

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

Alexandria Division

INFORMATION CONSULTANTS, INC.,)
)
Plaintiff,)
)
v.) CIVIL ACTION NO. 81-1039-A
)
WILLIAM G. RITCHIE, JR., et al.,)
)
Defendants.)

MEMORANDUM OPINION

This matter came before the court on a hearing for a permanent injunction. For reasons stated below, the court denies the injunction.

Plaintiff Information Consultants, Inc. ("ICI") developed a computer software system, known as Information Requirements Control Automated Systems ("IRCAS"), for the United States Government, under contract with the Defense Supply Service-Washington. That contract was amended twice. In 1978, ICI entered into another contract with Defense Supply Service-Washington for further development of IRCAS. There have been nine modifications to that contract.

IRCAS essentially is a set of computer programs written in a frequently used computer language, COBOL. Plaintiff ICI regards some of the programs in IRCAS as proprietary, in particular its "ADX" and "ADMIT" programs. IRCAS will not operate properly without ADX or ADMIT, or functional equivalents of them. It is possible, however, to prevent users of IRCAS from learning how ADX and ADMIT work, even though they are present and operational within the system. This can be achieved by the use of passwords and other protective devices. With a protective device in place, a user can call ADX or ADMIT into operation, but cannot read out the sequence of logical steps that comprises the program, unless he knows how to circumvent the protective device. The sequence of steps making up a particular program may be a valuable trade secret.

ICI did not surround the programs it maintains are proprietary information with any significantly effective protective devices, such as a password.^{1/} ICI was aware of the availability of protective devices.

In March, 1980, Defense Supply Service-Washington solicited bids from computer vendors for the right to supply services required to run IRCAS programs. Richard DeRose, a former employee of ICI and president of defendant D.H.D., Inc. ("DHD"), received a printout of the IRCAS programs, including an ADX program, from the Office of the Secretary of Defense, in connection with the solicitation. DHD competes with ICI for computer software business. The government later cancelled the solicitation.

Defendants DHD and IBIS Corporation ("IBIS") remained interested in securing the IRCAS business after the solicitation of March, 1980. Fred Molthen of IBIS approached Commander Patton of the Office of the Chief of Naval Operations, in search of business. At a second meeting in June, 1981, Molthen suggested that IBIS could beat ICI's prices for IRCAS operations. Patton then requested that ICI supply a tape containing IRCAS programs to him so that he could give a competitor an opportunity to show that it could run IRCAS programs for less money than ICI. ICI supplied the tape.

Meanwhile, defendant DHD had hired William G. Ritchie, Jr., in June, 1981. Ritchie had been an employee of ICI from January 3, 1977, to June 15, 1981. As a marketing representative,

^{1/} In order to get within the IRCAS system in the first place, an operator of a computer terminal with IRCAS on-line must state the proper password to the computer. This password is insufficient to protect proprietary information, however, since paying users of IRCAS must know this password in order to use the system, and they could call up proprietary programs if there were no other barriers. ICI had a second set of passwords to protect some of its programs. These also were known to personnel at the Office of the Secretary of the Navy. With knowledge of these passwords and programming experience, a person operating a terminal hooked into a computer with IRCAS on-line could gain access to a third level of IRCAS. ICI asserts that this third level contained its proprietary programs. ICI took no effective measures to protect these from disclosure, not even by use of additional passwords.

Ritchie had contacts with persons at the Office of the Chief of Naval Operations. He had some technical familiarity with IRCAS, including use of ADMIT. When Ritchie announced that he was leaving ICI, James Trawick, vice-president for marketing of ICI, advised Ritchie that he should not compete for the business of ICI's customers if he wished to return to ICI some day.

DHD frequently works as a computer subcontractor for IBIS. In August, 1981, Molthen of IBIS met Ritchie, now of DHD. Around this time defendants discovered that the tape ICI had transmitted at Patton's request was unintelligible. At the instigation of defendants, Patton composed a letter requesting another tape. Ritchie provided names of some common IRCAS files that defendants wished to use to perform a cost comparison in order to get the Navy's business away from ICI. The letter did not name the ADX or ADMIT programs. The letter informed ICI that the Navy intended to use the tape "to conduct a partial evaluation of the Navy IRCAS system with another ADP time-sharing vendor."

In response, ICI put IRCAS on-line in the ICI computer used by the Navy under its IRCAS service contract. Mr. James Jensen of the Navy Department gave Ritchie the Navy's account number and password into IRCAS. Ritchie then transferred the IRCAS programs on the disc in the computer to a tape. Ritchie encountered difficulties "assembling" the programs on the tape, but did manage to assemble and compile at least four in about a week.

Ritchie, DeRose, and Molthen later returned to Patton's office to perform a cost comparison demonstration on the ICI computer. After a program has run, a Navy operator can enter the command "CHARGE" into the computer, and the computer will display the cost of the functions performed. Maurice Swinton, a Navy employee, supplied the CHARGE command to Ritchie while Ritchie operated the computer at the Navy's terminal. The Navy paid for the computer time used to make the comparison.

So far IBIS and DHD have not received any business as a result of this demonstration, and ICI has lost none.

Plaintiff claims violation of Virginia's Unfair Business Practices Act, Va. Code § 18.2-499 et seq., breach of fiduciary obligation to employer, tortious interference with contractual rights, and breach of contract. These claims all rest upon the factual allegation that defendants unlawfully used proprietary knowledge that defendant Ritchie had learned while in the employ of ICI. The asserted proprietary information falls into three classes: computer programs such as ADMIT and ADX, the CHARGE command, and customer lists of ICI.^{2/}

The duty not to disclose trade secrets of a former employer is clear:

An employee is a fiduciary with respect to the information which comes to him in the course of his employment. He must exercise the utmost good faith, loyalty and honesty towards his employer, whether coupled with an interest or not, and whether the compensation is small or large. The duty to be faithful does not cease when the employment ends. He has a duty not to reveal confidential information obtained through his employment, and not to use such confidential information after he has left his employment. Even where the contract of employment does not prohibit an employee from engaging in competitive businesses after the termination of his employment, there is a restraint that he may not use "confidential information or trade secrets obtained from the former employer, appropriating, in effect, to his competitive advantage what rightfully belongs to his employer." Community Counselling Service v. Reilly, 317 F.2d 239, 244 (4th Cir. 1963). [Footnotes omitted.]

^{2/}Plaintiff took the position that the court could decide this case without determining who owns all or part of IRCAS, ICI or the government. In another context, plaintiff formerly took the position that IRCAS was the property of the government, while the government, in excluding ICI from IRCAS service bids, asserted that ADMIT (a program used by ICI to optimize the IRCAS system) was "a proprietary software product of ICI." Also, defendants point to the terms of the Armed Services Procurement Regulations (now termed Defense Acquisition Regulations), 32 C.F.R. Part 9. These require a vendor to identify software upon which it wishes to place use or disclosure restrictions. Defendants assert that these regulations were incorporated by reference into ICI's IRCAS contracts, while ICI claims that even if that were the case, the regulations would not speak to whether the Navy could disclose the software contents to whomever it wished.

The court agrees with plaintiff that it need not reach the ownership issue, for the reason that plaintiff's proof is deficient in other respects.

Bull v. Logetronics, Inc., 323 F. Supp. 115, 132-33 (E.D. Va. 1971). See also Sperry Rand Corp. v. Electronic Concepts, Inc., 325 F. Supp. 1029 (E.D. Va. 1970); Structural Dyn. Res. Corp. v. Engineering Mech. R. Corp., 401 F. Supp. 1102 (E.D. Mich. 1975); Developments in the Law-Competitive Torts, 77 Harv. L. Rev. 888, 948-49 (1964).

However, as to the first two categories of asserted confidential information, plaintiff's evidence was deficient in two respects: it failed to show that the information was confidential, and it failed to show that defendants obtained the information only because Ritchie had become privy to it during his employ at ICI.

Personnel at the Office of the Chief of Naval Operations supplied the IRCAS passwords and the CHARGE command to Ritchie, so he would have learned these even if he had never worked for ICI. Also, Ritchie had no arcane technical expertise learned at ICI that enabled him to assemble IRCAS programs where others would fail; uncontested expert testimony revealed that an experienced COBOL programmer could assemble the IRCAS programs without any inside knowledge, once given the passwords into IRCAS by the Navy.^{3/}

In any event, the Office of the Secretary of Defense had already given DeRose, president of defendant DHD, a print-out of IRCAS, including ADX, before DHD even hired Ritchie. Defendants have not come into possession of the asserted proprietary information by way of Ritchie's violating a fiduciary duty to a former employer.^{4/}

^{3/} In fact, Ritchie assembled the programs in the least efficient way, and also needed assistance in transferring the disc contents to a tape.

^{4/} Plaintiff did not introduce evidence to prove that the government breached an obligation when it made the disclosures to defendants, and that defendants were aware the government was violating its obligation. In some circumstances such proof would justify an injunction against use of a trade secret by third parties such as defendants. Cf. Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912 (7th Cir. 1953) (third party may be enjoined from use of trade secret if aware that employee is breaching covenant with employer in disclosing secret).

Uncontroverted expert testimony revealed that it was industry practice to protect proprietary programs with protective devices such as passwords, and that ICI did not avail itself of such measures.^{5/} There was also no evidence that ICI had taken steps to impress upon its customers its wish to keep particular programs or the CHARGE command confidential. Even after Trawick of ICI suspected that IBIS and Ritchie would be involved in the cost comparison to which Patton referred in his letter requesting a second IRCAS tape, ICI neither changed its passwords or commands, nor informed Patton that it regarded any programs or command words as confidential.

The court is aware that trade secrets deserve protection, particularly in an innovative industry. However, ICI did not treat the information it says should be secret as secret. It now gives the information the label of "secret" after it has already let the horse out of the barn. The court will not protect what plaintiff itself did not take reasonable precautions to protect.^{6/} See Structural Dyn. Res. Corp., supra; A. O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934). Cf. Wheelabrator Corp. v. Fogle, 317 F. Supp. 633 (E.D. La. 1970), aff'd, 438 F.2d 1226 (5th Cir. 1971). (no trade secret where manufacturer admitted customers to plant where alleged secret processes were visible); Motorola, Inc. v. Fairchild Camera & Instrument Corp., 366 F. Supp. 1173 (D. Ariz. 1973) (plant tours for customers).

As for the third category of asserted proprietary information, plaintiff did not show that Ritchie had taken any confidential customer lists. There was no covenant between

^{5/}The president of ICI stated that ICI changes passwords and takes other protective steps when employees leave ICI, but did nothing after Ritchie quit.

^{6/}This case does not involve outright theft of software, see, e.g., University Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974). Nor does it involve breach of a confidentiality agreement. See, e.g., Com-Share, Incorporated v. Computer Complex, Inc., 338 F. Supp. 1229 (E.D. Mich. 1971), aff'd, 458 F.2d 1341 (6th Cir. 1972); Structural Dyn. Res. Corp., supra.

Ritchie and ICI restricting Ritchie from competing for ICI's customers. In the absence of a restrictive covenant, such activity violates no fiduciary duty of the former employee to his former employer, as long as he uses no confidential information of the former employer. See Reilly v. Community Consulting Service, Inc., 317 F.2d 239, 244 (4th Cir. 1963); Holiday Food Co., Inc. v. Monroe, 426 A.2d 814 (Conn. 1981).

For the reasons stated above, the court denies the request for a permanent injunction by the order accompanying this memorandum opinion.

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United States District Judge

Date: _____

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ORDER

This matter came before the court on a hearing for a permanent injunction. For reasons stated in the accompanying memorandum opinion, the court DENIES the injunction.

Let the Clerk mail a copy of this order and the accompanying memorandum opinion to counsel of record.

It is so ORDERED.

United States District Judge

Date: _____