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## Featured Article

### Weatherproofing Your Intellectual Property Revenues During This Economic Storm

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With the global storm in the financial markets and the resulting changes in the economy, most, if not all companies, have been examining their bottom lines to ensure they are adequately protected against the next unforeseen and debilitating wave. One such wave can be the loss of corporate trade secrets that can occur with corporate downsizing and employee turnover. This prospective loss can be addressed proactively through appropriate training, confidentiality agreements, and exit interviews, but none of these are fail-safe. Fortunately, the law of trade secret misappropriation in Delaware provides strong protection and remedies for companies confronted with employees who leave with more than a pink slip.

The Delaware Uniform Trade Secrets Act (DUTSA),<sup>1</sup> which tracks the Model Uniform Trade Secrets Act,<sup>2</sup> operates to protect trade secrets belonging to Delaware entities, including the vast majority of public corporations. The DUTSA provides such entities with the means to recover equitably and financially against those persons and entities who abscond with the company's confidential information. Notably, the DUTSA also provides additional deterrence by permitting a court to award attorney fees if it finds that the misappropriation was "wilful and malicious."<sup>3</sup> Although the statute also provides a three-year statute of limitations,<sup>4</sup> a company can take actions to strengthen their position well in advance of any potential litigation.

Three recent Delaware cases exemplify the success a company may have in bringing an action under the DUTSA and demonstrate why bringing these actions in the Delaware Court of Chancery may be the most cost-effective solution for companies. In *W.L. Gore & Associates v. Wu*, an action was brought against a former scientist for extensively breaching non-compete agreements and confidentiality obligations he had with the company.<sup>5</sup> For example, while at Gore, the defendant formed three companies under which he would funnel research and technology he developed for Gore, and then develop contracts with companies in areas that competed with Gore.<sup>6</sup> Gore obtained five and ten-year injunctions preventing the employee from researching and developing certain technologies he had previously worked on and developed at Gore.<sup>7</sup> Additionally, as part of a stipulated

consent judgment, Gore was also awarded a \$35 million judgment as a result of the misappropriation of trade secrets.<sup>8</sup>

The contours of the DUTSA were reexamined more recently in *EDIX Media Group, Inc. v. Mahani*.<sup>9</sup> In that case, a Delaware corporation that specialized in after-market modifications to cars sought injunctive relief and damages against a former employee and independent contractor.<sup>10</sup> The Court of Chancery reiterated that proving misappropriation of a trade secret requires four things: “plaintiff must show first that a trade secret actually existed; second, that it was communicated by plaintiff to defendant; third, that it was accompanied by an express or implied understanding that secrecy would be respected; and fourth, that the secret has been improperly used or disclosed by [defendant] to [plaintiff’s] injury.”<sup>11</sup> The first element was in dispute, and the Court of Chancery explained that not all confidential information is a trade secret under the DUTSA:

First, the Act protects only information, including but not limited to formulae, compilations, patterns, programs, devices, methods, techniques, and processes. Second, this information must derive independent economic value from not generally being known or readily accessible by proper means by other people. Third, reasonable steps must be taken to protect the information.<sup>12</sup>

After analyzing the confidential information at issue, the Court of Chancery found that the company’s advertising rates qualified as a trade secret under the DUTSA and that the former employee distributed them willfully and maliciously, justifying an award of exemplary damages.<sup>13</sup> Fees were also awarded pursuant to the non-compete and confidentiality agreement signed by the employee.<sup>14</sup> The Court of Chancery also enjoined the employee from engaging in certain activities for almost two years.<sup>15</sup>

Where a non-compete and confidentiality agreement does not provide for fees or no such agreement exists, the DUTSA still permits an award of attorneys’ fees when the defendant’s acts are found to be willful and malicious.<sup>16</sup> The Court of Chancery, in *Nucar Consulting, Inc. v. Doyle*, recognized that “Delaware case law generally characterizes willfulness as an awareness, either actual or constructive, of one’s conduct and a realization of its probable consequences, and malice as ill-will, hatred or intent to cause injury.”<sup>17</sup> In that case, the Court of Chancery found that the employee “maliciously misappropriated” and “demonstrated a reckless disregard” for the company’s trade secrets—a potential client list and form contract.<sup>18</sup> Fees were awarded under the relevant DUTSA provision.<sup>19</sup>

Each of these cases illustrate different aspects of the DUTSA and how companies can protect themselves against misappropriation of trade secrets and the costs of bringing action against former employees or agents who disregard confidentiality or non-compete agreements, as well as other

persons or entities who misappropriate the company’s trade secrets. Depending on the complexity of the confidential information or trade secrets at issue, the Court of Chancery may craft specific and tailored injunctive relief to prevent further damage. The cost of the litigation may be contracted for in advance with fee shifting provisions which are generally enforced by the courts. If the negotiations prevent adding such a provision, the DUTSA still provides the company with adequate ammunition to recover the fees incurred in protecting against misappropriation of the company’s intellectual property. These cases also demonstrate the after-the-fact nature of this particular litigation. Given the threshold for finding willfulness and maliciousness, a person or entity who misappropriates trade secrets and technology from a Delaware company is likely to be enjoined from doing so and will have to cover the costs of the company seeking to defend its intellectual property.

Companies, however, can save litigation costs over the proper jurisdiction by integrating in their confidentiality agreements the ability to litigate or mediate trade secret or technology-related disputes related to those agreements in the Delaware Court of Chancery.<sup>20</sup> Because the jurisdiction of the Court of Chancery has been expanded to cover a broader array of technology disputes, companies heavily invested in their intellectual property can now benefit from the same “swift and consistent” handling of disputes enjoyed by other Delaware entities and shareholders who seek to protect their corporate interests.<sup>21</sup> The Court of Chancery remains the premier forum for companies because its “business-savvy jurists can decide matters promptly and confidentially.”<sup>22</sup> Even if no forum selection clause exists, corporations may nevertheless be able to obtain Court of Chancery jurisdiction if the accused was an officer or director of the corporation. In accepting election to such office, officers and directors of Delaware corporations are deemed to have consented to personal jurisdiction in Delaware “in all civil actions or proceedings brought in this State, by or on behalf of, or against such corporation, in which such officer is a necessary or proper party, or in any action or proceeding against such officer for violation of a duty in such capacity.”<sup>23</sup> Thus, an action could be brought by the corporation against the current or former officer or director not only for theft of the trade secret, but also for breach of fiduciary duty related to the theft.

Because misappropriation of trade secrets can have a significant influence on a company’s bottom line, companies should not overlook the importance of reviewing and adjusting their confidentiality and non-compete agreements to adequately protect against a theft of trade secrets and to ensure jurisdiction for any related dispute in a properly drafted forum selection clause. Ensuring against the effects of trade secret misappropriation during the current financial storm is a necessary business expense that lessens the risk of deeper financial loss if and when the need for such litigation arises. Companies concerned about these issues should give strong consideration to whether they are adequately protected and the extent the Court of Chancery could be involved before a technological dispute escalates into litigation.

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<sup>1</sup> 6 Del. C. §§ 2001-2009.

<sup>2</sup> See National Conference of Commissioners on Uniform State Laws, Uniform Trade Secrets Act with 1985 Amendments (1986), available at <http://www.law.upenn.edu/bll/archives/ulc/fnact99/1980s/utsa85.htm>.

<sup>3</sup> 6 Del. C. § 2004..

<sup>4</sup> *Id.* at § 2006.

<sup>5</sup> No. 263-N, 2006 BL 3603 (Del. Ch. Sept. 15, 2006), *aff'd*, 918 A.2d 1171 (Del. 2007) (Table), *cert. denied*, 128 S. Ct. 379 (2007).

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> See Firm Obtains \$35 Million Judgment in Delaware Trade Secret Case, available at <http://www.faegre.com/shownews.aspx?Show=2668>.

<sup>9</sup> No. 2186-N, 2006 BL 3602 (Del. Ch. Dec. 12, 2006), *aff'd*, 935 A.2d 242 (Del. 2007).

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.*; see also 6 Del. C. § 2003(b).

<sup>14</sup> *EDIX Media Group, Inc.*, *supra* note 9.

<sup>15</sup> *Id.*

<sup>16</sup> 6 Del. C. § 2004.

<sup>17</sup> No. 19756-NC, 2006 BL 3601 (Del. Ch. Apr. 17, 2006), *aff'd*, 913 A.2d 569 (Del. 2006) (Table) (quotations and citations omitted).

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*; see also 6 Del. C. § 2004.

<sup>20</sup> See Cathy L. Reese & Brian Rostocki, *Nokia Corp. v. Qualcomm Inc.: The Increasing Use of the Delaware Court of Chancery for Litigating or Mediating Intellectual Property Disputes*, *Bloomberg Corporate Law Journal* 189 (2008).

<sup>21</sup> *Id.* at 190.

<sup>22</sup> *Id.* at 197.

<sup>23</sup> 10 Del. C. § 3114(b).