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Insulet, Eoflow trade secret scrum may end on statute of limitations

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The trade secret dispute between Acton, Mass.-based Insulet Corp. and Eoflow Co. Ltd., of Seongnam, South Korea, addresses several key questions in the area of intellectual property law, including the circumstances in which injunctive relief is and is not appropriate. However, the U.S. Court of Appeals for the Federal Circuit highlighted a question of whether the statute of limitations has expired on Insulet's allegations of violation of trade secret law, just one of several questions the district court must now revisit on remand.

The Court of Appeals for the Federal Circuit decided the case June 17 after Insulet appealed the outcome in the U.S. District Court for the District of Massachusetts. The district court granted Insulet injunction against Eoflow for violation of the Defense of Trade Secrets Act (DTSA), to which the Federal Circuit applied a temporary stay. This case involves a fairly routine change of employment by an Insulet employee, who took a job at Eoflow. Insulet had begun developing its Omnipod insulin pump in the early 2000s, followed in 2007 by the second generation of the device. Eoflow began developing its Eopatch device shortly after the company's founding in 2011, followed six years later by the emergence of the Eopatch 2.

Medtronic's interest in Eoflow a wild card

One of the complicating factors in this litigation was that Medtronic plc. had expressed an interest in acquiring Eoflow, but the med tech colossus dropped the idea in late 2023, a mere seven months after agreeing to the acquisition. Medtronic's version of the story was that Eoflow had violated unspecified terms of the agreement, while Eoflow speculated that the deal was scotched in part because of the intellectual property dispute with Insulet.

Eoflow contended that the district court injunction had been erroneously issued on several points, including that Insulet failed to act within the three-year statute of limitations for violations of the DTSA. The material allegations regarding violation of the DTSA included that the departed Insulet employee had retained confidential documents that would have enabled Eoflow to compete with Insulet, thanks in no small part to the financial leverage afforded by the acquisition by Medtronic. Also in question at the Federal Circuit was whether the district court had adequately characterized the type of information that would qualify as a trade secret, given that the district court had concluded that any and all confidential information would qualify as such. Eoflow apparently obtained an Insulet

device as well for the purposes of reverse-engineering the device, not a violative practice in and of itself.

Matt Kohel, a partner at Saul Ewing LLP, told BioWorld that the trade-off between patent protection and trade secret protection is complicated by several factors. Kohel said in-house counsel at many companies have come to appreciate the virtues of trade secret protection over the past half decade or so, and that many technology-intensive companies blend patent and trade secret protections for their intellectual property (IP) portfolios.

Some of the recent difficulties in sustaining a patent may make trade secret protection more attractive than would otherwise be the case, Kohel said, such as the inter partes review process conducted by the Patent and Trademark Office. However, the prospects that key employees with vital information will begin to depart in larger numbers may grow, thanks to the noncompete rule recently promulgated by the Federal Trade Commission. "I think companies are definitely looking at the FTC noncompete rule," he said, although this has yet to clearly demonstrate a noticeable shift in corporate IP portfolio management practices. However, the FTC rule does have innovator companies on the alert regarding their trade secret management programs, although congressional opposition to the noncompete rule was recently on display in a hearing on the agency's budget proposal for fiscal year 2025.

"It sounded as though the Federal Circuit felt the district court didn't do any fact-finding," with regard to the issuance of injunction, Kohel said. The process of obtaining injunction is typically more demanding than was apparently required at district court, at least by the description found in the Federal Circuit's decision. Kohel said obtaining an injunction often comes down to a contest of expert witnesses, but the key is that the party seeking injunction ordinarily must do a lot of up-front work to obtain an injunction.

Statute of limitations not always simple to calculate

Kohel said the district court failed to adequately address the statute of limitations on DTSA violations, adding that this is not always a black-or-white issue. Misappropriations are not always a one-off event, and a first misappropriation might destroy the trade secret and render null any additional misappropriations. Hence, the first misappropriation might, as a practical matter, be the index date for the statute of limitations even if successive misappropriations still fall within the three-year window. "The big issue is that the district court completely ignored it," Kohel said, something the district court will have to deal with on the next go-round.

The DTSA requires that inventors take reasonable measures to protect trade secrets and that the economically valuable information not be available via proper methods and means. Kohel said a reasonable program for protection of trade secrets should

include a number of measures, such as sign-in books and visitor escorts at the site where the research is conducted. Electronic measures include robust IT protection, such as the use of virtual private networks.

An R&D team would do well to keep documentation about their efforts in a password-protected, SharePoint system so others in the company cannot access it readily. External cybersecurity measures and encryption are also advisable, and Kohel noted that IT systems can also be configured to monitor employee downloading practices. Another critical practice is to identify what is confidential in employee non-disclosure agreements, which should make clear how a trade secret is characterized. All these measures should be complemented by regular training of employees and third parties, Kohel suggested.