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Summary Judgment on Violation of NDA Barred by Material Facts in Dispute

By Charles R. Macedo, Amster, Rothstein & Ebenstein LLP

Kara Tech. Inc. v Stamps.com, Inc., No. 2009-1027, -1028, US Court of Appeals for the Federal Circuit, ___ F.3d ___, 24 September 2009

Abstract

Material disputed facts regarding timing of discovery of breach and post-agreement public disclosure preclude summary judgment that the terms of a non-disclosure agreement (NDA) were not breached.

Legal context

Many individual inventors find themselves in situations where they must make presentations to prospective business partners regarding their inventions in order to commercialize their products. NDAs are often entered into to protect such inventors from the misuse of the confidential information that they disclose. *Kara Tech. Inc. v Stamps.com, Inc* presents the case of what happens when one such NDA is allegedly breached and tested in litigation.

Although *Kara* involves many issues, the present discussion is limited to the issues involving the NDA.

Facts

Salim Kara is the sole inventor on two related patents, US Patent Nos 6,505,179 (the '179 patent) and 6,735,575 (the '575 patent), directed toward apparatuses and methods that allow a customer to print a secured document (such as a stamp or an airline ticket) at home using preprinted label sheets.

Stamps.com offers internet-based shipping and postage services.

In May 2000, Stamps.com approached Kara to collaborate on Kara's Personal Computer-based (PC-based) stamp technology. The two entered into an NDA that provided in pertinent part that:

1. Stamps.com 'keep secret and not disclose ... and not use for its own use in any capacity whatsoever any Confidential Information for any purpose other than for the purpose for which such information was disclosed' (ie to facilitate 'business discussions'). 3.
2. Stamps.com was not permitted to 'make written, electronic, or photostatic copies or excerpts of or summaries of Confidential Information' without prior written consent from Kara.

3. 'Confidential information shall not include ... [i]nformation which becomes part of the public knowledge through no breach of this Agreement or any similar obligations known by [Stamps.com]'.

4. Texas law governed the NDA.

Stamps.com subsequently indicated it was no longer interested in pursuing a business relationship with Kara. However, in October 2001, Stamps.com announced that the US Postal Service had approved beta testing of its PC-based postage product. Stamps.com launched the Pre-V5 product commercially in July 2002, and the V5 line 3 years later.

Kara brought suit against Stamps.com in the US District Court for the Southern District of New York for patent infringement, breach of contract, and other claims not relevant to the appeal. The case was eventually transferred to the US District Court for the Central District of California, where Stamps.com counterclaimed for, inter alia, patent invalidity and unenforceability and moved for summary judgment on Kara's breach of contract claim.

As pertinent to the breach of contract claim, Kara asserted two alleged breaches of the NDA:

1. Stamps.com admitted that note-taking during the 15 May 2000 meeting breached Paragraph 5 of the NDA; and
2. Stamps.com allegedly used Kara's confidential information to develop its PC-based stamp products, in violation of Paragraph 3 of the NDA.

The district court granted summary judgment in favour of Stamps.com, dismissing Kara's claim for breach of contract of the NDA on two alternative grounds:

1. Kara's claim for breach of contract was barred by the 4-year statute of limitations under applicable state law; and
2. The NDA did not protect Kara's trade secrets because of Kara's subsequent public disclosure.

After entry of final judgment in 2008, the present appeal ensued.

Analysis

Applying Texas Law, the Federal Circuit recognized that a 4-year statute of limitations applied to Kara's breach of contract claim. The period was measured from the date the breach was first discovered or should have been discovered. Kara alleged that the first breach occurred on 15 May 2000, but did not first bring suit until 22 October 2004, more than 4 years later. The district court found that this breach of contract claim was barred by the 4-year statute of limitation under Texas law. Since this note-taking was done in front of Kara employees at the meeting, the Federal Circuit agreed with the district court that the statute of limitations barred Kara from asserting this breach.

However, with respect to the second alleged breach (ie Stamps.com's alleged misuse of Kara's confidential information to make its own systems), the Federal Circuit noted that the district court did not address whether this claim was barred by statute of limitations. Based on disputes between the parties as to when Kara first learned or should have learned of facts identifying this alleged breach, the Federal Circuit found that there were material facts in dispute that precluded summary judgment on that point.

The Federal Circuit found that there were material facts in dispute as to the timing and content of other alleged public disclosures by Kara of the confidential information, which was the subject of the second alleged breach. The Federal Circuit also noted that, even if Kara subsequently disclosed 8 days after the meeting with Stamps.com the confidential

information to another party in Finland and later openly at the World Stemp Expo, thus relieving Stamps.com of its obligation not to use the confidential information, 'Stamps.com still could be liable for a breach of contract claim based on the eight days before the May 23 presentation'. With respect to the content of disclosures by Kara at subsequent presentations, the Federal Circuit explained:

Furthermore, material factual disputes exist concerning what was disclosed at the Finland presentation and what one skilled in the art would have understood from Kara's exhibit at the World Stamp Expo. It is unclear from Kara's slides from its Finland presentation whether the public would understand how to create a secure document, or how those documents are later validated. Further, although there was testimony Kara's exhibit at the World Stamp Expo included a full demonstration, there was also testimony that Kara struggled to get its demonstration to work. Finally, it is unclear if Kara's system was fully explained during the demonstration, and whether a person of skill in the art would understand the technology based on the demonstration.

Thus the Federal Circuit concluded:

Because there are material issues of fact in dispute regarding breach of the NDA due to misuse of the confidential information, we reverse the district court's grant of summary judgment on the breach of contract claim and remand for further proceedings consistent with this decision. (id)

Practical Significance

Kara reminds us that while NDAs are important protection that should be entered into before disclosing confidential information with respect to a potential business relationship, an NDA by itself may not be sufficient protection against misappropriation by the prospective business partner. Promptly acting upon suspected misappropriations is important to avoid waiving rights. Maintaining confidentiality of the subject matter governed by the NDA is also important.

Charles R. Macedo

Amster, Rothstein & Ebenstein LLP, New York, NY

Email: cmacedo@arelaw.com

Charles Macedo is author of *The Corporate Insider's Guide to US Patent Practice*, published by Oxford University Press in 2009.

Charles R. Macedo is a partner at Amster, Rothstein & Ebenstein LLP. The firm's practice focuses exclusively on all facets of intellectual property law. The author can be contacted at cmacedo@arelaw.com.