SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 39

----------X

ZYLON CORP. and ALAN ZAMORE,

Plaintiffs,

DECISION and ORDER

- against -

Index No. 650523/08
Motion Seq. No. 008, 009

MEDTRONIC, INC., MEDTRONIC VASCULAR, INC., and AVE GALWAY LTD.,

Defendants.

----------X

SALIANN SCARPULLA, J.:

Plaintiffs Zylon Corp. ("Zylon") and Alan Zamore ("Zamore") (collectively "Plaintiffs") commenced this action alleging that defendants misappropriated their trade secret for forming a zero-fold balloon component of a medical device, known as an angioplasty balloon catheter. Defendants Medtronic, Inc., Medtronic Vascular, Inc., and Medtronic Vascular Holdings, Ltd. (collectively, "Medtronic") move for: (a) summary judgment dismissing Plaintiffs' complaint pursuant to CPLR § 3212 (motion seq. no. 009); and (b) an order precluding Plaintiffs' damages expert Charles R. Mahla, Ph.D. from offering any testimony or opinion concerning the disgorgement of Medtronic's past, future, and "pull-through" profits at trial (motion seq. no. 008). These two motions are consolidated for disposition.

Zamore founded Zylon in 1992. According to Zamore, Zylon focuses on "developing new technologies relating to polymers and compounds, medical materials, medical devices, catheters, balloon catheters, and extrusion processes." Zamore Aff. ¶ 7. Defendant Medtronic, Inc. is a medical device designer and manufacturer. The two other defendants,

Medtronic Vascular, Inc. and Medtronic Vascular Holdings, Ltd. are wholly-owned subsidiaries of Medtronic, Inc.

In the complaint, Plaintiffs allege that they developed a process for forming zero-fold balloons which may be used in angioplasty balloon catheters, a type of medical device used to open clogged or occluded coronary arteries.[1] Unlike the typical balloon component that must unfold and unwrap from the catheter shaft, a zero-fold balloon has no folds and can inflate directly from a tube, open an occluded vessel, and revert back once the balloon is deflated. As a zero-fold balloon has no folds or need to unwrap, it may be smaller in diameter than a traditional balloon, which allows surgeons to place balloon catheters in smaller, more highly occluded vessels.

Plaintiffs allege that they disclosed their trade secret process for forming zero-fold balloons to Medtronic, under the protection of four confidentiality agreements that the parties executed in connection with exploring a potential business relationship: the 2002 NDA; the 2003 Evaluation Agreement; the 2005 Evaluation Agreement; and the 2005 Standstill Agreement.[2] According to Plaintiffs, after disclosing their trade secret process Medtronic misappropriated it to develop a zero-fold balloon for a new angioplasty balloon catheter – the 1.25mm Sprinter Legend Catheter ("the Sprinter Legend").

---

[1] Plaintiffs originally pled that their trade secrets included materials technology, but they no longer assert this technology as part of their trade secrets.

[2] The actual parties to the agreements included Zylon and either AVE Galway, Ltd., predecessor-in-interest to Medtronic Vascular Galway, Ltd.; Medtronic Vascular Galway, Ltd. itself, or Medtronic Vascular, Inc. In their memorandum of law, Medtronic assumes that all three defendants are parties to the agreement, and no significant distinction is made between any of the defendants. As Medtronic makes no distinction between the three defendants, I treat them similarly.

The complaint contains six causes of action against Medtronic, for: (1) misappropriation of trade secrets; (2) breach of contract; (3) breach of implied covenant of good faith and fair dealing; (4) declaratory judgment pursuant to 28 U.S.C. § 2201; (5) unfair competition; and (6) unjust enrichment. As remedies, Plaintiffs seek preliminary and permanent injunctive relief, damages, attorney's fees, punitive damages, and interest.

Medtronic now moves for summary judgment dismissing the complaint. The parties do not dispute the following facts: from February to September 2005, Plaintiffs provided Medtronic with sample balloons they created, and also attempted to develop balloons that met Medtronic's specifications, which were set forth in the 2005 Evaluation Agreement. Medtronic paid Plaintiffs for the development work they performed as per the 2005 Evaluation Agreement.

In August 2005, Medtronic engineers Celine Conroy and Michael Cummins visited Plaintiffs' laboratory in Monsey, New York. During the visit, Zamore demonstrated the zero-fold balloon forming process to Cummins. Thereafter, Zamore sent a letter to Celine Conroy on or about September 29, 2005, describing the various confidential materials that Plaintiffs disclosed to Medtronic during the visit.

On or about July 26, 2006, Medtronic sent a proposed term sheet to Zamore soliciting a worldwide, exclusive license to Plaintiffs' technology in exchange for $400,000 and a 1% royalty on worldwide net sales of balloon catheters. Plaintiffs declined to grant a license to Medtronic. In December 2007, Medtronic announced the release of the Sprinter Legend, which contains a zero-fold balloon component.

In the motion for summary judgment, Medtronic argues that Plaintiffs do not possess a legally protectable trade secret because: (1) Plaintiffs failed to plead their trade secret with

particularity; (2) Plaintiffs publicly disclosed their process for forming a zero-fold balloon in their patents and patent applications; and (3) Plaintiffs do not continuously use their balloon forming process in their business.

Medtronic further contends that they did not misappropriate Plaintiffs' alleged trade secret in violation of any agreement because Medtronic owns any information resulting from Plaintiffs' development efforts under the 2005 Evaluation Agreement which did not utilize Plaintiffs' Standstill IP, and the Sprinter Legend does not contain any technology protected by the 2002 NDA. Medtronic further asserts that they could not have misappropriated Plaintiffs' trade secret in violation of a duty of confidence because they owed no such duty to Plaintiffs.

Lastly, Medtronic contends that the unjust enrichment claim is precluded by the existence of the agreements between the parties, and that the breach of contract, breach of good faith and fair dealing, and unfair competition claims should be dismissed as duplicative. Medtronic also argues that Plaintiffs do not allege any gross or wanton conduct to support their punitive damages claim.

Medtronic submits an affidavit from Michael Cummins. He states that, on August 19, 2005, Ash Varma of Medtronic requested and received certain process parameters from Plaintiffs that included "heat, pressure, and axial restraint to form a balloon on an Interface Associate balloon formation machine."

In late August or early September 2005, Cummins visited Plaintiffs' laboratory with Celine Conroy. Cummins states that, during the visit, Zamore demonstrated the process for forming a zero-fold balloon, and Plaintiffs "provided me with a hard copy of the same process parameters Plaintiffs had previously faxed to Mr. Varma and Ms. Conroy." According to

Cummins, "none of the information Plaintiffs conveyed during my visit to their facility provided me with knowledge or know how that I did not already possess."

Cummins further states that Medtronic began working to develop a zero fold balloon at the same time that Medtronic began paying Plaintiffs to develop one. Medtronic's experimentation began no later than February 2005 and continued until at least July 2007. According to Cummins, "Medtronic's internal team developed forming heat, post heat, pressure, stretch, cooling time, as well as inspection processes, loading techniques, material mold selection and tubing dimensions" to create a zero fold balloon. Cummins asserts that, after two years of internal experimentation and development, Medtronic was able to independently commercialize a zero fold balloon for use in the Sprinter Legend.

Cummins states that Medtronic did not "utilize any information or know-how provided by Plaintiffs to develop the 1.25 mm Sprinter Legend angioplasty balloon catheter." Cummins explains that any process parameters that he received from Plaintiffs did not benefit Medtronic because the parameters were developed on an Interface Associates machine, which is incompatible with the Modern Incremental balloon forming machine that Medtronic used to form the zero-fold balloon for the Sprinter Legend.

Cummins opines that Plaintiffs' '585 patent disclosed their balloon forming process. Specifically, he states that the '585 patent "publicly describes the mandatory and optional steps to form a zero-fold balloon, including the venting of internal pressure during the application of shrink temperature."

In opposition, Plaintiffs argue that they sufficiently allege a trade secret which they describe as a process for creating a zero-fold balloon, and the accompanying parameters necessary to form the balloon. Plaintiffs further argue that their trade secret process is not

disclosed in their patents, and that their process is a protectable trade secret even if it is not used in their business.

Plaintiffs assert that Medtronic misappropriated their trade secrets in violation of their agreements, a duty of confidence, and by obtaining the trade secrets through improper means. Finally, Plaintiffs argue that they adequately pleaded their remaining claims for breach of the implied covenant of good faith and fair dealing, unfair competition, unjust enrichment, and punitive damages.

In support of their argument, Plaintiffs submit various deposition transcripts and documentary evidence.[3] At his deposition, Zamore testified that Plaintiffs' business relationship with Medtronic began in 1999, and that the parties executed approximately 11 or 12 written agreements over the years. Zamore further testified that, in early 2003, the parties had a confidentiality agreement in place which protected Plaintiffs' confidential information that they disclosed to Medtronic. Zamore describes Plaintiffs' relationship with Medtronic as a "confidential relationship . . . wherein they were evaluating certain of my inventions and concepts. And they were to keep those ideas and concepts and inventions secret and trade secrets . . . just evaluate it and not use it without my permission."

Plaintiffs assert that they disclosed their trade secrets to Medtronic on numerous occasions. Zamore testified that, in 2004, he visited Medtronic's office in Santa Rosa, California, to meet with Medtronic engineer James Watson and technician Leo Mendoza regarding Plaintiffs' balloon-forming technology. Plaintiffs' confidential machine settings were inputted into Medtronic's balloon blowing machine to create sample balloons. During

[3] Although Plaintiffs submit an affidavit from Alan Zamore, it is inadmissible evidence because it is not notarized.

the visit, Zamore asked Watson and Mendoza to erase the confidential settings from the machine, which they agreed to do. However, Zamore stated that he later learned that the settings were not erased and later printed out and retained by Medtronic.[4]

Plaintiffs claim that they also shared their trade secret process with Medtronic in 2005. On or about August 19, 2005, Ash Varma sent an email to Zamore requesting information about Plaintiffs' balloon-forming process. Varma wrote, "[w]e urgently need a copy of your procedure to allow us to establish the possibility of using our glass mould m/c with your process." In response, Zamore faxed back information which he identified as "compliance curve and machine programs for 2363-75D," which were stamped "confidential."

In addition, Plaintiffs demonstrated their zero-fold balloon forming process to Cummins and Conroy when they visited Plaintiffs' laboratory in August 2005. Shortly after the visit, Zamore wrote a letter to Celine Conroy on September 29, 2005, which identified confidential information that was disclosed to Cummins and her during their visit, which included "[p]rocedures for making balloons meeting our and/or Medtronic's shrink and no fold balloon specifications. . . [d]iscussions of specific balloon forming machine settings used in our proprietary processing for shrunken and non-folded balloons."

Plaintiffs further assert that Medtronic attempted to recreate their zero-fold balloon forming process, but they misappropriated Plaintiffs' trade secret instead. They submit a Medtronic document entitled "Galway Balloon R & D Projects," which purportedly shows that Medtronic sought to copy Plaintiffs' trade secret process. The document lists "Zylon" as a project to "develop a no-fold balloon using off-the-shelf materials," as well as a "Sprinter

[4] Plaintiffs claim that they were unaware of the extent of Medtronic's improper retention of their confidential information until discovery occurred in this case.

2 Super Crosser" project to "design a new 1.25mm balloon to provide best in-class crossing performance." In regards to the status of the Sprinter 2 Super Cross project as of January 21, 2005, the documents states, "Replicating Zylon's Zero Fold process in-house."

Plaintiffs claim that, after viewing their trade secret balloon forming process, Cummins and Conroy improperly used this information to develop the Sprinter Legend. On September 30, 2005, Cummins wrote an email to Conroy commenting on recent lab results. He states in the email that "while these are obviously early results, indications are that we can create the Zylon process on 75D using our machines." Further, in lab notes written by Medtronic engineer Catherine Holloway entitled "Initial Pellethane Tubing Evaluation," she notes that "Mike Cummins looked at the original Zylon curves & attempted to recreate them and then improve on them using smaller tubing."

Plaintiffs claim that Medtronic highly valued Plaintiffs' zero-fold technology, and were not entitled to use it without a license. On February 22, 2006, Conroy wrote an internal email to several other Medtronic employees entitled "Zylon Legal & Licensing Options." In the email, Conroy stated, "we have worked under contract with a company in the US called Zylon in the development of a zero fold balloon.... This technology is key to our Next Gen semi-complaint produce & the team in Galway have carried out a huge amount of work to date to get this technology working. Given that we need this technology urgently, we need to finalise our legal stance & also our licensing options." Plaintiffs eventually rejected Medtronic's licensing proposal, and claim that Medtronic used their zero-fold balloon forming process to create a zero-fold balloon for the Sprinter Legend.

Lastly, Plaintiffs submit an affidavit from Stanley B. Levy, their expert on polymers and angioplasty balloon manufacturing and development. In his affidavit, Levy states "I

disagree with Medtronic's position that Mr. Zamore's patent application (or his patents) disclosed the confidential process I saw for making a Zero Fold balloon." Levy opines that the combinations of shrink temperatures and shrink time referenced in the patent application were not disclosed. He states that Plaintiffs' '550 patent describes the balloon forming process, but contains "no detail whatsoever about the specific process parameters." He further states that "Mr. Cummins does not provide any detail to show where in the '585 patent there is a disclosure of the specific combination of pressure, heat, time, materials."

In the event that their summary judgment motion is denied, Medtronic moves to preclude Plaintiffs' damages expert Charles R. Mahla, Ph.D. from offering any damages opinion concerning the disgorgement of Medtronic's past, future, and "pull-through" profits on the grounds that it is unreliable, speculative, and contrary to New York law.

Defendants' Motion for Summary Judgment

I. The Misappropriation of Trade Secrets Claim

A plaintiff claiming misappropriation of a trade secret must prove that: (1) plaintiff possesses a trade secret; and (2) that defendant misappropriated the trade secret "in breach of an agreement, confidence, or duty, or as a result of discovery by improper means." *Integrated Cash Management Services, Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990) (internal citation omitted); *Smartix Intern. Corp. v. Mastercard Intern. LLC*, 2010 N.Y. Slip. Op. 33786 (U) (Sup. Ct. New York County 2010); *aff'd*, 90 A.D.3d 469 (1st Dep't 2011). Medtronic argues that Plaintiffs' misappropriation of trade secrets claim should be dismissed because: (1) Plaintiffs do not have a legally protectable trade secret; and (2) Plaintiffs cannot prove any misappropriation by Medtronic in violation of an agreement or duty of confidence.

1. Trade Secret

In determining whether a trade secret exists, several factors should be considered: "(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.*; *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993).

Medtronic makes three separate arguments intended to demonstrate that Plaintiffs do not have a legally protected trade secret. According to Medtronic, Plaintiffs have not identified their alleged trade secret with sufficient specificity; Plaintiffs' alleged trade secret has been publicly disclosed in their patents and patent applications; and Plaintiffs do not continuously use the balloon forming process in their business.

First, Medtronic argues that Plaintiffs failed to plead their trade secret with specificity. Indeed, Plaintiffs have, at times, described their trade secret in broad and vague terms, claiming that their trade secrets consist of "procedures for making no fold balloons, including but not limited to designated temperatures, pressures, stretch, tubing sizes, material composition, balloon forming machine settings, compliance curves, and testing protocols." Plaintiffs' Objections and Responses to First Set of Interrogatories Propounded By Medtronic, p. 10.

However, in discovery and on this motion Plaintiffs have provided additional details concerning their trade secret process. In a letter dated July 19, 2010, Plaintiffs described a

series of steps for manufacturing zero-fold balloons (e.g., forming a balloon inside a mold, restraining the balloon in the axial direction, applying heat, etc.) and enumerated several "process parameters" (e.g., machine settings including specific levels of heat, pressure, stretch, etc.) that affect the characteristics of a zero-fold balloon. Plaintiffs added that the "specific process parameters are dependent upon (amongst other factors) the material used and the specifications desired." Plaintiffs further included a document with machine settings for manufacturing a zero-fold balloon from Pellethane 75D, the same material that Medtronic used in developing their zero-fold balloon.

In a trade secret action, a plaintiff must describe the trade secret "with sufficient specificity that its protectability can be assessed." *Sit-Up Ltd. v. IAC/InterActiveCorp.*, No. 05 Civ. 9292 (DLC), 2008 WL 463884, at *10 (S.D.N.Y. Feb. 20, 2008). Plaintiffs have met that burden here. While Medtronic characterizes Plaintiffs' allegations and discovery responses as vague and inconsistent, I find that there are no specific inconsistencies. Nor does Medtronic explain why Plaintiffs' disclosure of manufacturing steps and process parameters (as opposed to a formula) is insufficient, especially because Plaintiffs provided Medtronic with process parameters to manufacture zero-fold balloons using Pellethane 75D, the same material that Medtronic uses for their zero-fold balloon. I therefore find that Plaintiffs have adequately alleged the existence of a trade secret, and Medtronic is not entitled to summary judgment dismissing the trade secrets claim based on a lack of specificity.

Second, Medtronic argues that Plaintiffs do not have a legally protectable trade secret because they publicly disclosed their zero-fold balloon forming process in their patents and patent applications. As Medtronic correctly asserts, information publicly disclosed in a patent

or patent application is not secret, and therefore cannot form the basis of a trade secret. *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d at 407.

A review of Plaintiffs' patents and patent applications shows that Plaintiffs do not actually disclose their trade secret. For example, Medtronic points out that Plaintiffs' patent application, "Reduced Profile Medical Balloon Element" (US 2004/0093008), discloses a shrinking process to produce zero-fold balloons, but the fact that the patent application relates to the zero-fold technology is not sufficient to show that Plaintiffs' alleged trade secret has been publicly disclosed. Medtronic also emphasizes that the USPTO concluded that Zamore's '585 patent relating to Plaintiffs' zero fold technology contains "sufficient information to enable one skilled in the art to make the invention." However, this statement does not establish that the invention disclosed in the patent is the same invention that Plaintiffs allege is their trade secret.

Plaintiffs' expert , Dr. Levy, opines that, although Plaintiffs' patents describe the zero-fold balloon forming process generally, the patents do not disclose any specific process parameters which constitute the basis of Plaintiffs' trade secrets. According to Dr. Levy, it is common for companies to patent certain aspects of a technology, but maintain manufacturing processes as trade secrets. Based on the evidence submitted, I find that Medtronic has failed to meet its burden to show that Plaintiffs' trade secret process was publicly disclosed, and issues of fact remain as to whether Plaintiffs' alleged trade secret is in fact secret.

Finally, Medtronic contends that Plaintiffs do not possess a trade secret because they do not continuously use their balloon forming process in any business, such as manufacturing medical devices or licensing their process. The continuous use element, however, does not

refer to whether a trade secret is currently used in a business, but refers to the requirement that a trade secret cannot be a single or ephemeral event in the conduct of a business. *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 298 (2d Cir. 1986). Plaintiffs' alleged trade secret process is not the kind of information that can be used only once, but can be used continuously used in a business to produce zero-fold balloons.

Further, while the Restatement of Torts defines a trade secret as a formula "used in one's business," the essential element of a trade secret is that it offers a competitive economic advantage, not that it is currently employed in a business. *Greenwich Mills Co., Inc. v. Barrie House Coffee Co., Inc.*, 91 A.D.2d 398, 405 (2d Dep't 1983); *Computer Associates Int'l, Inc. v. Bryan*, 784 F. Supp. 982, 987-88 (E.D.N.Y. 1992). Indeed, trade secret information "need not be 'vital' to plaintiff's business, it should be sufficiently substantial and important to plaintiff's business that its misappropriation would unfairly benefit a defendant in the competitive marketplace." 4C N.Y.Prac., Com. Litig. in New York State Courts § 93:5 (3d ed.).

Here, Medtronic paid Plaintiffs for their expertise in forming angioplasty balloons, both parties spent considerable time working toward developing a zero-fold balloon, and protecting their own respective confidential information during the process. Based on the documentary evidence submitted, a triable issue of fact exists as to whether Plaintiffs' process gave them a competitive advantage in the marketplace such that it should be considered a

trade secret. *Big Vision Private Ltd. v. E.I. DuPont De Nemours & Co.*, 1 F.Supp.3d 224, 267 (S.D.N.Y. 2014) (noting that the existence of a trade secret is generally a question of fact).

Moreover, Plaintiff introduces sufficient evidence to raise an issue of fact as to whether they possess a trade secret under the *Ashland* factors. With respect to the first, second, and third factors relating to the extent of secrecy of the alleged trade secret, Plaintiffs submit their expert opinion that their trade secret was not disclosed publicly in patents, that the process was known only by Zamore and his technician Alex Shaikevitch, and that Plaintiffs took measures to safeguard their trade secret by entering into a confidentiality agreement with Medtronic and identifying their trade secret information as "confidential" before disclosing it to Medtronic. In regards to the fourth, fifth, and sixth factors which relate to the value of the information and expense in developing the trade secret, Plaintiffs submit documentary evidence to show that their zero-fold technology was considered to be highly valuable by Medtronic, and that Plaintiffs spent years developing their zero-fold process, which could not be easily duplicated by Medtronic or others. Together, this evidence creates a triable fact issue as to whether Plaintiffs possess a protectable trade secret under *Ashland*.[5]

2. Misappropriation

Medtronic next argues that Plaintiffs cannot prove any misappropriation of the trade secret under any viable theory. Plaintiffs first assert that Medtronic misappropriated their trade secrets in violation of the 2002 NDA, the 2003 Evaluation Agreement, the 2005

[5] The Court notes that Medtronic does not make any opposing arguments related to the *Ashland* test.

Evaluation Agreement, and the 2005 Standstill Agreement. Further, Plaintiffs' allege that Medtronic misappropriated by violating its duty of confidence. Plaintiffs also claim that Medtronic misappropriated their trade secret through improper means.

Misappropriation By Breach of the Parties' Contracts

The parties entered into the 2002 NDA to protect confidential information disclosed during their discussions of a potential business relationship. The agreement acknowledged that the parties' discussions would relate to the "modification of the properties of medical dilation balloons through the use of E-beam, cross-linkable, thermoplastic elastomers, also known as Irracure technology ('the Technology')." Confidential information was defined in the agreement as any "information regarding the Technology that is not generally known to the public . . . including, without limitation, inventions, trade secrets, know-how . . . that is disclosed by one party . . . to the other party."

Under the 2002 NDA, confidential information could be "used solely for the purpose of evaluation or pursuit of discussions" concerning the technology described above. Any confidential information disclosed in documentary or tangible information was required to be stamped or marked confidential, or if oral, must be summarized in writing within thirty days of disclosure.

A year later, the parties executed the 2003 Evaluation Agreement under which Zylon agreed to furnish certain materials to Medtronic, including "prototype balloons, radiation crosslinked balloons and radiation crosslinked or crosslinkable tubing." The parties agreed

that Medtronic could utilize Zylon's materials to evaluate their physical properties and "to form, for experimental purposes, medical type balloons (radiation crosslinked or otherwise), and/or balloon catheters." The materials supplied by Zylon to Medtronic were to be treated as confidential information under the 2002 NDA, and Medtronic agreed not to reverse engineer Zylon's materials "to determine the chemical structure thereof" without consent.

Medtronic argues that they could not have misappropriated Plaintiffs' trade secret in violation of the 2002 NDA or the 2003 Evaluation Agreement because those agreements do not protect Plaintiffs' trade secret, but instead protect Plaintiffs' Irracure technology. Plaintiffs' Irracure technology refers to a process by which radiation is applied to polymer tubing used to form balloons, and Irracure is a separate technology from Plaintiffs' zero-fold balloon forming process. Plaintiffs contend that the agreements not only protect their Irracure technology, but also their trade secret.

Based on their plain language, the 2002 NDA and the 2003 Evaluation Agreement protected Plaintiffs' Irracure technology as confidential information, not Plaintiffs' alleged trade secret. The 2002 NDA expressly stated that confidential information was any information related to the technology, specifically defined as the "modification of the properties of medical dilation balloons through the use of E-beam, cross-linkable, thermoplastic elastomers, *also known as Irracure technology*." (emphasis added). The 2003 Evaluation Agreement protected Plaintiffs' "prototype balloons, radiation crosslinked balloons and radiation crosslinked or crosslinkable tubing" as confidential information. By

expressly referencing Irracure and radiation crosslinked balloons, it is clear that the two agreements protected Irracure, not Plaintiffs' zero-fold balloon forming process. Plaintiffs cannot therefore assert a misappropriation of the trade secrets claim based upon a breach of the 2002 NDA or the 2003 Evaluation Agreement, and this part of their misappropriation claim is dismissed.[6]

The parties entered into two further agreements in 2005 – an evaluation agreement and a standstill agreement. Under the 2005 Evaluation Agreement, Zylon agreed to provide development services to Medtronic in an "attempt to develop and produce angioplasty balloons" – specifically, a 1.25 x 20mm No-Fold Balloon, and a 2.50mm - 3.2mm Dual Balloon. The agreement recognized that the balloons could potentially utilize all or part of Plaintiffs' intellectual property, which the parties referred to as "Standstill/ROFR IP" as defined in the 2005 Standstill Agreement.

Under the 2005 Standstill Agreement, Plaintiffs agreed to refrain from licensing their "Standstill/ROFR IP" while Medtronic evaluated their technology for potential licensing. The "Standstill/ROFR IP" included Plaintiffs' patent and patent applications US 5,900,444; US 6,596,818; US 6,656,550; US 2003/0212318; US 2004/0002729; PCT/US97/18163; and US 2004/0093008.[7]

---

[6] In addition, Plaintiffs cannot state a misappropriation of trade secrets claim based on a breach of the Amended NDA because that agreement merely extended the term of the 2002 NDA to terminate on December 31, 2005.

[7] The US 2004/0093008 patent application was later issued as patent US 7,749,585.

Medtronic argues that they could not have misappropriated Plaintiffs' trade secret in violation of the 2005 Evaluation Agreement because they own any balloons developed under that agreement which did not utilize Plaintiffs' Standstill/ROFR IP. This argument incorrectly assumes that Plaintiffs' alleged trade secret consists of the balloons themselves, rather than the underlying process for forming zero-fold balloons. Furthermore, Medtronic did not gain any ownership right to Plaintiffs' trade secret through the 2005 Evaluation Agreement. In fact, that agreement expressly states that "[n]othing contained herein shall be deemed or construed as requiring either party to grant to the other any rights or licenses" and that "[o]wnership of inventions conceived or first reduced to practice during the course of the relationship . . . will be determined in accordance with applicable United States laws of inventorship." Thus, Medtronic's argument that they did not breach the 2005 Evaluation Agreement because they owned any information that Plaintiffs developed without the Standstill/ROFR IP is meritless.

Nevertheless, I conclude that Plaintiffs cannot state a misappropriation of trade secrets claim based on a breach of either the 2005 Evaluation Agreement or the 2005 Standstill Agreement. The 2005 Evaluation Agreement is not a confidentiality agreement that protects Plaintiffs' trade secret, but instead operated as a services agreement under which Medtronic paid Plaintiffs to develop angioplasty balloons that met certain specifications. Similarly, the 2005 Standstill Agreement is not a confidentiality agreement protecting the alleged trade secret, but a contract that prohibited Plaintiffs from licensing the Standstill/ROFR IP while

Medtronic evaluated Plaintiffs' technology. As these two agreements did not protect the confidentiality of Plaintiffs' trade secret, Plaintiffs cannot base their misappropriation of trade secret claim on a violation of either agreement.

For the foregoing reasons, I grant Medtronic's motion for summary judgment dismissing the misappropriation of trade secrets claim to the extent that the claim is based on a breach of any of the four agreements between Medtronic and Plaintiffs.

Misappropriation Based Upon Breach of the Duty of Confidence

The misappropriation of trade secrets can also occur when one discloses or uses another's trade secret without a privilege to do so, and the "disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him." Restatement (First) of Torts § 757(b). To determine whether a duty of confidence exists between the parties, the relevant question is whether the defendant "knows or should know

that the information" is plaintiff's trade secret and "that its disclosure is made in confidence."[8] *Id.*, Comment on Clause (b).

New York courts have recognized the existence of a duty of confidence between an employer and employee. *Shalor Designs, Inc. v. NBA Properties, Inc.*, 264 A.D.2d 686, 687-88 (1st Dep't 1999). A duty of confidence may also arise in other circumstances. For example, a prospective purchase of another's business may owe a duty of confidence to keep disclosed information confidential if it promised to do so. Restatement (First) of Torts § 757, Comment on Clause (b).

Medtronic argues that they never owed a duty of confidence to Plaintiffs because the parties only maintained an arms-length, contractual relationship, and never a confidential relationship. Plaintiffs do not dispute that they had a contractual relationship with Medtronic. Plaintiffs argue, however, that they also maintained a confidential relationship with Medtronic based on Medtronic's representations that they would keep Plaintiffs' alleged trade secret

---

[8] Under the Restatement (Third) of Unfair Competition – which has been incorporated into New York's trade secrets law –

a "person to whom a trade secret has been disclosed owes a duty of confidence to the owner of the trade secret . . . if:

(a) the person made an express promise of confidentiality prior to the disclosure of the trade secret; or

(b) the trade secret was disclosed to the person under circumstances in which the relationship between the parties to the disclosure or the other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure,

(1) the person knew or had reason to know that the disclosure was intended to be in confidence, and

(2) the other party to the disclosure was reasonable in inferring that the person consented to an obligation of confidentiality. *Restatement (Third) of Unfair Competition* § 41 (1995); *see Wiener v. Lazard Freres & Co.*, 241 A.D.2d 114, 124 (1st Dep't 1998).

process confidential, and the circumstances under which the trade secret was disclosed to Medtronic.

Based on the evidence submitted, Plaintiffs raise an issue of fact as to whether Medtronic owed a duty of confidence to not disclose or use Plaintiffs' alleged trade secret. At his deposition, Zamore testified that he disclosed Plaintiffs' trade secret process under the protection of the parties' confidentiality agreements with Medtronic, and the confidential relationship that they maintained with Medtronic. Plaintiffs further submit evidence that they disclosed balloon samples, compliance curves, and machine settings to Medtronic, which they marked or identified as "confidential." Plaintiffs specifically identify the disclosure of confidential machine settings to Medtronic in 2004, process parameters in August 2005, and that the demonstration of their zero-fold balloon forming process to Cummins and Conroy in late August 2005.

In addition, Plaintiffs submit evidence that Medtronic promised to keep this information confidential. According to Zamore, Medtronic's employees Watson and Mendoza agreed to erase Plaintiffs' confidential machine settings in 2004, although they never did. Plaintiffs also claim that, upon demonstrating their zero-fold balloon forming process to Cummins and Conroy, they agreed to keep this information confidential. Plaintiffs submit Conroy's deposition testimony, in which she indicated that Medtronic would not steal Plaintiffs' technology, stating that "I would have told him [Zamore] that that's – we don't do that."

The deposition testimony and documentary evidence submitted by Plaintiffs is sufficient to raise a triable issue of fact as to whether Medtronic expressly promised to keep Plaintiffs' alleged trade secrets confidential. In addition, issues of fact exist as to whether Medtronic knew or should have known that Plaintiffs' disclosure of their alleged trade secret process were intended to be made in confidence, and whether Plaintiffs' expectation of confidentiality was reasonable under the circumstances.

And, although the contracts between Medtronic and Plaintiffs do not address Plaintiffs' alleged trade secrets, the existence of the contracts may be relevant to whether Medtronic owed a duty of confidence to Plaintiffs. In "some cases an express agreement regarding the confidentiality of particular information may be evidence of the parties' expectations regarding the confidentiality of other information not within the scope of the agreement." Restatement (Third) of Unfair Competition § 41 (1995). Because two confidentiality agreements were in place between the parties, Plaintiffs may have reasonably expected that their trade secret information that they disclosed to Medtronic was covered by the agreements.

Misappropriation Through Improper Means

Plaintiffs further raise an issue of fact as to whether Medtronic obtained their trade secret through improper means. At his deposition, Zamore testified that he never gave a copy of Plaintiffs' process parameters to Cummins, but that Cummins took a copy of the parameters from Zamore's laboratory without permission. In contrast, Cummins admits that he took a copy of the parameters after visiting Plaintiffs' laboratory, but asserts that he had permission

to do so. These competing accounts as to whether Plaintiffs' trade secret process parameters were misappropriated present an issue of fact to be determined at trial.[9]

For the above stated reasons, I deny the defendants' motion for summary judgment dismissing the misappropriation of trade secrets claim, except as to misappropriation based on a breach of the agreements. Plaintiffs raise triable issues of fact as to whether a trade secret exists, and whether any misappropriation of trade secrets occurred based on a breach of a duty of confidence or through improper means.

II. The Unfair Competition Claim

To prevail on an unfair competition claim, a plaintiff must show "the bad faith misappropriation of a commercial advantage which belonged exclusively to him." *LoPresti v. Massachusetts Mut. Life Ins. Co.*, 30 A.D.3d 474, 476 (2d Dep't 2006); *Ahead Realty LLC v. India House, Inc.*, 92 A.D.3d 424, 425 (1st Dep't 2012).

Medtronic argues that Plaintiffs' unfair competition claim is duplicative of the misappropriation of trade secrets claim. However, the "misappropriation and improper use of another's trade secrets is sufficient to constitute a claim for unfair competition." *Louis Capital Markets, L.P. v. REFCO Group Ltd., LLC*, 9 Misc.3d 283, 289 (Sup. Ct. N.Y. Co. 2005); *CBS Corp. v. Dumsday*, 268 A.D.2d 350, 353 (1st Dep't 2000). Here, Plaintiffs allege that Medtronic engaged in unfair competition by using their trade secret to make their zero

[9] In their moving papers, Medtronic does not address misappropriation of trade secrets based on improper means. Medtronic instead requests additional briefing on this issue, if it was raised by Plaintiffs in opposition. Although Plaintiffs raised this issue in opposition, I deny Medtronic's request for additional briefing as they had an opportunity to address this issue on reply.

fold balloon in the Sprinter Legend and by misstating that they are the exclusive manufacturers of the zero-fold balloon catheter. Medtronic has not shown as a matter of law that that their zero-fold balloon does not utilize Plaintiffs' trade secret. Therefore, Medtronic's motion for summary judgment dismissing the unfair competition claim is denied.

Even if Plaintiffs' balloon forming process does not constitute a trade secret, Plaintiffs may maintain their unfair competition claim based on the allegation that the defendants improperly used their confidential information. *Continental Dynamics Corp. v. Kanter*, 64 A.D.2d 975, 975 (2d Dep't 1978); *Laurel Hill Advisory Group, LLC v. American Stock Transfer & Trust Co., LLC*, 2010 WL 10028550 at *13 (Sup. Ct. N.Y. Co. 2012).

III. The Breach of Contract Claim

Medtronic moves for summary judgment dismissing Plaintiffs' breach of contract claim. As discussed above, all of the agreements protected confidential information related to Plaintiffs' Irracure technology, not Plaintiffs' alleged trade secret. Plaintiffs cannot therefore state any breach of contract claim with respect to the use or disclosure of their alleged trade secret. Accordingly, I grant Medtronic's motion for summary judgment dismissing Plaintiffs' second cause of action for breach of contract.

Plaintiffs' third cause of action for breach of good faith and fair dealing is predicated on the existence of a contract protecting their trade secrets. As no relevant contract exists, Plaintiffs cannot maintain their cause of action for breach of the implied covenant of good

faith and fair dealing. Medtronic's motion for summary judgment dismissing Plaintiffs' third cause of action for breach of good faith and fair dealing is therefore granted.

IV. The Unjust Enrichment Claim

A cause of action for unjust enrichment requires a showing that: (1) the defendant was enriched, (2) at the expense of the plaintiff, and (3) that it would be inequitable to permit the defendant to retain that which is claimed by the plaintiff. *Georgia Malone & Co. Inc. v. Ralph Rieder*, 86 A.D.3d 406, 408 (1st Dep't 2011); *Clifford R. Gray, Inc. v. LeChase Constr. Servs., LLC*, 31 A.D.3d 983, 987-88 (3d Dep't 2006).

In their sixth cause of action, Plaintiffs allege that Medtronic was unjustly enriched by the use of Plaintiffs' trade secret. I dismiss this claim as duplicative of Plaintiffs' misappropriation of trade secrets and unfair competition claims.

V. The Declaratory Judgment Claim

In the fourth cause of action, Plaintiffs seek a declaration stating they have an irrevocable, assignable, royalty-free, worldwide license for all products for which defendants make, use, or sell that utilize their trade secrets in whole or part, pursuant to the Federal Declaratory Judgment Act, 28 U.S.C. § 2201.

The Federal Declaratory Judgment Act, 28 U.S.C. § 2201 states that, upon "a case of actual controversy within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought" except under certain circumstances. I dismiss this claim because Plaintiff seeks a declaratory judgment

pursuant to a federal statute that governs declaratory judgment claims commenced in federal court. That statute has no applicability here.

VI. Plaintiffs' Claim for Punitive Damages

Medtronic asserts that punitive damages are unavailable in this action under any circumstances. Punitive damages are "available in a tort action where the wrongdoing is intentional or deliberate, has circumstances of aggravation or outrage, has a fraudulent or evil motive, or is in such conscious disregard of the rights of another that it is deemed willful and wanton." *Swersky v. Dreyer & Traub*, 219 A.D.2d 321, 328 (1st Dep't 1996). Although issues of fact exist as discussed above, the existing record does not contain evidence to suggest that any misappropriation of trade secrets or other tortious acts rose to the level of egregious or malicious conduct such that punitive damages are warranted. Therefore, Medtronic's motion for summary judgment dismissing Plaintiffs' punitive damages claim is granted.

Defendants' Motion to Preclude

Medtronic has also moved to preclude Plaintiffs' damages expert Charles R. Mahla, Ph.D. from offering any damages opinion concerning the disgorgement of Medtronic's past, future, and "pull-through" profits on the grounds that it is unreliable, speculative, and contrary to New York law.

Where confidential information has been misappropriated, damages are measured by the plaintiff's loss of profits – i.e., "the amount that the plaintiff would have made except for the defendant's wrong." *Support Systems Associates, Inc. v. Tavolacci*, 135 A.D.2d 704, 707

(2d Dep't 1987). These damages "may be measured by either plaintiff's loss or the profits unjustly gained by defendants through the use of the trade secret." *Paz Systems, Inc. v. Dakota Group Corp.*, 514 F.Supp.2d 402, 409 (E.D.N.Y. 2009). If lost profits or defendant's unjust profits are difficult to determine, damages may be based on a reasonable royalty rate. *LinkCo, Inc. v. Fujitsu Ltd.*, 232 F.Supp.2d 182, 186 (S.D.N.Y. 2002); *Vermont Microsystems, Inc. v. Autodesk, Inc.*, 138 F.3d 449, 450 (2d Cir. 1998).

Medtronic argues that Dr. Mahla should be precluded from measuring Plaintiffs' damages based on Medtronic's past and future profits. Contrary to Medtronic's contention, a plaintiff's damages may be measured by the profits unjustly gained by the defendants for misappropriation of trade secrets belonging to the plaintiff. The "[d]isgorgement of defendant's profits would be the proper measure of damages if defendant had used the trade secrets for his own benefit . . ." *Pencom Systems, Inc. v. Shapiro*, 193 A.D.2d 561, 561 (1st Dep't 1993). Thus, Dr. Mahla may offer a damages opinion as to Medtronic's past and future profits made from the use of Plaintiffs' alleged trade secrets.

Although Medtronic contends that Dr. Mahla's damages opinion is speculative because he did not account for the value of other components in the Sprinter Legend, Dr. Mahla specifically opined that the zero fold balloon is the central component of the Sprinter Legend and therefore, in his view, all profits from the Sprinter Legend are traceable to Plaintiffs' zero fold balloon technology. Dr. Mahla has provided a sufficient basis for his opinion, and therefore it cannot be precluded as speculative.

Medtronic further argues that Dr. Mahla should be precluded from testifying as to Plaintiffs' damages in the form of pull-through profits. In his CPLR § 3101(d) disclosure, Dr. Mahla stated that he intended to provide a damages opinion based on Medtronic's pull-through profits – i.e., "the amount of additional sales across the matrix of catheter sizes in the Sprinter Legend series sold by Defendants that Defendants have estimated they will enjoy as a result of selling the 1.25 zero-fold catheter." However, Dr. Mahla now asserts that he will only opine on Medtronic's pull-through profits for the purpose of calculating a reasonable royalty rate – Plaintiffs' alternative damages theory.

Based on Dr. Mahla's admission that he will not offer any testimony on pull-through profits alone, I preclude Dr. Mahla from testifying on this theory of damages, except as to how pull-through profits are relevant to the calculation of a reasonable royalty rate. Medtronic does not oppose limiting Dr. Mahla's testimony on pull-through profits to calculate a reasonable royalty rate, and does not dispute that a reasonable royalty rate is a proper measure of damages.[10]

Therefore, I grant Medtronic's motion to preclude Dr. Mahla's damages testimony on pull-through profits alone, except that Dr. Mahla may testify as to how pull-through profits relate to the calculation of a reasonable royalty rate.

In accordance with the foregoing, it is

ORDERED that defendants Medtronic, Inc., Medtronic Vascular, Inc., and Medtronic Vascular Holdings, Ltd.'s motion for summary judgment dismissing the complaint pursuant

[10] At this time, I do not address which measure of damages will be used at trial.

to CPLR § 3212 is granted to the extent that the first cause of action for misappropriation of trade secrets based upon the parties' agreements; the second cause of action for breach of contract; the third cause of action for breach of the implied covenant of good faith and fair dealing; the fourth cause of action for a declaratory judgment; and the sixth cause of action for unjust enrichment, and plaintiffs' claim for punitive damages are dismissed; and it is further

ORDERED that defendants Medtronic, Inc., Medtronic Vascular, Inc., and Medtronic Vascular Holdings, Ltd.'s motion for an order precluding plaintiff's expert witness Charles R. Mahla, Ph.D. from offering any testimony or opinion concerning the disgorgement of Medtronic's past, future, and "pull-through" profits is granted only to the extent set forth above; and it is further

ORDERED that counsel are directed to appear for a pre-trial conference at 60 Centre Street, Room 208, on June 24, 2015 at 2:15pm.

This constitutes the decision and order of this Court.

Dated: New York, New York
April 17, 2015

ENTER:

Saliann Scarpulla, J.S.C.