

ADDITIONAL DEVELOPMENTS— TRADE SECRET

DIOMED, INC. V. VASCULAR SOLUTIONS, INC.

471 F. Supp. 2d 137 (D. Mass. 2006)

The United States District Court of Massachusetts granted summary judgment to defendant Vascular Solutions, Inc. (“VSI”) as to breach of a non-disclosure agreement (NDA). The court denied summary judgment, however, on a claim of misappropriation of trade secret where the trade secret was protected by a NDA the court held had not been breached.

Diomed Inc. (“Diomed”) manufactures non-surgical laser treatment devices for varicose veins. VSI entered this same market in July 2003, prior to that it had only made vascular sealing devices. In April or May 2002 Diomed and co-defendant Nancy Arnold, entered into acquisition negotiations while Arnold was CEO of one of Diomed’s suppliers. As part of the negotiations Peter Klein, the CEO of Diomed, orally told Arnold about an improved laser treatment device, and Diomed’s marketing strategies for it. Prior to the negotiations, Arnold had signed an NDA that stipulated that all oral confidential information must have been confirmed in writing in order to fall under the agreement. No such written confirmation was made regarding the information Klein had given Arnold about the laser treatment device.

Negotiations between Diomed and Arnold fell through for unrelated reasons, and Arnold later went to work for VSI. VSI launched its first laser varicose vein treatment device before Diomed’s improved device hit the market. Diomed sued both Arnold and VSI, alleging claims of trade secret misappropriation and trademark infringement, unfair competition, breach of contract, and tort. The defendants counter-claimed alleging trademark invalidity and moved for summary judgment on all claims.

The district court granted the defendants’ motion for summary judgment on the claims of breach of non-disclosure agreement and tortious interference with contract. Because no written confirmation was ever made, the court held that the oral disclosure made to Arnold could not be protected by the NDA. However, the district court denied defendants’ motion for summary judgment on the claim of trade secret misappropriation. The court reasoned that issues of fact still existed as to whether Diomed’s product improvement plans were “trade secrets”; whether the parties had a confidential relationship; and whether the defendants had inappropriately used the disclosed information. The court held that although Diomed’s failure to comply with the NDA was relevant to the disclosure’s trade secret status it was not dispositive.

MANUEL V. CONVERGYS CORP.*430 F.3d 1132 (11th Cir. 2005)*

The United States Court of Appeal for the Eleventh Circuit upheld a judgment invalidating a non-compete agreement (“NCA”) and dismissing a tort claim of misappropriation of trade secrets under the Georgia Trade Secrets Act.

In 1999, William Manuel (“Manuel”) was hired by a subsidiary of Convergys Corporation (“Convergys”) where he specialized in outsourced human resources services. As a condition of a 2003 promotion, Manuel signed a NCA prohibiting him from working for a competitor of Convergys for two years following any termination of his employment. The NCA included choice-of-law and forum-selection clauses specifying that Ohio law would govern the agreement and that any disputes arising out of the NCA would be brought in state or federal court in Ohio.

In 2004, Mellon Financial Corporation, Convergys’ competitor, hired Manuel for a position relating to human resources outsourcing in Atlanta, Georgia. Manuel sought a declaratory judgment in Georgia that his NCA with Convergys was illegal, invalid, and unenforceable. Convergys removed the case to the United States District Court for the Northern District of Georgia and counter-claimed, alleging that Manuel had misappropriated trade secrets, including Convergys’ customer lists, prices, and other general business information. Convergys also filed a concurrent action in Ohio state court for breach of the NCA and misappropriation of trade secrets. The district court granted Manuel’s motion for summary judgment and dismissed Convergys’ counterclaim.

On appeal, the Eleventh Circuit affirmed the district court, holding that the district court had not abused its broad discretion to award declaratory judgment. Manuel’s filing in Georgia was not improperly anticipatory of the Ohio action. The district court’s application of Georgia law to the NCA was appropriate because Convergys sought to enforce the NCA against Manuel, who lived and worked in Georgia.

The court also upheld the district court’s dismissal of Convergys’ trade secret misappropriation claim. Under Georgia law, an employee is entitled to use personal knowledge of general customer and business information and thus Convergys had failed to state a claim upon which relief could be granted. The court reasoned that only Georgia law applied, since a federal court would apply the choice of law rules for the state in which it sits, and Georgia choice of law rules dictate that tort cases are governed by the law of the state in which the tort is committed.

*ARCOR, INC. V. HAAS**842 N.E.2d 265 (Ill. App. Ct. 2005)*

The Appellate Court of Illinois ruled that customer lists, if not adequately guarded, were not protected as trade secrets under the Illinois Trade Secrets Act (765 ILCS 1065/1 *et seq.* (West 2002)). The court also vacated two non-compete covenants as overbroad.

Arcor, Inc. ("Arcor") is an Illinois corporation that manufactures metal tubes. These tubes, which are ultimately used as filtration devices, are made by using machines made by the Meltog company.

David Haas ("Haas") was an employee at Arcor from 1983 until his resignation in November of 2004. Haas signed an employment and confidentiality agreement designed to prevent him from disclosing or otherwise using the names of customers. Haas also signed two non-compete covenants, which prevented him from working anywhere within the United States or Canada for one year after leaving Arcor in any capacity where he might be "in competition" with Arcor. In addition, Haas signed a restrictive shareholder's agreement restricting competition for three years, with no specified geographic limitation.

In January 2005, Haas learned that Jonell (an Arcor customer) had purchased two Meltog machines in order to produce its own tubes, due in part to its concerns about Arcor's ability to supply the tubes. Haas formed Jadtis Industries ("Jadtis"), and was soon hired as manager for Jadtis's tube production project. Soon thereafter, Jadtis began selling tubes to Jonell and ten other companies who were previously Arcor customers. Arcor sued for misappropriated trade secret modifications and breach of the non-competition clauses.

In a June 2005 preliminary injunction hearing, the trial court found that Haas's use of customer information he had acquired while working for Arcor was a breach of trade secret, and enjoined defendants from "selling to, or soliciting sales of" tubes. The court also found that the non-competition covenants were overbroad, and thus unenforceable.

The appellate court reversed on the issue of trade secrets. By comparing the security measures taken by Arcor to protect its customer lists to that of companies in other Illinois cases, the court noted that for such lists to be deemed trade secrets a company could "not rest solely on the single step of a confidentiality agreement." The court construed "efforts that are reasonable" 765 ILCS 1065/2(d) as requiring some additional protection that Arcor did not exercise.

In its analysis, the court also carefully set forth the standards for a preliminary injunction, the statutory requirements for trade secret protection under the Illinois Trade Secrets Act, and six common law factors which courts may also consider in determining whether a trade secret exists.

However, the appellate court upheld the trial court's ruling invalidating the non-competition covenants. The court noted that blanket prohibitions against competition were generally unreasonable, and lacked geographic restrictions. Noting that restrictive covenants require a geographic scope as well as a time limitation the appellate court agreed that the covenants were overbroad.

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