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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

DIGITAL ENVOY, INC.,

Plaintiff/Counterdefendant,

v.

GOOGLE, INC.,

Defendant/Counterclaimant.

Case No. C 04 01497 RS

[REDACTED VERSION]

OPPOSITION TO GOOGLE'S MOTION FOR PARTIAL SUMMARY JUDGMENT RE: DIGITAL ENVOY, INC.'S DAMAGES CLAIMS

Date: **September 21, 2005**
Time: **9:30 a.m.**
Courtroom: **4, 5th Floor**

The Honorable Richard Seeborg

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I. INTRODUCTION

In the latest of its string of summary judgment motions, Google now contends that it is entitled to "partial summary judgment barring Digital Envoy from recovering damages from Google in this action." Google Memorandum at 20. However, Google relies on a misinterpretation of the License Agreement and a convoluted and incorrect assessment of Digital Envoy's basis for damages in support of its motion – neither of which entitle Google to the relief it seeks.

More importantly, Google's Motion is premature. To date: (i) Google has not yet completed its compliance with the Court's Order requiring production of additional documents and information directly related to revenues it achieved from incorporating Digital Envoy's proprietary technology into its AdSense product[1]; (ii) Google has not produced corporate witnesses knowledgeable to testify regarding the topics of Google's use of Digital Envoy's technology or revenues derived from that use as called for in Digital Envoy's Rule 30(b)(6) deposition notice; and (iii) pursuant to the Court's case management order, the parties has not even started expert designations or discovery. To seek summary judgment on the issue of damages prior to the completion of the factual record or the proffering of expert opinion is unjustifiable attempt to short-circuit the legal process.

Nevertheless, on the basis of its own arguments, Google's motion must fail. *First*, Google urges the Court to adopt an illegal interpretation of the parties' Agreement that would insulate Google from damages resulting from Google's intentional tortious conduct, in violation of California law and in plain contradiction of the purpose of the limited license agreement. *Second*, despite indisputable evidence that Google incorporated Digital Envoy's proprietary technology into its wildly profitable AdSense product, Google asserts that Digital Envoy cannot recover Google's unjust enrichment. Yet Google cites not a single authority that denies an aggrieved party recovery where the misappropriating defendant used that party's trade secret in a marketed

[1] Prior to filing this Motion, Google requested, and Digital Envoy granted, an extension to produce the documents and information required by the Court's Order.

product that achieved substantial revenue. Google instead attempts to rely on the purported complexity of the AdSense product to suggest that ascertaining the value of Digital Envoy's contribution to AdSense's success would be too difficult to permit Digital Envoy to recover. (Any ambiguity that might exist would be due to the manner in which Google used Digital Envoy's proprietary technology and Google's own records (or lack of records) regarding that use – ambiguities that must be resolved against Google, not Digital Envoy.) Google's position is unsupported by the law or the facts in this case. For the reasons set forth below, Google's motion must be denied.

II. BACKGROUND

A. The License Agreement

Digital Envoy and Google both acknowledge that they were parties to the November 2000 Product and Electronic Database Evaluation and License Agreement, as amended (the "License Agreement"). *See* Google Inc.'s Notice of Motion and Motion for Partial Summary Judgment Regarding Digital Envoy's Damages Claims; Memorandum in Support Thereof ("Google Memorandum") at 1; Declaration of David H. Kramer ("Kramer Declaration"), Ex. A. However, despite Google's assertion that the License Agreement grants Google "

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" Google Memorandum at 3-4, the License Agreement, in fact, was plainly limited in scope:

- *First*, the License Agreement restricted Google's use of Digital Envoy's proprietary technology to use in Google's Business. Kramer Declaration, Ex. A., Preamble;
- *Second*, the License Agreement expressly prohibits Google from

  Digital Envoy's proprietary technology

  Kramer Declaration, Ex. A., § 3.1; and
- *Third*, the License Agreement provides that '

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  Kramer Declaration, Ex. A., § 7.2.

That Digital Envoy's license to Google was limited (and not unlimited) is consistent with the parties' communications both during and after the negotiations and execution of the License

Agreement during which time Digital Envoy expressly communicated the limited nature of the license. *See* Declaration of Robert J. Waddell, Jr. ("Waddell Declaration"), ¶ 2, Ex. A. Further, Google itself confirmed to a potential investor in Digital Envoy that the License Agreement did not permit Google **REDACTED** *See id.*, ¶ 3, Ex. B.

Google's assertion that it

is also not supported by the evidence. It was not until February 2004, in response to a direct inquiry from Digital Envoy, that Google finally admitted that it used Digital Envoy's proprietary technology in its AdSense programs[2] approximately two years after Google began doing so. Perhaps more telling is the fact that Google's own employees who were most involved in the Digital Envoy-Google relationship did not know that Google had incorporated Digital Envoy's proprietary technology into the AdSense program until they conducted an investigation in response to Digital Envoy's inquiry. *See, e.g.*, Waddell Declaration, ¶ 3, Ex. B.

[3], the same Google employee who confirmed the limited scope of the license to the potential Digital Envoy investor, first (naturally) presumed that Google was honoring the limitations in the license, writing:

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See Waddell Declaration, ¶ 3, Ex. B. Ultimately, Google did confirm to Digital Envoy that Google was using Digital Envoy's proprietary technology in AdSense. *See id.*, ¶ 2, Ex. A.

B. Google's Advertising Programs and Their Marketing

Google markets two advertising products: AdWords and AdSense. Google Memorandum at 6. As Google explains: "**REDACTED**

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[2] AdSense is the product through which Google licenses its advertising program third-party web sites thereby permitting the third-party site to display advertisements, including advertisements that are targeted based on the content of the third-party site or visitor-input search terms and the geographic location of the visitor. *See, e.g.*, Rose Declaration, ¶ 7.

[3] Upon information and belief, refers to himself as "googleguy" on Internet message boards and often speaks knowledgeably and authoritatively about Google on such message boards.

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" Google Memorandum at 2. Google earns revenue when a user "clicks" on a displayed advertisement and the advertiser pays Google for that click. *See id.* Through AdWords, advertisements are displayed on Google's own web sites. *See id.* at 6.

In AdSense, Google displays advertisements on third-party web sites. Google Memorandum at 7. Google earns revenue in AdSense

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See id. In AdSense, Google

See id.

For both advertising products, Google markets its ability to display an advertiser's advertisements that are relevant to the Internet user. *See, e.g.*, Waddell Declaration, ¶ 4, Ex. C. In setting up their advertising campaigns, advertisers are provided the opportunity to select (i) "key words" to be associated with their advertisements on which content relevance can be determined; and (ii) the geographic locations (*e.g.*, country, state, or region) in which they want their advertisements to be displayed. *See id.* Advertisements are thus targeted based on the interests of the user (based on, for example, the content of the third-party web site and/or user-input search terms) and, where possible, the geographic location of the user. Google Memorandum at 6.

Google marketed its ability to serve targeted advertising. In particular, Google marketed the geotargeting capabilities of its advertising programs. *See, e.g.*, Waddell Declaration, ¶ 8, Ex. G,

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Id., ¶ 9, Ex. H, http://www.google.co.uk/services/adsense_tour/page4.html,

Id., ¶ 10, Ex. I, http://www.google.com/adsense/ourhometown,

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Id., ¶ 11, Ex. J, http://www.google.com/adsense/wifinder

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In addition, Internet advertisers and publishers also have stated the importance of geo-targeting. *See, e.g.*, *Id.*, ¶ 5, Ex. D, http://searchenginewtach.com/searchday/article/php/3099591

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Id., ¶ 6, Ex. E, http://siliconvalley.internet.com/news/article.php/3098431

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Id., ¶ 7, Ex. F, http://volokh.blogspot.com/2004/10/bellsouths-alliance-with-google.html

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As Google admits, Digital Envoy's proprietary technology was "often used" in .[4] Google Memorandum at 6-7. During the period in which Google incorporated Digital Envoy's proprietary technology in AdSense, Google achieved revenues from the AdSense product in excess of $.[5] *See* Waddell Declaration, ¶ 15, Ex. N. Therefore, it is undisputed that

[4] Google's use of Digital Envoy's proprietary technology in AdSense was outside of the scope of the License Agreement, because, in AdSense, Google effectively provided allowing REDACTED

[5] To date, Google has provided extremely limited information or support for its revenue numbers. Pursuant to the Court's July 15, 2005 Order, Google is required to produce additional information, including the revenue received by Google for REDACTED Order at 5 ( ). Based on Google's representations that it needed additional time to gather and produce the required information, Digital Envoy granted Google an extension by which to produce this additional information. In addition, Google now claims that costs associated with its AdSense product further reduce the profits AdSense generated. To date, however, Google has provided no explanation for or description of these "costs" or any supporting documentation thereof. Digital Envoy assumes that Google's supplemental production will supply this critical, but missing, information. Also, despite Digital Envoy's pending Rule 30(b)(6) Deposition Notice, Google has

Google achieved substantial revenues from a product that incorporated Digital Envoy's proprietary technology.

Nevertheless, Google asserts that Digital Envoy is not entitled to damages, even if it can establish that Google misappropriated Digital Envoy's trade secrets. To support this contention, Google offers a complex description of its advertisement selection process contending that Google uses Digital Envoy's data to

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Google Memorandum at 7-8. Thus, according to Google, an advertiser who selects to have its advertisements displayed only in a particular geographic location would have

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Google Memorandum at 6-7.

Even accepting Google's description at face value, it is difficult to see what relevance Google sees in its emphatic emphasis on this distinction. Whether advertisements are ultimately or " " the result is the same: Google's process is aimed at and that process, as it relates , utilizes Digital Envoy's proprietary technology to achieve the desired result and, thus, the display of the Indeed, according to Google's own logic, its advertising selection process (whether described as or ') is absolutely dependent on the determination of and Google uses Digital Envoy's technology to make that determination. *See, e.g.*, Deposition of Mark Rose, at 26, 45, 50-51.

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yet to provide a witness to testify on behalf Google on the topics of (i) how Google used Digital Envoy's data in its AdSense programs; or (ii) the nature and amount of revenue Google achieved from AdSense. At Google's request, Digital Envoy has communicated to Google the deficiencies in its Rule 30(b)(6) response, to which Google has not yet responded.

III. ARGUMENT AND AUTHORITY

A. Google Is Not Entitled to Partial Summary Judgment.

For purposes of summary judgment, "all evidence must be construed in the light most favorable to the party opposing summary judgment." *Anderson v. Liberty Lobby*, 477 U.S. 242, n.2 (1986); *T.W. Elec. Serv. v. Pacific Elec. Contractors Ass'n*, 809 F.2d 626, 631 (9th Cir. 1987). The "party seeking summary judgment *always* bears the *initial responsibility* of informing the district court of the basis for its motion, and identifying those portions of the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, which it believes demonstrate the absence of a genuine issue of material fact." *Celotex Corp. v. Catrett*, 477 U.S. 317, 323 (1986) (emphasis added). Thus, the non-moving party – here, Digital Envoy – is only obliged to produce evidence when the moving party has discharged its initial responsibility of showing "the absence of a genuine issue concerning any material fact." *Id.* at 325. Such a dispute is "genuine" if "a reasonable jury could return a verdict for the non-moving party." 477 U.S. at 248.

As set forth in greater detail below, Google attacks Digital Envoy's theory of recovery based on Google's own flawed damages theory. In relying on such a flawed theory of damages, Google's proffered facts are not material to the proper theory of damages. As such, Google has failed utterly to meet its initial burden of showing the Court that there is an absence of a genuine issue of material fact.

In contrast, Digital Envoy provides evidentiary support that directly connects Google's AdSense profits to the use of Digital Envoy's proprietary technology. In other words, despite Google's failure to meet its initial burden, Digital Envoy sets forth the specific facts that show the direct causal link between Google's AdSense profits and Google's wrongful use of Digital Envoy's proprietary technology. Google's motion must therefore be denied.

B. Section 8 Of The License Agreement Does Not Limit Google's Liability For Misappropriating Digital Envoy's Trade Secrets.

In a attempt to escape liability for its misappropriation of Digital Envoy's trade secrets, Google argues that a provision of the License Agreement that limited damages arising as a result

of a party's performance of its duties under the License Agreement shields Google from liability for its commission of the intentional tort of misappropriation of trade secrets. Google's proffered interpretation of this provision is contrary to both California law and the intent of the parties as expressed in the License Agreement. Accordingly, this Court should reject Google's interpretation.

1. Google's interpretation of Section 8 is incorrect as a matter of California contract law.

The License Agreement contains a section whereby both parties disclaimed certain warranties and accepted liability for certain acts. Section 8 of the License Agreement reads as follows:

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Kramer Dec. Ex. A, § 8 (capitalization in original).

With one exception, this is a typical seller's warranty. The provider of services – Digital Envoy – issued certain warranties, disclaimed all other warranties, and then limited its liability for any claim brought under the License Agreement. What makes this section unusual, however, is

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that Google insisted .[6] *See Badie v. Bank of America*, 67 Cal. App. 4th 779, 782 (1998) (citing Cal. Civ. Code § 1664 for the proposition that ambiguities in contracts are construed against the drafter.)

The subject matter of the initial sentences in Section 8 make clear that the last sentence was meant to apply to claims such as . In the first sentence, Digital Envoy warrants that

In the second sentence, both parties acknowledge

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In the third sentence, both parties In the fourth sentence, Digital Envoy

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. In the fifth sentence, both parties

These five sentences serve as a prelude to the limitation in the sixth sentence. That limitation reads:

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" Kramer Declaration, Ex. A, § 8. The parties intended this limitation to apply in situations where Based on the clear language of Section 8, the parties did not intend

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Contracts are to be interpreted "so as to give effect to the intention of the parties as it existed at the time of the contract, so far as the same is ascertainable." *Continental Manufacturing Corp. v. Underwriters at Lloyds London*, 185 Cal. App. 2d 545, 549 (1960) (citing Cal. Civ. Code

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[6] Section 8 expressly refers to These types of harm may be more directly applicable to Digital Envoy's performance under the License Agreement; nevertheless, Google that drafted seeking, presumably, under the License Agreement. Google Memorandum at 5.

§ 1636). "The language of the contract governs its interpretation if the language is clear." *Id.* (citing Cal. Civ. Code § 1638). "In determining the meaning of a contract, the court may take into consideration the circumstances under which it was made and the matter to which it relates." *Id.* (citing Cal. Civ. Code § 1647). "To determine what the parties meant by one clause of [a] contract, the whole contract must be examined, and other clauses of the contract may be considered in interpreting the meaning of the one in question." *Id.* (citing Cal. Civ. Code § 1641).

Applying these rules to Section 8, it is clear the parties intended it to address only

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Under Google's interpretation of Section 8, it could

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under the License Agreement. The rules of contract construction, as well as common sense, dictate that this result is not one the parties intended when they negotiated and drafted the License Agreement.

Indeed, Google's interpretation of the limitation essentially guts the purpose of the License Agreement. The License Agreement allowed Google to have

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.[7] Under Google's interpretation, Google would be allowed

[8] The interpretation and result urged by Google renders, as farce, the parties' careful negotiations about the scope of the license and the price to be paid.

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[7] Despite its contention that it believed it could u
Google has acknowledged that at the time of execution it was aware
See Schimmel Deposition at 106-108 (
). Thus, Mr. Schimmel admits that Google
In light of this awareness at the time of execution that there were
Google's current argument that it could
strains credulity.

[8] This is because under Google's interpretation, its liability for anything it does with Digital Envoy's
Therefore, Google could

Digital Envoy's claim is not brought pursuant to the License Agreement. It is not brought based on any rights granted to it in the License Agreement. Digital Envoy's claim is, by definition, *ex delicto*. Cal. Civ. Code § 3426.1(b)(2)(B)(ii) provides:

> (b) Misappropriation means. . . (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: . . .(B) At the time of the disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: . . . (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy of limit its use.

In order for Digital Envoy to prevail on its trade secret claim, it must prove that Google's use of its technology was beyond the scope of the License Agreement. Logically, any claim brought against Google for its acts outside License Agreement is not brought "UNDER THE AGREEMENT." Indeed, Digital Envoy's claim is hinged entirely to the fact that Google is operating *outside the bounds of the License Agreement*.

To support its contention that Section 8 applies to Digital Envoy's trade secret, Google cites a series of federal cases which it contends support its claim that Digital Envoy's claim is brought "UNDER THIS AGREEMENT." However, each case Google cites is clearly distinguishable. The cases cited by Google can be divided into one of two categories: (i) cases analyzing the scope of arbitration clauses under the liberality standard of the Federal Arbitration Act, *see Mediterranean Enters., Inc. v. Ssangyong Corp.*, 708 F.2d 1458, 1464 (9th Cir. 1983); *In re Kinoshita & Co.*, 287 F.2d 951, 953 (2nd Cir. 1961) (both holding that claims arose under the contract for purposes of the arbitration agreement); and (ii) cases analyzing the scope of forum selection clauses under federal law, *see Terra Int'l, Inc. v. Mississippi Chem. Corp.*, 119 F.3d 688, 692 (8th Cir. 1997); *National Micrographics Sys., Inc. v. Canon USA, Inc.*, 825 F. Supp. 671, 677-78 (D.N.J. 1993); *Picken v. Minuteman Press Int'l, Inc.*, 854 F. Supp. 909, 911-12 (N.D. Ga. 1993); *Farrow, Inc. v. Gucci Am., Inc.*, 858 F.2d 509, 514 (9th Cir. 1988) (all holding that claims arise under the contract for purposes of forum selection clauses).

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completely ignore the License Agreement's limitations and have

The contexts in which Google's cases were decided were unique, and their reasoning does not apply to Google's invocation of Section 8 as a bar to Google's liability *cf. Philippine Airlines, Inc. v. McDonnell Douglas Corp.*, 189 Cal. App. 3d. 234, 237 (1987) (California law requires courts to narrowly construe contract provisions that limit a party's liability.) In direct contrast to California's rule that purported "limitation of liability" provisions must be construed narrowly against the party invoking their protection, the Supreme Court of the United States has ruled that forum selection clauses and arbitration provisions are to be given broad interpretations and to be generally enforced. *See Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 589, 111 S. Ct. 1522 (1991); *M/S Bremen v. Zapata Off-Shore Co.*, 407 U.S. 1, 15 (1972) (both holding that forum selection clauses are presumptively valid and should be enforced); *see also Moses H. Cone Mem'l Hosp. v. Mercury Const. Corp.*, 460 U.S. 1, 23, n. 7 (1983); *Shearson/American Express, Inc. v. McMahon*, 482 U.S. 220, 220 (1987) (both holding that federal law requires a liberal reading of arbitration agreements). Accordingly, when interpreting such provisions, courts are to construe liberally whether claims are brought under such agreements. These cases, therefore, are inapposite to the question of whether Google's misappropriation is covered under Section 8 of the License Agreement. As Google concedes, there is no case that stands for the proposition that misappropriation claims arise under the License Agreement. *See* Google Memorandum at 11 (noting that "[t]here is virtually no case authority interpreting the precise language at issue.").

2. Google's proffered interpretation of the limitation provision violates California law.

Moreover, Google's interpretation of Section 8 renders it unenforceable under California law. Cal. Civ. Code § 1668, entitled "Contracts contrary to policy of law," provides as follows:

> CERTAIN CONTRACTS UNLAWFUL. All contracts which have for their object, directly or indirectly, to exempt anyone from responsibility for his own fraud, or willful injury to the person or property of another, or violation of law, whether willful or negligent, are against the policy of the law.

As Google itself has noted "[t]rade secret misappropriation is an intentional tort." *See* Google, Inc.'s Supplemental Brief in Support of its Motion for Summary Judgment at 1 (citing *PMC, Inc.*

v. Kadisha, 78 Cal. App. 4th 1368, 1382 (2000); *Del Monte Fresh Produce Co. v. Dole Food Co., Inc.*, 148 F. Supp. 2d 1326, 1338 (S.D. Fla. 2001)(both holding that misappropriation of trade secrets is an intentional tort). Accordingly, any provision in the License Agreement that purports to limit liability for an intention tort, such as the misappropriation of trade secrets, would be invalid pursuant to California Civil Code Section 1668.

California courts consistently have held that exculpatory clauses that purport to limit damages for a party's willful, wanton, or intentional acts are invalid as a matter of law. "[C]ontractual releases of future liability for fraud and other intentional wrongs are invariably invalidated." *Farnham v. Sequoia Holdings, Inc.*, 60 Cal. App. 4th 69, 71 (1997). Prospective limitations on damages resulting from intentional torts are invalid as a matter of law. *See RiLoro, Inc. v. Tumanjan*, Case No. B171371, 2005 WL 1120087 (Cal. App. 2d Dist. May 12, 2005) (holding that liquidated damages clause limiting liability to $103,750 did not apply to plaintiff's fraud claim since Cal. Civ. Code § 1668 invalidated any prospective limitation on damages for an intentional tort); *see also Ting v. AT&T*, 182 F. Supp. 2d 902 (N.D. Cal. 2002) (holding that a limitation on liability for an intentional tort is invalid pursuant to California Civil Code § 1668); *Klein v. Asgrow Seed Co.*, 246 Cal. App. 2d 87, 100-101 (1966) (same); *Nunes Turfgrass, Inc. v. Vaughan-Jacklin Seed Company, Inc.*, 200 Cal. App. 3d 1518, 1535 (1988) (recognizing that *Klein* holds that limitations on liability for intentional torts are void as against public policy).[9]

Clearly, the parties intended for the

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such as

The parties clearly did not intend for the

However, even accepting Google's interpretation, such an interpretation amounts to a prospective limitation and would be invalid under California Civil Code §

[9] The *Farnham* court held that a "limitation of liability" provision that insulated directors of company from liability for the corporation's intentional torts, and permitted full recovery from the corporation, was not *per se* illegal because the plaintiff retained the right to seek redress for the total amount of his loss from the corporation. 60 Cal. App. 4th at 77.

1668. Accordingly, this Court should reject Google's interpretation of the limitation provision or invalidate the provision *in toto.*

3. Google's misappropriation of Digital Envoy's trade secrets was willful, in the ordinary and plain meaning of that term.

Further, Google's assertion that Digital Envoy must prove that Google "intended" to harm Digital Envoy is unsupported by the plain language of the License Agreement and California law. Google attempts to raise again essentially the same issue already decided by this Court in ruling on Google's motion on the so-called "*mens rea*" issue. *See* Supplemental Order Denying Google's Motion on the Trade Secret Claim, at 3 ("Accordingly, if it is ultimately found that Google exceeded the scope of its License, then a trier of fact may also conclude that Google knew or should have known that its use of Digital's proprietary technology in its AdSense program was a misappropriation of Digital's trade secrets."). Once again, Google is wrong.

As the Court noted in its Supplemental Order, "liability in a trade secret case lies only in the wrongful acquisition of a trade secret, but also in the unauthorized disclosure or use of the proprietary information." Supplemental Order at 3. (citing *Clark v. Bunker*, 453 F.2d 1006, 1008, n. 2 (9th Cir. 1972). Whether or not Google *intended* to misappropriate Digital Envoy's trade secrets is quite beside the point for purposes of determining whether Google's use was "unauthorized" under the License Agreement. As Digital Envoy has previously argued, bad faith is not an element of a violation of California Civil Code § 3426.1(b)(2)(B)(ii).[10]

Google cites *Woodson v. Everson*, 61 Cal. App.2d 204, 208 (1943), for the proposition that "willful misconduct" is conduct "of a quasi-criminal nature." Google Memorandum, at 9. However, the *Woodson* court expressly stated that its was interpreting the phrase willful

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[10] A party need only intentionally "use" "disclose" the trade secret in order to be liable under this section of CUTSA. It need not do so with knowledge that it is breaching its duty to maintain its secrecy or limit its use. In this regard, subsection (b)(2)(B)(ii) is similar to the tort of trespass. To be liable for trespass, a party need not know it is crossing onto another's property – he need only cross onto another's property of his own volition. *See Miller v. National Broadcasting Company*, 187 Cal. App. 3d 1463, 148 (1987) (trespass actions are "characterized as intentional torts, regardless of the actor's motivation.").

misconduct "as that term is used in Section 403 of the Vehicle Code." 61 Cal. App. 2d at 207. Google next cites *Gillespie v. Rawlings*, 49 Cal.2d 359 (1957) for the proposition that in order to show "willful misconduct" plaintiff must show "that the defendant acted with either knowledge that serious injury would result, or a wanton and reckless disregard of the possible results." Google Memorandum, at 9. Just like *Woodson*, *Gillespie* involved an interpretation of "willful misconduct" as that term is used in Section 403 of the California Vehicle Code. *Id.* at 363. As such, the *Woodson* and *Gillespie* interpretations of the phrase "willful misconduct" are not relevant to meaning of the phrase as it was used in the License Agreement. The phrase as it appears in the License Agreement is to be given its ordinary meaning. *See Coast Plaza Doctor's Hospital v. Blue Cross of California*, 83 Cal. App. 4th 677, 684 (2000). It is on this point that *Gillespie* provides a relevant holding. In discussing the meaning of the phrase, the Court noted that "[i]f we were to use the words in their ordinary sense, they would mean simply the indulging in wrongful conduct by conscious choice. Such conduct might consist of doing something that ought not to be done or in failing to do something that ought to be done." 49 Cal. 2d at 367. Thus, "willful," in its ordinary sense, does not imply a heightened standard of Google's intention to do Digital Envoy harm or to violate the terms of the License Agreement.

This is precisely what the phrase means it the License Agreement. "Willful," as that term is used in Section 8, refers to Google's *actions*, not its *intentions*.[11] The second sentence in Section 8 expressly [redacted] In the fourth sentence, [redacted]

Thus [redacted] as that term is used in Section 8, simply describes [redacted]

[11] *See* BLACK'S LAW DICTIONARY 1593 (7th ed. 1999) (defining "willful" as "voluntary and intentional, but not necessarily malicious.").

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C. Google Is Not Entitled To Summary Judgment On Digital Envoy's Damages Claims.

1. The Uniform Trade Secrets Act authorizes the recovery that Digital Envoy seeks.

Google continues to caricature and misrepresent the bases for Digital Envoy's claim for damages. Through its enactment of the Uniform Trade Secrets Act ("UTSA"), California has recognized the inherent difficulty for a plaintiff to ascertain and prove damages resulting from the misappropriation of its trade secrets and, thus, provides multiple avenues for recovery to serve the overarching goal of making the plaintiff whole. *See Telex Corp. v. Int'l Bus. Machines Corp.*, 510 F.2d 894, 931 (10th Cir. 1975) (recognizing that underlying purpose of UTSA's damage provisions is to make the plaintiff whole and awarding damages for unjust enrichment as well as compensatory damages); *cf. Computer Assocs. Int'l, Inc. v. American Fundware, Inc.*, 831 F. Supp. 1516, 1518 (D. Colo. 1993) (recognizing that measure of damages for misappropriation of trade secrets can be elusive). Specifically, the California Trade Secrets Act ("Section 3426.3") authorizes the following recovery:

> (a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant may also recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
>
> (b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time use could have been prohibited.
>
> (c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).

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[12] *See, e.g.*, Supplemental Order Denying Google's Motion for Summary Judgment on the Trade Secret Claim, at 2-3 ("Nonetheless, Digital pointed out that the License contained limits prohibiting Google from . Digital also noted that, prior to the execution of the License, it clarified with Google the meaning of that clause, informing Google that it would not be permitted to

See Cal. Civ. Code § 3426.3.

Although Google acquired a limited license from Digital Envoy for and used that technology in products that achieved substantial revenue, Google now contends that provided no enhancement at all to its advertising programs – including its AdSense programs. *See* Google Memorandum at 19. Further, Google's incredulity aside, every third-party web site with which Google shared (or licensed) Digital Envoy's geo-targeting technology was a potential licensee of Digital Envoy, and that Google's unauthorized provision of Digital Envoy's technology to "hundred of thousands" of web sites significantly and detrimentally impacted the market for Digital Envoy's technology to other advertising networks – all of which were potential licensees of Digital Envoy's technology.

Nevertheless, Google continues to devote its critique of Digital Envoy's damage theories to the actual loss prong of recovery, thereby ignoring the fact that Section 3426.3 authorizes Digital Envoy to recover Google's unjust enrichment resulting from its unauthorized use of Digital Envoy's technology. *See* Cal. Civ. Code § 3426.3(a); *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 536 (5th Cir. 1974) (an appropriate measure of damages for misappropriation of a trade secret are "the benefits, profits, or advantages gained by the defendant in the use of the trade secret").

In its Motion for Partial Summary Judgment, Google has taken aim at the alleged difficulty of establishing the *amount* of Digital Envoy's damages and Google's unjust enrichment. *Cf. Telex Corp. v. Int'l Bus. Mach. Corp.*, 510 F.2d 894, 932 (10th Cir. 1975) ("The fact that [damages for trade secret misappropriation] are difficult to pin down should not militate in favor of the wrongdoer."). California courts are clear: Certainty about the existence, not the amount of damages, is controlling. *See, e.g., Stott v. Johnston*, 36 Cal. 2d 864, 875 (1951); *see also Brawthen v. H & R Block, Inc.*, 52 Cal. App. 3d 139, 148 (1975) ("Once plaintiff has established the basis for a loss of anticipated profits with reasonable certainty, then any other uncertainties that necessarily arise in calculating the amount of anticipated profits should be resolved against the [defendant]."); *Schroeder v. Auto Driveway Co.*, 11 Cal. 3d 908, 921 (1974) ("Liability cannot be evaded because damages cannot be ascertained with exactness"); *cf. Electro-Miniatures Corp. v.*

Wendon Co., 771 F.2d 23, 27 (2d Cir. 1985) (holding in trade secret misappropriation case, "[w]here . . . there is a clear showing of injury that is not susceptible to exact measurement because of the defendant's conduct, the jury has some latitude to 'make a just and reasonable estimate of the damages based on relevant data.'").

Under the UTSA, the defendant – here, Google – bears the burden of establishing both (i) the costs and expenses to be deducted from revenues derived from the misappropriated trade secret; and (ii) the amount, if any, of the defendant's own contribution to the value of the product or service containing the misappropriated trade secret. *See, e.g., USM Corp. v. Marson Fastener Corp.*, 467 N.E.2d 1271, 1276 (Mass. 1984) ("Once a plaintiff demonstrates that a defendant made a profit from the sale of products produced by improper use of a trade secret, the burden shifts to the defendant to demonstrate those costs properly to be offset against its profit and the portion of its profit attributable to factors other than the trade secret. If a defendant cannot meet its burden as to costs and profits, the defendant must suffer the consequences."); *see also Electro-Miniatures Corp.*, 771 F.2d at 27 (holding that for equipment depending upon the ability to use the smaller component embodying the trade secret, it could be proper to compute damages based on the sales of all equipment including the secret component); *Jet Spray Cooler, Inc. v. Crampton*, 385 N.E.2d 1349, 1358 (Mass. 1979) (holding that the defendant's net profits from sales were the proper basis for recovery where the defendant's product "incorporated" the trade secret); *Carter Products, Inc. v. Colgate-Palmolive Co.*, 214 F. Supp. 383, 397 (D. Md. 1963) (holding that once the plaintiff proves that profits were achieved due to the sale of products incorporating the proprietary information, the burden shifts to the defendant to show what part of the profit is attributable to features other than the proprietary information).

2. The record evidence establishes that Google achieved revenues through its sale of a product that incorporated Digital Envoy's trade secret.

In this case, it is undisputed that:

- Google's AdSense products incorporated and utilized Digital Envoy's proprietary technology allowing :

Indeed, as Google admits, Google **REDACTED**

REDACTED

Declaration of Mark Rose in Support of Google Inc.'s Motion for Partial Summary Judgment Regarding Digital Envoy, Inc.'s Damages Claims ("Rose Declaration"), ¶ 7; *see also* Declaration of Susan Wojcicki in Support of Google Inc.'s Motion for Partial Summary Judgment Regarding Digital Envoy, Inc.'s Damages Claims ("Wojicki Declaration"), ¶ 5 (' ").

- Google's AdSense products achieved significant revenues from the licensing of AdSense.[13] *See* Waddell Declaration, ¶ 15, Ex. N. Therefore, once Digital Envoy establishes that Google's use of Digital Envoy's technology in AdSense was unauthorized, Google's unauthorized use would constitute misappropriation for which Digital Envoy is entitled to recover. *See* Cal. Civ. Code § 3426.3.

Furthermore, based on Google's own admissions, Digital Envoy's technology was a *necessary* factor The logical analysis of Google's own statements is simple:

- REDACTED

  See Wojcicki Declaration, ¶¶ 4-5.

- REDACTED *See* Rose Declaration, ¶¶ 6, 9.

- REDACTED

  See, e.g., Rose Declaration, ¶¶6, 9.

- *See* Rose Declaration, ¶¶ 6, 7.

  REDACTED

- *See* Rose Declaration, ¶7.

The conclusion is obvious: If Google achieved revenue from then Digital Envoy's

[13] During the relevant time period, based on information Google provided to Digital Envoy, Google achieved revenues in excess of $ dollars. *See* Waddell Declaration, ¶ 15, Ex. N.

Envoy's proprietary technology. Whether in the alternative universe Google proposes, Google could have created a different product with different capabilities (*e.g.*,

) that might have achieved different revenues is of no matter.[14] *See, e.g.*, *Carter Products*, 214 F. Supp. at 396-97 (rejecting the defendant's argument that it could have produced its product without the trade secret and achieved the same success noting that the defendant nevertheless chose to market the product containing the trade secret). Here, in the real world, Google *did use* Digital Envoy's proprietary technology in its AdSense product, which *did achieve* substantial revenues. Digital Envoy does not and never has contended that its proprietary technology was the *sole* factor in the success of the AdSense product, but it undoubtedly was a *necessary* factor, thereby directly contributing to Google's actual revenue.

The only case Google cites in support of its assertion that Digital Envoy cannot recover Google unjust enrichment is *Unilogic, Inc. v. Burroughs Corp.*, 10 Cal. App. 4th 612 (1992). However, *Unilogic* does not apply to the facts in this case. The *Unilogic* court held that summary judgment was proper where the trade secret plaintiff failed to adduce evidence that the defendant was unjustly enriched by the use of the plaintiff's trade secret, where (i) the product containing the trade secret was never marketed and the defendant earned no profits, and (ii) the only evidence of enrichment was the plaintiff's unsupported testimony of the purchase price of the trade secret many years prior to the misappropriation. *Unilogic*, 12 Cal. App. 4th at 627-28. Here, in stark contrast, there is no doubt that the very product that incorporated Digital Envoy's trade secret was marketed on the basis of the enhancement that trade secret provided, was sold,

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[14] Google's Mark Rose states in his declaration that "

." Rose Declaration, ¶ 9. However, Rose's assertion is rank speculation, because Google did use Digital Envoy's technology to . *See id.*, ¶ 7.

proprietary technology was a *necessary* factor Under the system that Google chose to employ, REDACTED through the use of Digital Envoy's proprietary technology. Whether in the alternative universe Google proposes, Google could have created a different product with different capabilities (*e.g.*,) that might have achieved different revenues is of no matter.[14] *See, e.g.*, *Carter Products*, 214 F. Supp. at 396-97 (rejecting the defendant's argument that it could have produced its product without the trade secret and achieved the same success noting that the defendant nevertheless chose to market the product containing the trade secret). Here, in the real world, Google *did use* Digital Envoy's proprietary technology in its AdSense product, which *did achieve* substantial revenues. Digital Envoy does not and never has contended that its proprietary technology was the *sole* factor in the success of the AdSense product, but it undoubtedly was a *necessary* factor, thereby directly contributing to Google's actual revenue.

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[14] Google's Mark Rose states in his declaration that "it is quite possible that in any given instance, Google would have selected the same advertisements for display with or without geotargeting." Rose Declaration, ¶ 9. However, Rose's assertion is rank speculation, because Google did use Digital Envoy's technology to geotarget. *See id.*, ¶ 7.

substantial revenue. Based on this record evidence, contained in Google's own admissions, summary judgment is not warranted.

3. The evidence, including Google's own admissions, demonstrates that was a valuable component in Internet advertising.

Google would have this Court (and, ultimately, a jury) believe that:

(i) Google actively sought the ability to perform ;

(ii) incorporate it into its advertising programs;

(iii) market the capabilities of those programs;

(iv) sign up advertisers who desired ; and

(v) after Digital Envoy filed this lawsuit, acquire when there is no ascertainable value in *See* Google Memorandum at 19 ("For all anyone knows, Google use of [Digital Envoy's proprietary technology] had no impact at all on the :

REDACTED

Google's position is, simply, incredible.

In its own statements and on its own web site, Google has admitted the importance of . For example:

- **REDACTED** *See* Waddell Declaration, ¶ 8, Ex. G,

- **REDACTED** *See Id.*, ¶ 9, Ex. H,

- **REDACTED** *See id.*, ¶ 10, Ex. I,

- **REDACTED** *See Id.*, ¶ 11, Ex. J,

- REDACTED

See Id., ¶ 12, Ex. K.

See Id., ¶ 13, Ex. L

Internet advertisers and publishers also have stated

- REDACTED

See Id., ¶ 5, Ex. D

- REDACTED

" *See id.*, ¶ 6, Ex.

- REDACTED

See id., ¶ 7, Ex. F,

and

- Reporting that, based on an internal Google case study, geo-targeted advertisements generated a 117 percent increase in the "click-thru" rate over non-geo-targeted advertisements. *See* Waddell Declaration, ¶ 14, Ex. M.

Perhaps most importantly, Google's internal case study demonstrated

See Waddell Declaration, ¶ 14, Ex. M. Google also directly touted and encouraged advertisers to – a capability that was made possible, in part, by Google's use of Digital Envoy's proprietary technology. *See id.*

Thus, under the weight of its own statements and other evidence that demonstrate that Google, and other participants in the Internet advertising market, placed high value on Google cannot possibly satisfy its burden on its motion for partial summary judgment that no "reasonable juror" could find that REDACTED

IV. CONCLUSION

For the foregoing reasons, Digital Envoy respectfully requests that Google's Motion for Partial Summary Judgment Regarding Digital Envoy's Damages Claims be denied.

DATED: September 1, 2005

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