Pinterest Illuminates Key Lessons for Litigating Trade Secrets Claims

By Brian J. Fischer and Jessica A. Martinez

I. Introduction

Trade secrets litigation is on the rise in the United States, particularly in New York. A study released in July 2018 found that trade secrets claims increased sharply from 2016 to 2017 on the heels of the passage of the federal Defend Trade Secrets Act, with a gain of more than 30 percent in the number of trade secrets filings in federal court from 2016 to 2017.[1] And with good reason: One 2018 study regarding data exposure found that 72 percent of CEOs and 49 percent of business leaders in the United States, United Kingdom, and Germany admitted taking intellectual property from their previous employers.[2] While trade secrets litigation in state courts has experienced somewhat more modest growth, it continues to grow at a faster pace than the overall rate of litigation in state courts.[3] Notably, just five states account for about half of all trade secrets litigation in state appellate courts, with New York coming in at number four behind California, Texas, and Ohio.[4]

As trade secrets litigation continues to be an area of dramatic growth in both state and federal courts, New York litigators will see more and more of their clients become embroiled in such disputes. Our recent experience litigating one such case—*Schroeder et al. v. Pinterest Inc. et al.*—provides a helpful framework for understanding some of the pitfalls involved in trade secrets (and related) litigation and illuminates some key lessons for both plaintiff and defense counsel.

II. *Schroeder v. Pinterest Inc.*

In December 2012, a Columbia Law School graduate named Theodore Schroeder sued the company behind the social media website Pinterest.com, along with professional angel investor Brian Cohen, in federal court in New York.[5] In early 2007, Schroeder had pitched a website project of his called Rendezvoo.com to Cohen and an angel investor network called New York Angels, Inc. (NYA), of which Cohen was a member. Although there was no interest in Rendezvoo, Cohen proceeded to work with Schroeder on a different website project called Skoopwire.com. They ultimately had a falling out and went their separate ways. Rendezvoo and Skoopwire went defunct.

Later, in 2009, Cohen became an early investor in what would become Pinterest. Schroeder claimed that, to save what was at the time an allegedly failing investment in Pinterest's predecessor—a mobile shopping application called Tote—Cohen gave the founders of Pinterest trade secrets and other proprietary information from Rendezvoo and Skoopwire. Schroeder's theory was that Pinterest would not be Pinterest without Cohen having conveyed Rendezvoo and Skoopwire ideas and concepts to Pinterest's founders.

Today Pinterest is an immensely popular site. The Pew Research Center found that as of early 2018, 29 percent of U.S. adults use the platform.[6] According to the company itself, 250 million people use Pinterest every month, including an astounding one of every two millennials.[7] It was valued at more than $12 billion in a 2017 funding round and is expected to go public in 2019.[8] Suffice it to say, Schroeder had great incentive to claim a piece of the Pinterest action. Indeed, for damages he sought the full current value of Cohen's ground-floor investment in Pinterest.

Schroeder's federal suit was dismissed after he added two plaintiffs—the companies behind Rendezvoo and Skoopwire—which destroyed federal diversity jurisdiction.[9] He re-filed his claims in June 2013 in the Commercial Division of New York Supreme Court, New York County, alleging that he had conceived of a novel web application that would allow internet users to share information about themselves by posting interests, ideas, and pictures to their interface boards, an idea that may sound familiar to Pinterest users.[10] The claims included three misappropriation torts—trade secrets; ideas; and skills, labor and expenditures—as well as claims for unjust enrichment, breach of fiduciary duty, and promissory estoppel. The state action also asserted claims against NYA on a theory of vicarious liability.

In late 2013, Cohen, NYA, and Pinterest each filed motions to dismiss the claims brought by Schroeder, Rendezvoo, and Skoop Media.[11] In a July 2014 ruling, the court dismissed the claims against Pinterest and all but two of the claims against Cohen and NYA.[12] The two remaining claims were for misappropriation of skills and expenditures and promissory estoppel. Judgment was entered on July 29, 2014.

The plaintiffs filed an interlocutory appeal to the First Department, and the defendants cross-appealed, seeking dismissal of the remaining claims. In an October 2015 ruling, the appellate court dismissed the promissory estoppel claim but reinstated Schroeder's and the Rendezvoo companies' claims for trade secrets and idea misappropriation and breach of fiduciary duty.[13] However, the court emphasized what would later become a key issue at sum-

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mary judgment and on later appeal: that the claims for trade secrets and idea misappropriation and for breach of fiduciary duty could stand only to the extent they were premised on confidential information and not on information in the public domain.[14]

In October 2016, after years of extensive party, nonparty, and expert discovery, Cohen and NYA moved for summary judgment. In November 2017, the trial court granted summary judgment in favor of Cohen and NYA and dismissing all remaining claims. We discuss the claims in detail below.

Trade Secrets Misappropriation. In order to prevail on a claim for misappropriation of trade secrets in New York, a plaintiff must demonstrate "(1) that it possessed a trade secret, and (2) that the defendants used that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means."[15] New York courts generally look to six factors to determine whether information constitutes a trade secret, the majority of which focus on confidentiality: "(1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; [and] (6) the ease or difficulty with which the information could be properly acquired or duplicated by others."[16] This focus on confidentiality stems from the idea that "[a]n essential prerequisite to legal protection against the misappropriation of a trade secret is the element of secrecy."[17] In the *Pinterest* case, the trial court found that the trade secret claims failed because the information at issue was publicly available and had been disclosed to outsiders—i.e., it was no longer confidential. The court also held that the plaintiffs had failed to define their trade secrets with particularity or to show their proprietary value.

Idea Misappropriation: A successful claim for misappropriation of ideas under New York law requires proof of two elements: "(1) a legal relationship between the parties in the form of a fiduciary relationship, an express contract, implied contract, or quasi contract; and (2) an idea that is novel and concrete."[18] The trial court found that Schroeder and his companies had not met their burden of proving their ideas were confidential, novel, and concrete because they "amount[ed] to nothing more than a collection of broad concepts, [with] very little information in the record about how those concepts were actually employed in practice."[19]

Misappropriation of Skills, Labor and Expenditures: A claim for misappropriation of skills and expenditures is a subset of New York unfair competition law. To prevail, a plaintiff must show that "a defendant misappropriated plaintiff's labors, skills, expenditures or good will, and displayed some element of bad faith in doing so."[20] The plaintiffs' claim for misappropriation of skills, labor and expenditures failed for similar reasons as the trade secrets and ideas claims: they failed to precisely define the "unique combination" of features on which their claims were premised and to show that this combination was confidential.

Breach of Fiduciary Duty: A breach of fiduciary duty claim "can be premised on the misuse of a plaintiff's confidential information, even if that information does not rise to the level of a trade secret."[21] The trial court found that the claims failed to follow the roadmap set out by the First Department in its decision on the interlocutory appeal by failing to show that the allegedly confidential and proprietary information supposedly conveyed to Pinterest had been kept confidential. The court also held that the plaintiffs had not presented any evidence of an actual conveyance of the allegedly protected information from Cohen to Pinterest.

Because the court dismissed all of the claims against Cohen, the claims against NYA, which were premised on a theory of vicarious liability, also failed. Judgment was entered in the Supreme Court on December 20, 2017.

The plaintiffs again appealed to the First Department. At oral argument, the panel expressed skepticism towards the plaintiffs' claims on multiple fronts—especially with respect to novelty, concreteness, and particularity and the assertion that Schroeder's claims were premised on confidential information. In February 2019, the court issued a pithy opinion affirming the grant of summary judgment on multiple grounds.[22]

III. Where the Plaintiffs' Claims Faltered

Ultimately, the First Department found that the plaintiffs' claims failed for four reasons.

Plaintiffs' first problem was their failure to describe their supposed trade secrets and allegedly proprietary ideas with sufficient specificity and concreteness. The court deemed their ideas "nothing more than a collection of broad concepts," finding it unclear from the record how they were employed in practice, including whether they had even been used together in a single website.

Second, the plaintiffs' ideas were not sufficiently novel to merit protection. While their claims hinged on the argument that their combination of ideas was new and novel even if the individual ideas were not, the court pointed to, among other things, the plaintiffs' failure to actually use the ideas in combination on a single website.[23]

Third, the plaintiffs had not shown any of their information was confidential. The court pointed to the fact that the websites were public; the lack of evidence in the record about the substance of any non-public versions that the plaintiffs had claimed existed; and their sharing of the

allegedly non-public version with third parties such as web designers, investors, and focus groups.[24]

Finally, the plaintiffs were unable to show that any conveyance of their ideas to Pinterest's founders had taken place. While they cast Cohen's role in the development of Pinterest broadly and argued that email exchanges between Cohen and the Pinterest founders reflected admissions by Cohen that he had conveyed the idea of "curation" to them, the court was not convinced that this was anything more than "merely a suggestion about word choice, not about how the product should be designed."[25] The physical dissimilarity between Rendezvoo and Skoopwire on the one hand and Pinterest on the other also undercut the claims that Cohen had conveyed their idea.[26]

While any of these four flaws would have been fatal to the plaintiffs' claims, it was ultimately clear to the court that the plaintiffs had gotten out over their skis in multiple respects and simply did not have the evidence to support their allegations.

IV. Lessons Learned and Practice Tips

Regardless of whether you represent the plaintiff or the defendant in a trade secrets dispute, the *Pinterest* case highlights some important lessons for trade secrets litigators.

A. Lessons for Everyone

Know your product. The most fundamental lesson for litigating a trade secret claim, whether as counsel for plaintiff or defendant, is to know your client's product inside and out. If you are on the plaintiff's side, you must fully understand what it was that your client alleges was stolen. And if you are representing the defendant, it is essential to understand your client's product and how it differs from the plaintiff's product such that misappropriation of the plaintiff's trade secrets cannot explain the existence of your client's product.

Know your industry and its history. Knowing your client's product is not sufficient. You also must know the industry and how it has evolved over the time period relevant to the claims. This broader understanding will guide you in determining what was a truly novel and protectable innovation as opposed to simply a continuation of that which was already in the public domain. Nor is it enough to know the current industry: You also must become an industry historian. This is particularly true in areas involving rapidly changing technology and innovation, where change is constant, and your trade secrets must be analyzed in the context of what existed at the time of the alleged misappropriation, not what exists now.

Find (and develop a relationship with) a great expert. You will likely need an expert—this is just a reality of trade secrets litigation. Bringing in an expert early can help you work toward one of the other lessons described above, namely, learning about the industry and its history early in the case. Early consultation with an expert also can help to shape discovery in beneficial ways; a good expert can help you understand what questions you need to ask in discovery to get the information you need, particularly in cases dealing with complicated technical issues. Beyond that, great experts steeped in the product or industry at issue will have insights that could become invaluable at multiple junctures in a case. In the *Pinterest* case, our expert brought to our attention over 30 social media sites far less popular than the titans with which we are all familiar (like Pinterest) that we shared with the court as "prior art" negating plaintiffs' novelty claim. Many of these sites were visible only through the Wayback Machine or based on descriptions available on low-profile blogs dating back to the mid-2000s. We are humble enough to admit that as litigators we would have identified barely a fraction of these sites if left to our own devices.

Buckle up for the long haul. Trade secret and other misappropriation claims are fact-heavy and expert-intensive claims. This means litigating them can take a significant amount of time, and cases can feel as if they are dragging on forever. Fatigue and frustration can derail sober application of strategy over the long run. It is important, however, to stick with good strategies and allow them to play out over time, even when frustration with the pace of the case sets in.

B. Lessons for Defense Counsel

Pinterest also illuminates some key lessons for defense counsel and their clients. Many of these lessons touch on the importance of looking at the bigger picture and playing the long game.

Map out your summary judgment motion before discovery begins. Despite their fact-intensiveness, the cases show that misappropriation claims are amenable to disposition on summary judgment, especially in New York state court.[27] In part this is because there are a number of ways to defeat misappropriation claims: lack of novelty, concreteness/particularity, confidentiality, or conveyance. This makes it important to understand early on what you need to look for in order to capsize your opponent's claim. In particular, an early understanding of how to potentially prevail on summary judgment can help shape discovery by revealing areas of focus for discovery requests and deposition questions.

Don't be demoralized or deterred by a loss at the motion to dismiss stage. While misappropriation claims are amenable to summary judgment, they are less prone to dismissal on the pleadings. This stems from the fact-intensive analysis inherent in such claims. While New York courts show a great capacity to distinguish between mere allegations and actual facts at the summary judgment stage, the court is bound to accept the plaintiff's allega-

tions as true at the motion to dismiss stage. Do not let a loss on the motion to dismiss discourage you, even as it emboldens your adversary. A summary judgment victory still may be on the horizon.

Don't be needlessly distracted by repetitive claims. As the discussion above of the trial court's decision in *Pinterest* illustrates, different misappropriation claims are often different ways of making essentially the same claims and touch on the same fundamental concepts. For example, the particularity requirement for a trade secret is analogous to the concreteness requirement of an idea misappropriation claim. Do not let this be a distraction. While you do not want to lose sight of what you must show for each claim, it is generally less important as a practical matter to deal with the margins of each component than maintaining focus on the bigger picture.

Don't forget your common sense or overlook the obvious. It is easy sometimes to get wrapped up in the law and forget common sense. But some of the most basic and obvious points resonate the most in trade secrets disputes. In the *Pinterest* case, for example, the websites simply did not look anything alike, and the dissimilarity between them belied the argument that one had stemmed from the stolen ideas of the other. And, in another example, the Schroeder plaintiffs argued that a confidential version of their Rendezvoo site was on a computer that the plaintiff had told the defendant to throw away, and while we argued the applicability of the Best Evidence Rule, the claim raised another, more obvious question: If the proprietary information on the computer was really that valuable, why did Schroeder tell our client to simply throw it away? Focused on the incredibly broad way in which Schroeder expressed his supposed trade secrets (such as claiming protection over concepts like "curation"), even the court recognized that you cannot simply check reality at the door.

Know your origin story. Independent generation is a key defense to a trade secret misappropriation claim; courts grant summary judgment on such claims where there is unrebutted evidence of independent creation.[28] A clear independent generation story is also compelling to the trier of fact and can give the court comfort that it is making the right decision in rejecting the claims. Third-party discovery can be a key asset for defense counsel in understanding and pinning down the actual origin story. In the *Pinterest* case, for example, even after Pinterest itself had been dismissed from the case, discovery still included depositions of its founders and other third-party discovery, which allowed the true story of its genesis to be told in full.

C. Lessons for Plaintiffs' Counsel

And finally, though we litigated on the defense side, the *Pinterest* case also provided key takeaways for counsel representing plaintiffs in trade secrets cases.

Get your story straight before filing, and tell it consistently. While discovery will help you develop and refine your claims, continually re-articulating your trade secrets to conform to the evidence that is uncovered could lead to disaster. In doing so, you risk alienating a court skeptical of the shifting expressions of your proprietary information. Such continual shifting also can be fatal from a legal perspective. Because you must show particularity (for trade secrets) or concreteness (for ideas), an inability to keep to a consistent story risks endangering your ability to prove these essential factors.

Don't overshoot. It is important not to oversell your trade secrets, as doing so runs the risk of undermining your credibility. For example, while some of the allegations in the *Pinterest* complaint that were more of a stretch from reality enabled the plaintiffs to survive the motion to dismiss and even an interlocutory appeal, the party eventually came to an end when it became clear that the plaintiffs had oversold their claims, which were not supported by evidence.

It is also important not to oversell what the evidence shows. For example, while the plaintiffs latched onto the concept of "curation" once it appeared in the documents we produced, they consistently oversold its connection to their own trade secrets. Other tactics—like framing statements as "admissions" that really are not or omitting key portions of documents when arguing—may seem like good, aggressive tactics at the time, but they ultimately undermine credibility and are more transparent to the court than you might think.

For plaintiffs' counsel in particular, this all means conducting real diligence on your client's claims early on in the engagement, before you file a complaint. While this can be a delicate matter, especially early on when clients may be more sensitive and less willing to share the type of information you need to properly conduct your diligence, it also can be a key moment for client counseling. There always will be a risk that the jig will eventually be up if your client does not have a valid claim; explain this to your client and use the discussion as an opportunity to counsel them to open up to you early on about what is really there.

Be prepared to have your own trade secrets exposed. While not stemming from our experience with the *Pinterest* case, in our experience in other cases, an important part of the initial strategy discussion—and the decision about whether to sue—should include a recognition that the plaintiff should be prepared to have its own trade secrets exposed. This is because a key component of a trade secret misappropriation claim is an expression, with particularity, of the trade secret that has been stolen. In some jurisdictions, the particularized description of the trade secrets at issue is even a prerequisite to discovery. While the parties and their counsel can (and should) craft a protective order to protect confidential information, this

still may be an area of sensitivity for some clients and may inform whether they wish to litigate their claims.

V. Conclusion

As technology continues to develop and change at a rapid pace, so will efforts to protect or claim proprietary information through litigation of trade secret and related misappropriation claims. Our recent experience in the *Pinterest* case shows the importance for all counsel to develop a deep understanding of the product and industry and a consistent and fleshed-out strategy early on—including with help from experts—that can take you from a complaint or motion to dismiss through discovery and on to summary judgment. It also shows that common sense should not be left at the door; sometimes when something seems obvious, it can form the most powerful and resonant argument.

Endnotes

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10. *See Schroeder v. Pinterest Inc.*, No. 652183/2013, 2014 WL 3381985, at *1 (N.Y. Sup. Ct. July 8, 2014).
11. *See id*.
12. *Id*.
13. *Schroeder v. Pinterest Inc.*, 133 A.D.3d 12, 29, 17 N.Y.S.3d 678, 691 (1st Dep't 2015).
14. *Schroeder*, 133 A.D.3d at 29.
15. *Schroeder*, 133 A.D.3d at 27. New York is now the only state that has not adopted the Uniform Trade Secrets Act (UTSA). This article does not discuss the similarities and differences between New York trade secrets law and the UTSA, because the practice pointers are provided are applicable independent of the precise trade secrets law applied.
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17. *Schroeder v Cohen*, No. 652183/2013, 2017 WL 5668423, at *12 (N.Y. Sup. Ct. Nov. 27, 2017) (citing *Atmospherics, Ltd. v. Hansen*, 269 A.D.2d 343, 343 (2d Dep't 2000)).
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