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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

TORBIT, INC.,	) Case No.: 5:12-CV-05889-EJD
Plaintiff,	) **ORDER GRANTING DEFENDANTS'**
	) **MOTION TO COMPEL**
v.	) **ARBITRATION AND STAY ACTION**
	) **PENDING ARBITRATION;**
DATANYZE, INC. and ILYA SEMIN,	) **DENYING AS MOOT PLAINTIFF'S**
	) **MOTION FOR PRELIMINARY**
	) **INJUNCTION**
Defendants.	)
	)
	)
	) **[Re: Docket Nos. 6, 14]**

18   Presently before the Court are Defendants Datanyze, Inc. and Ilya Semin's (collectively,

19 "Defendants") Motion to Compel Arbitration and Stay Action Pending Arbitration (Dkt. No. 6) and

20 Plaintiff Torbit, Inc.'s ("Plaintiff") Motion for Preliminary Injunction (Dkt. No. 14). The court has

21 subject matter jurisdiction pursuant to 28 U.S.C. § 1331. Having reviewed the parties' briefing, the

22 court GRANTS Defendants' Motion to Compel Arbitration and Stay Action Pending Arbitration

23 and DENIES Plaintiff's Motion for Preliminary Injunction as moot.

24   **I.   BACKGROUND**

25   The following factual background is taken from the allegations contained in Plaintiff's

26 complaint and the exhibit attached thereto. This case arises out of Defendants' alleged improper

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1 use of Plaintiff's trade secrets and proprietary information both before and after individual

2 Defendant Ilya Semin's termination from Plaintiff's employment. Mr. Semin is a software

3 developer who was employed by Plaintiff from approximately October 2011 through April 2012.

4 Compl. ¶ 7, Dkt. No. 1. The terms of Mr. Semin's employment were governed by his offer letter

5 and the "Employee Proprietary Information and Inventions Agreement" (collectively,

6 "Agreement"). Compl. ¶ 8, Ex. A.   By signing these documents Mr. Semin agreed, inter alia, that:

7   during and after his employment, he would not disclose, use or publish Plaintiff's

8   "proprietary information" including its "trade secrets" (Compl. ¶ 9);

9   he would assign to Plaintiff any rights he may have had or acquired in "proprietary

10   information" and any inventions (Compl. ¶¶ 10-11);

11   he would not engage in competitive business activity during the course of his employment

12   (Compl. ¶ 12);

13   he would not copy, delete, or alter any of Plaintiff's information contained on his company

14   computer (Compl. ¶ 12);

15   he would return all Plaintiffs' documents and information upon the termination of his

16   employment (Compl. ¶ 13); and

17   during his employment and for one year thereafter he would disclose to Plaintiff all

18   inventions he authored, conceived, or reduced to practice and would refrain from soliciting

19   the business of any of Plaintiff's customers (Compl. ¶¶ 12, 14).

20 The Agreement also included an arbitration clause:

21   In the event of any dispute or claim relating to or arising out of our employment

22   relationship, you and the Company agree that (i) any and all disputes between you and the

23   Company shall be fully and finally resolved by binding arbitration, (ii) you are waiving any

24   and all rights to a jury trial but all court remedies will be available in arbitration, (iii) all

25   disputes shall be resolved by a neutral arbitrator who shall issue a written opinion, (iv) the

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1   arbitration shall provide for adequate discovery, and (v) the Company shall pay all but the

2   first $125 of the arbitration fees.

3   Compl. Ex. A at 2.

4   Mr. Semin signed the Agreement on October 4, 2011, and began his work with Plaintiff on October

5   31, 2011. Compl. ¶¶ 7-8, Ex. A.

6   During the course of his employment, Mr. Semin worked on the development of an internal

7   tool known as Playbook. That technology "was designed to detect, monitor and record changes

8   made to websites in Torbit's industry." Compl. ¶¶ 15, 18. Playbook became Plaintiff's "most

9   valuable trade secret and one if its top competitive advantages." Compl. ¶ 17.

10   Plaintiff alleges that Mr. Semin used Plaintiff's computer network to download its code

11   repository, including its trade secrets and proprietary information, onto his personal computer and

12   that Defendants stole the Playbook concept, technology, design and functionality. Compl. ¶¶ 22-23.

13   Furthermore, Plaintiff alleges that Mr. Semin founded his company, Datanyze, during the course of

14   his employment and that Datanyze is using Playbook and other of Plaintiff's proprietary

15   information and inventions. Compl. ¶¶ 24-25.

16   Plaintiff filed this case on November 16, 2012, alleging five causes of action: (1) Violations

17   of Federal Computer Fraud and Abuse Act ("CFAA"), 18 U.S.C. § 1030 (against Mr. Semin only);

18   (2) Violation of Colorado's Uniform Trade Secrets Act ("CUTSA"), Col. Rev. Stat. §7-74-101 et

19   seq. (against both Defendants); (3) Breach of Contract (against Mr. Semin only); (4) Breach of

20   Duty of Loyalty (against Mr. Semin only); and (5) Trespass to Chattels (against Mr. Semin only).

21   On December 17, 2012, Defendants filed the instant Motion to Compel Arbitration and Stay the

22   Action, to which the court now turns.

23   **II.   LEGAL STANDARD**

24   The Federal Arbitration Act mandates that written agreements to arbitrate disputes "shall be

25   valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the

26   avoidance of any contract." 9 U.S.C. § 2. "By its terms, the Act 'leaves no place for the exercise of

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1   discretion by a district court, but instead mandates that district courts <u>shall</u> direct the parties to

2   proceed to arbitration on issues as to which an arbitration agreement has been signed.'" <u>Chiron</u>

3   <u>Corp. v. Ortho Diagnostic Sys., Inc.</u>, 207 F.3d 1126, 1130 (9th Cir. 2000) (citing <u>Dean Witter</u>

4   <u>Reynolds Inc. v. Byrd</u>, 470 U.S. 213, 218 (1985)). Accordingly, a court's role is limited to

5   determining: (1) whether the parties agreed to arbitrate, and, if so, (2) whether the scope of that

6   agreement to arbitrate encompasses the claims at issue. <u>Id.</u> If a party seeking arbitration establishes

7   these two factors, the court must compel arbitration. 9 U.S.C. § 4; <u>Chiron</u>, 207 F.3d at 1130.

8   If a contract contains an arbitration clause, there is a presumption of arbitrability. <u>AT & T</u>

9   <u>Technologies, Inc. v. Communications Workers of America</u>, 475 U.S. 643, 650 (1986). In that

10   case, "any doubts concerning the scope of arbitrable issues should be resolved in favor of

11   arbitration." <u>Three Valleys Mun. Water Dist. v. E.F. Hutton & Co.</u>, 925 F.2d 1136, 1139 (9th Cir.

12   1991). Nonetheless, "arbitration is a matter of contract and a party cannot be required to submit to

13   arbitration any dispute which he has not agreed so to submit." <u>AT & T</u>, 475 U.S. at 648 (quoting

14   <u>Steelworkers v. Warrior & Gulf Navigation Co.</u>, 363 U.S. 574, 582 (1960)).

15   **III.   DISCUSSION**

16   The parties agree that arbitration is required for Plaintiff's claims of trade secret

17   misappropriation in violation of CUTSA (Claim 2), breach of contract (Claim 3), and breach of the

18   duty of loyalty (Claim 4) against Mr. Semin. <u>See</u> Pl. Opp'n at 1, 8, Dkt. No. 21; Def. Reply at 1,

19   Dkt. No. 22. Therefore, the court must only consider the arbitrability of Plaintiff's claims for

20   violations of the CFFA (Claim 1) and trespass to chattels (Claim 5) against Mr. Semin and

21   Datayanze's standing to compel arbitration of Plaintiff's claim against it for violations of CUTSA

22   (Claim 2).

23   **a.   Arbitrability of Plaintiff's CFAA and Trespass to Chattels Claims against Mr.**

24   **Semin**

25   Plaintiff argues that its First and Fifth causes of action against Mr. Semin fall outside of the

26   scope of the Agreement's arbitration clause. As the party opposing arbitration, Plaintiff bears the

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1   burden of proving these claims are unsuitable for arbitration. See Green Tree Financial Corp.-

2   Alabama v. Randolph, 531 US. 79, 91 (2000). The Agreement at issue provides that all claims

3   "relating to or arising out of our employment relationship" are subject to arbitration. Compl. Ex.

4   A. The Ninth Circuit has found arbitration clauses containing similar language to be "broad and

5   far reaching" (Chiron, 207 F. 3d at 1131) and capable of covering all claims "having a significant

6   relationship to the contract and all disputes having their origin or genesis in the contract" (Simula,

7   Inc. v. Autoliv, Inc., 175 F.3d 716, 721 (9th Cir. 1999) (construing "arising in connection with"

8   broadly). In order for a claim to be arbitrable under such a clause, the "factual allegations need

9   only 'touch matters' covered by the arbitration clause and all doubts are to be resolved in favor of

10   arbitrability." Simula, 175 F.3d at 721 (quoting Mitsubishi Motors Corp. v. Soler Chrysler-

11   Plymouth, Inc., 473 U.S. 614, 624 n. 13 (1985)).

12   The factual allegations supporting Plaintiff's CFAA and trespass to chattels claims against

13   Mr. Semin clearly "touch matters" covered by the Agreement's arbitration clause. The CFAA

14   claim alleges that Mr. Semin "intentionally and without authorization" accessed Plaintiff's

15   computers and obtained valuable information, including Playbook, from such computers. Compl.

16   ¶¶ 28-29. Similarly, the trespass to chattels claim alleges that Mr. Semin's liability stems from his

17   "intentionally accessing [Plaintiff's] computers and computer networks and downloading

18   [Plaintiff's] confidential and Proprietary Information, trade secrets and Inventions, for his own use

19   and/or Datanyze's use, without authorization." Compl. ¶ 58. Though neither claim specifies the

20   timeframe in which Mr. Semin allegedly accessed these computers without authorization,

21   elsewhere the Complaint provides that "during and following his employment…Mr. Semin stole

22   the proprietary Playbook" (Compl. ¶ 19) and "during and following his employment…and without

23   [Plaintiff's] authorization…Mr. Semin accessed [Plaintiff's] computers and computer networks and

24   downloaded Torbit's code repository onto his personal computer, including [Plaintiff's] trade

25   secrets, Proprietary Information and Inventions" (Compl. ¶ 23). As these paragraphs highlight,

26   Plaintiff has alleged that Mr. Semin engaged in unauthorized computer activity and improper use

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1   of Plaintiff's proprietary information during the course of his employment. Such conduct "touches

2   matters" that "relat[e] to or aris[e] out of" the Agreement because the Agreement covers the

3   copying of Plaintiff's information to Mr. Semin's personal computer and the proper usage of that

4   information. See, e.g. Compl. ¶¶ 12-13. Therefore, the First and Fifth Causes of Action against

5   Mr. Semin are arbitrable.

6   **b. Datayanze's Standing to Compel Arbitration**

7   The parties dispute whether Datayanze, a nonsignatory to the Agreement, has standing to

8   compel arbitration of Plaintiff's claim against it under an equitable estoppel theory. "The right to

9   compel arbitration stems from a contractual right,' which generally 'may not be invoked by one

10 who is not a party to the agreement and does not otherwise possess the right to compel

11 arbitration.'" Britton v. Co-op Banking Group, 4 F.3d 742, 744 (9th Cir. 1993) (citation omitted).

12 However, in certain circumstances, a non-signatory to an agreement can compel a signatory to

13 arbitrate. Particularly relevant to the case at hand, a non-signatory can compel arbitration under an

14 alternative equitable estoppel theory

15 "Equitable estoppel precludes a party from claiming the benefits of a contract while

16 simultaneously attempting to avoid the burdens that contract imposes." Mundi v. Union Sec. Life

17 Ins. Co., 555 F.3d 1042, 1045 (citations omitted). In this context, where a non-signatory seeks to

18 compel a signatory to arbitrate, the doctrine operates to protect the vitality of arbitration

19 agreements and federal arbitration policy. See Grigson v. Creative Artists Agency LLC, 210 F.3d

20 524, 528 (5th Cir. 2000), reh'g en banc denied, 218 F.3d 745, cert denied, 531 U.S. 1013 (2000))

21 ("[a signatory] cannot on the one hand, seek to hold the non-signatory liable pursuant to duties

22 imposed by the agreement, which contains an arbitration provision, but on the other hand, deny the

23 arbitration provision's applicability because the defendant is a non-signatory"); MS Dealer Serv.

24 Corp. v. Franklin, 177 F.3d 942, 947 (11th Cir. 1999) ("[o]therwise, the arbitration proceedings

25 [between the two signatories] would be rendered meaningless and the federal policy in favor of

26 arbitration effectively thwarted") (citation omitted). In order for a non-signatory to have standing

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1   to compel arbitration under this theory, the claims brought against it by the signatory must be

2   "intertwined with the contract providing for arbitration" or "arise out of" or "relate directly to" the

3   contract containing the arbitration provision. Mundi, 555 F.3d at 1047 (citations omitted).

4   Plaintiff argues that Datayanze does not have standing to compel arbitration of the CUTSA

5   claim because that claim, as alleged against Datayanze, does not rely on Mr. Semin's employment

6   agreement. To succeed on its CUTSA claim against Datayanze, Plaintiff must prove that (1)

7   Plaintiff possessed a valid trade secret; (2) that the trade secret was disclosed or used without

8   consent; and (3) that Datayanze knew or should have known that the trade secret was acquired by

9   improper means. Gates Rubber Co. v. Bando Chem. Indus., Ltd., 9 F.3d 823, 847 (10th Cir. 1993).

10   Thus, to have standing to compel arbitration on this claim, Datayanze must show proof that at least

11   one of these elements is "intertwined" with or "relates directly to" Mr. Semin's employment

12   agreement.

13   Defendants contend that proof of Datayanze's knowledge relies on Mr. Semin's

14   employment agreement. The CUTSA claim is premised on allegations that Datayanze is using

15   Plaintiff's trade secrets and "knew, or had reason to know, that Mr. Semin acquired Torbit's trade

16   secrets improperly or under circumstances giving rise to a duty to either keep them secret or limit

17   their use." Compl. ¶ 38. Plaintiff concedes that this claim is arbitrable against Mr. Semin, but

18   argues that it has pleaded two theories of "knowledge" on the part of Datayanze, one of which is

19   independent of the employment agreement and thus not arbitrable. The first and most obvious

20   theory is that Datayanze had knowledge of Mr. Semin's duty to keep Plaintiff's trade secrets

21   confidential by virtue of the Agreement. Particularly, Plaintiff alleges that it "disclosed its trade

22   secrets to Mr. Semin...pursuant to the Agreement...with the express understanding that all of

23   [Plaintiff's] trade secrets were to be maintained in the strictest confidence...." Compl. ¶ 33. The

24   proof of such knowledge would plainly rely on interpretation of the Agreement and Mr. Semin's

25   duties thereunder, and so would be arbitrable.[1] See Mundi, 555 F.3d at 1047. However, Plaintiff

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27   [1] Plaintiff's suggestion that the unclean hands doctrine should preclude the court from applying equitable estoppel because Defendants' "invocation of the Offer Letter is tainted by bad faith" is far from compelling. Mr. Semin's
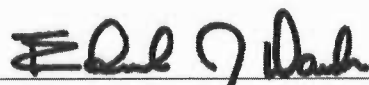
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1   argues that its CUTSA claim contains an alternative theory of knowledge on the part of

2   Datayanze—that the claim's "improper means" language implies that Datayanze had knowledge of

3   Mr. Semin's alleged trespass to chattels and unauthorized access of computers involved in

4   interstate commerce—and thus do not rely on the employment agreement. Pl. Opp. at 6. The court

5   is not persuaded that the claim states as much to the satisfaction of Federal Rule of Civil Procedure

6   Rule 8(a). However, even if this theory were clearly stated, it would still not preclude the claim

7   from arbitration. As discussed in the previous section, Mr. Semin's alleged violations of the CFAA

8   and trespass to chattels "touch matters" covered by the arbitration clause in the Agreement

9   (Simula, 175 F.3d at 721), and thus are "intertwined with the contract providing for arbitration"

10 (Mundi, 555 F.3d at 1047). Accordingly, Datayanze has standing to compel arbitration on the

11 CUTSA claim.

12 **IV.   CONCLUSION**

13   For the foregoing reasons, the Court GRANTS Defendants' Motion to Compel Arbitration

14 and Stay Action Pending Arbitration. This action is STAYED in its entirety pending final

15 resolution of the arbitration. Accordingly, Plaintiff's Motion for Preliminary Injunction is

16 DENIED as moot. The Clerk shall ADMINISTRATIVELY CLOSE this matter.[2]

17 **IT IS SO ORDERED**

18 Dated: February 13, 2013

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20 EDWARD J. DAVILA
    United States District Judge

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26 employment agreement is much more than "incidental" to the dispute, including the claim against Datayanze. As such,
    Defendants arguments are reasonable.

27 [2] This order does not preclude any party from moving to reopen this action, when appropriate.

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