

Ruling Extends Trade Secret Protection to Ideas

Altavion v. KMSL extends trade secret protection to valuable design concepts even when those design ideas are shared during a negotiation.

Implications

In *Altavion v. KMSL*, the California Court of Appeal rules that trade secret protection applied to Altavion's design concepts even though Altavion shared its design ideas with a competitor.¹ The ruling extends trade secret protection in California to design concepts that are not publicly disclosed and have independent economic value, creating a roadmap for inventors to protect their design concept information. The ruling also serves as a warning for companies receiving design concepts during a negotiation that those concepts may be protected as trade secrets.

After *Altavion*, an inventor can use the following tools to take advantage of trade secret protection when sharing ideas:

- **Non-Disclosure Agreements (NDA):** sign an agreement to maintain strict confidentiality over all information shared during negotiations at the outset
- **Disclosure of General Ideas:** ensure that initial disclosures include a low level of specificity; sharing general ideas will not prevent protection of more detailed design concepts
- **Investigate Failed Negotiations:** monitor negotiation partners after negotiations end to make sure design concepts are not being used in violation of trade secret law

Case Summary

In 2003, Altavion, Inc. and KMSL — a research and development subsidiary of Konica Minolta Business Technologies, Inc. — explored the possibility of embedding Altavion's "digital stamping technology" (DST) into KMSL's multifunction printers. According to the Court, KMSL "had no idea, interest or information about DST" prior to its dealings with Altavion.

Altavion's DST is a process for creating self-authenticating documents. The process encodes the content of a document into a small barcode — a "stamp" — printed on the document that is compared with a stamp on another document. Using this comparison, Altavion's DST determines whether and where a document has been altered, without the need to involve a third party.

Prior to their negotiations, Altavion and KMSL signed an NDA, which included a provision that any information disclosed in the negotiations be kept confidential. In 2004, negotiations reached an impasse, and KMSL decided to develop its own DST. KMSL ended its relationship with Altavion.

At the same time, KMSL filed for a series of patents encompassing Altavion's DST. Altavion did not learn about KMSL's patent filings until 2006. This led to Altavion filing suit for trade secret misappropriation.

The trial court concluded that KMSL had misappropriated trade secrets Altavion disclosed to KMSL during negotiations. The court awarded Altavion US\$1.5 million in damages and more than US\$3 million in attorney fees.

The court found KMSL misappropriated the design concepts underlying Altavion's DST. On appeal, KMSL argued that these concepts were mere ideas that could not be protected as trade secrets. The Court of Appeal disagreed, holding that ideas themselves are protectable as trade secrets.

The court observed that even if some or all of the elements of Altavion's design were in the public domain, the unique *combination* of the ideas Altavion developed was a protectable trade secret. Such a combination would be protected so long as it was secret and had independent economic value (two of the required elements for information to be deemed a trade secret).

Further, the fact that the design concepts were patentable did not exclude their classification as trade secrets. The court reaffirmed that the touchstone of trade secret protection is secrecy and independent economic value of the information in question — regardless of whether such information included patentable ideas.

In analyzing Altavion's DST, the court divided the information into three tiers of specificity and secrecy. In the bottom tier was Altavion's general idea for self-authentication of documents using DST. Altavion had disclosed this idea to other companies, and the idea itself was known generally. Thus, the general idea could not qualify as a trade secret.

In the top tier were Altavion's algorithms and source code that execute Altavion's DST. The court suggested that trade secret law would unquestionably protect such specific and highly secret information. This type of information was not shared with KMSL however, and was not implicated in the case.

The design concepts underlying Altavion's DST fell into what the court called "the middle tier of information." KMSL argued that such design concepts could not be protectable as trade secrets since they were ideas that any user of the technology could observe. But the court reasoned that a design concept that *will be disclosed* by the sale of a product that embodies the concept can still be a trade secret until such disclosure is made. Thus, because Altavion disclosed its design concepts only to KMSL under an NDA, the design concepts were protected as trade secrets. Such protection did not depend on whether any *future sale* of a product embodying those concepts would disclose them.

Conclusion

Inventors can rely on the court's ruling in *Altavion* to engage in negotiations with more confidence that their disclosures will not destroy their intellectual property. As long as a confidentiality agreement is signed — and the ideas are kept secret — inventors likely will be able to maintain control of their design concepts.

On the flip side, companies should be aware that trade secret protection can be extended to ideas. Companies receiving ideas from inventors should not assume that design concepts can be used without a license. Ideas shared under an NDA may be trade secrets of that inventor, even if the concepts are just combinations of publically available information.

If you have questions about this *Client Alert*, please contact one of the authors² listed below or the Latham lawyer with whom you normally consult:

Perry Viscounty

perry.viscounty@lw.com
+1.714.755.8288
Orange County
+1.650.463.3030
Silicon Valley

Jennifer Barry

jennifer.barry@lw.com
+1.858.523.3912
San Diego

Gunnar Gunderson

gunnar.gundersen@lw.com
+1.714.755.8019
Orange County

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Endnotes

¹ *Altavion, Inc. v. Konica Minolta Sys. Lab., Inc.*, 226 Cal. App. 4th 26 (2014).