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## **TOO MUCH OF A GOOD THING**

**By: Jim Astrachan**

In a recent case, the likes of which we see too often, a modular home builder sued its competitor and four former employees for copyright infringement and misappropriation of its confidential information and trade secrets. The federal appellate decision emphasizes the universally recognized truth that a litigant must carefully tailor its request lest a court give it too much.

Contentious relationships make for contentious litigation, and these parties had both, which began when Defendant offered to buy Plaintiff. When that deal crumpled on the sidewalk like yesterday's newspaper, Defendant, believing it could capture Plaintiff's business with an end run, hired Plaintiff's four key employees.

One lesson that the years have taught is that when a gaggle of former employees leaves to open a competing shop or to join a competitor, they seldom arrive empty handed. This case was not the exception and the four employees brought with them to their new employer extensive information downloaded from the Plaintiff's computers. With Plaintiff's former general manager at the helm of Defendant, the former employees competed in the modular home industry and used Plaintiff's information to build and sell its products.

As if Defendant's actions were not sufficiently nefarious to constitute unfair competition, one more tactical move was necessary - it dropped prices just below Plaintiff's. All things considered, Defendant was selling pretty much the same products as Plaintiff through sales people intimately familiar with Plaintiff's products, at a lesser cost, no doubt permissible because Defendant had bypassed much of the R&D process when it bagged Plaintiff's computer records. It should have come, then, as no surprise to Defendant that Plaintiff was left with very little choice but to sue. And sue it did, for infringement of copyrights and misappropriation of trade secrets, seeking preliminary and permanent injunctive relief to prevent use and disclosure, and return, of confidential information and trade secrets.

When a wise defendant is confronted with irrefutable forensic evidence that it has downloaded its former employer's info without permission it will not contest whether or not the download occurred. Instead, that defendant will attempt to circumvent the application of the Trade Secret Act by asserting either that the purloined information is commonly known, or that the former employer provided the information to third parties without first obtaining a contractual obligation not to disclose.

Not surprisingly, defendant did not deny the info was taken; but it did assert that the pilfered information was readily ascertainable and in the public domain. Defendant contended it was free to use the information.

Modular home builders are required to obtain approval of their products from each state in which their homes are sold. Approval is rigorous and requires that the manufacturer submit to the state volumes of material, including systems manuals, quality assurance manuals and construction plans. Defendant filed Freedom of Information Act requests with three states in which Plaintiff sold its products, seeking copies of its regulatory submissions. One of those states, Indiana, produced in response to the FOIA request thousands of Plaintiff's submissions, including systems manuals and quality assurance manuals. Not one of these documents had been marked "Confidential" or "Trade Secret" when it had been submitted to the state regulators.

When Plaintiff learned that Indiana had produced these documents – and that they were available for anyone to obtain under FOIA – it demanded that each state take remedial action to prevent subsequent production of its submitted materials. The record does not explain why, but no state complied with this demand.

Plaintiff should have been required to convince the trial court that the state submissions were proprietary and confidential. Defendant compared what the former employees took to what Plaintiff submitted to the regulators and concluded that, of what they took, only bills of material; pre-writes; pricing information contained in the pre-writes; order forms and information regarding which models sold best were **not** included in the submissions. Thus, they contended, the state submissions are not confidential or proprietary and should not even be evaluated by the court; only the material not submitted should be evaluated and even among that material resides information generally known such as order forms.

The trial court likely did not appreciate that Defendant was so blatant in its assertion that although it stole Plaintiff's material, the material was not protectable. It enjoined Defendant from:

"[u]sing, copying, disclosing, converting, appropriating, retaining, selling, transferring or otherwise exploiting Plaintiff's copyrights, confidential information, trade secrets, or computer files."

Defendant was also required to certify that all copied data had been deleted or rendered unusable. Plaintiff's lawyers must have high-fived themselves until their palms hurt.

The appeal that followed is really the subject of this tale, for while Defendant did not object to prohibitions on **using** computer files downloaded from Plaintiff's computers, it asserted that the rest of the court's injunction was so vague as to constitute only a general prohibition not to break the law and provided no guidance as to what actions might or might not violate the injunction.

The appellate court noted that FRCP 65(d) requires that an injunction set forth the reason for its issuance, be specific in terms and describe in reasonable detail – and not by reference to the complaint or other documents – the acts restrained.

The high-fiving was soon replaced with dejection. The appellate court described the trial court's entered injunction as "a collection of verbs to prohibit Defendants from engaging in certain conduct, but ultimately it fails to detail what the conduct is, i.e., the substance of the trade secrets or confidential information to which the verbs refer." Simply stated, Defendants were not capable of ascertaining from the court's order what the trade secrets or the confidential information were. Ouch! to the trial court and ouch! to Plaintiff's counsel.

Ouch! to the trial court because it appears it took the easy way out by not delving into the guts of whether that which had been freely disclosed to state regulators without restriction blows the trade secret claim. And ouch! for not incorporating its conclusion into the order.

Ouch! to Plaintiff's counsel who should have developed facts and helped the trial judge craft an order that would stand up to the inevitable appeal.

And Ouch! to Plaintiff who did a number of really dumb things, any one of which could destroy its business. First, it didn't require that its employees sign confidentiality agreements (never mind non-compete agreements). Second, it sent to state regulators without any admonishment or condition what it described to the court as its most secret and valuable information. And finally, it appears to have done very little to protect its information from theft.

Ouch! Ouch! Ouch!

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*James B. Astrachan is the author of The Law of Advertising, published by Matthew Bender-Lexis/Nexis.*