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Trade Secret Litigation

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Beware the Statute of Limitations in Trade Secrets Misappropriation Cases

When a competitor or former employee misappropriates a company's trade secrets, the company often does not know for an extended period of time. This is especially true when the perpetrator takes action to conceal its misappropriation. For these reasons, the statute of limitations only starts to run once the company knows or should have known of the misappropriation. This rule, however, is not a universal remedy; companies should be aware that once they have sufficient knowledge that misappropriation may be occurring, they must take action or risk the running of the statute of limitations. The recent decision in *MGA Entertainment, Inc. v. Mattel, Inc.*, Case No. B289709, ___ Cal.Rptr.3d ___, 2019 WL 5558188 (October 29, 2019) from the California Court of Appeals reinforces these principles.

The Saga

Litigation between Mattel, Inc., the creator of Barbie dolls, and MGA Entertainment, Inc., the creator of Bratz dolls, started back in 2004. Initially, Mattel

asserted ownership of the Bratz line of dolls and claimed that MGA infringed on its copyrights. Eventually, the litigation shifted, and MGA began alleging that Mattel misappropriated its trade secrets by allegedly using fake credentials and other misrepresentations to gain access to MGA's private showrooms.

In August 2007, MGA asserted an affirmative defense of unclean hands based on Mattel's alleged "monitoring" and "spying" to gain knowledge of MGA's trade secrets, including attempts to gain access to its showrooms. MGA then waited for over three years before filing a counterclaim against Mattel for alleged misappropriation of trade secrets under the California Uniform Trade Secrets Act.

After a jury trial (that MGA won), Mattel appealed the verdict to the Ninth Circuit on the basis that MGA's counterclaims were time barred under California's three year statute of limitations. The Ninth Circuit held that because the counterclaims were permissive (not compulsory), they should have been brought in a separate lawsuit in California state court. Accordingly, the Ninth Circuit vacated the jury verdict and dismissed MGA's trade secret misappropriation claim without prejudice.

MGA took the Ninth Circuit up on its advice to seek relief in state court, and it brought suit against Mattel alleging the same misappropriation of trade secrets claims. The trial court dismissed the action as untimely under the three-year statute of limitations, and MGA

appealed to the California Court of Appeals.

Appellate Court Decision

The question on appeal was whether MGA's misappropriation of trade secrets claim was timely filed on August 16, 2010, when MGA first asserted its counterclaim. Mattel argued that MGA's claim was not timely because it was filed more than three years after MGA first asserted its unclean hands defense—and thus, MGA had been on notice of the potential claim for more than three years.

The Court of Appeals agreed with Mattel; and in its holding, the Court of Appeals clarified the proper running of the statute of limitations:

- The statute of limitations begins to run "when the plaintiff has reason to suspect an injury and some wrongful cause."
- "A plaintiff need not be aware of the specific 'facts' necessary to establish the claim; that is a process contemplated by pre-trial discovery. . . . So long as a suspicion exists, it is clear that the plaintiff must go find the facts; she cannot wait for the facts to find her."
- It is firmly established "that the defendant's fraud in concealing a cause of action against him tolls the applicable statute of limitations, but only for that period during which the claim is undiscovered by the plaintiff or until such time as plaintiff, by the exercise of reasonable diligence, should have discovered it."

The Court of Appeals held that MGA had reason to suspect an

injury at least as of August 2007 when it asserted its unclean hands defense on the exact same basis as its later trade secrets misappropriation lawsuit. The court held that MGA had knowledge of enough facts at that time to know that a potential claim existed, which means MGA should have timely filed its lawsuit; rather than wait for more than three years. And the court held that MGA's allegation that Mattel committed fraud to conceal its misappropriation did not save MGA's claim because MGA had actual knowledge of the potential claim in August 2007.

Accordingly, the Court of Appeals held that the statute of limitations had run and

affirmed the dismissal of MGA's lawsuit.

Takeaways

This recent decision reinforces that companies must take proactive measures once they have some knowledge that a competitor or former employee is misusing their trade secrets. A company cannot wait until it has definitive evidence of such misappropriation. Instead, once the company is on notice that some misappropriation has occurred, the company must be aware that its statute of limitations is running and take the action necessary to preserve its rights.

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