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LAW ALERT

Trade Secret Misappropriation Requires Acquisition and/or Use (Not Just Knowledge), and Broken Promises Do Not, Alone, Amount to Fraud: Lessons from *Hooked Media Group, Inc. v. Apple Inc.*

Promissory fraud does not arise when a promise is broken, but when the promisor never had an intention to carry out the promise in the first place. Moreover, a party's mere *knowledge* of another party's trade secrets is insufficient to prove trade secret misappropriation, unless the party with knowledge actually *acquires* and/or *uses* the other party's trade secret information . These are the primary lessons from *Hooked Media Group, Inc. v. Apple Inc.* ("*Hooked Media*"), 2020 Cal. App. LEXIS 918.

Hooked Media ("Hooked") was formed in approximately 2008 as a start-up company that creates software that recommends other applications that might be of interest to a user based on that user's data. Apple expressed interest in acquiring Hooked, but Hooked's CEO canceled negotiations upon realizing that Apple was more interested in Hooked's engineers than it was in Hooked's technology.[1] When negotiations to purchase Hooked's technology fell apart, Hooked Media offered to "sell" three (3) of its engineers, including its Chief Technology Officer ("CTO"), to Apple for compensation. Apple responded that it might be interested in this arrangement and paying a "finder's fee", depending on the engineers that Hooked agreed to send to Apple.

Shortly thereafter, Apple apparently realized that it had no obligations or duties to Hooked with respect to the three (3) employees. Apple then called two (2) of the engineers directly, and hired both of them. A short time later, Hooked's CTO also resigned from Hooked to join Apple.

Hooked's CEO then emailed both its parting CTO and Apple's General Counsel, to demand that both return any and all of Hooked's proprietary materials. Apple responded that it had no intention of using any of Hooked Media's proprietary materials, and that it would facilitate the return of all such trade secrets to Hooked.

Hooked then sued Apple for, *inter alia*, fraud, misappropriation of trade secrets and unfair competition. Hooked alleged that Apple made three (3) misrepresentations: (i) that Apple would keep confidential, any materials received from Hooked; (ii) that it would not use any materials obtained from Hooked; and (iii) that Apple would deal directly with Hooked regarding hiring its engineers. (Hooked also sued its former CTO, but after the trial court granted summary judgment in Apple's favor, Hooked dismissed its claims against its CTO without prejudice.)

In upholding the trial court's grant of summary judgment on Hooked's "fraud" cause of action related to Apple's alleged theft of Hooked's employees, the Court of Appeal reasoned, first, that "broadly speaking, Apple was free to hire any of Hooked's employees at any time, and those employees were free to leave to work for Apple, without any compensation to Hooked." Second, the Court reasoned that in order for Hooked to overcome Apple's motion for summary judgment, Hooked would have to have evidence that when Apple made the representations, that it had no intention of honoring them. Like the trial court, the Court of Appeal found that no such facts existed. Rather, the Court of Appeal held that broken promises, without more, are not actionable; in order for a broken promise to rise to a colorable legal action, the promisee must establish that the promisor did not intend to comply with the promise *at the time of making the promise* . Here,

although Apple made certain promises to Hooked, Hooked had no evidence that when Apple made the promises, it did not intend to honor them. Instead, when Apple realized that it had no duty to Hooked Media vis-à-vis hiring away Hooked's employees, Apple simply went directly to the three (3) subject employees to negotiate and hire them. In other words, Apple simply changed its mind. The Court of Appeal affirmed the trial court in upholding the trial court's grant of summary judgment for Apple.

Regarding Hooked's claim that Apple misappropriated (i) technical information and (ii) information about the makeup of Hooked Media's engineering team, the Court held that Hooked's mere showing that its former employees *possessed* trade secret data was not the same as proving that Apple had, in fact, *misappropriated* the subject data. Thus, because Hooked was unable to provide evidence of Apple's *use or acquisition* of Hooked's trade secrets, summary judgment in Apple's favor was also appropriate on Hooked's claim against Apple for misappropriation. Indeed, even the fact that Apple's new employees designed and created an app recommendation system very similar to the one that those employees had created for Hooked when they were employed there—based on knowledge and experience developed at Hooked, no less—was insufficient to establish trade secret misappropriation: the Court held that "California's policy favoring free mobility for employees specifically allows that." As to the second of Hooked's claims—that Apple misappropriated information about the makeup of Hooked's engineering team—because Hooked did not undertake to protect this information (in fact, it intentionally disclosed this information to Apple during negotiations even Apple refused to sign a covenant not to compete), the "makeup" of its engineering team was not a trade secret under the Uniform Trade Secrets Act.

Similarly, in Hooked's case against its former CTO, both the trial court and the Court of Appeal agreed that in preparing to exit Hooked, the CTO did not breach his undivided duty of loyalty on account of "California's emphasis on employee mobility and freedom to compete". Hooked offered no evidence that the CTO, who was *preparing* to exit Hooked prior to actually resigning, was either *competing* against Hooked while he was still employed there, or, that he assisted Apple by *soliciting* Hooked's customers, for example, or its other valuable assets. Moreover, that the Hooked employees elected to go to work for Apple without providing any benefit to Hooked was not a breach of any fiduciary duty that any of the employees, including the CTO, owed to Hooked.

The Court of Appeal further upheld the trial court on Hooked's other causes of action against Apple. Hooked's "interference with contract and prospective economic interference" cause was premised on the argument that by hiring away Hooked's engineering team, Apple had interfered with Hooked's contracts with third parties. Both the trial court and the Court of Appeal struck down that argument because Hooked had no evidence that Apple had committed an "independent wrong" in addition to hiring away the employees. Similarly, both courts ruled against Hooked's "unfair competition" suit because Hooked, in attempting to support its claim that by hiring away its engineers, Apple took one of Hooked's most valuable assets without compensating it, failed to establish that Apple hired away its employees through unlawful means. Finally, both Courts also struck down Hooked's cause of action for "unjust enrichment" on the grounds that "unjust enrichment", itself, is not a cause of action that is recognized in California.

If you or your business are negotiating a sale of the business or assets to a third party competitor, you should retain experienced business counsel to assist in negotiating and documenting such a deal, in order to protect your and your business's rights vis-à-vis that third party competitor.

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[1] A term common to Silicon Valley, this is known as an "acqui-hire" where the acquiring company "acquires" the personnel/talent of the company it is acquiring.

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