

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

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| U.S. DEMIL, LLC, | . | Civil Action No. 1:11cv802 |
| | . | |
| Plaintiff, | . | |
| | . | |
| vs. | . | Alexandria, Virginia |
| | . | October 27, 2011 |
| ARA GROUP, INC., | . | 10:15 a.m. |
| | . | |
| Defendant. | . | |
| | . | |
| | . | |

TRANSCRIPT OF MOTIONS HEARING
BEFORE THE HONORABLE LEONIE M. BRINKEMA
UNITED STATES DISTRICT JUDGE

APPEARANCES:

| | |
|--------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| FOR THE PLAINTIFF: | ERIKA N.D. STANAT, ESQ. Harter Secrest & Emery LLP 1600 Bausch & Lomb Place Rochester, NY 14604-2711 and DAVID J. GOGAL, ESQ. Blankingship & Keith PC 4020 University Drive, Suite 300 Fairfax, VA 22030 |
| FOR THE DEFENDANT: | RANDALL K. MILLER, ESQ. NICHOLAS M. DePALMA, ESQ. Arnold & Porter LLP 1600 Tysons Boulevard, Suite 900 McLean, VA 22102-4865 |
| OFFICIAL COURT REPORTER: | ANNELIESE J. THOMSON, RDR, CRR U.S. District Court, Fifth Floor 401 Courthouse Square Alexandria, VA 22314 (703)299-8595 |

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1 P R O C E E D I N G S

2 THE CLERK: Civil Action 11-802, U.S. Demil, LLC v. ARA
3 Group, Inc. Will counsel please note their appearances for the
4 record.

5 MS. STANAT: Good morning. Erika Stanat from Harter
6 Secret & Emery.

7 MR. GOGAL: I'm David Gogal with Blankingship & Keith,
8 local counsel.

9 THE COURT: Good morning.

10 MS. STANAT: Thank you.

11 MR. MILLER: Good morning, Your Honor. Again, Randy
12 Miller from the Arnold & Porter McLean office on behalf of the
13 defendant, here with, also again with Nick DePalma.

14 THE COURT: All right, before the Court are two motions:
15 the defendant's motion to take judicial notice of attached
16 documents and the defendant's motion to dismiss the first amended
17 complaint. I'm denying the motion to take judicial notice of the
18 attached documents. This is a motion to dismiss. We're at the
19 early stages of this proceeding, and I don't think that's the
20 proper procedure. I know why you tried to do it, and I don't
21 fault you for it, but we're not going to do that at this point.

22 In terms of the motion to dismiss the first amended
23 complaint, this is a four-count complaint involving a claim that
24 the Lanham Act has been violated, Virginia trade secrets and the
25 unjust enrichment and conversion claims that really relate to the

1 trade secrets. The -- I'm going to deny the motion to dismiss on
2 the trade secrets. I think it's a very shaky claim, but I think
3 at the motion to dismiss stage, it's been adequately pled, and
4 that's all we can look at at this point, that there was an oral
5 agreement that the defendant would keep the information relayed by
6 the plaintiff secret.

7 Now, that's a factual claim that may not in the end be
8 supportable, but you can clearly in my view have an agreement, an
9 oral agreement to keep something secret that is enforceable and
10 that would not be construed necessarily as not taking adequate
11 measures to keep something secret. If honorable people shake
12 hands and say yes, they'll keep something secret, that should be
13 sufficient.

14 So on that particular element of your motion, that they
15 did not take adequate precautions to keep the information secret,
16 factually you may be correct, and it may at summary judgment
17 indicate that that is the case, but I believe they have adequately
18 pled that they did make reasonable efforts under the
19 circumstances. The fact that they usually use a written agreement
20 doesn't change the fact that if your people agreed to keep it
21 secret, then that's enough in that respect. Now, whether the
22 information itself is actually secret or not secret is way too
23 fact specific to be able to decide at a motion to dismiss.

24 I did briefly look at the exhibits you attached which
25 you wanted us to take judicial notice of. I mean, clearly, it's

1 not just the -- it's not just that heat would be used in this
2 process. The plaintiff's claimed proprietary technology is more
3 subtle than that. This is almost like a patent case in some
4 respects, in having to compare the plaintiff's product or
5 intellectual property in this case with what's out there in the
6 ether, and that can't be done at a motion to dismiss, and so I'm
7 going to allow the trade secret and the two pending -- or
8 attached, so to speak, state law claims to go forward.

9 The Lanham Act claim, however, is quite different, and
10 I'd like the plaintiff to have one more shot at this, because I'm
11 inclined to grant the defendant's motion. I don't see within the
12 authorities that you've cited to the Court any authorities that
13 directly address this situation, where you have somebody who's
14 bidding on a government contract, especially one involving fairly
15 sophisticated environmental technology, that provides technical
16 information to the government, even if that technical information
17 has a partly commercial purpose, that is, to get the government
18 interested in their product, can be converted into a Lanham Act
19 cause of action.

20 The ramifications of that kind of a ruling would be
21 basically to squelch the whole government bidding process. I
22 mean, when the government asks for information especially of a
23 technical nature, parties are going to pump their, their technical
24 expertise, their technical products, and often have to compare the
25 benefits of their product against a competitor's, and if they make

1 what might be false or misleading representations in that, I mean,
2 part of it is just that's, that's what they're doing, you'd stand
3 government contracting on its, on its head.

4 So unless the plaintiff has some direct authority,
5 because I don't see it in what you supported, in this context --
6 and as you know, in Lanham Act cases, when you're looking at
7 whether speech is covered by the Lanham Act or not, part of it is
8 not just what is said but the context in which it is said, and
9 given this context, I don't see how the Lanham Act can go forward
10 as a matter of law. So if you have a response, this is your time.

11 MS. STANAT: Yes, Your Honor. Thank you for the
12 opportunity to talk with you about this. We looked for the type
13 of authority that you're talking about. We looked for situations
14 where there are white papers or similar technical documents
15 submitted in this kind of scenario and unfortunately found none.

16 What, what we believe is compelling about this, though,
17 is that the white paper is clearly promotional in nature if you
18 just look at the plain language of the document. It sets forward
19 the problem in terms of the technology that's available currently
20 in the marketplace at the time that it was written, describing
21 very much the same position that we've taken in our papers that
22 the technology is available for demilitarization, all pose
23 significant risk to human safety, to environment, and to property
24 given that they involve incineration, detonation, other kinds of
25 high-temperature, explosive type of technologies.

1 After describing or setting forth the, the problem
2 scenario in the white paper, ARA goes on to talk about its
3 proposed services. Significant in this case was the fact that the
4 project was being done in a culturally sensitive area. ARA points
5 to that in its white paper, basically saying it developed EHDS to
6 address the demilitarization of munitions in areas which are
7 culturally sensitive and significant.

8 The environmental impact as a result was, was a big
9 factor in the Army's consideration of the available technologies,
10 and the -- so our first issue is the fact that ARA had no
11 technology before its discussion of us that was -- discussions
12 with our client that was anything close to what it ultimately
13 ended up presenting to the Army. So the information used in the
14 white paper relies heavily on USD's trade secrets.

15 Secondly --

16 THE COURT: Well, that's your trade secret claim.

17 MS. STANAT: Yes.

18 THE COURT: And I'm letting that one survive, but the
19 point is you've also brought this Lanham Act claim, and most of
20 what you have just said except for the claim that a trade secret
21 was stolen, but everything else you've said is the kind of speech
22 that I believe the case law supports finding would not constitute
23 commercial speech that would be subject to the Lanham Act, because
24 again, you have in a competitive environment with the government,
25 and, of course, as the defense points out, a sophisticated

1 government, not just your ordinary GSA person, but these are
2 highly technical people, so you have also an audience much less
3 likely to be duped than you would the ordinary public, so that
4 that element of concern behind the Lanham Act is really not
5 present in this environment, but you also have the government
6 asking the bidders to discuss the pros and cons of their
7 technology vis-a-vis the problems that have to be addressed, and
8 if you start to have Lanham Act actions available against people
9 in that environment, as I've said, you'd open the floodgates to
10 all kinds, because I can tell you the vigor with which competitors
11 fight with each other in government contracting is well known. I
12 could take judicial notice of that fact right now.

13 So to give competitors one more, you know, shot at that
14 process, in my view, serves no good purpose. You will be able to
15 fully litigate your claims with the remaining ones that you've
16 got, and frankly, as I understand it, and I could be wrong on
17 this, I think under the Virginia Trade Secrets Act, doesn't the
18 prevailing party still have a shot at attorneys' fees?

19 MS. STANAT: I believe that's correct, Your Honor.

20 THE COURT: So that element of the Lanham Act you
21 haven't lost, so I don't think the plaintiff is at any
22 disadvantage by going forward on the claims that are left in your
23 case, but we're going to clean it up a little bit, and the Lanham
24 Act is out. So I'm granting the defendant's motion, all right?

25 MS. STANAT: Thank you, Your Honor.

1 MR. MILLER: Thank you.

2 THE COURT: Now, while you're here, Judge Buchanan is
3 the magistrate judge assigned to this case, and once again, I
4 anticipate that this case could result in a significant amount of
5 attorneys' fees and discovery costs. Has there been any serious
6 effort made between you-all to sit down to try to work this out?

7 MR. MILLER: We've had, we've had settlement
8 discussions, Your Honor, that up until now --

9 THE COURT: All right. Now, I mean, let me just try to
10 encourage you in other elements. I mean, if I were working with
11 you on settlement, what I would be reminding both sides of early
12 in the ball game is if ARA were found to be liable for
13 misappropriating trade secrets, I would think that that would not
14 make you look very good in the eyes of government contracting and
15 could have significant potential ramifications for you as a
16 government contractor, which I think you need to take into
17 consideration.

18 In terms of the plaintiff, it's been alleged in part of
19 the defendant's papers that you've basically given up your trade
20 secrets by the way in which you've pled the lawsuit, and if you
21 haven't already done that, certainly during the course of the
22 litigation, there's a very strong chance that, you know, you're
23 going to be exposing a lot of proprietary information. The next
24 case that I have on the docket, a patent case, is struggling with
25 the same very issue.

1 You're stuck with this particular judge, who has a very
2 strong view that everything possible that can be tried in open
3 court is going to be tried openly, and I'm very, very, very
4 conservative as to what I will allow parties to file under seal,
5 and I will not seal my courtroom for a civil case. I've had
6 enough problems with some criminal cases where I have to do that.
7 I just think that's not the American way, and that's one of the
8 risks that parties take when they decide they're going to litigate
9 rather than settle or arbitrate, and so you both need to know
10 that.

11 And I don't know where this project is, whether the
12 contract's been let, whether there's still any opportunity for a
13 business relationship between you-all. I mean, if the plaintiff
14 is correct that the defendant really doesn't have this technology
15 yet, that it's the plaintiff's, I'm not making any judgment call
16 on that, but it might be real smart, especially if the government
17 seems to like this technology, for you, in fact, to try to work
18 together on this. That may or may not be a way you could resolve
19 the case, but in any case, I strongly suggest you think very
20 aggressively about seeing a magistrate judge or an impartial
21 private mediator earlier than later, all right?

22 MR. MILLER: Yes.

23 THE COURT: Okay. Have we issued a scheduling order in
24 this case yet?

25 MR. MILLER: Yes.

1 THE COURT: Yes, you have one, so you're off and
2 running, and I'll see you back here in January for the final
3 pretrial if it's still around. All right, very good.

4 MS. STANAT: Thank you, Judge.

5 (Which were all the proceedings
6 had at this time.)

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8 CERTIFICATE OF THE REPORTER

9 I certify that the foregoing is a correct transcript of the
10 record of proceedings in the above-entitled matter.

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/s/
Anneliese J. Thomson