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Recent California Case Highlights Standards for Trade Secret Misappropriation Cases

On June 7, 2012, in *FormFactor, Inc. v. Micro-Probe, Inc., et al.*, No. C 10-3095 PJH, 2012 WL 2061520 (N.D. Cal. June 7, 2012), the United States District Court for the Northern District of California denied plaintiff FormFactor’s motion for summary judgment that a former employee had misappropriated trade secrets when he left to work for competitor Micro-Probe, and granted Micro-Probe’s cross-motion for summary judgment. The case provides a useful overview of the evidence needed to support a violation of the California Uniform Trade Secrets Act (CUTSA), Cal Civ. Code § 3426.1 *et seq.*, as well as an informative discussion of whether FormFactor could sustain any other civil common law claims based on the alleged misuse of FormFactor’s confidential information.

I. Factual Background

In February 2010, defendant David Browne left FormFactor to work for Micro-Probe. Both FormFactor and Micro-Probe sold and provided support for products used to test the performance of semi-conductors. The companies had some overlapping customers and considered the other company a competitor, although their products conducted different kinds of performance tests.

While he worked at FormFactor, defendant Browne was authorized to work from home on a laptop FormFactor provided, and to remotely access FormFactor’s internal system on the laptop and a personal home computer. When Browne informed FormFactor he was leaving to work for Micro-Probe, Browne turned over his company laptop. FormFactor made no inquiries about whether Browne retained FormFactor materials on his personal home computer, nor did it request that Browne return or delete any materials that he may have acquired while working from home. Browne never signed any restrictive covenant agreement while employed by FormFactor.

About a month after Browne left FormFactor, FormFactor requested that Browne turn over his personal home computer and other data storage devices for inspection to ensure they contained no trade secrets or confidential information. FormFactor conducted a computer forensics analysis that identified a list of 4,500 FormFactor files which were stored on Browne’s computer and devices, all of which were only identified on the list by the file name. Upon comparison to Micro-Probe’s databases and electronic storage system, only one of those 4,500 files appeared in Micro-Probe’s possession.

II. FormFactor Did Not Demonstrate Trade Secret Misappropriation.

A. FormFactor Failed to Identify the Trade Secret with Particularity

In denying FormFactor's Motion for Summary Judgment, the court noted that a party seeking to recover under CUTSA for trade secret misappropriation must demonstrate the existence of a trade secret, and "must identify the trade secrets and carry the burden of showing that they exist." The requirement to disclose a trade secret with such particularity often deters employers from pursuing trade secret claim. Based on FormFactor's list of 4,500 files listed only by file name, FormFactor had not identified any trade secret with the requisite specificity. The Court rejected FormFactor's blanket assertion that all the files were "confidential." It also rejected FormFactor's further suggestion that the Court should examine each file individually to determine if it contained a trade secret. The Court explained that FormFactor's approach was "incomplete... because it omits the requirement that the plaintiff identify each particular trade secret (not just a file that **might** contain a trade secret), and the requirement that the plaintiff describe the subject matter of the trade secret."

Additionally, the court found that FormFactor had not established that any specific trade secret had independent economic value, another requirement to demonstrate the existence of a trade secret. FormFactor's general argument that it spends \$50 million a year on research and development did not establish "that there is any connection between the value of the alleged trade secrets at issue (the files on Browne's computer) and the R&D spending."

Finally, the court held that FormFactor had not sufficiently demonstrated that it made reasonable efforts to protect the alleged trade secrets, because it never required Browne to sign a non-competition agreement or confidentiality agreement, and it "allowed him to retain his contact information when he left FormFactor, ... allowed/authorized Browne and other employees to work from home ... and [] did not request that Brown return any FormFactor data when he tendered his resignation and left the company." *Id.* For these reasons, FormFactor could not establish the existence of any protectable trade secrets.

B. FormFactor Also Failed to Demonstrate Misappropriation

Even if FormFactor had properly identified a trade secret, it could not demonstrate misappropriation under CUTSA. Misappropriation can be demonstrated by either improper acquisition or improper use of a trade secret. Merely possessing a trade secret did not establish misappropriation. Because FormFactor had authorized Browne to use his laptop for work and to back-up files to thumb drives, and had never required him to sign a non-disclosure agreement, a non-competition agreement, or a non-solicitation agreement, FormFactor could not argue that Browne acquired the files improperly.

Furthermore, FormFactor had not demonstrated the improper use of any trade secret. The single file that Browne appeared to have taken to Micro-Probe was a spreadsheet containing non-confidential information in a format that was used throughout the industry and was thus not unique to FormFactor, and there was no evidence that Micro-Probe ever actually used that document.

In addition, the Court rejected the implicit "inevitable disclosure" argument asserted by FormFactor when it argued that Browne improperly used information he learned at FormFactor because his job at FormFactor and his new position at Micro-Probe involved similar job duties. Inevitable disclosure (the doctrine that an employee

with knowledge of a former employer's trade secrets would "inevitably" disclose those secrets to a new employer since the nature of the new job would lead to such disclosures) is not recognized in California.

C. CUTSA Superseded FormFactor's Other Common Law Claims

After disposing of FormFactor's CUTSA claim, the Court concluded that FormFactor's other civil claims were superseded by CUTSA. The Court relied on the California Court of Appeal's decision in *Silvaco Data Systems v. Intel Corp.*, 109 Cal. Rptr. 3d 27 (Cal. Ct. App. 2010), for the proposition that "any common law claim premised on the wrongful taking of information that does not qualify as a trade secret is also superseded, unless the plaintiff can identify some law that confers property rights protecting the information." The holding also was premised on California public policy that "supports employee mobility, with the goal of ensuring that California employers will be able to compete effectively for the most talented and skilled employees in their industries." *Id.*

Notably, *FormFactor's* acceptance of the *Silvaco* holding contradicts some other recent California federal court decisions addressing CUTSA. See, e.g., *TMX Funding, Inc. v. Impero Technologies, Inc.*, No. C 10-202 JF (PVT), 2010 WL 2509979, at *7 (N.D. Cal. June 17, 2010); *Phoenix Tech. Ltd. v. DeviceVM*, No. C 09-04697 CW, 2009 WL 4723400, at *5 (N.D. Cal. Dec. 8, 2009). Those cases suggest that CUTSA does not preempt claims based on the misuse of confidential, non-trade secret information.

FormFactor's reliance on *Silvaco* supports a more restrictive approach about what information a company may seek to prevent competitors from using: only information which fits the definition of a trade secret or other information expressly made property by "some provision of positive law" is protectable.

III. Takeaways

Employers concerned about protecting their trade secrets should consider implementing the following or similar policies:

- 1) implement a written policy requiring employees, upon termination, to return all company property (including electronic files) and delete copies thereof;
- 2) prohibit employees from backing up information onto external data storage devices like thumb drives;
- 3) segregate a departing employee from confidential information as soon as the employer learns of the employee's intention to depart;
- 4) restrict employees from accessing the employer's systems on any computer, laptop, tablet or other device not owned by the employer;
- 5) require any employee who may be exposed to company trade secrets or other confidential information to sign appropriate non-disclosure and related agreements;
- 6) maintain necessary documentation quantifying, to the extent possible, the value of the trade secret to the company; and
- 7) institute as many reasonable measures as possible to protect their trade secrets and other confidential information.

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