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Failing To Take Proper Precautions, Hooked Media Lets Trade Secret Misappropriation Claim Off the Hook

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Late last year, a California appellate court reaffirmed longstanding principles that have important lessons for employers hoping to prevent their employees from taking trade secrets with them if they leave to work for a competitor.

In *Hooked Media Group, Inc. v. Apple Inc.*, Hooked Media Group, Inc. ("HMGI"), a San Francisco-based startup with a mobile app that provides personalized suggestions for other apps, sued tech powerhouse Apple Inc. for, among other things, misappropriation of trade secrets under the Uniform Trade Secrets Act (UTSA). 55 Cal. App. 5th 323, 328, 269 Cal. Rptr. 3d 406, 410, *reh'g denied* (June 19, 2020), *publication ordered* (Sept. 30, 2020), *review denied* (Dec. 30, 2020). After talks related to Apple's acquisition of HMGI for the sole purpose of making HMGI's employees Apple employees broke down —"an 'acqui-hire' in Silicon Valley jargon"—Apple decided to directly hire away three of HMGI's engineers, including its Chief Technology Officer, without providing any compensation to HMGI. *Id.* at 328–29. In its lawsuit, HMGI alleged that Apple misappropriated trade secrets when those engineers later developed an app recommendation system for Apple using source code similar to the code on which HMGI's system was based. *See id.* at 331–33. The lower court entered summary judgment in Apple's favor, dismissed the claim, and HMGI appealed.

On appeal, the Sixth District Court of Appeals for the State of California acknowledged the evidence in the record which showed that HGMI's former employees, and in particular its CTO, retained HGMI's "technical information, accessed it while in Apple's employ, and gave misleading statements about how much of it they had retained." *Id.* at 332. But the court held those *former employee* acts were insufficient to establish that *Apple* improperly acquired or used HMGI's information. *See id.*

The court also rejected HMGI's argument that evidence showing Apple purposely hired HGMI's engineers knowing that they would inevitably rely on knowledge acquired while working at HGMI was sufficient to support a claim for improper acquisition of a trade secret. Noting that California had already rejected the "inevitable disclosure" doctrine, which allows claims for trade secret misappropriation if an employee's new job will inevitably lead to reliance on the former employer's trade secrets, the appellate court explained that allowing a trade secret misappropriation claim to proceed on that basis would effectively allow former employers to impose retroactive covenants not to compete on employees. Thus, in the absence of a prospective covenant not to compete, the court found it immaterial that HGMI's engineers likely drew on knowledge acquired during their time working for HGMI when creating Apple's recommendation system. *See id.* at 332–33.

Several lessons for those seeking to protect the value associated with their trade secrets can be gleaned from the appellate court's decision:

- Organizations should consider requiring employees to sign noncompetition agreements;
- Organizations should require counter-parties to sign non-solicitation agreements when entering into acquisition discussions, especially those focused on "acqui-hiring"; and
- Organizations should explore whether they can obtain patents to protect any trade secrets.

On the flip side, *Hooked Media* suggests that companies considering hiring individuals who could potentially rely on knowledge pertaining to their former employer's trade secrets would be wise to (1) check whether any such individuals are subject to non-compete agreements, and (2) determine the applicability and scope of the "inevitable-disclosure" doctrine in the jurisdiction(s) in which they and the potential hire may operate.

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