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IP CASE OF THE WEEK

Publicly Available Information Does Not Bar Trade Secret Injunction

Masimo Corp. v. True Wearables, Inc., 2021-2146 (Fed. Cir. January 24, 2022)

By: Michael P. Bregenzer & Daniel Zhang | January 31, 2022

The Federal Circuit recently affirmed the District Court for the Central District of California's decision to issue a preliminary injunction on Masimo's trade secret claims, finding that the district court did not err in determining that (1) Masimo was likely to establish that TSS was a trade secret, and (2) Masimo was likely to establish that True Wearables ("TW") misappropriated Masimo's trade secret.

The alleged trade secret in this case ("TSS"), relates to an algorithm used to solve optimization problems to ultimately make determinations of various "physiological values, including the concentration of total hemoglobin" in a user's blood. Dr. Lamego, a previous employee of Cercacor, a company with shared ownership with Masimo, worked generally on variations of the TSS. After leaving Cercacor, Lamego founded TW, and developed a pulse oximeter that utilized TSS. Lamego filed patent applications to protect the device, and the USPTO issued a Notice of Allowance. Masimo then moved for preliminary injunction, concerned that the patent issuance would make TSS public. The motion practice hinged on arguments regarding the validity of Masimo's trade secret.

The district court used the California Uniform Trade Secrets Act's ("CUTSA") definition of a trade secret, which provides that information is eligible for trade secret protection if it "(1) derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use," and (2) "[i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." TW argued that the district court "failed to properly consider [] evidence" that TSS was generally known. Specifically, TW presented a conference paper published by the Institute of Electrical and Electronics Engineers, which disclosed "an algorithm equivalent to the TSS" and that was apparently "cited over 1,200 times." TW also presented expert testimony stating that variants of TSS have "appeared in statistics textbooks." The district court disagreed that these publications precluded TSS from constituting a trade secret, stating that even though the publication was "not obscure," existence of a publication did "not mean that the particular techniques described in them were 'generally known' to people who could obtain economic value[.]" Regarding statistics textbooks, the court found TSS was "known in the field of statistics," but there was no "evidence that [it related] to the plaintiff's field."

Although TW could not avoid the preliminary injunction at this stage, TW is not barred from succeeding at trial. Indeed, the Federal Circuit notes that "findings of fact and conclusions of law made by a court granting preliminary injunction are not binding at trial on the merits." While the Federal Circuit notes that the "limited record" at this stage has removed the need for the district court to substantively decide these issues, TW will be presented the opportunity to expand the record and try to further its argument that TSS is not eligible for trade secret protection under the definitions provided by CUTSA.