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Digital Envoy, Inc. v. Google, Inc.

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ADDITIONAL DEVELOPMENTS—TRADE SECRET

DIGITAL ENVOY, INC. v. GOOGLE, INC.

370 F. Supp. 2d 1025 (N.D. Cal. 2005)

2005 U.S. Dist. LEXIS 33855 (N.D. Cal. Sept. 8, 2005)

2005 U.S. Dist. LEXIS 27939 (N.D. Cal. Nov. 8, 2005)

2006 U.S. Dist. LEXIS 6454 (N.D. Cal. Jan. 24, 2006)

2006 U.S. Dist. LEXIS 6449 (N.D. Cal. Jan. 25, 2006)

In three separate rulings, the District Court for the Northern District of California decided that the California Uniform Trade Secrets Act (UTSA) preempts state unfair competition and unjust enrichment claims.

Digital Envoy, Inc., developed a technology that, by referencing a user's internet protocol address, could approximate the user's geographic location. Google, Inc. licensed the technology for use in its AdWords program. The AdWords program works by analyzing search terms entered by users and returning advertisements relevant to their search. Digital Envoy's technology expanded the AdWords program's capabilities, allowing the program to return geographically appropriate advertisements. After licensing the technology, Google launched AdSense, a program similar to AdWords, but which displays advertisements on the websites of third parties. Digital Envoy sued, claiming that Google's use of its technology in its AdSense program amounted to "distributing" and "sharing" Digital Envoy's database, violating the licensing agreement between the parties. Digital Envoy claimed relief based upon: (1) misappropriation of trade secrets in violation of the UTSA; (2) unfair competition under the Lanham Act, 15 U.S.C. § 1125(a); (3) unfair competition under the California Business Code; (4) unfair competition based upon state common law; (5) unjust enrichment; and (6) breach of contract.

Google moved for summary judgment on all claims asserting that the license agreement permitted Google's use of Digital Envoy's technology, that Digital Envoy's state common law claims for unfair competition, unjust enrichment, and breach of contract are preempted by the California Uniform Trade Secrets Act ("CUTSA"), Cal. Civ. Code § 3426.7(b), and that Digital Envoy cannot sustain its Lanham Act claim as a matter of law. The magistrate judge, sitting by consent of both parties, rejected Google's assertion regarding the licensing agreement, finding instead that the license was reasonably susceptible to meanings offered by both corporations, which raised a genuine issue of material fact. The magistrate agreed

with Google that Cal. Civ. Code § 3426.7(b) preempted Digital Envoy's claims for unfair competition and unjust enrichment because section 3426.7(b) explicitly states that the CUTSA does not preempt claims based upon breach of contract or "other claims that are not based on trade secret misappropriation," and reasoned that "there would be no need for inclusion of this provision in California's statutory scheme unless the UTSA preempted other claims based upon misappropriation." The magistrate also granted summary judgment on Digital Envoy's Lanham Act claim because Digital Envoy and Google were not "commercial competitors." The magistrate allowed the case to proceed on Digital Envoy's claims alleging misappropriation of trade secrets and breach of contract.

In September 2005, the court denied Digital Envoy's motion for summary judgment, stating that the license agreement expressly prohibited Google from licensing its proprietary technology to third parties, and that Google violated that prohibition by providing such access as a component of Google's AdSense program.

In November, Google moved for partial summary judgment, asserting that their contract barred or circumscribed the recovery of an aggrieved party absent "willful misconduct." Google further argued that Digital Envoy could not recover damages for trade secret misappropriation under Cal. Civ. Code § 3426.3(a) because Digital Envoy could not establish a causal nexus between Google's alleged misuse of Digital Envoy's proprietary technology and any gain received by Google. Digital Envoy disputed both assertions. The court granted summary judgment with regard to Digital Envoy's claims for actual damages, which the court concluded were barred by the terms of the agreement. Digital Envoy, however, was not precluded from seeking "unjust enrichment" for its claim for trade secret misappropriation.

In January of 2006, the court granted Google's motion for partial summary judgment regarding damages. The next day, however, the court vacated this judgment due to the pendency of amended counterclaims filed by Google.

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