Failure to Identify Information as Confidential or Trade Secret Pursuant to Requirements of Non Disclosure Agreement Can Preclude Recovery for Misappropriation Under Uniform Trade Secrets Act

Bryan Faller of Porter Wright Morris & Arthur LLP

A recent decision from the Federal Circuit illustrates the perils of not following the requirements of a non-disclosure agreement (NDA) with respect to identifying information as confidential or trade secret. It is a good reminder that if you go to the trouble of preparing an NDA to protect your trade secrets, you need to follow the NDA, because a failure to do so may cost you the chance to recover under the Uniform Trade Secrets Act (UTSA).

Companies and individuals routinely enter into NDAs in order to maintain and protect the confidentiality of trade secrets that are disclosed during negotiations and business dealings. The general thought is that an NDA affords an additional layer of protection to the trade-secret owner over and above what the UTSA offers. That makes sense. But can an NDA actually supplant the UTSA? The Federal Circuit answered yes in *Convolve, Inc. v. Compaq Computer Corp*. The court held that if the owner of the trade secret fails to follow the NDA's requirements for designating disclosed information as confidential or trade secret, that party cannot look to the UTSA for relief against the other party to the NDA for alleged trade-secret misappropriation.

NDA Required Identification of "Confidential" Information in Writing

The unhappy party here is Convolve. Convolve entered into an NDA with Compaq and a similar NDA with a Compaq supplier, Seagate. The two NDAs were similar in what they required a disclosing party to do in order to designate information as confidential. Written material needed to be marked as "confidential" or a similar designation. Oral disclosures fell under the NDA umbrella if the information was designated as confidential at the time of the disclosure and was followed by a written memorandum that detailed what information was confidential within twenty days of the oral disclosure.

Convolve, Compaq and Seagate engaged in several rounds of disclosures and presentations pertaining to Convolve's software motion control technology or technology to minimize vibrations from quickly moving equipment, such as computer hard disk drives. For some of these disclosures, Convolve followed the requirements for designating the disclosed information as confidential. So far so good. But Convolve also made presentations and sent Seagate copies of slides from one of the presentations and a letter describing another presentation without providing written notification that this information was confidential as required under the NDA. Not so good for Convolve.

Failure to Follow NDA Limited Scope of What Could Be a Trade Secret

Convolve later filed suit against Seagate for patent infringement and trade-secret misappropriation. Pertinent here is the decision of the Federal Circuit in affirming the district court's entry of summary judgment in favor of Seagate on Convolve's claim under the California Uniform Trade Secrets Act (CUTSA). The Federal Circuit agreed with the district

court that because Convolve and Seagate had memorialized in the NDA how confidential information must be designated and treated, the NDA effectively supplanted the CUTSA with respect to the information the NDA covered.

Convolve argued that its failure to abide by the NDA was irrelevant to its tort claim under the CUTSA. Convolve argued further that under the CUTSA, Seagate and Convolve had an implied confidential relationship under which Seagate should have known that it needed to treat the Convolve information as confidential. The NDA had nothing to do with that implied relationship, Convolve protested.

The Federal Circuit rejected Convolve's arguments. The court first held that a written NDA supplants any implied duty of confidentiality that may have existed between the parties. In other words, the court explained, it would be incongruous to have an express contract and an implied contract that cover the same subject but require different results. The Federal Circuit said that this was "common sense" — namely, that "[i]f the parties have contracted the limits of their confidential relationship regarding a particular subject matter, one party should not be able to circumvent its contractual obligations or impose new ones over the other via some implied duty of confidentiality."

The Federal Circuit next found that the CUTSA itself required the court's holding. That is, the CUTSA provides that misappropriation occurs when a trade secret is acquired under circumstances giving rise to a duty to maintain its secrecy. Here, Convolve disclosed the alleged trade secrets to Seagate after the parties had executed the NDA. Therefore, the "circumstances" giving rise to Seagate's alleged duty to maintain the secrecy of Convolve's information was dictated by the NDA. Because Convolve did not follow the procedures described in the NDA to protect the information disclosed to Seagate, no duty ever arose on Seagate to maintain the secrecy of the Convolve information.

Takeaways

Carefully draft your NDA. And then follow precisely the manner set forth in the NDA to designate your information as confidential. The *Convolve* case illustrates that parties entering into an NDA have the power to define what they believe their confidential information to be and how such information is to be designated and disclosed. The case also shows that a trade-secret owner can eschew, even unintentionally, the UTSA for the protections set forth in the NDA. Thus, if you want your NDA to control how confidential information is designated and disclosed, the NDA should clearly set forth such procedures and the disclosing party needs to follow precisely those procedures. Similarly, if you do not want your NDA to displace the UTSA, then the NDA should be drafted accordingly — perhaps containing language that the parties intend for the UTSA to apply to any alleged trade-secret misappropriation — or similar language that expresses the parties' intent that nothing in the NDA is meant to supplant the protections of the UTSA. Alternatively, the NDA could provide that information does not have to be marked as confidential to be considered confidential and, therefore, hopefully avoid the situation presented in the *Convolve* case.

Bryan Faller, Partner, bfaller@porterwright.com

Bryan Faller is a partner in Porter Wright's Litigation department, where he represents clients in intellectual property and complex commercial litigation matters. He handles cases involving trade secret misappropriation, unfair competition, non-solicitation and non-

competition contracts, and patent infringement. He is an author on Porter Wright's **TechnologyLawSource.com** blog where he focuses on trade secret and technology industry issues. Follow Bryan on Twitter, @FallerBryan.

Full Bio (http://www.porterwright.com/bryan_faller/)

Porter Wright Morris & Arthur LLP

From our six offices in Ohio, Florida and Washington, D.C., Porter Wright seamlessly brings together the knowledge, skill and experience needed to help our clients achieve goals and solve problems, effectively and efficiently. We are committed to our clients. For more than 165 years, clients have trusted Porter Wright to provide exceptional legal advice. We pride ourselves on the responsiveness of our service, and for providing real value in all that we do.

Website (http://www.porterwright.com/)

This article was originally published on **TechnologyLawSource.com** by Porter Wright Morris & Arthur LLP. This article is for educational purposes only as well as to give you general information and a general understanding of the law, not to provide specific legal advice. You understand that there is no attorney client relationship established by this article between you and the author or publisher. The article should not be used as a substitute for competent legal advice from a licensed professional attorney in your state.

Material in this work is for general educational purposes only, and should not be construed as legal advice or legal opinion on any specific facts or circumstances, and reflects personal views of the authors and not necessarily those of their firm or any of its clients. For legal advice, please consult your personal lawyer or other appropriate professional. Reproduced with permission from Porter Wright Morris & Arthur LLP. This work reflects the law at the time of writing in July 2013.