Continuing Trend Toward Large Damages Awards and Settlements in Trade Secrets Cases

Although the DuPont verdict was overturned, 2014 showed no signs of reversing course on the trend toward large damages verdicts and settlements in trade secrets cases. In April of 2013, a software manufacturer, MSC Software Corp., obtained a sizeable award for misappropriation of its trade secrets by

a competing company and another six-figure award against its former employees for breaching both confidentiality and nonsolicitation agreements with MSC.

MSC is a global provider of software that enables engineers to validate and optimize their designs using virtual prototypes. In 2007, MSC filed a complaint in the U.S. District Court in Michigan, alleging that its competitor, Altair Engineering, improperly recruited MSC's developers and misappropriated its trade secrets and confidential information to develop a directly competing product. The jury agreed. Following nearly seven years of litigation and a six-week trial, the jury returned a verdict in favor of MSC, finding that Altair willfully and maliciously misappropriated MSC's trade secrets and that the former employees breached their agreements with MSC. MSC was awarded $26.1 million in damages for the misappropriation and an additional $425,000 in damages for the employees' contractual breaches.

Larger still, the Minnesota Supreme Court upheld a $630 million trade secrets arbitration award in October of this year. The dispute arose when Sining Mao left hard-drive manufacturer Seagate to accept a position with its competitor, Western Digital, in 2006. Seagate sued Western Digital and Mao in district court seeking injunctive relief to prevent Mao's disclosure of trade secrets. The district court granted defendants' motion to compel arbitration pursuant to Mao's employment agreement with Western Digital.

In 2011, the arbitrator found that Mao had fabricated documents intended to prove that three of the trade secrets had been publicly disclosed and that there was "no question that Western Digital had to know of the fabrications." As a sanction for defendants' misconduct, the arbitrator precluded "any evidence by Western Digital and Dr. Mao disputing the validity" or use of certain trade secrets in question and entered a judgment against defendants for misappropriation. The arbitration award was initially reversed by the Minnesota district court, which found that the arbitrator failed to consider all of Western Digital's defenses, but that decision was later reversed by the Minnesota Court of Appeals in in July 2013.

This year, the Minnesota Supreme Court had the final word, confirming the award and noting that Western Digital demanded the arbitration process and having done so, must live with the consequences.[10]

At the same time, some courts are awarding ongoing royalty payments in lieu of either injunctions or set damages amounts. In Sabatino Bianco, M.D., v. Globus Medical Inc., a neurosurgeon sued Globus, a medical device company, alleging that it misappropriated his trade secrets by using drawings related to implantable medical devices that he provided to Globus years earlier pursuant to a confidentiality agreement.[11] According to Dr. Bianco's allegations, Globus told him that it was not interested in commercializing the idea he proposed in the drawings but then internally developed and sold a device incorporating that idea without compensating Dr. Bianco.

Following trial, the jury awarded Dr. Bianco a 5 percent royalty based on net sales of three specified Globus products. In post-trial motions, the parties disputed the appropriateness of an ongoing royalty. Noting that ongoing royalties were appropriate in patent-infringement cases, the court reasoned that misappropriation was sufficiently analogous to patent infringement and upheld the jury's royalty award. The court also concluded that the royalty should be paid for 15 years from the date that an agreement between Dr. Bianco and Globus should have been reached in 2007 and that the royalty was owed on all products "not colorably different" from those at issue in the litigation.[12]

Big money is also changing hands at the negotiating table. In July of this year, a small Chicago software company called Business Logic Holding Corp. announced that it settled a longstanding litigation against

the Chicago-based investment research firm, Morningstar, Inc., for a multimillion-dollar payout. The lawsuit stems from a 2003 contract between Business Logic and Ibbotson Associates, which was acquired by Morningstar in 2006. Under the terms of that contract, Business Logic granted Ibbotson the right to use Business Logic's software to create Advice by Ibbotson, the company's advice and managed-account platform for retirement plan participants. When the contract expired in 2009, Ibbotson — by then a wholly owned subsidiary of Morningstar — began to develop its own competing software. In 2009, Business Logic sued both Morningstar and Ibbotson, alleging breach of contract and misappropriation of trade secrets. Shortly before trial was scheduled to begin, the parties settled for $61 million.

Takeaway

The days of focusing only on immediate relief are over. Companies and counsel need to consider the monetary value of their claims from the beginning and shape litigation strategy accordingly.

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[1] 2014 U.S. Dist. LEXIS 64101 (N.D. Ga. May 9, 2014).

[2] Id. at *17.

[3] Id.at *18-19.

[4] Id. at 19.

[5] Case No. 4:07-CV-00109,(E.D. Tex. Sept. 29, 2014).

[6] Mattel Inc. v. MGA Entm't Inc., 616 F.3d 904, 918 (9th Cir. 2010).

[7] Mattel Inc. v. MGA Entm't Inc., 705 F.3d 1108, 1110-11 (9th Cir. 2013).

[8] E.I. DuPont De Nemours & Co. v. Kolon Ind. Inc., 564 Fed. Appx. 710, 714 (4th Cir. 2014).

[9] Id.

[10] Seagate Technology LLC v. Western Digital Corp., et al., 854 N.W.2d 750, 765 (Minn. 2014).

[11] No. 2:12-CV-00147, (E.D. Tex., July 2, 2014).

[12] Id. at *10.
