Jordan Grotzinger:

Welcome to the trade secret law evolution podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host Jordan Grotzinger I, everybody welcome to episode 25 of the trade secret law evolution podcast. There's the first

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Interference in the first five seconds of the episode. Yep. Still in quarantine here in California and things, uh, not getting better. So, um, get used to this audio quality and I hope everyone is safe and healthy. It's just me today. So let's dive right in. We're going to discuss two cases from June that address, uh, what happens when a trade secret is allegedly subsumed within a patent that's invalidated, defend trade secrets act claims the federal act claims that accrued pre enactment and the application of what's called the economic loss rule, which, uh, in effect bars claims besides breach of contract where the subject matter of the case is, or should be governed by the contract. And I'll discuss that in a little more detail. Hope everyone's still awake. The first case deals with this concept of a trade secret being subsumed within a patent. And this was a case out of the district of Minnesota last month, June, 2020, the plaintiffs developed cell culture devices, and the defendant was a multinational company and the business of life sciences technology.

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The plaintiff's alleged that the defendant obtained their cell culture technology under a confidentiality agreement, and then use that technology to develop products of its own a pretty standard scenario in a trade secret misappropriation case. So the plaintiff sued for trade secret misappropriation among other claims. The defendant moved for summary judgment against the trade secret claim based on an intervening judgment from the U S patent and trial appeal board or P tab, the P tab judgment invalidated part of the plaintiff's patents. And the defendant argued that the P tab decision was grounds for summary judgment in its favor on all of the plaintiff's claims, because the concepts invalidated in the patent, the defendant argued are the same alleged to have constituted trade secrets. That is the alleged trade secrets were subsumed in the now invalidated patents. So what was the effect of that? The plaintiffs argued that the peak tab decision didn't preclude their misappropriation claim because the traits, the alleged trade secret information does not have to rise to the level of patentability to be protected under the trade secret law of Minnesota, which is, uh, which follows the uniform act.

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The court denied the motion for summary judgment because of the existence of numerous issues of material fact. And for the non-lawyers a motion for summary judgment is a motion where you, that you can make where essentially the key facts, the relevant facts are undisputed. And when they're applied to the law, the moving party is entitled to judgment. So, uh, the court found issues of fact precluding summary judgment, and those issues included quote disputes as to whether the information and combinations plaintiffs alleged to be trade secrets are identical to the information disclosed in the now invalidated patent close quote, and whether the plaintiff's alleged trade secret combinations reflected in the patent were quote, generally known close quote that is public or secret. The court said, quote, these factual disputes were neither before the board, the P tab nor decided by the board close quote. So for that reason, summary judgment was denied.

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Uh, interestingly, and this is not apparent from the opinion, the court did not address the effect of the alleged disclosure of the trade secret material in the patent, which generally, uh, destroys trade secret status because a patent or a patent application or public documents. And if you get your patent, your invention can be protected. But, uh, if you, just, whatever you disclose in there is public. So trade secret protection is different from patent production. And if you are disclosing a trade secret in a patent, well, you might get patent protection, but whatever it is, doesn't have trade secret protection. It has patent protection. If you get your patent, which is subject to different rules and a time limit, unlike trade secrets. So I found it interesting that the court didn't address, uh, the effect of the alleged disclosure of the trade secret material in the patent, which destroys a trade secret status.

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The next case was out of the district of New Jersey, also in June, 2020. And in this one, the parties, parties are both in the sexual wellness business. And the case is over a desensitizing spray, the parties entered into a confidentiality agreement to negotiate over the defendant's potential acquisition of the plaintiffs spray. They exchanged confidential information. The defendant ended up making its own competing product and the plaintiff sued for violating the federal defend trade secrets act and related claims. Also a pretty common scenario in a trade secret case. So the defendant moved for summary judgment on the grounds that because it developed its product in 2015 and early 2016, and the defend trade secrets act became effective on May 11th, 2016. There is no claim because, uh, the argument is, uh, the statute shouldn't apply retroactively. The defendant also argued that the economic loss doctrine or the economic loss rule bars, the plaintiff's trade secret misappropriation claims as those claims arise exclusively from the defendant's alleged violation of the confidentiality agreement.

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And again, in a nutshell, the economic loss rule is, is basically just that if there's a contract that addresses the party's obligations, you shouldn't be able to assert other claims, uh, besides breach of contract for conduct that allegedly violates the contract. So as to the retroactive application of the defend trade secrets act, the court noted that quote, the statute by its terms applies only to an act of misappropriation that occurs on or after May 11th, 2016, the date of its enactment close quote. However, third circuit courts have interpreted the defense rate secrets act to apply to misappropriations occurring before the statutes and act where the plaintiff alleges pre enactment acquisition of a trade secret. Coupled with post enactment continued use. I'll say that again, because it's important. The third circuit and other courts have interpreted the defend trade secrets act to apply to misappropriations occurring before the statutes enactment on May 11th, 2016, where a plaintiff alleges [inaudible] acquisition of a trade secret, coupled with post enactment continued use.

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And the court said, quote, several of our sister jurisdictions have similarly applied this rule to assess the viability of post enactment defend trade secrets act claims, close quote, including cases from, uh, from major circuits, uh, including the second circuit, which holds New York and the ninth circuit that includes California. The court said, quote, here, the court is satisfied that the plaintiff has identified evidence in the record on which a reasonable jury could find the defendant continued to use its trade secrets after May 11th, 2016. For example, the plaintiff highlights an email dated June 21st, 2016, attaching a document entitled next steps and indicated that one response to the defendant's product launch may be a challenge that the defendant acquired actual knowledge that enabled it to launch in the first place

slash launch more successfully close quote. So because there was, uh, evidence of continued use after the pre enactment, uh, acquisition, the claim was viable as the economic loss rule, the defendant argued that it barred the plaintiff's state law trade secret misappropriation claim because the parties entered the confidentiality agreement, which is a contract.

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And that included a confidentiality provision, of course, encompassing the parties use and disclosure of trade secrets. And again, the economic loss rule is that claims covered by a contract are limited to a breach of contract claim. Generally here, the court disagreed, and it said, quote in New Jersey, the economic loss doctrine does not categorically bar a plaintiff from bringing tort claims where a contract exists between the parties to a lawsuit. Rather, a plaintiff alleges the breaching party owes an independent duty imposed by law may recover in tort, not withstanding the parties, contractual relationship close quote. So that independent duty is a key concept and generally recognized to be an exception to the economic loss rule. And again, for the non-lawyers sorry for the legalees, but a tort is basically a non-contractual claim based on some duty owed to the plaintiff. That's not imposed by a contract like fraud or something like that.

Jordan Grotzinger:

And here the court said, quote, an independent duty separate from contract may arise, where a statute authorizes a private right of action for tortious conduct, close quote, like here, the uniform trade secrets act. So in sum because the uniform trade secrets act, uh, imposed an independent duty, it got around the economic loss rule. And the claim for misappropriation of trade secrets was not barred by that rule. So takeaways as well. So the patentability issue, the trade secret, a trade secret subsumed within a patent doesn't have to rise to the level of patentability, but remember that disclosure of a trade secret in a patent destroys trade secret status. So, uh, we'll continue to follow that case and see if that issue is addressed because the latter issue really seems to be, uh, dispositive. If you disclose your trade secret and a patent, it's not a secret anymore.

Jordan Grotzinger:

Next takeaway is that the defend trade secrets act applies to misappropriations occurring before the statutes enactment, where a plaintiff alleges [inaudible] acquisition of the trade secret, coupled with post enactment continued use, and finally the uniform trade secrets act imposes an independent duty sufficient to survive the economic loss rule, where there's a contract that encompasses the same subject matter like a restriction on using and disclosing trade secrets. I hope that all made sense. I hope you're all doing well. Oh, and a cool thing happened this week for the first time in the year history of this podcast, someone I didn't know, uh, actually reached out to me ahead of legal of a FinTech company. Who'd been listening to the podcast and we had a great conversation about it and related issues. And it was, uh, I was really grateful to get, to get the feedback. You know, plenty of people I know have reached out, but I thought it was, it was great that, uh, people are listening and this has been useful. So

Jordan Grotzinger:

Thank you all for that. And until next time. Thanks everybody. Bye.

Jordan Grotzinger:

Okay. That's a wrap. Thanks for joining us on this episode of the trade secret law evolution podcast as the law evolves. So will this podcast, so we value your feedback, let us know how we can be more

helpful to you. Send us your questions and comments. You can reach me by email at GrotzingerJ@gtlaw.com or on LinkedIn. And if you like, what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on apple podcasts, Stitcher, Spotify, and other platforms. Thanks everybody. Until next time,

Speaker 3:

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