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# Trade Secrets Take Center Stage, and Contracts Play a Lead Role


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The stars of intellectual property law have historically been patents, copyrights and trademarks. Trade secrets have long been legally recognized but only recently have begun to share equal billing. The 2016 passage of the Defend Trade Secrets Act (DTSA), the first-ever federal statute pertaining to trade secret law, was instrumental in paving the way for a growing body of law on trade secret enforcement, and that enforcement indicates that tailored agreements provide important protection against misappropriation of trade secrets.

Trade secrets differ in important respects from other forms of intellectual property. For instance, the rules for what constitutes a trade secret are nebulous compared to those for patents, copyrights and trademarks; and unlike patents, they do not exclude commercially valuable subject matter areas (such as business methods and diagnostic techniques). This broad coverage comes with no examination delays, no acquisition cost and no expiration date, provided the secret stays secret. Trade secret claims also can be pursued in state or federal court, and the general perception is that courts are more receptive to exigent relief (such as temporary restraining orders and preliminary injunctions) in trade secret cases than in other intellectual property cases. For better or worse, trade secret damages also can reach gargantuan levels because a case of misappropriation may carry with it both the risk of lost revenues or sales and the loss of the intellectual property itself.

## Growing Emphasis on Contracts

With increasing attention on trade secrets and a developing body of case law around DTSA claims, an emphasis on contracts also is growing. Breach-of-contract claims frequently have appeared alongside trade secret claims in lawsuits over the years and often materially impacted the results. But a contract should not be viewed as a mere alternative to trade secret protection. Properly crafted, and if necessary properly litigated, a contract can both strengthen and expand the reach of a trade secret claim. As the examples below demonstrate, recent cases reveal a variety of ways in which minor adjustments to nondisclosure agreements (NDAs), collaboration agreements and the like can yield better protection for owners of valuable proprietary information. Conversely, those poised to receive proprietary information from third parties should bear in mind the lessons from these examples.

## Defining Confidential Information

When a trade secret misappropriation issue arises vis-à-vis a party that first came into possession of information through rightful means (*e.g.*, a former employee or collaboration partner), there are typically contracts between the parties. Ideally, those contracts contain provisions governing the handling and use of confidential information. Even better, the contract or contracts will contain something more than boilerplate confidentiality provisions recycled from an old template. Confidentiality provisions should supplement the protections afforded by trade secret law, not merely duplicate them. In particular, NDAs often exclude publicly available information from the scope of "confidential information," and the rationale is hard to dispute — no one wants to commit themselves to keeping a secret that is not actually secret.

Defining "confidential information" in this way roughly aligns with the requirements for proving the existence of a trade secret under the DTSA and most state laws, which is to say that information available to the public cannot qualify as a trade secret.

This approach can be a missed opportunity for a disclosing party, as evident in the recent dispute is which Freeman Investment Management asserted trade secret misappropriation and breach of contract claims on the grounds that Frank Russell Company had misused proprietary investment volatility data. In March 2018, the U.S. Court of Appeals for the Ninth Circuit affirmed dismissal of Freeman's case on both trade secret and contract grounds. Central to the court's holding on the contract claim was the fact that the NDA in question was limited to "nonpublic information" and therefore essentially coextensive with what the law will protect as a trade secret.

Nothing in the law precludes a contracting party from defining "confidential information" more broadly in agreements. For example, rather than excluding all publicly known information, one could exclude only what was already known to the receiving party when the disclosing party provided it. If an accused counterparty's after-the-fact research reveals that the alleged trade secret was available in the public domain, contracts that define confidential information in this fashion provide the disclosing party with an added layer of protection.

## Term Limitations and Their Risks

No matter how "confidential information" is defined, the definition almost certainly will encompass trade secrets, in addition to proprietary information that might not rise to the level of trade secrets. Accordingly, any limitations on the protection of confidential information in an agreement also will amount to limitations on the ability to protect trade secrets shared under that agreement. Term limitations in contracts are commonplace, but companies should take heed when those term limitations extend to confidentiality obligations. In the extreme case, a closed-ended confidentiality provision could put a shelf life on trade secrets or even extinguish trade secret eligibility entirely.

A case in the U.S. District Court for the Northern District of California underscores this point. In January 2018, Alta Devices, Inc. sued LG Electronics, Inc. for trade secret misappropriation and breach of contract, alleging that LG had misused allegedly proprietary solar cell technology that Alta had originally disclosed to LG under an NDA. In October 2018, Alta narrowly avoided dismissal of its trade secret claims in the face of an argument by LG that the term provision in the contract ended a duty to hold the allegedly proprietary information in confidence. While the term limitation did not defeat the trade secret claim as a matter of law, the record suggests that it will present a factual obstacle in the case going forward.

If the term of a confidentiality obligation must be limited, consider carving out trade secrets for indefinite protection. While distinguishing trade secret information from merely confidential information may add complexity at the time of disclosure, the benefits of doing so will often outweigh the cost — particularly if the alternative is starting the clock to eventual disclosure of those trade secrets.

## Maintaining Confidentiality

Disclosing parties are often reluctant to take on onerous responsibilities for marking their confidential information, following up conversations with emails to confirm confidentiality and the like. In turn, receiving parties often balk at "need to know" restrictions, obligations to log derivative works and the need to purge their files at the conclusion of a relationship. But adopting measures such as these will pay dividends to trade secret owners if they ever need to enforce their rights, even against someone other than the contractual counterparty. This is because under the DTSA and most state laws, proving the existence of a trade secret implicates evidence that the trade secret owner has taken "reasonable measures to keep such information secret." In some cases, contractual restrictions on the handling of information may be the best or only contemporaneous proof of such measures.

As one example, TLS Management recently secured a judgment for trade secret misuse to the tune of $4 million against Mardis Financial Services in the U.S. District Court for the Southern District of Mississippi. In its August 2018 opinion, the court specifically credited NDAs requiring the return of all business and customer information at the conclusion of a business relationship as evidence of reasonable efforts to maintain the secrecy of trade secret information.

On a more basic level, measures of this kind provide a benefit to both disclosing and receiving parties that justify any added burden because they decrease the odds that sensitive information will be misused or disclosed either deliberately or accidentally.

## Takeaways

In all likelihood, a party disclosing or receiving confidential information will not be able to negotiate every term highlighted above to its satisfaction. After all, contractual confidentiality provisions are the only form of intellectual property that comes into being through a direct negotiation between the intellectual property owner and potential future infringer. Nonetheless, attention to how trade secrets and accompanying agreements fare in litigation should encourage companies to put away the boilerplate, learn from the experience of others and tailor each new agreement with the benefit of that knowledge.

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