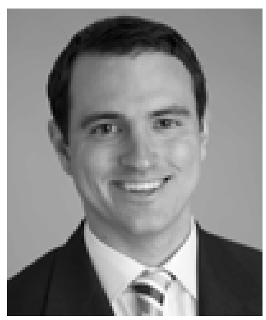
BNA's

PATENT, TRADEMARK & COPYRIGHT

BNA Employee-Owned Since 1947

JOURNAL

2010 Trade Secrets Litigation Round-Up



BY JASON C. SCHWARTZ,
DANIEL J. DAVIS,
JOSHUA P. CHADWICK, AND
STEPHANIE A. ACCUOSTI

Hardly a day went by in 2010 when the daily case summaries did not include some mention of trade secret litigation, often in conjunction with the breach of non-competition covenants and other related claims. Important developments of the year included what may turn out to be a landmark decision from the U.S. Court of Appeals for the Third Circuit concerning the ''inevitable disclosure'' doctrine, cautionary decisions from the Second and Sixth Circuits refusing to accord trade secret status to information that was not adequately guarded, and significant attention from the U.S. Department of Justice in criminal prosecution of trade secret misappropriation cases and in civil antitrust enforcement against employee non-solicitation agreements. We highlight these and other noteworthy 2010 milestones below.

Jason C. Schwartz is a partner in Gibson, Dunn & Crutcher's litigation department and labor and employment practice group in Washington, D.C. His practice includes litigation of high stakes trade secrets and non-compete matters. Daniel J. Davis, Joshua P. Chadwick, and Stephanie A. Accuosti are associates at Gibson Dunn's Washington, D.C. office.

CIVIL DEVELOPMENTS

As 2010 came to a close, 46 states, the District of Columbia and the U.S. Virgin Islands had adopted some version of the civil Uniform Trade Secrets Act. During the past year, versions of the UTSA were also introduced in the Massachusetts, New York and New Jersey state legislatures. This section provides an overview of many of the year's notable civil actions brought under the UTSA and other provisions of state and federal law.

The Re-Emergence of Inevitable Disclosure

Bimbo Bakeries USA Inc. v. Botticella, 613 F.3d 102, 96 USPQ2d 1151 (3d Cir. 2010) (80 PTCJ 476, 8/6/10). In July, the Third Circuit issued what may become the next landmark decision—on the same scale as *PepsiCo Inc. v. Redmond*, 54 F.3d 1262, 35 USPQ2d 1010 (7th Cir. 1995)—highlighting the force of the inevitable disclosure doctrine as a weapon for preventing the misappropriation of trade secrets. This case also serves as an important reminder of strategic considerations key to successfully litigating trade secrets cases.

The Third Circuit affirmed a district court's order enjoining a senior executive formerly employed by Bimbo Bakeries USA Inc. from working for one of Bimbo Bakeries' competitors until the district court resolved the merits of Bimbo's misappropriation of trade secrets claim against the executive. Botticella, as Bimbo Bakeries' vice president of operations for California, had access to high-level Bimbo Bakeries trade secrets, including being only one of seven people with access to the Thomas's English Muffins recipe, estimated to account for approximately $500 million in Bimbo Bakeries' annual sales. 613 F.3d at 105.

Botticella secretly accepted a job offer with Hostess, one of Bimbo Bakeries' competitors. Botticella continued working for Bimbo Bakeries for three months, however, apparently at least in part because he wanted to receive his year-end bonus. *Id.* at 105-06.

When Botticella informed Bimbo Bakeries that he was leaving for Hostess, three months after securing the position, he was terminated and Bimbo Bakeries brought suit, arguing that Botticella's employment at Hostess would violate the Pennsylvania Uniform Trade Secrets Act because of the threat of misappropriation of trade secrets. Notably, Botticella's employment agreement did not include a non-competition clause restricting where he could be employed after leaving Bimbo Bakeries. *Id.* at 105.

By way of background, the UTSA provides that ''actual or threatened misappropriation may be enjoined,'' but it does not define ''threatened.'' Uniform Trade Secrets Act § 2 (1979). Accordingly, state law differs concerning which acts may be enjoined as a ''threatened'' misappropriation.

Some courts apply the ''inevitable disclosure doctrine'' as a test for determining whether there is a threatened misappropriation such that preliminary relief can be granted. Under this doctrine, a showing that the employee's new job duties will inevitably cause the employee to rely on knowledge of the former employer's trade secrets suffices to support an injunction prohibiting the employee from working for the competitor.

The district court relied on the UTSA's grant of authority to enjoin threatened disclosure in issuing a preliminary injunction barring Botticella from working for Hostess. *Bimbo Bakeries USA Inc. v. Botticella*, No. 10-0194, 2010 WL 571774, at **11-14 (E.D. Pa. Feb. 9, 2010). Botticella sought interlocutory review of the preliminary injunction order, which resulted in the continuation of that injunction for approximately one year during the pendency of the appeal. (Had he not sought interlocutory appeal, the district court was prepared to proceed to trial within a couple of months.)

The court of appeals affirmed the grant of a preliminary injunction, upholding the lower court's determination that Bimbo Bakeries had established a threatened misappropriation because there was a ''substantial likelihood, if not an inevitability, that [Botticella] will disclose or use Bimbo's trade secrets in the course of his employment with Hostess.'' 613 F.3d , at 110-118 (citing 2010 WL 571774, at *14). The Third Circuit agreed that under Pennsylvania's UTSA, the former employer did not have to show that disclosure was inevitable. Rather, it need only prove that a ''substantial threat of trade secret misappropriation'' exists. *Id.* at 114.

In adopting the ''substantial threat'' standard, the Third Circuit explained that Pennsylvania law not only recognizes the inevitable disclosure doctrine, which depends upon a finding that it is ''virtually impossible'' for a former employee to avoid disclosure of trade secrets, but also empowers a court to enjoin the threatened disclosure of trade secrets without requiring a plaintiff to show that disclosure is inevitable if the plaintiff can meet the lower ''substantial likelihood'' standard. *Id.* at 114-117. The court made clear that, under Pennsylvania law, an injunction granted on the basis of a ''substantial threat'' of trade secret misappropriation is not issued pursuant to the inevitable disclosure doctrine; the two concepts are distinct. *Id.* at 111.

The Third Circuit agreed with the district court that the following evidence supported a ''substantial likelihood'' of disclosure finding: ''not disclosing to Bimbo his acceptance of a job offer from a competitor, remaining in a position to receive Bimbo's confidential information and, in fact, receiving such information after committing to the Hostess job, and copying Bimbo's trade secret information from his work laptop onto external storage devices.'' *Id.* at 118 (citing 2010 WL 571774, at *13). Specifically, Botticella downloaded a number of important files to external drives during the three month transition period, and accessed highly sensitive information belonging to Bimbo Bakeries in his final days of employment. The district court had rejected Botticella's explanation for this conduct—that he was practicing his computer skills for his new job at Hostess—as ''confusing at best'' and ''not credible.'' *Id.* at 108 (citing 2010 WL 571774, at *6).

This is yet another reminder of the critical importance of timely development of computer forensic evidence upon the departure of a key employee. Without such evidence, the injunction here—and in many other cases—would not likely have been issued.

The court of appeals also shared the district court's concern regarding the confidential information that Botticella learned between the time he accepted the offer with Hostess and the time he disclosed to Bimbo Bakeries his decision to leave. Botticella, for example, attended a confidential meeting in December 2009 regarding business strategy to which he admitted Bimbo Bakeries would have restricted his access had it known about his acceptance of an offer from Hostess. *Id.* at 107.

The court of appeals was critical of Botticella's claim that he ''blocked out'' confidential information discussed during the meetings he attended following acceptance of the Hostess offer, noting that ''[w]e are quite uncertain as to how an individual can block out information from his head for a human mind does not function like a computer from which, through an electronic process, materials may be deleted.'' *Id.* at 107 n.4.

   ISSN 0148-7965

The Third Circuit's opinion also includes useful observations about the types of evidence required to obtain preliminary relief in a trade secrets case. In upholding the district court's application of an adverse inference based on the failure of Botticella to testify, the court of appeals explained that ''because the misappropriation of a trade secret often must be proved by constructing a web of perhaps ambiguous circumstantial evidence that outweighs the defendants' direct denial, the failure of defendants to testify in the face of a strong showing that a misappropriation or misuse occurred justifies the inference that their testimony would be unfavorable to their cause.'' *Id.* at 117-18 (internal citations omitted).

Moreover, the case underscores the need to consider proactive compliance measures and active involvement in counseling the new hire about departure protocols when hiring key employees from competitors. The prospective new employer, Hostess, followed best practices in having Botticella sign an agreement affirming that he would not disclose to Hostess confidential information of his former employer. *Id.* at 106. This was not sufficient, however, to prevent the entry of the injunction.

The outcome might have been different had Hostess not only secured this assurance from Botticella, but also required that he disclose Hostess's offer and his acceptance to Bimbo Bakeries immediately instead of waiting three months, and perhaps if it took other proactive steps to ensure his compliance.

Finally, the case is noteworthy for Bimbo Bakeries' Pennsylvania choice of law and forum selection clauses, and for its rapid and successful initiation of litigation in Pennsylvania once Botticella gave his notice of departure. One wonders if Botticella, who lived and worked in California, could have successfully brought a declaratory judgment action in California on the theory that application of Pennsylvania law would violate the public policy of California (which is hostile to noncompete agreements and to inevitable disclosure arguments). *See* Cal. Bus. & Prof. Code § 16600; *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443 (2002); *see also, e.g.*, *Palmer & Cay Inc. v. Marsh & McLennan Companies*, 404 F. 3d 1297 (11th Cir. 2005) (refusing to enforce out-of-state non-compete agreement contrary to Georgia public policy).

Texarkana Behavioral Associates v. Universal Health Services Inc., No. 08-CV-4031, 2010 WL 4269420 (W.D. Ark. Oct. 26, 2010). Although not a court of appeals decision, this summary judgment opinion is noteworthy both for its narrow view of inevitable disclosure and for its recognition of the potential applicability of that doctrine to confidential information exchanged during due diligence for a potential corporate acquisition.

Plaintiff Texarkana Behavioral Associates and defendant Universal Health Services Inc. both own behavioral health facilities. In July 2004, TBA and UHS entered into a confidentiality agreement relating to acquisition negotiations. The negotiations failed, and when UHS moved forward with plans to build a behavioral facility in a city where TBA already owned such a facility, TBA filed suit, asserting that UHS had misused its confidential, proprietary information, and misappropriated trade secrets under the Arkansas Trade Secrets Act. It sought injunctive relief preventing UHS from constructing the facility. *Id.* at *1-2.

TBA contended that the information provided to UHS during negotiations, including a detailed balance sheet, a detailed aging accounts receivable by payor and patient mix, broken down cost reports, lease contracts, employee pay rates, managed care contracts, and long term operating strategies, constitute trade secrets. *Id.* at *4. The court first expressed ''substantial doubts'' as to whether the information could so qualify, but, recognizing that similar information has been found to qualify in other cases, determined it could not grant summary judgment on that basis. *Id.* at *5.

Having found no evidence of actual misappropriation, the court addressed the inevitable disclosure issue. The court first noted that the cases cited by the parties involved employees leaving one company to work for another, rather than confidentiality agreements between companies involved in acquisition negotiations. The lesson of those employment cases, according to the court, is that ''something more'' than mere ''possession of potentially useful information'' is necessary to demonstrate inevitability. *Id.* at *5. Accordingly, ''evidence showing nothing more than that the defendant could misuse the plaintiff's confidential information and that the plaintiff fears it will cannot support a finding of inevitability.'' *Id.* at *6.

In this case, the court concluded that despite almost two years of discovery, the plaintiffs produced no evidence that indicated either an intention on the part of UHS to use TBA's information, or that UHS could not operate without TBA's information. Indeed, the court found that the defendant's evidence showed that it *is* possible for UHS to conduct its business without using TBA's information. On this point, the court credited the testimony of the defendant's former CEO, who had left UHS to work at TBA. He testified that despite his considerable knowledge of UHS's operations, he was able to perform his duties at TBA without using UHS's confidential information. *Id.* at *6.

Protection of Trade Secrets

Nationwide Mutual Insurance Co. v. Mortensen, 606 F.3d 22, 95 USPQ2d 1305 (2d Cir. 2010). A decision issued by the Second Circuit in May underscores the importance of taking the necessary steps to protect confidential information at all company levels in order to benefit from the protections afforded trade secrets.

The defendants in this case were Nationwide Insurance agents who allegedly took confidential information, including personal client information and data about the client's needs and purchasing history, when they left the company. The agents then allegedly shared this confidential client information with Nationwide competitors and used it themselves to compete once they began employment with a competitor. *Id.* at 26.

The Second Circuit affirmed the district court's finding that because the client information was not adequately protected it did not constitute a trade secret under the Connecticut Uniform Trade Secrets Act. The type of confidential client information at issue was available both in Nationwide's protected computer system, to which agents had access and from which they could print, and in physical files, which were maintained in hard copy in the agents' offices. The fact that the confidential client information was protected in a secure computer system could not elevate the information to trade secret status given that the same information was readily available from the physical files, which were found not to be adequately protected. *Id.* at 28-29.

Each of the three defendants in the case signed an identical contract with Nationwide entitled ''Agent's Agreement.'' *Id.* at 25. In the earlier district court opinion in this case, the court noted that Nationwide did not produce evidence of a contractual provision in the Agent's Agreement requiring agents to protect the secrecy of the files, and that agents were free under the contract to make and keep their own notes about the contents of the files.

In addition, the court found that the Agent's Agreement clearly permitted departing agents to retain a list of the names of the customers they serviced for Nationwide. With customers' names in their rightful possession, the district court reasoned, agents could obtain policyholder file information directly from the customers and other sources. On this record, the district court found that Nationwide failed to provide evidence of *any* efforts to maintain the secrecy of the information in the policyholder files. *Nationwide Mutual Insurance Co. v. Bland* , Nos. 399-CV-2005 (RNC), 399-CV-2006 (RNC), 399-CV-2007 (RNC), 2003 WL 23354137, at *3 (D. Conn. March 30, 2003).

R.C. Olmstead Inc. v. CU Interface LLC, 606 F.3d 262, 94 USPQ2d 1897 (6th Cir. 2010) (80 PTCJ 157, 6/4/10). In May, the Sixth Circuit affirmed the district court's grant of summary judgment for the defendant in this copyright and trade secret infringement suit brought by a provider of credit union software against a developer of competing credit union software. The plaintiff had licensed its credit union processing software to the CSE Credit Union for five years, but upon discovering that the CSE Credit Union was developing its own software, exercised its option to terminate the agreement, and brought suit. *Id.* at 265-67.

The Sixth Circuit concluded that the plaintiff's software interface was not a trade secret because plaintiff did not take reasonable steps to maintain its secrecy. Olmstead's own president testified that the interface is not a trade secret, Olmstead's contract with CSE did not contain any confidentiality provisions preventing third parties from viewing the interface, and the agreement expressly contemplated that CSE would use a third-party personal computer support firm to assist with support. *Id.* at 276-77. The Sixth Circuit found that these factors, along with the plaintiff's inability to identify *any* affirmative steps it took to maintain the secrecy of the user interface, ''amply'' supported the district court's finding. *Id.* at 276.

'Use' of Trade Secrets

Latuszewski v. VALIC Financial Advisors Inc., No. 08-1511, 2010 WL 3582434 (3d Cir. Sept. 15, 2010). In September, the Third Circuit affirmed a district court's award of damages against two employees on a claim brought by their former employer for, among other things, misappropriation of trade secrets.

In 2002, VALIC Financial Advisors Inc., a company that sells and services financial products, required the defendants to sign new employment contracts which contained non-compete covenants and a provision preventing the use of VALIC trade secrets for any purpose other than their work for VALIC. About a year later, the defendants, Gary Latuszewski and James Rogan, resigned from VALIC to join a new company called North Atlantic that was created by Latuszewski and that directly competed with VALIC. *Id.* at *1.

In a former appeal, the Third Circuit affirmed the district court's grant of a preliminary injunction to enforce the non-compete covenants and to stop the defendants' misappropriation of trade secrets on the basis of a finding that customer information, including customer lists, account balances, account activity, financial objectives, investment preferences, and transfer details, constituted protectable trade secrets under Pennsylvania law. *Latuszewski v. VALIC Financial Advisors Inc.*, No. 04-1324 at *1 (3d Cir. June 9, 2005).

On remand, the defendants were held liable for misappropriation of trade secrets. The district court found that the defendants had used the trade secret customer information from VALIC's proprietary database to compile lists, including mental lists, of those customers who would be targeted for transfer, and then personally contacted those VALIC clients to invite them to move their money to North Atlantic. *Latuszewski v. VALIC Financial Advisors Inc.*, No. 03-0540, 2007 WL 4462739, at **6-7 (W.D. Pa. Dec. 19, 2007).

In finding that the information the defendants took with them qualified as trade secrets, the court found it of no significance whether the information was embodied in written lists or committed to memory. The district court also rejected the defendants' claim that the information could not constitute trade secrets because it is known to the customers themselves. The value in the customer information, the court explained, was in the ''compilation, categorization, and organization of information on thousands of customers, combined with the ability to search and format it into a readily usable form.'' *Id.* at *17.

Because the defendants used the information to target VALIC clients, in preparing for and attending meetings with these preselected customers, and in executing the transfer of clients' assets to North Atlantic, the court found misappropriation of these trade secrets. The district court found that their misuse of the trade secrets caused VALIC harm in that it resulted in the loss of $10 million in assets that had been under VALIC management. *Id.* at *18.

On this appeal, the Third Circuit laid out the elements of misappropriation under Pennsylvania law as: (1) the existence of a trade secret; (2) communication of the trade secret pursuant to a confidential relationship; (3) use of the trade secret in violation of that confidence; and (4) harm to the plaintiff. 2010 WL 3582434, at *2 (internal citation omitted). The defendant employees argued that the district court erred in finding that they used any trade secrets in any way that harmed VALIC. In rejecting this argument and affirming the district court's findings with respect to the defendants' use of mental lists and personal solicitation of former clients, the court found it evident that the employees' actions constituted a ''breach of confidence'' that harmed VALIC. *Id.*

Silvaco Data Systems Inc. v. Intel Corp., 184 Cal. App. 4th 210 (Cal. Ct. App. 2010) (80 PTCJ 15, 5/9/10), *as modified on denial of reh'g* (May 27, 2010), *review denied* (Aug. 18, 2010).

In August, the California Supreme Court effectively ended a six-year dispute alleging misappropriation of trade secrets by denying the plaintiff's petition for review of a California appeals court's April ruling. The fundamental claim was that Intel had used software acquired from another entity with knowledge that Silvaco

   ISSN 0148-7965

had accused that entity of incorporating source code stolen from Silvaco in its products. *Id.* at 215-16.

The court of appeals found that Intel could not be liable for such use under the California Trade Secrets Act (CUTSA) because it never possessed or had access to the source code, but only to the executable, machine-readable code compiled by its supplier from source code. *Id.* at 216. In ruling that, for purposes of the CUTSA, one does not ''use'' the underlying source code trade secret by executing machine-readable software, the California appeals court held that ''use'' is not present when the conduct consists entirely of possessing, and taking advantage of, something that was made using the secret. In other words, using a product does not constitute a ''use'' of trade secrets employed in its manufacture. *Id.* at 223-24.

The court's interpretation of the CUTSA was reinforced by ''strong considerations of public policy.'' *Id.* at 224. The court reasoned that if running executable code was deemed to constitute a ''use'' of trade secrets embodied in that software, ''then every purchaser of software would be exposed to liability if it were later alleged that the software was based in part upon purloined code,'' which may as a result inhibit software sales and discourage innovation. *Id.* at 224.

JustMed Inc. v. Byce, 600 F.3d 1118, 94 USPQ2d 1334 (9th Cir. 2010) (79 PTCJ 710, 4/9/10).

In April, the Ninth Circuit issued a decision reminding trade secrets litigants that a successful claim for misappropriation of trade secrets requires evidence of actual misappropriation in order to bring conduct beyond the realm of simple conversion. The defendant deleted source code he had written for his employer from the company's computers, giving himself exclusive possession, in an alleged attempt to gain leverage in his efforts to acquire a greater share of the company. *Id.* at 1122.

The district court found the defendant liable for misappropriation of the source code, but the Ninth Circuit found that the defendant had not misappropriated the code under any of the Idaho Trade Secrets Act's three definitions. The defendant did not ''acquire'' the source code through improper means because he had possession of it as an employee and he did not ''disclose'' the source code, other than a portion to the Copyright Office, which the district court did not find to be inconsistent with maintaining the secrecy and value of the trade secret. *Id.* at 1129-30. The court also found that Byce did not make ''use'' of the source code under the Act, because his possession of the source code alone did not result in a loss of secrecy or a loss in value. *Id.* at 1130-31. However, because actual *or threatened* misappropriation may be enjoined, the circuit court concluded that the district court still had the option of granting an injunction against the defendant's threatened use or disclosure of the source code. *Id.* at 1131.

Remedies

Starwood Hotels & Resorts Worldwide Inc. v. Hilton Hotels Corp., No. 7:09-CV-03862-JSG (S.D.N.Y. Dec. 22, 2010). A settlement reached on December 22 puts an end to a dispute that began in April 2009 when Starwood brought a complaint claiming that two former employees helped Hilton reposition its brand in new hotel markets and reduce its costs and risk of doing business through the use of misappropriated trade secrets and other confidential information.

Ross Klein, ex-president of Starwood's luxury brands group and Amar Lalvani, the former senior vice president of the luxury brands group were recruited to Hilton in June 2008. Klein and Lalvani signed agreements to join Hilton while still working for Starwood. During this period of time, the two allegedly stole some of Starwood's ''most competitively sensitive information'' containing step-by-step details on how to convert a hotel property to a luxury lifestyle hotel, including confidential financial information, strategic development plans, negotiation strategies, training materials, operational materials, marketing and promotional strategies, brand handbooks, proprietary design details and other signature elements, as well as marketing and demographic studies for which Starwood paid ''substantial sums'' to third parties. Compl. at para. 6.

Hilton allegedly acquired this information from the two individuals and used it to design its Denizon Hotels brand. Starwood asserted that it first became aware of the alleged theft days before Hilton launched its new lifestyle brand when it received from Hilton eight large boxes of hard copy documents as well as computer hard drives, zip drives, and thumb drives containing more than 100,000 files downloaded from Starwood computers. *Id.* at para. 10.

A preliminary injunction issued in April 2009 enjoined Hilton, Klein, Lalvani, and all others in active concert with them from knowingly using the information taken from Starwood in any way.

Under the settlement, the provisions of which last for two years, Hilton will allow its activities to be independently monitored to ensure that it does not use the trade secrets allegedly misappropriated from Starwood. Consent Permanent Injunction at Section a. Hilton must also suspend the launch of its Denizon Hotels chain, and may not debut or acquire any other lifestyle or boutique chain similar to Denizon. *Id.* at Section k. Moreover, Hilton is prohibited from hiring any Starwood employees for its luxury brands group for the length of the agreement. Klein and Lalvani are barred from working for any hotel or group appearing on an agreed-upon list that has been kept confidential. *Id.* at Section l.

Ajaxo Inc. v. E*Trade Financial Corp., 187 Cal. App. 4th 1295 (Cal. Ct. App. 2010). A decision by a California appeals court issued in August provides some guidance on interpretation and implementation of the ''reasonable royalty remedy'' provided by the CUTSA, under which courts may determine and impose a fee (''reasonable royalty'') upon a defendant if the other two types of damages (plaintiff's losses and defendant's unjust enrichment) are ''not provable.'' Cal. Civ. Code, §§ 3426.3. (Note that the CUTSA differs on this point from the Uniform Trade Secrets Act, which does not require actual damages and unjust enrichment to be unprovable before a reasonable royalty may be imposed.)

An initial trial had established E*Trade's liability to Ajaxo for misappropriation of Ajaxo's trade secrets relating to wireless stock trading. In the later trial for damages, Ajaxo was unable to prove E*Trade's unjust enrichment because E*Trade showed it had lost over $2 million dollars implementing wireless stock trading. The trial court determined that the reasonable royalty remedy is not triggered under CUTSA where the other types of damages provided by the statute are legally ''provable'' (i.e., there is sufficient evidence of damages as a matter of law), but have not been proven as a matter of fact (i.e., the jury rejects the evidence). 187 Cal. App. 4th at 1299.

The court of appeals reversed, holding that where a defendant has not realized a profit or other calculable benefit as a result of his or her misappropriation of a trade secret, unjust enrichment is ''not provable'' within the meaning of the CUTSA, whether the lack of benefit is determined as a matter of law or a matter of fact. *Id.* at 1308-11. The appeals court directed that the trial court, on remand, fashion a royalty that represents what the parties would have agreed to as a fair licensing price at the time of the misappropriation. *Id.* at 1313.

Agilent Technologies Inc. v. Kirkland, No. 3512-VCS, 2010 WL 610725 (Del. Ch. Feb. 18, 2010). In February, the Court of Chancery of Delaware ruled that three former employees of Agilent breached their employment contracts and that they and their company, Advanced Materials Technology Inc., misappropriated trade secrets. The defendants allegedly took electronic and hard copy documents and used these trade secrets to develop rival technology. *Id.* at *1.

After finding liability, the court awarded past and prospective damages under the ''head start rule,'' which allows a monetary recovery for trade secret misappropriation for the period in which information is entitled to protection as a trade secret plus the additional period, if any, in which the misappropriator retains an advantage over competitors because of the misappropriation. *Id.* at *26-29. The court found that because this measure of damages adequately compensated Agilent, an injunction prohibiting defendants from marketing their products was unnecessary. The court did grant a permanent injunction against the defendants prohibiting them from using Agilent's trade secrets. *Id.* at *31-33.

INTERSECTION WITH ANTITRUST

A strategy some corporations have employed to protect against trade secret misappropriation (as well as to safeguard their workforce) is to enter into ''non-poaching agreements,'' which are agreements among two or more corporations not to solicit the employees of the other(s). This tactic, which has notably been employed in California where non-compete agreements are generally unenforceable, came under fire from the Department of Justice in 2010. As a result, employers must be particularly cautious to ensure that their efforts to prevent trade secret misappropriation comply with federal antitrust laws and state laws governing competition.

United States v. Adobe Systems Inc., No. 10-CV-01629, 2010 WL 3780278 (D.D.C. Sept. 24, 2010). After more than a year of investigation, the DOJ in September filed a lawsuit against Adobe, Apple, Google, Intel, and Pixar Animation challenging the legality of a group of contracts entered into between the corporations. Under the contracts, the technology firms agreed not to cold call the employees of the others. Cold calling, as defined in the DOJ's complaint, involves communicating directly in any manner with another firm's employee who has not otherwise applied for a job opening.

The DOJ argued that this concerted behavior ''reduced their ability to compete for employees and disrupted the normal price-setting mechanisms that apply in the labor setting.'' Compl. at paras. 2, 34. The ''facially anticompetitive'' agreements ''overall, substantially diminished competition to the detriment of the affected employees who were likely deprived of competitively important information and access to better job opportunities.'' *Id.* The DOJ's Competitive Impact Statement, filed concurrently with the complaint, conceded that an agreement restraining competition can nonetheless be lawful if it is ancillary to a legitimate pro-competitive venture and reasonably necessary to achieve the pro-competitive benefits of the collaboration. The agreements at issue here, according to the DOJ, could not be saved in this manner because they were not tied to any specific collaboration, nor where they narrowly tailored to the scope of any specific collaboration. Competitive Impact Statement at Section III.

Under a proposed settlement filed concurrently with the complaint, the defendants will refrain from agreeing, attempting to agree, or requesting or pressuring another person to agree to any arrangements that prevent, in any way, any person from soliciting, cold calling, recruiting or otherwise competing for employees, a much broader proscription than the wrongdoing alleged. Proposed Final Judgment at Section IV.

United States v. Lucasfilm Ltd., No. 1:10-CV-02220 (D.D.C. Dec. 21, 2010). Less than three months after *Adobe* was filed, the DOJ filed a similar complaint on the basis of an agreement between Lucasfilm and Pixar under which the corporations would not cold call each other's employees. In addition, the companies agreed that they would notify each other when making an offer to an employee of the other firm, and that the firm making an offer to the other firm's employee would not counteroffer above its initial offer. Compl. at para. 16.

The DOJ again alleged that the agreement in question was facially anti-competitive, noting the same reasons as in the *Adobe* complaint. *Id.* at paras. 2, 22. In its concurrently-filed Competitive Impact Statement, the DOJ stated that broader restraints were implicated in this case than in *Adobe*, making these agreements ''more pernicious.'' Competitive Impact Statement at § III. This agreement, like those in *Adobe*, was also doomed, according to DOJ, because it lacked ties to any specific collaboration. *Id.* at Section III. The proposed settlement, also filed concurrently with the complaint, would resolve the matter on substantially similar terms as the *Adobe* suit if approved. Proposed Final Judgment at Section IV.

INTERSECTION WITH THE COMPUTER FRAUD AND ABUSE ACT

The federal Computer Fraud and Abuse Act, 18 U.S.C. § 1030, continued to be a common statutory claim asserted alongside trade secrets claims this year.

In addition to creating a federal criminal offense, CFAA provides a basis for federal civil jurisdiction and creates a civil cause of action for damages against one who, among other things, ''intentionally accesses a computer without authorization or exceeds authorized access, and thereby obtains . . . information from any protected computer,'' or who ''intentionally accesses a protected computer without authorization, and as a result of such conduct, causes damage and loss.'' 18 U.S.C. § 1030(a)(2)(C), (a)(5)(C), (g). A ''protected computer'' includes those ''used in or affecting interstate or foreign commerce or communication.'' 18 U.S.C. § 1030(e)(2)(B).

Generally, a civil plaintiff must show ''loss to 1 or more persons during any 1-year period . . . aggregating

   ISSN 0148-7965

at least $5,000 in value.'' 18 U.S.C. § 1030(c)(4)(A)(i)(I), (g). The definition of ''loss'' includes ''any reasonable cost to any victim, including the cost of responding to an offense, conducting a damage assessment, and restoring the data, program, system, or information to its condition prior to the offense, and any revenue lost, cost incurred, or other consequential damages incurred because of interruption of service.'' 18 U.S.C. § 1030(e)(11). ''Damage'' under the statute ''means any impairment to the integrity or availability of data, a program, a system, or information.'' 18 U.S.C. § 1030(e)(8).

CFAA claims often dovetail with trade secrets claims where current or former employees access trade secrets on employer computer systems. CFAA claims have met with mixed success in the trade secret context, however, with the interpretation of ''authorized access'' and proof of damage and/or loss commonly litigated issues. The following cases are illustrative.

KLA-Tencorp Corp. v. Murphy, 717 F. Supp. 2d 895 (N.D. Cal. 2010). In *KLA-Tencorp*, a provider of tools used in the semiconductor manufacturing process sued a former employee alleging misappropriation of trade secrets and violation of the CFAA. The employer's investigation allegedly revealed that the employee had, during her final days of employment, accessed and downloaded large numbers of the employer's files and deleted other files on her work computer using a program called ''Evidence Eliminator.'' *Id.* at 900.

The employer moved for summary judgment on the CFAA claim, presenting evidence that it had paid forensic experts and security consultants more than $5,000 to investigate the employee's activities. *Id.* at 903. Although accepting the employer's allegations of loss, the court declined to decide the claim on summary judgment, noting that ''there is an issue as to whether the deletion of files, i.e., the 'damage,' was caused without authorization.'' *Id.* at 903.

M-I LLC v. Stelly, No. 4:09-cv-1552, 2010 WL 3257972 (S.D. Tex. Aug. 17, 2010). In *Stelly*, an oilfield contractor brought claims against three former employees for violations of non-competition covenants, misappropriation of trade secrets and violation of the CFAA, among other related claims. The employer's investigation revealed that one of the former employees had used an external memory device to download employer files. *Id.* at *5.

The court granted the defendants' motion to dismiss the CFAA claim, finding that the employer had failed to plead ''loss'' within the statute's meaning. The court held that ''case law has consistently interpreted the loss provision to encompass only the costs incurred as a result of investigating or remedying damage to a computer, or costs incurred because the computer's service was interrupted.'' *Id.* at *12. The court noted that the employer had ''simply allege[d] damages 'to its business in the form of lost profits, loss of customers and loss of future business opportunities' '' and ''assert[ed] no damages whatsoever'' covered by the statute. *Id.* at *12.

CRIMINAL DEVELOPMENTS

''The rise in intellectual property crime in the United States and abroad threatens not only our public safety but also our economic wellbeing.'' So began Attorney General Eric Holder in his February 2010 announcement of the DOJ Task Force on Intellectual Property. Press Release, Department of Justice, *Justice Department Announces New Intellectual Property Task Force as Part of Broad IP Enforcement Initiative* (Feb. 12, 2010), *available at* http://www.justice.gov/opa/pr/2010/February/10-ag-137.html (79 PTCJ 443, 2/19/10).

The DOJ Task Force, created to enable the government to confront this threat with a strong and coordinated response, integrates efforts by the DOJ, federal, state, and local law enforcement, and the DOJ's international counterparts directed at preventing and punishing intellectual property crimes. In April, the DOJ created 35 new positions to combat intellectual property crime, providing more evidence of its assertion that aggressive intellectual law enforcement is now a top priority (79 PTCJ 823, 4/30/10). Of vital importance to these enforcement efforts is the Economic Espionage Act of 1996, which makes the theft of trade secrets a federal crime.

This increased commitment to aggressive criminal and civil enforcement of our nation's intellectual property laws has yielded several high-profile arrests and convictions for theft of trade secrets this year. Some of the most highly publicized cases involved perpetrators attempting to send trade secrets abroad.

United States v. Roberts and Howley, No. 3:08-CR-00175 (E.D. Tenn.). On Dec. 9, two Wyko Tire Technology Inc. engineers were convicted of conspiracy to commit trade secret theft, trade secret theft, unlawful photographing of trade secrets, transmittal of trade secrets, and possession of trade secrets in federal court in Tennessee.

The defendants, Clark Alan Roberts and Sean Edward Howley, while employed at Wyko, visited a Goodyear Tire and Rubber Co. facility under the alleged pretense of servicing Wyko equipment located there. Instead, the defendants allegedly took photos of equipment used to make off-the-road tires, and emailed these photos to employees at a Wyko facility. Wyko engineers then allegedly used these photos to design a similar device that was sold to a Chinese tire maker.

United States v. Lee, No. 1:09-CR-00290 (N.D. Ill.). On Dec. 8, David Yen Lee was sentenced to fifteen months in federal prison after pleading guilty on Sept. 1 to stealing trade secrets valued at $20 million from Valspar Corp. before beginning employment with competitor Nippon Paint in China.

Lee admitted using his access to Valspar's secure internal computer network to steal about 160 trade secret formulas for paints and coatings, as well as taking raw materials information, chemical formulas and calculations, sales and cost data, product research, and other internal memos and materials from Valspar's office.

United States v. Yu, No. 2:09-CR-20304 (E.D. Mich.). On Nov. 17, Xiang Dong ''Mike'' Yu pled guilty to two counts of theft of trade secrets for copying 4,000 Ford documents onto an external hard drive before traveling to China in December 2006.

Yu quit his job at Ford in 2007 and began working at Ford competitor Beijing Automotive Co. in 2008. The Beijing Automotive laptop Yu was carrying when he was arrested in 2009 was later found to contain 41 Ford design specification documents obtained during his time with Ford.

United States v. Jhaveri, No. 5:10-CR-00523 (N.D.N.Y). On Nov. 5, Shalin Jhaveri pled guilty to one count of trade secrets theft, admitting that he stole trade secrets from his former employer, Bristol-Myers Squibb Co.

As a technical operations associate in the company's management training program, Jhaveri downloaded files from a secure company file server and eventually copied the files to an external hard drive. He apparently planned to use the stolen trade secrets to compete with Bristol-Myers in India and various other markets around the world.

United States v. Meng, No. 1:10-CR-00056 (D. Del.). On Oct. 20, Hong Meng, a former chemist at DuPont, was sentenced to fourteen months in prison after pleading guilty to violation of the Economic Espionage Act.

Meng was charged under the section of the Act barring the distribution of trade secrets to benefit a foreign government. Meng emailed himself a document that contained DuPont's prized chemical process relating to a technology in which DuPont had invested millions of dollars. Meng also sent a package containing trade secret intermediate chemical compounds to a colleague at Northwestern University, with instructions to send them to Meng's office at Peking University. Meng had accepted a faculty position at the Chinese university while employed by, and without informing, DuPont. In connection with this position, Meng also made a presentation to regional Chinese government officials seeking funding to commercialize his research on this technology.

United States v. Huang, No. 1:10-CR-00102 (S.D. Ind.). On Aug. 31, Kexue Huang, a Chinese national in Indiana who worked as a research scientist for Dow AgroSciences from 2003 to 2008, was charged under the Economic Espionage Act for stealing trade secrets and relaying them to China.

While working for Dow AgroSciences, Huang allegedly also took a job as a visiting professor at a Chinese university. In addition to directing research at the university while employed by Dow AgroSciences, he later smuggled samples of a bacterial strain from Dow AgroSciences to China in his son's suitcase, according to authorities.

United States v. Mitchell, No. 3:09-CR-00425 (E.D. Va.). On March 18, Michael Mitchell was sentenced to eighteen months in prison for stealing trade secrets about a line of DuPont's products.

Two weeks after his performance-based termination from Dupont, the former engineer and salesman allegedly met with representatives of South-Korea based DuPont competitor Kolon. During a search of Mitchell's house, investigators found electronic documents containing proprietary information owned by DuPont. DuPont's 2009 civil suit against Kolon in which it alleges wrongful conversion of trade secrets is still pending, and a trial is currently scheduled to begin on May 23, 2011.

United States v. Chung, No. 8:08-CR-00024 (C.D. Cal.). In February 2010, Dongfan ''Greg'' Chung, an ex-Boeing aerospace engineer, was sentenced to fifteen years and eight months in prison for passing secret space shuttle technology to China following the first trial conviction under the 1996 Economic Espionage Act.

Chung allegedly had been an agent of the Chinese government for thirty years before being charged and convicted in 2009, when agents discovered more than 225,000 pages of documents on Boeing-developed aerospace and defense technologies in his home. Chung is appealing his conviction in the U.S. Court of Appeals for the Ninth Circuit; he claims that he only took home documents to use them for reference in a book he was planning to write.

CONCLUSION

2010 marked another significant year in trade secret litigation. The developments of the year highlight, among other lessons, the importance of initiating and maintaining strong trade secret protection and compliance programs that are responsive to the developing law and sensitive to antitrust and other pitfalls.

The cases also demonstrate the many tools available in the face of actual or threatened misappropriation, including the inevitable disclosure doctrine and the federal Computer Fraud and Abuse Act. And the substantial criminal prosecutions brought by the Department of Justice demonstrate that corporations are not always on their own when it comes to protecting the integrity of their trade secrets.

As many of the civil and criminal cases of 2010 continue to be litigated into 2011, the new year promises further important developments for those with trade secrets to protect.

   ISSN 0148-7965