Computers and the Law

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CLASS 2

Internet Jurisdiction;
Trade Secrets

MISSOURI UNIVERSITY OF SCIENCE AND TECHNOLOGY
Internet Jurisdiction

• Issue – Where is an operator of a website subject to suit?

Jurisdictional Requirements

• What is jurisdiction?
  – the power of a court to decide a matter in controversy (i.e., a case)

• What is needed to establish jurisdiction?
  – Authority of the court to hear the case (e.g., original or appellate jurisdiction)
  – Authority of the court over the subject matter (subject matter jurisdiction)
  – Jurisdiction over the parties (personal jurisdiction) or property (in rem jurisdiction) of the suit
  – Proper notice

Subject Matter Jurisdiction

Diversity Jurisdiction

§ 1332. Diversity of citizenship; amount in controversy; costs
(a) The district courts shall have original jurisdiction of all civil actions where the matter in controversy exceeds the sum or value of $75,000, exclusive of interest and costs, and is between—
   (1) Citizens of different States;
   (2) Citizens of a State and citizens or subjects of a foreign state;
   (3) Citizens of different States and in which citizens or subjects of a foreign state are additional parties; and
   (4) A foreign state, defined in section 1603(a) of this title (28 USCS § 1603(a)); as plaintiff and citizens of a State or of different States. …

Federal Question Jurisdiction

Cases arising under the Constitution, Acts of Congress or treaties, and involving their interpretation and application
Power over Person or Property

- Jurisdiction in personam – power which a court has over the defendant’s person and which is required before a court can enter a personal or in personam judgment.
- Jurisdiction in rem – power of a court over a thing so that its judgment is valid against the rights of every person in the thing

Black’s Law Dictionary

Personal Jurisdiction

- How can personal jurisdiction be established?
  - General jurisdiction – systematic contacts
  - Specific jurisdiction – specific acts

Due Process Considerations

- When the defendant is out-of-state, a court can exercise personal jurisdiction over the defendant pursuant to the state’s long arm statute (and due process).
- The defendant must have minimum or sufficient contacts to be subject to jurisdiction in the state.
- What if the defendant is in the same state as the court?
Establishing Personal Jurisdiction over the Internet

- Generally, courts view a defendant’s web site to determine whether jurisdiction based on sufficient contacts has been established.
- Courts addressing web site passivity have found that creating a web site without more is not an act “purposefully directed at a forum state” sufficient to warrant the exercise of jurisdiction.
- Courts look to the level of interactivity and commercial nature of the exchange of information that occurs on the web site to determine if sufficient contacts exist to warrant the exercise of jurisdiction.

Cybersell v. Cybersell

Factual Background

- Cybersell AZ
  - It was incorporated in May 1994 to provide Internet and web advertising and marketing services, including consulting.
  - “On August 8, 1994, Cybersell AZ filed an application to register the name “Cybersell” as a service mark. The application was approved and the grant was published on October 30, 1995. Cybersell AZ operated a web site using the mark from August 1994 through February 1995. The site was then taken down for reconstruction.”
- Cybersell FL
  - “In the summer of 1995 … [Cybersell FL was formed] to provide business consulting services for strategic management and marketing on the web.”

Arizona Long Arm Statute

- “The Arizona Supreme Court has stated that under Rule 4.2(a), ‘Arizona will exert personal jurisdiction over a nonresident litigant to the maximum extent allowed by the federal constitution.’ … Thus, Cybersell FL may be subject to personal jurisdiction in Arizona so long as doing so comport with due process.”
Cybersell v. Cybersell

Specific Jurisdiction

"We use a three-part test to determine whether a district court may exercise specific jurisdiction over a nonresident defendant:

1. The nonresident defendant must do some act or consummate some transaction with the forum or perform some act by which he purposefully avails himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections;

2. The claim must be one which arises out of or results from the defendant's forum-related activities; and

3. Exercise of jurisdiction must be reasonable.

Cybersell v. Cybersell

"Interactive" web sites present somewhat different issues. Unlike passive sites such as the defendant's in Bensusan, users can exchange information with the host computer when the site is interactive. Courts that have addressed interactive sites have looked to the "level of interactivity and commercial nature of the exchange of information that occurs on the Web site" to determine if sufficient contacts exist to warrant the exercise of jurisdiction. See, e.g., Zippo Mfg. Co. v. Zippo Dot Com, Inc., 952 F. Supp. 1119 (W.D. Pa. 1997) (finding purposeful availment based on Dot Com's interactive web site and contracts with 3000 individuals and seven Internet access providers in Pennsylvania allowing them to download the electronic messages that form the basis of the suit); Maritz, Inc. v. Cybergold, Inc., 947 F. Supp. 1328, 1332-33 (E.D. Mo.) (browsers were encouraged to add their address to a mailing list that basically subscribed the user to the service), reconsideration denied, 947 F. Supp. 1338 (1996).

Cybersell v. Cybersell

"Cybersell AZ points to several district court decisions which it contends have held that the mere advertisement or solicitation for sale of goods and services on the Internet gives rise to specific jurisdiction in the plaintiff's forum. However, so far as we are aware, no court has ever held that an Internet advertisement alone is sufficient to subject the advertiser to jurisdiction in the plaintiff's home state."

"Here, Cybersell FL has conducted no commercial activity over the Internet in Arizona. All that it did was post an essentially passive home page on the web, using the name "CyberSell", which Cybersell AZ was in the process of registering as a federal service mark. While there is no question that anyone, anywhere could access that home page and thereby learn about the services offered, we cannot see how from that fact alone it can be inferred that Cybersell FL deliberately directed its merchandising efforts toward Arizona residents."
Cybersell v. Cybersell

Holding
- "We conclude that the essentially passive nature of Cybersell FL's activity in posting a home page on the World Wide Web that allegedly used the service mark of Cybersell AZ does not qualify as purposeful activity invoking the benefits and protections of Arizona. As it engaged in no commercial activity and had no other contacts via the Internet or otherwise in Arizona, Cybersell FL lacks sufficient minimum contacts with Arizona for personal jurisdiction to be asserted over it there. Accordingly, its motion to dismiss for lack of personal jurisdiction was properly granted."

Zippo Manufacturing v. Zippo Dot Com

Factual Background
- Zippo Manufacturing (based in PA)
  - Lighters
- Zippo Dot Com (based in CA)
  - Usenet Postings
- Basis of Proceeding
  - Trademark infringement, trademark dilution, false designation of origin

Zippo Manufacturing v. Zippo Dot Com

- How broad is PA’s long arm statute?
  - Fullest extent permitted under the Constitution
- Types of personal jurisdiction
  - General jurisdiction – "systematic and continuous activities" in the forum state
  - Specific jurisdiction – "relationship between the D and the forum falls within the ‘minimum contacts’ framework ..."
Zippo Manufacturing v. Zippo Dot Com

- Sliding scale
  - D clearly does business with the website
  - D has a passive website
  - Middle ground
    - Some information exchanged
    - Court looks to “the level of interactivity and commercial nature of the exchange of information that occurs on the website”

Zippo Manufacturing v. Zippo Dot Com

- Why does the court find personal jurisdiction in this case?
  - The court held that the sales of user subscriptions and the contract with Internet service providers were sufficient to conclude that defendant had purposely availed itself for purposes of personal jurisdiction in Pennsylvania.

Missouri's Long Arm Statute

- Mo.Rev.Stat. § 506.500, provides, in relevant part as follows:
  1. Any person or firm, whether or not a citizen or resident of this state, or any corporation, who in person or through an agent does any of the acts enumerated in this section, thereby submits such person, firm, or corporation, and, if an individual, his personal representative, to the jurisdiction of the courts of this state as to any cause of action arising from the doing of any of such acts:
     (1) The transaction of any business within this state;
     (2) The making of any contract within this state;
     (3) The commission of a tortious act within this state;

• Case History
  • W.DC of WA
    – Dismissed copyright action for lack of jurisdiction
  • 9th Circuit
    – Reversed dismissal

• Technology at issue
  – Boots and boot design

• Parties
  – Washington Shoe – manufacturer of foot apparel
  – AZ Sporting Goods – operator of a retail store in Alma, Arkansas

• Background
  – A-Z purchased items from WS
  – WS Salesman identified infringing boot copies available at AZ store
  – WS counsel sends C&D letter
  – A-Z removed boots from store and sold of remaining inventory
  – WS sued A-Z

- Applied three part jurisdiction test
  - "purposefully direct his activities or consummate some transaction with the forum or resident thereof; or perform some act by which he purposefully avails himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections of its laws;
  - the claim must be one which arises out of or relates to the defendant’s forum-related activities; and
  - the exercise of jurisdiction must comport with fair play and substantial justice, i.e. it must be reasonable."


- "In tort cases, we typically inquire whether a defendant 'purposefully direct[s] his activities' at the forum state, applying an 'effects' test that focuses on the forum in which the defendant's actions were felt, whether or not the actions themselves occurred within the forum."


- "The 'purposeful direction' or 'effects' test … 'requires that the defendant . . . have (1) committed an intentional act, (2) expressly aimed at the forum state, (3) causing harm that the defendant knows is likely to be suffered in the forum state.'"

• “Thus, courts may exercise personal jurisdiction over a defendant who engages in an intentional act that causes harm in the forum state, even if that act takes place outside of the forum state.”


• “A-Z purchased the boots at issue from China and the infringing boots were sold in the same Arkansas store as Washington Shoe’s footwear. Subsequently, after receiving notice of the alleged copyright infringement through cease-and-desist letters, A-Z sold the infringing boots to a thrift store. We have little difficulty finding that by intentionally engaging in the actual, physical acts of purchasing and selling the allegedly infringing boots, A-Z has clearly committed an ‘intentional act’…”


• “We have repeatedly stated that the ‘express aiming’ requirement is satisfied, and specific jurisdiction exists, when ‘the defendant is alleged to have engaged in wrongful conduct targeted at a plaintiff whom the defendant knows to be a resident of the forum state.’”
• A-Z’s activities could rise to willful copyright infringement because of notice of rights before and after selling and tort is an intentional tort

- "Because the harm caused by an infringement of the copyright laws must be felt at least at the place where the copyright is held, we think that the impact of a willful infringement is necessarily directed there as well."

Enterprise Rent-A-Car Co. v. Stowell

- "In the instant case, Defendant published and maintained a website with the domain name "VIRTUALCAR.COM" that was accessible to Missouri users of the Internet. The website included photographs of classic cars, but the user could not purchase such cars via the site or exchange information with Defendant via the site. No Missouri users contacted Defendant about buying cars and the site led to no business with a Missouri user. Exercising personal jurisdiction in this case is inconsistent with due process."

Discussion

- Would a user's Facebook page cause the user to be liable for personal jurisdiction anywhere in the country?
Trade Secrets

• Issue – What type of protection is afforded to a discovery or development that is kept secret?

Trade Secrets

• What is a Trade Secret?
  – Generally speaking, a trade secret is any information that has not been published and that could give a company a competitive advantage

• Is Trade Secret Law Protected by State or Federal Law?
  – Trade Secret law is protected by state law and varies from state to state

• How about some good news?!
  – Trade secrets are cheap (sort of); no filing fee but...
  – Duration – perpetual unless it is no longer a trade secret...

What are the Primary Categories of Trade Secrets?

• The various categories of trade secrets include financial information, organizational information, marketing information and technical information.

• Financial information may include profit margins, overhead costs, material costs and supplier discounts.

• Organizational information may include expansion plans, key employee acquisitions, record-keeping information and methods of operation.

• Marketing information includes customer lists, terms of licenses, new product developments and contracts and contract negotiations.

• Technical information includes formulas for producing products, computer software, chemical formulas and processes and methods of manufacture.
Primary Sources

- What are the primary sources for the definitions of trade secrets that are adopted by states and used by courts?
  - The three main trade secret definitions are derived from the Restatement of Torts, the Restatement of the Law Third, Unfair Competition, and the Uniform Trade Secrets Act.

Definitions

- Definition from Restatement of Torts (First)
  - The Restatement of Torts § 757 provides that “[a] trade secret may consist of any formula, device, pattern or compilation of information ... used in one’s business and which gives [the holder] an opportunity to obtain an advantage over competitors who do not know or use it.”

- Definition from Restatement of the Law, Third Edition
  - “[A]ny information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

- Definition from the Uniform Trade Secrets Act
  - The Uniform Trade Secrets Act (USTA) §1(4) defines a trade secret as any “information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”

Factors/Elements

- What Factors May Be Used to Determine Whether a Trade Secret Exists?
  - The degree to which the information is known outside the claimant’s business;
  - The degree to which the information is known by the claimant’s employees;
  - The degree of measures taken by the claimant to guard the secrecy of the information;
  - The value of the information to the claimant and its competitors;
  - The amount of effort or money expended by the claimant in developing the information; and
  - The ease with which others could acquire the information.

- What are the Elements of a Trade Secret Cause of Action?
  - The elements of a cause of action for violation of trade secret are (i) a trade secret, (ii) a confidential relationship between plaintiff and person revealing the information to a third party, and (iii) an intentional unauthorized disclosure to third party.  There is no relief for accidental disclosure, reinvention, or reverse engineering.

- When can the Use of Trade Secret Information by Former Employees be Restricted?
  - The use of trade secret information by former employees can be restricted only if there is a legally protectable trade secret and the employee has either (i) covenanted not to disclose the information or (ii) acquired the information under a confidential relationship.
Protection of Trade Secrets

- Enter into non-disclosure agreements with third parties before disclosing confidential information
- Cover at least key employees with non-compete, confidentiality, and intellectual property agreements
- Secure access to physical files containing confidential information
- Implement network and other electronic security measures to limit internal and external access to files
- Monitor employee communications

Disclosure

- What happens if a trade secret is disclosed—does trade secret protection still exist?

Trade Secret Law in Missouri

Starting Point - http://www.moga.state.mo.us/
417.453. As used in sections 417.450 to 417.467, the following terms mean:

1. “Improper means” includes theft, bribery, misrepresentation, breach of a duty to maintain secrecy, or espionage through electronic or other means;

2. “Misappropriation”:
   a. Acquisition of a trade secret of a person by another person who knows or has reason to know that the trade secret was acquired by improper means; or
   b. Disclosure or use of a trade secret of a person without express or implied consent by another person who:
      a. Used improper means to acquire knowledge of the trade secret; or
      b. Before a material change of position, knew or had reason to know that it was a trade secret and had knowledge of if it had been acquired by accident or mistake; or
      c. At the time of disclosure or use, knew or had reason to know that knowledge of the trade secret was:
         i. Derived from or through a person who had obtained improper means to acquire it; or
         ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
         iii. Derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy or limit its use.
Trade Secret Law in Missouri

(3) “Person”, a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, governmental subdivision or agency, or any other legal or commercial entity, whether for profit or not for profit;

(4) “Trade secret” information, including but not limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, or process, that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use; and

(b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

417.461. An action for misappropriation shall be brought within five years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.


- Parties
- Defendants – involved with commodities market; Rollet Bros. Logistics, Inc., is a freight broker that arranges for the hauling of commodities for customers from one point to another.
- Plaintiff - dispatcher, responsible for finding loads for trucks to haul by contacting established and prospective customers on a daily basis. He was also responsible for finding trucks that were available to haul a customer's load.


- P and D had a covenant not to compete that included a confidentiality clause
- Aug 05 – P submitted a resignation to
- Sept 05 – P began working as a dispatcher ECO Logistics
- Nov 05 – attorneys D sent a letter to ECO Logistics threatening legal action; Eco Logistics then terminated P

- Plaintiff filed suit and won at district court


- Covenants Not Compete
  - "Generally, because covenants not to compete are considered to be restraints on trade, they are presumptively void and are enforceable only to the extent that they are demonstratively reasonable."


- Non-Compete Agreement
  - "[A] noncompete agreement is reasonable if it is no more restrictive than is necessary to protect the legitimate interests of the employer."
  - Reasonable in scope—place and time
  - "enforceable only to protect certain narrowly-defined and well-recognized interests, specifically, customer contacts and trade secrets."

- "The goodwill that develops from customer contacts between the salesman or business partner and the company's customer is essential to the company's success and is the reason the employee or the business partner is remunerated. The goodwill that develops results in sales of the company's product or services. Therefore, an employer has a protectable right in both customers and goodwill."


- "An employer must show that the employee had contacts of the kind enabling him to influence customers."


- "In this case, there was substantial evidence to support implied findings that defendants' brokerage business did not become associated in a customer's mind with plaintiff and plaintiff did not possess the degree of influence over any customers that would justify enforcement of the Agreement under a "customer contacts" theory."

- “Some factors to be considered in determining whether certain information is a trade secret are:
  - (1) the extent to which the information is known outside of his business;
  - (2) the extent to which it is known by employees and others involved in his business;
  - (3) the extent of measures taken by him to guard the secrecy of the information;
  - (4) the value of the information to him and to his competitors;
  - (5) the amount of effort or money expended by him in developing the information;
  - (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”


- “Matters of public knowledge or information that is generally known within a given industry cannot be appropriated as a trade secret.”


- Was the customer list a trade secret?
  - “Customer lists are protectable as trade secrets only when they represent ‘a selective accumulation of information based on past selling experience, or when considerable time and effort have gone into compiling it.’” However, “[t]o be protected, a customer list must be more than a listing of firms or individuals which could be compiled from directories or other generally available sources.”

• “Defendants argue that their customer list was a trade secret because there was evidence that it was produced over a twenty-year period with significant time and resources, was maintained as confidential, and, in a fast-paced industry, it reduced the time required for its employees to find a customer’s contact information. While there was evidence that the list met these criteria, there was substantial evidence to support an implied finding that the customer list was nothing more than a listing of firms or individuals that could be compiled from generally available sources.”


• “This evidence was sufficient to demonstrate that the information in defendants’ customer list could be compiled from other, generally available sources.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• Parties
• Plaintiff –
• Defendant –
• At Issue
  – information about the repair and overhaul of helicopter engines
AvidAir Helicopter Supply v. Rolls-Royce Corp.

- AvidAir sought a declaration that the repair information was not protected by trade secret law.
- DC – most information protected by trade secret, 350K in actual damages, and permanent injunction.

AvidAir Helicopter Supply v. Rolls-Royce Corp.

- How did third party overhaul shops come about?
- How and why do you certify an engine for return to service?
- How was information exclusively provided to Authorized Maintenance Centers (AMCs)?
  - “Allison executed agreements with each AMC that specified the proprietary nature of this technical information, prohibited the AMCs from disseminating this information, and required the AMCs to return all proprietary documents at the end of their relationship. Allison also began including a proprietary rights legend on the front page of its DOILs.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

- How and why did AvidAir obtain a copy of DOIL 24, Revision 13 without Rolls-Royce’s permission?
  - RR C&D to stop using Doil 24
  - FAA inspection; AvidAir not following DOIL 24, R13
  - AvidAir obtained a copy of DOIL 24, Revision 13 with RR’s permission and changed its overhaul procedure.
AvidAir Helicopter Supply v. Rolls-Royce Corp.

- Who filed suit?
  - AvidAir filed seeking a declaratory judgment in WD MO that DOILs were not trade secrets
  - Rolls-Royce filed its own suit in S.D. of Indiana for trade-secret violations

AvidAir Helicopter Supply v. Rolls-Royce Corp.

- Existence of trade secret is question of law
- Trade Secret Definition
  - information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

AvidAir Helicopter Supply v. Rolls-Royce Corp.

- Can compilations be protected as trade secrets?
  - Compilations are specifically contemplated in the UTSA definition of a trade secret, and the fact that some or even most of the information was publicly available is not dispositive of the first factor in the UTSA definition. Compilations of non-secret and secret information can be valuable so long as the combination affords a competitive advantage and is not readily ascertainable.
AvidAir Helicopter Supply v. Rolls-Royce Corp.

- "[E]xistence of a trade secret is determined by the value of a secret, not the merit of its technical improvements. Unlike patent law, which predicates protection on novelty and nonobviousness, trade secret laws are meant to govern commercial ethics."

- "Trade secret protection does not shield an idea from "infringing" other uses of the idea; instead it protects valuable information from being misappropriated despite reasonable efforts to keep it secret."

- What does readily ascertainable mean?
  - "The fact that information can be ultimately discerned by others—whether through independent investigation, accidental discovery, or reverse engineering—does not make it unprotectable."
  - "[T]he court must look at whether the duplication of the information would require a substantial investment of time, effort, and energy."
AvidAir Helicopter Supply v. Rolls-Royce Corp.

• How did AvidAir go wrong?
  – “Instead of obtaining FAA approval based on an independent investigation of changes to the approved procedure, AvidAir simply appropriated the documents it knew were claimed to be trade secrets and then certified that its procedure was in compliance with the updated documents.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• “Reasonable efforts to maintain secrecy need not be overly extravagant, and absolute secrecy is not required.”
• “The use of proprietary legends on documents or the existence of confidentiality agreements are frequently-considered factors in establishing or denying a trade secret claim.”

AvidAir Helicopter Supply v. Rolls-Royce Corp.

• “Though AvidAir claims the documents were ‘freely available’ in the industry, it failed to present any evidence that Rolls-Royce actually distributed them to a party not bound by confidentiality agreements. We agree with the district court that these were reasonable efforts to maintain secrecy. … The fact that a trade secret was successfully misappropriated does not defeat the fact that there were reasonable efforts to maintain its secrecy.”
Theft of Trade Secrets

- Theft of trade secrets for commercial or economic purposes is a federal crime

Discussion

- Can a defendant be liable for misappropriation of a trade secret which is admittedly embodied in source code, based upon the act of executing, on his own computer, executable code allegedly tainted by the incorporation of design features wrongfully derived from the plaintiff's source code?

Trade Secrets

- Hot areas & cases
  - Departing Key Employees: Paypal v. Google
  - Covenant Not to Compete: Payroll Advance v. Yates
  - Theft of Trade Secrets Clarification Act