LAW.COM | THE RECORDER

Avoiding Trade Secret Losses During Corporate Collaboration

Sharing trade secrets is necessary for productive corporate collaboration. However, to avoid loss of trade secrets, that sharing should be subject to proper agreements and well-defined boundaries.

By **Felix Eyzaguirre and Katherine D. Presscott** | April 16, 2020

Felix Eyzaguirre, left, and Katherine D. Prescott, right, of Fish & Richardson.

Effective corporate collaborations—whether close customer relationships, supplier partnerships or formal joint ventures—demand that sensitive information be shared. Without proper agreements and well-defined boundaries, however, those corporate collaborations can lead to loss of trade secret protection and entangle the parties in litigation.

Protect Trade Secrets Through Controlled Sharing Subject to Confidentiality Agreements

Generally, to be a trade secret, information must: (1) be secret, not generally known or readily ascertainable; (2) have value arising from the fact that it is secret; and (3) have been subject to reasonable steps to ensure that it remains secret. Therefore, when trade secret information is shared outside a company, including with customers, appropriate safeguards must be put in place to maintain that information as a trade secret. As the cases discussed below illustrate, it is fundamental that there be a well-scoped confidentiality agreement or non-disclosure agreement (NDA) in place before trade secrets are shared with collaborators and potential collaborators.

In *Madison Oslin v. Interstate Res.,* No. MJG-12-3041, 2015 U.S. Dist. LEXIS 37587 (D. Md. Mar. 25, 2015), the court found the alleged trade secrets were not trade secrets in part because they had been shared with prospective and current customers without the protection of a confidentiality agreement. Similarly, in *Prostar Wireless Group v. Domino's Pizza,* 360 F. Supp. 3d 994 (N.D. Cal. 2018), the court found that the alleged trade secrets relating to the architecture of Prostar's pizza delivery tracking system were not secret, where Prostar had shared conceptual design overviews and technical specifications for its system with pizza and IT companies without nondisclosure agreements in place.

In *Broker Genius v. Zalta*, 280 F. Supp. 3d 495 (S.D.N.Y. 2017), Broker Genius did take some steps to safeguard the alleged trade secrets reflected in its software before sharing that software with its long-term customers. Broker Genius required them to sign a Services Agreement acknowledging that "source code and underlying structure and algorithms of the Software are the property and proprietary trade secrets of BROKER GENIUS or its licensors." However, the narrowness of this trade secret identification undercut Broker Genius' broader claim in litigation that the software's architecture, user interface and scalability solution all were trade secrets. More problematic and, ultimately, fatal to Broker Genius' trade secret claims, however, was that Broker Genius failed to consistently require all customers to sign the same agreement. Some customers had only signed a Terms of Use, which did not include a trade secret acknowledgment or confidentiality provision. To effectively protect trade secrets, disclosure must always be subject to a confidentiality agreement.

Additionally, to serve their intended purpose, confidentiality agreements should be made *before* trade secret disclosures begin. In *Smart & Assocs. v. Indep. Liquor (NZ) Ltd.*, 226 F. Supp. 3d 828 (W.D. Ky. 2016), the plaintiff sued for trade secret misappropriation, alleging that the defendants acted under the "guise" of evaluating a potential joint venture to access the plaintiff's alleged trade secrets. Those alleged trade secrets included "financial records such as cash on hand, accounts receivable and payable, price structures for customers, sales history of [various] products, and special incentive plans given by [plaintiff] to its preferred customers." The court granted summary judgment to the defendants because the plaintiff had shared this information with defendants *before* entering into the confidentiality agreement that governed its subsequent disclosure of even more detailed financial information.

Minimize Disputes Through Prompt Formalization of Collaborative Relationships

Lack of clarity and a difference in expectations can make for a slippery slope toward trade secret disputes. Formalizing the nature of collaborative efforts early and in writing helps protect both the party sharing trade secrets and the party receiving them.

In *Madison*, although the court found otherwise, the plaintiff believed the parties had verbally agreed to form a joint venture relating to corrugated box coatings, and shared information accordingly. The plaintiff allowed the defendant's representatives to tour its facility. The plaintiff also conducted two production trials for the defendant's customers. When the defendant, rather than partner with plaintiff, independently produced its own wax-alternative recyclable box, the plaintiff brought a trade secret misappropriation claim. This dispute may have been avoided if the parties had formalized their expectations (or lack thereof) earlier and in writing.

Similarly, in *Prostar*, without a written collaboration agreement, Prostar invested close to three years working with Domino's Pizza and shared alleged trade secrets under the belief that if its "effort proved fruitful in developing and integrating [its pizza delivery tracking system] into [Domino's existing support] system, [Prostar's] solution would be made available to Domino's franchisees for a monthly fee." While, at times, Domino's Pizza expressed "excitement" and "full support" of the collaboration, on at least two separate occasions Domino's Pizza declined to sign agreements that would bind it to using Prostar's system. Prostar should have tailored its disclosures to, and efforts with, Domino's Pizza accordingly.

Separate Those With Access to External Trade Secrets From Those Working on Competing Internal Projects

When companies collaborate, it is rarely necessary that all employees of the company receiving external trade secrets have access to them. Rather, disclosures should be limited to those who need to know the information. Imposing such restrictions is particularly important when the receiving company is both exploring an external partnership while simultaneously developing an internal competing solution. Separating those involved in the collaborative effort (and privy to external trade secrets) from those working on the internal effort can decrease the risk of litigation.

In *Edifecs Inc. v. TIBCO Software,* 756 F. Supp. 2d 1313 (W.D. Wash. 2010), although the court dismissed the plaintiff's trade secret misappropriation claims, they were explicitly premised on the defendant not segregating employees who had received the plaintiff's proprietary software code under a licensing agreement from other employees who had joined the defendant when it acquired the plaintiff's chief competitor.

Big Vision Private v. E.I. Dupont De Nemours & Co., 1 F. Supp. 3d 224 (S.D.N.Y. 2014), also illustrates the importance of keeping employees separate. There, the lead developer of an internal DuPont project had been in contact with other DuPont employees involved in a similar, but collaborative, effort with Big Vision and who had access to Big Vision's alleged trade secrets. The lead developer of the internal DuPont project had attended a call with the DuPont division that was closely collaborating with Big Vision. His notes from that call reflected Big Vision's alleged trade secrets. Although the court ultimately found that Big Vision failed to show that DuPont used Big Vision's alleged trade secrets, separating the lead developer of the internal project from those collaborating with Big Vision may have avoided or shortened the litigation.

Sharing trade secrets is necessary for productive corporate collaboration. To avoid loss of trade secrets, that sharing should only be done subject to a confidentiality agreement, with clear expectations about the parties' collaboration, and limited to individuals who need to know the information and are not involved in competing projects.

Felix Eyzaguirre *is an associate, and* **Katherine D. Prescott** *is a principal, at Fish & Richardson in Silicon Valley.*