United States District Court
For the Northern District of California

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

Spring Design, Inc.,

Plaintiff,

v.

Barnesandnoble.com, LLC,

Defendant.

/

NO. C 09-05185 JW

ORDER DENYING PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION

Presently before the Court is Plaintiff Spring Design, Inc.'s Motion for a Preliminary Injunction. (hereafter, "Motion," Docket Item No. 17, filed under seal.) The Court conducted a hearing on November 30, 2009. Based on the papers submitted to date and oral argument, the Court DENIES Plaintiff's Motion for a Preliminary Injunction.

As a preliminary matter, since the parties have filed most of the evidence supporting and opposing the Motion under seal, this Order only summarizes the sealed evidence and provides general citations to the sealed evidence but does not reveal their contents to protect the parties' confidential information.

A. Factual Allegations

In a First Amended Complaint filed on November 11, 2009, Plaintiff alleges as follows:

Plaintiff is a California corporation with its principal place of business in Cupertino, California. (First Amended Complaint ¶ 1, hereafter, "FAC," Docket Item No. 11.) Defendant is a limited liability company organized under the laws of the state of Delaware with a principal place of business in the state of New York. (Id. ¶ 2.) Founded in 2006,

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Plaintiff delivers innovative e-reader solutions and products to the e-book market. (Id. ¶ 7.) Plaintiff pioneered its patent-pending interactive dual-screen navigation design in 2006 and has been working with major book stores, newspapers, and publishers over the last two years to educate them about the capabilities and advantages of the dual screen design and the navigation and interaction techniques with the dual screens ("Duet Navigator™ Technology"). (Id.)

On February 12, 2009, in anticipation of a meeting to explore possible collaboration on an e-reader, Plaintiff and Defendant entered into an non-disclosure agreement ("NDA") in which the parties agreed not to disclose, reproduce, transmit or use the other's confidential information except to certain employees on a need-to-know basis. (FAC ¶ 9.) The NDA is governed in all respects by the substantive laws of the State of New York. (Id.) The NDA acknowledges that in the event of a breach, the other party will have no adequate remedy in money or damages and shall be entitled to seek equitable relief, including an injunction or specific performance. (Id.)

On February 17, 2009, Plaintiff presented its design for an interactive dual-screen navigation electronic reader to Phil Baker, an e-reader product strategy consultant hired by Defendant. (FAC ¶¶ 8, 10.) Plaintiff's PowerPoint presentation included photos showing versions of the product's flat tablet interactive dual-screen design. (Id.) The presentation emphasized the novelty and advantages of the interactive dual-screen navigation design, offering "a new solution for readable, mobile, connected and versatile reading." (Id.)

On March 20, 2009, Plaintiff met with Defendant, and Defendant indicated during the meeting that Defendant was planning to develop a device with a single Electronic Paper Display ("EPD") screen and questioned Plaintiff about why Plaintiff was using dual screens.

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(FAC ¶ 11.) Plaintiff explained to Defendant that a single EPD display would not support a graphical user interface using the Google Android operating system.[1] (Id.)

On May 13, 2009 in New York, Plaintiff presented to a group of Defendant's executives a product demo of its e-reader device, as well as a PowerPoint presentation that provided an overview of its design for an innovative Android-based eReader named "Alex™." (FAC ¶ 13.) The PowerPoint slides were affixed with a label designating the material contained in the slides as confidential and subject to the parties' NDA. (Id.) One of the presentation slides lists the many features distinguishing Plaintiff's Alex™ device from those already on the marketplace, including its Android operating system. (Id.) During the meeting, Defendant's president said that he had never seen a device with dual-screen interaction and that he thought the design was very advanced. (Id.) Defendant's president, upon hearing that one of Plaintiff's founders had met with the development team for the Amazon Kindle™ (another e-reader) in 2005, warned Plaintiff that it should not discuss its ideas with Amazon because Amazon would likely steal Plaintiff's ideas. (Id.) On May 15, 2009, Defendant's president e-mailed Plaintiff to thank them for showing Defendant their "innovative work" and indicated that he was "looking forward" to a partnership between the two organizations. (Id.)

On July 23, 2009, Defendant emailed Plaintiff, requesting a summary of Plaintiff's product development and reiterating that it was looking forward to "working more" with Plaintiff to make Defendant's content available on Alex™. (FAC ¶ 14.) In response, Plaintiff provided Defendant with an update of Plaintiff's most recent developments, including a PowerPoint slide explaining how specific features of Alex™ represented a unique departure from the Amazon's Kindle™ 2—the main competitor of Defendant's

[1] Although the First Amended Complaint does not allege the location of this particular meeting, in its opening brief, Plaintiff states that Defendant's Chief Architect for its e-book reader, Mr. Gopalakrishnan, came to California for this meeting. (Motion at 3.) For the purposes of this Motion, the Court accepts as true that a substantial event giving rise to Plaintiff's claims occurred in this district.

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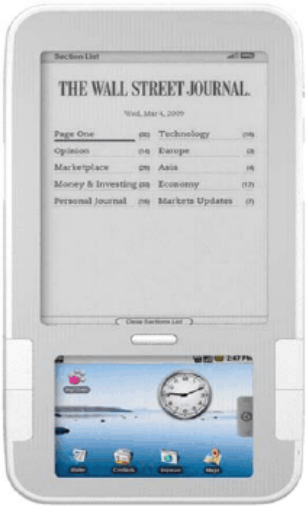
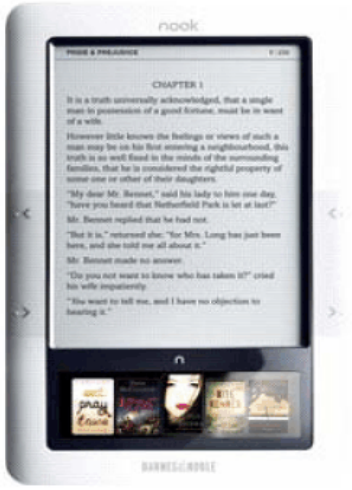
planned electronic reader. (Id.) In that comparison slide, Plaintiff disclosed that the following set of product features would provide Defendant with a competitive advantage over Amazon's Kindle™ product: an open source Android 1.5 operating system; an interactive dual-display design featuring an EPD screen and a separate LCD screen; an advanced user interface with text, color picture, animation, video, and touch screen interactivity; WiFi and 3G connectivity; a USB 2.0 for multimedia file transfer; a Micro SD slot and replaceable battery; and various other applications, including a PDF tool, browser, reader, and many Android applications. (Id.)

On October 20, 2009, Defendant announced the release of nook™—its Android-based, interactive dual-screen electronic reader that included the confidential features of Alex™, which had taken Plaintiff years to research, design and develop. (FAC ¶ 15.) On October 21, 2009, in a conference call with the media, Defendant's president touted as innovative features of the nook™ many of the exact same features disclosed to Defendant by Plaintiff as part of the Alex™. (Id.)

From the time that it first began meeting with Defendant up until Defendant launched the nook™, Plaintiff was led to believe that it was disclosing the confidential features of its Alex™ device in exchange for Defendant's implicit promise that it would share content sale revenue with Plaintiff and that it would consider distributing Plaintiff's e-reader device in 2010. (FAC ¶ 17.) Defendant never disclosed to Plaintiff that it was developing an Android-based dual-screen device with many of the same product features contained in Plaintiff's design. (Id.) Since Defendant released its nook™, striking similarities between the nook™ and Plaintiff's Alex™ have created confusion in the market as to the origin of the products and the source of their innovations. (Id. ¶ 18.)



Srping's Alex design disclosed to B&N under the NDA



B& N's Nook™

(Id.)

On the basis of the allegations outlined above, Plaintiff alleges three causes of action: (1) Breach of Written Non-Disclosure Agreement, (2) Misappropriation of Trade Secrets, and (3) Common Law Unfair Competition.

B. Choice of Law

As a preliminary matter, the parties dispute which state's law governs Plaintiff's claims. Plaintiff contends that New York law governs all of the claims. (Motion at 19.) Defendant contends that California law governs the claims for misappropriation of trade secrets and common law unfair competition, and New York law governs the claim for breach of contract.[2]

"Federal courts sitting in diversity must apply the forum state's choice of law rules to determine the controlling substantive law." Fields v. Legacy Health Sys., 413 F.3d 943, 950 (9th Cir. 2005). Choice of law analysis requires a court to determine (1) the scope of the choice of law clause, and (2) whether the choice of law clause is valid. See Nedlloyd Lines B.V. v. Super. Ct., 3 Cal. 4th 459, 466, 468-70 (Cal. Ct. App. 1992).

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[2] (Defendant Barnesandnoble.com LLC's Opposition to Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction at 20, 24, 25, hereafter, "Opposition," Docket Item No. 37, filed under seal.)

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1. Scope of the Choice of Law Clause

At issue is whether all of Plaintiff's claims are governed by New York law under the choice of law clause of the NDA. (See Motion at 19; Opposition at 20, 24, 25.)

The party advocating application of a contractual choice of law clause bears the burden of showing that the claim falls within the scope of the choice of law provision. Oestreicher v. Alienware Corp., 502 F. Supp. 2d 1061, 1065 (N.D. Cal. 2007). To determine the scope of a choice of law clause, California courts look to the law of the forum designated by the choice of law clause. Washington Mut. Bank, FA v. Super. Ct., 24 Cal. 4th 906, 916 n.3 (Cal. Ct. App. 2007).

Here, the parties chose New York law in the NDA: "This Agreement shall be governed in all respects by the substantive laws of the state of New York without regard for conflict of law principles."[3] Thus, the Court looks to New York law to determine the scope of the choice of law provision and whether it encompasses Plaintiff's tort claims.[4]

Under New York law, tort claims are outside the scope of contractual choice of law provisions that govern construction of the contract. Fin. One Pub. Co. Ltd. v. Lehman Bros. Special Fin., Inc., 414 F.3d 325, 335 (2d Cir. 2005); Winter-Wolff Int'l, Inc. v. Alcan Packaging Food and Tobacco Inc., 499 F. Supp. 2d 233, 239-40 (E.D.N.Y. 2007). Even a choice of law clause that purports to govern "all questions" arising under the contract does not reach tort claims. See Winter-Wolff Int'l, 499 F. Supp. 2d at 240. On the other hand, a choice of law provision could encompass tort claims if it purports to cover "any and all disputes with respect to the parties' dealings." See id.

Here, the NDA states that "[t]his Agreement shall be governed in all respects" by New York law. This language is similar to cases dealing with choice of law provisions covering "all questions"

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[3] (FAC, Ex. A; Declaration of Albert Teng in Support of Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction ¶ 11, Ex. A, hereafter, "Teng Decl.," Docket Item No. 19, filed under seal.)

[4] Misappropriation of trade secrets is an intentional tort. Cypress Semiconductor Corp. v. Super. Ct., 163 Cal. App. 4th 575, 585 (Cal. Ct. App. 2008). Common law unfair competition is a tort. See Bank of the West v. Super. Ct., 2 Cal. 4th 1254, 1263 (Cal. Ct. App. 1992).

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arising under the contract rather than "any and all disputes" between the parties. Thus, the Court finds that the choice of law provision does not encompass Plaintiff's tort claims for misappropriation of trade secrets and common law unfair competition. However, the Court finds that Plaintiff's claim for breach of contract arises solely from the parties' obligations under the NDA and is therefore, controlled by New York law under the choice of law provision.

Accordingly, the Court finds that the scope of the choice of law clause encompasses only the First Cause of Action for Breach of Written Non-Disclosure Agreement, and that California law governs the Second Cause of Action for Misappropriation of Trade Secrets and the Third Cause of Action for Common Law Unfair Competition.

2. Validity of the Choice of Law Clause

Having determined the scope of the choice of law clause, the Court proceeds to determine the clause's validity under California choice of law analysis.

The California Supreme Court has described the proper analysis of validity of a choice of law provision as follows:

> [T]he court first [determines]: (1) whether the chosen state has a substantial relationship to the parties or their transaction, or (2) whether there is any other reasonable basis for the parties' choice of law. If neither of these tests is met, that is the end of the inquiry, and the court need not enforce the parties' choice of law. If, however, either test is met, the court must next determine whether the chosen state's law is contrary to a fundamental policy of California. If there is no such conflict, the court shall enforce the parties' choice of law. If, however, there is a fundamental conflict with California law, the court must then determine whether California has a materially greater interest than the chosen state in the determination of the particular issue. If California has a materially greater interest than the chosen state, the choice of law shall not be enforced.

Nedlloyd Lines, 3 Cal. 4th at 466.

Here, the parties chose New York law to govern the NDA, Defendant's principal place of business is New York, and at least one of the face to face meetings occurred in New York. (See FAC ¶¶ 2, 9, 13, Ex. A.) Thus, the Court finds that New York has a substantial relationship to the parties or their transaction. The question then becomes whether New York law is contrary to a fundamental policy of California. The Court finds no conflict between New York law for breach of

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contract and a fundamental policy of California, especially in light of California's "strong policy favoring enforcement of [choice of law] provisions." Nedlloyd Lines, 3 Cal. 4th at 464-65.

Accordingly, the Court finds that the choice of law provision of the NDA is valid and encompasses only the First Cause of Action for Breach of Written Non-Disclosure Agreement.

C. Preliminary Injunction

Plaintiff moves, during the pendency of this action, to enjoin Defendant from (1) using or disclosing Plaintiff's confidential information or trade secrets, and selling, offering for sale or distributing the nook™ and any other products designed or developed using Plaintiff's confidential information or trade secrets, and (2) providing any further electronic content for download to any nook™ devices that have already been distributed. (Motion at 1.)

A preliminary injunction is a provisional remedy, the purpose of which is to preserve the status quo and to prevent irreparable loss of rights prior to final disposition of the litigation. Sierra On-Line, Inc. v. Phoenix Software, Inc., 739 F.2d 1415, 1422 (9th Cir. 1984). It is an extraordinary remedy that may only be awarded upon a clear showing that the plaintiff is entitled to such relief. Winter v. Natural Res. Def. Council, 129 S. Ct. 365, 375-76 (2008). To obtain preliminary injunctive relief, a plaintiff must establish (1) a likelihood of success on the merits, (2) a likelihood of irreparable harm absent a preliminary injunction, (3) that the balance of equities tips in favor of issuing an injunction, and (4) that an injunction is in the public interest. Id. at 374. "A movant cannot be granted a preliminary injunction unless it establishes both of the first two factors, *i.e.*, likelihood of success on the merits and irreparable harm." Curtiss-Wright Flow Control Corp. v. Z & J Techs. GmbH, No. CV 06-2402 SJO (JTLx), 2006 WL 5564354, at *4 (C.D. Cal. Sept. 7, 2006).

Upon a showing of likelihood of success on the merits, a preliminary injunction is available to prevent disclosure of confidential information. Viewing all of the evidence submitted by both parties,[5] the Court finds that at this time there is a genuine dispute over whether the nook™ was

[5] (Declaration of Melissa J. Baily in Support of Defendant's Opposition to Plaintiff Spring Design Inc.'s Motion for Preliminary Injunction, Ex. A, Declaration of Dr. Kenneth A. Zeger ¶ 19, Docket Item No. 45; Declaration of David J. Ruderman in Support of Defendant

derived from information disclosed by Plaintiff to Defendant or was the product of earlier independent development by Defendant. Thus, the Court finds that Plaintiff has not presented sufficient evidence to show that Plaintiff is likely to succeed on the merits.[6] Moreover, Plaintiff's motion was heard on the day that Defendant launched its nook™ product, at which time Plaintiff did not have a commercial product available. Thus, the requested preliminary injunction halting the sale of Defendant's product would alter the status quo, not preserve it.

D. Conclusion

Accordingly, the Court DENIES Plaintiff's Motion for a Preliminary Injunction. Nothing in this Order is intended to indicate that injunctive relief is not an appropriate remedy if Plaintiff prevails on the merits. In addition, the Court will expedite the pre-trial process to accommodate Plaintiff's request for an early hearing on their case.

Dated: December 1, 2009

JAMES WARE
United States District Judge

Barnesandnoble.com LLC's Opposition to Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction ¶ 4, Ex. C, Docket Item No. 46; Opposition at 10, 12, 24-25; Declaration of Anthony Astarita in Support of Defendant Barnesandnoble.com LLC's Opposition to Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction, Docket Item No. 38, filed under seal; Declaration of David Mandelbaum in Support of Defendant Barnesandnoble.com LLC's Opposition to Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction, Docket Item No. 43, filed under seal; Declaration of Peter Farago in Support of Defendant Barnesandnoble.com LLC's Opposition to Plaintiff Spring Design Inc.'s Motion for a Preliminary Injunction, Docket Item No. 40, filed under seal; Plaintiff Spring Design, Inc.'s Reply in Support of its Motion for a Preliminary Injunction, Docket Item No. 62, filed under seal; Declaration of Dr. Gary J. Nutt in Support of Plaintiff Spring Design, Inc.'s Reply in Support of its Motion for a Preliminary Injunction, Docket Item No. 66, filed under seal.)

[6] In light of this finding, the Court need not reach the other factors in considering whether a preliminary injunction is appropriate.

THIS IS TO CERTIFY THAT COPIES OF THIS ORDER HAVE BEEN DELIVERED TO:

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Dated: December 1, 2009

Richard W. Wieking, Clerk

By: /s/ JW Chambers
Elizabeth Garcia
Courtroom Deputy

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