Making a Spectacle of Making Spectacles

by Steve Kramarsky

In the business world, a new idea, invention, or innovation, no matter how ground-breaking, is only as valuable as the market says it is. But as a company shifts from the highly secretive invention phase to the public release of a product, legal issues can arise. Turning a confidential new idea into a marketable product often means sharing its secrets, at least in a limited way. Maybe the inventor lacks the funding to turn the idea into a product; maybe the company has a breakthrough technology, but no way to market it to consumers; maybe a new product idea has been well received on the Internet, but the company needs a partner to help with physical distribution. In each of these cases the owner of the new idea may decide to find a partner or co-venturer to help take its invention to market.

When two parties are considering a such a venture, with shared risks and rewards, it is reasonable to expect that each will want to evaluate sensitive information about the other's businesses. Without a clear window into a potential counterparties' business operations, it can be difficult to tell whether a potential transaction or other business arrangement would be prudent. But companies are understandably reticent to share sensitive information about their businesses with third parties, especially when the third party is an actual or potential competitor and the information is a new product idea or innovation.

To address this, potential co-venturers almost always enter into confidentiality agreements or non-disclosure agreements prior to the exchange of any information. Such agreements, which are also used between companies and their employees, ordinarily set forth a broad category of "confidential" or "proprietary" information to be disclosed and set explicit restrictions on what that information can (and, more importantly, cannot) be used for. Typically, a confidentiality agreement signed prior to a co-venture limits the use of the disclosed information to the evaluation of the particular business arrangement being contemplated.

Unfortunately, even with the benefit of perfect drafting, such agreements are not a silver bullet for all potential issues related to the disclosed information. For example, a conflict may arise if one party, unbeknownst to the counterparty, develops a business in competition with the prospective co-venture, perhaps without copying information from the other party but based on its analysis of the co-venture opportunity. Another complex legal issue can arise where, following the exchange of information, the receiving party creates a new product or work that appears to be a "derivative" work based on the information received subject to the agreement. A recent case, *Opternative v. Jand*, 2018 WL 3747171 (S.D.N.Y. Aug. 7, 2018), explored both of those issues.

Opternative and Warby Parker Consider a Joint Venture

Opternative Inc. is a "healthcare technology startup focused on developing innovative technology for the provision of accurate, convenient, and affordable corrective lenses based on eye exams, or 'refractions,' conducted via the internet." *Opternative v. Jand*, 2018 WL 3747171, at *1 (S.D.N.Y. Aug. 7, 2018). At issue in this case was a patent that Opternative developed and received for a technology allowing patients to self-administer an online eye exam using only their cell phone.

Beginning in 2013, Opternative met with Jand, Inc. d/b/a Warby Parker (Warby Parker) to discuss a potential partnership related to Opternative's online eye exam technology. At that stage, Opternative's technology was still in development (it did not receive a patent until 2015) but, nonetheless, the parties entered into a non-disclosure agreement. Under that agreement, Opternative would disclose to Warby Parker certain information about its online eye exam software under the condition that Warby Parker use that information "only for its consideration internally of a potential business relationship or transaction between the parties." *Opternative*, 2018 WL 3747171, at *1. In particular, the NDA prohibited Warby Parker from disclosing Opternative's proprietary information to any third party and endeavoring to "decompile, disassemble or otherwise reverse engineer" proprietary information to "discovery its underlying composition." Id. Under that agreement, the parties further agreed that a breach of the NDA by Warby Parker would irreparably harm Opternative.

With a broad agreement in place to protect its confidential material, Opternative began to provide Warby Parker with information concerning its online eye exam technology, including demonstrations of the system at work and explanations of how the system determined the appropriate prescription for any particular user. Over the next two years, the parties continued discussions and entered into two further NDAs with similar terms. Throughout that time period, Opternative continued to provide information regarding its increasingly developed eye exam technology.

Warby Parker Develops Competitive Technology

On April 30, 2015, Warby Parker's CEO publicly stated in the Wall Street Journal that the company was investing in an online eye exam platform that would allow customers to self-administer eye exams using their cell phones. Upon reading that statement, Opternative became concerned that Warby Parker was developing a competing online eye exam system. Shortly thereafter, Opternative wrote to Warby Parker requesting assurances that Warby Parker was not developing any competing platform. Warby Parker responded without a concrete answer, indicating it was "excited to move forward with further testing" and that Opternative's concerns were "misplaced," offering to speak via teleconference to address any such concerns.

As it turns out, Warby Parker was in fact developing a competitive software. On June 5, 2015, Warby Parker filed an application for its own patent "pertaining to technology directed towards online eye examination system, specifically a method of using a mobile camera" to allow users to self-administer an eye exam. *Opternative*, 2018 WL 3747171, at *3. On May 23, 2017, Warby Parker launched that system as a competitor to Opternative's platform, launched in July 2015.

Despite filing for a competitive patent, through the spring and fall of 2015, Warby Parker continued discussions with Opternative and requested more information regarding Opternative's technology. In particular, Warby Parker "requested control of Opternative's testing environment so that Warby Parker could conduct its own independent comparative study" and "insisted on being granted access to the raw output of Opternative's refraction software." Id. Due to the sensitivity of that information, Opternative was hesitant to provide it, but eventually did so under the protection of a third NDA, which specifically expanded the scope of the covered information to include "Data Output."

After Opternative provided the requested access and information, Warby Parker conducted over 60 tests to determine the viability of Opternative's technology and followed up with concerns about certain aspects, such as the mechanism for determining the user's distance from the screen (a crucial aspect of the eye exam). Opternative responded with various potential solutions to the concerns raised by Warby Parker.

'*Opternative v. Jand*'

Following the launch of Warby Parker's competitive product, Opternative filed suit in the Southern District of New York. Opternative asserted seven claims, including breach of contract, misappropriation of trade secrets, and unfair competition. Opternative alleged that Warby Parker misappropriated the invention for which it received a patent, violated the respective NDAs between the parties by using information gleaned from Opternative's disclosures to "inform its decision to enter the online refraction market" and design and develop a competing technology. Id. at *4. Warby Parker moved to dismiss, asserting that it developed its competing platform independently, without any use of the information disclosed to it by Opternative.

On Aug. 7, 2018, Judge John Keenan granted in part and denied in part that motion. Judge Keenan denied the defendant's motion to dismiss the claims for breach of the NDAs, finding that Opternative adequately alleged that Warby Parker used information from Opternative, provided under the protection of NDAs, first to determine whether it should develop an online eye examination platform and then to inform specific design decisions. In response to Warby Parker's argument that Opternative had provided no direct evidence of any misuse of Opternative's confidential information, Judge Keenan noted that "it is well recognized that … misuse can rarely be proved by convincing direct evidence. In most cases plaintiffs must construct … circumstantial evidence from which the trier of fact may draw inferences." Id. at *5 (quoting *Q-Co Indus. Inc. v. Hoffman*, 625 F. Supp. 608, 618 (S.D.N.Y. 1985)).

This is a crucial aspect of the decision: The Court did not require Opternative to demonstrate that Warby Parker had copied or used specific or particular trade secrets, such as lines of computer code or design specifications. It was enough that Warby Parker had used information provided by Opternative for the improper purpose of evaluating the market and deciding to enter a competing business. Thus, Judge Keenan held that Opternative's allegations that Warby Parker used information provided to it by Opternative to "inform its decision to enter the online refraction market, in making strategic and marketing decisions" as well as Warby Parker's design and creation of a competing platform constituted sufficient circumstantial evidence to survive a motion to dismiss.

The court granted Warby Parker's motion to dismiss on the misappropriation of trade secrets claim under federal law. A necessary element of such a claim is that the defendant use improper means to acquire the trade secret or know that the trade secret has been acquired by improper means. Opternative alleged that Warby Parker's "assurances" that it was not developing a competing system when in fact it was doing so were false and misleading. However, Judge Keenan, parsing the language of the statement by Warby Parker that it was "excited to move forward" and "sens[ed]" that Opternative's concerns were "misplaced," did not explicitly address the question of whether Warby Parker was developing a competing eye exam technology and thus whether those statements were "deceptive" for purposes of federal trade secrets law. The court also dismissed the remaining state law and quasi-contract claims (unjust enrichment, state trade secrets, and unfair competition) as duplicative of the contract claim.

The Takeaway

Opternative recognizes and addresses the central difficultly in cases involving the alleged violation of a confidentiality agreement—providing direct proof that the disclosed information was improperly used. Marshalling direct evidence can be especially difficult in cases where "independent invention" is offered as a defense. Rarely will there be evidence of direct use of the precise information provided in the competitor's product. Rather, a plaintiff must often rely on circumstantial evidence, such as the fact that the counterparty developed a similar, competing system or used the information provided to assess market conditions and make product decisions.

Under *Opternative*, such circumstantial evidence can be sufficient, at least to take the case forward, and the trial court can then have the opportunity to assess the complete record.

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