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MBA COMPLEX COMMERCIAL LITIGATION SECTION NEWSLETTER DECEMBER 2015

## SUPERIOR COURT JUDGE CHRISTINE M. ROACH DISCUSSES BUSINESS LITIGATION

*The Hon. Christine M. Roach was appointed as Associate Justice of the Massachusetts Superior Court in February 2008. Prior to her appointment, she was a founding member of the Boston litigation firm of Roach & Carpenter PC, where she had practiced since 1989, concentrating in business litigation and the defense of employment and civil rights matters. Judge Roach also served as an Assistant United States Attorney for the District of Massachusetts, a litigation associate at Widett, Slater & Goldman PC and law clerk to the Hon. David S. Nelson. She is a graduate of the University of Massachusetts at Amherst and Harvard Law School. Since January 2011 she has shared the BLS2 Session with Judge Janet L. Sanders. Judge Roach agreed to answer some questions about the Business Litigation Session from ComCom Section member Michael J. Leard.*

### I. CONTACTING CHAMBERS

**Q. Do you permit counsel to communicate directly with you? If so, under what circumstances?**

**A.** There is rarely a need to contact me directly. We are fortunate to have two very experienced and responsive session clerks in the Business Litigation Session (BLS), and I would expect counsel to communicate with our clerks. Our clerks may be contacted by either telephone or email. I believe that email, with a copy to opposing counsel, is the preferred method of communication for scheduling issues, particularly where one party seeks to represent to the court an agreement among the parties. Regardless of the means of communication, I appreciate counsels' efforts to minimize the administrative burden on our staff.

**Q. Do you prefer, require or prohibit courtesy copies of pleadings, motions and memoranda to be sent directly to your chambers?**

**A.** I prefer not to receive courtesy copies, unless I have specifically requested one. We receive voluminous filings in the BLS, so I seek to minimize the paper to the extent possible.

**Q. The Frequently Asked Questions section of the BLS website indicates that "in any motion (summary judgment, preliminary injunction, etc.) with a particularly voluminous record, counsel are encouraged to supply electronic copies ..." to the court. In such a case, should counsel email electronic copies to your clerk?**

**A.** Electronic copies should only be submitted upon request. Where I have specifically requested an electronic copy, I find it beneficial to receive a compact disc (CD) containing the electronic copies.

### II. BLS PROCEDURAL ORDERS AND FORMAL GUIDANCE

**Q. In the BLS, judges sit for six-month sessions; however, judges have the discretion to retain control over a case where close oversight is required. Under what circumstances would you be inclined to retain control over a case after your six-month session?**

**A.** It is a case-by-case determination. However, rarely have I retained management of a case after my six-month session. BLS judges operate as a team and are willing to handle any case on our docket at any stage. One example of when I may be inclined to retain a case is if the parties have been involved in detailed discovery or other pre-trial disputes before me, and either a summary judgment argument or additional pre-trial matters are scheduled in the very near future. In such a situation, the balance of judicial resources and fair resolution may weigh in favor of one judge retaining the case.

**Q. Do you require counsel to request such relief via motion?**

**A.** Counsel may request such relief via motion. But the court may also make this decision sua sponte.

**Q. The BLS's "Formal Guidance Regarding Confidentiality Agreements," states**



Hon. Christine M. Roach

## INSIDE THIS ISSUE

### BUSINESS LITIGATION ..... 2

The Impact of Recent Decisions Regarding Patent Hold-up on the Future of Standards-setting Activities

Cornerstone Decision Instructive on Claims Against Directors for Fiduciary Breach

### INTELLECTUAL PROPERTY ..... 3

Help! Is My Customer List a Trade Secret?

Fifth Circuit: Federal Copyright Statute Preempts State Trade Secret Claims for Ideas Expressed in Tangible Media

### BANKRUPTCY ..... 4

The First Circuit on Whether a Lender May Perfect a Security Interest in a Debtor's Insurance Coverage Under Article 9

### FOURTH ANNUAL UCC CONFERENCE PHOTOS ..... 8

CONTINUED ON P. 5

## HELP! IS MY CUSTOMER LIST A TRADE SECRET?

BY LINDSAY MANNING BURKE

At some point, most commercial and intellectual property litigators have faced this situation. Your client comes to you, furious: A trusted employee has left the company and struck out on his own, and taken your client's customer list with him. Can your client do anything to prevent this former employee from stealing its customers?

Without contractual protection, your client must rely on trade secret protection. As much as your client may value its customer list, however, your client may find it a very difficult proposition to establish its customer list as a protectable "trade secret." Recent cases in Massachusetts demonstrate just how difficult staking out a claim to trade secrets can be.

To make a claim for misappropriation of trade secrets under Mass. Gen. Laws ch. 93, § 42 and the common law, a plaintiff must show: (1) the information is a trade secret; (2) the plaintiff took reasonable steps to preserve the secrecy of the information; and (3) the defendant used improper means, in breach of a confidential relationship, to acquire and use the trade secret.<sup>1</sup> When it comes to customer lists, this is easier said than done. The tallest hurdle is proving that the list is, in fact, a trade secret.

Massachusetts courts evaluate six factors — the so-called "Jet Spray Cooler" factors — to determine whether confidential information qualifies as a trade secret:

1. The extent to which the information is known outside the business;
2. The extent to which the information is known by employees and others involved in the business;
3. The extent of measures taken by the employer to guard the secrecy of the information;
4. The value of the information to the employer and to his competitors;
5. The amount of effort or money expended by the employer in developing the information; and
6. The ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>2</sup>

Two recent cases mark off the two poles of this analysis.

The June 2015 case of *Head Over Heels Gymnastics Inc. v. Ware* concerns a former gymnastics academy employee who opened her own academy after her employer terminated her.<sup>3</sup> The former employer sued her, alleging

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that, among other things, she misappropriated its customer list, a trade secret. The customer list — which included names, addresses, telephone numbers and email addresses — was available to all employees and was distributed to all gymnastics trainees and their families so that they could directly communicate with each other. The employer never informed its employees that the list constituted confidential information or otherwise was a trade secret.

The Massachusetts Appeals Court, affirming summary judgment for the employee, found that the information was not a trade secret because the employer: (i) made its customer information available to all staff, employees and gymnasts and their families without restriction or limitation; and (ii) it never informed the defendant or any other person to whom this information was distributed that the information was confidential. In addition, the employer did not identify any steps it took to ensure that its information remained confidential or secret. The court found "simply unrealistic" the employer's assertion that the parties understood the customer lists were not intended for purposes other than its business, and were neither publicly known nor available through other sources.

The employer's own missteps cost it trade secret protection. It widely disseminated its list, it did not take steps to ensure that the list was kept secret, and its list contained information that was publicly available.

By contrast, the recent District of Massachusetts case of *Bruno International Ltd. v. Vicor Corp.* involved a company that did much more to protect the trade secret status of its customer list.

## FIFTH CIRCUIT: FEDERAL COPYRIGHT STATUTE PREEMPTS STATE TRADE SECRET CLAIMS FOR IDEAS EXPRESSED IN TANGIBLE MEDIA

BY ROBERT F. CALLAHAN JR., DEVINE MILLIMET & BRANCH PA

In *Spear Marketing Inc. v. Bancorp-South Bank*, 791 F.3d 586 (5th Cir. 2015), the Fifth Circuit held that state law trade secret claims based on ideas fixed in tangible media are preempted by federal copyright statute, 17 U.S.C. § 301(a). The Fifth Circuit reasoned that copyright preemption is measured by the scope of the federal copyright statute, rather than whether the material at issue is copyrightable. In doing so, the Fifth Circuit joined the majority of circuits that have considered the issue.

Spear Marketing, a small family-run business, sold software to banks that helped manage cash inventories in their branches and ATMs. One of Spear Marketing's largest customers was BancorpSouth Bank, who also used ATM software created by ARGO Data Resources. ARGO later developed its own cash inventory software, but BancorpSouth Bank continued to use Spear Marketing's software. In an unsuccessful bid to sell itself to ARGO, Spear Marketing demonstrated its software after ARGO represented it had not developed similar software. Ultimately, BancorpSouth Bank switched to ARGO's software. During the implementation process, BancorpSouth Bank sent ARGO various screenshots of Spear Marketing's software to provide historical cash usage data. Spear Marketing sued BancorpSouth Bank and ARGO in state court, alleging a number of state law trade secret claims relating to its software.

BancorpSouth Bank and ARGO removed the case to federal court on the ground that the federal copyright statute preempted Spear Marketing's claims. To avoid federal jurisdiction, Spear Marketing eliminated its claims relating to copying and distribution, and defined its trade secrets as noncopyrightable "know-how, ideas, procedures, processes, systems, methods of operation, and concepts". Despite these efforts, the district court held the federal copyright statute still preempted the trade secret claims and Spear Marketing

CONTINUED ON P. 7

CONTINUED ON P. 4

## PATENT HOLD-UP CONTINUED FROM P. 6

inance: they must provide alleged infringers with both notice they are infringing (along with a specification of how they are infringing), and a specific offer to license on FRAND terms (along with a description of how the proposed FRAND royalty rate was calculated). Only after a patent owner has fulfilled these obligations, and “the alleged infringer has not diligently [and promptly] responded to [the patent owner’s licensing] offer” either by accepting the offer or by making a specific FRAND counter-offer in writing, may the patent owner seek injunctive relief without potentially abusing its market position.

## TRADE SECRET CONTINUED FROM P. 3

In September 2015, Judge Woodlock held that a company had stated a claim for misappropriation of trade secrets sufficient to withstand a motion to dismiss. The company accused its distributor of sharing its “sensitive and confidential customer and pricing information” with its competitor, despite the distributor’s promise to keep it confidential.

In concluding that the company had plausibly alleged that the customer list constituted a trade secret, the court found that the “Jet Spray Cooler” factors pointed to trade secret protection, given the company’s allegations that it took significant efforts to compile and prepare the information, that the information was central to its business operations and provided it with a competitive advantage, that it had not conveyed the extent of its customer portfolio to anyone other than the distributor, and that the customer information was not otherwise in the public domain.

So, is your client’s customer list a trade secret? As with any fact-intensive analysis, the answer is, “it depends.” But you can advise your client to take the following steps to make sure its customer list meets the standard for trade secret protection:

First, ensure that the customer list is comprised of information that your client put together through its own hard work and experience, and that it is not merely a compilation of publicly-available information. Second, keep it safe! Your client should never disseminate the customer list outside of its company, and should only make it available to employees on a “need to know” basis. Your client should keep the list somewhere secure, with password protection and layers of security. Finally, be sure that your client can demonstrate the value of

## IMPLICATIONS

The future of standard-setting activities is uncertain. Balancing the competing concerns of innovators and of implementers is critical. As Judge Essex has noted, without the threat of injunctive relief, implementers of standards may not have enough of an incentive to engage in licensing negotiations — let alone an incentive to pay a royalty for using the patented technology of others — because they know that, at worst, they will get sued and will be made to pay the same FRAND rate they would have had to pay for using the patented technology in the first place. If the implementers of standards do not have an incentive to pay to use the patented technology embodied in those standards, then innovators will no longer have any incen-

this list to its business. Your client should keep track of its efforts to develop it. Did your client generate a number of leads by attending an expensive conference? It should keep track of that. Did your client spend years cultivating a particular customer relationship? It should memorialize that information.

Now, what can your client do if its former employee did not take a physical copy of the list, but instead took the names of customers that were “in his head”? Unhappily for your client, absent a non-competition or non-solicitation agreement, the employee is “entitled to use his general knowledge, experience, memory and skill” in establishing his new business, including “remembered information.”<sup>4</sup> In other words, your client would be hard pressed to prevent its former employee from relying on his own memory without some additional form of protection.

Thus, to help ensure the secrecy of this important proprietary information, even if it does not rise to the level of a trade secret, your client should consider implementing confidentiality, non-solicitation and non-competition policies.

Confidentiality agreements are fairly non-controversial and simple to enforce. They can be contained in the employee handbook or a separate agreement, so long as the employee signs a document saying that he or she has reviewed the policy and consents to be bound by its terms.

Non-solicitation and non-competition competition agreements can be more difficult to enforce. A narrow non-solicitation agreement would prevent an employee from diverting business opportunities away from his former employer, or from contacting that employer’s customers or employees, for some reasonable period of time. A broader non-competition

tive to contribute their patented technology to the development of those standards, and the development of standards will suffer as a result.

A singular concern over patent hold-up may skew the balance to such a degree that innovators will be incentivized to opt out of standard-setting activities altogether. Such an outcome will not only hurt consumers and businesses, who have come to take the interoperability of their devices and systems for granted, but may hurt the future of American technological innovation, which relies on the participation and cooperation of innovators across many different businesses and organizations working together to develop and refine the basic platform on which much of the world’s technological development now rests. ■

agreement would prevent the employee from working in that field, whether the employee directly solicits the former employer’s business or not.

Non-solicitation and non-competition agreements are enforceable in Massachusetts so long as they are: (1) necessary to protect a legitimate business interest of the employer; (2) supported by consideration; (3) reasonably limited in time, space, and subject matter; and (4) consonant with the public interest.<sup>5</sup> Your client’s employees will need to sign new non-solicitation and non-competition agreements with every material change in their employment for them to remain enforceable.<sup>6</sup>

The inconvenience of preparing and updating such agreements may well prove worth it to your client in the end. Why leave it to trade secret law when your client can put in writing, within reasonable limits, the precise form of protection it desires and can expect? Such agreements are the surest protection against a former employee bent on competing against your client with pilfered information, whether or not Massachusetts law would recognize that information as a “trade secret.” ■

1. *Bruno Intl. Ltd. v. Vicor Corp.*, No. 14-10037-DPW, 2015 WL 5447652 (D. Mass. Sept. 16, 2015).

2. *Jet Spray Cooler Inc. v. Crampton*, 282 N.E. 2d 912, 925 (Mass. 1972).

3. *Head Over Heels Gymnastics Inc. v. Ware, et al*, 87 Mass.App.Ct. 1128 (June 9, 2015) (unpublished decision).

4. *Hamburger v. Hamburger*, 4 MASS.L.RPTR. 409 (Mass. Super. Ct. 1995).

5. *Bowne of Boston Inc. v. Levine*, 7 MASS.L.RPTR. 685 (Mass. Super. Ct. 1997); *Analogic Corp. v. Data Translation Inc.*, 371 Mass. 643, 647 (1976).

6. *F.A. Bartlett Tree Expert Co. v. Barrington*, 353 Mass. 585 (1968).