

FACEBOOK POTENTIAL EMPLOYEE NONDISCLOSURE AGREEMENT

Thank you for agreeing to interview for a position with Facebook. In the course of your discussions with us, you will be exposed to valuable proprietary information relating to Facebook's operations and businesses that Facebook needs to keep confidential. Therefore, as a condition of interviewing with us, we require that you review and sign the attached Nondisclosure Agreement.

Please take a moment to review the attached agreement, and if it is acceptable to you, please sign it in the space provided and give the signed copy to your recruitment coordinator. If the agreement is not acceptable, please let us know and we will cancel your scheduled interview.

POTENTIAL EMPLOYEE NONDISCLOSURE AGREEMENT

This Potential Employee Nondisclosure Agreement (this “**Agreement**”) is entered into by and between the undersigned person (“**Applicant**”) and Facebook, Inc., a Delaware corporation (together with its corporate affiliates, “**Facebook**”) as of the date set forth under Applicant’s signature below. In consideration of Facebook’s agreeing to consider Applicant for employment and/or disclosing to Applicant information regarding Facebook’s operations and business, Applicant and Facebook hereby agree as follows:

1. Confidentiality Obligations. Subject to the limitations in Section 2 below, Applicant will keep in strict confidence all information (whether of a technical, business or other nature) disclosed to Applicant by Facebook or any of its employees, agents or contractors (collectively, “**Facebook Parties**”). Applicant will not disclose any such information to any third party, or use any such information for any purpose other than evaluation of potential employment with Facebook. The restrictions in this Section 1 will apply to information disclosed verbally, in writing or otherwise. Disclosure of any information by any Facebook Parties does not grant Applicant any license under any patent, copyright, trade secret or other intellectual property right of Facebook.

2. Limitation on Confidentiality Obligations. The restrictions in Section 1 above do not apply to any information that: (a) was in Applicant’s possession prior to receipt from Facebook; (b) is received by Applicant from a source other than a Facebook Party without breach of any obligation of confidentiality; (c) is or becomes available to the general public other than through a breach of this Agreement; or (d) is independently developed by Applicant without reference to information disclosed by any Facebook Party.

3. Copies; Return of Materials. Applicant will not copy all or any part of any information covered by the restrictions in Section 1 above, and will return all materials containing or summarizing any such information to Facebook upon conclusion of Applicant’s discussions with Facebook, or in any event upon Facebook’s request.

4. Feedback. Applicant is under no obligation to give Facebook any ideas, suggestions, comments or other feedback related to Facebook’s business or operations. If Applicant provides any such feedback to any Facebook Party, Facebook will be free to use and implement that feedback, without restriction or obligation of any kind.

5. Termination. Either party may terminate this Agreement by giving the other party five (5) days’ prior written notice. Notwithstanding any termination of this Agreement, Applicant’s obligations under this Agreement will survive and continue in effect for five (5) years following such termination.

6. Miscellaneous. This Agreement will be governed by the laws of California, without regard to its choice of law rules. Exclusive jurisdiction over and venue of any suit related to this Agreement will be in the state and federal courts of Santa Clara County, CA and/or San Francisco County, CA. No failure to enforce any provision of this Agreement will constitute a waiver of that provision. The prevailing party in any suit related to this Agreement will be entitled to recover reasonable attorneys’ fees incurred in connection with such suit. Applicant agrees that any breach or threatened breach of this Agreement will cause irreparable harm to Facebook for which there will be no adequate remedy at law and that in such event, Facebook will be entitled, without limitation, to injunctive relief (including specific performance) without the necessity of proving harm. Applicant may not assign this Agreement without Facebook’s written consent; subject to that limitation, this Agreement will inure to the benefit of and be binding upon the parties and their respective successors and assigns. This Agreement contains the entire agreement between the parties with respect to the subject matter hereof, supersedes any prior or contemporaneous agreements with respect thereto, and may not be amended except by a writing signed by Facebook and Applicant.

ACKNOWLEDGED AND AGREED BY APPLICANT:

Signed: _____ Applicant’s Address for Notices:
Printed Name: _____
Social Security Number: _____
Date: _____

January 27, 2012

Sheryl Sandberg
Facebook, Inc.
1601 Willow Road
Menlo Park, CA 94025

Re: **EMPLOYMENT AGREEMENT**

Dear Sheryl:

This letter agreement amends and restates that certain offer letter entered into between you and Facebook, Inc. (the "Company") on February 20, 2008. You began your employment with the Company on March 24, 2008 (your "Start Date"). Your continued employment by the Company shall be governed by the following terms and conditions (this "Agreement").

1. **Duties and Scope of Employment.**

(a) **Position.** For the term of your employment (your "Employment"), the Company agrees to employ you in the position of Chief Operating Officer ("COO"). You will report to Mark Zuckerberg and you will be working out of the Company's office in Menlo Park. You will be responsible for managing sales, business development, marketing, communications and policy, human resources, and user operations. You understand and agree that the Company is a rapidly growing and changing organization and the precise nature of the work you do for the Company as COO may be adjusted from time to time but, in any event, your duties and responsibilities always will be at least commensurate with those duties and responsibilities normally associated with and appropriate for someone in the position of COO.

(b) **Obligations to the Company.** While you render services to the Company, (1) you may deliver lectures, fulfill speaking engagements and teach at educational institutions provided that such activities do not materially interfere with the performance of your duties to the Company, and (2) you agree that you will not engage in any other employment, consulting, or other business activity except as authorized by the Conflicts Committee or other written consent of the Company. The Company has reviewed the activities that you are conducting at the time of this Agreement and agrees that they, and any substitute activities that are similar in nature and scope, will not significantly interfere with your performance of the responsibilities of your Employment under this Agreement. In addition, while you render services to the Company, you will not assist any person or entity in competing with the Company, in preparing to compete with the Company or in hiring any employees or consultants of the Company. As an employee, you will also be expected to comply with the Company's policies and procedures.

(c) **No Conflicting Obligations.** You represent and warrant to the Company that you are under no obligations or commitments, whether contractual or otherwise, that are materially inconsistent with your obligations under this Agreement. In connection with your Employment, you shall not use or disclose any trade secrets or other proprietary information or intellectual property in which you or any other person has any right, title or interest and your Employment will not infringe or violate the rights of any other person. You represent and warrant to the Company that you have returned all property and confidential information belonging to any prior employer, other than confidential information that has become generally known to the public or within the relevant trade industry.

2. **Cash and Incentive Compensation.**

(a) **Salary.** The Company shall pay you as compensation for your services a base salary at a gross annual rate of \$300,000. Such salary shall be payable in accordance with the Company's standard payroll procedures.

(b) **Bonus.** You are eligible to receive a semi-annual discretionary bonus of up to a target of 45 % of your Base Eligible Earnings as defined in the Company's bonus plan. Based on your performance, you can over-achieve your bonus target pursuant to the Company's bonus plan.

(c) **Restricted Stock Units.** The Company has granted you certain restricted stock units ("RSUs") under its 2005 Stock Plan (the "Plan"), pursuant to that Notice of RSU Award (Grant Number RS000300) dated August 1, 2008 (your "RSU Award").

3. **Vacation/PTO, Employee Benefits and other Incentive Compensation.** During your Employment you shall be eligible to accrue paid vacation / paid time off in accordance with the Company's vacation / paid time off policy, as it may be amended from time to time, and at the rate equal to other similarly situated executives. During your Employment, you shall be eligible to participate in the employee benefit and incentive compensation plans maintained by the Company and generally available to similarly situated employees of the Company, subject in each case to the generally applicable terms and conditions of the plan in question and to the determinations of any person or committee administering such plan.

4. **Business Expenses.** The Company will reimburse you for your necessary and reasonable business expenses incurred in connection with your duties hereunder upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company's generally applicable policies.

5. **Termination.**

(a) **Employment at Will.** Your Employment shall be "at will," meaning that either you or the Company shall be entitled to terminate your Employment at any time and for any reason, with or without Cause (as defined below). Any contrary representations that may have been made to you shall be superseded by this Agreement. This Agreement shall constitute the full and complete agreement between you and the Company on the "at-will" nature of your Employment, which may only be changed in an express written agreement signed by you and a duly authorized officer of the Company.

(b) **Rights Upon Termination.** Except as expressly provided in Sections 6 and 9(b), (c) and (d), upon the termination of your Employment, you shall only be entitled to the compensation and benefits earned and the reimbursements described in this Agreement for the period preceding the effective date of the termination.

6. **Termination Benefits.**

(a) **General Release.** Any other provision of this Agreement notwithstanding, subsections (b) and (c) below shall not apply unless and until (i) you have executed a full and complete general release of all claims substantially in the form attached hereto as Exhibit A within twenty-one (21) days of your termination (and you do not revoke such general release in accordance with its terms) and (ii) you have returned all Company property (other than property of inconsequential value, but the parties agree that among other things, any property capable of containing the Company's confidential trade secret or proprietary information is material and must be returned) within twenty-one (21) days of your termination.

(b) **Vesting Acceleration.** If the Company terminates your Employment for any reason other than Cause, death or Disability, then you shall be eligible to vest in the number of RSUs you would have vested in had your Continuous Service Status (as defined in the Plan) continued for the first half of the months remaining between the date of your termination and the fifth (5th) anniversary of your Start Date. If the Company terminates your Employment as a result of your death or Disability, you will be eligible to vest in the number of additional shares you would have vested in had your Continuous Service Status continued for an additional twelve (12) months from your death or Disability. Any RSUs that are eligible to vest pursuant to this Section 6(b) shall vest upon the later of the date the release of claims described in Section 6(a) becomes effective and the Initial Vesting Event (as defined in your RSU Award). Any RSUs that vest pursuant to this Section 6(b) shall be settled within (30) days following the date of vesting but in no event later than March 15 of the calendar year following the calendar year in which the later of the Initial Vesting Event or your termination of Employment occurs. Any vesting acceleration related to termination of your Employment in connection with a Change of Control will be governed by Section 6(c) of this Agreement and will not result in the vesting acceleration provided for in this subsection.

(c) **Change of Control Vesting Acceleration.** If you are Involuntarily Terminated by the Company, other than as a result of your death or Disability and within one (1) month prior to or within six (6) months following a Change of Control (as defined in the Plan), then you shall be eligible to receive accelerated vesting of the RSUs so that you will become vested in 100% of the RSUs. Any RSUs that vest pursuant to this Section 6(c) shall vest upon the later of the date the release of claims specified in subsection (a) becomes effective and the Initial Vesting Event. Any RSUs that are eligible to vest pursuant to this Section 6(c) shall be settled within thirty (30) days following the date of vesting but in no event later than March 15 of the calendar year following the calendar year in which the later of the Initial Vesting Event and your Involuntary Termination occurs. Notwithstanding any provision of this Agreement to the contrary, if you sign and do not revoke the release mentioned herein and thereafter file a lawsuit claiming you are entitled to additional RSUs or additional shares of the Company's common stock, the Company, at its option, may unilaterally cancel any shares of the Company's common stock that you obtained in connection with the vesting acceleration provided for in this Section 6(c).

Notwithstanding the foregoing, if in connection with a Change of Control, the RSUs are not assumed or substituted for an equivalent award (within the meaning of Section 15(c) of the Plan), then you shall be eligible to receive accelerated vesting of the RSUs effective immediately prior to the Change of Control in accordance with the preceding paragraph. Any such RSUs shall be settled within thirty (30) days following the date of the Change of Control but in no event later than March 15 of the calendar year following the calendar year in which the Change of Control occurs.

(d) **Definition of “Cause”.** For all purposes under this Agreement, “Cause” shall mean a determination by the CEO that any of the following have occurred:

- (i) you committed an act of material dishonesty in connection with your responsibilities as an employee;
- (ii) you failed to comply with the material terms of any written Company policy or rule as they may be in effect from time to time during your employment and such failure is materially and demonstrably injurious to the Company;
- (iii) you breached any material term of this Agreement, of the Confidential Information and Invention Assignment Agreement between you and the Company, or any of other written agreement between you and the Company and such breach is materially and demonstrably injurious to the Company;
- (iv) you were convicted of, or entered a plea of guilty or *nolo contendere* to, a felony or crime of moral turpitude; or
- (v) you engaged in gross misconduct or gross neglect of your duties and such misconduct or neglect is materially and demonstrably injurious to the Company.

The cessation of your Employment shall not be deemed to be for Cause unless and until you are sent a written notice of the ground for the termination for “Cause” by the CEO finding that, in the good faith opinion of the CEO, you are guilty of the conduct described above, and specifying the particulars thereof in detail. If the CEO does not deliver to you a notice of termination within ninety (90) days after the later of the date the CEO has knowledge that an event constituting Cause has occurred and, where applicable, the date the CEO has knowledge of the materiality of the injury to the Company, the event will no longer constitute Cause. You will have fifteen (15) days to cure from the date the notice is received by you.

(e) **Definition of “Involuntary Termination”.** For purposes of this Agreement, “Involuntary Termination” shall mean the termination of your Employment with the Company by reason of:

- (i) Your involuntary dismissal or discharge by the Company, or by any acquiring or successor entity (or parent or any subsidiary thereof employing you) for reasons other than Cause, or

(ii) Your voluntary resignation after the occurrence of one of the following conditions without your prior written consent: (A) a material diminution in your base salary; (B) a material change in geographic location at which you must perform services (a change in location of your office will be considered material only if it increases your current one-way commute by more than fifty (50) miles); (C) any material failure of the successors to the Company after a Change of Control to perform or cause the Company to perform the obligations of the Company under this Agreement; (D) any action or inaction of the Company that constitutes a material breach of the terms of this Agreement; or (E) any other material adverse change in your duties, authorities or responsibilities as specified in Section 1(a), above, in each case, only if you provide notice to the Company of the existence of the applicable condition described in Section 6(e)(ii) within 90 days of the initial existence of the condition, the Company fails to remedy the condition within 30 days thereafter, and within the 30 day period immediately following such failure to remedy, you elect to terminate your Employment. The parties intend that this trigger qualify as an involuntary separation from service trigger under Treasury Regulation Section 1.409A-1(n)(2).

(f) **Definition of “Disability”.** For all purposes under this Agreement, “Disability” shall mean your inability to perform the essential functions of your position with or without reasonable accommodation for a period of 120 consecutive days because of your physical or mental impairment.

7. **Confidentiality Agreement.** You hereby reaffirm your obligations under the Confidential Information and Invention Assignment Agreement between you and the Company, dated February 20, 2008, a copy of which is attached hereto as Exhibit B (the “Confidentiality Agreement”).

8. **Successors.**

(a) **Company’s Successors.** This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company’s business and/or assets. Any such successor will within a reasonable period of becoming the successor assume in writing and be bound by all of the Company’s obligations under this Agreement. For all purposes under this Agreement, the term “Company” shall include any successor to the Company’s business or assets that becomes bound by this Agreement.

(b) **Your Successors.** This Agreement and all of your rights hereunder shall inure to the benefit of, and be enforceable by, your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

9. **Miscellaneous Provisions.**

(a) **Indemnification.** The Company agrees that if you are made a party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action brought against you by the Company) by reason of the fact that you are or were an employee of the Company or are or were serving at the request of the Company, as a director, officer, member, employee or agent of another corporation

or a partnership, joint venture, trust or other enterprise, you shall be indemnified by the Company to the fullest extent permitted by applicable law and the Company's certificate of incorporation and by-laws, as the same exists or may hereafter be amended, against all reasonably and actually incurred legal expenses and related costs incurred or suffered by you in connection therewith provided that you cooperate with the Company in connection with such actual or threatened action, suit, proceeding or investigation, and such indemnification shall continue even if you have ceased to be an officer or are no longer employed by the Company and shall inure to the benefit of your heirs, executors and administrators. The Company shall provide you with directors' and officers' liability insurance at least as favorable as the insurance coverage provided to other senior executive officers and directors of the Company respecting liabilities, and reasonable legal fees and costs, charges and expenses incurred or sustained by you (or your legal representative or other successors) in connection with any such proceeding. Unless otherwise provided in an indemnification agreement with the Company, no indemnity shall be paid by the Company (i) if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law; (ii) if it is finally determined that, in connection with the above action, suit or proceeding, that your conduct was finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful; or (iii) if a final decision by a Court having jurisdiction in the matter shall determine that such indemnification is not lawful. Unless otherwise provided in an indemnification agreement with the Company, you agree to reimburse the Company for all reasonable expenses paid by the Company in defending any civil or criminal action suit or proceeding against you in the event and only to the extent that it shall be ultimately determined that you are not entitled to be indemnified by the Company for such expenses under the provisions of applicable law, the Company's bylaws, this Agreement or otherwise.

(b) **Legal Fees.** Following a Change of Control only, the Company shall pay the legal fees incurred by you to enforce the terms of this Agreement or to dispute the legality of your termination.

(c) **Parachute Payments.** If any payment or benefit you would receive pursuant to a Change of Control from the Company or otherwise ("**Payment**") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "**Code**"), and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "**Excise Tax**"), then such Payment shall be reduced to the Reduced Amount. The "Reduced Amount" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in your receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "parachute payments" is necessary so that the Payment equals the Reduced Amount and none of the parachute payments are non-qualified deferred compensation subject to Section 409A of the Code, then the reduction shall occur in the manner you elect in writing prior to the date of payment. If any parachute payment constitutes non-qualified deferred compensation subject to Section 409A or you fail to elect an order, then the reduction shall occur in the following order: first a pro rata reduction of (i) cash payments subject to Section 409A of the Code as non-qualified deferred compensation and (ii) cash payments not subject to Section 409A

of the Code, and second a pro rata cancellation of accelerated vesting of (i) equity-based compensation subject to Section 409A of the Code as non-qualified deferred compensation and (ii) equity-based compensation not subject to Section 409A of the Code with, in each case, the cancellation of accelerated vesting being applied first to vesting that is not subject to Treasury Regulation section 1.280G-1 Q/A 24(c) and subsequently to vesting that is subject to such section, . Reduction in either cash payments or equity compensation benefits shall be made pro rata between and among benefits which are subject to Section 409A of the Code and benefits which are exempt from Section 409A of the Code. The accounting firm engaged by the Company for general audit purposes as of the day prior to the effective date of the Change of Control shall perform the foregoing calculations. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder. Any good faith determination of the accounting firm made hereunder shall be final, binding and conclusive upon the Company and you.

(d) **Compliance with Section 409A.** You and the Company intend to structure and operate the payments and benefits described in this Agreement, and your other compensation, to be exempt from or to comply with the requirements of Section 409A of the Code to the extent applicable. The Company and you intend that your RSUs and RSU Award have been structured to be exempt from or to comply with the requirements of Section 409A of the Code to the extent applicable. The Company agrees not to take any action (or omit to take any action that is required to be taken) in respect of the RSUs (or any other similar award) that is materially inconsistent with, contrary to or in material breach of the terms of the RSUs (or any similar award), other than as required by applicable law, that causes you to incur tax in respect of a violation of Section 409A of the Code with respect to such RSUs unless you request the action (or omission). For the avoidance of doubt, the Company agrees that any failure to follow the payment terms under the RSUs (or any other similar award granted to you) will be considered a material breach. If you or the Company believes, at any time, that any feature of your compensation or benefits (including your RSUs) does not comply with (or is not exempt from) Section 409A of the Code or that any action taken or contemplated to be taken (including any failure to take action) in regards to your compensation or benefits caused or might cause a violation of Section 409A of the Code, you or the Company will promptly advise the other and will reasonably negotiate in good faith to amend the terms of the payments or benefits or alter the action or contemplated action in order that your payments or benefit arrangements comply with (or are exempt from) the requirements of Section 409A of the Code or in order to mitigate any additional taxes that may apply under Section 409A of the Code if compliance or exemption is not practicable. For the avoidance of doubt, the Company is not responsible for the payment of any taxes, including income and excise taxes, that you may incur under Section 409A of the Code, nor will the Company indemnify you for any such liability, unless the Company breaches a material term of this Agreement or of any compensatory program in which you participate and that breach is the cause of the 409A taxation/penalties. Notwithstanding the foregoing, the Company will indemnify you to the greatest extent that it has indemnified or agrees to indemnify any current or former employee who has incurred or incurs the additional taxes under Section 409A in connection with an RSU or similar type of award due to the same or similar circumstances.

(e) **Notice.** Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally

delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In your case, mailed notices shall be addressed to you at the home address that you most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(f) **Modifications and Waivers.** No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by you and by an authorized officer of the Company (other than you). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(g) **Whole Agreement.** No other agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. This Agreement (including, for the avoidance of doubt, its Exhibits) and the Confidentiality Agreement contain the entire understanding of the parties with respect to the subject matter hereof.

(h) **Withholding Taxes.** All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(i) **Choice of Law and Severability.** This Agreement shall be interpreted in accordance with the laws of the State of California without giving effect to provisions governing the choice of law. If any provision of this Agreement becomes or is deemed invalid, illegal or unenforceable in any applicable jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the minimum extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this Agreement shall continue in full force and effect. If any provision of this Agreement is rendered illegal by any present or future statute, law, ordinance or regulation (collectively, the "Law") then that provision shall be curtailed or limited only to the minimum extent necessary to bring the provision into compliance with the Law. All the other terms and provisions of this Agreement shall continue in full force and effect without impairment or limitation.

(j) **No Assignment.** This Agreement and all of your rights and obligations hereunder are personal to you and may not be transferred or assigned by you at any time. The Company may assign its rights under this Agreement to any entity that assumes the Company's obligations hereunder in connection with any sale or transfer of all or a substantial portion of the Company's assets to such entity.

(k) **Authority.** The Company represents and warrants that (i) the execution of this Agreement has been duly authorized by the Company, including action of the Board, (ii) the execution, delivery and performance of this Agreement by the Company does not and will not violate any law, regulation, order, judgment or decree or any agreement, plan or corporate

governance document of the Company and (iii) upon the execution and delivery of this Agreement, this Agreement shall be the valid and binding obligation of the Company, enforceable in accordance with its terms, except to the extent enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and by the effect of general principles of equity (regardless of whether enforceability is considered in a proceeding in equity or at law).

(l) **Counterparts.** This Agreement may be executed in two or more counterparts; each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

[Signature Page Follows]

EXHIBIT A

FORM OF GENERAL RELEASE

General Release of Claims

This General Release of Claims (this "Release"), dated as of _____, 20__, confirms the following understandings and agreements between Facebook, Inc., a Delaware corporation (the "Company") and Sheryl Sandberg (hereinafter referred to as "you" or "your").

In consideration of the promises set forth in that certain employment agreement between you and the Company dated February 20, 2008[, as amended] (the "Employment Agreement") as well as any promises set forth in this Release, you agree as follows:

(1) Opportunity for Review and Revocation. [to be included if employee is age 40 or older]. You have twenty-one (21) days to review and consider this Release. Notwithstanding anything contained herein to the contrary, this Release will not become effective or enforceable for a period of seven (7) calendar days following the date of its execution, during which time you may revoke your acceptance of this Release by notifying the General Counsel of the Company, in writing. To be effective, such revocation must be received by the Company no later than 5:00 p.m. on the seventh (7th) calendar day following its execution. Provided that the Release is executed and you do not revoke it, the eighth (8th) day following the date on which this Release is executed shall be its effective date (the "Effective Date"). In the event of your revocation of this Release pursuant to this Section 1, this Release will be null and void and of no effect, and the Company will have no obligations hereunder.

(2) Employee Release and Waiver of Claims.

(a) Notwithstanding the provisions of section 1542 of the Civil Code of California, and in accordance with Section 2(c) and Section 7(a) of the Employment Agreement, you and your representatives, agents, estate, heirs, successors and assigns, absolutely and unconditionally hereby release, remise, discharge, indemnify and hold harmless the Company Releasees ("Company Releasees") defined to include the Company and/or any of its parents, subsidiaries or affiliates, predecessors, successors or assigns, and its and their respective current and/or former partners, directors, shareholders/stockholders, officers, employees, attorneys and/or agents, all both individually and in their official capacities), from any and all legally waivable actions or causes of action, suits, claims, complaints, contracts, liabilities, agreements, promises, contracts, torts, debts, damages, controversies, judgments, rights and demands, whether existing or contingent, known or unknown, suspected or unsuspected, which arise out of your employment with, change in employment status with, and/or separation of employment from, the Company. This release is intended by you to be all encompassing and to act as a full and total release of any legally waivable claims, whether specifically enumerated herein or not, that you may have or have had against the Company Releasees arising from conduct occurring up to and through the date of this Release, including, but not limited to, any legally waivable claims arising from any federal, state or local law, regulation or constitution dealing with either employment, employment benefits or employment discrimination such as those laws or regulations concerning discrimination on the basis of race, color, creed, religion, age, sex, sex harassment, sexual orientation, national origin, ancestry, genetic carrier status, handicap or disability, veteran status, any military service or application for military service, or any other category protected under federal or state law; including any claims or causes of action you have or may have relating to discrimination under federal, state or locate statutes (whether before a

court or an administrative agency) including, but not limited to, the Age Discrimination in Employment Act of 1967, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act of 1974 (excluding all claims for accrued, vested benefits under any employee benefit or pension plan of the Company subject to the terms and conditions of such plan and applicable law), the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the National Labor Relations Act, the California Fair Employment and Housing Act, the California Constitution, the California Labor Code, and the California Civil Code, all as amended from time to time; any contract, whether oral or written, express or implied; any tort; any claim for equity or other benefits; or any other statutory and/or common law claim.

(b) You acknowledge that your execution of this Agreement shall be effective as a bar to each and every claim specified in Sections 4(a) and 5 of this Agreement. Accordingly, you hereby expressly waive any and all rights and benefits conferred upon you by the provisions of Section 1542 of the California Civil Code and expressly consent that this Agreement shall be given full force and effect with respect to each and all of its express terms and provisions, including those related to unknown and/or unsuspected claims, if any, as well as those relating to any other claims specified in Sections 4(a) and 5 of this Agreement. Section 1542 provides as follows:

“A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.”

You further represent that you understand and acknowledge the significance and consequence of such release as well as the specific waiver of Section 1542.

(c) This Release does not include any claim which, as a matter of law, cannot be released by private agreement. Nor does this Release prohibit or bar you from providing truthful testimony in any legal proceeding or from cooperating with, or making truthful disclosures to, any governmental agency. Notwithstanding the foregoing, with respect to any claim that cannot be released by private agreement, you agree to release and waive your right (if any) to any monetary damages or other recovery as to such claims, including any claims brought on your behalf, either individually or as part of a collective action, by any governmental agency or other third party.

(d) Notwithstanding any provision of this Release to the contrary, by executing this Release, you are not releasing any claims relating to (i) your rights or any other benefits expressly provided under the Employment Agreement including, but not limited to, those provided for in Sections 11(b), 11(c) and 11(d), (ii) any rights relating to the restricted stock units (the “RSUs”) granted to you pursuant to the Employment Agreement or otherwise or any rights relating to any other outstanding equity awards or (iii) any indemnification or similar rights you may have as a current or former officer or director of the Company, including, without limitation, any and all rights thereto referenced in the Employment Agreement, the Company’s bylaws, plan of reorganization or liquidation, other governance documents, or any rights with respect to the Company’s directors’ and officers’ insurance policies.

(3) Company Release and Waiver of Claims. The Company covenants that, except for any claim that could be asserted by the Company or its shareholders against you (1) for fraud, breach of fiduciary duty, embezzlement, breach of trust, theft, violation of state or federal securities laws, conversion, misuse or unauthorized disclosure of the Company's confidential, proprietary or trade secret information; (2) brought to enforce the terms and provisions of this Release or the Employment Agreement (including the Exhibits thereto); or (3) based upon a claim that conduct in which you engaged constituted grounds for termination of your employment for "Cause", as defined in the Employment Agreement, it hereby waives any non-excluded claims and releases you from such non-excluded claims.

(4) No Suit. You represent that you have not filed any complaints or charges against the Company with any federal, state, or local administrative agency arising out of your employment with the Company on or prior to the Effective Date.

(5) Prior Agreement. You understand and agree that you have continuing obligations under the Confidential Information and Inventions Assignment Agreement between you and the Company dated as of February 20, 2008 (hereinafter, the "CIIAA"). A copy of the CIIAA is attached hereto as Exhibit A and incorporated herein by reference. You reaffirm your commitment under the CIIAA in this Release, and agree that, as part of this Release, you will comply fully with the terms of the CIIAA. You also confirm that you have not violated the CIIAA.

(6) Restricted Stock Units. The Company previously granted you RSUs under the Company's 2005 Stock Plan (the "Stock Plan"). Pursuant to the Employment Agreement, as of the Effective Date you will be vested in [NUMBER] of the RSUs. All of your rights and obligations with respect to the RSUs are governed by the terms and conditions of the Restricted Stock Unit Agreement.

(7) Confidentiality. You agree that you will not disclose to others the fact or terms of this Release, except that you may disclose such information to your attorney or accountant in order for such individuals to render services to you.

(8) Successors and Assigns. The provisions hereof shall inure to the benefit of your heirs, executors, administrators, legal personal representatives and assigns and shall be binding upon your heirs, executors, administrators, legal personal representatives and assigns.

(9) Severability. If any provision of this Release, or part thereof, is held invalid, void or voidable as against public policy or otherwise, the invalidity shall not affect other provisions, or parts thereof, which may be given effect without the invalid provision or part. To this extent, the provisions and parts thereof of this Release are declared to be severable. Any waiver of any provision of this Release shall not constitute a waiver of any other provision of this Release unless expressly so indicated otherwise. The language of all parts of this Release shall in all cases be construed according to its fair meaning and not strictly for or against either of the parties.

(10) Governing Law. Any claims arising out of this Release (or any other claims arising out of the relationship between the parties) shall be governed by and construed in

accordance with the laws of the state of California and shall in all respects be interpreted, enforced and governed under the internal and domestic laws of California, without giving effect to the principles of conflicts of laws of such state. Any claims or legal actions by one party against the other shall be commenced and maintained in a court of competent jurisdiction in Santa Clara County, California, and you hereby submit to the jurisdiction and venue of any such court.

(11) Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which taken together will constitute one and the same instrument.

(12) This Agreement shall not be construed as an admission by you or the Company of any wrongful act, unlawful discrimination, or breach of contract.

IN WITNESS WHEREOF, the undersigned parties have executed this Release as of the date first written above.

By: /s/ Mark Zuckerberg

Name: Mark Zuckerberg
Facebook, Inc.

By: /s/ Sheryl Sandberg

Name: Sheryl Sandberg

I REPRESENT THAT I HAVE READ THE FOREGOING RELEASE, THAT I FULLY UNDERSTAND THE TERMS AND CONDITIONS OF SUCH RELEASE AND THAT I AM KNOWINGLY AND VOLUNTARILY EXECUTING THE SAME WITHOUT DURESS OR COERCION FROM ANY SOURCE. IN ENTERING INTO THIS RELEASE, I DO NOT RELY ON ANY REPRESENTATION, PROMISE OR INDUCEMENT MADE BY THE COMPANY OR ITS REPRESENTATIVES WITH THE EXCEPTION OF THE CONSIDERATION DESCRIBED IN THIS DOCUMENT.

By: /s/ Sheryl Sandberg

Name: Sheryl Sandberg

EXHIBIT B

**CONFIDENTIAL INFORMATION AND
INVENTION ASSIGNMENT AGREEMENT**

FACEBOOK, INC.
**CONFIDENTIAL INFORMATION AND
INVENTION ASSIGNMENT AGREEMENT**
FOR EMPLOYEES

As a condition of my becoming employed (or my employment being continued) by or retained as a consultant (or my consulting relationship being continued) by Facebook, Inc., a Delaware corporation ("Facebook") or any of its current or future subsidiaries, affiliates, successors or assigns (collectively, the "Company"), and in consideration of my employment or consulting relationship with the Company and my receipt of the compensation now and hereafter paid to me by the Company, I agree to the following:

1. **Employment or Consulting Relationship.** I understand and acknowledge that this Agreement does not alter, amend or expand upon any rights I may have to continue in the employ of, or in a consulting relationship with, or the duration of my employment or consulting relationship with, the Company under any existing agreements between the Company and me or under applicable law. Any employment or consulting relationship between the Company and me, whether commenced prior to or upon or after the date of this Agreement, shall be referred to herein as the "Relationship."

2. **At-Will Relationship.** I understand and acknowledge that my Relationship with the Company is and shall continue to be at-will, as defined under applicable law, meaning that either I or the Company may terminate the Relationship at any time for any reason or no reason, without further obligation or liability, except as set forth in the employment agreement between me and the Company, dated February 20, 2008.

3. **Confidential Information.**

(a) **Company Information.** I agree at all times during the term of my Relationship with the Company and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company to the extent necessary to perform my obligations to the Company under the Relationship, or to disclose to any person, firm, corporation or other entity without written authorization of the Board of Directors of the Company, any Confidential Information of the Company which I obtain or create. I further agree not to make copies of such Confidential Information except as authorized by the Company. I understand that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, suppliers, customer lists and customers (including, but not limited to, customers of the Company on whom I called or with whom I became acquainted during the Relationship), prices and costs, markets, software, developments, inventions, laboratory notebooks, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, licenses, finances, budgets or other business information disclosed to me by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or created by me during the period of the Relationship, whether or not during working hours. I understand that Confidential Information includes, but is not limited to, information pertaining to any aspect of

the Company's business, which is either information not known by actual or potential competitors of the Company or other third parties not under confidentiality obligations to the Company, or is otherwise proprietary information of the Company or its customers or suppliers, whether of a technical nature or otherwise. I further understand that Confidential Information does not include any of the foregoing items which has become publicly and widely known and made generally available through no wrongful act of mine or of others who were under confidentiality obligations as to the item or items involved.

(b) **Prior Obligations.** I represent that my performance of all terms of this Agreement as an employee or consultant of the Company has not breached and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by me prior or subsequent to the commencement of my Relationship with the Company, and I will not disclose to the Company or use any inventions, confidential or non-public proprietary information or material belonging to any current or former client or employer or any other party. I will not induce the Company to use any inventions, confidential or non-public proprietary information, or material belonging to any current or former client or employer or any other party. I acknowledge and agree that I have listed on Exhibit A all agreements (e.g., non-competition agreements, non-solicitation of customers agreements, non-solicitation of employees agreements, confidentiality agreements, inventions agreements, etc.) with a current or former employer, or any other person or entity, that may restrict my ability to accept employment with the Company or my ability as an employee or consultant to recruit or engage customers or service providers on behalf of the Company, or otherwise relate to or restrict my ability to perform my duties as an employee of the Company or any obligation I may have to the Company.

(c) **Third Party Information.** I recognize that the Company has received and in the future will receive confidential or proprietary information from third parties subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out my work for the Company consistent with the Company's agreement with such third party.

4. **Inventions.**

(a) **Inventions Retained and Licensed.** I have attached hereto, as Exhibit A, a list describing with particularity all inventions, original works of authorship, developments, improvements, and trade secrets which were made by me prior to the commencement of the Relationship (collectively referred to as "Prior Inventions"), which belong solely to me or belong to me jointly with another, which relate in any way to any of the Company's proposed businesses, products or research and development, and which are not assigned to the Company hereunder; or, if no such list is attached, I represent that there are no such Prior Inventions. If, in the course of my Relationship with the Company, I incorporate into a Company product, process or machine a Prior Invention owned by me or in which I have an interest, the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license (with the right to sublicense) to make, have made, copy, modify, make derivative works of, use, sell and otherwise distribute such Prior Invention as part of or in connection with such product, process or machine.

(b) **Assignment of Inventions.** I agree that I will promptly make full written disclosure to Facebook, will hold in trust for the sole right and benefit of Facebook, and hereby assign to Facebook, or its designee, all my right, title and interest throughout the world in and to any and all inventions, original works of authorship, developments, concepts, know-how, improvements or trade secrets, whether or not patentable or registrable under copyright or similar laws, which I may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of my Relationship with the Company (collectively referred to as "**Inventions**"), except as provided in Section 4(e) below. I further acknowledge that all Inventions which are made by me (solely or jointly with others) within the scope of and during the period of my Relationship with the Company are "**works made for hire**" (to the greatest extent permitted by applicable law) and are compensated by my salary (if I am an employee) or by such amounts paid to me under any applicable consulting agreement or consulting arrangements (if I am a consultant), unless regulated otherwise by the mandatory law of the state of California.

(c) **Maintenance of Records.** I agree to keep and maintain adequate and current written records of all Inventions made by me (solely or jointly with others) during the term of my Relationship with the Company. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, laboratory notebooks, and any other format. The records will be available to and remain the sole property of the Company at all times. I agree not to remove such records from the Company's place of business except as expressly permitted by Company policy which may, from time to time, be revised at the sole election of the Company for the purpose of furthering the Company's business. I agree to return all such records (including all copies thereof) to Facebook at the time of termination of my Relationship with the Company as provided for in Section 5.

(d) **Patent and Copyright Rights.** I agree to assist Facebook, or its designee, at its expense, in every proper way to secure Facebook's, or its designee's, rights in the Inventions and any copyrights, patents, trademarks, mask work rights, moral rights, or other intellectual property rights relating thereto in any and all countries, including the disclosure to Facebook or its designee of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments which Facebook or its designee shall deem necessary in order to apply for, obtain, maintain and transfer such rights, or if not transferable, waive such rights, and in order to assign and convey to Facebook or its designee, and any successors, assigns and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. I further agree that my obligation to execute or cause to be executed, when it is in my power to do so, any such instrument or papers shall continue after the termination of this Agreement until the expiration of the last such intellectual property right to expire in any country of the world. If Facebook or its designee is unable because of my mental or physical incapacity or unavailability or for any other reason to secure my signature to apply for or to pursue any application for any United States or foreign patents, copyright, mask works or other registrations covering Inventions or original works of authorship assigned to Facebook or its designee as above, then I hereby irrevocably designate and appoint Facebook and its duly authorized officers and agents as my agent and attorney in fact, to act for and in my behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance or transfer of

letters patent, copyright or other registrations thereon with the same legal force and effect as if originally executed by me. I hereby waive and irrevocably quitclaim to Facebook or its designee any and all claims, of any nature whatsoever, which I now or hereafter have for infringement of any and all proprietary rights assigned to Facebook or such designee.

(e) **Exception to Assignments.** I understand that the provisions of this Agreement requiring assignment of Inventions to Facebook do not apply to any invention which qualifies fully under the provisions of California Labor Code Section 2870 (attached hereto as Exhibit B). I will advise the Company promptly in writing of any inventions that I believe meet such provisions and are not otherwise disclosed on Exhibit A.

5. **Company Property; Returning Company Documents.** I acknowledge and agree that I have no expectation of privacy with respect to the Company's telecommunications, networking or information processing systems (including, without limitation, stored company files, e-mail messages and voice messages) and that my activity and any files or messages on or using any of those systems may be monitored at any time without notice. I further agree that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. I agree that, at the time of termination of my Relationship with the Company, I will deliver to the Company (and will not keep in my possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, materials, flow charts, equipment, other documents or property, or reproductions of any of the aforementioned items developed by me pursuant to the Relationship or otherwise belonging to the Company, its successors or assigns. In the event of the termination of the Relationship, I agree to sign and deliver the "Termination Certification" attached hereto as Exhibit C; however, my failure to sign and deliver the Termination Certificate shall in no way diminish my continuing obligations under this Agreement.

6. **Notification to Other Parties.**

(a) **Employees.** In the event that I leave the employ of the Company, I hereby consent to notification by the Company to my new employer about my rights and obligations under this Agreement.

(b) **Consultants.** I hereby grant consent to notification by the Company to any other parties besides the Company with whom I maintain a consulting relationship, including parties with whom such relationship commences after the effective date of this Agreement, about my rights and obligations under this Agreement.

7. **Solicitation of Employees, Consultants and Other Parties.** I agree that during the term of my Relationship with the Company, and for a period of twenty-four (24) months immediately following the termination of my Relationship with the Company for any reason, whether with or without cause, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to terminate their relationship with the Company, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for myself or for any other person or entity. Further, during

my Relationship with the Company and at any time following termination of my Relationship with the Company for any reason, with or without cause, I shall not use any Confidential Information of the Company to attempt to negatively influence any of the Company's clients or customers from purchasing Company products or services or to solicit or influence or attempt to influence any client, customer or other person either directly or indirectly, to direct his or its purchase of products and/or services to any person, firm, corporation, institution or other entity in competition with the business of the Company.

8. Representations and Covenants.

(a) **Facilitation of Agreement.** I agree to execute promptly any proper oath or verify any proper document required to carry out the terms of this Agreement upon the Company's written request to do so.

(b) **Conflicts.** I represent that my performance of all the terms of this Agreement does not and will not breach any agreement I have entered into, or will enter into with any third party, including without limitation any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to commencement of my Relationship with the Company. I agree not to enter into any written or oral agreement that conflicts with the provisions of this Agreement.

(c) **Voluntary Execution.** I certify and acknowledge that I have carefully read all of the provisions of this Agreement and that I understand and will fully and faithfully comply with such provisions.

9. General Provisions.

(a) **Governing Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of California, without giving effect to the principles of conflict of laws.

(b) **Entire Agreement.** This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification or amendment to this Agreement, nor any waiver of any rights under this Agreement, will be effective unless in writing signed by both parties. Any subsequent change or changes in my duties, obligations, rights or compensation will not affect the validity or scope of this Agreement.

(c) **Severability.** If one or more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect.

(d) **Successors and Assigns.** This Agreement will be binding upon my heirs, executors, administrators and other legal representatives, and my successors and assigns, and will be for the benefit of the Company, its successors, and its assigns.

(e) **Survival.** The provisions of this Agreement shall survive the termination of the Relationship and the assignment of this Agreement by the Company to any successor in interest or other assignee.

(f) **Remedies.** I acknowledge and agree that violation of this Agreement by me may cause the Company irreparable harm, and therefore agree that the Company will be entitled to seek extraordinary relief in court, including but not limited to temporary restraining orders, preliminary injunctions and permanent injunctions without the necessity of posting a bond or other security and in addition to and without prejudice to any other rights or remedies that the Company may have for a breach of this Agreement.

(g) **ADVICE OF COUNSEL.** I ACKNOWLEDGE THAT, IN EXECUTING THIS AGREEMENT, I HAVE HAD THE OPPORTUNITY TO SEEK THE ADVICE OF INDEPENDENT LEGAL COUNSEL, AND I HAVE READ AND UNDERSTOOD ALL OF THE TERMS AND PROVISIONS OF THIS AGREEMENT. THIS AGREEMENT SHALL NOT BE CONSTRUED AGAINST ANY PARTY BY REASON OF THE DRAFTING OR PREPARATION HEREOF.

[Signature Page Follows]

The parties have executed this Agreement on the respective dates set forth below:

COMPANY:

EMPLOYEE:

FACEBOOK, INC.

_____, an Individual:

By: /s/ Mark Zuckerberg

/s/ Sheryl Sandberg

Name: Mark Zuckerberg

Signature

Title: CEO

Date: Feb. 20, 2008

Date: 2/20/08

EXHIBIT A

**LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP
EXCLUDED UNDER SECTION 5**

<u>Title</u>	<u>Date</u>	<u>Identifying Number or Brief Description</u>
<input type="checkbox"/> No inventions or improvements		
<input type="checkbox"/> Additional Sheets Attached		
Signature of Employee/Consultant: <u>/s/ Sheryl Sandberg</u>		
Print Name of Employee/Consultant: <u>Sheryl Sandberg</u>		
Date: <u>2/20/08</u>		

EXHIBIT B

Section 2870 of the California Labor Code is as follows:

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

EXHIBIT C

TERMINATION CERTIFICATION

This is to certify that I do not have in my possession, nor have I failed to return, any devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, flow charts, materials, equipment, other documents or property, or copies or reproductions of any aforementioned items belonging to Facebook, Inc., its subsidiaries, affiliates, successors or assigns (together the "Company").

I further certify that I have complied with all the terms of the Company's Confidential Information and Invention Assignment Agreement signed by me, including the reporting of any inventions and original works of authorship (as defined therein), conceived or made by me (solely or jointly with others) covered by that agreement.

I further agree that, in compliance with the Confidential Information and Invention Assignment Agreement, I will preserve as confidential all trade secrets, confidential knowledge, data or other proprietary information relating to products, processes, know-how, designs, formulas, developmental or experimental work, computer programs, data bases, other original works of authorship, customer lists, business plans, financial information or other subject matter pertaining to any business of the Company or any of its employees, clients, consultants or licensees.

I further agree that for twenty-four (24) months from the date of this Certificate, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company's employees or consultants to terminate their relationship with the Company, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for myself or for any other person or entity. Further, I shall not at any time use any Confidential Information of the Company to negatively influence any of the Company's clients or customers from purchasing Company products or services or to solicit or influence or attempt to influence any client, customer or other person either directly or indirectly, to direct his or its purchase of products and/or services to any person, firm, corporation, institution or other entity in competition with the business of the Company.

Date: _____

(Employee's Signature)

(Type/Print Employee's Name)

EXHIBIT A

CONSULTING AGREEMENT

Consulting Agreement (the "Agreement") dated as of April 14, 2015 by and between The Donald J. Trump Exploratory Committee ("DJTEC," "we" or "us") and Samuel Nunberg ("SN" or "you"). DJTEC and SN agree as follows:

1. Engagement and Independent Contractor Status. You agree to perform the services described in Exhibit A (the "Services") during the period of your engagement (the "Term"). You are an independent contractor, not our employee. Nothing contained in this Agreement shall be construed to create a relationship of employer and employee, master and servant, or principal and agent between you and us. We shall have no right to control or direct the details, manner, or means by which you perform the Services hereunder, provided that such Services shall be performed to our reasonable satisfaction. In performing the Services, you shall have no control over or management authority with respect to us or our operations and no authority to bind us to any contracts or agreements.

2. Compensation and Reimbursement.

(a) During your engagement, we will pay you at a rate of \$7,500 per month, with an extra payment of \$3,750 at the end of your engagement unless you terminate your engagement or we terminate your engagement because of your Major Default (as defined below). In addition, subject to our standard reimbursement policies, we will reimburse you for reasonable business-related expenses actually paid by you in the performance of the Services, provided, however, that we will only reimburse expenses in excess of \$1,000 per calendar month if such excess expenses were pre-approved in writing by us (which approval may be by e-mail). The term "Major Default" means your default under this Agreement that remains uncured after three (3) days written notice (which may be by e-mail) or your default under this Agreement three (3) times in any six (6) month period even if you cure such defaults provided you have received written notice (which may be by e-mail) of each of such three (3) defaults.

(b) Within seven (7) days of the date of this Agreement, you will receive payment in the amount of \$3,750 as additional compensation.

(c) All applicable state and federal taxes are your responsibility, and we will supply you an IRS form 1099 for this purpose. We will report to the Internal Revenue Service all fees paid to you pursuant to this agreement as non-employee compensation.

(d) You will not be entitled to (i) participate in or receive benefits under any program that we maintain for our employees, including, without limitation, life, medical and disability benefits, vacation pay, or sick pay; or (ii) any direct or indirect compensation of any kind as a result of the performance of this Agreement, except for the fees provided for herein.

3. Term. Your engagement begins on the date of this Agreement and will end on April 30, 2015, provided, however, your engagement will automatically be extended for one month at a time, through and including the last day of each succeeding calendar month, unless either party gives, ten (10) days prior to the first day of any monthly extension, written notice to the other party (which notice may be by email) of such party's intention to terminate this Agreement on the last day of the Term without giving effect to such monthly extension. Nothing in this paragraph shall interfere with either party's respective rights to terminate this Agreement, at any time and for any reason or no reason, as set forth in paragraph 4 of this Agreement.

4. Termination of Agreement. This Agreement may be terminated (a) immediately by DJTEC at any time upon the giving of written notice or (b) by SN at any time upon written notice given at least 10 days prior to the effective date of termination. In the event this Agreement is terminated for any reason you will be entitled to payment for the calendar month of termination on a prorated basis through the last day of the Term. Notice under this paragraph 4 may be given by e-mail.

5. Covenants. You agree to abide by the following terms and conditions during the Term:

(a) You will send all communications or information related in any way to the Services via the e-mail account that we provide to you (the "Consultant's Services E-mail Account"). All communications and information transmitted by, received from, or stored in our e-mail system are our property, and you have no right of personal privacy in such communications or information.

(b) All services under this Agreement will be performed remotely unless we request otherwise.

(c) During the Term, and, if we terminate your engagement because of your Major Default under this Agreement or you terminate your engagement other than for Non-Payment (as defined below), after the Term, you will not without our prior written consent, for compensation or on a volunteer basis, provide services to any other campaign or candidate for President of the United States during the 2016 election cycle (including, without limitation, any exploratory effort in connection with any potential campaign or candidate). This paragraph 5(c) will survive the termination of this Agreement. Notwithstanding the foregoing, in the event Donald J. Trump does not become a formal candidate on or before October 1, 2015, or terminates his candidacy, for President of the United States during the 2016 election cycle SN shall not be prohibited from providing services on any basis for any campaign for President of the United States during the 2016 election cycle (including, without limitation, any exploratory effort in connection with any potential campaign or candidate). As used in this paragraph, the term "Non-Payment" means our default in our obligation to pay you any monthly fee when earned, due and payable in accordance with our standard payment procedures or our default in our obligation to pay you the additional compensation described in Section 2(b) and, in either case, such default is not cured within three (3) days after you give us written notice (which may be by e-mail) of such default.

6. Exclusivity. This Agreement is non-exclusive. During the Term SN may perform any services whatsoever (including services the same or similar to the Services) with or without compensation, other than any services on any basis for any exploratory effort in connection with any potential campaign, or any campaign, for President of the United States during the 2016 election cycle; provided, however, notwithstanding such other engagements, you must dedicate sufficient time to the performance of the Services as may be required, in your reasonable determination, for the proper performance of the Services and you must consistently apply your best skill and effort to the performance of the Services.

7. Return of Property. At any time upon our demand, and in any event, upon termination of this Agreement, you will immediately deliver to us all documents or tangible materials, including all copies or duplicates, related to the Services. You acknowledge that all such items, including your own notes made in connection with the Services, are our property, though they may be entrusted to you on a temporary basis. This paragraph 6 will survive the termination of this Agreement.

8. Confidentiality. The party's acknowledge that the confidentiality agreement, a copy of which is attached to this Agreement, continues in full force and effect, binds SN and DJTEC (as if DJTEC were originally made a party to it), and will survive termination of this Agreement.

9. Prior Agreements. You represent that, to the best of your knowledge, you have disclosed any agreement or any other existing or previous business relationship which may adversely affect the full performance of your duties and obligations hereunder. You agree to indemnify and hold us harmless with respect to any losses, liabilities, demands, claims, fees, expenses, damages and costs (including reasonable attorneys' fees and costs) resulting from or arising out of any third party claim or action based upon your breach of the foregoing representation regarding entrance into this Agreement.

10. Previous Association. The parties to this agreement acknowledge that you were previously associated with us, or with an affiliate of ours, prior to the effective date of this Agreement. You acknowledge and agree that in relation to such engagement there are no sums, amounts, compensation, or other forms of consideration due from us or any of our affiliates and hereby waive and release any claims thereto. The foregoing is a waiver and release of any claim or liability of any kind of nature accrued through the date hereof of The Trump Organization, the DJTEC, their respective affiliates and they and their respective affiliates' respective officers, directors and employees.

11. Disputes. This Agreement will be governed by the law of New York State. Any disputes relating to this agreement may be resolved only in a federal or state court sitting in New York State and you hereby submit to the

Jurisdiction of such courts and IRREVOCABLY WAIVE YOUR RIGHT TO TRIAL BY JURY (i.e., you agree that a judge and not a jury will hear and decide the case).

12. No Representations. This Agreement, sets forth the entire agreement between you and us related to the subject matter hereof and you acknowledge that you are not relying on any representations or promises not set forth clearly in this Agreement.

13. Severability. If any provision of this Agreement or any part of any provision is determined to be invalid or unenforceable in whole or in part for any reason, it shall be severable from the rest of this Agreement and shall not affect any other provision of this Agreement, all of which shall remain in full force and effect and be enforceable according to their terms.

14. Miscellaneous. This Agreement is not assignable, except by us to a company or other entity owned or controlled by the DJTEC, any successor (including, without limitation, a principal campaign committee) or any affiliate thereof. This Agreement may only be changed by a writing signed by both you and us.

15. Notices. All notices under this Agreement shall be in writing and, unless expressly provided otherwise in this Agreement, sent by federal express overnight mail or delivered in person with receipt copy acknowledged and shall be deemed given when received or refused at the recipient's address in the signature block below or, where e-mail notice is permitted, when delivery is indicated by an automated "delivery receipt." Wherever e-mail notice or approval is permitted under this Agreement, such notice (a) if from or to SN, must be sent from or to the e-mail address of Consultant's Services E-mail Account or nunberg@erols.com, and (b) if from or to DJTEC must be sent from or to the e-mail address designated from time to time in writing on DJTEC letterhead by David L. Cohen, Esq. for the purpose. Required approvals of SN expenses will only be valid if given by the person or persons designated from time to time in writing on DJTEC letterhead by David L. Cohen, Esq. to be authorized to give such approval.

In witness whereof, the parties have executed this Agreement as of the date first written above.

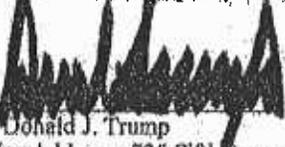
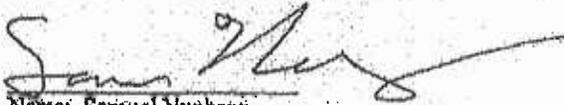
<p>The Donald J. Trump Exploratory Committee</p> <p>By:  Donald J. Trump Notice Address: 725 Fifth Avenue, New York, New York 10022</p>	<p>CONSULTANT</p> <p> Name: Samuel Nunberg Soc. Sec. Notice Address: 535 East 86th Street New York, NY 10028</p>
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Exhibit A

Services

DEBATE PREPARATION

- Assist in preparing Mr. Trump for debates.

MESSAGING:

- Twitter – Construct daily tweets (to be sent by Consultant's twitter manager) which link to positive media, examples of Mr. Trump's accomplishments, press releases and political event announcements.
- Speech Writing – collaborate on speech outlines for Mr. Trump's political events.
- Interview Preparation – collaborate on talking points for radio, TV and print interviews.
- Editorials – collaborate on editorials dealing with current events and policy positions.

DEVELOPMENT/POLICY:

- Briefings – draft initial briefings on policy review, current events and political positions.
- Political Positions – collaborate on political positions both local and national.
- Position Statements – collaborate on position statements for the project.
- Policy Communications – collaborate on policy speeches, editorials and events

OPPOSITION RESEARCH & COUNTER MESSAGING:

- Collaborate on opposition research with the team.
- Collaborate on counter messaging against political rivals and responses to attacks made against Mr. Trump.

AGREEMENT

You have requested that the entity signing below (the "Company") engage you (as an employee or an independent contractor, as applicable) to perform services, or an independent contractor that employees you has requested to be engaged by Company to perform services and you desire in your capacity as an employee of such independent contractor to perform all or a part of such services. You are making the promises and agreements set forth below in order to induce the Company to accept your or your employer's, as applicable, offer of engagement and to permit you, in the applicable capacity, to perform all or a portion of the subject services. Those promises and agreements are part of what the Company is receiving in exchange for agreeing to engage you or your employer, and to permit you to perform all or a portion of the subject services, and the Company is relying on your fulfillment of these promises and agreements.

Any initially capitalized terms that are not defined when used in this agreement are defined in paragraph 6 below.

1. No Disclosure of Confidential Information. During the term of your service and at all times thereafter you hereby promise and agree:

a. not to disclose, disseminate or publish, or cause to be disclosed, disseminated or published, any Confidential Information;

b. not to assist others in obtaining, disclosing, disseminating, or publishing Confidential Information;

c. not to use any Confidential Information in any way detrimental to the Company, Mr. Trump, any Family Member, any Trump Company or any Family Member Company;

d. not to save, store or memorialize any Confidential Information (including, without limitation, incorporating it into any storage device, server, Internet site or retrieval system, whether electronic, cloud based, mechanical or otherwise) except as may be expressly required in connection with the performance of services to the Company;

e. to (i) provide the Company with written notice of any legal obligation to disclose any Confidential Information as soon as you become aware of such obligation, (ii) not make any disclosure notwithstanding such obligation until the Company (or the appropriate Trump Person) has had a reasonable opportunity to seek an appropriate protective order or similar relief, (iii) fully cooperate and join with the Company (and the appropriate Trump Person) in any request for a protective order or similar relief, (iv) exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such Confidential Information in the event no such protective order or similar relief is obtained, whether because it has been denied or because the Company (or the appropriate Trump Person) has elected not to seek it, and (iv) under all circumstances, not furnish any greater portion of the Confidential Information than you are advised by counsel is absolutely legally required to be disclosed by you or furnish any Confidential Information to any individual, company or governmental entity other than the one to whom or to which you are absolutely legally required to disclose it; and

f. promptly upon the request, whenever made, of the Company, (i) return to the Company all Confidential Information furnished to you, together with all copies, abstracts, notes, reports, or other materials furnished to, or otherwise obtained by, you or prepared by you or on your behalf, without retaining copies, extracts or other reproductions, whether physical, electronic, cloud based or otherwise, in whole or in part, (ii) destroy all documents, memoranda, notes or other writings prepared by you or anyone on your behalf that are based upon the Confidential Information, and (iii) acknowledge such destruction in writing to Company.

The foregoing provisions each apply to Confidential Information and disclosure, dissemination, publication, use and effort to help others obtain, saving, storing and memorializing Confidential Information, as applicable, (i) by any means of expression, including but not limited to verbal, written, or visual, (ii) whether or not preserved in any medium now known or hereafter discovered or invented, including but not limited to audio recording of any type, written text, drawing, photograph, film, video, or electronic device, (iii) in any manner or form, including but not limited to any book, article, memoir, diary, letter, essay, speech, interview, panel or roundtable discussion, image, drawing, cartoon, radio broadcast, television broadcast, video, movie, theatrical production, Internet website, e-mail, Twitter tweet, Facebook page, or otherwise, even if fictionalized, (iv) in any language, or (v) in any country or other jurisdiction (collectively, the "Restricted Means and Contexts").

2. No Disparagement. During the term of your service and at all times thereafter you hereby promise and agree not to demean or disparage publicly the Company, Mr. Trump, any Trump Company, any Family Member, or any Family Member Company or any asset any of the foregoing own, or product or service any of the foregoing offer, in each case by or in any of the Restricted Means and Contexts.

3. No Competitive Services. Until the Non-Compete Cutoff Date you promise and agree not to assist or counsel, directly or indirectly, for compensation or as a volunteer, any person that is a candidate or exploring candidacy for federal or state office other than Mr. Trump.

4. No Competitive Solicitation. Until the Non-Solicitation Cutoff Date you promise and agree not to hire or solicit for hiring, or assist any other person, entity or organization to hire or solicit for hiring, any person that is an independent contractor of, employee of an independent contractor of, or employee of Company or any other Trump Person and who at any time provides services for the project or objective for which you or your employer, as applicable, are being engaged.

5. No Competitive Intellectual Property Claims. During the term of your service and at all times thereafter you promise and agree never to assert any rights to any intellectual property that (a) includes the name "Trump," (b) is owned by or associated with the Company, Mr. Trump, any Trump Company, any Family Member or any Family Member Company, for example, without limitation, any name, likeness, voice, or image of Mr. Trump or any Family Member, or any logo, motto or phrase created, developed or commonly associated with any of them, or (c) is developed in connection with the project or objective for which your services are

against you at law or in equity, you hereby consent to the entry of any order, without prior notice to you, temporarily or permanently enjoining you from violating any of the terms, covenants, agreements or provisions of this agreement on your part to be performed or observed. Such consent is intended to apply to an injunction of any breach or threatened breach.

b. Agreement to Indemnify. You hereby agree to indemnify, defend (with counsel acceptable to the Trump Person you are defending) and hold harmless each Trump Person from and against any claim, demand, suit, proceeding, damages, cost, loss or expense of any kind or nature, including but not limited to reasonable attorneys' fees and disbursements, incurred by any Trump Person as a consequence of your breach of any of your promises or agreements in this agreement.

c. Damages and Other Remedies. Notwithstanding anything to the contrary, each Trump Person will be entitled to all remedies available at law and equity, including but not limited to monetary damages, in the event of your breach of this agreement. Nothing contained in this agreement will constitute a waiver of any Trump Person's remedies at law or in equity, all of which are expressly reserved.

d. Third Party Beneficiaries. Mr. Trump, each Family Member, Trump Company and Family Member Company is an intended third party beneficiary of this agreement. Without limiting the preceding sentence, Mr. Trump, each Family Member, Trump Company and Family Member Company, in addition to the Company, will be entitled to the benefit of this agreement and to enforce this agreement.

8. Resolution of Disputes.

a. Governing Law; Jurisdiction and Venue. This Agreement is deemed to have been made in the State of New York, and any and all performance hereunder, breach hereof, or claims with respect to the enforceability of this agreement must be interpreted and construed pursuant to the laws of the State of New York without regard to conflict of laws or rules applied in the State of New York. You hereby consent to exclusive personal jurisdiction and venue in the State of New York with respect to any action or proceeding brought with respect to this agreement.

b. Arbitration. Without limiting the Company's or any other Trump Person's right to commence a lawsuit in a court of competent jurisdiction in the State of New York, any dispute arising under or relating to this agreement may, at the sole discretion of each Trump Person, be submitted to binding arbitration in the State of New York pursuant to the rules for commercial arbitrations of the American Arbitration Association, and you hereby agree to and will not contest such submissions. Judgment upon the award rendered by an arbitrator may be entered in any court having jurisdiction.

c. Prevailing Party Fees. Any court judgment or arbitration award shall include an award of reasonable legal fees and costs to the prevailing party.

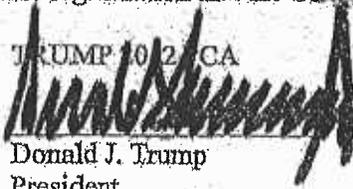
d. Interpretation and Representation by Counsel. This agreement has been drafted on behalf of the undersigned only as a convenience and may not, by reason of such action, be construed against the undersigned. Each of the parties (i) has had the opportunity to be and/or has elected not to be, represented by counsel, (ii) has reviewed each of the provisions in this agreement carefully and (iii) has negotiated or has had full opportunity to negotiate the terms of this agreement, specifically including, but not limited to Paragraph 7 hereof. You waive any claims that may be available at law or in equity to the effect that you did not have the opportunity to so consult with counsel.

e. No Waiver. Neither the failure or delay to exercise one or more rights under this agreement nor the partial exercise of any such right, will be deemed a renunciation or waiver of such rights or any part thereof or affect, in any way, this agreement or any part hereof or the right to exercise or further exercise any right under this agreement or at law or in equity.

9. Miscellaneous. Modifications. No change or waiver of the terms, covenants and provisions of this agreement will be valid unless made in writing and signed by the undersigned. Relationship. Nothing herein contained is intended to, nor shall it be construed as, reflecting any employer-employee or independent contractor relationship between you and the undersigned or any other individual or entity. Counterparts. This agreement may be executed in any number of counterparts, all of which taken together will constitute one and same instrument. Delivery of an executed signature page of this this agreement by facsimile transmission or pdf, jpeg, TIFF, or other electronic format or electronic mail attachment will be effective as delivery of an original executed counterparty hereof.

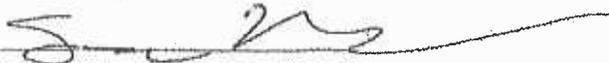
10. Survival. This agreement will survive the expiration, cancellation or termination of any employment or independent contractor relationship that you may have with the Company or with any individual, entity, partnership, trust organization that the Company has engaged.

TRUMP 10/2/CA


Donald J. Trump
President

I, Samuel Dan Numborg, ACKNOWLEDGE THAT I HAVE READ,
UNDERSTAND AND AGREE TO COMPLY WITH THE FOREGOING WHICH I
RECOGNIZE CREATES A VALID AND BINDING LEGAL OBLIGATION ON ME.

Date: 1/1/15

Signature: 

Address: 535 East 86th St
NYC NY 10028

EXHIBIT C

AGREEMENT

You have requested that the entity signing below (the "Company") engage you (as an employee or an independent contractor, as applicable) to perform services, or an independent contractor that employees you has requested to be engaged by Company to perform services and you desire in your capacity as an employee of such independent contractor to perform all or a part of such services. You are making the promises and agreements set forth below in order to induce the Company to accept your or your employer's, as applicable, offer of engagement and to permit you, in the applicable capacity, to perform all or a portion of the subject services. Those promises and agreements are part of what the Company is receiving in exchange for agreeing to engage you or your employer, and to permit you to perform all or a portion of the subject services, and the Company is relying on your fulfillment of these promises and agreements.

Any initially capitalized terms that are not defined when used in this agreement are defined in paragraph 6 below.

1. No Disclosure of Confidential Information. During the term of your service and at all times thereafter you hereby promise and agree:

a. not to disclose, disseminate or publish, or cause to be disclosed, disseminated or published, any Confidential Information;

b. not to assist others in obtaining, disclosing, disseminating, or publishing Confidential Information;

c. not to use any Confidential Information in any way detrimental to the Company, Mr. Trump, any Family Member, any Trump Company or any Family Member Company;

d. not to save, store or memorialize any Confidential Information (including, without limitation, incorporating it into any storage device, server, Internet site or retrieval system, whether electronic, cloud based, mechanical or otherwise) except as may be expressly required in connection with the performance of services to the Company;

e. to (i) provide the Company with written notice of any legal obligation to disclose any Confidential Information as soon as you become aware of such obligation, (ii) not make any disclosure notwithstanding such obligation until the Company (or the appropriate Trump Person) has had a reasonable opportunity to seek an appropriate protective order or similar relief, (iii) fully cooperate and join with the Company (and the appropriate Trump Person) in any request for a protective order or similar relief, (iv) exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded such Confidential Information in the event no such protective order or similar relief is obtained, whether because it has been denied or because the Company (or the appropriate Trump Person) has elected not to seek it, and (iv) under all circumstances, not furnish any greater portion of the Confidential Information than you are advised by counsel is absolutely legally required to be disclosed by you or furnish any Confidential Information to any individual, company or governmental entity other than the one to whom or to which you are absolutely legally required to disclose it; and

f. promptly upon the request, whenever made, of the Company, (i) return to the Company all Confidential Information furnished to you, together with all copies, abstracts, notes, reports, or other materials furnished to, or otherwise obtained by, you or prepared by you or on your behalf, without retaining copies, extracts or other reproductions, whether physical, electronic, cloud based or otherwise, in whole or in part, (ii) destroy all documents, memoranda, notes or other writings prepared by you or anyone on your behalf that are based upon the Confidential Information, and (iii) acknowledge such destruction in writing to Company.

The foregoing provisions each apply to Confidential Information and disclosure, dissemination, publication, use and effort to help others obtain, saving, storing and memorializing Confidential Information, as applicable, (i) by any means of expression, including but not limited to verbal, written, or visual, (ii) whether or not preserved in any medium now known or hereafter discovered or invented, including but not limited to audio recording of any type, written text, drawing, photograph, film, video, or electronic device, (iii) in any manner or form, including but not limited to any book, article, memoir, diary, letter, essay, speech, interview, panel or roundtable discussion, image, drawing, cartoon, radio broadcast, television broadcast, video, movie, theatrical production, Internet website, e-mail, Twitter tweet, Facebook page, or otherwise, even if fictionalized, (iv) in any language, or (v) in any country or other jurisdiction (collectively, the “Restricted Means and Contexts”).

2. No Disparagement. During the term of your service and at all times thereafter you hereby promise and agree not to demean or disparage publicly the Company, Mr. Trump, any Trump Company, any Family Member, or any Family Member Company or any asset any of the foregoing own, or product or service any of the foregoing offer, in each case by or in any of the Restricted Means and Contexts.

3. No Competitive Services. Until the Non-Compete Cutoff Date you promise and agree not to assist or counsel, directly or indirectly, for compensation or as a volunteer, any person that is a candidate or exploring candidacy for federal or state office other than Mr. Trump.

4. No Competitive Solicitation. Until the Non-Solicitation Cutoff Date you promise and agree not to hire or solicit for hiring, or assist any other person, entity or organization to hire or solicit for hiring, any person that is an independent contractor of, employee of an independent contractor of, or employee of Company or any other Trump Person and who at any time provides services for the project or objective for which you or your employer, as applicable, are being engaged.

5. No Competitive Intellectual Property Claims. During the term of your service and at all times thereafter you promise and agree never to assert any rights to any intellectual property that (a) includes the name “Trump,” (b) is owned by or associated with the Company, Mr. Trump, any Trump Company, any Family Member or any Family Member Company, for example, without limitation, any name, likeness, voice, or image of Mr. Trump or any Family Member, or any logo, motto or phrase created, developed or commonly associated with any of them, or (c) is developed in connection with the project or objective for which your services are

being engaged (all of which will be deemed a “work made for hire” or will be assigned by you to us).

6. Definitions. As used in this agreement, the following definitions apply:

a. **“Confidential Information”** means all information (whether or not embodied in any media) of a private, proprietary or confidential nature or that Mr. Trump insists remain private or confidential, including, but not limited to, any information with respect to the personal life, political affairs, and/or business affairs of Mr. Trump or of any Family Member, including but not limited to, the assets, investments, revenue, expenses, taxes, financial statements, actual or prospective business ventures, contracts, alliances, affiliations, relationships, affiliated entities, bids, letters of intent, term sheets, decisions, strategies, techniques, methods, projections, forecasts, customers, clients, contacts, customer lists, contact lists, schedules, appointments, meetings, conversations, notes, and other communications of Mr. Trump, any Family Member, any Trump Company or any Family Member Company.

b. **“Family Member”** means any member of Mr. Trump’s family, including, but not limited to, Mr. Trump’s spouse, each of Mr. Trump’s children and grandchildren and their respective spouses, including but not limited to Donald J. Trump Jr., Eric F. Trump and Ivanka M. Trump, Tiffany Trump, and Barron Trump, and their respective spouses, children and grandchildren, if any, and Mr. Trump’s siblings and their respective spouses and children, if any.

c. **“Family Member Company”** means any entity, partnership, trust or organization that, in whole or in part, was created by or for the benefit of any Family Member or is controlled or owned by any Family Member.

d. **“Non-Compete Cut Off Date”** means the date the current U.S. presidential election cycle is over or, if earlier, the date Mr. Trump announces that he will not run or will no longer run for the Presidency of the United States of America in the current U.S. presidential election cycle.

e. **“Non-Solicitation Cutoff Date”** means the Non-Compete Cut Off Date.

f. **“Trump Company”** means any entity, partnership, trust or organization that, in whole or in part, was created by or for the benefit of Mr. Trump or is controlled or owned by Mr. Trump.

g. **“Trump Person”** means each of Mr. Trump, each Family Member, each Trump Company (including but not limited to the Company) and each Family Member Company.

7 Remedies for Breach of this Agreement.

a. Consent to Injunction. A breach of any of your promises or agreements under this agreement will cause the Company, Mr. Trump and each other Trump Person irreparable harm. Accordingly, to the extent permitted by law, and without waiving any other rights or remedies

against you at law or in equity, you hereby consent to the entry of any order, without prior notice to you, temporarily or permanently enjoining you from violating any of the terms, covenants, agreements or provisions of this agreement on your part to be performed or observed. Such consent is intended to apply to an injunction of any breach or threatened breach.

b. Agreement to Indemnify. You hereby agree to indemnify, defend (with counsel acceptable to the Trump Person you are defending) and hold harmless each Trump Person from and against any claim, demand, suit, proceeding, damages, cost, loss or expense of any kind or nature, including but not limited to reasonable attorneys' fees and disbursements, incurred by any Trump Person as a consequence of your breach of any of your promises or agreements in this agreement.

c. Damages and Other Remedies. Notwithstanding anything to the contrary, each Trump Person will be entitled to all remedies available at law and equity, including but not limited to monetary damages, in the event of your breach of this agreement. Nothing contained in this agreement will constitute a waiver of any Trump Person's remedies at law or in equity, all of which are expressly reserved.

d. Third Party Beneficiaries. Mr. Trump, each Family Member, Trump Company and Family Member Company is an intended third party beneficiary of this agreement. Without limiting the preceding sentence, Mr. Trump, each Family Member, Trump Company and Family Member Company, in addition to the Company, will be entitled to the benefit of this agreement and to enforce this agreement.

8. Resolution of Disputes.

a. Governing Law; Jurisdiction and Venue. This Agreement is deemed to have been made in the State of New York, and any and all performance hereunder, breach hereof, or claims with respect to the enforceability of this agreement must be interpreted and construed pursuant to the laws of the State of New York without regard to conflict of laws or rules applied in the State of New York. You hereby consent to exclusive personal jurisdiction and venue in the State of New York with respect to any action or proceeding brought with respect to this agreement.

b. Arbitration. Without limiting the Company's or any other Trump Person's right to commence a lawsuit in a court of competent jurisdiction in the State of New York, any dispute arising under or relating to this agreement may, at the sole discretion of each Trump Person, be submitted to binding arbitration in the State of New York pursuant to the rules for commercial arbitrations of the American Arbitration Association, and you hereby agree to and will not contest such submissions. Judgment upon the award rendered by an arbitrator may be entered in any court having jurisdiction.

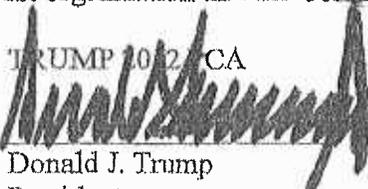
c. Prevailing Party Fees. Any court judgment or arbitration award shall include an award of reasonable legal fees and costs to the prevailing party.

d. Interpretation and Representation by Counsel. This agreement has been drafted on behalf of the undersigned only as a convenience and may not, by reason of such action, be construed against the undersigned. Each of the parties (i) has had the opportunity to be and/or has elected not to be, represented by counsel, (ii) has reviewed each of the provisions in this agreement carefully and (iii) has negotiated or has had full opportunity to negotiate the terms of this agreement, specifically including, but not limited to Paragraph 7 hereof. You waive any claims that may be available at law or in equity to the effect that you did not have the opportunity to so consult with counsel.

e. No Waiver. Neither the failure or delay to exercise one or more rights under this agreement nor the partial exercise of any such right, will be deemed a renunciation or waiver of such rights or any part thereof or affect, in any way, this agreement or any part hereof or the right to exercise or further exercise any right under this agreement or at law or in equity.

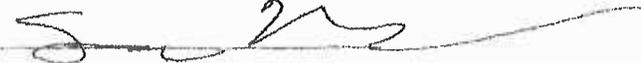
9. Miscellaneous. Modifications. No change or waiver of the terms, covenants and provisions of this agreement will be valid unless made in writing and signed by the undersigned. Relationship. Nothing herein contained is intended to, nor shall it be construed as, reflecting any employer-employee or independent contractor relationship between you and the undersigned or any other individual or entity. Counterparts. This agreement may be executed in any number of counterparts, all of which taken together will constitute one and same instrument. Delivery of an executed signature page of this this agreement by facsimile transmission or .pdf, .jpeg, .TIFF, or other electronic format or electronic mail attachment will be effective as delivery of an original executed counterparty hereof.

10. Survival. This agreement will survive the expiration, cancellation or termination of any employment or independent contractor relationship that you may have with the Company or with any individual, entity, partnership, trust organization that the Company has engaged.

TRUMP 10/2/CA

Donald J. Trump
President

I, Samuel Dan Numborg, ACKNOWLEDGE THAT I HAVE READ,
UNDERSTAND AND AGREE TO COMPLY WITH THE FOREGOING WHICH I
RECOGNIZE CREATES A VALID AND BINDING LEGAL OBLIGATION ON ME.

Date: 1/1/15

Signature: 

Address: 535 East 86th St
NYC NY 10028

UNITED STATES DISTRICT COURT
MIDDLE DISTRICT OF FLORIDA
TAMPA DIVISION

ADAMS ARMS, LLC,

Plaintiff,

v.

Case No. 8:16-cv-1503-T-33AEP

UNIFIED WEAPON SYSTEMS, INC.
et al.,

Defendants.

_____ /

ORDER

This cause is before the Court pursuant to Adams Arms, LLC's Motion to Dismiss or Strike Unified Weapon Systems, Inc.'s First Amended Counterclaim (Doc. # 119), which was filed on October 28, 2016. On November 18, 2016, Unified Weapon Systems, Inc. ("UWSI") filed a Response in Opposition to the Motion. (Doc. # 128). Also before the Court is Adams' Motion to Dismiss Aguius, LLC's Counterclaim (Doc. # 123), which was filed on November 2, 2016. Aguius filed a Response to the Motion on November 28, 2016. (Doc. # 131).

As explained below, the Court denies Adams' Motion to Dismiss UWSI's Counterclaims. The Court grants in part Adams' Motion to Dismiss Aguius' Counterclaims to the extent that Aguius' Counterclaim for breach of the Letter of Intent is dismissed without prejudice and with leave to amend by **February 21, 2017**.

I. Facts

A. The Parties

Adams is a Tampa, Florida, weapons manufacturer specializing in "small arms, including high-powered military rifles." (Doc. # 106 at ¶ 1). UWSI is a Delaware corporation with its principal place of business in Florida. (Id. at ¶ 11). UWSI is alleged to be a subsidiary of Aguius. (Doc. # 106 at ¶ 11). Aguius is a Delaware limited liability corporation. (Id. at ¶ 12). Michael Bingham claims to be the managing member of Aguius and the Vice President and Chief Operating Officer of UWSI. (Id. at ¶ 13).¹ Christian Quintanilla Aurich, an individual who resides in Peru, is the President and Chief Executive Officer of UWSI. (Doc. # 106 at ¶ 14). General James W. Parker, a resident of Hillsborough County, is a retired Major General from the United States Army

¹ On January 20, 2017, UWSI and Aurich filed an eleven-count Cross-claim against Aguius and Bingham, alleging, inter alia, that Bingham falsely represented that he was the true owner of UWSI and containing the following counts: Fla. Stat. § 495.151 (Count One); common law trade name & trademark infringement (Count Two); Fla. Stat. § 495.131 (Count Three); tortious interference (Count Four); Lanham Act (Count Five); Fla. Stat. § 501.204 (Count Six); common law indemnity (Counts Seven and Eight); breach of fiduciary duty (Count Nine); fraud (Count Ten); and the wrongful act doctrine (Count Eleven). (Doc. # 149). The filing of the Cross-claim calls into question the relationship between the Defendants. Aguius and Bingham are not currently represented by counsel and have not yet responded to the Cross-claim.

and serves as a Director and advisor for UWSI. (Id. at ¶ 15).

B. The Letter of Intent and Nondisclosure Agreements

In early 2014, Aguius approached Adams with a proposal for the two companies to work together on a bid to supply high-powered military rifles designed and built by Adams to the Peruvian military. (Id. at ¶ 18). According to Bingham, the Ministry of Defense of the Republic of Peru (the "Peruvian MOD") contacted UWSI concerning the opportunity to secure a multi-year contract for the supply of rifles. (Id. ¶ 19). "The Peruvian MOD was purportedly funding the purchase through the Peruvian Factory of Weapons and Ammunition from the Army S.A.C. ('FAME')." (Id.). The rifles would be constructed based on the Peruvian MOD's specifications "with input by UWSI and its business partners." (Id. ¶ 20). Adams alleges that "Aguius and UWSI, through Mr. Bingham and Mr. Aurich, solicited [Adams] to be a business partner in the project." (Id.). The project would require Adams to provide UWSI with products, such as demonstration rifles, to disclose trade secrets and confidential information, and allow a tour of Adams' manufacturing facility. (Id. at ¶ 21).

On February 24, 2014, as an "inducement" for Adams to join the project, Aurich and Bingham, on behalf of Aguius, executed a "Mutual Confidentiality and Nondisclosure

Agreement" with Adams "in which Aguieus agreed not to use [Adams'] confidential information, including [Adams'] technical data, trade secrets, and know-how, for its own use or for any purpose other than the commercial relationship between [Adams] and Aguieus." (Id. at ¶ 22).² The Mutual Confidentiality and Nondisclosure Agreement allowed Aguieus to share Adams' confidential information with others, such as UWSI, so long as they "acknowledged and agreed to be bound by the [Mutual Confidentiality and Nondisclosure Agreement]." (Id.).

Thereafter, on April 29, 2014, Bingham sent Adams a six-page Letter of Intent, which UWSI and Adams executed. (Id. at ¶ 23). The Letter of Intent describes the "mutual intentions" between "Unified Weapon Systems ('Buyer') and Adams Arms ('Seller')." (Doc. # 117-3 at 1)(emphasis in original). "After signing the [Letter of Intent], on or about June 25, 2014, Mr. Bingham represented to [Adams] that there would be an immediate order for 3,000 units for use by the Peruvian MOD." (Doc. # 106 at ¶ 32).

During that time, General Parker met with Adams'

² There are at least two Adams Arms Mutual Confidentiality and Nondisclosure Agreements on file dated February 24, 2014. One is executed by Aurich (Doc. # 106-1 at 4) and the other is executed by Bingham. (Doc. # 106-2 at 4). Both of these Agreements name "Aguieus" as the "Receiving Party." (Id.). General Parker signed a different version of the agreement on June 24, 2014. (Doc. # 106-4 at 8).

President and CEO, Michael Froning, "and represented to Mr. Froning that General Parker possessed significant expertise and knowledge regarding foreign and domestic military matters, which would be helpful to [Adams] in negotiating the rifle contract with UWS[I]." (Id. at ¶ 33). According to Adams, General Parker failed to disclose that he was a Director and advisor for UWSI and "when Mr. Froning asked General Parker whether he had any conflicts of interest or ties with UWS[I] that would prevent him from being loyal to [Adams], General Parker misrepresented to Mr. Froning that he had no ties to UWS[I]." (Id. at ¶ 34).

In furtherance of General Parker's efforts to gain access to Adams' trade secrets, on June 24, 2014, General Parker executed a separate confidentiality agreement vowing to hold Adams' confidential information and trade secrets "in strict confidence" and agreeing "not to use any Confidential Information for any purpose other than the Business Purpose." (Doc. # 106-4 at 3). General Parker also executed a Consulting Services Agreement on July 7, 2014, further agreeing to keep Adams' proprietary information confidential and to only use such information in connection with providing services on behalf of Adams. (Doc. # 106-5).

C. Adams Divulges Trade Secrets

Adams "has spent a number of years and endless resources"

developing "numerous trade secrets that are crucial and extremely valuable to its business." (Doc. # 106 at ¶¶ 29-30). Adams explains that it "exerts great efforts to ensure that its trade secrets remain confidential," such as requiring employees and third parties to sign nondisclosure agreements, maintaining security cameras at its facilities, and requiring badges for entry into its facilities. (Id. at ¶ 30).

Nonetheless, and in reliance on the Mutual Confidentiality and Nondisclosure Agreements, General Parker's confidentiality agreement, the Letter of Intent, and other assurances, Adams disclosed its trade secrets to UWSI, Aguius, Bingham, Aurich, and General Parker. (Id. at ¶ 28).

After the parties formalized their agreements and Adams disclosed its trade secrets, the rifle project began in earnest. Between August of 2014, and February of 2015, Adams manufactured demonstration rifles for examination and testing by UWSI and the Peruvian MOD. (Id. at ¶¶ 38-44). On October 13, 2014, UWSI sent Adams a 2.1 million dollar purchase order for rifles. (Id. at ¶ 39).

On February 8 and 9, 2015, representatives of [Adams] attended the demonstration of [Adams'] rifles to the Peruvian MOD. During the demonstration, UWSI leveraged [Adams'] brand name and weapons-making experience, identifying [Adams] as one of its lead partners, and UWSI used [Adams'] trademarks to market the rifles to the Peruvian MOD. To [Adams'] knowledge, UWSI has no ability to

design or manufacture any rifles. Instead, it was marketing [Adams'] rifles to the customer.

(Id. at ¶ 44). According to Adams, the demonstration was a success, and "all parties approved moving forward with the joint venture with [Adams] as the manufacturer." (Id. at ¶ 45).

Between April of 2015, and September of 2015, Bingham requested supplier pricing information for the separate components of Adams' rifles, which Adams provided. (Id. at ¶ 46). Bingham also requested information about Adams' manufacturing facility and equipment, and Adams allowed tours of its facility in Florida during which Adams revealed step-by-step details of its manufacturing processes, machinery, and tooling. (Id. at ¶¶ 46-48).

Following the meetings in Florida, Bingham requested additional confidential and proprietary information, which he represented was necessary to secure the contract with FAME. (Id. at ¶ 50). This information included photographs of Adams' facility, assembly work stations, and tool boxes; a complete list of parts, parts configurations, parts suppliers, and prices; a list of all tooling needed for assembly of Adams' rifles; a breakdown of the rifle configuration; and proprietary details of Adams' technician training program. (Id.).

On September 25, 2015, Bingham represented to Adams that all submissions to FAME were completed on time “thanks to [Adams].” (Id. at ¶ 52). On November 19, 2015, FAME issued its bid solicitation for the rifles. (Id. at ¶ 53). On December 10, 2015, UWSI submitted a qualified offer in response to the bid solicitation using Adams’ designs, procedures, and specifications. (Id. at ¶ 55). On December 18, 2015, FAME announced UWSI as the winning bidder. (Id. at ¶ 58).

D. Squeeze-Out of Adams

After UWSI obtained the winning bid, UWSI “began taking steps to squeeze [Adams] out of the final purchase contract[.]” (Id. at ¶ 61). UWSI and Bingham refused Adams’ requests for documents and meetings, although UWSI and Bingham “continued to seek guidance and input” from Adams about the design of the rifles. (Id. at ¶¶ 62-64). On December 30, 2015, Aurich advised Adams that UWSI would take the entire project over now that UWSI had all of Adams’ technical and pricing data. (Id. at ¶ 65). In the months that followed, Adams was excluded from multiple meetings with FAME, including another meeting in Peru to test Adams’ rifles before final contract execution. (Id. at ¶ 66).

II. Procedural History and Amended Counterclaims

A. Adams Sets the Stage

Adams initiated this action on June 10, 2016, by filing the Complaint. (Doc. # 1). At this juncture, the Complaint has been amended and contains the following counts: breach of Letter of Intent against UWSI (Count One); breach of Mutual Confidentiality and Nondisclosure Agreement against all Defendants (Count Two); breach of Confidentiality Agreement against General Parker (Count Three); breach of the Consulting Services Agreement as to General Parker (Count Four); misappropriation under the Defend Trade Secrets Act as to all Defendants (Count Five); misappropriation under the Florida Trade Secrets Act against all Defendants (Count Six); unfair competition under the Lanham Act against UWSI (Count Seven); unjust enrichment against UWSI and Aguius (Count Eight); specific performance of the Mutual Confidentiality and Nondisclosure Agreement as to Aguius and UWSI (Count Nine); and replevin (Count Ten). (Doc. # 106).

On July 13, 2016, UWSI filed its Motion to Dismiss Counts One, Two and Five of Adams' original Complaint (Doc. # 49), as well as its Answer, Affirmative Defenses, and a tortious interference Counterclaim against Adams. (Doc. # 52). Aurich likewise filed a Motion to Dismiss Counts Two and Five of Adams' original Complaint (Doc. # 50) along with his Answer and Affirmative Defenses on July 13, 2016. (Doc. # 51). Thereafter, on August 2, 2016, Adams filed a Motion to Dismiss

UWSI's tortious interference Counterclaim. (Doc. # 81).

On September 27, 2016, the Court entered a detailed Order denying all of the then-pending Motions. (Doc. # 94). Thereafter, on October 12, 2016, Adams filed a Motion to Amend the Complaint, which the Court granted. (Doc. ## 104, 105). Adams' Amended Complaint was filed on October 13, 2016. (Doc. # 106). One day later, on October 14, 2016, UWSI filed a Motion to Amend its Counterclaim, which the Court also granted. (Doc. ## 107, 108).

B. UWSI and Aguius Lodge Counterclaims

UWSI filed its Amended Counterclaim on October 17, 2016. (Doc. # 109). UWSI's Amended Counterclaim seeks relief against Adams for tortious interference (Count One), breach of the Letter of Intent (Count Two), breach of the Mutual Confidentiality and Nondisclosure Agreement (Count Three), and unjust enrichment (Count Four). In support of these claims, UWSI maintains that Adams' untimely provision of ultimately defective rifles cost UWSI the lucrative deal with the Peruvian MOD. (Id. at ¶¶ 13-17). When Adams did produce rifles, UWSI alleges that such rifles "did not function properly." (Id. at ¶ 17). According to UWSI, the rifles "jammed" and a demonstration held on February 12, 2015, "was an embarrassment and a total failure." (Id. at ¶ 18). "In the months following the failed demonstration, UWSI's frustration

grew because Adams failed to produce functioning Rifles despite having over a year to do so." (Id. at ¶ 20).

Despite losing the MOD deal, UWSI claims that it gave Adams another chance with respect to securing a deal with FAME. UWSI indicates that it "conducted ammunition testing for FAME at Adams' facility" successfully. (Id. at ¶ 24). UWSI maintains that, using its own "ingenuity," it conducted a successful rifle demonstration with the Peruvian Police in November of 2015. (Id. at ¶ 25). Thereafter, "FAME selected UWSI to co-manufacture the Rifles." (Id. at ¶ 27).

However, according to UWSI, the rifles had to be reconfigured with "numerous modifications" to meet the exacting bid specifications. (Id. at ¶¶ 28-30). UWSI explains that, as originally configured, the rifles "failed 70% of the time." (Id. at ¶ 28). "On January 13, 2015, UWSI and Adams put the Rifles through FAME testing protocol and the Rifles failed again. After several testing failures, Adams' representatives abandoned UWSI and the prototype Rifles." (Id. at ¶ 29). UWSI explains that its relationship with Adams completely deteriorated and UWSI found alternative vendors to provide the rifle parts, as such, the UWSI "Rifles that are in FAME's possession have **no** Adams parts in them." (Id. at ¶ 33)(emphasis in original).

Adams voiced its concerns to FAME officials in an email

dated May 6, 2016, asserting that the rifles subject to the bid employed technology belonging to Adams and threatening litigation. (Id. at ¶¶ 36-41). On May 16, 2016, UWSI and FAME entered into a written agreement (the "FAME Agreement") specifying that FAME and UWSI agreed to manufacture the rifles in FAME's facilities in Peru. (Id. at ¶¶ 34-35).

UWSI asserts that the email from Adams to FAME was written "with the specific and malicious intent of interfering with UWSI's agreement and ongoing relationship with FAME and [to] disrupt the same." (Id. at ¶ 40). UWSI claims that after FAME received Adams' email, FAME "refused to issue any purchase orders for the rifles." (Id. at ¶ 50). UWSI indicates that Adams knew about the agreement between UWSI and FAME and issued the threatening email in an effort to harm that relationship. (Id. at ¶¶ 47-48). UWSI claims that it has lost millions, if not billions, of dollars due to Adams' interference. (Id. at ¶ 39). In addition, UWSI claims that Adams misappropriated confidential information including "UWSI's product plans, designs, and hardware configuration" to launch Adams' Small Frame .308 Rifle (aka the Patrol Rifle). (Id. at ¶¶ 62, 63).

Likewise, on October 27, 2016, Aguius filed its Counterclaim against Adams containing allegations akin to those presented in UWSI's Counterclaim and bringing the

following claims against Adams: breach of the Mutual Confidentiality and Nondisclosure Agreement (Count One); unjust enrichment (Count Two); and breach of the Letter of Intent (Count Three). (Doc. # 117).

At this point, Adams has filed two Motions that seek dismissal of the Counterclaims pursuant to Rule 12(b)(1) and 12(b)(6) of the Federal Rules of Civil Procedure. (Doc. ## 119, 123). Adams also asserts that certain passages in the Counterclaims are subject to being stricken pursuant to Rule 12(f), Fed. R. Civ. P. (Id.). Now that UWSI and Aguius have responded to the Motions, and the Motions are ripe for the Court's review. (Doc. ## 128, 131).

III. Legal Standard

A. Rule 12(b)(1) Motion to Dismiss

Federal courts are courts of limited jurisdiction. "[B]ecause a federal court is powerless to act beyond its statutory grant of subject matter jurisdiction, a court must zealously insure that jurisdiction exists over a case, and should itself raise the question of subject matter jurisdiction at any point in the litigation where a doubt about jurisdiction arises." Smith v. GTE Corp., 236 F.3d 1292, 1299 (11th Cir. 2001).

Motions to dismiss for lack of subject matter jurisdiction pursuant to Fed. R. Civ. P. 12(b)(1) may attack

jurisdiction facially or factually. Morrison v. Amway Corp., 323 F.3d 920, 924 n.5 (11th Cir. 2003). When the jurisdictional attack is factual, the Court may look outside the four corners of the complaint to determine if jurisdiction exists. Eaton v. Dorchester Dev., Inc., 692 F.2d 727, 732 (11th Cir. 1982). In a factual attack, the presumption of truthfulness afforded to a plaintiff under Rule 12(b)(6) does not attach. Scarfo v. Ginsberg, 175 F.3d 957, 960 (11th Cir. 1999)(citing Lawrence v. Dunbar, 919 F.2d 1525, 1529 (11th Cir. 1990)). Because the very power of the Court to hear the case is at issue in a Rule 12(b)(1) motion, the Court is free to weigh evidence outside the complaint. Eaton, 692 F.2d at 732.

B. Rule 12(b)(6) Motion to Dismiss

A motion to dismiss a counterclaim under Rule 12(b)(6) of the Federal Rules of Civil Procedure is evaluated in the same manner as a motion to dismiss a complaint. Stewart Title Guar. Co. v. Title Dynamics, Inc., No. 2:04-cv-316-FtM-33SPC, 2005 WL 2548419, at *1 (M.D. Fla. Oct. 11, 2005). A counterclaim must contain "a short and plain statement of the claim showing that the pleader is entitled to relief." Fed. R. Civ. P. 8(a)(2). In deciding a motion to dismiss pursuant to Rule 12(b)(6), a court must accept all factual allegations in the counterclaim as true and construe them in the light

most favorable to the counterclaim plaintiff. See United Techs. Corp. v. Mazer, 556 F.3d 1260, 1269 (11th Cir. 2009).

"While a [counterclaim] attacked by a Rule 12(b)(6) motion to dismiss does not need detailed factual allegations, . . . a plaintiff's obligation to provide the grounds of his entitlement to relief requires more than labels and conclusions, and a formulaic recitation of the elements of a cause of action will not do." Bell Atl. Corp. v. Twombly, 550 U.S. 544, 555 (2007) (internal citations and quotations marks omitted). "Factual allegations must be enough to raise a right to relief above the speculative level on the assumption that all the allegations in the complaint are true." Id. (internal citations omitted).

A counterclaim plaintiff must plead enough facts to state a plausible basis for the claim. Id.; James River Ins. Co. v. Ground Down Eng'g, Inc., 540 F.3d 1270, 1274 (11th Cir. 2008) ("To survive dismissal, the [counterclaim's] allegations must plausibly suggest that the plaintiff has a right to relief, raising that possibility above a speculative level; if they do not, the plaintiff's [counterclaim] should be dismissed."). Additionally, "the tenet that a court must accept as true all of the allegations contained in a [counterclaim] is inapplicable to legal conclusions. Threadbare recitals of the elements of a cause of action, supported by mere conclusory

statements, do not suffice." Ashcroft v. Iqbal, 566 U.S. 662, 678 (2009).

C. Rule 12(f) Motion to Strike

Pursuant to Rule 12(f), Fed. R. Civ. P., a "court may strike from a pleading an insufficient defense or any redundant, immaterial, impertinent, or scandalous matter." In addition, courts are at liberty to strike material that bears "no possible relation to the controversy, may confuse the issues, or may cause prejudice to one of the parties." Ayers v. Consol. Constr. Servs. of Sw. Fla., Inc., No. 2:07-cv-123, 2007 U.S. Dist. LEXIS 86596, at *2 (M.D. Fla. Nov. 26, 2007). Although the Court has broad discretion in ruling on a motion to strike, such motions are disfavored due to their "drastic nature." Royal Ins. Co. of Am. v. M/Y Anastasia, No. 95-cv-30498, 1997 U.S. Dist. LEXIS 15595, at *10 (N.D. Fla. Jan. 30, 1997).

IV. Analysis

A. UWSI's Tortious Interference Counterclaim

As noted, the Complaint and the Counterclaims have been amended. Before the amendments, UWSI's original Counterclaim against Adams sought relief for tortious interference based on Adams' email to FAME, as well as Adams' initiation of the present lawsuit. (Doc. # 52). Adams filed a motion to dismiss the tortious interference Counterclaim. (Doc. # 81). The

Court carefully analyzed the Counterclaim and determined that UWSI adequately pled a claim for relief for tortious interference based on the email. (Doc. # 94). However, the Court found that the filing of the present lawsuit could not form a basis for a tortious interference claim based on Florida's litigation privilege: "It cannot be disputed that Adams Arms' initiation of this suit . . . is not actionable as tortious interference." (Id. at 24-25). Specifically, the Court determined:

"To prove tortious interference, Plaintiff must show: (1) the existence of a contract or business relationship not necessarily evidenced by an enforceable contract under which [the plaintiff] has rights; (2) defendants' knowledge of the relationship; (3) an intentional and unjustified interference with the relationship by defendants; and (4) damage as a result of the interference." Mobile Shelter Sys. USA, Inc. v. Grate Pallet Sols., LLC, 845 F. Supp. 2d 1241, 1258 (M.D. Fla. 2012).

A tortious interference claim will fail absent "a business relationship evidenced by an actual and identifiable understanding or agreement which in all probability would have been completed if the defendant had not interfered." Ethan Allen, Inc. v. Georgetown Manor, Inc., 647 So. 2d 812, 815 (Fla. 1994). Florida law also requires actual harm to a business relationship, as opposed to merely a suspicion or unsupported and speculative supposition of harm. Realauction.com, LLC v. Grant St. Grp., Inc., 82 So. 3d 1056, 1058 (Fla. DCA 2011).

Here, the counterclaim sufficiently alleges each required element. UWS[I] claims that a business relationship existed between FAME and UWS[I] that afforded UWS[I] with existing or prospective legal rights, that Adams Arms was aware of that relationship, and that Adams Arms intentionally interfered with the relationship

without justification, causing harm to UWS[I]. Specifically, UWS[I] claims that Adams Arms sent a defamatory and threatening email to FAME "just as UWS[I] and FAME were getting ready to ink the deal" and that the email caused damage to UWS[I]. (Doc. # 90 at 3-4). UWS[I] claims that due to the email from Adams Arms, FAME refused to issue any purchase orders, effectively depriving UWS[I] of its expected monetary benefits under the contract.

At this juncture, these allegations are sufficient to withstand Adams Arms' Motion to Dismiss.

(Doc. # 94 at 22-23).

UWSI has not altered the substance of its tortious interference Counterclaim since the entry of the Court's September 27, 2016, Order. Adams does not ask for reconsideration of the Court's prior Order, which upheld the sufficiency of UWSI's tortious interference Counterclaim. Instead, Adams requests that the Court strike UWSI's reference to Adams' filing of this lawsuit as a basis for tortious interference. Although the Court has ruled that the filing of the present lawsuit does not constitute an act of tortious interference by Adams, the Court sees no reason to strike all reference to the filing of the lawsuit from UWSI's Counterclaim.

UWSI's reference to the filing of the lawsuit is not "redundant, immaterial, impertinent, or scandalous." 12(f), Fed. R. Civ. P. In addition, UWSI's allegations regarding Adams' act of initiating the lawsuit by filing the initial Complaint are not subject to being stricken as confusing,

prejudicial, or baseless. The factual allegations regarding the filing of the lawsuit provide a temporal context for the complex chain of events in question. Adams' Motion to Strike is accordingly denied with respect to UWSI's Counterclaim for tortious interference and specifically with respect to allegations regarding the filing of the lawsuit. The Court reiterates its finding that the filing of the present lawsuit is not an appropriate basis for a tortious interference claim. The Court is allowing UWSI to include in its Counterclaim some allegations regarding the filing of the Complaint merely to provide background information and temporal orientation.

B. UWSI and Aguius' Unjust Enrichment Counterclaims

The elements of an unjust enrichment claim are "(1) the plaintiff conferred a benefit on the defendant, who had knowledge of the benefit, (2) the defendant voluntarily accepted and retained the benefit, and (3) under the circumstances it would be inequitable for the defendant to retain the benefit without paying for it." My Classified Ads, L.L.C. v. Greg Welteroth Holding, Inc., No. 8:14-cv-2365-T-33AEP, 2015 U.S. Dist. LEXIS 31180, at *9 (M.D. Fla. Mar. 13, 2015).

UWSI and Aguius have alleged each element and satisfy the burden imposed by Rule 12(b)(6). Specifically, UWSI and Aguius claim that Adams used UWSI and Aguius' confidential

information to launch a rifle, Adams' Patrol Rifle, for which Adams will receive financial gain; that Adams voluntarily accepted and retained the benefit of the confidential information; and that Adams has been enriched at the expense of UWSI and Aguius. UWSI and Aguius also allege that the circumstances are such that it would be inequitable for Adams to retain the benefit of the confidential information without paying for it. See (Doc. # 109 at ¶¶ 67-70; Doc. # 117 at ¶¶ 28-31). Although UWSI and Aguius have provided a concise outline of their respective unjust enrichment Counterclaims, Adams seeks dismissal because these claims lack "requisite [sic] particularity." (Doc. # 119 at 14; Doc. # 123 at 5).

The Court denies the Motion because the Counterclaims are more than sufficient to place Adams on notice of the conduct in question. In fact, Adams, in presenting its Motions to Dismiss, was able to succinctly distill the unjust enrichment Counterclaims as follows: "AA breached the nondisclosure agreement and was unjustly enriched when it utilized [the] confidential information for AA's own commercial gain in bringing a new product to market (a .308 [Patrol] rifle), a different product from those discussed in the letter of intent (a 5.56 and a 7.62 rifle)." (Doc. # 119 at 14; Doc. # 123 at 5). As such, the Court denies the Motions to Dismiss to the extent they are aimed at the unjust enrichment Counterclaims.

C. UWSI and Aguius' Breach of Contract Counterclaims

1. Standing

Adams seeks an order dismissing Counts Two (breach of Letter of Intent) and Three (breach of Mutual Confidentiality and Nondisclosure Agreement) of UWSI's Counterclaim for lack of subject matter jurisdiction pursuant to Rule 12(b)(1), Fed. R. Civ. P. However, rather than claiming that the Court lacks subject matter jurisdiction over UWSI's relevant Counterclaims, Adams argues that UWSI does not have standing to sue Adams for breach of the Letter of Intent and of the Mutual Confidentiality and Nondisclosure Agreement. Adams also contends that Aguius lacks standing to sue for a breach of the Letter of Intent because it is not a party to that contract.

Just as it was necessary to draw upon the Court's prior Order to address Adams' Motion to Dismiss UWSI's tortious interference Counterclaim, the Court must once again look back to the prior Order to assess whether it is appropriate to dismiss any breach of contract Counterclaims. Previously, UWSI sought dismissal of Adams' breach of contract claim by arguing that UWSI was not a party to the contract. The Court however, denied UWSI's motion to dismiss. Based on the Court's ruling, UWSI sought leave to amend its Counterclaim to add a claim for breach of contract. As explained by UWSI:

UWSI amended its Counterclaim to add counts for breach of the LOI and NDA in the event this Court ultimately finds that UWSI is a party to those agreements, as pled and argued by Adams and given this Court's rejection of UWSI's argument to the contrary in its motion to dismiss. . . . If UWSI is held to be a party, then it certainly has the right to bring its own claims under those agreements. . . . Adams cannot have it both ways. It cannot claim that UWSI is a party for purposes of Adams' claims against UWSI, but not a party for purposes of UWSI's counterclaims against Adams.

(Doc. # 128 at 10-11)(emphasis in original). Adams' subject matter jurisdiction and standing arguments miss the mark to the extent such arguments are focused on UWSI. Adams has taken the position that Adams and UWSI are parties to various contracts and that UWSI breached those contracts in myriad ways. UWSI contends that, if it is a party to the contracts, it was Adams that breached the contracts, not UWSI. Surely if the Court has subject matter jurisdiction over Adams' breach of contract claims with UWSI as a Defendant, the Court has subject matter jurisdiction over UWSI's Counterclaims with Adams as a Counterclaim Defendant.

The same cannot be said for Aguius, however, in regards to the Letter of Intent.³ Adams correctly points out that

³ In contrast, Aguius does specifically allege that it is a contracting party to the Mutual Confidentiality and Nondisclosure Agreement. (Doc. # 117 at ¶ 21). At the Motion to Dismiss stage, the Court accepts this allegation as true. Furthermore, Aguius attaches an executed copy of the Mutual Confidentiality and Nondisclosure Agreement to the Counterclaim and Aguius is named as the "Receiving Party" on the executed Agreement. (Doc. # 117-2 at 4).

Aguieus never alleged in its Counterclaim that it is a party to the Letter of Intent. And, Adams sued UWSI for breach of the Letter of Intent, not Aguieus. The Letter of Intent states that UWSI is partially owned by Aguieus, but the Letter of Intent does not reflect that Aguieus is a contracting party. Rather, the Letter of Intent is "between Unified Weapon Systems ('Buyer') and Adams Arms ('Seller')." (Doc. # 117-3 at 1)(emphasis in original). Aguieus alleges in Count Three:

On April 29, 2014, [Adams] executed and delivered a LOI. Pursuant to the LOI, [Adams] was to deliver three orders of the Rifles on or before September 1, 2014. [Adams] failed to timely deliver the Rifles as required by the LOI. [Adams] failed to deliver a single prototype . . . by September 1, 2014. As a direct result of [Adams'] failure to timely deliver the Rifles, the opportunity to secure a contract with the MOD for the MOD Project was lost. [Adams] materially breached the LOI by failing to deliver the Rifles before September 1, 2014, and damage has been caused by [Adams'] breach of the LOI.

(Doc. # 117 at ¶¶ 32-37). These allegations do not support Augieus' claim against Adams for breach of the Letter of Intent because Aguieus never alleged that it is a party to the contract or that it is otherwise in privity. "It is hornbook law that privity of contract 'is essential to the maintenance of an action on any contract.'" Katchmore Luhrs, LLC v. Allianz Global Corp. & Speciality, No. 15-cv-23420, 2017 U.S. Dist. LEXIS 13778, at *14 (S.D. Fla. Jan. 31, 2017) (citing

Sumitomo Corp. of Am. v. M/V Saint Venture, 683 F. Supp. 1361, 1369 (M.D. Fla. 1988)). In addition, “[g]enerally, a contract does not bind one who is not a party to the contract” and “[u]nder Florida law, corporations are separate legal entities, and contracts made by a parent corporation do not bind a subsidiary.” Whetstone Candy Co., Inc. v. Kraft Foods, Inc., 351 F.3d 1067, 1072-74 (11th Cir. 2003). The Court accordingly grants Adams’ Motion to Dismiss to the extent that Motion targets Count Three of Aguius’ Counterclaim, for breach of the Letter of Intent. However, the Court grants Aguius the opportunity to amend its Counterclaim in light of the recent filing of the Cross-claim, which effectively shuffles the deck regarding corporate identities, ownership, and alliances in this case. Any amendment to Aguius’ Counterclaim must be filed by **February 21, 2017**.

2. Rule 12(b)(6) Breach of Contract Analysis

The Court has determined that UWSI has standing to sue Adams for breach of the Letter of Intent and that both UWSI and Aguius have standing to sue Adams for breach of the Mutual Confidentiality and Nondisclosure Agreement. The Court now addresses whether UWSI and Aguius state a claim for breach of these agreements.

The elements of a breach of contract action are “(1) the existence of a contract, (2) a breach of the contract, and (3)

damages resulting from the breach." Rollins, Inc. v. Butland, 951 So. 2d 860, 876 (Fla. 2nd DCA 2006). In the Counterclaims, UWSI and Aguius allege that the Letter of Intent and the Mutual Confidentiality and Nondisclosure Agreement are contracts, that Adams breached the contracts, and that UWSI and Augieus suffered damages as a result. (Doc. # 109 at ¶¶ 57-64; Doc. # 117 at ¶¶ 21-26).

Adams' arguments that the relevant breach of contract Counterclaims lack specificity are unavailing. For instance, Adams argues: "Nothing indicates when the confidential information was disclosed or whether the information was conveyed in person, by phone, or through electronic transmission. . . . [the] conclusory assertions . . . do not answer such basic questions as who, what, when, or how." (Doc. # 123 at 7). However, none of the Counterclaims allege fraud, which would require such a greater specificity under Fed. R. Civ. P. 9(b). The allegations in the questioned Counterclaims accusing Adams of wrongfully using UWSI and Aguius' confidential information to create the Patrol Rifle are sufficient to place Adams on notice regarding the nature of the claims. As argued by Aguius:

Count 1 of Aguius's Counterclaim alleges that [Adams] breached the [Mutual Confidentiality and Nondisclosure Agreement] by using Aguius' disclosed Confidential Information (a term specifically defined in Paragraph 7 of the Counterclaim and Section 1 of the [Mutual

Confidentiality and Nondisclosure Agreement]), including product plans, designs, and hardware configuration information, to launch [Adams'] Small Frame .308 Rifle (aka-Patrol Rifle), and that Aguieus has been damaged as a result. No further "particularity" is required for a breach of contract claim.

(Doc. # 131 at 6).

Adams does not agree with the factual allegations leveled by UWSI and Aguieus, but that is a matter for a later determination by a fact-finder, not for disposition on a Motion to Dismiss or Motion to Strike. The relevant breach of contract Counterclaims contain more than sufficiently detailed factual allegations to place Adams on notice regarding the alleged breaches. The Court accordingly denies Adams' Motion to Dismiss UWSI and Aguieus' Counterclaims for breach of the Mutual Confidentiality and Nondisclosure Agreement and UWSI's Counterclaim for breach of the Letter of Intent.

Accordingly, it is

ORDERED, ADJUDGED, and DECREED:

- (1) Adams Arms, LLC's Motion to Dismiss or Strike Unified Weapons Systems, Inc.'s First Amended Counterclaim (Doc. # 119) is **DENIED**.
- (2) Adams Arms' Motion to Dismiss Aguieus, LLC's Counterclaim (Doc. # 123) is **GRANTED IN PART** to the extent that Aguieus' Counterclaim for breach of the Letter of Intent is dismissed with leave to amend by **February 21, 2017**.

The Motion is otherwise **DENIED**.

DONE and **ORDERED** in Chambers in Tampa, Florida, this 8th
day of February, 2017.


VIRGINIA M. HERNANDEZ COVINGTON
UNITED STATES DISTRICT JUDGE

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United States District Court
Northern District of California

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

AVAGO TECHNOLOGIES U.S. INC., et
al.,

 Plaintiffs,

 v.

NANOPRECISION PRODUCTS, INC.,

 Defendant.

Case No. 16-cv-03737-JCS

**ORDER GRANTING MOTION TO
DISMISS**

Re: Dkt. No. 29

I. INTRODUCTION

In this action, Plaintiff and Counter-Defendants Avago Technologies U.S., Inc., Avago Technologies General IP (Singapore), PTE, Ltd., and Laurence McColloch (collectively, “Avago”) seek a declaratory judgment of correct inventorship. Counterclaimants nanoPrecision Products, Inc., Michael K. Barnoski, Robert R. Vallance, Shuhe Li and King-Fu Hii (collectively, “nPP”) have, in turn, asserted eight Counterclaims against Avago in their Answer and Counterclaim. Presently before the Court is Avago’s Motion to Dismiss Counterclaimants’ First through Sixth Counterclaims (“Motion”). The Court finds that the Motion is suitable for determination on the papers pursuant Civil Local Rule 7-1(b). For the reasons stated below, the Motion is GRANTED.¹

II. BACKGROUND

A. Factual Background

Avago is a global supplier of “fiber optic communications modules used in optical networks for transmitting and receiving optical data signals.” First Amended Complaint (“FAC”)

¹ The parties have consented to the jurisdiction of the undersigned magistrate judge pursuant to 28 U.S.C. § 636(c).

1 ¶ 14; *see also* Answer ¶ 14.² During the relevant time period, Lawrence McColloch was
 2 employed as an engineer at Avago. FAC ¶ 15; Answer ¶ 15. According to Avago, McColloch’s
 3 work at Avago had included the design and manufacture of fiber optic communications modules
 4 and for many years he had been working on developing the design of single mode optical benches.
 5 FAC ¶ 16.

6 nPP alleges that it is a “world leader in the field of complex material forming with
 7 nanometer accuracies and tolerances.” Counterclaim ¶ 2. According to nPP, it developed a
 8 “proprietary manufacturing process,” including a “proprietary stamping processes that can
 9 produce a variety of 3D components made of metals such as Kovar, stainless steel, aluminum,
 10 copper, or titanium.” *Id.* In July of 2010, nPP began communicating with Avago Technologies
 11 regarding nPP’s capabilities to precision stamp various components for fiber optic applications,
 12 including optical benches. *Id.* ¶ 13. On July 16, 2012, after Avago and nPP had entered into a
 13 non-disclosure agreement (“NDA”), representatives of nPP and Avago Technologies had their first
 14 in-person meeting. *Id.* ¶ 15. McColloch was one of the individuals who attended this meeting for
 15 Avago. *Id.*

16 According to Avago, at the July 16, 2010 meeting McColloch shared his optical bench
 17 design that could be manufactured by a stamping process with nPP. FAC ¶ 21. nPP, in turn, made
 18 a presentation about its precision metal stamping capabilities. *Id.* ¶ 20. nPP alleges that it
 19 disclosed confidential and proprietary information about its stamping process, answering many
 20 questions from McColloch, who allegedly “stated that he was unaware of the possibility of using a
 21 stamped bench in place of a silicon bench in such optoelectronic applications.” Counterclaim ¶ 16.
 22 Avago, on the other hand, alleges that “McColloch had first considered making a stamped optics
 23 for fiber optic use as early as in 2001 and was first exposed to the idea of stamping optics as early
 24 as 1983.” FAC ¶ 17.

25 Avago and nPP continued to communicate about the possibility of working together and a
 26

27 ² nPP’s Answer and Counterclaim is a single document. *See* Docket No. 23. The Court cites
 28 separately to the “Answer” or the “Counterclaim” only to indicate the section of the document to
 which it refers as the paragraphs are separately numbered in the two sections.

1 number of meetings were held between July 2016 and May 30, 2012. Counterclaim ¶¶ 19-41.
2 nPP alleges that during this period it sent confidential and proprietary bench designs and
3 PowerPoint slides to Avago and that it prepared “solid models” as well. *Id.* Avago, in turn,
4 alleges that McColloch shared with nPP . . . several of his proposed stamped optical bench designs
5 during the course of these meetings and communications. FAC ¶ 22. According to nPP, the
6 parties entered into a second non-disclosure agreement on May 30, 2012 due to nPP’s concern that
7 the first one had expired. Counterclaim ¶ 38. In the end, the parties did not enter into an
8 agreement; instead, on July 24, 2012, Avago informed nPP that “there would be no deal.” *Id.* ¶
9 42.

10 While the discussions with nPP were still underway, on December 19, 2011, McColloch
11 filed U.S. Patent Application No. 13/329,380 entitled “Modified Transistor Outline (TO)-CAN
12 Assembly for Use in Optical Communications and a Method” (“the ’380 Application”) and
13 assigned ownership thereof to Avago IP. FAC ¶ 25 & Ex. 1 (’025 Patent). The ’380 Application,
14 issued as United States Patent No. 9,011,025 (“the ’025 Patent”) on April 21, 2015 and lists a prior
15 publication date of June 20, 2013. FAC, Ex. 1.

16 On October 23, 2012, McColloch filed U.S. Patent Application No. 13/658,379 entitled
17 Stamped Metal Optic for Use in an Optical Communications Module (“the ’379 Application”) and
18 assigned ownership thereof to Avago Technologies General IP (Singapore) PTE. LTD. FAC ¶ 23
19 & Ex. 4 (’379 Application). On April 24, 2014, the USPTO published the ’379 Application. *Id.*
20 According to Avago, the ’379 Application claims stamped optical bench designs, some of which
21 McColloch had disclosed to nPP during the course of the parties’ business discussions under the
22 NDA, but it also contained embodiments of stamped optical benches that were not disclosed to
23 nPP during those discussions. *Id.*

24 On March 24, 2015, Avago filed U.S. Patent Application 14/666,427 (“the ’427
25 Application”), which is a continuation of the ’380 Application. FAC ¶ 26. While the claims of the
26 ’427 Application were new, the specification was identical to the specification of the ’380
27 Application. On July 9, 2015, the USPTO published the ’427 Application, and it issued as the
28 ’360 Patent on July 26, 2016. FAC, Ex. 2.

1 nPP contends all three applications – the '379 Application, the '380 Application and the
2 the '427 Application (collectively, the “Avago Applications”) – used the confidential and
3 proprietary information that it disclosed to Avago under the NDAs. *See generally* Counterclaim.

4 On February 19, 2015, nPP filed a complaint in the Superior Court of the State of
5 California in Santa Clara County (“the State Court Action”) against Avago; it filed a First
6 Amended Complaint on April 9, 2015 alleging breach of contract, trade secret misappropriation
7 under the California Uniform Trade Secrets Act (“CUTSA”), intentional interference with
8 contractual relations, unfair competition, conversion, specific recovery, breach of fiduciary duty,
9 unjust enrichment, fraud, and declaratory relief. *See* Ratinoff Decl., Ex. 2 (State Court Action
10 FAC).³

11 On April 23, 2015, nPP filed a patent application entitled “Coupling Device Having a
12 Stamped Structured Surface for Routing Optical Data Signals” and was assigned U.S. Patent
13 Application No. 14/695,008 (“the '008 Application”). FAC ¶ 31. Avago alleges that nPP used
14 inventions that were previously disclosed in Avago’s '379 Application to prepare the '008
15 Application. *Id.* nPP, on the other hand, contends the '379 Application discloses inventions by
16 nPP employees, not McColloch. Therefore, on April 24, 2015, nPP sought to initiate a derivation
17 proceeding to correct the listing of named inventors on Avago’s '379 Application by filing a
18 Petition to Institute Derivation Proceeding with the USPTO. Ratinoff Decl., Ex. 1. That petition
19 is still pending.

20 In the meantime, the State Court Action went forward and on April 1, 2016 the Superior
21 Court granted in part Avago’s demurrer, finding that six of nPP’s claims, including its claims for
22 conversion and specific recovery of personal property, were preempted by the CUTSA. Ratinoff
23 Decl., Ex. 3 at 6-11. The State Court permitted nPP to amend its complaint to include allegations
24 to show, if it could, that the dismissed claims were not preempted and on May 2, 2016, nPP filed a
25 second amended complaint in the State Court Action that again included claims for conversion
26

27 _____
28 ³ Avago requests that the Court take judicial notice of the pleadings in the State Court Action as well as documents of public record filed in or issued by the United States Patent Office. *See* Docket Nos. 29-7, 35-6. nPP has not objected to these requests, which are GRANTED.

1 and specific recovery of personal property. Ratinoff Decl., Ex. 4. Avago filed another demurrer,
2 which was set to be heard on January 27, 2017. On December 13, 2016, however, the parties
3 entered into a stipulation pursuant to which nPP agreed to seek a stay of the State Court Action if
4 this Court agreed to exercise supplemental jurisdiction over the state law counterclaims that nPP
5 asserted in the instant action in its October 17, 2016 Answer and Counterclaim (Docket No. 23).
6 Under the stipulation, Avago also agreed to withdraw its argument that this Court should dismiss
7 Counterclaims One through Five under the *Colorado River* doctrine because they are identical to
8 claims previously asserted by nPP and still pending in the State Court Action. The Court
9 approved that stipulation on December 15, 2016. *See* Docket No. 37.

10 **B. The Instant Action and nPP's Counterclaims**

11 Avago initiated this action on July 1, 2016, seeking a declaratory judgment of correct
12 inventorship of the '025 Patent. Complaint. After the '360 Patent issued, on July 26, 2016,
13 Avago filed its First Amended Complaint to seek the same relief as to that patent as well. *See*
14 Docket No. 15.

15 nPP filed its Answer and Counterclaim on October 17, 2017. In the Counterclaim, nPP
16 alleges that "Avago IP and McColloch brazenly used nPP's proprietary and confidential
17 information as the primary basis to prepare the ['379 Application]." Counterclaim ¶ 44. In
18 particular, nPP alleges:

19 [The '379 Application] included the concepts developed by nPP and
20 provided to McColloch and Avago Technologies under the NDA,
21 which were clearly marked and identified as confidential and
22 proprietary to nPP including: a stamped bench with a curved mirror
23 or a flat mirror, a fiducial for a pick-and-place operations with visual
alignment, gussets for structural integrity of the mirror surface,
pockets for locating a ball lens, and pockets with alignment edges
for accurately locating electro-optical chips such as edge-emitting
lasers or photodiodes.

24 *Id.* ¶ 45. nPP alleges that further disclosures of its confidential and proprietary information were
25 made by Avago and McColloch during the prosecution of the '379 Application. *Id.* ¶ 48 ("This
26 continued prosecution evidences further misappropriation, disclosure, and use of nPP confidential
27 and proprietary information by Avago Technologies and McColloch.").

28 nPP made similar allegations about the applications that led to the '025 Patent and the

1 '360 Patent, the '380 Application and the '427 Application, respectively. Counterclaim ¶ 50.

2 Specifically, nPP alleges:

3 These two applications included the concepts developed by nPP and
4 provided to McColloch and Avago Technologies under the NDA,
5 which were clearly marked and identified as confidential and
6 proprietary to nPP including a fiber optic connector component with
7 an opening at its side wall for receiving a portion of an optical fiber
8 at a non-zero degree angle α , relative to an axis that is generally
9 normal to a printed circuit board, with a groove formed in it for
10 accepting a portion of the optical fiber, with a reflector (mirror) that
11 folds an optical pathway by the angle α , and with a recess formed
12 adjacent to an end of the groove, wherein the reflector is disposed
13 opposite the end of the groove.

9 *Id.*

10 The Counterclaim asserts the following causes of action: 1) breach of contract; 2)
11 misappropriation of trade secrets under the CUTSA; 3) conversion; 4) specific recovery of
12 personal property; 5) declaratory relief; 6) trade secret misappropriation under the Defend Trade
13 Secrets Act of 2016 (“DTSA”), 18 U.S.C. § 1836; 7) correction of named inventor on '025 Patent;
14 and 8) correction of named inventor on '360 Patent.

15 In Claim Three, for conversion, nPP incorporates all of the preceding allegations in the
16 Counterclaim. *Id.* ¶ 66. It goes on to allege:

17 nPP is the owner of the confidential and proprietary information
18 provided to McColloch and Avago Technologies under the NDA
19 and NDA II as set forth above. As alleged above, Avago
20 Technologies is in possession of nPP’s materials, documents, files,
21 and models marked confidential and proprietary and disclosed under
22 the NDA and NDA II. nPP is entitled to possession of such withheld
23 confidential and proprietary property provided under the NDA or
24 NDA II.

21 *Id.* ¶ 67. nPP alleges that it has “demanded return of its property by asking for the return of
22 confidential materials, documents, files, and models” disclosed to Avago and that it has
23 suffered and continues to suffer damage as a result of Avago’s “improper possession, use, and
24 publication of its confidential and proprietary property.” *Id.* ¶ 69-70.

25 In Claim Four, for specific recovery of personal property, nPP incorporates all of the
26 preceding allegations of the Counterclaim, including the allegations in the conversion claim. *Id.* ¶
27 71. It further alleges:
28

nPP is the owner of the confidential and proprietary information provided to McColloch and Avago Technologies under the NDA and NDA II as set forth above. As alleged above, Avago Technologies generally and Avago IP in particular are in wrongful possession of nPP's materials, documents, files, and models marked confidential and proprietary and disclosed under the NDA and NDA II. nPP is entitled to possession of such withheld confidential and proprietary property.

Id. ¶ 72. nPP goes on to allege that “Avago Technologies generally and Avago IP in particular have improperly taken nPP’s property, without nPP’s consent, in the form of improperly withheld materials, documents, files, and models” and that “[t]he confidential and proprietary physical property taken by Avago Technologies generally and Avago IP in particular is very valuable.” *Id.* ¶¶ 73-74.

In Claim Six, for trade secret misappropriation under DTSA, nPP incorporates all the preceding allegations of the Counterclaim. *Id.* ¶ 80. It further alleges in support of the claim that Avago “acquired nPP’s confidential and proprietary trade secret information pursuant to the NDA and NDA II” and that Avago “without the express or implied consent of nPP, took nPP’s confidential and proprietary information and included it in the Avago Applications naming McColloch as the inventor.” *Id.* ¶¶ 83-84. nPP goes on to allege the following specific violations:

Avago Technologies, without the express or implied consent of nPP, took nPP’s confidential and proprietary information and included it in the Avago Applications naming McColloch as the inventor. The Avago Applications disclosed such information to the world when the applications were published and again when the ’025 Patent issued, destroying the confidentiality and secrecy of the information provided under the NDA and NDA II. Avago again disclosed such information to the world by its continued prosecution of the Avago Applications, including, publicly filing the Appeal Brief at the PTO on July 5, 2016, and causing the ’360 Patent to issue and publish on July 26, 2016.

Id. ¶ 84.

C. The Motion

In the Motion, Avago asserts Claims Three and Four should be dismissed because they are preempted by the CUTSA. It further argues that these claims should be dismissed *without* leave to amend because nPP was already given an opportunity to amend them in the State Court Action and failed to fix the problem relating to CUTSA preemption. Avago also challenges Claim Four

1 on the basis that specific recovery of personal property is merely a remedy and not a separate
2 claim. Avago seeks dismissal of Claim Six, under DTSA, on the basis that all of the relevant
3 conduct alleged in support of that claim occurred before DTSA came into effect, on May 11, 2016.

4 nPP counters that the allegations supporting its claims for conversion and specific recovery
5 of personal property are sufficient to avoid CUTSA preemption, at least at the pleading stage of
6 the case. It also argues that California law supports the conclusion that specific recovery of
7 personal property may be asserted as a claim in its own right. It further contends its DTSA claim is
8 premised, at least in part, on conduct that occurred after May 11, 2016 and therefore, that that
9 claim should not be dismissed.

10 **III. ANALYSIS**

11 **A. Legal Standard under Rule 12(b)(6)**

12 A complaint (or here, counterclaim) may be dismissed for failure to state a claim on which
13 relief can be granted under Rule 12(b)(6) of the Federal Rules of Civil Procedure. “The purpose
14 of a motion to dismiss under Rule 12(b)(6) is to test the legal sufficiency of the complaint.” *N.*
15 *Star Int’l v. Ariz. Corp. Comm’n*, 720 F.2d 578, 581 (9th Cir. 1983). Generally, a claimant’s
16 burden at the pleading stage is relatively light. Rule 8(a) of the Federal Rules of Civil Procedure
17 states that “[a] pleading which sets forth a claim for relief . . . shall contain . . . a short and plain
18 statement of the claim showing that the pleader is entitled to relief.” Fed. R. Civ. P. 8(a).

19 In ruling on a motion to dismiss under Rule 12(b)(6), the court takes “all allegations of
20 material fact as true and construe[s] them in the light most favorable to the non-moving party.”
21 *Parks Sch. of Bus. v. Symington*, 51 F.3d 1480, 1484 (9th Cir. 1995). Dismissal may be based on a
22 lack of a cognizable legal theory or on the absence of facts that would support a valid theory.
23 *Balistreri v. Pacifica Police Dep’t*, 901 F.2d 696, 699 (9th Cir. 1990). A pleading must “contain
24 either direct or inferential allegations respecting all the material elements necessary to sustain
25 recovery under some viable legal theory.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 562 (2007)
26 (citing *Car Carriers, Inc. v. Ford Motor Co.*, 745 F.2d 1101, 1106 (7th Cir. 1984)). “A pleading
27 that offers ‘labels and conclusions’ or ‘a formulaic recitation of the elements of a cause of action
28 will not do.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting *Twombly*, 550 U.S. at 555).

1 “[C]ourts ‘are not bound to accept as true a legal conclusion couched as a factual allegation.’”
2 *Twombly*, 550 U.S. at 555 (quoting *Papasan v. Allain*, 478 U.S. 265, 286 (1986)). “Nor does a
3 [pleading] suffice if it tenders ‘naked assertion[s]’ devoid of ‘further factual enhancement.’” *Iqbal*,
4 556 U.S. at 678 (quoting *Twombly*, 550 U.S. at 557). Rather, the claim must be “‘plausible on its
5 face,’” meaning that the claimant must plead sufficient factual allegations to “allow[] the court to
6 draw the reasonable inference that the defendant is liable for the misconduct alleged.” *Id.* (quoting
7 *Twombly*, 550 U.S. at 570).

8 **B. CUTSA Preemption**

9 **1. The CUTSA**

10 The CUTSA is codified in sections 3426 through 3426.11 of the California Civil Code. It
11 contains a “savings clause” that provides, in relevant part, that the CUTSA “does not affect (1)
12 contractual remedies, whether or not based upon misappropriation of a trade secret, [or] (2) other
13 civil remedies that are not based upon misappropriation of a trade secret” Cal. Civ. Code §
14 3426.7(b). Based on the CUTSA’s “comprehensive structure and breadth,” California courts and
15 federal courts applying California law have found that “section 3426.7, subdivision (b), preempts
16 common law claims that are ‘based on the same nucleus of facts as the misappropriation of trade
17 secrets claim for relief.’” *Id.* (quoting *Digital Envoy, Inc. v. Google, Inc.*, 370 F.Supp.2d 1025,
18 1035 (N.D. Cal. 2005); *see also Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 236
19 (2010), as modified on denial of reh’g (May 27, 2010), disapproved of on other grounds by
20 *Kwikset Corp. v. Superior Court*, 51 Cal. 4th 310 (2011)) (“CUTSA provides the exclusive civil
21 remedy for conduct falling within its terms, so as to supersede other civil remedies ‘based upon
22 misappropriation of a trade secret’”) (quoting Cal. Civ. Code § 3426.7(b)).

23 Courts in this District have concluded, based on the *Silvaco* decision, that CUTSA
24 preemption extends to claims based on the misappropriation of confidential and proprietary
25 information, regardless of whether it qualifies as a “trade secret.” *See SunPower Corp. v.*
26 *SolarCity Corp.*, No. 12-CV-00694-LHK, 2012 WL 6160472, at *5-6 (N.D. Cal. Dec. 11, 2012)
27 (“absent ‘convincing evidence that’ the California Supreme Court ‘would decide [this issue]
28 differently,’ this Court believes it prudent to follow *Silvaco*”); *Heller v. Cepia, L.L.C.*, No. C 11-

1 01146 JSW, 2012 WL 13572, at *7 (N.D. Cal. Jan. 4, 2012), aff'd in part, 560 F. App'x 678 (9th
 2 Cir. 2014) (“*Silvaco* also made clear that common law claims premised on the wrongful taking of
 3 information that does not qualify as a trade secret are also superseded, unless the plaintiff
 4 identifies some law which confers property rights protecting the information”); *Mattel, Inc. v.*
 5 *MGA Entertainment, Inc.*, 782 F.Supp.2d 911, 987 (C.D.Cal.2011) (“UTSA supersedes claims
 6 based on the misappropriation of confidential information, whether or not that information meets
 7 the statutory definition of a trade secret”).

8 In *Silvaco*, the California Court of Appeal expressed disapproval of a decision by a
 9 Pennsylvania district court in which that court declined to dismiss a claim for conversion on the
 10 basis of preemption under the Pennsylvania Uniform Trade Secrets Act because it was “yet to be
 11 determined whether the information at issue constitutes a trade secret.” *Silvaco*, 184 Cal. App.
 12 4th at 239 n. 22; *Cenveo Corp. v. Slater*, No. CIV A 06-CV-2632, 2007 WL 527720, at *3 (E.D.
 13 Pa. Feb. 12, 2007). The *Silvaco* court opined:

14 We emphatically reject the *Cenveo* court’s suggestion that the
 15 uniform act was not intended to preempt “common law conversion
 16 claims based on the taking of information that, though not a trade
 17 secret, was nonetheless of value to the claimant.” . . . On the
 18 contrary, a prime purpose of the law was to sweep away the
 19 adopting states’ bewildering web of rules and rationales and replace
 20 it with a uniform set of principles for determining when one is—and
 21 is not—liable for acquiring, disclosing, or using “information . . . of
 22 value.” . . . Central to the effort was the act’s definition of a trade
 23 secret. . . . Information that does not fit this definition, and is not
 24 otherwise made property by some provision of positive law, belongs
 25 to no one, and cannot be converted or stolen. By permitting the
 26 conversion claim to proceed on a contrary rationale, the *Cenveo*
 27 court impliedly created a new category of intellectual property far
 28 beyond the contemplation of the Act, subsuming its definition of
 “trade secret” and effectively obliterating the uniform system it
 seeks to generate.

184 Cal. App. 4th at 239 n. 22. (2010). As Judge Koh noted in *SunPower*, “an argument could be
 made that the footnote [in *Silvaco*] is dicta as . . .there does not actually appear to have been any
 allegation by plaintiff that the information plaintiff was seeking to protect was not a trade secret
 and therefore not subject to trade secret law.” *Sunpower*, 2012 WL 6160472, at *6 (citing
Silvaco,184 Cal.App.4th at 239, where the *Silvaco* court stated that “[a]ll of [plaintiff’s] claims,
 except its UCL claim . . . depend on [defendant’s] supposed use, in [plaintiff’s] words of ‘software

1 . . . which embodies and uses . . . [plaintiff’s] Trade Secrets.”). Nonetheless, the undersigned
 2 finds that the reasoning of *Sunpower* is persuasive and therefore concludes that *Silvaco* should be
 3 followed on this question.

4 **2. Claim Three (Conversion)**

5 A claim for conversion must be based on “an actual interference with [the plaintiff’s]
 6 ownership or right of possession.” *Moore v. Regents of Univ. of Cal.*, 51 Cal. 3d 120, 136 (1990).
 7 Conversion “traditionally required a taking of tangible property, and thus was not available to
 8 remedy the misappropriation of something like a trade secret.” *Silvaco*, 184 Cal. App. 4th at 239.
 9 To establish a claim of conversion, the plaintiff must show “(1) the plaintiff’s ownership or right
 10 to possession of the property; (2) the defendant’s conversion by wrongful act inconsistent with the
 11 property rights of the plaintiff; and (3) damages.” *In re Emery*, 317 F.3d 1064, 1069 (9th Cir.
 12 2003) (citing *Burlesci v. Petersen*, 68 Cal. App. 4th 1062, 1065 (1998)).

13 Under *Silvaco*, if the only property identified in the complaint is confidential or
 14 proprietary information, and the only basis for any property right is trade secrets law, then a
 15 conversion claim predicated on the theft of that property is preempted. *See Language Line Servs.,*
 16 *Inc. v. Language Servs. Assocs., Inc.*, 944 F. Supp. 2d 775, 780 (N.D. Cal. 2013) (citing *Silvaco*,
 17 184 Cal. App. 4th at 238). Courts in this District have found that this rule applies even if the
 18 information at issue is embodied in tangible property such as documents, computer disks or
 19 physical models, unless these physical objects have “some value apart from the information they
 20 embod[y].” *Mattel, Inc. v. MGA Entm’t, Inc.*, 782 F. Supp. 2d 911, 997 (C.D. Cal. 2011) (holding
 21 that conversion claim “predicated upon the physical documents allegedly misappropriated by [the
 22 defendant] [was preempted by CUTSA] because [the defendant] [could not] show that the
 23 documents had any value ‘apart from the information contained therein.’”)(citing *Thomas & Betts*
 24 *Corp. v. Panduit Corp.*, 108 F.Supp.2d 968, 973 (N.D. Ill.2000)); *see also MedioStream, Inc. v.*
 25 *Microsoft Corp.*, 869 F. Supp. 2d 1095, 1116 (N.D. Cal. 2012) (dismissing conversion claim at the
 26 pleading stage on basis of CUTSA preemption where plaintiff alleged that defendants “took and/or
 27 permitted to be taken . . . certain documents and data and computer data discs that contain or
 28 reference Plaintiff’s Trade Secrets and other confidential and proprietary information,” reasoning

1 that the plaintiff did not identify any specific property or “make any attempt to distinguish it from
2 the trade secret material” identified in the complaint).

3 Here, Plaintiff has not identified in its conversion claim, or indeed, in the Counterclaim as
4 a whole, any specific property that has value apart from the confidential information it contains.
5 To the contrary, the allegations in the conversion claim identify the property that nPP seeks
6 entirely with reference to the confidential information contained therein. *See* Counterclaim ¶¶ 66-
7 67 (alleging that “nPP is the owner of the confidential and proprietary information provided to
8 McColloch and Avago Technologies” under NDAs between Avago and nPP and that “Avago
9 Technologies is in possession of nPP’s materials, documents, files, and models marked
10 confidential and proprietary and disclosed” under the NDAs and “is entitled to possession of such
11 withheld confidential and proprietary property”). nPP may not evade CUTSA preemption
12 simply by alleging that the confidential information at issue was written on a piece of paper or
13 embodied in a model where there are no allegations suggesting that the tangible property described
14 in the Counterclaim had any value apart from the confidential information disclosed in it.
15 Therefore, the Court concludes that nPP’s conversion claim, as currently alleged, is preempted by
16 the CUTSA.

17 The Court rejects nPP’s reliance on *Angelica Textile Servs. Inc. v. Park*, 220 Cal. App. 4th
18 495 (2013) for a contrary conclusion. In that case, the court of appeal upheld a jury verdict in
19 favor of the plaintiff on a conversion claim where the defendant had “retained thousands of pages
20 of documents” that the plaintiff owned. 220 Cal. App. 4th at 499. The jury also found that the
21 defendant had not stolen any trade secrets. *Id.* The court held that “[a]lthough the documents may
22 have little if any value in light of the jury’s finding defendants did not appropriate any trade
23 secrets, the defendant employee’s possession of them will support a conversion claim independent
24 of any trade secret.” *Id.* The court in that case concluded that “because the asserted claim is not
25 based on the existence of a trade secret, it was not displaced,” citing *Silvaco*. The *Angelica* court
26 did not directly address the question of whether of claim for conversion that alleges no facts
27 showing that the physical objects at issue have independent value should be allowed to proceed.

28 At least one federal district court has concluded that *Angelica* “did not hold that tangible

1 personal property automatically confers a separate property right that cannot be preempted.” *TMC*
 2 *Aerospace, Inc. v. Elbit Sys. of Am. LLC*, No. CV 15-07595-AB (EX), 2016 WL 3475322, at *7
 3 (C.D. Cal. Jan. 29, 2016). The court in *TMC* concluded instead that “the court’s holding in
 4 *Angelica* comports with the holding in *Silvaco Data Systems* – namely, that a common law claim
 5 survives preemption if its property interest is not rooted in the property’s status as a trade secret.”
 6 *Id.* (citing 184 Cal. App. 4th at 238). Thus, in *TMC*, the court dismissed the plaintiff’s conversion
 7 claim on the pleadings based on CUTSA preemption because the “allegations demonstrate[d] that
 8 the entire basis of [the plaintiff’s conversion claim [was] [the defendant’s] use of the same
 9 ‘proprietary design drawings, manufacturing techniques, and manufacturing equipment including
 10 moulds and jigs’ that Plaintiff defined as its protectable trade secrets.” *Id.* at t *7 (C.D. Cal. Jan.
 11 29, 2016). The undersigned agrees with the reasoning of *TMC* and reaches the same conclusion
 12 here.⁴

13 The Court also rejects nPP’s reliance on *Loop AI Labs Inc v. Gatti*, No. 15-CV-00798-
 14 HSG, 2015 WL 5158461, at *3 (N.D. Cal. Sept. 2, 2015). In that case, the court found that a
 15 conversion claim was adequately alleged and was not preempted where it was based on the
 16 allegation that the defendant had stolen a particular piece of property, namely, the plaintiff’s
 17 “work computer.” *Id.* at *3. The court therefore concluded that the claim for conversion was
 18 “fundamentally different than the conversion claim at issue in *Sunpower*.” *Id.* In *Sunpower*, the
 19 court explained, “the plaintiff alleged a conversion claim arising from the same allegations of
 20 misappropriation that underlay its CUTSA claim.” *Id.* (citing 2012 WL 6160472 at *13).

21 This case is more like *Sunpower* than *Loop*; the only materials described in the
 22 Counterclaim are identified only generally as the confidential and proprietary materials that were
 23 provided to Avago under NDAs between Avago and nPP. *See* Counterclaim ¶¶ 50, 65, 66-67.
 24 These materials are the basis for both nPP’s CUTSA Claim (Counterclaim Two) and its

25
 26 ⁴ The Court also notes that to the extent *Angelica* might be read to suggest that a plaintiff can
 27 avoid CUTSA preemption of a conversion claim simply by alleging that documents were taken,
 28 without any allegation that those documents had independent value, the Court finds that
 conclusion to be inconsistent with California law as set forth in *Silvaco* and the cases that have
 applied the holding of *Silvaco* in connection with conversion claims involving documents and
 other physical embodiments of confidential information, such as *Mattel*, *MedioStream* and *TMC*.

1 conversion claim (Counterclaim Three). The only reasonable inference that can be drawn from
2 nPP's allegations is that the property right at issue in the conversion claim derives from the
3 confidential nature of the information contained in the materials nPP provided to Avago. In
4 contrast to *Loop*, where a reasonable inference could be drawn that the tangible property at issue –
5 a computer – had independent value apart from the confidential information it contained, there is
6 no such allegation here.

7 Accordingly, the Court concludes that nPP's conversion claim, as currently alleged, is
8 preempted by CUTSA and is subject to dismissal. Although Avago asks the Court to dismiss
9 nPP's conversion claim with prejudice on the ground that the State Court previously dismissed the
10 conversion claim on similar grounds, the undersigned declines to do so. Rather, nPP will be given
11 an opportunity to amend its conversion claim to address the specific deficiencies that this Court
12 has identified.

13 **3. Claim Four (Specific Recovery of Personal Property)**

14 Specific recovery of personal property is a remedy for conversion. *See State Farm Mut.*
15 *Auto. Ins. Co. v. Dep't of Motor Vehicles*, 53 Cal. App. 4th 1076, 1082 (1997); *Fuhu, Inc. v. Toys*
16 *"R" US, Inc.*, No. 12CV2308-WQH-WVG, 2013 WL 12097569, at *15 (S.D. Cal. Mar. 1, 2013)
17 (“Stated more simply, specific recovery is an available remedy for conversion. Because the
18 Complaint supports a conversion claim, it also supports a specific recovery remedy”). Because
19 nPP's Fourth cause of action, for specific recovery of personal property, is encompassed by its
20 conversion claim, the Court dismisses the counterclaim for specific recovery of personal property
21 with prejudice.

22 **C. Claim Six (DTSA)**

23 nPP asserts a DTSA claim based on allegations that Avago misappropriated its trade
24 secrets by acquiring its confidential business information and disclosing it in the Avago
25 Applications and subsequent prosecution of those applications. Avago contends all of the
26 actionable conduct alleged in the Counterclaim occurred before the DTSA came into effect and
27 therefore, that the claim must be dismissed. The Court agrees.

28 Under the DTSA, “[a]n owner of a trade secret that is misappropriated may bring a civil

1 action under . . . if the trade secret is related to a product or service used in, or intended for use in,
2 interstate or foreign commerce.” 18 U.S.C. § 1836(b)(1). “Misappropriation” under DTSA
3 includes both the acquisition and disclosure of trade secrets. 18 U.S.C. §§ 1839(5)(A) & (B). The
4 DTSA applies to “any misappropriation of a trade secret . . . for which any act occurs on or after
5 the date of the enactment of [the] Act.” Defend Trade Secrets Act of 2016, PL 114-153, May 11,
6 2016, 130 Stat. 376. The date of enactment was May 11, 2016.

7 Here, nPP does not dispute that the original wrongful acquisition of its confidential
8 information, namely, Avago’s receipt of nPP’s confidential information in the course of the
9 parties’ business discussions that ended in 2012, occurred *before* the DTSA came into effect. It
10 nonetheless contends that Avago’s continued use of its confidential information in the prosecution
11 of the Avago Applications allows it to seek a partial recovery for misappropriation from the date
12 the DTSA came into effect. Significantly, nPP does not suggest that any *new* information was
13 disclosed in the course of the patent prosecutions that had not been disclosed prior to DTSA’s
14 effective date. Rather, it alleges that “Avago *again disclosed such information to the world* by its
15 continued prosecution of the Avago Applications.” Counterclaim ¶84 (emphasis added).

16 nPP’s reliance on *Adams Arms, LLC v. Unified Weapon Sys., Inc.*, No. 8:16-CV-1503-T-
17 33AEP, 2016 WL 5391394, at *1 (M.D. Fla. Sept. 27, 2016) in support of its position is
18 misplaced. In that case, the defendant argued that because some of the conduct at issue occurred
19 before the effective date of DTSA, there was a single continuing misappropriation and therefore,
20 that none of the conduct was actionable. 2016 WL 5391394, at *5. The defendant relied on
21 language in DTSA’s statute of limitation provision stating that “[f]or purposes of this subsection, a
22 continuing misappropriation constitutes a single claim of misappropriation.” *Id.* (quoting 18
23 U.S.C. § 1836(d)). But the court found that that language applied only to determinations of
24 timeliness of a DTSA claim and did not preclude a DTSA claim based on acts that occurred *after*
25 the effective date of the statute. In that case, there were allegations that specific information had
26 been disclosed (apparently for the first time) after the effective date of the DTSA and therefore,
27 the court allowed the claim to go forward. *Id.* at *6.

28 The situation here is entirely different from *Adams Arms*. As currently alleged, the

1 confidential information at issue was disclosed when the Avago Applications were published,
2 before the DTSA came into effect. nPP has not cited any authority suggesting that the DTSA
3 allows a misappropriation claim to be asserted based on the continued use of information that was
4 disclosed prior to the effective date of the statute. Simply alleging that the same information was
5 disclosed “again” is not sufficient to avoid this result as “disclosure,” by definition, implies that
6 the information was previously secret. *See Ultimex Cement Mfg. Corp. v. CTS Cement Mfg.*
7 *Corp.*, 587 F.3d 1339, 1355 (Fed. Cir. 2009) (“Once the information is in the public domain and
8 the element of secrecy is gone, the trade secret is extinguished and the patentee’s only protection
9 is that afforded under the patent law.”) (citation omitted). Because nPP has failed to allege any
10 facts showing that acts of misappropriation occurred *after* DTSA came into effect, its DTSA claim
11 fails on the pleadings.

12 For the reasons stated above, nPP’s DTSA claim is dismissed with leave to amend to
13 include, if it can, allegations showing that the DTSA claim is based on misappropriation that
14 occurred after the effective date of that statute.

15 **IV. CONCLUSION**

16 For the reasons stated above, the Motion is GRANTED. nPP’s Third and Sixth causes of
17 action are dismissed with leave to amend. nPP’s Fourth cause of action is dismissed with
18 prejudice. nPP shall file its amended Counterclaim within thirty (30) days of the date of this
19 Order.

20 **IT IS SO ORDERED.**

21
22 Dated: January 31, 2017

23
24 
25 _____
26 JOSEPH C. SPERO
27 Chief Magistrate Judge
28

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLORADO
Judge William J. Martínez**

Civil Action No. 16-cv-2473-WJM-MEH

ENGILITY CORPORATION,

Plaintiff,

v.

CHARLES AARON DANIELS,
RUTHERFORD “CHIP” SURBER, and
DEPLOYABLE TECHNOLOGY SOLUTIONS, LLC,

Defendants.

ORDER GRANTING PRELIMINARY INJUNCTION IN PART

Engility Corporation (“Engility”) brings this action against two former employees—Defendants Charles Daniels (“Daniels”) and Rutherford “Chip” Surber (“Surber”)—and a company they recently formed, Deployable Technology Solutions (“DTS”) (collectively, “Defendants”). Engilty claims:

1. violation of the Defend Trade Secrets Act of 2016 (“DTSA”), 18 U.S.C. § 1836(b);
2. violation of the Colorado Uniform Trade Secrets Act (“CUTSA”), Colo. Rev. Stat. §§ 7-74-101 to -110;
3. breach of a confidentiality agreement;
4. breach of the duty of loyalty;
5. tortious interference with contract and prospective economic advantage;
6. unfair competition; and
7. defamation.

(See generally ECF No. 7.)

Currently before the Court is the preliminary injunction portion of Engility's Motion for Temporary Restraining Order and Preliminary Injunction ("TRO/PI Motion"). (ECF No. 9.)¹ The Court has also received Defendants' Response (ECF No. 22), Engility's Reply (ECF No. 24). The Court held a Preliminary Injunction Hearing on November 21, 2016, after which it ordered further briefing (see ECF Nos. 35, 38, 39).

Having carefully considered all of the briefing and evidence received thus far, and for the reasons explained below in greater detail, the preliminary injunction portion of Engility's TRO/PI Motion is granted in part. Conditioned on Engility posting a \$1 million bond, Defendants are enjoined from disclosing or otherwise making use of Engility's trade secrets, and from competing for certain business for a period of one year beginning (retroactively) on October 4, 2016 expiring on October 3, 2017.

I. BACKGROUND

Based on the witness testimony and other evidence received into the record at the Preliminary Injunction Hearing, as well as the parties' filings to date, the Court makes the following factual findings:

A. Engility's Business and Daniels' Employment²

Engility describes itself as "the top solutions provider of military deployable communications equipment, ranging from collaboration tools such as video teleconferencing and streaming video to common operational picture tools." (ECF No.

¹ The Court previously denied the TRO portion of this motion. (See ECF No. 12.)

² The TRO/PI Motion focuses entirely on Daniels' actions and alleged misdeeds. Surber is barely mentioned. The Court therefore likewise focuses on Daniels.

11 at 2, ¶ 1.) As relevant here, Engility says there are “two crucial programs performed by Engility” that fall within this business focus: (1) “the Deployable Communications Capabilities Systems (‘DCCS’); and (2) “the upcoming requirement, Mobile User Objective System (‘MUOS’).” (*Id.* at 3.)

DCCS is a “solution” that Engility provides to U.S. Northern Command (“USNORTHCOM”), which is the United States military subdivision responsible for protecting the continental United States and closely related territorial interests. DCCS comprises equipment (*e.g.*, radio terminals, antennas, satellite dishes, etc.) that Engility procures from third parties and then assembles into an interoperable system that permits the user to accomplish voice and data communications similar to modern cell phone technology, but unconstrained by the need to be near a cell phone tower. MUOS is, among other things, a new constellation of satellites that provides even greater bandwidth for such communications—what the parties describe as roughly analogous to going from a 3G cell phone network to a 4G network. Eventually, all DCCS equipment must be able to communicate through MUOS.

Engility says that Daniels was “the ‘face’ of Engility” to USNORTHCOM. (ECF No. 11 at 2–3, ¶ 2.) Specifically, he was “the Technical Program Manager” for Engility with respect to DCCS and, allegedly, MUOS. (*Id.*) “In this position,” says Engility, “Defendant Daniels was privy to all of Engility’s most sensitive information regarding these programs He was also the principal conduit of information from the USNORTHCOM programs back to Engility.” (*Id.*)

Daniels and Surber formed DTS in May 2016—apparently unbeknownst to anyone else at Engility, and allegedly with the intention to “compete separately for the

MUOS Procurement.” (ECF No. 7 ¶ 15.)

B. Daniels’ Confidentiality Agreement

Engility is the successor-in-interest to a division of L-3 Communications. (*Id.* at 3 n.1.) When Daniels was hired by L-3, he signed an “Employee Confidentiality and Innovation Agreement” (“Confidentiality Agreement”). (See Plaintiff’s Exhibit 1.)³ The Confidentiality Agreement protects “Proprietary Information,” defined as

all trade secrets, know-how and other information that relates to the business of L-3 and is not generally available to the public or generally known in the industries in which L-3 does business or may become engaged, including, without limitation, any formulas, devices, inventions, methods, techniques or processes, compilations of information, records and specifications that are owned or licensed by L-3 and used in the operation of L-3’s business and any other information of L-3 relating to its services and products (offered or to be offered), research, development, marketing, pricing, clients and prospective clients, business methods, strategies, financial condition, plans, personnel information and capabilities, policies or prospects.

(*Id.* ¶ 4.) The Confidentiality Agreement also protects “L-3 Materials,” meaning “[a]ll files, records, proposals, specifications or other documents, and all computer software, software applications, files, databases and the like relating to L-3’s business or which contain Proprietary Information.” (*Id.* ¶ 2.)

In the Confidentiality Agreement, Daniels agreed “to hold all Proprietary Information and L-3 Materials in strict confidence,” and agreed not to “take, use, copy, disclose, publish or summarize any Proprietary Information or L-3 Materials except to the extent necessary to carry out [his] duties and responsibilities as an employee of

³ This document is also in the record at ECF No. 7-1.

L-3.” (*Id.* ¶ 1.) Daniels further agreed that, upon separation from L-3, he would “promptly deliver to L-3 all L-3 Materials in [his] possession, custody or control,” and would not “retain any copies of the L-3 Materials in any form or medium whatsoever.” (*Id.* ¶ 2.)

The Confidentiality Agreement explicitly inures to the benefit of L-3’s successors (*id.* ¶ 8), so it continues to apply as between Engility and Daniels.

C. Daniels’ Separation from Engility

The crux of the present proceedings is precisely what Daniels did with Engility data in his possession shortly before and shortly after his final day with the company. The parties have somewhat conflicting stories in this regard. To understand the Court’s eventual decisions regarding which story (or aspects of a story) to believe, the Court finds it helpful to present the parties’ various accounts in the chronological order that they were presented to the Court. As will be obvious below, the change in stories over time is revealing, particularly with respect to Daniels.

1. Engility’s Original Story

According to Engility’s TRO/PI Motion, Daniels’ last day with the company was August 29, 2016; this was also the date on which he returned his company computer, and on which Engility terminated his access credentials to the company network. (ECF No. 11 at 4, ¶ 6.) However, on an unspecified date after August 29, Daniels surrendered to Engility a flash drive full of Engility information, but with a “date modified” metadata date of August 30, 2016 as to most of that information. (*Id.*; *see also* ECF

No. 7-4 at 3.)⁴

From this, Engility inferred that “the contents of the flash drive—which include Engility trade secrets and proprietary information—were copied from a separate copy of the documents, which separate copy has not been disclosed, let alone returned to Engility.” (ECF No. 11 at 4, ¶ 6.) Based on that inference, Engility claims that Daniel still has access to:

- Engility’s cost loading process, a proprietary tool by which Engility determines product pricing based on profitability targets and anticipated costs, including employee salaries.
- Profitability information, on the basis of which Engility bids its work for the government.
- Customer contact information and summaries of customer interactions regarding the customers’ needs and purchasing goals.
- Engility’s contract pipeline and opportunities, as well as documents pertaining to its contracting strategies for the identification of opportunities and the development of bidding strategies.
- Product designs and equipment configuration, including equipment, trailers, and IP schematics for the DCCS program, as well as equipment bundling for routers, switches, cryptographic, radios, VTC Phones, etc.

(ECF No. 7 ¶ 24.)

2. Daniels’ Original Story

In a verified response brief, Daniels originally presented a materially different

⁴ ECF No. 7-4, p. 3, is a screenshot showing the “date modified” dates on the flash drive. Two of the eight dates shown are September 8, 2016, and September 15, 2016. Engility claims that these files “were opened by Engility employees”—thereby altering the metadata—“before they realized the importance of the metadata on the flash drive.” (ECF No. 11 at 4, ¶ 6.)

account. Daniels says he tendered his two-week notice to Engility on August 15, 2016, and he therefore agrees with Engility that his last day of work was supposed to be August 29, 2016. (ECF No. 22 at 5.) However, his supervisor, Jim Appleyard, had asked him “to create on a removable media device a copy of the files Daniels used in his day to day work, and to structure the files in a manner that would be easy for his replacement to follow.” (*Id.* at 5–6.) Due to more-pressing Engility assignments, Daniels could not complete the flash drive by August 29. He therefore “informed Appleyard he would be unable to complete the file project that day. Appleyard directed Daniels to continue working on the files, and to bring in his laptop computer and the [flash] drive as soon as he finished the project.” (*Id.* at 6.)

According to Daniels, he completed the flash drive project the next day (August 30) when he used his Engility-issued MacBook Pro to create a 13–14 gigabyte collection of files that he then copied onto a 16 gigabyte flash drive. (*Id.* at 6 & n.3.) Specifically, “[a]ll files Daniels copied to the [flash] drive for Appleyard were either generated on or downloaded onto and copied from this laptop computer.” (*Id.*) Later that same day (August 30), Daniels physically surrendered the flash drive and his laptop to an Engility employee at an Engility office in Colorado Springs. (*Id.* at 6.) The day after that (August 31), Daniels surrendered his company badge and keyfob at another Engility office in Colorado Springs. (*Id.*)

Given this sequence of events, Daniels argued that the August 30 metadata date on the flash drive is not evidence that he has kept a copy of anything, given that August 30 is the date he finalized the flash drive and then returned all of his materials to Engility. (ECF No. 22 at 8.) He admitted, however, that he *did* retain a few allegedly

irrelevant files, and a few potentially relevant files, with permission:

Before returning the laptop, Daniels downloaded a copy of his personal calendar and photos . . . onto [another flash drive] for himself. He also printed/saved to .PDF files (from the Outlook Express program on the laptop computer) and retained copies of a few e-mails that concerned projects he planned to ask [Engility supervisor Christopher] Wasniak about, along with some personal e-mails (e.g., an e-mail from a customer thanking him for his hard work). Jim Appleyard gave Daniels consent to retain those e-mails. The e-mails Daniels retained contain 2.91 megabytes of data, and do not contain any Engility trade secrets.

(*Id.* at 7 (footnote omitted).) Daniels identified the “projects he planned to ask Wasniak about” as “concern[ing] the JFHQ-NCR, JTF-N Garrison Services, and 153rd CACs that Engility claims the Defendants failed to inform Engility about.” (*Id.* at 7 n.4.)⁵ Daniels here refers to an allegation in Engility’s Complaint regarding “three support opportunities under the USNORTHCOM umbrella” that Daniels “failed to inform Engility about” before resigning. (ECF No. 7 ¶ 17.) Daniels also represented that all of these files, and certain others, were part of a zip file that he placed on the flash drive, and that also remained on his laptop at the time he turned it in.

3. Engility’s Reply

Engility’s reply brief argued that Daniels’ story is false. Engility proffered still images from surveillance camera footage showing that the surrender of company property Daniels says he performed on August 30 was actually performed on August 29—save for surrender of the flash drive, which happened on August 31. (See ECF Nos. 24-1, 24-2.) Engility’s records also described *two* laptops that Daniels

⁵ Although the Court has received a glossary explaining what these alphabet-soup acronyms stand for, no party has explained what they really mean.

surrendered on August 29.

According to Andrew Reisman, a computer forensics expert retained by Engility, the *first* laptop (the MacBook Pro from which Daniels allegedly copied the files onto the flash drive) shows “no evidence of activity on the device, whether by Mr. Daniels or otherwise, after November 2015.” (ECF No. 24-7 ¶¶ 7.) The second laptop (a Dell model) shows no activity after August 23, 2016, but multiple flash drives were inserted into that laptop between May 2016 and August 2016. (*Id.* ¶¶ 8–10.)

In addition, Appleyard denied giving Daniels permission to keep any e-mails, personal or otherwise. (ECF No. 24-5 ¶¶ 3–4.)

4. Pre-Hearing Discovery

The parties apparently conducted some amount of discovery before the Preliminary Injunction Hearing. The Court is only aware of this discovery to the extent it was discussed at the Preliminary Injunction Hearing. The Court’s understanding is as follows.

Soon after Engility filed its reply brief, Defendants communicated to Engility that the MacBook Pro sent to Reisman—apparently a 17-inch model—was not the MacBook Pro Daniels had turned in at the end of his employment. Engility therefore sent the only other two MacBook Pro laptops in its storeroom to Reisman, both of which were 15-inch models. Reisman examined those laptops. On one of them he found a user profile for Surber, and otherwise found nothing of interest to the current proceedings. On the other, he found that it contained little more than the operating system files, and that a hard drive partition had been “wiped,” *i.e.*, overwritten with zeros. Reisman could not be sure how much had been wiped by the user because the hard drive could have come

from the manufacturer with all zeros written on its unallocated space. In that instance there would be no way to distinguish between zeros that resulted from user-directed overwriting and zeros that had been there all along.

In any event, Daniels was confronted with Reisman's findings at a deposition he agreed to sit for on November 18, 2016. Daniels agreed that the MacBook with a wiped partition was the one he turned in when he left his employment at Engility. As far as the Court understands, when Daniels was asked why the partition was wiped, Daniels explained that he had used the laptop to assemble the files needed for the flash drive project, then copied all of those files onto an external hard drive (not a flash drive), then wiped his user profile from the laptop (for unexplained reasons), and then copied the files on the external hard drive back onto the laptop. Finally, he copied those same files from the laptop onto the flash drive, and ultimately turned in both the laptop and the flash drive to Engility. It is not clear whether the deposition addressed the fate of the external hard drive.

At his deposition, Daniels was also confronted with the video stills purporting to show that he had turned in his laptop on August 29, not August 30. Daniels insisted that the date and time stamp on those stills must be wrong, and he requested a chance to watch the relevant surveillance video for August 29, August 30, and August 31. He received that video later the same day, after the deposition had ended. His reaction to the video came out for the first time, apparently, during the Preliminary Injunction Hearing.

5. The Preliminary Injunction Hearing

a. *Daniels' Post-Separation Possession of Engility Materials*

At the Preliminary Injunction Hearing, Engility called Appleyard to establish the August 30 metadata dates on the flash drive. Appleyard said he was the first to notice those dates and to bring their potential implications to Engility's attention. Daniels' counsel offered nothing to impeach this story or the accuracy of the August 30 metadata.

Engility also called Edward Wright. Wright was the employee to whom Daniels admittedly returned all of his company materials. Wright testified that he received Daniels' two laptops (the MacBook Pro and the Dell) and most of his other equipment on August 29, and the flash drive on August 31. Supposedly the videos show this for each date, although those videos (Engility's Exhibit 16) are too grainy and shot from too great of a distance to reveal precisely what Daniels turned in on each date.

In any event, in his own testimony, Daniels announced that the videos convinced him his memory had been wrong, and that he had indeed turned in his MacBook Pro *and* the flash drive on August 29. When asked how he could explain the August 30 "date modified" metadata on the flash drive in light of his new story, he offered a theory that he conceded was speculation. Specifically, he stated that all 13–14 gigabytes of data copied onto the flash drive had been in a zip file (not just a subset of files, see Part I.C.2, above), and that someone at Engility might have extracted the zip file on August 30, which would result at least in a "date created" date of August 30 as to those files. Daniels apparently understood, however, that 13–14 gigabytes of compressed data needs at least an equivalent amount of unallocated space to be successfully extracted,

and therefore that amount of data could not be successfully extracted onto a 16 gigabyte flash drive (a fact later confirmed by rebuttal testimony from Reisman).

Daniels therefore further speculated that someone at Engility extracted only discrete files or directories, thereby generating the August 30 metadata date as to those files. Daniels offered no other possible explanation.⁶

This testimony somewhat reduced Daniels' credibility in the Court's eyes, but a later admission had an even more damaging effect. Specifically, Daniels admitted that he did not at first erase the external hard drive mentioned above. Therefore, after his employment ended, he continued to possess a copy of everything he had placed on the flash drive. Attempting to explain this conduct, Daniels claimed that he believed his new company (DTS) would become a subcontractor to, or partner with, Engility on certain government contracts, and he therefore asked Appleyard's permission to retain all of the flash drive data (not just 2.91 megabytes of allegedly personal materials) so that he could remain fully informed, or at least be better able to answer questions from Appleyard or from Daniels' successor at Engility. According to Daniels, in response to his request for permission to retain this larger set of data, Appleyard supposedly said, "Giddy-up," which Daniels interpreted, based on prior experience, to mean that Appleyard approved. In rebuttal testimony, Appleyard emphatically denied ever giving

⁶ At closing argument, Daniels' counsel theorized that the flash drive data could have been extracted onto the hard drive of a computer into which the flash drive was inserted on August 30, thereby creating a new metadata date and obviating the problem of not having enough space for extraction. Although this could indeed have changed the metadata of the copy extracted onto the computer, Daniels presented no evidence that it could change the metadata on the flash drive itself. All of the evidence regarding metadata was derived by Appleyard from the flash drive, and was unrebutted. Moreover, there is no evidence that anyone at Engility accessed the flash drive on August 30. The Court therefore rejects this theory.

Daniels such approval.

Returning to Daniels' story, however, Daniels claimed that he began deleting files from the external hard drive in the early part of September, and he had deleted all of them by the third or fourth week of September. By this point, he says, he realized that the opportunity to work with Engility would not materialize, and so he no longer had use for the retained data. Daniels testified that he no longer possesses or controls any Engility data, including the 2.91 megabytes of allegedly personal materials, his only copy of which he recently gave to his counsel.

b. *The Flash Drive Contents*

Concerning what Daniels retained (at least for a few weeks), Engility offered a sampling of what had been on the flash drive—and therefore what had been on Daniels' external hard drive. Much of this was offered through Engility's Exhibit 38, which has been designated "Highly Confidential," and the testimony regarding which the Court ordered would be subject to Restricted Access, Level 1. See D.C.COLO.LCivR 7.2(b). The Court will therefore not discuss the testimony or documents in any detail. The Court is satisfied, however, that the documents contain sensitive information, such as internal pricing and competition strategies. Although Daniels testified that certain parts of Exhibit 38 had been disclosed to the public generally, the Court is nonetheless convinced that other parts contain sensitive, internal information and that Engility would reasonably view as proprietary.

c. *Competition for MUOS*

Engility is most worried about Defendants competing for MUOS-related contracts from USNORTHCOM. On this issue, the evidence at the Preliminary Injunction Hearing

essentially tracked the parties' positions in their briefs. Engility claims that Daniels was intimately familiar with Engility's plans to pursue MUOS contracts. Daniels responds that neither he nor Engility knew anything of importance regarding USNORTHCOM's plans for MUOS. Moreover, says Daniels, although Engility procured certain equipment for USNORTHCOM to be used in testing MUOS capabilities in Alaska, Engility was no more than a procurement agent under the auspices of its DCCS contract—a convenient path for USNORTHCOM to draw upon rather than going through the allegedly cumbersome process of procuring the equipment directly. Engility allegedly had no participation in the equipment's actual testing in Alaska, save for Surber's coincidental presence at the same facility in Alaska where the testing was taking place.

Engility disputes this, claiming that Surber and Daniels were directly involved in the testing. The Court notes, however, that the firmness of USNORTHCOM's plans for MUOS (or lack thereof) is not directly relevant to whether Daniels is aware of Engility's plans to *compete* for MUOS contracts. In that regard, Daniels nowhere rebutted Engility's evidence that those plans exist and that he understands them. The Court accordingly finds on this record that Daniels is, as alleged, familiar with Engility's MUOS-related business plans.

II. PRELIMINARY INJUNCTION STANDARD

A. The Various Standards

In a sense, there are at least three preliminary injunction standards. The first, typically-quoted standard requires: (1) a likelihood of success on the merits, (2) a threat of irreparable harm, which (3) outweighs any harm to the non-moving party, and (4) that the injunction would not adversely affect the public interest. See, e.g., *Awad v. Ziri*ax,

670 F.3d 1111, 1125 (10th Cir. 2012).

If, however, the injunction will (1) alter the status quo, (2) mandate action by the defendant, or (3) afford the movant all the relief that it could recover at the conclusion of a full trial on the merits, a second standard comes into play, one in which the movant must meet a heightened burden. See *O Centro Espirita Beneficiente Uniao do Vegetal v. Ashcroft*, 389 F.3d 973, 975 (10th Cir. 2004) (*en banc*). Specifically, the proposed injunction “must be more closely scrutinized to assure that the exigencies of the case support the granting of a remedy that is extraordinary even in the normal course” and “a party seeking such an injunction must make a strong showing both with regard to the likelihood of success on the merits and with regard to the balance of harms.” *Id.*

On the other hand, the Tenth Circuit also approves of a

modified . . . preliminary injunction test when the moving party demonstrates that the [irreparable harm], [balance of harms], and [public interest] factors tip strongly in its favor. In such situations, the moving party may meet the requirement for showing [likelihood of] success on the merits by showing that questions going to the merits are so serious, substantial, difficult, and doubtful as to make the issue ripe for litigation and deserving of more deliberate investigation.

Verlo v. Martinez, 820 F.3d 1113, 1128 n.5 (10th Cir. 2016). This standard, in other words, permits a weaker showing on likelihood of success when the party’s showing on the other factors is strong. It is not clear how this standard would apply if the second standard also applies.

In any event, “a preliminary injunction is an extraordinary remedy,” and therefore “the right to relief must be clear and unequivocal.” *Greater Yellowstone Coal. v. Flowers*, 321 F.3d 1250, 1256 (10th Cir. 2003).

B. Does Any Modified Standard Apply?

Engility requests that Defendants be

enjoined, restrained and prohibited, directly or indirectly, from:

1. Disclosing, using, and/or otherwise making publicly available for any purpose any documents and information they obtained as a result of their employment with Engility and all documents and information derived therefrom (the “Materials”), whether in original, copied, computerized, handwritten, physical, intangible, or any other form;
2. Destroying, erasing or otherwise making unavailable for further proceedings in this matter, the Materials, any related metadata, or any other evidence concerning any of the events alleged in the Amended Complaint in this matter [although not without first submitting all electronic devices in Defendants’ possession or control for forensic imaging, as discussed in Part III.F, below];
3. Accepting any award of USNORTHCOM business opportunities obtained by Defendants since their misappropriation of the Materials.

(ECF No. 9-1 at 2.)

Defendants claim that Engility’s requested injunction falls under the stricter *O Centro* standard for injunctions that mandate action or would provide all the relief Engility might seek at the conclusion of a full trial on the merits. (ECF No. 22 at 3, 13–15.)⁷ To the extent Defendants direct this argument at Engility’s first and second requests, the Court rejects the notion that those requests would give Engility all the relief it might seek after trial. The Court further rejects the notion that a requirement to erase trade secrets is the sort of mandatory action that the stricter *O Centro* standard

⁷ Defendants do *not* argue the “alter the status quo” prong.

was meant to address.

Engility's third request, however, gives the Court pause, particularly on the question of whether it grants Engility all the relief it could seek after prevailing at a full trial on the merits. But the Court agrees with Engility that, as the case currently stands, its defamation and tortious interference claims would remain for adjudication regardless of what the Court orders here. Specifically, an order preventing Defendants from accepting USNORTHCOM business would not ensure that USNORTHCOM would award such business to Engility. If Defendants' alleged ill-speaking of Engility prompted USNORTHCOM decision to award that business to some third party, Engility may still have a defamation or tortious interference claim for damages against Defendants. Thus, the typical preliminary injunction standard applies.

III. ANALYSIS

A. Likelihood of Success on the Merits

Engility stakes its preliminary injunction only on three of its causes of action, namely, for violation of the DTSA, violation of CUTSA, and breach of the Confidentiality Agreement. The Court finds that it need only address the alleged DTSA and CUTSA violations.

1. Relevant Definitions

"Trade secret," for DTSA purposes, is defined as follows:

all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically,

photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information[.]

18 U.S.C. § 1839(3).

CUTSA defines “trade secret” as “the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers, or other information relating to any business or profession which is secret and of value.” Colo. Rev. Stat. § 7-74-102(4). CUTSA, like the DTSA, requires that the owner of the trade secret must take steps to shield the information from public knowledge: “To be a ‘trade secret’ the owner thereof must have taken measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes.” *Id.*

With the exception of a few specific documents that Court finds irrelevant for present purposes, Daniels does not challenge Engility’s assertion that the information to which Daniels had access, and allegedly retained, contains trade secrets as defined under the DTSA and CUTSA. The Court therefore finds as much.

2. Do Defendants Continue to Possess Engility Trade Secrets?

Daniels insisted at the Preliminary Injunction Hearing that neither he nor anyone associated with DTS continues to possess or control Engility trade secrets. The Court

is frankly skeptical. This skepticism began with Daniels' response brief, which nowhere directly denied containing a copy of the materials found on the flash drive. He instead proffered facts to refute the inference that an August 30 metadata date necessarily meant he had accessed some personal copy of the relevant information, and he asserted that "Engility has not provided any evidence that the Defendants have possession of any of its trade secrets." (See ECF No. 22 at 5, 6 & n.3, 8, 11.)⁸

This lack of direct denial piqued the Court's suspicion, and the Preliminary Injunction Hearing did not help Defendants' cause. As noted above, the Hearing revealed that nearly every aspect of Daniels' original story was either false or materially incomplete, forcing Daniels into explanations that smack of one trying to escape a lie. The Court finds the following most notable.

First, Daniels forthrightly admitted that he was wrong about turning in his MacBook Pro and flash drive on August 30. This admission, although commendable, left Daniels unable to explain the August 30 metadata other than through his self-described *speculation* about a file extraction scenario that a 16 gigabyte flash drive could not have accommodated absent the user's decision to extract individual files or directories—of which there is no evidence. Indeed, there is no evidence that the entire contents of the flash drive were ever compressed. Prior to the Preliminary Injunction Hearing, the only claim to compression Daniels made was regarding the 2.91

⁸ In briefing, Defendants' clearest near-denial is to state generically (in the balance-of-harms section of their response brief) that "Defendants do not have possession of Engility's trade secrets." (ECF No. 22 at 17.) But this statement is still ambiguous. The Court could not be sure whether Defendants meant to say that they do not possess any of the data also found on the flash drive, or that they do not possess anything they deem to be a trade secret—two very different meanings.

megabytes he previously admitted to retaining, which he described as deriving from a discrete zip file containing his work e-mails, which zip file he placed on the flash drive.

Second, Daniels explained the wiped partition on his MacBook Pro by claiming that he erased his user profile, then copied files back onto the partition, then copied those files to the flash drive. But (a) there is no evidence that those files were actually copied back onto the MacBook Pro (according to Reisman, they are not there anymore, if they ever were), and (b) Daniels never attempted a reasoned explanation for this cumbersome and, at best for Daniels, highly unusual procedure. In particular, Daniels nowhere explained why he needed to erase his user profile at all (apparently Surber did not), much less irretrievably erase it by overwriting the partition with zeros.

Third, Daniels never revealed until the Preliminary Injunction Hearing that the materials which eventually made it onto the flash drive also remained on his external hard drive, in his possession, for at least three to four weeks after his departure from Engility. And Daniels' explanation for keeping those files on his hard drive—that Appleyard gave permission—is facially not credible. In the Court's view it simply defies belief that Appleyard would allow Daniels to keep a copy of such a large collection of sensitive Engility information, even for the alleged purpose of potentially partnering with or subcontracting from Engility.

Given this, the Court cannot at this time credit Daniels' representation that he and DTS possess no Engility data. The Court instead finds that Engility is likely to succeed in proving that Daniels still possesses that data in some form.

3. Do Daniels' Retained Files Contain Trade Secrets?

Assuming that Daniels continues to possess Engility data, the next question is

whether that data qualifies as a trade secret. As discussed previously, both the DTSA and CUTSA require steps to restrict access to information before it may be deemed a trade secret. The Court is satisfied that at least a fair portion of whatever Daniels may retain qualifies as an Engility trade secret. Accordingly, the Court finds that Engility is likely to succeed in proving that its trade secrets have been misappropriated, including trade secrets related to potential MUOS business from USNORTHCOM.

4. Can the Court Enjoin Acceptance of USNORTHCOM Business?

All of the foregoing would be more than enough to grant Engility's request that Defendants be enjoined from disclosing trade secrets. A more difficult question, however, is whether the Court can enjoin Defendants from accepting USNORTHCOM business.

Under the DTSA, the Court cannot grant an injunction that "prevent[s] a person from entering into an employment relationship," and the Court can only place conditions on employment "based on evidence of threatened misappropriation and not merely on the information the person knows." 18 U.S.C. § 1836(b)(3)(A)(i)(I). There is no indication that "employment relationship" encompasses the role of an outside contractor, as DTS would be to USNORTHCOM if awarded a contract. Thus, the Court finds that this particular restriction does not apply in the present circumstances.

However, the DTSA further forbids an injunction that would "conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business." *Id.* § 1836(b)(3)(A)(i)(II). This raises questions discussed below regarding Colorado's statutory restrictions on noncompete provisions.

Before turning to those statutory restrictions, the Court notes that CUTSA has a

much less specific provision (as compared to the DTSA) regarding injunctive relief: “Temporary and final injunctions including affirmative acts may be granted on such equitable terms as the court deems reasonable to prevent or restrain actual or threatened misappropriation of a trade secret.” Colo. Rev. Stat. § 7-74-103. However, the Court is confident that one may not obtain by way of an injunction what one could not obtain in a contract, and, as noted, Colorado has statutory restrictions regarding the scope of contractual noncompete agreements. Therefore, the Court cannot issue an injunction that effectively creates a statutorily disapproved noncompete restriction. By implication, then, CUTSA probably has the same sorts of restrictions as the DTSA.

As for Colorado’s statutory noncompete restrictions, Colorado presumptively invalidates noncompete agreements, subject to an important exception that conceivably applies here:

Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void, but this subsection . . . shall not apply to:

* * *

(b) Any contract for the protection of trade secrets

Colo. Rev. Stat. § 8-2-113(2).

To be clear, this statute does not *directly* apply to this case because there is no covenant not to compete. However, it does appear to be an “applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business,” 18 U.S.C. § 1836(b)(3)(A)(i)(II), and therefore appears relevant to any consideration under the DTSA of whether the Court may enjoin Defendants from accepting USNORTHCOM

business. At a minimum, § 8-2-113(2) appears to express Colorado's policy in this circumstance, even if no actual written covenant not to compete was executed by the parties. And again, with respect to CUTSA, it would be incongruous if the Court could create, by judicial fiat, a noncompete restriction that would not survive § 8-2-113(2) if it appeared in a contract. Thus, the Court must consider § 8-2-113(2) in the CUTSA context as well.

Based on all of the foregoing, the Court is persuaded that it may only enjoin competition or solicitation if, and to the extent, necessary to protect trade secrets. Having carefully considered the matter, the Court finds that a noncompete injunction is appropriate under the circumstances. For the reasons already stated in Part III.A.2, above, the Court does not find Daniels credible and can only assume, on this record, that Daniels still retains some portion of Engility's trade secrets. Indeed, Daniels has demonstrated a propensity for making surreptitious copies of the relevant data, and the Court simply cannot trust Daniels' representations that no further copies exist. Thus, to prevent Defendants from taking advantage of trade secrets in their possession, the Court finds that an injunction against soliciting or competing for USNORTHCOM is appropriate. The precise scope of the injunction is discussed below at Part III.F.⁹

B. Irreparable Harm

Engility argues that "misappropriation of trade secrets causes irreparable harm as a matter of law." (ECF No. 11 at 10.) Engility cites certain cases for this proposition (*see id.*), but none of them actually comes to this conclusion. Engility's cases are either

⁹ Given this analysis, the Court need not reach Engility's arguments regarding "inevitable disclosure." (See ECF No. 38 at 7-9.)

about copyright law (not trade secrets), or involve a situation where trade secrets were about to be publicly disclosed, not just misused by a former employee.

Nonetheless, the Tenth Circuit excuses the irreparable harm requirement when the evidence shows that a defendant is or will soon be engaged in acts or practices prohibited by statute, and that statute itself provides for injunctive relief to prevent such violations. See *Star Fuel Marts, LLC v. Sam's East, Inc.*, 362 F.3d 639, 651 (10th Cir. 2004); *Kikumura v. Hurley*, 242 F.3d 950, 963 (10th Cir. 2001); *Atchison, Topeka & Santa Fe Ry. Co. v. Lennen*, 640 F.2d 255, 259 (10th Cir. 1981). Because both the DTSA, 18 U.S.C. § 1836(b)(3)(A), and CUTSA, Colo. Rev. Stat. § 7-74-103, provide for injunctive relief to prevent misuse of trade secrets, irreparable harm presumptively exists if Defendants have misused, or are likely to misuse, trade secrets. The irreparable harm element thus automatically favors Engility.¹⁰

C. Balance of Harms

Defendants argue that “the harm to . . . them [of an injunction] will be far greater than any threatened injury to Engility” because “the Defendants do not have possession of Engility’s trade secrets, and are not competing to acquire any business that Engility either has or is in a position to obtain.” (ECF No. 22 at 17.) This argument is misplaced. The Court would not be reaching the balance-of-harms question without finding a likelihood of success regarding trade secret misappropriation, so it is pointless

¹⁰ The Court seriously doubts whether *Star Fuel* and its predecessors remain good law. Later Supreme Court precedent—particularly *Winter v. NRDC*, 555 U.S. 7 (2008), and *eBay v. MercExchange*, 547 U.S. 388 (2006)—strongly suggests that no element of the injunction test should be presumed, thus calling the *Star Fuel* line of precedent into doubt. But the Tenth Circuit has not repudiated that line of precedent, nor has any Supreme Court case overruled it explicitly or by clear implication. The Court therefore is bound to follow it.

to argue that the balance of harm favors the defendant because the defendant is not doing anything wrong.

As to the assertion that Defendants are “not competing to acquire any business that Engility either has or is in a position to obtain,” Defendants offered nothing at the Preliminary Injunction Hearing to support this position.

From Engility’s perspective, it is losing business on account of a former employee unlawfully using his inside Engility knowledge to outmaneuver Engility. Engility argues that this should necessarily tip the balance of harms in its favor because “[t]he defendants will suffer no harm that is recognized in law if they are prohibited from using information to which they have no legal right.” (ECF No. 11 10–11 (quoting *Statera, Inc. v. Henrickson*, 2009 WL 2169235, at *4 (D. Colo. July 17, 2009)).)

With respect to Judge Robert E. Blackburn, author of the *Statera* decision on which Engility relies, the undersigned disagrees that this is the appropriate analysis. Under the reasoning of *Statera*, the balance of harms analysis is superfluous once likelihood of success is established. From the undersigned’s perspective, however, balancing of harms remains an independent consideration, even assuming likelihood of success on the merits. In other words, the balance-of-harms element necessarily contemplates the possibility that, in some situations, the harm of an injunction to the defendant is so great that an injunction should not enter, even though the defendant is likely acting unlawfully.

Such a situation does not exist here, however. Defendants have proffered no evidence of harm other than lost USNORTHCOM revenue—currently estimated at \$6.1 million in gross revenue for a MUOS-related project, with about 14% of that as profit.

Defendants have not shown that losing such business will cause DTS to fold, or will otherwise put their professional livelihoods at risk.¹¹ Accordingly, the Court finds that the balance of harms favors Engility, which stands to lose at least the same amount of revenue to a competitor with a likely unlawful advantage.

D. Public Interest

“[T]he public has an interest in protecting valid trade secrets and preventing unfair competition.” *Electrology Lab., Inc. v. Kunze*, 169 F. Supp. 3d 1119, 1165 (D. Colo. 2016). The Court finds that this is the paramount public interest in these circumstances.

E. Bond

The Court must normally impose a bond on Engility as a condition of preliminary injunctive relief. See Fed. R. Civ. P. 65(c). Engility does not discuss a bond at all in the TRO/PI Motion. Its proposed order, however, suggests “a nominal bond in the amount of \$500.00.” (ECF No. 9-1 at 4.) This is far too low. If USNORTHCOM business is valuable enough to litigate over in this lawsuit, it is worth much more than \$500 to both parties.

Both parties agree that the most immediately available MUOS-related contract is

¹¹ In their post-hearing supplemental brief, Defendants claim—for the first time and without supporting citations—that an injunction of the scope sought by Engility “will prevent the Defendants from doing any work, either individually, through DTS, or for another contractor that is within the USNORTHCOM area of responsibility, which is all of North America. Effectively, the Defendants would not be able to work in their chosen profession anywhere in the United States.” (ECF No. 39 at 14.) If this assertion is true, it was Defendants’ duty to develop a supporting factual record either before or during the Preliminary Injunction Hearing. Defendants did not do so, and “argument of counsel is not evidence.” *Pinkerton v. Colo. Dep’t of Transp.*, 563 F.3d 1052, 1061 (10th Cir. 2009). The Court accordingly will not consider this assertion.

worth about \$6.1 million. According to Daniels, this would represent gross revenue, while net revenue would be about 14% of that amount (\$854,000). Considering this figure and the monetary stakes generally at issue, the Court finds that a \$1 million bond is appropriate.

F. Wording of the Injunction

The Court has no qualms with Engility's proposed anti-disclosure language, which would prohibit Defendants from "[d]isclosing, using, and/or otherwise making publicly available for any purpose any documents and information they obtained as a result of their employment with Engility and all documents and information derived therefrom (the 'Materials'), whether in original, copied, computerized, handwritten, physical, intangible, or any other form." (ECF No. 9-1 at 2.)

As for Engility's request that Defendants be ordered to destroy whatever trade secrets they may have in their possession, this somewhat conflicts with Engility's further desire to obtain complete images of Defendants' various electronic devices—presumably to discover whether Defendants retained other files. (*Compare id.* at 2 with *id.* at 3.) The Court will not rule at this time whether Engility is entitled to such imaging. It may be, however, and so the Court finds it inappropriate to include in the injunction a directive to destroy data that may need to be preserved for later discovery purposes.

Finally, regarding the noncompete portion of the injunction, the Court directed both sides to brief the question of substantive, temporal, and geographic scope. Defendants argue that if any injunction is issued, it should be limited "to no more than 6 months in duration, and to government funded efforts related to DCCS or MUOS coming directly through David Banks at USNORTHCOM's offices at Peterson Air Force

Base in Colorado Springs, Colorado that were validated prior to August 29, 2016.” (ECF No. 39 at 13.) But defendants do not explain who David Banks is,¹² nor why it would be important to specify where his office is located, nor what it means for a project to be “validated.” At best, then, this proposal is unhelpful; at worst, the Court suspects that it would be so narrow as to be meaningless.

Engility, for its part, provides somewhat more detail. Concerning geographic scope, Engility proposes the continental United States, Alaska, Hawaii, Puerto Rico, and the U.S. Virgin Islands, given that this is the scope of its current work with USNORTHCOM. (ECF No. 38 at 14–15.) The Court finds this geographic scope reasonable under these specific circumstances.

As for temporal scope, Engility proposes two years because this is the time horizon contained in certain highly confidential planning documents allegedly retained by Defendants. (*Id.* at 15–16.) In the Court’s experience, however, two years is generally at the outer range of what would be permissible in a contractual noncompete provision running against a former employee. The Court finds that a one-year term would be more appropriate in the circumstances. One year is sufficient time for information to go stale such that whatever competitive advantage Defendants might possess will be substantially lessened. Moreover, the Court finds that this one-year term should begin to run from October 4, 2016, the day after the date on which USNORTHCOM cut off its negotiations with Defendants, having learned of this lawsuit. Before that date, Defendants were improperly taking advantage of trade secrets—or at

¹² He was mentioned in the Preliminary Injunction Hearing but his significance remains unclear.

least Engility is likely to prove as much. Thus, in equity, the Court cannot set the beginning of the one-year term any earlier than that. But, as far as the record reveals, Defendants have not been taking advantage of trade secrets since that time, and therefore they one-year term should not begin to run any later than that either.

Finally, as for substantive scope, Engility proposes the following:

Defendants are enjoined from directly or indirectly, for themselves or on behalf of any business entity in any form whatsoever, soliciting, accepting, and performing, any support work, whether as a prime contractor or subcontractor, for the United States Northern Command (USNORTHCOM) for Deployable Communications Capabilities Systems (DCCS) Lifecycle Configuration Management (LCM) requirement, inclusive of Mobile User Objective System (MUOS) systems.

For purposes of this injunction, the definition for “support work” means providing deployable communications solutions (hardware and software), system lifecycle support, project management, capability design, system modifications, technical refresh, equipment training, technical support, service desk, equipment repair, spare parts management and general association with the DCCS inclusive of MUOS program.

Also for purposes of this injunction, the term USNORTHCOM is inclusive of the Service Components (i.e., Army North (ARNORTH), Air Force North (AFNORTH), Naval Forces North (NAVNORTH), Marine Forces North (MARFORNORTH)), mission partners (i.e., National Guard, Federal Emergency Management Agency (FEMA), Department of Homeland Security (DHS)) and subordinate commands (Alaska Command (ALCOM), Joint Task Force - Civil Support (JTF-CS), Joint Task Force – North (JTF-N), and Joint Forces Headquarters-National Capital Region (JFHQNCR)), and USNORTHCOM commanders team, and USNORTHCOM Domestic Operations (DOMOPS).

(ECF No. 38 at 17.) The Court understands the first proposed paragraph, but not the second and third paragraphs. In particular, Engility does not explain the various terms

in those paragraphs, nor what the additional specificity adds to the injunction. The Court will therefore adopt only the first proposed paragraph.

IV. CONCLUSION

For the reasons set forth above, the Court ORDERS as follows:

1. The preliminary injunction portion of Plaintiff's Motion for Temporary Restraining Order and Preliminary Injunction (ECF No. 9) is GRANTED IN PART;
2. Conditioned upon Plaintiff posting with the Court a bond of **\$1,000,000.00** and providing the Court appropriate notice thereof on or before **December 16, 2016**,

Defendants, their agents, and all those actively in concert with them, are PRELIMINARILY ENJOINED as follows:

- a. Defendants may not disclose, use, and/or otherwise make publicly available for any purpose any documents and information they obtained as a result of their employment with Engility and all documents and information derived therefrom, whether in original, copied, computerized, handwritten, physical, intangible, or any other form; and
- b. For a period of one year beginning on October 4, 2016, and ending on October 3, 2017, Defendants are enjoined from, directly or indirectly, for themselves or on behalf of any business entity in any form whatsoever, soliciting, accepting, and performing, any support work, whether as a prime contractor or subcontractor, for the United States Northern Command (USNORTHCOM) for Deployable Communications Capabilities Systems (DCCS) Lifecycle Configuration Management (LCM) requirement, inclusive of Mobile User Objective System (MUOS) systems.

3. Plaintiff's requests for expedited discovery and any request to image Defendants' electronic storage devices (ECF No. 9-1), are DENIED WITHOUT PREJUDICE. The parties are instead directed to confer in good faith regarding these matters in an attempt to come to a mutual resolution (which could include an agreement that some or all of these matters can be addressed through the normal course of discovery). To the extent matters remain in dispute, the parties shall submit those disputes to U.S. Magistrate Judge Michael E. Hegarty, keeping in mind Judge Hegarty's Practice Standard III.C (concerning prerequisites for discovery-related motions).

Dated this 2nd day of December, 2016.

BY THE COURT:



William J. Martínez
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----- x
FREE COUNTRY LTD,

Plaintiff,

-v-

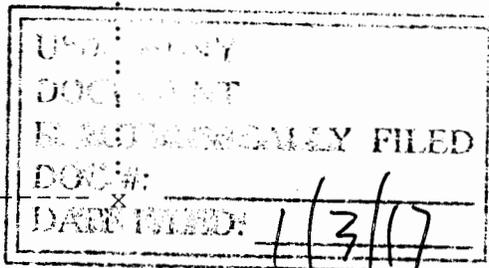
BRIAN DRENNEN, MATTHEW VANDER
WYDEN, ROUSSO APPAREL GROUP, INC.
and SANTA FE APPAREL, LLC,

Defendants.

JED S. RAKOFF, U.S.D.J.

16 CV 8746 (JSR)

OPINION



This dispute comes before the Court after Plaintiff Free Country LTD ("Free Country") moved ex parte for an order to show cause for a preliminary injunction and temporary restraining order ("TRO") against defendants Brian Drennen, Matthew Vander Wyden, Roussos Apparel Group, Inc. ("Roussos"), and Santa Fe Apparel, LLC ("Santa Fe") (collectively, the "defendants"). In brief, plaintiff alleges that its former employees, defendants Drennen and Vander Wyden, have misappropriated plaintiff's trade secrets in order to establish a competing product line for defendants Roussos and Santa Fe. Initially, the Court granted the plaintiff's motion by Order dated November 10, 2016, which it amended on November 17, 2016. Subsequently, however, after counsel for defendants had appeared, the Court held a three-day evidentiary hearing to put the TRO to the test of the adversary system. Thereafter, on the basis of the Court's assessment of the evidence presented at that hearing (including its assessment of the witnesses' demeanor and credibility), the Court by Order dated December 9, 2016 granted in part plaintiff's motion for a renewed TRO by prohibiting

defendants from using or disseminating plaintiff's confidential information, but denied plaintiff's request that defendants be prohibited from soliciting Free Country's customers in connection with the fall 2017 season. This Opinion explains the reasons for these post-hearing rulings.

Plaintiff Free Country is an apparel manufacturer and wholesaler with approximately 65 employees. See transcript of evidentiary hearing ("Tr.") 172:5-10. Plaintiff maintains a wide variety of business information on a shared network system, id. at 177-178, and provides email accounts to its employees, id. at 178:7-9. Employees access these systems by logging in to password-protected computers provided by Free Country, id. at 267:20-23, and plaintiff generally requires new hires to sign a confidentiality agreement and an acknowledgement of the company's handbook. Id. at 179:19-25. By signing the documents, the employees agree to not disseminate Free Country's proprietary information. Id. at 180-181; 190-191.

In August 2014, plaintiff hired defendant Drennen, who had 20 years of experience in the apparel industry, to oversee Free Country's Men's and Ladies' active wear as Vice President of Sales. Id. at 173:22-174:11; 382:13-25. In November 2015, plaintiff hired defendant Vander Wyden, who had 30 years of industry experience, as a director of sales for Men's outerwear. Id. at 176:2-6; 282:9-23.¹

¹ While it is disputed whether Vander Wyden signed a confidentiality agreement and acknowledgement of the company's handbook, Tr. 321:2-14, Vander Wyden was aware that by accepting employment at Free Country he was bound not to disclose Free Country's confidential information. Id.

Both Drennen and Vander Wyden had a practice of transferring materials from Free Country's server during their employment. In or around March 2015, Drennen installed on his company computer a file-sharing program called "Dropbox," id. at 345:25-346:3, which allows users to transfer information among "linked" devices using an online "cloud" account. Id. at 85:2-86:2; 21:22-22:10. Drennen testified that he used the program to aid his work while he was on the road or at home, and linked three personal devices to his Dropbox account while at Free Country: an Android phone, an iPad, and an iMac. Id. at 346:6-16. Defendant Vander Wyden, in turn, frequently emailed to himself Free Country's "Master Contact List," id. at 327:16-23, which contained the contact information for the company's clients, id. at 231:17-19. Vander Wyden testified that he used the list while traveling on Free Country's behalf. Id. at 334:12-20.

Neither Drennen nor Vander Wyden were happy at Free Country. Id. at 290:14-17; 430:9-16. In late September 2016, Drennen and Vander Wyden began employment negotiations with defendant Rousso.² Id. at 315:10-20. Vander Wyden subsequently resigned from Free Country on October 13, 2016, after receiving an offer to create a competing product line for Rousso's newly-formed division, "Mountain and Isles." Id. 279:2-3; 316:11-15. Prior to his departure, however, Vander Wyden

at 281-284.

² Defendant Santa Fe is an affiliate of Rousso located in the same office space as Mountain and Isles. Tr. 315:2-317:3. It does not appear that defendants were in negotiations with Santa Fe. Id.

emailed to his personal address on October 10 and 11, 2016 copies of several documents, including Free Country's Master Contact List and an email containing four product designs dating from the mid-1000s. Id. at 291-293.

The same day that Vander Wyden resigned, Drennen began transferring a substantial quantity of information from Free Country's server into his Dropbox account, including customer orders and design information for the fall 2017 season.³ Id. at 89:21-90:5; 201:3-21. Drennen made an additional transfer on October 18, 2016, id. at 126:8-17, and resigned from Free Country three days later on October 21, 2016 to join Mountain and Isles, id. at 111:9-12. Drennen uninstalled Dropbox from his Free Country computer the same day. Id. at 115:15-20. During the evidentiary hearing, Drennen testified that he transferred the materials so that he could review the files for personal information, id. at 353:1-10, and that he deleted any Free Country documents by October 22, 2016, id. at 358:10-15. The Court entirely discredits the first statement, but is inclined to credit the second statement.

Free Country discovered the document transfers after reviewing Drennen's laptop and issued cease and desist letters to defendants Drennen and Vander Wyden on October 27, 2016.⁴ Id. at 199:17-200:17;

³ The precise quantity is subject to dispute. Free Country estimates that defendant Drennen transferred nearly 50,000 files and 257GB of information. See Tr. at 89:21-90:5. Defendant Drennen argues that the amount is much smaller. Id. at 97:2-98:11.

⁴ The parties dispute the precise day that Drennen received the

415:15-416:3; 417:12-24. On November 10, 2016, plaintiff moved ex parte for an order to show cause for a preliminary injunction and temporary restraining order, alleging among other causes of action that defendants had misappropriated Free Country's trade secrets in violation of New York law and the Defend Trade Secrets Act ("DTSA"), 18 U.S.C. § 1831. See ECF No. 1. The Court granted plaintiff's motion, see ECF No. 9, and held a hearing on the order to show cause on November 15, 2016. On November 17, 2016, the Court extended and amended its order to prohibit defendants Drennen and Vander Wyden from soliciting Free Country's customers unless defendants could show that such customer contact information was in their possession prior to their employment at Free Country. See ECF No. 17. The amended order also required that defendant Drennen permit inspection of his Dropbox account by a neutral forensic expert agreed upon by the parties or appointed by the Court. Id. By consent orders dated November 20 and 21, 2016, the Court appointed Robert Knudsen as the neutral forensic expert and established a protocol for his examination of the account. See ECF No. 18, 19. Mr. Knudsen submitted his report to the Court on November 29, 2016, which the Court provided to the parties the following day. The Court subsequently held an evidentiary hearing on the temporary restraining order on December 5, 7, and 8, 2016, the key issue of which was whether the Court should prohibit defendants Drennen and Vander Wyden from soliciting Free Country's customers in

letter, id. at 415:10-21, but this fact is immaterial to the current proceedings.

connection with the fall 2017 season. By order dated December 9, 2016, the Court granted in part plaintiff's motion for a renewed TRO, but denied the proposed non-solicitation provision.

The standard for an entry of a TRO is essentially the same as for a preliminary injunction. Andino v. Fischer, 555 F. Supp. 2d 418, 419 (S.D.N.Y. 2008). The main differences are, first, that a TRO is often granted ex parte but thereafter has a limited lifespan and, second, that even where (as here) there is a subsequent adversarial hearing on the TRO, it typically occurs before there has been extensive discovery. Therefore, a TRO, perhaps even more so than a preliminary injunction, is an "extraordinary and drastic remedy, one that should not be granted unless the movant, by a clear showing, carries the burden of persuasion." JBR, Inc. v. Keurig Green Mountain, Inc., 618 F. App'x 31, 33 (2d Cir. 2015) (quoting Sussman v. Crawford, 488 F.3d 136, 139 (2d Cir. 2007)).

A party seeking a TRO, like one seeking a preliminary injunction, must typically show four elements: (1) a likelihood of success on the ultimate merits of the lawsuit; (2) a likelihood that the moving party will suffer irreparable harm if a TRO is not granted; (3) that the balance of hardships tips in the moving party's favor; and (4) that the public interest is not disserved by the relief granted. Id. (citing Salinger v. Colting, 607 F.3d 68, 79-80 (2d Cir. 2010)). A TRO, like a preliminary injunction, is "never awarded as of right," Winter v. Nat. Res. Def. Council, Inc., 555 U.S. 7, 24 (2008), and

whether to grant such relief “rests in the sound discretion of the district court,” JSG Trading Corp. v. Tray-Wrap, Inc., 917 F.2d 75, 79 (2d Cir. 1000).

The underlying substantive claims largely rest on alleged misappropriation of Free Country’s trade secrets. The requirements for showing a misappropriation of a trade secret are similar under state and federal law. Under New York law, a party 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. N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38, 43-44 (2d Cir. 1999). Similarly, under the DTSA, a party must show “an unconsented disclosure or use of a trade secret by one who (i) used improper means to acquire the secret, or, (ii) at the time of disclosure, knew or had reason to know that the trade secret was acquired through improper means, under circumstances giving rise to a duty to maintain the secrecy of the trade secret, or derived from or through a person who owed such a duty.” Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp., Inc., No. 15CV211LGSRL, 2016 WL 5338550, at *6 (S.D.N.Y. Sept. 23, 2016) (quoting 18 U.S.C. § 1839(3) (A)-(B)).

The Court finds at the outset that there is no evidence of any wrongdoing by the corporate defendants, Rouso and Santa Fe. While their clear (and legitimate) intent was to go into direct competition with Free Country, they appear to have been unaware prior to this

lawsuit that defendants Drennen and Vander Wyden transferred any allegedly confidential information to their personal possession, and there is no evidence that Rousso or Santa Fe have ever come into possession of such information. See id. at 239:24-240:8; 317:4-7; 318:10-15. Accordingly, the Court finds that plaintiff has failed to show a likelihood of success on the merits against defendants Rousso and Santa Fe.⁵

Defendants Drennen and Vander Wyden present a closer call. While they each arguably misappropriated plaintiff's information (see infra), there is no evidence that defendants Drennen and Vander Wyden colluded with each other for this purpose or exchanged any allegedly confidential information between themselves.⁶ See id. at 287:3-22; 360:20-362:14. The Court must therefore address the applicability of a TRO against these defendants separately, because the nature of the information allegedly misappropriated by each defendant differs. The Court begins with defendant Vander Wyden.

Plaintiff alleges that Vander Wyden misappropriated two types of proprietary information: Free Country's client list and Free Country's

⁵ As the Court stated on the record, however, at this point it is not appropriate to dismiss defendants Rousso and Santa Fe from the proceedings because they may still be necessary as relief defendants, depending on any future injunctive action by the Court. See Tr. at 432:13-25.

⁶ Plaintiff's sole "evidence" of collusion in this respect is that defendants jointly traveled to China on a business trip after beginning their employment at Mountain and Isles. Tr. 462:22-463:1. Such joint travel is unsurprising, however, because Drennen and Vander Wyden are employed by the same entity for the same purpose of promoting a new line of apparel.

pricing information relating to Free Country's products. Although the Court has some misgivings about Vander Wyden's credibility in certain respects, such concerns are irrelevant for present purposes since the Court is not persuaded that either of the two kinds of information he is accused of misappropriating are trade secrets. Under Second Circuit precedent, a customer list "developed by a business through substantial effort and kept in confidence may be treated as a trade secret . . . provided the information it contains is not otherwise readily ascertainable." N. Atl. Instruments, Inc. v. Haber, 188 F.3d 38, 46 (2d Cir. 1999).⁷ "The question of whether or not a customer list is a trade secret is generally a question of fact." A.F.A. Tours, Inc. v. Whitchurch, 937 F.2d 82, 89 (2d Cir. 1991). Based on the Court's review of plaintiff's client list, Free Country's customers are well-known apparel retailers whose identities are not protected (indeed, many are named in plaintiff's complaint). The contact information for these companies is also readily ascertainable by calling the companies' general lines, Tr. 334:25-335:4, through external sources such as LinkedIn and Google, id. at 383:1-385:23, and directories of buyers in the apparel industry, id. at 296:16-20. Indeed, plaintiff's Executive Vice President, Jody Schwartz, admitted

⁷ The DTSA similarly defines a trade secret, among other things, as any business information that (A) "the owner thereof has taken reasonable measures to keep such information secret; and (B) "the information derives independent economic value . . . from not being generally known . . . [or] readily ascertainable . . . [to] another person who can obtain economic value from the disclosure or use of the information[.]" 18 U.S.C. 1839(3) (A)-(B).

during testimony that the identities and contact information of Free Country's clients are known outside the company. Id. at 245:9-12. The Court therefore finds that plaintiff has failed to show a likelihood of success on the merits for misappropriation of Free Country's contact list.

Plaintiff's allegations concerning Free Country's pricing information are similarly flawed. Data relating to pricing can constitute a trade secret under some circumstances. In re Dana Corp., 574 F.3d 129, 152 (2d Cir. 2009). However, this is generally where a company uses some type of proprietary formula that gives it a unique advantage, such as a complex pricing or trading algorithm in a financial business. See Saks Inc. v. Attachmate Corp., No. 14 CIV. 4902 CM, 2015 WL 1841136, at *18 (S.D.N.Y. Apr. 17, 2015); Johnson Controls, Inc. v. A.P.T. Critical Sys., Inc., 323 F. Supp. 2d 525, 537-38 (S.D.N.Y. 2004). On the other hand, information relating to Free Country's underlying mechanics, such as the prices of materials and costs of manufacturing, are not trade secrets because "any seller's publicly-available prices signal to competitors some information about the underlying mechanics of the seller's pricing structure." Silipos, Inc. v. Bickel, No. 1:06-CV-02205, 2006 WL 2265055, at *4-5 (S.D.N.Y. Aug. 8, 2006); see Prod. Res. Grp., L.L.C. v. Oberman, No. 03 CIV. 5366 (JGK), 2003 WL 22350939, at *14 (S.D.N.Y. Aug. 27, 2003).

Here, Free Country has offered no evidence that it prices,

sources, or manufactures its clothing line using anything other than industry practice. Defendant Drennen, Free Country's former employee, testified that Free Country determined pricing using "basic sourcing information" commonly utilized in the industry and easily reverse engineered. Tr. at 366:11-368:6. While this testimony may be self-serving on Drennen's part, Free Country has failed to present any convincing evidence to the contrary.⁸ Accordingly, the Court finds at this time that plaintiff has failed show that the pricing information at issue constitutes a trade secret for the purposes of Free Country's misappropriation claim.⁹

Furthermore, even if plaintiff could make such a showing, plaintiff has failed to show the second prong of its misappropriation claim: that defendant Vander Wyden will use such pricing information in breach of an agreement or confidential relationship. Plaintiff does not argue that Vander Wyden currently possesses any specific documents containing Free Country's pricing information. Rather, plaintiff argues that Vander Wyden was privy to such information as part of his responsibilities at Free Country, and should be prohibited from working for a competitor because the information now resides in his

⁸ In this regard, plaintiff presented only Ms. Schwartz's broad statements that such information was part of Free Country's "secret sauce" and competitors could "potentially undercut [Free Country's] prices." Id. at 203:15-21; 204:19-12. This latter, of course, smacks more of free market competition than misappropriation.

⁹ All the findings of fact made in this Opinion are, of course, made only for the preliminary purposes of adjudicating the TRO and are not binding or final for any other purpose.

head.

New York law recognizes a specific means for plaintiff to protect information under such circumstances: a non competition provision. See EarthWeb, Inc. v. Schlack, 71 F. Supp. 2d 299, 311 (S.D.N.Y. 1999); Janus et Cie v. Kahnke, No. 12 CIV. 7201 (WHP), 2013 WL 5405543, at *2 (S.D.N.Y. Aug. 29, 2013). In the absence of such a provision, courts in this Circuit will restrict an individual's employment only where the individual has stolen its former employer's trade secrets and there is a high probability that the individual will "inevitably disclose" this information to its new employer. Id.

Here, plaintiff has failed to show that defendant Vander Wyden has stolen proprietary information relating to pricing, let alone that Vander Wyden will inevitably disclose such information. To be sure, Vander Wyden's explanation for how he "accidentally" emailed to himself four product designs prior to his departure from Free Country is unworthy of belief. Tr. 291-293. Nonetheless, the information contained in these decades-old designs is unlikely a trade secret, and even if it were, it has nothing to do with pricing.¹⁰ The possibility

¹⁰ Contrary to plaintiff's assertion at the evidentiary hearing, the Court is aware of no presumption of inevitable disclosure where a defendant has copied some of plaintiff's confidential information. Copying can provide strong (and sometimes overwhelming) circumstantial evidence that the information is valuable and that defendant intends to use it. Here, however, the alleged transfer was miniscule (four product designs) and was unrelated to alleged proprietary information (pricing). Given these circumstances, and the fact that the TRO, as amended, continues to prohibit defendant from using or disclosing plaintiff's proprietary information, see ECF No. 27, the Court is not persuaded that any disclosure of proprietary information is inevitable.

that Vander Wyden may have been interested in designs does not make it highly likely that he would disclose confidential information concerning Free Country's pricing.¹¹

The Court is also not convinced that any injuries that might flow from the two kinds of information that Vander Wyden is accused of misappropriating cannot be remedied by money damages. As to the customer lists, while the loss of a customer relationship can result in irreparable harm where the relationship would otherwise have produced "an indeterminate amount of business in years to come," Marsh USA Inc. v. Karasaki, No. 08 CIV. 4195 (JGK), 2008 WL 4778239, at *14 (S.D.N.Y. Oct. 31, 2008) (quoting Ticor Title Ins. Co. v. Cohen, 173 F.3d 63, 69 (2d Cir. 1999)), plaintiff here does not argue that there will be any such ongoing loss. As for the pricing information, there is no evidence that Vander Wyden's allegedly misappropriated pricing information will be relevant beyond the fall 2017 season, see Tr. 373:13-375:8; 466:2-8; 487:3-11, or that plaintiff will suffer any ongoing loss of customer goodwill. Instead, plaintiff claims that Vander Wyden will use its pricing information to undercut its business with a defined subset of its customers for a discrete period of time, which can easily be quantified at trial. See Liberty Power Corp., LLC v. Katz, No. 10-CV-1938 NGG CLP, 2011 WL 256216, at *7 (E.D.N.Y. Jan.

¹¹ Plaintiff's citation to Henry Schein, Inc. v. Cook, No. 16-CV-03166-JST, 2016 WL 3212457, at *3 (N.D. Cal. June 10, 2016) is not to the contrary (and, of course, is not binding on the Court in any event). There, the court granted an ex parte motion for a temporary restraining order where the defendant transferred a broad range of confidential information to her computer prior to her resignation. The

26, 2011) (finding that harm was not irreparable where plaintiff alleged that defendant's misappropriation would result in lost contracts with a "finite albeit large number of customers").

As for the balance of the equities, there is no dispute that a temporary restraining order prohibiting Vander Wyden from selling to Free Country's customers for the fall 2017 season would effectively mean that Vander Wyden could not work for his new employer. Tr. 388:24-389:23; 482:17-483:1. This has implications not only for Vander Wyden's personal welfare, but future employment prospects as well. Id. at 388:24-389:23.

Accordingly, for the foregoing reasons, plaintiff has failed to show that a TRO prohibiting Vander Wyden from selling to Free Country's customers for the fall 2017 season is warranted.

The Court next turns to plaintiff's request for a TRO against defendant Drennen. It is clear that Drennen expressly copied a large amount of Free Country's information immediately prior to his resignation, id. at 97:2-98:11, and the Court concludes that his claim that he did so solely to help him sort out which information was personal and which was not is preposterous. While plaintiff does not specify which of the copied documents, including customers sales information, design packages, and production packages for past, present, and future business, id. at 201:3-202:13, are proprietary, the Court agrees with plaintiff that the information taken as a whole is a trade secret critical to plaintiff's business. See id. at 456:23-

nature of defendant Vander Wyden's transfer is materially different.

457:4 (“[T]his is not simply just about a single CAD or even a master contact list or any single document. It is the body of the information that was found in the Drennen Dropbox folder that not only concerns the historical business of Free Country but its current business and its prospective business”); see also id. at 457:5-12.

Plaintiff, however, has failed to show a likelihood that defendant Drennen used the proprietary information transferred to his Dropbox account for an improper purpose, or is likely to do so in the future. During the evidentiary hearing, Drennen testified that he had deleted any Free Country-related information from his Dropbox account by October 22, 2016, id. at 358:10-15, and that he did not transfer any Free Country information prior to its deletion. Id. at 360:20-362:14. Defendant Vander Wyden similarly testified that he never accessed Drennen’s Dropbox account or received Free Country information from Drennen. Id. at 287:3-22.

This testimony is materially corroborated by the neutral forensic analyst. Specifically, the forensic analysis conducted by Knudsen confirmed that Drennen has deleted all but 486 files from his Dropbox, id. at 26:20-24, none of which appear to contain proprietary information. There is also no evidence that Drennen has transferred Free Country’s materials to another device, or that Drennen lied about the date on which he deleted Free Country’s files.¹²

¹² Of course, Knudsen did not provide a complete account of Drennen’s Dropbox activity because his review protocol did not require him to do so. Id. at 12:2-21, 17:3-20; 22:5-14. At this stage of the proceedings, however, the Court is not prepared to draw an adverse

To be sure, the finding that Drennen no longer possesses Free Country's materials does not mean that Drennen did not look at the files prior to deleting them. Free Country could therefore theoretically lodge an inevitable disclosure claim based on the information still in Drennen's head. But this argument would nonetheless fail. Plaintiff concedes that the materials transferred by Drennen are only useful to a competitor as a "body" of information. See id. at 456:23-457:4. This body is enormous. Drennen transferred nearly 50,000 files, id. at 89:23-25, and while only a subset of these files may be proprietary, plaintiff concedes that even individual documents contain a "tremendous" amount of information. Id. at 210:5-11. Drennen possessed the files at issue for a maximum of nine days, and the Court is not persuaded that Drennen could have memorized gigabytes of data concerning Free Country's past, present, and future business in such a short period of time. See, e.g., Robert Half Int'l, Inc. v. Dunn, No. 5:13-CV-974, 2013 WL 10829925, at *8 (N.D.N.Y. Oct. 29, 2013) (rejecting inevitable disclosure claim because there was no evidence that defendant was still in possession of plaintiff's confidential information). Accordingly, in the absence of evidence of misuse, the Court finds that plaintiff has failed to show a likelihood of success on the merits of its misappropriation claim against Drennen.

inference against Drennen because of an incomplete protocol jointly proposed and agreed upon by the plaintiff. It should further be noted that Drennen has voluntarily consented to the forensic analyst deleting the remaining files in his Dropbox account. Id. at 431:9-11.

Furthermore, plaintiff has failed to show that it will suffer any imminent irreparable harm from Drennen's copying that now warrants injunctive relief. Irreparable harm requires an "injury that is neither remote nor speculative, but actual and imminent." N.Y. ex rel. Schneiderman v. Actavis PLC, 787 F.3d 638, 660 (2d Cir. 2015) (quoting Forest City Daly Hous., Inc. v. Town of N. Hempstead, 175 F.3d 144, 153 (2d Cir.1999)). As set forth at the evidentiary hearing, plaintiff's alleged injury arises out of lost sales for the fall 2017 season. Tr. 489:9-490:19. The parties do not negotiate these sales until January and February 2017, and do not ship their products until closer to the season. Id. Since the Court has expedited discovery, plaintiff has ample time to determine whether defendant Drennen and Vander Wyden are, notwithstanding their denials, still in possession of any proprietary information. Should defendants have been less than forthcoming, the Court has scheduled a preliminary injunction hearing to conclude by no later than January 31, 2017, and plaintiff may move for a preliminary injunction upon discovery of any material information. At that time, the Court has a variety of means to avoid any imminent irreparable harm to the plaintiff, including prohibiting defendants from completing any sales to Free Country's past and present customers. Given the lack of imminence at the present time, however, the balance of the hardships tips in defendant Drennen's favor for the same reasons articulated for defendant Vander Wyden.

Finally, as in Vander Wyden's case, the equities favor not

preventing Drennen from engaging in his new employment absent a greater showing than plaintiff has so far made.

For all the foregoing reasons, the Court, in its Order dated December 9, 2016 granted in part plaintiff's motion for a renewed TRO, but rejected plaintiff's request that defendants be prohibited from soliciting Free Country's customers for the fall 2017 season.

Dated: New York, New York
December 30, 2016



JED S. RAKOFF, U.S.D.J.

United States District Court
Northern District of California

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

OOO BRUNSWICK RAIL
MANAGEMENT, et al.,

Plaintiffs,

v.

RICHARD SULTANOV, et al.,

Defendants.

Case No. [5:17-cv-00017-EJD](#)

**ORDER GRANTING IN PART AND
DENYING IN PART PLAINTIFFS’ EX
PARTE APPLICATION FOR SEIZURE
AND PRESERVATION ORDERS,
EXPEDITED DISCOVERY,
TEMPORARY RESTRAINING ORDER,
AND PRELIMINARY INJUNCTION**

Re: Dkt. No. 3

Plaintiffs OOO Brunswick Rail Management and Brunswick Rail Group Limited (together, “Brunswick”) allege that defendants Richard Sultanov and Paul Ostling misappropriated Brunswick’s confidential information. Complaint ¶¶ 31–48. Before the Court is Brunswick’s ex parte application for:

- (1) a seizure order under the Defend Trade Secrets Act (“DTSA”), 18 U.S.C. § 1836;
- (2) a seizure and preservation order under Fed. R. Civ. P. 64 and 65, the Court’s inherent authority, and the All Writs Act, 27 U.S.C. § 1651(a);
- (3) expedited discovery;
- (4) a temporary restraining order (“TRO”); and
- (5) an order to show cause why a preliminary injunction should not issue.

1 Dkt. No. 3. Brunswick’s motion will be GRANTED IN PART AND DENIED IN PART.

2 **I. BACKGROUND**

3 Defendants Sultanov and Ostling are former employees of Brunswick. Brief in Support of
4 Plaintiffs’ Ex Parte Application (“Brief”) at 2–3, Dkt. No. 4. Brunswick alleges that both Sultanov
5 and Ostling misappropriated trade secrets in November and December 2016. Id. at 5.

6 After noticing “unusually secretive” behavior from Sultanov, Brunswick investigated his
7 work email account and discovered that he had sent several confidential documents to his personal
8 email account without authorization; he then deleted the sent messages and emptied his trash
9 folder. Id. at 5–7, 9. The investigation further revealed that Sultanov had been communicating by
10 phone with Ostling (who had since resigned from Brunswick) and a representative of one of
11 Brunswick’s creditors, whom Sultanov was explicitly prohibited from contacting. Id. at 7. Ostling,
12 too, received unauthorized confidential materials at his personal email account (via his former
13 personal assistant, who remained at Brunswick), which he then forwarded to the creditor’s
14 representative and to Sultanov. Id. at 8. Sultanov also refuses to return a company-issued mobile
15 phone and laptop. Id. at 1.

16 Brunswick believes that Sultanov and Ostling “have already disclosed and plan to continue
17 to disclose the trade secrets to creditors in order to disadvantage Brunswick in its ongoing
18 negotiations” related to Brunswick’s debt restructuring. Id. at 1.

19 **II. DISCUSSION**

20 **A. Preservation and Seizure**

21 Parties have a duty to preserve evidence once a complaint is filed. Echostar Satellite LLC
22 v. Freetech, Inc., No. C-07-06124 JW, 2009 WL 8399038, at *2 (N.D. Cal. Jan. 22, 2009). To
23 obtain an order imposing stricter preservation requirements, a party must make “some showing of
24 a significant concern that potentially relevant evidence will be destroyed” Bright Sols. for
25 Dyslexia, Inc. v. Doe 1, No. 15-CV-01618-JSC, 2015 WL 5159125, at *2 (N.D. Cal. Sept. 2,
26 2015). To determine whether a preservation order is necessary, courts consider (1) threats to

1 preservation of the evidence, (2) irreparable harm likely to result to the party seeking preservation,
2 and (3) the capability of the custodian to maintain the evidence sought to be preserved. Echostar,
3 2009 WL 8399308, at *2.

4 Brunswick has satisfied these three requirements. First, there is a risk that Sultanov and
5 Ostling will delete relevant material from their email accounts, which are hosted by Google (for
6 the address richard.sultanov@gmail.com) and Rackspace (for the address
7 paul.ostling@pauljostling.com). There is also a risk that Google and Rackspace might delete
8 material themselves (for instance, by automatically erasing emails that Sultanov or Ostling moved
9 to their trash folders). See, e.g., Bright Sols., 2015 WL 5159125, at *3 (noting that under Google’s
10 “regular business practices, user data is routinely destroyed within months after a user deletes that
11 information”). Second, deletion of this material would cause irreparable harm to Brunswick.
12 Third, it is within the reasonable capabilities of Google and Rackspace to preserve material
13 associated with Sultanov and Ostling’s accounts. Brunswick’s need for preservation is all the more
14 acute because Rackspace and Google, as nonparties, have no obligation to preserve this
15 information absent a court order. Id. at *3 (granting an order directing nonparties eBay, PayPal,
16 and Google “to preserve documents, data, and records”).

17 Brunswick also seeks an order directing seizure of information on Sultanov and Ostling’s
18 digital accounts by requiring Google and Rackspace to deliver physical copies to the Court with
19 assistance from the U.S. Marshals. Brief at 16–17. The Court finds that physical copies of the data
20 are unnecessary because Google and Rackspace will be required to preserve the data under their
21 own custody.

22 Finally, Brunswick seeks an order under the DTSA to seize the company-issued laptop and
23 mobile phone in Sultanov’s possession. The DTSA provides that a “court may, upon ex parte
24 application but only in extraordinary circumstances, issue an order providing for the seizure of
25 property necessary to prevent the propagation or dissemination of the trade secret that is the
26 subject of the action” 18 U.S.C. § 1836(b)(2)(A)(i). A court may issue a seizure order only if,

1 among other requirements, an order under Fed. R. Civ. P. 65 or another form of equitable relief
 2 would be inadequate. 18 U.S.C. § 1836(b)(2)(A)(ii). Here, the Court finds that seizure under the
 3 DTSA is unnecessary because the Court will order that Sultanov must deliver these devices to the
 4 Court at the time of the hearing scheduled below, and in the meantime, the devices may not be
 5 accessed or modified.

6 **C. Expedited Discovery**

7 Courts may allow expedited discovery for good cause. Semitool, Inc. v. Tokyo Electron
 8 Am., Inc., 208 F.R.D. 273, 276 (N.D. Cal. 2002) (concluding that the “good cause” standard
 9 applies); see also MCGIP, LLC v. Does 1-26, No. 11-CV-03679 EJD, 2011 WL 3473808, at *2
 10 (N.D. Cal. Aug. 9, 2011) (“A court may authorize early discovery before the Rule 26(f)
 11 conference for the parties’ and witnesses’ convenience and in the interest of justice. . . . Courts
 12 within the Ninth Circuit generally consider whether a plaintiff has shown ‘good cause’ for the
 13 early discovery.”) “Good cause may be found where the need for expedited discovery, in
 14 consideration of the administration of justice, outweighs the prejudice to the responding party.”
 15 Semitool, 208 F.R.D. at 276.

16 Brunswick fails to show good cause because it does not adequately explain the need for
 17 expedited discovery. Brunswick may request expedited discovery in a separate motion.

18 **D. TRO and Preliminary Injunction**

19 The standards for issuing a TRO and preliminary injunction are the same. New Motor
 20 Vehicle Bd. of Cal. v. Orrin W. Fox Co., 434 U.S. 1345, 1347 n.2 (1977). A preliminary
 21 injunction is “an extraordinary remedy that may only be awarded upon a clear showing that the
 22 plaintiff is entitled to such relief.” Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7, 22
 23 (2008). The plaintiff must show (1) that it is likely to succeed on the merits, (2) that it is likely to
 24 suffer irreparable harm in the absence of preliminary relief, (3) that the balance of equities tips in
 25 its favor, and (4) that an injunction is in the public interest. Stormans, Inc. v. Selecky, 586 F.3d
 26 1109, 1127 (9th Cir. 2009).

1 A preliminary injunction is also appropriate if “serious questions going to the merits were
2 raised and the balance of the hardships tips sharply in the plaintiff’s favor.” Alliance for the Wild
3 Rockies v. Cottrell, 622 F.3d 1045, 1049 (9th Cir. 2010).

4 “These formulations are not different tests but represent two points on a sliding scale in
5 which the degree of irreparable harm increases as the probability of success on the merits
6 decreases.” Big Country Foods, Inc. v. Board of Educ. of the Anchorage Sch. Dist., 868 F.2d
7 1085, 1088 (9th Cir. 1989). But “[u]nder either formulation, the moving party must demonstrate a
8 significant threat of irreparable injury, irrespective of the magnitude of the injury.” Id.

9 Brunswick has satisfied the requirements for a TRO. First, Brunswick has shown that it
10 will likely succeed on the merits of its trade secrets claims. Brunswick’s evidence shows that
11 Sultanov and Ostling improperly disseminated confidential information—e.g., by emailing
12 documents to their personal accounts and then sending that information to third parties. That
13 information likely constituted protectable trade secrets under the California Uniform Trade Secrets
14 Act, Cal. Civ. Code § 3426.1. Second, Brunswick has shown that it will likely suffer irreparable
15 harm if the Court does not grant injunctive relief. Dissemination of the confidential information to
16 Brunswick’s creditors, competitors, and adverse parties in arbitration would cause Brunswick
17 irreparable harm. Finally, the balance of equities weighs in Brunswick’s favor, and a TRO would
18 serve the public interest.

19 In addition, an ex parte TRO application must satisfy Fed. R. Civ. P. 65(b)(1), under which
20 a TRO may issue only if “the movant’s attorney certifies in writing any efforts made to give notice
21 and the reasons why it should not be required.” The declaration of Gabriel M. Ramsey in support
22 of Brunswick’s application states that “notice would render the requested relief ineffective” and
23 that district courts in the Ninth Circuit have granted relief in similar circumstances. Dkt. No. 6 at
24 1–2.

United States District Court
Northern District of California

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E. Service by Mail, Email, and Facsimile

The Court declines to adopt Brunswick’s proposed order for alternative means of service without a showing that such means are necessary.

III. ORDER

Brunswick’s application is GRANTED IN PART AND DENIED IN PART. The Court orders that:

1. Within 72 hours of receiving this Order, Rackspace Hosting, Inc. and/or Rackspace US, Inc. shall preserve all data associated with the account paul.ostling@pauljostling.com. Within seven days of preservation, Rackspace Hosting, Inc. and/or Rackspace US, Inc. shall notify the Court in writing that preservation has occurred.

2. Within 72 hours of receiving this Order, Google, Inc. shall preserve all data associated with the account richard.sultanov@gmail.com. Within seven days of preservation, Google, Inc. shall notify the Court in writing that preservation has occurred.

3. Plaintiffs shall facilitate service of copies of this Order by delivery to the registered California agents for service of process for Google, Inc., Rackspace Hosting, Inc., and Rackspace US, Inc., with email copies to their in-house legal departments, subpoena compliance departments, or court order compliance departments.

4. Defendants Richard Sultanov and Paul Ostling must appear before this Court on January 20, 2017 at 10:00 a.m. in Courtroom 4 at 280 1st St., San Jose, CA 95113 to show cause why a preliminary injunction should not be made and entered under Fed. R. Civ. P. 65 granting the following relief, and that pending the hearing and ruling on Brunswick’s request for a preliminary injunction, the Court issues this Order:

- a. restraining and enjoining Defendant Richard Sultanov, and all those acting in concert or participation with him, from accessing or modifying electronic devices issued to him by Brunswick, including mobile phones and laptops, unless otherwise directed by this Court;

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- b. directing Defendant Richard Sultanov to bring the electronic devices issued to him by Brunswick, including mobile phones and laptops, to the January 20 hearing and deliver those devices to the Court’s custody;
- c. restraining and enjoining Defendants, and all those acting in concert or participation with them from destroying, or disposing any evidence or other materials, in any form, relating to this action and the issues raised herein, including, without limitation, all devices, electronic media, cloud storage, telephones and all copies of any and all documents, media and/or other materials, containing, identifying, describing, reflecting or referencing Plaintiffs’ confidential, proprietary, or trade secret information, and any and all documents, data and information which was obtained by Defendants from, or by virtue of their employment with Plaintiffs, including all current or archived media, emails, chats, texts, documents, electronic logs, metadata, storage, directories, telephone logs, telephones, computer, laptops, software or hardware;
- d. restraining and enjoining Defendants, and all those acting in concert or participation with them, from violating their employment agreements, confidentiality agreements, IT policies, or fiduciary duties, duties of loyalty and other obligations to Plaintiffs, including without limitation the portions of their agreements prohibiting the use, disclosure or dissemination of Plaintiffs’ confidential, proprietary or trade secret information, and their fiduciary duties and duties of loyalty not to use, disclose or disseminate such information; restraining and enjoining Defendants, and all those acting in concert or participation with them, from communicating confidential, proprietary or trade secret information to contractual counterparties of Plaintiffs, including any creditors or related parties, or otherwise interfering with or injuring relations, goodwill or negotiations with any

1 contractual counterparties, including creditors or related parties, or communicating
2 regarding Plaintiffs' business or dealings with such parties.

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4 **IT IS SO ORDERED.**

5 Dated: January 6, 2017 at 11:02 a.m.
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9 EDWARD J. DAVILA
10 United States District Judge

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United States District Court
Northern District of California

PUBLIC LAW 114–153—MAY 11, 2016

DEFEND TRADE SECRETS ACT OF 2016

Public Law 114–153
114th Congress

An Act

May 11, 2016
[S. 1890]

To amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes.

Defend Trade
Secrets Act of
2016.
18 USC 1 note.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “Defend Trade Secrets Act of 2016”.

SEC. 2. FEDERAL JURISDICTION FOR THEFT OF TRADE SECRETS.

(a) IN GENERAL.—Section 1836 of title 18, United States Code, is amended by striking subsection (b) and inserting the following:

“(b) PRIVATE CIVIL ACTIONS.—

“(1) IN GENERAL.—An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.

“(2) CIVIL SEIZURE.—

“(A) IN GENERAL.—

“(i) APPLICATION.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.

“(ii) REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

“(I) an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;

“(II) an immediate and irreparable injury will occur if such seizure is not ordered;

“(III) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application and

substantially outweighs the harm to any third parties who may be harmed by such seizure;

“(IV) the applicant is likely to succeed in showing that—

“(aa) the information is a trade secret;

and

“(bb) the person against whom seizure would be ordered—

“(AA) misappropriated the trade secret of the applicant by improper means; or

“(BB) conspired to use improper means to misappropriate the trade secret of the applicant;

“(V) the person against whom seizure would be ordered has actual possession of—

“(aa) the trade secret; and

“(bb) any property to be seized;

“(VI) the application describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;

“(VII) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and

“(VIII) the applicant has not publicized the requested seizure.

“(B) ELEMENTS OF ORDER.—If an order is issued under subparagraph (A), it shall—

“(i) set forth findings of fact and conclusions of law required for the order;

“(ii) provide for the narrowest seizure of property necessary to achieve the purpose of this paragraph and direct that the seizure be conducted in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret;

“(iii)(I) be accompanied by an order protecting the seized property from disclosure by prohibiting access by the applicant or the person against whom the order is directed, and prohibiting any copies, in whole or in part, of the seized property, to prevent undue damage to the party against whom the order has issued or others, until such parties have an opportunity to be heard in court; and

“(II) provide that if access is granted by the court to the applicant or the person against whom the order is directed, the access shall be consistent with subparagraph (D);

“(iv) provide guidance to the law enforcement officials executing the seizure that clearly delineates the scope of the authority of the officials, including—

Deadline. Notification.	<p>“(I) the hours during which the seizure may be executed; and</p> <p>“(II) whether force may be used to access locked areas;</p> <p>“(v) set a date for a hearing described in subparagraph (F) at the earliest possible time, and not later than 7 days after the order has issued, unless the party against whom the order is directed and others harmed by the order consent to another date for the hearing, except that a party against whom the order has issued or any person harmed by the order may move the court at any time to dissolve or modify the order after giving notice to the applicant who obtained the order; and</p> <p>“(vi) require the person obtaining the order to provide the security determined adequate by the court for the payment of the damages that any person may be entitled to recover as a result of a wrongful or excessive seizure or wrongful or excessive attempted seizure under this paragraph.</p>
Courts.	<p>“(C) PROTECTION FROM PUBLICITY.—The court shall take appropriate action to protect the person against whom an order under this paragraph is directed from publicity, by or at the behest of the person obtaining the order, about such order and any seizure under such order.</p> <p>“(D) MATERIALS IN CUSTODY OF COURT.—</p> <p>“(i) IN GENERAL.—Any materials seized under this paragraph shall be taken into the custody of the court. The court shall secure the seized material from physical and electronic access during the seizure and while in the custody of the court.</p> <p>“(ii) STORAGE MEDIUM.—If the seized material includes a storage medium, or if the seized material is stored on a storage medium, the court shall prohibit the medium from being connected to a network or the Internet without the consent of both parties, until the hearing required under subparagraph (B)(v) and described in subparagraph (F).</p> <p>“(iii) PROTECTION OF CONFIDENTIALITY.—The court shall take appropriate measures to protect the confidentiality of seized materials that are unrelated to the trade secret information ordered seized pursuant to this paragraph unless the person against whom the order is entered consents to disclosure of the material.</p> <p>“(iv) APPOINTMENT OF SPECIAL MASTER.—The court may appoint a special master to locate and isolate all misappropriated trade secret information and to facilitate the return of unrelated property and data to the person from whom the property was seized. The special master appointed by the court shall agree to be bound by a non-disclosure agreement approved by the court.</p> <p>“(E) SERVICE OF ORDER.—The court shall order that service of a copy of the order under this paragraph, and the submissions of the applicant to obtain the order, shall be made by a Federal law enforcement officer who, upon</p>

making service, shall carry out the seizure under the order. The court may allow State or local law enforcement officials to participate, but may not permit the applicant or any agent of the applicant to participate in the seizure. At the request of law enforcement officials, the court may allow a technical expert who is unaffiliated with the applicant and who is bound by a court-approved non-disclosure agreement to participate in the seizure if the court determines that the participation of the expert will aid the efficient execution of and minimize the burden of the seizure.

Determination.

“(F) SEIZURE HEARING.—

“(i) DATE.—A court that issues a seizure order shall hold a hearing on the date set by the court under subparagraph (B)(v).

“(ii) BURDEN OF PROOF.—At a hearing held under this subparagraph, the party who obtained the order under subparagraph (A) shall have the burden to prove the facts supporting the findings of fact and conclusions of law necessary to support the order. If the party fails to meet that burden, the seizure order shall be dissolved or modified appropriately.

“(iii) DISSOLUTION OR MODIFICATION OF ORDER.—A party against whom the order has been issued or any person harmed by the order may move the court at any time to dissolve or modify the order after giving notice to the party who obtained the order.

“(iv) DISCOVERY TIME LIMITS.—The court may make such orders modifying the time limits for discovery under the Federal Rules of Civil Procedure as may be necessary to prevent the frustration of the purposes of a hearing under this subparagraph.

“(G) ACTION FOR DAMAGE CAUSED BY WRONGFUL SEIZURE.—A person who suffers damage by reason of a wrongful or excessive seizure under this paragraph has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to the same relief as is provided under section 34(d)(11) of the Trademark Act of 1946 (15 U.S.C. 1116(d)(11)). The security posted with the court under subparagraph (B)(vi) shall not limit the recovery of third parties for damages.

“(H) MOTION FOR ENCRYPTION.—A party or a person who claims to have an interest in the subject matter seized may make a motion at any time, which may be heard ex parte, to encrypt any material seized or to be seized under this paragraph that is stored on a storage medium. The motion shall include, when possible, the desired encryption method.

“(3) REMEDIES.—In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—

“(A) grant an injunction—

“(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not—

“(I) prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or

“(II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;

“(ii) if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and

“(iii) in exceptional circumstances that render an injunction inequitable, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited;

“(B) award—

“(i)(I) damages for actual loss caused by the misappropriation of the trade secret; and

“(II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or

“(ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator’s unauthorized disclosure or use of the trade secret;

“(C) if the trade secret is willfully and maliciously misappropriated, award exemplary damages in an amount not more than 2 times the amount of the damages awarded under subparagraph (B); and

“(D) if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, award reasonable attorney’s fees to the prevailing party.

“(c) JURISDICTION.—The district courts of the United States shall have original jurisdiction of civil actions brought under this section.

“(d) PERIOD OF LIMITATIONS.—A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.”.

(b) DEFINITIONS.—Section 1839 of title 18, United States Code, is amended—

(1) in paragraph (3)—

(A) in subparagraph (B), by striking “the public” and inserting “another person who can obtain economic value from the disclosure or use of the information”; and

(B) by striking “and” at the end;

(2) in paragraph (4), by striking the period at the end and inserting a semicolon; and

(3) by adding at the end the following:

“(5) the term ‘misappropriation’ means—

“(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

“(B) disclosure or use of a trade secret of another without express or implied consent by a person who—

“(i) used improper means to acquire knowledge of the trade secret;

“(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—

“(I) derived from or through a person who had used improper means to acquire the trade secret;

“(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

“(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

“(iii) before a material change of the position of the person, knew or had reason to know that—

“(I) the trade secret was a trade secret; and

“(II) knowledge of the trade secret had been acquired by accident or mistake;

“(6) the term ‘improper means’—

“(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and

“(B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition; and

“(7) the term ‘Trademark Act of 1946’ means the Act entitled ‘An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes, approved July 5, 1946 (15 U.S.C. 1051 et seq.) (commonly referred to as the “Trademark Act of 1946” or the “Lanham Act”).”.

(c) EXCEPTIONS TO PROHIBITION.—Section 1833 of title 18, United States Code, is amended, in the matter preceding paragraph (1), by inserting “or create a private right of action for” after “prohibit”.

(d) CONFORMING AMENDMENTS.—

(1) The section heading for section 1836 of title 18, United States Code, is amended to read as follows:

“§ 1836. Civil proceedings”.

(2) The table of sections for chapter 90 of title 18, United States Code, is amended by striking the item relating to section 1836 and inserting the following:

18 USC 1831
prec.

“1836. Civil proceedings.”.

(e) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to any misappropriation of a trade secret (as defined in section 1839 of title 18, United States Code, as

Applicability.
18 USC 1833
note.

amended by this section) for which any act occurs on or after the date of the enactment of this Act.

18 USC 1833
note.

(f) **RULE OF CONSTRUCTION.**—Nothing in the amendments made by this section shall be construed to modify the rule of construction under section 1838 of title 18, United States Code, or to preempt any other provision of law.

18 USC 1833
note.

(g) **APPLICABILITY TO OTHER LAWS.**—This section and the amendments made by this section shall not be construed to be a law pertaining to intellectual property for purposes of any other Act of Congress.

SEC. 3. TRADE SECRET THEFT ENFORCEMENT.

(a) **IN GENERAL.**—Chapter 90 of title 18, United States Code, is amended—

(1) in section 1832(b), by striking “\$5,000,000” and inserting “the greater of \$5,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided”; and

(2) in section 1835—

(A) by striking “In any prosecution” and inserting the following:

“(a) **IN GENERAL.**—In any prosecution”; and

(B) by adding at the end the following:

“(b) **RIGHTS OF TRADE SECRET OWNERS.**—The court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential. No submission under seal made under this subsection may be used in a prosecution under this chapter for any purpose other than those set forth in this section, or otherwise required by law. The provision of information relating to a trade secret to the United States or the court in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection, and the disclosure of information relating to a trade secret in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection unless the trade secret owner expressly consents to such waiver.”.

(b) **RICO PREDICATE OFFENSES.**—Section 1961(1) of title 18, United States Code, is amended by inserting “sections 1831 and 1832 (relating to economic espionage and theft of trade secrets),” before “section 1951”.

18 USC 1832
note.

SEC. 4. REPORT ON THEFT OF TRADE SECRETS OCCURRING ABROAD.

(a) **DEFINITIONS.**—In this section:

(1) **DIRECTOR.**—The term “Director” means the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office.

(2) **FOREIGN INSTRUMENTALITY, ETC.**—The terms “foreign instrumentality”, “foreign agent”, and “trade secret” have the meanings given those terms in section 1839 of title 18, United States Code.

(3) **STATE.**—The term “State” includes the District of Columbia and any commonwealth, territory, or possession of the United States.

(4) UNITED STATES COMPANY.—The term “United States company” means an organization organized under the laws of the United States or a State or political subdivision thereof.

(b) REPORTS.—Not later than 1 year after the date of enactment of this Act, and biannually thereafter, the Attorney General, in consultation with the Intellectual Property Enforcement Coordinator, the Director, and the heads of other appropriate agencies, shall submit to the Committees on the Judiciary of the House of Representatives and the Senate, and make publicly available on the Web site of the Department of Justice and disseminate to the public through such other means as the Attorney General may identify, a report on the following:

Consultation.
Public
information.
Web posting.

(1) The scope and breadth of the theft of the trade secrets of United States companies occurring outside of the United States.

(2) The extent to which theft of trade secrets occurring outside of the United States is sponsored by foreign governments, foreign instrumentalities, or foreign agents.

(3) The threat posed by theft of trade secrets occurring outside of the United States.

(4) The ability and limitations of trade secret owners to prevent the misappropriation of trade secrets outside of the United States, to enforce any judgment against foreign entities for theft of trade secrets, and to prevent imports based on theft of trade secrets overseas.

(5) A breakdown of the trade secret protections afforded United States companies by each country that is a trading partner of the United States and enforcement efforts available and undertaken in each such country, including a list identifying specific countries where trade secret theft, laws, or enforcement is a significant problem for United States companies.

(6) Instances of the Federal Government working with foreign countries to investigate, arrest, and prosecute entities and individuals involved in the theft of trade secrets outside of the United States.

(7) Specific progress made under trade agreements and treaties, including any new remedies enacted by foreign countries, to protect against theft of trade secrets of United States companies outside of the United States.

(8) Recommendations of legislative and executive branch actions that may be undertaken to—

Recommendations.

(A) reduce the threat of and economic impact caused by the theft of the trade secrets of United States companies occurring outside of the United States;

(B) educate United States companies regarding the threats to their trade secrets when taken outside of the United States;

(C) provide assistance to United States companies to reduce the risk of loss of their trade secrets when taken outside of the United States; and

(D) provide a mechanism for United States companies to confidentially or anonymously report the theft of trade secrets occurring outside of the United States.

SEC. 5. SENSE OF CONGRESS.

It is the sense of Congress that—

(1) trade secret theft occurs in the United States and around the world;

(2) trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies;

(3) chapter 90 of title 18, United States Code (commonly known as the “Economic Espionage Act of 1996”), applies broadly to protect trade secrets from theft; and

(4) it is important when seizing information to balance the need to prevent or remedy misappropriation with the need to avoid interrupting the—

(A) business of third parties; and

(B) legitimate interests of the party accused of wrongdoing.

28 USC 620 note. **SEC. 6. BEST PRACTICES.**

Deadline.

(a) **IN GENERAL.**—Not later than 2 years after the date of enactment of this Act, the Federal Judicial Center, using existing resources, shall develop recommended best practices for—

(1) the seizure of information and media storing the information; and

(2) the securing of the information and media once seized.

(b) **UPDATES.**—The Federal Judicial Center shall update the recommended best practices developed under subsection (a) from time to time.

Records.

(c) **CONGRESSIONAL SUBMISSIONS.**—The Federal Judicial Center shall provide a copy of the recommendations developed under subsection (a), and any updates made under subsection (b), to the—

(1) Committee on the Judiciary of the Senate; and

(2) Committee on the Judiciary of the House of Representatives.

SEC. 7. IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.

(a) **AMENDMENT.**—Section 1833 of title 18, United States Code, is amended—

(1) by striking “This chapter” and inserting “(a) **IN GENERAL.**—This chapter”;

(2) in subsection (a)(2), as designated by paragraph (1), by striking “the reporting of a suspected violation of law to any governmental entity of the United States, a State, or a political subdivision of a State, if such entity has lawful authority with respect to that violation” and inserting “the disclosure of a trade secret in accordance with subsection (b)”;

and

(3) by adding at the end the following:

“(b) **IMMUNITY FROM LIABILITY FOR CONFIDENTIAL DISCLOSURE OF A TRADE SECRET TO THE GOVERNMENT OR IN A COURT FILING.**—

“(1) **IMMUNITY.**—An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—

“(A) is made—

“(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and

“(ii) solely for the purpose of reporting or investigating a suspected violation of law; or

“(B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

“(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT.—An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual—

“(A) files any document containing the trade secret under seal; and

“(B) does not disclose the trade secret, except pursuant to court order.

“(3) NOTICE.—

“(A) IN GENERAL.—An employer shall provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.

Contracts.

“(B) POLICY DOCUMENT.—An employer shall be considered to be in compliance with the notice requirement in subparagraph (A) if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.

“(C) NON-COMPLIANCE.—If an employer does not comply with the notice requirement in subparagraph (A), the employer may not be awarded exemplary damages or attorney fees under subparagraph (C) or (D) of section 1836(b)(3) in an action against an employee to whom notice was not provided.

“(D) APPLICABILITY.—This paragraph shall apply to contracts and agreements that are entered into or updated after the date of enactment of this subsection.

Contracts.

“(4) EMPLOYEE DEFINED.—For purposes of this subsection, the term ‘employee’ includes any individual performing work as a contractor or consultant for an employer.

“(5) RULE OF CONSTRUCTION.—Except as expressly provided for under this subsection, nothing in this subsection shall be construed to authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means.”.

(b) TECHNICAL AND CONFORMING AMENDMENT.—Section 1838 of title 18, United States Code, is amended by striking “This

chapter” and inserting “Except as provided in section 1833(b), this chapter”.

Approved May 11, 2016.

LEGISLATIVE HISTORY—S. 1890:

HOUSE REPORTS: No. 114–529 (Comm. on the Judiciary).

SENATE REPORTS: No. 114–220 (Comm. on the Judiciary).

CONGRESSIONAL RECORD, Vol. 162 (2016):

Apr. 4, considered and passed Senate.

Apr. 27, considered and passed House.

DAILY COMPILATION OF PRESIDENTIAL DOCUMENTS (2016):

May 11, Presidential remarks.



**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**

USDC SDNY
DOCUMENT
ELECTRONICALLY FILED
DOC #
DATE FILED: 9-23-16

**SYNTEL STERLING BEST SHORES MAURITIUS
LIMITED, et al.,**

Plaintiffs,

- against -

THE TRIZETTO GROUP, INC., et al.,

Defendants.

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**OPINION AND ORDER
15-CV-211 (LGS) (RLE)**

RONALD L. ELLIS, United States Magistrate Judge:

I. INTRODUCTION

Plaintiffs Syntel Sterling Best Shores Mauritius Limited, and Syntel, Inc., (collectively, “Syntel”) initiated this action against The TriZetto Group, Inc. (“TriZetto”) and Cognizant Technology Solutions Corp. (“Cognizant,” and, collectively, “Defendants”), alleging breach of contract, intentional interference with contractual relations, and misappropriation of confidential information. (Doc. Nos. 1, 39.) Defendants asserted counterclaims against Syntel, alleging breach of contract, breach of implied covenant of good faith and fair dealing, misappropriation of confidential information, unfair competition, and tortious interference with prospective business relations. (Doc. Nos. 21, 50.) Before the Court is Defendants’ motion for leave to amend their counterclaims against Syntel to (1) add new claims and allegations of copyright infringement; (2) expand allegations of misappropriation under New York law; (3) add new claims and allegations of trade secret theft under the Defend Trade Secrets Act (“DTSA”); (4) expand allegations of breach of contract; and (5) make additional amendments to conform the counterclaims to the products of discovery and new information developed since their initial filing. (Doc. No. 191.) For the reasons that follow, Defendants’ motion to amend their counterclaims is **GRANTED**.

II. BACKGROUND

A. Relevant Factual Allegations in the Operative Counterclaims

TriZetto develops and licenses software products in the healthcare industry. Relevant to this action is Facets, TriZetto's "core software product geared specifically to health plan administration." (*Id.* at ¶ 42.) TriZetto also provides consulting services, including a unit that customizes and integrates its own software into clients' existing systems. (*Id.* at ¶ 43.) TriZetto explains that this process is "complex" and can take many months. (*Id.*) Accordingly, TriZetto hires contractors to perform some of this work, including Syntel. (*Id.* at ¶ 44.)

Syntel and TriZetto were parties to a Master Services Agreement ("MSA") in which Syntel promised to supply TriZetto with appropriately qualified technical personnel to assist with "software development, consulting, and other customer projects." (*Id.* at ¶ 46.) The MSA included a clause prohibiting each party from using the other's "Confidential Information" for its own benefit, including "TriZetto Data," defined as "all data and information to which [the parties to the contract] have access in connection with the provision of the Services under ... the MSA." (*Id.* at ¶ 47.) The MSA also contemplated that, in the event that TriZetto was acquired by one of Syntel's competitors, including Cognizant, Syntel could elect to terminate the MSA, as long as Syntel continued to provide "Termination Assistance Services" for up to two years. (*Id.* at ¶ 48.)

On September 15, 2014, Cognizant announced that it would acquire TriZetto. (*Id.* at ¶ 52.) Syntel issued a notice of termination on November 20, 2014, which took effect on February 18, 2015. (*Id.*) Defendants allege that after issuing the notice of termination, Syntel "opportunistically undertook to sabotage TriZetto and, therefore, Syntel's competitor Cognizant." (*Id.* at ¶ 54.) TriZetto alleges that Syntel engaged in "an organized effort ... to misappropriate ... confidential files in order to effectively compete" against Defendants. (*Id.* at ¶

63.) In particular, Defendants allege that Syntel accessed and downloaded documents from TriZetto's Customer Exchange, a bank of confidential and proprietary information, intended to be accessible through TriZetto's intranet and used by its contractors and clients to meet the needs of TriZetto's customers. (*Id.* at ¶ 64-66.)

The Counterclaim alleges that approximately 1,500 documents were downloaded by Syntel staffers between its notice of termination in September 2014 and the termination effective date the following February. (*Id.* at ¶ 67.) Defendants allege that there were systematic downloads on or around staffers' last days on TriZetto projects, including some staffers forwarding documents to their personal email addresses. (*Id.* at ¶¶ 70-75.) They allege that Syntel then used the wrongly downloaded data to pitch consulting jobs in direct competition with Defendants, including for the client United Health Group ("UHG"). (*Id.* at ¶¶ 77-81.)

B. Relevant Evidence Disclosed Through Discovery

Defendants allege that documents produced by Syntel throughout the course of discovery demonstrate that Syntel's course of conduct, including downloading, using, and copying key pieces of TriZetto's software, was more widespread than they realized when they filed their most recent counterclaim in March 2015. (Doc. No. 192 (Defendants' Memorandum of Law in Support of their Motion for Leave to Amend Counterclaims) ("Defs.' Mem.") at 5.) Specifically, they cite to emails that they say demonstrated rampant sharing among Syntel workers of documents that had been downloaded from the Customer Exchange as late as April 2015, and to an October 2014 UHG pitch by Syntel promising access to its Facets "Platform Management Tools." (*Id.* at 5-6.) They further allege that the Platform Management Tools, descriptions of which were allegedly posted on Syntel's website as early as December 2014,¹ appear to

¹ There appears to be no dispute that the Platform Management Tool descriptions from Syntel's website were not produced to Defendants during discovery, but rather have been "publically marketed on [Syntel's] public website"

improperly compete with TriZetto's proprietary tools. (*Id.* at 6-9.) Defendants contend that Syntel would never have been able to develop this "sophisticated software and vast libraries of code and documents by October 2014" without improperly using or copying TriZetto's confidential information, data, and intellectual property ("IP"). (*Id.* at 9.)

C. Relevant Procedural History

Syntel initiated this action on January 12, 2015. (Doc. No. 1.) Defendants filed their Answer and Counterclaims on February 23, 2015. (Doc. No. 21.) On March 4, 2015, Syntel filed an Amended Complaint, joining the parent company, Syntel Inc., as a party. (Doc. No. 39.) Defendants filed their Answer to the Amended Complaint and Counterclaims on March 23, 2015. (Doc. No. 50.) Judge Lorna G. Schofield entered a scheduling order on March 24, 2015, setting that date as the deadline to amend the pleadings without leave of the Court. (Doc. No. 51.) The Case was referred to Magistrate Judge James L. Cott for general pretrial on June 1, 2015, and reassigned to the undersigned on June 8, 2015. (Doc. No. 71.)

The Parties have been engaged in discovery since March 2015. Syntel made its initial document productions in June 2015, and the undersigned held a conference on July 2, 2015, to address disputes regarding the scope of the initial production and future productions. (Doc. No. 105 (Hr'g Tr.)) The Court set the end of August 2015 for completion of non-custodial ESI and the end of October 2015 for the end of fact discovery. (*Id.* at 5:8-6:18.) A month later, at a hearing on August 5, 2015, the Court ruled on a dispute regarding the Parties' proposed ESI search terms, and ordered the Parties to further meet and confer regarding the timeframe for the completion of discovery. (Doc. No. 112 (August 5, 2015 Hr'g Tr.)) The Parties thereupon agreed to the substantial completion of document production by October 31, 2015. (Doc. No.

since "at least December 2014." (Pl.'s Mem. at 6, 14.)

117.) On November 4, 2015, Syntel sought an order modifying the search terms. The application was denied by the undersigned on December 4, 2015. (Doc. No. 136 (December 4, 2015 Hr’g Tr.)) Syntel appealed, and the ruling was affirmed by Judge Schofield on January 12, 2016. (Doc. No. 143.) The Parties agreed that Syntel would complete its document production by February 11, 2016. (Doc. No. 142.) Defendants allege that in February, Syntel produced over 86,000 pages of documents, doubling its productions to date. (Defs.’ Mem. at 5, citing Declaration of Gianni Cuatri (“Cuatri Decl.”) at ¶¶ 6-8.)

On April 21, 2016, the undersigned held a discovery conference at which both Parties raised issues with the other’s production to date. (Doc. No. 146 (April 21, 2016 Hr’g Tr.)) The Court ordered the parties to confer further and to file a joint letter detailing their disputes by May 12, 2016. The issues raised in the May 12 letter were addressed before the undersigned on June 22, 2016 (Doc. No. 157 (June 22, 2016 Hr’g Tr.) and June 29, 2016 (Doc. No. 166 (June 29, 2016 Hr’g Tr.)). *Inter alia*, the Court ordered Syntel to produce additional documents related to its allegedly improper downloading and use of TriZetto confidential materials and its Platform Management Tools. (*See id.*) The Court’s discovery orders were affirmed by Judge Schofield on July 8, 2016 (Doc. No. 163) and July 29, 2016. (Doc. No. 187.)

III. DISCUSSION

A. Legal Standard

Generally, leave of court to amend pleadings should be freely given “when justice so requires.” FED. R. CIV. P. 15(a); *Rachman Bag Co. v. Liberty Mut. Ins. Co.*, 46 F.3d 230 (2d Cir. 1995). “Reasons for a proper denial of leave to amend include undue delay, bad faith, futility of the amendment, and perhaps most important, the resulting prejudice to the opposing party.” *State Teachers Retirement Board v. Fluor Corp.*, 654 F.2d 843, 856 (2d Cir. 1981); *Dluhos v. Floating*

and Abandoned Vessel, Known as New York, 162 F.3d 63, 69 (2d Cir. 1998); *see Cevasco v. National R.R. Passenger Corp.*, No. 04 Civ. 5760 (PAC) (GWG), 2007 WL 4440922, at *3 (S.D.N.Y. Dec. 18, 2007) (*citing Foman v. Davis*, 371 U.S. 178, 182 (1962)).

Furthermore, Federal Rule of Civil Procedure 16(b) requires parties to show “good cause” before the court will consent to the modification of scheduling order. FED. R. CIV. P. 16(b)(4). In the Second Circuit, “the amendment of a pleading as a matter of course pursuant to Rule 15(a) is subject to the district court's discretion to limit the time for amendment of the pleadings in a scheduling order issued under Rule 16(b).” *Kassner v. 2nd Ave. Delicatessen, Inc.*, 496 F.3d 229, 244 (2d Cir. 2007) (citing Fed. R. Civ. P. 16(b)(4)). “With respect to the Rule 16(b) standard, ‘good cause’ depends on the diligence of the moving party.” *Id.* at 243.

B. Good Cause

The scheduling order in this case set March 23, 2015, as the deadline to amend the pleadings without leave of the Court. (Doc. No. 51.) Defendants argue that they have shown good cause for the Court to exercise its discretion and to allow amendment of their counterclaims because they have diligently sought leave to amend during discovery, “which is a timely response to newly adduced evidence and changes in controlling law.” (Defs.’ Mem. at 12.)

The Court agrees that Defendants were timely in their response. The Defend Trade Secrets Act of 2016 (“DTSA”) was passed during the pendency of this case, amending existing law, creating a federal cause of action for trade secrets misappropriation. *See Defend Trade Secrets Act of 2016*, ch. 90, 130 Stat. 376 (2016) (codified as amended at 18 U.S.C. 1831 *et seq.*); *McGuire v. Warren*, 207 F. App'x 34, 37 (2d Cir. 2006) (permitting plaintiff to amend complaint to meet a change in applicable law since the complaint was filed). The remaining allegations in the proposed amendment are based on evidence that Syntel produced within a large

production of documents in February 2016, and the motion was filed while the Parties were still engaged in the active litigation of the sufficiency of that production. “Courts routinely grant leave to amend when a plaintiff seeks to refine the complaint to reflect evidence obtained during discovery.” *In re Pfizer Inc. Sec. Litig.*, No. 04 CIV. 9866 (LTS) (HBP), 2012 WL 983548, at *2 (S.D.N.Y. Mar. 22, 2012).

Syntel argues that the newly adduced evidence does not excuse Defendants’ delay in seeking leave to amend, noting that more than a year has passed since the deadline to amend the pleadings without court approval. It alleges that descriptions of Syntel’s Platform Management Tools have been available on Syntel’s website since 2014, and that Defendants knew or should have known of the information before it filed its original counterclaims. (Pl. Mem. at 14, citing *Reach Music Pub., Inc. v. Warner/Chappell Music, Inc.*, No. 09 CIV. 5580 (LTS), 2010 WL 3023981, at *2 (S.D.N.Y. Aug. 3, 2010); *G.C.W. v. United States*, No. 15-CV-0294 (DF), 2015 WL 8481677, at *3 (S.D.N.Y. Dec. 4, 2015).) Syntel further argues that the UHG proposal identifying those tools was produced to Defendants in December 2015 and, in any event Defendants have failed to establish any link between the data that Defendants claim was misappropriated and the Platform Management Tools. (*Id.*)

First, the Court disagrees that the availability of the descriptions of the Platform Management Tools on Syntel’s website is analogous to the cases Syntel cites. *Reach Music Pub., Inc.*, 2010 WL 3023981, at *2 (leave to amend denied where moving party “personally executed” the contracts that were the subject of the amendment and “provided no explanation [] why Plaintiffs were not aware of those contracts prior to their production in discovery”); *G.C.W.*, 2015 WL 8481677, at *3 (moving party delayed obtaining a medical examination to assess his own damages until after the expiration of the deadline to amend the pleadings). Additionally, the

Court does not find the time between Syntel's production of the UHG proposal in December 2015 and Defendants' motion unreasonable, as they explain that "the extent to which Syntel misappropriated TriZetto's confidential information to create those tools was not apparent" until they received Syntel's internal email communications in February 2016. (Defs.' Reply Mem. at 5.)

The Court is also satisfied that Defendants have adequately pled, at this stage, a link between the emails that show downloading and sharing of TriZetto's documents among Syntel employees and the Platform Management Tools. Defendants allege that Syntel's complex Facets-related software, such as its "repository of 3,000+ FACETS test cases and 500+ automation scripts' and an inventory of custom code interfaces" could not have been developed "by October 2014 without using or copying TriZetto's confidential information, data, and intellectual property." (Defs.' Mem. at 8-9.) The Court finds this inference reasonable, and accordingly finds that the amendments are sufficiently related to the newly adduced evidence to warrant granting leave to amend.

C. Prejudice

Syntel "bear[s] the burden of 'of demonstrating that substantial prejudice would result were the proposed amendment to be granted.'" *Cat3, LLC v. Black Lineage, Inc.*, No. 14 CIV. 5511 (AT) (JCF), 2015 WL 5559569, at *4 (S.D.N.Y. Sept. 21, 2015) (quoting *Oneida Indian Nation of New York State v. Cty. of Oneida, N.Y.*, 199 F.R.D. 61, 77 (N.D.N.Y. 2000)). Syntel alleges that they will be "severely prejudiced" by the proposed amendment because it would "radically transform the scope and nature of the case, would require voluminous additional discovery, and would delay resolution indefinitely," "essentially [hitting] the reset button on all discovery." (Pl. Mem. at 15-16.) Syntel claims that it would be required to expend "considerable

resources” on discovery regarding the new claims and potential defenses including: how Defendants’ maintained the confidentiality of new documents and information they contend were misappropriated; Cognizant’s access to the confidential material; whether the confidential material was already in the public domain and therefore not confidential; Defendant’s development and ownership of the copyrights they assert; and Syntel’s “defenses to those copyrights.” (*Id.* at 16.)

While some additional discovery will likely be required, the Court does not find that it will cause Syntel substantial prejudice because Defendants’ existing counterclaims are closely related to the proposed amendments and were “foreshadowed in earlier pleadings, argument, and subsumed within prior discovery.” (*Stonewall Corp. v. Conestoga Title Ins. Co.* 2010 WL 647531, at *2 (S.D.N.Y. Feb. 18, 2010).) The Parties have already engaged in substantial document production, which both forms the basis for Defendants’ amendments and Syntel’s defenses. For example, Syntel has already pursued discovery relating to TriZetto’s protection of confidential materials. (*See* June 21, 2016 Hr’g Tr. 24:16-21.) Additionally, the Court recently ruled that discovery regarding Defendants’ allegations of improper downloading, beyond the 1,500 downloads alleged in the Complaint, was relevant to the Defendants’ existing counterclaims. (June 29, 2016 Hr’g Tr. 3:9-11, affirmed at Doc. No. 187.)

Moreover, discovery has not yet closed and there are pending discovery disputes. Accordingly, because the Court does not find that the proposed amendments would substantially increase the scope of discovery, and because Syntel will have an opportunity to complete what additional discovery is required, Syntel has not met its burden of showing substantial prejudice.

D. Futility

The adequacy of an amendment “is to be judged by the same standards as those

governing the adequacy of a filed pleading.” *Ricciuti v. N.Y.C. Transit Auth.*, 941 F.2d 119, 123 (2d Cir. 1991). Thus, “[a]n amendment to a pleading is futile if the proposed claim could not withstand a motion to dismiss pursuant to Fed. R. Civ. P. 12(b)(6).” *Lucente v. IBM*, 310 F.3d 243, 258 (2d Cir. 2002) (citation omitted). To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570 (2007); accord *Ashcroft v. Iqbal*, 556 U.S. 662, 678–679 (2009). The Court finds that Defendants have adequately pled each of the proposed additional claims, and accordingly, amendment is not futile.

1. Copyright Infringement

“To establish infringement of copyright, ‘two elements must be proven: (1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.’” *Arista Records, LLC v. Doe 3*, 604 F.3d 110, 117 (2d Cir. 2010) (quoting *Feist Publications, Inc. v. Rural Telephone Service Co.*, 499 U.S. 340, 361 (1991)). “The word ‘copying’ is shorthand for the infringing of any of the copyright owner's five exclusive rights described in [17 U.S.C.] § 106,” including reproduction, distribution of copies, and creation of derivative works based on the copyrighted work. *Id.* (internal quotations omitted) (citations omitted).

Defendants’ proposed amended counterclaims adequately allege that TriZetto owns valid copyrights in various software, presentations, manuals and user guides, and other materials (collectively, “Trizetto’s Intellectual Property”), and that these copyrights have been registered with the Copyright Office, satisfying the first element of a copyright infringement claim. (Defs.’ Mem., Ex. A (“Proposed Countercl.”) ¶¶ 50-51, 160-61.) *Warren v. John Wiley & Sons, Inc.*, 952 F. Supp. 2d 610, 617 (S.D.N.Y. 2013) (At the motion to pleading stage, “Plaintiffs need only ‘allege . . . that plaintiff owns the copyrights in those works’ and ‘that the copyrights have been

registered in accordance with [17 U.S.C. § 411(a)]” (quoting *Kelly v. L.L. Cool J.*, 145 F.R.D. 32, 36 (S.D.N.Y. 1992)). Syntel argues that Defendants have failed to allege valid copyright ownership because the proposed amendment indicates “some or all of its applications have been ‘refused.’” This argument lacks merit. (Pl. Mem. at 18.) The statute entitles an applicant whose registration has been refused to institute a civil action for infringement. 17 U.S.C. § 441(a).

Second, Defendants have adequately alleged that Syntel copied its original materials. (*See, e.g.*, Proposed Countercl. ¶ 3 (“Syntel personnel downloaded, used, copied, converted and stole Trizetto’s Intellectual Property...”); ¶ 53 (“During the MSA, Syntel abused its access [to Trizetto’s Intellectual Property], exceeded the scope of its authority, and improperly copied, downloaded, distributed, and used [it]”); ¶ 79 (“Upon information and belief, Syntel created [its Platform Management Tools] by copying TriZetto’s Intellectual Property, and has used, and is using, such copies in connection with its own business.”); ¶ 80 (“Internal Syntel emails confirm that Syntel has downloaded, used, copied, misappropriated and distributed TriZetto’s Intellectual Property.”).) Defendants also allege facts that support an inference of copying, namely that Syntel had access to its proprietary materials and that there is a substantial similarity between Syntel’s Platform Management Tools and their own Intellectual Property, including their Code Impact Tool and Data Dictionary Program. (*Id.* at ¶ 78-83.)

Contrary to Syntel’s argument that “Defendants’ only evidence of copying is a chart showing that Syntel developed each of the tools,” (Pl. Mem. at 18.), the Court finds that Defendants have pled sufficient specific facts to render their claim that Syntel copied Trizetto’s Intellectual Property facially plausible. *See Twombly*, 550 U.S. at 570.

2. Defend Trade Secrets Act of 2016

The Defend Trade Secrets Act of 2016 (“DTSA” or “Act”) expands the provisions of 18

U.S.C. § 1831 *et seq.* Defend Trade Secrets Act of 2016, ch. 90, 130 Stat. 376 (2016) (codified as amended at 18 U.S.C. 1831 *et seq.*). The Act provides a federal cause of action to the owner of a trade secret that is misappropriated and is related to a product or service used in, or intended for use in, interstate or foreign commerce. 18 U.S.C. § 1836(b). A trade secret is defined within DTSA as, *inter alia*, technical information, including “programs,” “processes,” and “codes,” if (A) “the owner thereof has taken reasonable measures to keep such information secret; and (B) “the information derives independent economic value ... from not being generally known ... [or] readily ascertainable ... [to] another person who can obtain economic value from the disclosure or use of the information[.]” 18 U.S.C. 1839(3)(A)-(B). “Misappropriation” is defined within DTSA as an unconsented disclosure or use of a trade secret by one who (i) used improper means to acquire the secret, or, (ii) at the time of disclosure, knew or had reason to know that the trade secret was acquired through improper means, under circumstances giving rise to a duty to maintain the secrecy of the trade secret, or derived from or through a person who owed such a duty. 18 U.S.C. § 1839(5). “Improper means” includes breach of duty to maintain secrecy, but “does not include reverse engineering, independent derivation, or any other lawful means of acquisition.” 18 U.S.C. § 1839(6).

Defendants have adequately pled the elements for relief under DTSA. The Intellectual Property at issue in the proposed amendments falls within the scope of trade secrets protected by the Act. (*See* Proposed Countercl. ¶¶ 76, 132-33.) Defendants have alleged that they have taken reasonable measures to keep the information secret by making those who use it subject to confidentiality provisions and limitations, and only making it accessible through strictly controlled servers such as the Customer Exchange. (*Id.* at ¶¶ 58-60, 77, 90, 123, 134.) Additionally, Defendants have alleged that the information is valuable and crucial to the business

functions and competitive position of TriZetto. (*Id.* at ¶¶ 49, 122, 136.) Finally, Defendants have alleged that Syntel has, without their consent, downloaded TriZetto’s Intellectual Property from their Customer Exchange and other repositories and used it for Syntel’s own use and financial gain, unrelated to its service of TriZetto’s clients, in breach of the MSA’s prohibition on each party using the other’s confidential information for its own benefit. (*Id.* at ¶¶ 79-80, 96.)

Syntel opposes Defendants’ addition of a claim under DTSA because the amendment alleges pre-enactment conduct, noting that DTSA applies only to acts of misappropriation that occur “on or after the date of the enactment of this Act,” May 11, 2016. (Pub. Law 114-153.) The plain language of the Act defines misappropriation to include “disclosure *or use* of a trade secret without the consent of another.” 18 U.S.C. 1839(5) (emphasis added). Accordingly, as Defendants allege that Syntel continues to use its Intellectual Property to directly compete with Trizetto, the wrongful act continues to occur after the date of the enactment of DTSA. (Proposed Countercl. ¶ 137.)

3. Misappropriation and Breach of Contract Under New York State Law

Defendants seek to supplement their existing counterclaims of misappropriation and breach of contract under New York State Law. Syntel does not allege that either of these amendments are futile. The Court finds that the facts described above supplement and bolster counterclaims that were already adequately pled, and, accordingly, amendment of those claims is not futile.

IV. CONCLUSION

For the reasons set forth above, Defendants’ motion for leave to amend its counterclaims is **GRANTED**. Defendants shall file the Amended Answer and Counterclaims in its redacted form by **September 30, 2016**, and shall file the full, unredacted version under seal and placed in

the clerk's office.

IT IS FURTHER ORDERED THAT the Parties shall meet and confer regarding the outstanding discovery in this case, and by **September 30, 2016**, file a joint status report explaining what fact and expert discovery remains and a proposed timeline for its completion. If the Parties disagree on the timeline, the report shall set forth their respective positions.

SO ORDERED this 23rd day of September 2016
New York, New York



The Honorable Ronald L. Ellis
United States Magistrate Judge

**UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS**

UNUM GROUP,)	
)	
Plaintiff,)	CIVIL ACTION
)	
v.)	NO. 4:16-CV-40154-TSH
)	
TIMOTHY P. LOFTUS,)	
)	
Defendant.)	
)	

MEMORANDUM AND ORDER ON DEFENDANT’S MOTION TO DISMISS AND FOR COSTS AND FEES (Docket No. 10) and PLAINTIFF’S MOTION FOR INJUNCTIVE RELIEF (Docket No. 4)

December 6, 2016

HILLMAN, D.J.

Plaintiff Unum Group brings this action against a former employee, Timothy Loftus, after Loftus removed numerous company documents from Unum’s facility without authorization, and refused to return them. Unum asserts claims for misappropriation of trade secrets in violation of the Defend Trade Secrets Act of 2016 (“DTSA”), 18 U.S.C. § 1836(b)(1) (Count I) and the Massachusetts Trade Secrets Act (Count II), and for conversion (Count III). Unum filed the present motion for injunctive relief seeking to i) enjoin Loftus from copying the documents, ii) compel Loftus and his counsel to return all of the documents and any of Unum’s other trade secret or confidential information in his possession, and iii) enjoin Loftus from receiving a mirrored copy

of the hard drive of his company laptop¹ until Unum has removed or redacted files containing trade secrets or confidential information. Loftus opposes the preliminary injunction on the grounds that his actions are exempted under § 1836(b) of the DTSA, which provides immunity under any federal and state trade secret laws to individuals who disclose trade secrets in confidence to an attorney, “solely for the purpose of reporting or investigating a suspected violation of law.”² Loftus also moves to dismiss the complaint for the same reason, and argues that dismissal of the DTSA claim, which provides the basis for this court’s subject matter jurisdiction under 28 U.S.C. § 1331, extinguishes the court’s supplemental jurisdiction over the remaining state law conversion claim under 28 U.S.C. § 1367. For the reasons detailed below, Loftus’s motion to dismiss the complaint (Docket No. 10) is **denied**, and Unum’s motion for a preliminary injunction (Docket No. 4) is **granted**.

Background

Plaintiff Unum Group is a provider of financial protection benefits, including disability benefits, life insurance, and accident coverage. Loftus began his employment with Unum in 1985, and, in 2004, was promoted to Director of Individual Disability Insurance (“IDI”) Benefits. Within that role, Loftus had access to confidential information regarding Unum’s employees and customers, including customer health information, and various trade secrets related to Unum’s business. Unum maintains numerous practices to protect the security of its trade secrets and client and employee confidential information, including confidentiality agreements and policies,

¹ On September 29, 2016, Loftus removed a company laptop from the Unum facility, but returned the laptop to Unum on October 24, 2016, after both parties executed an agreement stating its contents would be preserved.

² The suspected violation of law Loftus is reporting or investigating remains unclear. Loftus has indicated that he is contemplating a whistleblower action, as well as claims for retaliation and wrongful termination.

employee training, and data encryption. Loftus executed numerous confidentiality agreements throughout his tenure at Unum.

On September 21, 2016, Loftus was interviewed by Unum's in-house counsel as part of an internal investigation into claims practices. The following Sunday afternoon, September 25th, Loftus entered Unum's Worcester facility, and was captured on surveillance video leaving the building with two boxes and a briefcase. On Tuesday, September 27th, after leaving work in the afternoon, Loftus was seen on video returning to Unum's offices around 7:45pm, and exiting the building an hour later with a shopping bag full of documents.

An Unum officer investigating Loftus's removal of documents telephoned Loftus on Thursday morning, September 29th, but Loftus refused to respond to questions regarding the printing and removal of documents from Unum's office. Shortly thereafter, Loftus was seen leaving Unum's office with his company laptop and a shopping bag which appeared to be full. Less than an hour after his departure, Unum "Employee Relations" representatives called Loftus and asked him to return the laptop, and he agreed to do so that day. At 3pm on the same day, counsel for Loftus notified Unum that the laptop would be returned the same day, however, the laptop was not returned.

Unum made numerous requests to Loftus's attorney throughout October for the return of the laptop and documents. While the company laptop was returned to Unum on October 24, 2016, the documents Loftus removed from the Unum office have not been returned. In addition, counsel for Loftus has made copies of the documents in counsel's possession. Unum maintains that it is highly likely that the documents removed by Loftus contain confidential customer and employee information, and or trade secrets, including protected health information, and that Unum may now

be required by law to notify all individuals whose private health information was contained in the documents of an unauthorized disclosure.³

Discussion

A. *Loftus*'s Motion to Dismiss the Complaint

Loftus asks this court to dismiss Unum's federal and state law claims for trade secret misappropriation on the grounds that he turned over the documents he removed from Unum to his attorney to report and investigate a violation of law, and is therefore immune from any liability for trade secret misappropriation pursuant to 18 U.S.C. § 1833(b). Section 1833(b) shields individuals from liability under any federal or state trade secret law for disclosure of a trade secret made "in confidence . . . to an attorney . . . solely for the purpose of reporting or investigating a suspected violation of law."

"As a general rule, a properly raised affirmative defense can be adjudicated on a motion to dismiss so long as (i) the facts establishing the defense are definitively ascertainable from the complaint and the other allowable sources of information, and (ii) those facts suffice to establish the affirmative defense with certitude." *Rodi v. Southern New England School of Law*, 389 F.3d 5, 12 (1st Cir. 2004).

Loftus does not deny that the documents he removed contain trade secrets. While Loftus contends that he is entitled to immunity under the DTSA because he handed Unum's documents over to his attorney to pursue legal action against Unum for alleged unlawful activities, the record lacks facts to support or reject his affirmative defense at this stage of litigation. There has been no discovery to determine the significance of the documents taken or their contents, and

³ Both the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and Mass. Gen. Laws ch. 93H mandate notification to individuals whose personal information has been disclosed to an unauthorized person or used for an unauthorized purpose.

Loftus has not filed any potential lawsuit that could be supported by information in those documents. Further, it is not ascertainable from the complaint whether Loftus turned over all of Unum's documents to his attorney, which documents he took and what information they contained, or whether he used, is using, or plans to use, those documents for any purpose other than investigating a potential violation of law. Taking all facts in the complaint as true, and making all reasonable inferences in favor of Unum, the court finds the complaint states a plausible claim for trade secret misappropriation and declines to dismiss Counts I and II.

Loftus seeks dismissal of the claim for conversion on the grounds that disposal of the federal trade secret misappropriation claim that forms the basis for this court's jurisdiction renders dismissal of the state law claim appropriate. However, as the trade secret misappropriation claims have survived dismissal, this argument fails. Accordingly, the motion to dismiss the complaint is denied.

B. *Unum's Motion for Preliminary Injunction*

The court weighs four factors in determining whether to grant a preliminary injunction: "(1) the likelihood of success on the merits; (2) the potential for irreparable harm if the injunction is denied; (3) the balance of relevant impositions, i.e., the hardship to the nonmovant if enjoined as contrasted with the hardship to the movant if no injunction issues; and (4) the effect (if any) of the court's ruling on the public interest." *Charlesbank Equity Fund II, Ltd. P'ship v. Blinds To Go, Inc.*, 370 F.3d 151, 158 (1st Cir. 2004). "The sine qua non of this four-part inquiry is likelihood of success on the merits." *New Comm Wireless Services, Inc. v. SprintCom, Inc.*, 287 F.3d 1, 9 (1st Cir. 2002).

To prevail on a claim for conversion under Massachusetts law, a "plaintiff must show that (1) the defendant intentionally and wrongfully exercised control or dominion over the

personal property; (2) the plaintiff had an ownership or possessory interest in the property at the time of the alleged conversion; (3) the plaintiff was damaged by the defendant's conduct; and (4) if the defendant legitimately acquired possession of the property under a good-faith claim of right, the plaintiff's demand for its return was refused.” *U.S. v. Peabody Const. Co., Inc.*, 392 F.Supp.2d 36 (D. Mass 2005) (citing *Evergreen Marine Corp. v. Six Consignments of Frozen Scallops*, 4 F.3d 90, 95 (1st Cir. 1993).

Unum alleges that Loftus was seen on surveillance videos removing multiple file boxes, shopping bags and briefcases full of documents from their facility after hours without authorization, and has refused to return them. Further, the defendant conceded at the hearing on the preliminary injunction on November 30, 2016 that Unum has stated a colorable claim for conversion, and argues only that the court lacks supplemental jurisdiction over the state law claims if the federal trade secret misappropriation claim that forms the basis of this court's jurisdiction is dismissed.⁴ However, the court has declined to dismiss the federal claim, as discussed above, and finds Unum is likely to succeed on the merits of its conversion claim. The court will not address the likelihood of success on the merits of the claims for trade secret misappropriation that have already survived dismissal under 12(b)(6), because the court finds Unum's conversion claim alone is sufficient to warrant the injunction Unum seeks.

Regarding the remaining factors to be considered in deciding a motion for preliminary injunction, all weigh in favor of Unum. There is no question regarding the potential for irreparable harm if the injunction is denied; the documents contain an unknown number of trade

⁴ The defendant is mistaken. “In a federal-question case, the termination of the foundational federal claim does not divest the district court of power to exercise supplemental jurisdiction but, rather, sets the stage for an exercise of the court's informed discretion.” *Roche v. John Hancock Mut. Life Ins. Co.*, 81 F.3d 249, 256-57 (1st Cir. 1996).

secrets and potentially unquantified amounts of private health information that could cause irreparable damage to Unum's business if released. In addition, there is minimal hardship to Loftus in requiring the documents be returned, as he can request them during discovery if he proceeds with a lawsuit against Unum.⁵ The hardship to the plaintiff is readily apparent. Unum has a substantial business risk in that it is unable to assure any customers or employees that its information is secure because it has a possible uncontained breach of confidential information. Unum's interest in recovering its documents also has a substantial overlap with the public interest. Confidential health information should not be held hostage to an unfiled lawsuit, and Unum's customers who are not yet on notice that their health information could have been compromised will be well served by Unum's efforts to contain this information breach.

This court recognizes the substantial public interest in facilitating whistleblower actions, however, no whistleblower suit has been filed. Unum does not know what Loftus took or what he is going to do with it. Loftus's self-help discovery and threat of potential action in the future are not mitigated by the existence of an actual lawsuit.

Conclusion

For the reasons set forth above, Defendant's motion to dismiss and for costs and fees (Docket No. 10) is **denied**, and Plaintiff's motion for preliminary injunction (Docket No. 4) is **granted**.

1. The Defendant, his attorney, or anyone acting on his behalf is ordered to deliver any documents taken from Unum, whether in paper or electronic form, or any computer

⁵ Obviously, the discoverability of these documents remains an open question to be decided on the facts of whatever collateral action is filed.

peripherals taken from Unum, to the court on or before the close of business on December 7, 2016.

2. The Defendant and his counsel are ordered to destroy all copies of any documents taken from the plaintiff and ordered not to make additional copies. The Defendant is further ordered not to deliver any of the above referenced documents to any third party without the express permission of this court.
3. The Plaintiff is ordered to make a mirror image of the computer hard drive and flash drive. Plaintiff is further ordered to make copies of any documents on the laptop or flash drive and deliver them to the court on/before close of business December 7, 2016. The contents shall be included in the index referenced in paragraph 4.
4. The parties are ordered to meet and to confer on or before January 13, 2017, and prepare an index of the documents that have been delivered to the court. This index shall, for the time being, be filed under seal.
5. The Defendant, and counsel for the Defendant, shall file an affidavit signed under the pains and penalties of perjury, setting forth whether the original or any copies of the documents referenced above have been given to any third party, and if so, the circumstances under which said documents were given.

Once the index of documents referenced in paragraph 4 has been prepared and filed with the court, the plaintiff may move to have the above referenced documents returned to their custody.

SO ORDERED.

/s/ Timothy S. Hillman
TIMOTHY S. HILLMAN
DISTRICT JUDGE

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

OOO BRUNSWICK RAIL
MANAGEMENT, et al.,

Plaintiffs,

v.

RICHARD SULTANOV, et al.,

Defendants.

Case No. [5:17-cv-00017-EJD](#)

**ORDER GRANTING IN PART AND
DENYING IN PART PLAINTIFFS’ EX
PARTE APPLICATION FOR SEIZURE
AND PRESERVATION ORDERS,
EXPEDITED DISCOVERY,
TEMPORARY RESTRAINING ORDER,
AND PRELIMINARY INJUNCTION**

Re: Dkt. No. 3

Plaintiffs OOO Brunswick Rail Management and Brunswick Rail Group Limited (together, “Brunswick”) allege that defendants Richard Sultanov and Paul Ostling misappropriated Brunswick’s confidential information. Complaint ¶¶ 31–48. Before the Court is Brunswick’s ex parte application for:

- (1) a seizure order under the Defend Trade Secrets Act (“DTSA”), 18 U.S.C. § 1836;
- (2) a seizure and preservation order under Fed. R. Civ. P. 64 and 65, the Court’s inherent authority, and the All Writs Act, 27 U.S.C. § 1651(a);
- (3) expedited discovery;
- (4) a temporary restraining order (“TRO”); and
- (5) an order to show cause why a preliminary injunction should not issue.

1 Dkt. No. 3. Brunswick’s motion will be GRANTED IN PART AND DENIED IN PART.

2 **I. BACKGROUND**

3 Defendants Sultanov and Ostling are former employees of Brunswick. Brief in Support of
4 Plaintiffs’ Ex Parte Application (“Brief”) at 2–3, Dkt. No. 4. Brunswick alleges that both Sultanov
5 and Ostling misappropriated trade secrets in November and December 2016. Id. at 5.

6 After noticing “unusually secretive” behavior from Sultanov, Brunswick investigated his
7 work email account and discovered that he had sent several confidential documents to his personal
8 email account without authorization; he then deleted the sent messages and emptied his trash
9 folder. Id. at 5–7, 9. The investigation further revealed that Sultanov had been communicating by
10 phone with Ostling (who had since resigned from Brunswick) and a representative of one of
11 Brunswick’s creditors, whom Sultanov was explicitly prohibited from contacting. Id. at 7. Ostling,
12 too, received unauthorized confidential materials at his personal email account (via his former
13 personal assistant, who remained at Brunswick), which he then forwarded to the creditor’s
14 representative and to Sultanov. Id. at 8. Sultanov also refuses to return a company-issued mobile
15 phone and laptop. Id. at 1.

16 Brunswick believes that Sultanov and Ostling “have already disclosed and plan to continue
17 to disclose the trade secrets to creditors in order to disadvantage Brunswick in its ongoing
18 negotiations” related to Brunswick’s debt restructuring. Id. at 1.

19 **II. DISCUSSION**

20 **A. Preservation and Seizure**

21 Parties have a duty to preserve evidence once a complaint is filed. Echostar Satellite LLC
22 v. Freetech, Inc., No. C-07-06124 JW, 2009 WL 8399038, at *2 (N.D. Cal. Jan. 22, 2009). To
23 obtain an order imposing stricter preservation requirements, a party must make “some showing of
24 a significant concern that potentially relevant evidence will be destroyed” Bright Sols. for
25 Dyslexia, Inc. v. Doe 1, No. 15-CV-01618-JSC, 2015 WL 5159125, at *2 (N.D. Cal. Sept. 2,
26 2015). To determine whether a preservation order is necessary, courts consider (1) threats to

1 preservation of the evidence, (2) irreparable harm likely to result to the party seeking preservation,
2 and (3) the capability of the custodian to maintain the evidence sought to be preserved. Echostar,
3 2009 WL 8399308, at *2.

4 Brunswick has satisfied these three requirements. First, there is a risk that Sultanov and
5 Ostling will delete relevant material from their email accounts, which are hosted by Google (for
6 the address richard.sultanov@gmail.com) and Rackspace (for the address
7 paul.ostling@pauljostling.com). There is also a risk that Google and Rackspace might delete
8 material themselves (for instance, by automatically erasing emails that Sultanov or Ostling moved
9 to their trash folders). See, e.g., Bright Sols., 2015 WL 5159125, at *3 (noting that under Google’s
10 “regular business practices, user data is routinely destroyed within months after a user deletes that
11 information”). Second, deletion of this material would cause irreparable harm to Brunswick.
12 Third, it is within the reasonable capabilities of Google and Rackspace to preserve material
13 associated with Sultanov and Ostling’s accounts. Brunswick’s need for preservation is all the more
14 acute because Rackspace and Google, as nonparties, have no obligation to preserve this
15 information absent a court order. Id. at *3 (granting an order directing nonparties eBay, PayPal,
16 and Google “to preserve documents, data, and records”).

17 Brunswick also seeks an order directing seizure of information on Sultanov and Ostling’s
18 digital accounts by requiring Google and Rackspace to deliver physical copies to the Court with
19 assistance from the U.S. Marshals. Brief at 16–17. The Court finds that physical copies of the data
20 are unnecessary because Google and Rackspace will be required to preserve the data under their
21 own custody.

22 Finally, Brunswick seeks an order under the DTSA to seize the company-issued laptop and
23 mobile phone in Sultanov’s possession. The DTSA provides that a “court may, upon ex parte
24 application but only in extraordinary circumstances, issue an order providing for the seizure of
25 property necessary to prevent the propagation or dissemination of the trade secret that is the
26 subject of the action” 18 U.S.C. § 1836(b)(2)(A)(i). A court may issue a seizure order only if,

1 among other requirements, an order under Fed. R. Civ. P. 65 or another form of equitable relief
2 would be inadequate. 18 U.S.C. § 1836(b)(2)(A)(ii). Here, the Court finds that seizure under the
3 DTSA is unnecessary because the Court will order that Sultanov must deliver these devices to the
4 Court at the time of the hearing scheduled below, and in the meantime, the devices may not be
5 accessed or modified.

6 **C. Expedited Discovery**

7 Courts may allow expedited discovery for good cause. Semitool, Inc. v. Tokyo Electron
8 Am., Inc., 208 F.R.D. 273, 276 (N.D. Cal. 2002) (concluding that the “good cause” standard
9 applies); see also MCGIP, LLC v. Does 1-26, No. 11-CV-03679 EJD, 2011 WL 3473808, at *2
10 (N.D. Cal. Aug. 9, 2011) (“A court may authorize early discovery before the Rule 26(f)
11 conference for the parties’ and witnesses’ convenience and in the interest of justice. . . . Courts
12 within the Ninth Circuit generally consider whether a plaintiff has shown ‘good cause’ for the
13 early discovery.”) “Good cause may be found where the need for expedited discovery, in
14 consideration of the administration of justice, outweighs the prejudice to the responding party.”
15 Semitool, 208 F.R.D. at 276.

16 Brunswick fails to show good cause because it does not adequately explain the need for
17 expedited discovery. Brunswick may request expedited discovery in a separate motion.

18 **D. TRO and Preliminary Injunction**

19 The standards for issuing a TRO and preliminary injunction are the same. New Motor
20 Vehicle Bd. of Cal. v. Orrin W. Fox Co., 434 U.S. 1345, 1347 n.2 (1977). A preliminary
21 injunction is “an extraordinary remedy that may only be awarded upon a clear showing that the
22 plaintiff is entitled to such relief.” Winter v. Natural Res. Def. Council, Inc., 555 U.S. 7, 22
23 (2008). The plaintiff must show (1) that it is likely to succeed on the merits, (2) that it is likely to
24 suffer irreparable harm in the absence of preliminary relief, (3) that the balance of equities tips in
25 its favor, and (4) that an injunction is in the public interest. Stormans, Inc. v. Selecky, 586 F.3d
26 1109, 1127 (9th Cir. 2009).

1 A preliminary injunction is also appropriate if “serious questions going to the merits were
2 raised and the balance of the hardships tips sharply in the plaintiff’s favor.” Alliance for the Wild
3 Rockies v. Cottrell, 622 F.3d 1045, 1049 (9th Cir. 2010).

4 “These formulations are not different tests but represent two points on a sliding scale in
5 which the degree of irreparable harm increases as the probability of success on the merits
6 decreases.” Big Country Foods, Inc. v. Board of Educ. of the Anchorage Sch. Dist., 868 F.2d
7 1085, 1088 (9th Cir. 1989). But “[u]nder either formulation, the moving party must demonstrate a
8 significant threat of irreparable injury, irrespective of the magnitude of the injury.” Id.

9 Brunswick has satisfied the requirements for a TRO. First, Brunswick has shown that it
10 will likely succeed on the merits of its trade secrets claims. Brunswick’s evidence shows that
11 Sultanov and Ostling improperly disseminated confidential information—e.g., by emailing
12 documents to their personal accounts and then sending that information to third parties. That
13 information likely constituted protectable trade secrets under the California Uniform Trade Secrets
14 Act, Cal. Civ. Code § 3426.1. Second, Brunswick has shown that it will likely suffer irreparable
15 harm if the Court does not grant injunctive relief. Dissemination of the confidential information to
16 Brunswick’s creditors, competitors, and adverse parties in arbitration would cause Brunswick
17 irreparable harm. Finally, the balance of equities weighs in Brunswick’s favor, and a TRO would
18 serve the public interest.

19 In addition, an ex parte TRO application must satisfy Fed. R. Civ. P. 65(b)(1), under which
20 a TRO may issue only if “the movant’s attorney certifies in writing any efforts made to give notice
21 and the reasons why it should not be required.” The declaration of Gabriel M. Ramsey in support
22 of Brunswick’s application states that “notice would render the requested relief ineffective” and
23 that district courts in the Ninth Circuit have granted relief in similar circumstances. Dkt. No. 6 at
24 1–2.

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- b. directing Defendant Richard Sultanov to bring the electronic devices issued to him by Brunswick, including mobile phones and laptops, to the January 20 hearing and deliver those devices to the Court’s custody;
- c. restraining and enjoining Defendants, and all those acting in concert or participation with them from destroying, or disposing any evidence or other materials, in any form, relating to this action and the issues raised herein, including, without limitation, all devices, electronic media, cloud storage, telephones and all copies of any and all documents, media and/or other materials, containing, identifying, describing, reflecting or referencing Plaintiffs’ confidential, proprietary, or trade secret information, and any and all documents, data and information which was obtained by Defendants from, or by virtue of their employment with Plaintiffs, including all current or archived media, emails, chats, texts, documents, electronic logs, metadata, storage, directories, telephone logs, telephones, computer, laptops, software or hardware;
- d. restraining and enjoining Defendants, and all those acting in concert or participation with them, from violating their employment agreements, confidentiality agreements, IT policies, or fiduciary duties, duties of loyalty and other obligations to Plaintiffs, including without limitation the portions of their agreements prohibiting the use, disclosure or dissemination of Plaintiffs’ confidential, proprietary or trade secret information, and their fiduciary duties and duties of loyalty not to use, disclose or disseminate such information; restraining and enjoining Defendants, and all those acting in concert or participation with them, from communicating confidential, proprietary or trade secret information to contractual counterparties of Plaintiffs, including any creditors or related parties, or otherwise interfering with or injuring relations, goodwill or negotiations with any

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contractual counterparties, including creditors or related parties, or communicating regarding Plaintiffs' business or dealings with such parties.

IT IS SO ORDERED.

Dated: January 6, 2017 at 11:02 a.m.


EDWARD J. DAVILA
United States District Judge



October 6, 2014

Dear Jan:

On behalf of WhatsApp Inc. (the "Company" or "WhatsApp"), which will be a wholly-owned subsidiary of Facebook, Inc. ("Facebook") following the closing of the Acquisition (as defined below), I am pleased to offer you full-time employment in the position of Chief Executive Officer of WhatsApp reporting to the Chief Executive Officer of Facebook, subject to the closing of the acquisition (the "Acquisition") contemplated by that certain Agreement and Plan of Merger and Reorganization dated as of February 19, 2014, by and among Facebook, WhatsApp Inc. and the other parties thereto (the "Merger Agreement"). As Chief Executive Officer of WhatsApp, you will continue to lead WhatsApp and make the strategic and operational decisions customary of a Chief Executive Officer, while consulting with the Chief Executive Officer of Facebook. You shall be appointed to serve as a director of Facebook on Facebook's Board of Directors (the "Board") as of the closing of the Acquisition, and you hereby accept such appointment and agree to serve. You will be working out of the Company's Mountain View office. Where the context requires, references to the "Company" or "WhatsApp" set forth in this letter refer to Rhodium Acquisition Sub II, Inc., which will be renamed "WhatsApp Inc." following the closing of the Acquisition.

1. **Compensation.**

- a. **Base Pay.** In this position, your base pay will be \$1.00.
- b. **Bonus.** In this position, you will not be eligible for a bonus under Facebook's bonus plan.

2. **Employee Benefits.**

- a. **Paid Time Off.** Subject to Facebook's PTO policy, you will be eligible to accrue up to twenty-one (21) days of PTO per calendar year, pro-rated for the remainder of this calendar year.
- b. **Group Plans.** Facebook will provide you with the opportunity to participate in the standard benefits plans currently available to other similarly situated employees, including medical, dental, and vision, subject to any eligibility requirements imposed by such plans.

3. **Restricted Stock Units.**

Pursuant to the terms of the Merger Agreement, and as a material inducement to your acceptance of our offer of employment, within two business days following the closing of the Acquisition you will be awarded 24,853,468 restricted stock units ("RSUs") subject to the terms of a non-shareholder approved equity incentive award issued in reliance on the "inducement exception" provided under Rule 5635(c)(4) of the NASDAQ Listing Rules in the form attached to this Offer

Letter as Attachment C (the “Inducement Award”). Each RSU that is awarded to you will entitle you to receive one share of Facebook Class A common stock (the “Shares”) following vesting. Facebook will cause to be filed an immediately effective Registration Statement on Form S-8 to register the Shares underlying the Inducement Award within two business days following the closing of the Acquisition.

Unlike traditional stock options, you do not need to pay any exercise price for the shares of Facebook's stock subject to the RSUs; they are simply delivered to you as a component of your compensation if and when they vest. The RSUs are subject to a four-year quarterly vesting schedule with a one-year “cliff.” If you have been continuously employed by the Company through the one-year anniversary of your RSU start date as specified in your award agreement (your “Cliff Date”), you will be entitled to receive 20% of the Shares on your Cliff Date. After the Cliff Date, on each subsequent Quarterly Vesting Date, you will vest in (a) with respect to the first eight (8) Quarterly Vesting Dates, 1/20th of the Shares, and (b) with respect to the last four (4) Quarterly Vesting Dates, 1/10th of the Shares, provided that you have been continuously employed by the Company through such date.

Facebook has four Quarterly Vesting Dates each year: February 15th, May 15th, August 15th and November 15th. Your RSU start date will be the first Quarterly Vesting Date following the closing date of the Acquisition. For example, if the Acquisition closes on October 30th, your RSU start date will be November 15th. Before any Shares are delivered to you following vesting, Facebook must satisfy its tax withholding obligations in a manner satisfactory to Facebook, which may include withholding a number of Shares with a fair market value equal to the amount Facebook is then required to withhold for taxes. The RSUs shall be subject to the terms and conditions set forth in Schedule 5.12 of the Merger Agreement, the Inducement Award and Facebook’s policies in effect from time to time. Capitalized terms set forth above will have the meanings set forth in the Inducement Award.

Notwithstanding the foregoing, in the event that your employment with WhatsApp or Facebook is terminated by WhatsApp or Facebook without “Cause” (as defined in Schedule 5.12 of the Merger Agreement) or by you for “Good Reason” (as defined in Schedule 5.12 of the Merger Agreement) prior to the RSU start date or the vesting of some or all of the RSUs, all unvested RSUs that have been awarded to you will become vested as of the date of your termination of employment (it being understood that, for the avoidance of doubt, this sentence only applies to your grant of RSUs in connection with the transactions contemplated by the Merger Agreement).

4. **Pre-employment Conditions.**

a. **Confidentiality Agreement.** By signing and agreeing to this Offer Letter, you also agree to be bound by the terms and conditions of the enclosed Confidential Information and Invention Assignment Agreement (the “Confidentiality Agreement”). We require that you sign the Confidentiality Agreement and return it to us with this Offer Letter prior to or on your Start Date.

b. **Mutual Arbitration Agreement and Class Action Waiver.** By signing and agreeing to this Offer Letter, you agree to be bound by the terms and conditions of the enclosed Mutual Arbitration Agreement and Class Action Waiver (the “Arbitration Agreement”). You attest and agree that you have reviewed the Arbitration Agreement and that you have had the opportunity to review the Arbitration Agreement with an attorney of your own choosing. **Your agreement to abide by the terms of the Arbitration Agreement is a condition of your employment with WhatsApp.** We require that you sign the Arbitration Agreement and return it to us with this Offer Letter prior to or on your Start Date.

c. **Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your Start Date, or our employment relationship with you may be terminated.

This offer is also contingent upon receipt of any export license or other approval that may be required under United States export control laws and regulations. The Company is not obligated to apply for any export license or other approval that may be required, nor can we guarantee that the United States Government will issue an export license or other approval, in the event that we do file an application.

5. **No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that your performance will not breach any other agreement to which you are a party and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement in conflict with any of the provisions of this letter or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer (except WhatsApp) or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information and we will assist you in any way possible to preserve and protect the confidentiality of proprietary information belonging to third parties. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires.

6. **Outside Activities.** While you render services to the Company, you agree that you will not engage in any other employment, consulting or other business activity without the written consent of the Company, except for civic and charitable business activities. In addition, while you render services to the Company, you will not assist any person or entity in competing with the Company, in preparing to compete with the Company or in hiring any employees or consultants of the Company.

7. **General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. You will also be expected to comply with the Company's and Facebook's policies and procedures. The Company is an equal opportunity employer.

8. **At-Will Employment.** Employment with the Company is for no specific period of time. Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time, with or without advance notice, and for any reason or no particular reason or cause. Any contrary representations which may have been made to you are superseded by this offer. This is the full and complete agreement between you and the Company on this term. Subject to Section 3, although your compensation and benefits, as well as the Company's personnel policies and procedures, may change from time to time, the "at will" nature of your employment may only be changed in an express written agreement signed by an authorized officer of the Company.

9. **Withholdings.** All forms of compensation paid to you as an employee of the Company shall be less all applicable withholdings.

To indicate your acceptance of the Company's offer, please sign and date this letter in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement and Arbitration Agreement. Employment in this new position begins immediately following the closing of the Acquisition (the "Start Date"). This letter, and the attachments thereto, supersede and replace any prior understandings or agreements, whether oral, written or implied, between you, the Company or Facebook regarding the matters described in this letter and the attachments thereto, including the Offer Letter between you and Facebook dated as of February 19, 2014. For the avoidance of doubt, you acknowledge and agree that this letter shall not constitute a rescission that triggers rights to cash payments under Schedule 5.12 to the Merger Agreement. This letter will be governed by the laws of the state in which you are employed, without regard to its conflict of laws provisions.

Very truly yours,

WhatsApp Inc.

/s/ Mark Zuckerberg

By: Mark Zuckerberg, on behalf of the Board of Directors

ACCEPTED AND AGREED:

Jan Koum

/s/ Jan Koum

Signature

October 6, 2014

Date

Attachment A: Confidential Information and Invention Assignment Agreement

Attachment B: Mutual Arbitration Agreement and Class Action Waiver

Attachment C: Form of Inducement Award