

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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WHITE HOUSE BLACK MARKET, INC. and	:	
CHICO'S FAS, INC.,	:	
Plaintiffs,	:	<u>Oral Argument Requested</u>
- vs. -	:	
CACHE, INC., RABIA FARHANG and	:	10-CV-5266 (PGG)
CHRISTINE BOARD,	:	
Defendants.	:	

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**MEMORANDUM OF LAW IN SUPPORT OF PLAINTIFFS' APPLICATION
FOR AN ORDER TO SHOW CAUSE AS TO WHY THE COURT SHOULD NOT
REMAND THIS MATTER FOR LACK OF SUBJECT MATTER JURISDICTION**

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I. PRELIMINARY STATEMENT

The Court should remand this matter to the state court forthwith for lack of subject matter jurisdiction. 28 U.S.C. § 1447(c).

It is well-settled that, “where any doubt exists as to whether removal is appropriate, the case should be remanded.” *Phoenix Global Ventures, LLC v. Phoenix Hotel Assocs., Ltd.*, 2004 WL 2360033, at *2 (S.D.N.Y. Oct. 19, 2004); *see Stan Winston Creatures, Inc. v. Toys “R” Us, Inc.*, 314 F. Supp.2d 177, 179 (S.D.N.Y. 2003) (“Out of respect for the independence of state courts, and in order to control the federal docket, federal courts construe the removal statute narrowly, resolving any doubts against removability.”). Defendants premise subject matter jurisdiction here on a federal question, claiming that the allegations of the Amended Complaint pertaining to the misappropriation of Plaintiffs’ trade secrets show that the Copyright Act preempts all of Plaintiffs’ state law claims.

There are two equally-compelling reasons for the Court to have grave doubts about whether it possesses subject matter jurisdiction based on preemption by the Copyright Act. Both relate to the conditions Defendants must establish to show complete preemption by federal copyright law. *Briarpatch Ltd. v. Phoenix Pictures*, 373 F.3d 296, 305 (2d Cir. 2004).

First, there is very serious doubt about whether the Copyright Act preempts Plaintiffs’ state law claims, because Defendants cannot establish – as they must – that the subject matter of Plaintiffs’ state law claims falls within the subject matter of the Copyright Act. That is because the subject matter of Plaintiffs’ state law claims include both apparel -- which are excluded from copyright protection, *e.g. Chosun Int’l, Inc. v. Chrisha Creations, Ltd.*, 413 F.3d 324, 328-29 (2d Cir. 2005) – as well confidential financial and operation information about Plaintiffs’ business, which is indisputably beyond the reach of copyright protection.

Second, grave doubt exists as to whether the Copyright Act preempts Plaintiffs' state law claims, because Defendants cannot establish – as they must – that complete equivalency exists between the rights asserted under Plaintiffs' state law claims, and the rights protected by the Copyright Act. That is because all of Plaintiffs' state law claims contain one or more “extra elements” not found in a copyright claim, and/or because Plaintiffs' state law claims are “qualitatively different” in nature from an ordinary copyright claim. *Computer Associates Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716-17 (2d Cir. 1992).

In short, none of Plaintiffs' state law claims are preempted, the Court lacks subject matter jurisdiction, and this action should be remanded forthwith.

II. STATEMENT OF FACTS

A. Background on WH|BM and Cache, Direct Competitors

WH|BM and Cache are direct competitors in the business of women's apparel and accessories. (FAC ¶ 1.)¹ There are 140 retail centers across the United States in which the two chains compete head-to-head daily for the business of fashion-conscious women. (*Id.*) Wall Street analysts and investors also view Cache and WH|BM as direct competitors. (*Id.* ¶ 66.)

WH|BM has fared substantially better than Cache in this competition over the last several years. (*Id.* ¶2.) WH|BM's revenues have grown significantly and it has tripled the number of its front-line stores since 2003. (*Id.* ¶¶2, 32.) Cache, on the other hand, has posted a loss in seven of the last nine quarters, and its store count has fallen from 306 in 2005 to 286 as of today. (*Id.* ¶3.) Consequently, Cache has been under enormous pressure from Wall Street investors and analysts to turn the company around. (*Id.*)

As detailed below, Cache tried to turn itself around improperly by engaging in a conspiracy and scheme with two former WH|BM employees — defendants Farhang and Board — who improperly disclosed, acquired and used Plaintiffs' confidential, proprietary, and trade secret information, in violation of contractual, confidential, and other legal duties.

B. WH|BM's Confidential and Trade Secret Information

WH|BM considers it a core business strategy to design merchandise with an overall seasonal fashion "look" that appeals to target customers based upon perceived current and future fashion trends. (*Id.* ¶ 33.) WH|BM employs an experienced in-house design staff that researches trends, selects and constructs patterns, prints, design specifications, fabric, finishes and colors. (*Id.* ¶ 38.) The staff unifies these parts through the conception and development of an entire

¹ Plaintiffs' First Amended Complaint.

seasonal “look” that will be sold in WH|BM stores during a particular season. (*Id.*) It typically takes at least nine to twelve months for WH|BM’s design and merchandising staff to conceive, design and finalize products that will be manufactured for a seasonal line of clothing and accessories. (*Id.* ¶37.)

In addition to travel to the world’s fashion centers, the design and merchandising process of WH|BM consists of a series of meetings, known as “executive trend strategy,” “pre-concept,” “future concept,” “sketch review,” “line adopt” and “final strategic” meetings (the “Concept Strategy Meetings”). (*Id.* ¶ 40.) At these meetings and at various other times throughout WH|BM’s design and merchandising process, merchants review documents and images including “mood boards,” “line sheets” and “concept boards” created by the design team. (*Id.*) These documents display concept images, photographs, sketches, color palettes, fabrics, and prints that begin to express and describe the overall theme and look for an upcoming season. (*Id.*) After design concepts have been analyzed and developed over many months, they are embodied in sample garments displayed to senior staff in a “mockup” of a WH|BM retail store, a process known as “Build Looks.” (*Id.* ¶ 41.)

The work product resulting from the WH|BM design and merchandising process described above is some of the most strategic, confidential, proprietary and valuable competitive information created by WH|BM. (*Id.* ¶ 42.) These concepts, and their implementation through specifically designed garments and a comprehensive seasonal line, constitute core trade secrets for a private label fashion retailer like WH|BM. (*Id.* ¶ 43.) WH|BM devotes thousands of hours to creating, designing and developing its concepts, strategy and products, and expends hundreds of thousands of dollars in supporting these efforts. (*Id.* ¶ 37.) The culmination is an entire

seasonal line of clothing designed specifically for the customers that WH|BM targets, and for whom WH|BM competes heavily against other retailers -- such as Cache. (*Id.* ¶ 42.)

Notably, “the most important consideration [in assessing whether information qualifies as a trade secret] is whether the information was secret.” *Estee Lauder Cos., Inc. v. Batra*, 430 F. Supp.2d 158, 175 (S.D.N.Y. 2006) (quotation/citation omitted).² Here, Defendants have misappropriated three very important and highly confidential categories of information belonging to Plaintiffs — all of which constitute trade secrets:

(i) Conceptual Product Design and Development Plans. These Plans facilitate the creation and development of the overall look and feel of Plaintiffs’ seasonal line of clothing. (*Id.* ¶ 8.) They contain highly sensitive and confidential information concerning prospective brand strategy; looks, styles, colors, palettes and patterns; marketing plans; ship and release dates; manufacturing and delivery costs; prices; suppliers; and sales forecasts. (*Id.*) These Plans result from a continuous, labor-intensive creative process occurring over the course of nine months to a year, or even longer, involving thousands of hours of staff time and hundreds of thousands of dollars in outlays. (*Id.* ¶¶ 37-42.) Because the overall fashion “look” and associated garment designs result from a long-term process infused with creative effort and inspiration, it is extremely difficult, if not impossible, for a competitor to duplicate this effort. The value of this

² New York courts follow the broad definition of a trade secret set forth in the Restatement of Torts, *i.e.*, “any formula, pattern, device or compilation of information which is used in one’s business, and which gives [the owner] an opportunity to obtain an advantage over competitors who do not know or use it.” *Sylmark Holdings Ltd. v. Silicone Zone Int’l Ltd.*, 783 N.Y.S.2d 758, 771 (N.Y. Sup. 2004); *B.U.S.A. Corp. v. Ecogloves, Inc.*, 2006 WL 3302841, at * 2 (S.D.N.Y., Jan. 31, 2006). To determine whether information constitutes a trade secret, courts assess the following six factors: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the business to guard the secrecy of the information; (4) the value of the information to the business and its competitors; (5) the amount of effort or money expended by the business in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *Id.*

accumulated information and of these documents to Plaintiffs is immeasurable, constituting their core trade secrets.

Hence, the value of this information to a competitor is enormous. As noted above, WH|BM's revenues have grown significantly in recent years because of its repeated success in offering products that reflect a combination of looks, styles, themes and designs that its target customers seek. *See, e.g., Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) (company's "winning combination" of publicly available computer programs constitutes a trade secret). Thus, gaining knowledge of these looks, styles, themes and designs **before** they are offered to the public would be immensely valuable to a competitor like Cache – and immensely damaging to Plaintiffs. The competitor (Cache) would need not create its own designs, but rather quickly emulate WH|BM's designs and ship them to its stores for delivery at or ahead of the time WH|BM's products are scheduled to arrive in its own stores. Indeed, this is precisely what Cache has done, in violation of settled New York law. *See Cole v. Manhattan Modes Co.*, 159 N.Y.S.2d 709, 713 (N.Y. Sup.), *aff'd*, 2 A.D.2d 593 (1st Dep't 1956) ("But while the imitator may copy with impunity an original [dress] design that has become public property, the principle is well established that he may not copy or simulate [dress designs] upon the basis of knowledge that has come to him through a breach of trust or confidence.") That is why, prior to the release of a seasonal line to the public, WH|BM tightly controls the disclosure of the looks, styles, themes and designs that constitute its trade secrets.

(ii) Strategic Marketing and Merchandising Schedules. These highly confidential and proprietary documents provide a detailed timeline of WH|BM's operations over the course of a year a longer. (*Id.* ¶ 10.) They disclose deadlines the company must meet to successfully market, manufacture and deliver product to its stores, including store set dates, photo shoots,

catalog delivery and product shipments. (*Id.*) These Schedules have been developed continuously over at least the last six years and are a roadmap to how WH|BM runs its business. (*Id.*) They constitute highly valuable and confidential competitive information, as they reveal both historic and future scheduled dates for delivery of marketing materials to customers and product to stores -- information highly prized by a competitor like Cache. Accordingly, this vital information is also closely held within WH|BM's business.

(iii) Financial, Sales & Cost Structure Documents. These materials contain highly confidential sales, operational and financial data concerning manufacturing costs, retail prices, unit sales per garment, profits margins and inventory flow. (*Id.* ¶ 12.) This category of documents also includes WH|BM's "style counts" -- information that permits WH|BM to evaluate historical sales figures of particular garment styles in each WH|BM store and effectively manage inventory. (*Id.*) The information contained in these documents also has been developed and adjusted continuously over at least the last six years. (*Id.*) This information also would be immensely valuable to a direct competitor like Cache, providing it insight into the production, cost, distribution and retail structure of WH|BM. (*Id.* ¶ 81.) *See, e.g., Medtech Prods. Inc. v. Ranir, LLC*, 596 F. Supp.2d 778, 805 (S.D.N.Y. 2008) (manufacturing cost details, drawings, test data, and other information concerning design and manufacturing processes may constitute trade secrets); *B.U.S.A. Corp. v. Ecogloves, Inc.*, 2006 WL 3302841, at * 2 (S.D.N.Y. Jan 31, 2006) (same regarding plaintiff's cost structures).³

³ The issue of whether information constitutes a trade secret is a question of fact not suitable for determination on this motion. *See, e.g., Lehman v. Dow Jones, Inc.*, 783 F.2d 295, 298 (2d Cir. 1986). In any event, Defendants' attempt to argue that Plaintiffs' ideas, concepts, themes, and designs are not trade secrets based on *Detsis v. Victoria's Secret Stores, Inc.*, 2006 WL 2819586 (S.D.N.Y. Sept. 29, 2006) is likewise misplaced. A careful reading of *Detsis* stands for the unremarkable proposition, stated long ago in *Manhattan Modes*, that once a product is placed into the public realm, it generally loses trade secret protection for visible features.

C. Defendants Farhang's and Board's Extensive Access to WH|BM's Trade Secrets

Defendants Farhang and Board were employed as merchants at WH|BM for many years. (*Id.* ¶¶ 34-35.) Farhang was a Divisional Merchandise Manager for WH|BM and a corporate officer. (*Id.* ¶ 34.) Board was a Merchandise Manager of Sweaters and Knits, though later demoted to Merchant. (*Id.* ¶ 35.)

During their employment at WH|BM, Farhang and Board were intimately involved in the conceptualization and development of WH|BM's 2010 Spring, Summer and Fall lines. (*Id.* ¶ 44.) They participated in many dozens of strategic meetings where WH|BM's 2010 lines were conceived, developed and executed. During this process Farhang and Board participated in developing and implementing WH|BM's design, marketing and merchandising strategies. (*Id.* ¶¶ 40-42.) Moreover, Farhang and Board had extensive access to WH|BM's highly sensitive and confidential information, including but not limited to the trade secret information at issue herein -- WH|BM's Conceptual Product Design and Development Plans, Strategic Marketing and Merchandising Schedules, and Financial, Sales & Cost Structure Documents. (*Id.* ¶¶ 8-14; 79-81.) Farhang and Board were obligated, and indeed repeatedly acknowledged their responsibility and commitment, to safeguarding the secrecy of Plaintiffs' confidential information and trade secrets.

D. Plaintiffs Take Significant Steps to Guard Trade Secret Information

As noted, Plaintiffs take significant measures to guard the secrecy of WH|BM's confidential information, including Non-Disclosure Agreements, compliance training, and computer and physical security measures. (*Id.* ¶¶ 49-62.)

First, Plaintiffs require headquarters employees to sign a Non-Disclosure Agreement ("NDA") in consideration for their employment. (*Id.* ¶ 11.) Defendants Farhang and Board each

executed an NDA with Plaintiff Chico's (*Id.* ¶ 58.). This NDA explicitly defines Plaintiffs' confidential information and trade secrets; it requires employees to agree not to divulge, reveal or communicate Plaintiff's confidential information to anyone; and it provides that, in the event of a breach of the NDA by the employee, Plaintiff Chico's would suffer irreparable harm and damage. (*Id.* ¶¶ 51-53.) Accordingly, both Farhang and Board consented to the issuance of temporary and permanent injunctions enjoining them from any violation of the covenants of the NDA. (*Id.*)

Second, Plaintiffs employ policies and procedures to protect and avoid the disclosure of its sensitive, highly confidential and trade secret information including, but not limited to, requiring employees — including Farhang and Board — to be trained regularly concerning the importance of guarding the secrecy of confidential information. (*Id.* ¶¶ 54, 59-62.) Further, Farhang and Board acknowledged repeatedly in writing their obligations to maintain the confidentiality of Plaintiffs' trade secrets and confidential information. (*Id.* ¶¶ 59-61.) Although not required to, Chico's nonetheless reminded Farhang of her continuing confidentiality obligations after her resignation. (*Id.* ¶ 62.)

Third, Plaintiffs also employ measures to guard the security of their computer systems, and to provide physical security to protect their confidential information. (*Id.* ¶ 54.)

E. The Motive For Trade Secret Misappropriation: Cache Seeks to Reform Its Poor Financial and Operational Performance

Unlike WH|BM, Cache historically produced apparel on a very short timeline of about three months, which it characterized as a "fast-track" design and production calendar. (*Id.* ¶ 67.) Cache's CEO commented on the lack of collaboration at the company that resulted in disorganized and haphazard merchandise. (*Id.* ¶ 68.) Analysts who follow the company have likewise commented on the "lack of cohesiveness" of Cache's product lines. (*Id.* ¶ 70.) Cache's

inferior business model has caused it to struggle financially for several years, as it has posted a loss for seven out of the last nine fiscal quarters. (*Id.* ¶ 69.)

Consequently, in 2009, Cache decided to review its business model and honed in specifically on ways to emulate its successful competitor WH|BM — a company that, “in many respects [is] what Cache aspires to be.” (*Id.* ¶ 73.)

Cache’s first step was to hire, as a consultant, the former President of WH|BM, Patricia Darrow Smith. (*Id.* ¶ 74.) Cache then hired Farhang, who was publicized as a “key addition” to the company, as an Executive Vice President and Chief Merchandising Officer, giving her a significant promotion in title and compensation. (*Id.* ¶¶ 74-75.) Board then followed close on Farhang’s heels, after being recruited away by Farhang. (*Id.* ¶ 83.)

Farhang’s role purportedly included the objective of improving Cache’s performance by moving its product design and development timeline away from the “fast track” model, and towards a traditional nine-month design and production calendar, like that of WH|BM. (*Id.* ¶ 76.) Apparently, to aid Cache’s sagging fortunes and accomplish this reform more quickly than the expected nine-months, Defendants engaged in a scheme and conspiracy to misappropriate Plaintiffs’ trade secrets. The objective of this scheme and conspiracy was to permit Cache to “fast track” its way to marketing apparel expressing a unified style, look and theme, and thereby make its products more appealing to target customers – those it shares with WH|BM.

F. Farhang and Board Misappropriate Chico’s Trade Secrets

Farhang and Board resigned from WH|BM in succession on October 22 and November 18, 2009, respectively, to begin employment with Cache. (*Id.* ¶ 83.)

Notably, in the days leading up to her departure, Board engaged in a suspicious pattern of printing numerous of Plaintiffs’ highly proprietary and confidential documents — all of which comprise the trade secret information at issue herein. These included WH|BM’s Conceptual

Product Design and Development Plans, Strategic Marketing and Merchandising Schedules, and its Financial, Sales & Cost Structure Documents. (*Id.* ¶¶ 8-14, 84.) There appears to be no legitimate business reason for Board to have printed these documents at that time – except as a part of a scheme to misappropriate Plaintiffs’ confidential information and trade secrets. (*Id.* ¶ 85.)

Indeed, Board’s conduct appears to have been well-planned. Upon being told after her resignation that she would need to leave Plaintiffs’ premises immediately, Board was fully prepared for this eventuality (despite not being forewarned of it), advising a human resources employee that she had already packed her car -- leading to the strong inference she had spirited away Plaintiffs’ trade secret information. (*Id.* ¶ 86.)

G. Cache Misappropriates WH|BM’s Trade Secrets

Beginning approximately five months after Farhang and Board joined Cache in November 2009, Cache released 2010 Spring and then Summer seasonal lines, at the precise time WH|BM released its corresponding lines, that closely emulate those of WH|BM. (*Id.* ¶¶ 93-98, 102-106, 108-109.) Some of Cache’s individual garments were identical or virtually identical to garments designed by WH|BM while Farhang and Board were employed by WH|BM. In some instances, the entire product lines appear very similar. (*Id.*) Further implicating Cache in misappropriation is its release of replica garments prior to the release of the WH|BM garment which it seeks to emulate.

Perhaps even more telling is Cache’s release of garments based on nascent design ideas that WH|BM considered producing while Farhang and Board were employed by WH|BM, but that, for one reason or another, never were developed by WH|BM. (*Id.* ¶¶ 99.) This provides an evidentiary link between Farhang and Board’s possession of WH|BM trade secret materials that included, among many other items, those early design concepts and ideas, and the disclosure of

Plaintiffs' confidential trade secrets to Cache. The fact that Cache went ahead and produced actual garments that reflected knowledge of those trade secret materials is further evidence that Defendants' wrongfully disclosed, acquired and used Plaintiffs' trade secrets.

It is only possible for Cache to have created product lines so similar to WH|BM's, and to have delivered them to its stores at or before the time WH|BM delivered its own product, by having acquired and used WH|BM's confidential, proprietary and trade secret information improperly. The disclosure by Farhang and Board of WH|BM's confidential and trade secret information violated their respective Non-Disclosure Agreements, as well as their confidential and fiduciary duties to Plaintiffs. The results have been noticeable for Cache, which recently reported "some of the highest average dollar per transaction [it] has seen in a long time." (*Id.* ¶ 111.)

WH|BM's Fall 2010 Design Materials: Notably, Farhang and Board had broad access to WH|BM's confidential designs for the upcoming Fall 2010 seasonal line. Both defendants were involved in the conceptualization and development of WH|BM's 2010 Fall lines. (*Id.* ¶¶ 116-119.) Indeed, Board attended two Concept Strategy Meetings the week before she departed for Cache, where WH|BM staff reviewed final product sketches for WH|BM's Transitional Fall and Fall I lines. Accordingly, based on its improper conduct for the Spring and Summer 2010 seasonal lines, it is highly likely that Cache also has wrongfully acquired and misused WH|BM's confidential and trade secret information in Cache's soon-to-be released Fall 2010 seasonal line as well. (*Id.* ¶¶ 116-117.)

H. Procedural History

Because it is expected that its Fall 2010 seasonal products will begin arriving in Cache's stores between approximately July 19 and July 26, 2010, Plaintiffs have sought immediate relief to prevent any further irreparable harm resulting from misappropriation of their trade secrets. On

June 30, 2010, Plaintiffs commenced an action by Summons, Complaint and Order to Show Cause in the Supreme Court of the State of New York, New York County, seeking immediate and expedited relief (the “State Action”). On July 1, 2010, Justice Kapnick, sitting in that court’s Commercial Division, granted Plaintiffs’ application for a preliminary injunction hearing, setting it for July 30, 2010, after reviewing Plaintiffs’ detailed pleadings and evidence, and after conducting a two-hour hearing at which both sides presented argument. Justice Kapnick further granted Plaintiffs’ application for expedited discovery in aid of the preliminary injunction hearing, and also issued a preservation order concerning relevant evidence. (Ntc. Exs. A-C.)

III. STANDARD ON A MOTION TO REMAND

A party asserting federal jurisdiction bears the burden of proving that the case is properly in federal court. *See McNutt v. Gen. Motors Acceptance Corp.*, 298 U.S. 178, 189 (1936).

“Where, as here, jurisdiction is asserted by a defendant in a removal petition, it follows that the defendant has the burden of establishing that removal is proper.” *United Food & Commercial Workers Union v. CenterMark Props. Meriden Square, Inc.*, 30 F.3d 298, 301 (2d Cir. 1994).

Accordingly, in evaluating a motion to remand, a court should construe the complaint’s allegations in a light most favorable to plaintiff. *See Phoenix Global Ventures, LLC v. Phoenix Hotel Assocs., Ltd.*, 2004 WL 2360033, at *2 (S.D.N.Y. Oct. 19, 2004) (citing *Truglia v. KFC Corp.*, 692 F. Supp. 271, 275 (S.D.N.Y. 1988)).

Where any doubt exists as to whether removal is appropriate, the case should be remanded. *Id.* at *2; *Stan Winston Creatures, Inc. v. Toys “R” Us, Inc.*, 314 F. Supp.2d 177, 179 (S.D.N.Y. 2003) (“Out of respect for the independence of state courts, and in order to control the federal docket, federal courts construe the removal statute narrowly, resolving any doubts against

removability.”) But under any view of the Amended Complaint, it is clear that the Court lacks subject matter jurisdiction, and therefore that the Court should remand this matter forthwith.

IV. THE COURT SHOULD REMAND THIS ACTION BECAUSE THE COURT LACKS SUBJECT MATTER JURISDICTION

A. The Copyright Act Does Not Preempt Plaintiffs’ Claims

1. Applicable Legal Standard

Cache’s Notice of Removal (Ntc. ¶ 6) alleges that the Court possesses subject matter jurisdiction “because [the State Action] is a civil action containing purported state law claims which are preempted by the Copyright Act, 17 U.S. § 301(a), and within the exclusive jurisdiction of this Court.”

The Copyright Act preempts a state law claim only where two conditions are met. First, the subject matter of the state law claim must fall within the subject matter of federal copyright law, as defined in 17 U.S.C. §§ 102 and 103. Second, the rights asserted under state law must be equivalent to the rights protected by the Copyright Act. *See Briarpatch Ltd. v. Phoenix Pictures*, 373 F.3d 296, 305 (2d Cir. 2004). Neither condition is met here.

2. The Subject Matter of The State Claims Does Not Fall Within the Subject Matter of the Copyright Act

Defendants cannot satisfy the first condition of preemption, *i.e.*, they cannot demonstrate that the subject matter of Plaintiffs’ state law claims falls within the subject matter of copyright law. *Briarpatch*, 373 F.3d at 305.

It has been long settled in this Circuit that apparel, including dress designs, is excluded from the subject matter of copyright protection. *E.g.*, *Langman Fabrics v. Graff Californiawear, Inc.*, 160 F.3d 106, 115 (2d Cir. 1998) (“fabric manufactured for the purpose of being made into clothing is a “useful article” and therefore excluded from copyright protection); *Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996, 1002 (2d Cir. 1995); *Chosun Int’l, Inc. v. Chrisha Creations, Ltd.*,

413 F.3d 324, 328 (2d Cir. 2005) (“For many years, articles of clothing have been identified as “useful” items and, hence, excluded from copyright eligibility.”) (citing *Fashion Originators Guild v. FTC*, 114 F.2d 80, 84 (2d Cir. 1940) (L. Hand, J.) (“ladies’ dresses” are useful articles not covered by the Copyright Act), *aff’d*, 312 U.S. 457 (1941); *Folio Impressions, Inc. v. Byer California*, 937 F.2d 759, 763 (2d Cir. 1991) (“dress designs” are useful articles under 17 U.S.C. § 101, and are not typically copyrightable); *Whimsicality, Inc. v. Rubie’s Costume Co.*, 891 F.2d 452, 455 (2d Cir. 1989) (“[The Second Circuit] has long held that clothes, as useful articles, are not copyrightable.”); *see also Galiano v. Harrah’s Operating Co.*, 416 F.3d 411, 419 (5th Cir. 2005) (“dress designs, which graphically set forth the shape, style, cut, and dimensions for converting fabric into a finished dress or other clothing garment, generally do not have artistic elements that can be separated from the utilitarian use of the garment, and therefore typically do not qualify for copyright protection.”). Thus, Plaintiffs’ apparel — and the inspirations, concepts, looks, styles and themes upon which they are based — are excluded from copyright protection.⁴

Defendants’ Removal Notice misapprehends the purpose of the allegations in the Amended Complaint describing similarities between WH|BM’s 2010 Spring and Summer product lines. (*See Ntc.* ¶¶ 8-9.) Plaintiff’s purpose is not to allege mere copying, as in a copyright claim. Rather, it is to allege facts demonstrating that Defendants Farhang and Board possessed and disclosed Plaintiffs’ trade secrets, and the Defendant Cache acquired and then used those trade secrets.

⁴ Defendants’ reliance on the undisputed proposition, that a particular fabric pattern may be copyrightable, is irrelevant to this trade secret case. *E.g., Knitwaves, Inc. v. Lollytogs Ltd.*, 71 F.3d 996, 1002 (2d Cir. 1995). As described above, Plaintiffs’ trade secrets include (but are not limited to) entire season lines of clothing based on high-level inspirations, themes, and looks – not highly particularized pieces of fabric with designs – as well as other financial and operational information having nothing to do with seasonal designs.

Specifically, to make out a trade secret claim, a plaintiff must establish two elements: (1) it possessed a trade secret; and that (2) [a] the defendant used that trade secret [b] in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means.

Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd., 783 N.Y.S.2d 758, 770-71 (N.Y. Sup. 2004);

DoubleClick, Inc. v. Henderson, 1997 WL 731413, *3 (N.Y. Sup. 1997).

Thus, to properly allege this claim, Plaintiffs must include some facts in their pleading showing that Defendants, including Cache, acquired and actually “used” Plaintiffs’ trade secrets. Properly understood, the Amended Complaint cites to similarities between Plaintiffs’ and Cache’s garments to demonstrate that Cache indeed “used” Plaintiffs’ trade secrets -- the designs, styles, themes and looks for Spring and Summer 2010 seasons and the Schedules pertaining thereto. The proof of similarities provides some of the evidence that Defendants Farhang and Board actually disclosed Plaintiffs’ design, style, themes and looks (and other) trade secrets to Cache, and that Cache then employed them. Mere copying is not the gravamen of the allegations.

For the same reason, the Amended Complaint describes, on the one hand, ideas for clothing designs that WH|BM considered for its 2010 Summer lines but never developed, and, on the other hand, garments Cache actually produced for its Summer 2010 lines that have striking similarities to WH|BM’s nascent concepts and ideas. Obviously, this proof is not offered to show copying of Plaintiffs’ garments -- because Plaintiffs never proceeded with these nascent design ideas, there were never garments of Plaintiffs’ to copy. Plaintiffs allege these facts to establish that Defendants Farhang and Board possessed the part of WH|BM’s materials that reflected those early design concepts and ideas -- and that these defendants actually disclosed these and other of Plaintiffs’ designs, styles, themes and looks (among other things) to Cache. In

short, these allegations provide an evidentiary link: the fact that Cache went ahead and produced actual garments that reflected knowledge of those “undeveloped” ideas, is further evidence Defendants’ wrongfully acquired, disclosed and used Plaintiffs’ trade secrets. (FAC ¶¶ 88-106.)

Moreover, as noted above, the Amended Complaint alleges other categories of confidential and trade secret information misappropriated by Defendants including: brand strategy; marketing plans; ship and release dates; manufacturing and delivery costs; identification of suppliers; sales forecasts; operational calendars; financial information such as manufacturing costs, retail prices, unit sales, profits margins and inventory flow and management. (*E.g., Id.* ¶¶ 82-87.) It is clear, too, that none of these materials fall within the subject matter of copyright law. Instead, they constitute important and highly confidential competitive information developed and refined year over year by Plaintiffs, and which facilitate Plaintiffs’ competitive advantage – one that surely will be lost if Defendants are permitted to continue in this conduct without consequence.

Cache’s reliance in its Notice (¶ 9) on *Stewart v. World Wrestling Federation Enter.*, 2005 WL 66890 (S.D.N.Y., Jan. 11, 2005), is misplaced. On the facts of that case, the *Stewart* plaintiff could not establish that the ideas and designs in issue could be meaningfully separated from their expression in the form of a video and the actual garments. *Id.* at *3. Here, Plaintiffs have alleged high-level concepts and themes, such as the juxtaposition of certain colors against certain prints, or certain combinations of color, that were discussed among our designers and considered part of our trade secrets. Such concepts and themes are too abstract to be preempted by the subject matter of copyright. In any event, Judge Carter found that the *Stewart* plaintiff’s state law misappropriation of idea claim was not preempted. *Stewart*, 2005 WL 66890, at *5.

Nor is *Morris v. Buffalo Chips Bootery, Inc.*, 160 F. Supp.2d 718 (S.D.N.Y. 2001), also relied upon by Defendants (Ntc. ¶ 9), on point. In *Buffalo Chips* – and unlike here – the plaintiff actually filed a federal copyright infringement claim in federal court based on a valid copyright registration, thereby conceding that the court had subject matter jurisdiction based on the Copyright Act. Judge Rakoff held that, as a matter of law, the plaintiff failed to state a claim because the garments at issue merely were useful articles and undeserving of copyright protection. *Id.* at 721. This unremarkable holding is in line with Plaintiffs’ argument above that (in Judge Rakoff’s words) “items of clothing are, as a general rule, uncopyrightable ‘useful articles’[.]” *Id.* at 720. Judge Rakoff’s additional finding that the Copyright Act preempted the *Morris* plaintiff’s state law claims for unjust enrichment, misappropriation, and unfair competition was based on the implicit finding that plaintiff failed to allege any “extra elements” that would take those state law claims outside the scope of copyright subject matter. *See id.* at 721.

In stark contrast to *Buffalo Chips*, and as shown below, the allegations of Plaintiffs’ Amended Complaint clearly set forth facts establishing that each one of their state law claims possesses an extra element and/or is “qualitatively different,” thereby negating any equivalency between the rights asserted in those state law claims and the rights protected by the Copyright Act.

3. **There is No Equivalency Between The Rights Asserted Under Plaintiffs State Law Claims and Rights Protected by the Copyright Act**

Even if Defendants could show Plaintiffs’ state law claims come within the scope of the Copyright Act, Defendants cannot satisfy the requisite second condition. Defendants bear the burden of establishing that complete equivalency exists between the rights asserted under

Plaintiffs' state law claims, and the rights protected by the Copyright Act. *Briarpatch*, 373 F.3d at 305. The Second Circuit has elucidated the test for equivalency as follows:

[I]f an "extra element" is "required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption." . . . A state law claim is not preempted if [an] "extra element" [of the state law claim] changes the "nature of the action so that it is qualitatively different from a copyright infringement claim."

Computer Associates Int'l, Inc. v. Altai, Inc., 982 F.2d 693, 716 (2d Cir. 1992)

(citations/quotations omitted). As relevant here, the Second Circuit instructed that:

[M]any state law rights that can arise in connection with instances of copyright infringement satisfy the extra element test, and thus are not preempted by section 301. . . . Trade secret protection, the branch of unfair competition law at issue in this case, remains a "uniquely valuable" weapon in the defensive arsenal of computer programmers. See 1 Milgrim § 2.06A[5][c], at 2-172.4. ***Precisely because trade secret doctrine protects the discovery of ideas, processes, and systems which are explicitly precluded from coverage under copyright law, courts and commentators alike consider it a necessary and integral part of the intellectual property protection extended to computer programs. . . .*** The defendant's breach of duty is the gravamen of such trade secret claims, and supplies the "extra element" that qualitatively distinguishes such trade secret causes of action from claims for copyright infringement that are based solely upon copying. (*Id.* at 717.) (emphasis supplied.)

Here, all of Plaintiffs' state law claims contain one or more requisite "extra elements" and/or are "qualitatively different" than a copyright claim "based solely on copying."

Trade Secret Misappropriation (Fifth Cause of Action): Plaintiffs' claim for trade secret misappropriation contains the requisite additional element. Unlike a copyright claim, Plaintiff must show each defendant misappropriated the trade secret [a] in breach of an agreement, a confidential relationship or a duty, or [b] as a result of discovery by improper means. *E.g., Sylmark*, 783 N.Y.S.2d at 770.

The Amended Complaint alleges an additional element with respect to its trade secret claim against each Defendant. With respect to Defendants Farhang and Board, the Amended

Complaint specifically alleges each disclosed Plaintiffs' confidential information in breach of written Non-Disclosure Agreements, and in breach of confidential and fiduciary duties owed to Plaintiffs as former employees. (FAC ¶¶ 49-62, 119-32); *see Ashland Mgmt. Inc. v. Altair Investments NA, LLC*, 59 A.D.3d 97, 102 (1st Dep't 2008) (“[R]estrictive covenants [such as confidentiality agreements] will be enforceable to the extent necessary to prevent the disclosure or use of trade secrets or confidential customer information.”); *ABKCO Music Inc. v. Harrisongs Music, Ltd.*, 722 F.2d 988, 994 (2d Cir.1983) (New York law imposes duty on former employees “not to use confidential knowledge acquired in [their] employment in competition with [their] principal”).

Likewise, the Amended Complaint alleges Cache improperly conspired with and/or knowingly took advantage of Farhang and Board's breaches to acquire Plaintiffs' trade secrets. (*Id.* ¶¶ 144-147.) The Second Circuit has made clear this type of claim is not preempted by the Copyright Act. *E.g., Altai*, 982 F.2d at 718 (“One who discloses or uses another's trade secret, without a privilege to do so, is liable to another if . . . (c) he learned the secret from a third person with notice of the fact that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other”) (quoting *Restatement (First) of Torts* § 757 (1939)); *see also SimplexGrinnel LP v. Integrated Sys. & Power, Inc.*, 642 F. Supp.2d 167, 199-200 (S.D.N.Y. 2009).

Breach of Contract Claims Against Farhang and Board (First and Second Causes of Action): The claims for breach of contract against Farhang and Board are complete upon the disclosure by each to a third party of Plaintiffs' confidential information, because it is that disclosure that constitutes the breach. *See Sylmark*, 783 N.Y.S.2d at 769; *Ashland Mgmt.*, 59 A.D.3d at 102. The Amended Complaint properly alleges each breached the Non-Disclosure

Agreement by disclosing trade secret and confidential information to Cache. (*e.g.*, FAC ¶¶ 120-133.) No copying is required to make out these claims, and they, too, are not preempted by the Copyright Act.

Inducing Breach of Contract and Tortious Interference With Contract Against Cache (Third and Fourth Causes of Action): Plaintiffs' allegations against Cache for inducing breach of contract and for tortious interference with contract, demonstrate that these claims likewise are established upon the disclosure of confidential information by Defendants Farhang and/or Board, as induced by Cache. (*Id.* ¶¶ 120-157.) Each of these claims is "qualitatively" distinct from a copyright claim, as no copying is required to make out the claim, and each contains extra elements that cause them to be wholly distinct from a copyright claim. *See, e.g., Kronos, Inc. v. AVX Corp.*, 81 N.Y.2d 90, 94 (1993) ("The tort of inducement of breach of contract, now more broadly known as interference with contractual relations, consists of four elements: (1) the existence of a contract between plaintiff and a third party; (2) defendant's knowledge of the contract; (3) defendant's intentional inducement of the third party to breach or otherwise render performance impossible; and (4) damages to plaintiff."); *Goldhirsh Group, Inc. v. Alpert*, 107 F.3d 105, 108-09 (2d Cir. 1997) (elements of tortious interference with a plaintiff's business relations are: (1) a business relationship between the plaintiff and a third party; (2) the defendant, knowing of that relationship, intentionally interferes with it; (3) the defendant acts with the sole purpose of harming the plaintiff, or, failing that level of malice, uses dishonest, unfair, or improper means; and (4) the relationship is injured). There is no preemption of these claims, either.

Breach of Fiduciary and Confidential Duties Against Farhang and Board, and Aiding and Abetting Such Breaches Against Cache (Sixth and Seventh Causes of Action):

Finally, like Plaintiffs' breach of contract claims, Plaintiffs' claims for breach of fiduciary and confidential duties against Farhang and Board (FAC ¶¶ 148-152) also are complete where the defendant breaches a duty to plaintiff by disclosing confidential information. It is undisputed that both Farhang and Board, as former managerial employees, were bound by that duty of confidence in Plaintiffs' favor. *E.g., Harrison's Music*, 722 F.2d at 994 (New York law imposes duty on former employees "not to use confidential knowledge acquired in [their] employment in competition with [their] principal"); *Doubleclick*, 1997 WL 731413, at *4 n.2. Again, no copying is necessary to establish these elements, and the elements of this offense are distinct from the mere similarity and copying necessary to make out a copyright claim.

Similarly, to establish that Cache aided and abetted these breaches of duty by Farhang and Board, Plaintiffs must allege that Cache knowingly participated in, induced, and/or substantially assisted in the individual defendant's breach of duty owed to Plaintiffs. These additional "extra" elements further emphasize the utterly different nature of this claim from an ordinary copyright claim.

In short, none of Plaintiffs' claims are preempted, the Court lacks subject matter jurisdiction, and this case should be remanded forthwith.

V. CONCLUSION

For the foregoing reasons, Plaintiffs respectfully requests that the Court remand this matter to the Supreme Court of New York, County of New York for all further proceedings.

Respectfully submitted,

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