

## Crate & Barrel, CEO Stole Trade Secrets, Restoration Says

By Suevon Lee

*Law360, Los Angeles (January 30, 2017, 10:50 PM EST)* -- Restoration Hardware Inc. on Monday slapped two former executives now with competitor Crate & Barrel Inc. with a lawsuit in California state court, accusing them of stealing trade secrets and violating confidentiality agreements in a strategy to turn around Crate's "flagging business."

The Marin County, California-based luxury home furnishings brand is accusing Crate & Barrel and its CEO, Douglas Diemoz, and manager in the food and beverage area, Kimberly Ahlheim, of unlawfully taking its proprietary information and violating contractual obligations to the brand in efforts to revitalize the housewares retail chain.

"Rather than invent its own growth strategy, Crate effectively sought to steal a page from the successful RH playbook," the suit alleges.

Restoration Hardware, which raked in more than \$2 billion in net revenue in 2015, alleges its "more innovative approach to the home furnishings industry" — specifically, the launch of a new food and beverage service in Chicago in October 2015 — led Crate to eye its talent and devise a strategy to lure over executives to plan something similar.

The Northbrook, Illinois-based Crate & Barrel experienced modest growth between 2007 and 2013, according to the complaint. The company, "lacking its own formula for growth," resorted to poaching key senior leaders from Restoration Hardware to "help revitalize Crate's flagging business," according to the suit.

"On information and belief, Crate began targeting RH personnel and RH strategies as part of a strategy to turn around Crate's inferior performance and growth," the suit alleges.

This was set into motion by the hiring of Diemoz, Restoration's chief development officer, in July 2015, to serve as Crate & Barrel's new CEO, according to the suit. Diemoz was subject to a confidentiality agreement and nonsolicitation agreement for 12 months after leaving, the suit says.

Starting around February 2016, Diemoz "encouraged" Ahlheim, the former director of food and beverage at Restoration Hardware, to join him at Crate & Barrel, the suit alleges. Ahlheim, despite plotting an exit from Restoration for months, hid her intentions from the company until her ultimate departure in May, according to the suit.

Restoration Hardware accuses Ahlheim, in the lead-up to her departure, of sending confidential information to her personal email address and taking a “massive amount of RH confidential information spanning almost the entirety of RH’s business operations.” Such information included profit and loss statements, financial performance, current and planned product categories, performance of business units and performance by region, according to the complaint.

At focus in the suit is Restoration Hardware’s planning and development of a new food and beverage service in its gallery locations. The company hired Ahlheim in March 2013 to work on the rollout of a planned food and beverage concept in Boston, according to the suit, in which the executive was privy to highly sensitive company information, such as which products sold well, which products had higher profit margins, which locations were better performing, and which marketing initiatives succeeded and which did not.

Restoration Hardware ultimately launched its first food and beverage service at an RH gallery in Chicago in October 2015.

The company alleges that Ahlheim, within a few weeks of jumping ship to Crate & Barrel in a similar food and beverage role, “was already implementing a food and beverage business plan for Crate that leveraged her knowledge of proprietary RH information and utilized business leads developed during her time at RH that Crate would instead exploit.”

The complaint brings claims of misappropriation of trade secrets against all three defendants, breach of contract against Diemoz and Ahlheim and breach of duty of loyalty against Ahlheim.

“RH has invested significant resources and time in developing its operational and growth strategies,” the company said in a statement Monday. “We believe that Crate & Barrel is trying to gain an unfair competitive advantage by unlawfully obtaining RH’s proprietary information and trade secrets and that these former RH personnel have violated their confidentiality and contractual obligations to RH.”

A representative for Crate & Barrel and its executives couldn’t immediately be reached for comment Monday.

Restoration Hardware is represented by Karen J. Kubin, Wesley E. Overson and Nathan Sabri of Morrison & Foerster LLP.

Counsel information for the defendants wasn’t immediately available Monday.

The case is Restoration Hardware Inc. v. Douglas Diemoz et al., case number 17-556745, in the Superior Court of the State of California, County of San Francisco.

--Editing by Aaron Pelc.