

Trade Secret Law Evolution
Podcast episode # 48
The Tenth Circuit Addresses Causation, Exemplary Damages, and Attorneys' Fees
under the Uniform Trade Secrets Act

Intro ([00:00](#)):

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Jordan Grotzinger ([00:18](#)):

Welcome to the Trade Secret Law Evolution Podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends in trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host, Jordan Grotzinger. Welcome to episode 48 of the Trade Secret Law Evolution Podcast. I have a co-host today out of our Dallas office, my partner, Bina Palnitkar. Hi, Bina, how are you?

Bina Palnitkar ([00:48](#)):

Hi, Jordan. I'm well. Thank you.

Jordan Grotzinger ([00:51](#)):

Good. Can you introduce yourself and say a few words about your practice, please?

Bina Palnitkar ([00:55](#)):

Most certainly. I am Texas born and bred, and I reside in the Dallas office at Greenberg Traurig, of course. I traditionally do any commercial litigation, any cases that go to trial, especially breach of contract, products liability defense, but most dear to my heart are those IP cases, which are trademark infringement, copyright infringement, and especially trade secrets misappropriation cases. Also do quite a bit of counterfeiting for several electronics clients, anti-counterfeiting work that is, and make sure that dangerous products are not sold on the marketplace.

Jordan Grotzinger ([01:33](#)):

That's great. Good to know. And like we've been talking about, I really hope we can actually work together on one of these cases soon, and I'm sure we will. Nearly as importantly, I hope you thought of a good, interesting fact about yourself, which we'll talk about at the end, which is kind of a new highlight of this podcast. Courtesy of our friend Brian Duffy.

Bina Palnitkar ([01:55](#)):

Oh yes, hold your breath.

Jordan Grotzinger ([01:57](#)):

Okay, sounds good. Today, we're going to talk about one case. As you know, we look for cases that have some unique wrinkle or can increase our knowledge, as opposed to just talking about cases about rules that we've talked about a hundred times. This case is a circuit case, meaning a federal appellate decision, which is always interesting. This one is a Tenth Circuit case about the Uniform Trade Secrets Act and specifically causation and damages, which is worth discussing. In this case, there was an individual defendant and a corporate defendant, as is typical in these matters. The individual defendant was a salesman for the plaintiff company, which sold bovine serum products.

Jordan Grotzinger ([02:44](#)):

He left to form a competitor, which I'll call the corporate defendant. Before departing, the individual defendant took confidential customer information from the plaintiff and emailed several plaintiff customers to solicit business for his corporate defendant, falsely claiming that the corporate defendant was related to the plaintiff company. On top of that, the defendants then sold mislabeled serum. The plaintiff sued for violation of the Colorado Uniform Trade Secrets Act. After a bench trial, which means a trial that is just decided by a judge and not a jury, the district court, that's the trial court, awarded the plaintiff its losses, the defendant's profits, and attorney's fees, and on top of that, exemplary damages.

Jordan Grotzinger ([03:29](#)):

On appeal, the defendant's argue that their conduct did not cause the plaintiff the damages that it recovered in the lawsuit. Bina, you want to dig into the facts with a little more specificity here?

Bina Palnitkar ([03:42](#)):

Sure. But before we get into that, I think it's kind of important to know what is fetal bovine serum. I mean, what are we dealing with? When I read this case, I didn't know what that entailed either, but it looks like it's a fluid derived from cow blood leftover from the commercial beef industry. As a Hindu, it's not up our alley. But as a Texan, it kind of is. Basically they take this cow blood leftover and it goes into proprietary products which help biological sciences. It's very valuable a small part of what's left over from cows being slaughtered and very lucrative, I would imagine, in that industry.

Jordan Grotzinger ([04:23](#)):

I did not know that and I'm glad you looked at it. This is actually... This is not a serum used for agricultural purposes, which that's how it struck me when I read it and I didn't drill down further. This is actually for purposes of medical consumption.

Bina Palnitkar ([04:42](#)):

Yes.

Jordan Grotzinger ([04:42](#)):

Wow!

Bina Palnitkar ([04:43](#)):

Absolutely, for biotech companies, academic laboratories. I bet you, I'm going to go to some aesthetician in five years and she's going to put some of that up in my face just to feel it up and turn me younger. But who knows? But this is just a unique product that's on the market that I think few players are in the industry and that's why this is so important because the trade secrets are very special here.

Jordan Grotzinger (05:06):

Wow! That's that is good to know. All right, what happened in this case?

Bina Palnitkar (05:11):

Well, in this case, the individual defendant, while still employed by the plaintiff, secretly developed a business plan to compete with the plaintiff company while he was still there. He sent numerous company documents from his own personal email account, the plaintiff's email account that they gave him, to his personal account. Those company documents included plaintiff's customer contact lists, supplier agreements, quality manuals, org charts, contract manufacturing statement, proofs of labels that they put on the serum vials, marketing brochures. I mean, everything you can think about how to run this company.

Bina Palnitkar (05:51):

Some of that information came from plaintiff's secured database, which had nonpublic customer information. That database alone costs plaintiff over a million dollars to develop, and they invested, as they testified, thousands of hours into it annually. This individual defendant did not have, of course, plaintiff's permission to take the information. It appears he was aware of plaintiff's confidentiality policies. This is pre-pandemic. People are not working from home. In that case, the district court did not believe the testimony that the individual defendant actually emailed himself these documents to work from home remotely, because back then that wasn't so common.

Bina Palnitkar (06:34):

Now he's emailed it to himself. Having obtained this information, he himself on an individual basis emailed various customers of the plaintiff to solicit business for his corporate business, the corporate defendant. He also falsely stated that the plaintiff and the corporate defendant were related companies when they were not, and he said that plaintiff had limited its sales in that product and that his company would be taking over plaintiff's international accounts, and then he resigned from the plaintiff company.

Jordan Grotzinger (07:08):

That's a pretty, I mean, relatively typical in trade secret cases. But unlike many that you see where you kind of have a departing employee who's not really thinking, am I breaching a confidentiality agreement or stealing proprietary information, but rather just kind of out of a general sense of fear and discomfort. Hey, I've been at this company for years, I'm starting a new one, so I'm just going to take a whole bunch of files from my old job and send them to myself in case I need the forms. Contrasted to that, it seems that this guy was pretty intentionally scheming to take valuable and secret information to develop a directly competing company.

Jordan Grotzinger (07:58):

For the misappropriation claim, the parties had the bench trial. And for the misappropriation claim, the district court awarded the plaintiff almost \$700,000, which represented the corporate defendant's profits on sales to former plaintiff customers. It also awarded the plaintiff another \$682,000 in exemplary damages because the defendant's actions were "attended by circumstances of willful and wanton disregard of the plaintiff's rights."

Bina Palnitkar (08:29):

Here, Jordan, I think it's important that he did all this while he was still at the company, while he had access to everything, and he told plaintiff's customers that he was taking over accounts while he was still there, and then he resigned. That just goes towards that willfulness.

Jordan Grotzinger ([08:45](#)):

Pretty strong evidence of willfulness. And to that end, the district court also awarded over \$300,000 in attorney's fees. The defendants appealed and argued that "proximate causation problems," in english, that means causation problems, prevented a damages award on the plaintiff's trade secret misappropriation claim.

Bina Palnitkar ([09:06](#)):

Yes. He's saying that his conduct was not the proximate cause of plaintiff's damages. He's not the one who made them lose business. That's what he's saying.

Jordan Grotzinger ([09:16](#)):

Right. The Court of Appeals, the Tenth Circuit, said under the Colorado Uniform Trade Secrets Act and, as we've said, this act is uniform among 48 states, New York and North Carolina excepted, Colorado included, under the Colorado Uniform Trade Secrets Act, "damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss." In reviewing this argument, the Tenth Circuit said that, "We keep in mind Colorado Court's caution that damages and trade secret misappropriation cases are often difficult to ascertain with certainty."

Bina Palnitkar ([10:01](#)):

That's right. The defendants here, the individual and the corporate defendants, laid out five main reasons why they thought there was no causation. The first was that the corporate defendant said that plaintiff and the corporate defendant sold completely different products. The second reason they said was that there's a lengthy sales process that breaks any causal link in misappropriation. It takes a long time to develop this and there's no way this could have caused their issues. The third reason is that they said the plaintiff terminated a key customer. They attribute loss of business to that. The fourth reason was that it was said by the corporate defendant that other plaintiff customers were not recent customers of plaintiff.

Bina Palnitkar ([10:45](#)):

They're saying they already lost that and they were ripe for the picking. The fifth reason they gave was that the individual defendant had a longstanding relationship with several of these customers due to his longevity with the company. Those are the five reasons that the corporate defendants gave for why they thought there was no causation, but the Court of Appeals rejected these arguments. They said, "Trial testimony suggested that the information in plaintiff's database was competitively advantageous, because it not only contained contact information for institutional serum purchasers, but it indicated exactly when they were likely to buy again. That's information that would save a prospective competitor a lot of effort and expense."

Bina Palnitkar ([11:28](#)):

They also went on to say, "Relatedly, witnesses testified that in late 2014, it was a difficult time to get started in the serum business and it took plaintiffs nearly a decade with multiple salespeople to reach the volume that the individual defendant reached just within one year of his 2014 start. The district court's unjust enrichment damages followed directly from this record supported theory of harm, as the court limited the profits awarded to those corporate defendants earned from former plaintiff's customers." They lastly said that, "The corporate defendant fails to show on appeal that the causal determination underlying the district court's damages award was clear error, whether in whole or in part."

Jordan Grotzinger ([12:11](#)):

Those are pretty creative arguments by the defendants, I think, but the Court of Appeals didn't buy it. It went on and said, "We do not mean to suggest that the corporate defendant only sold serum because of the individual defendant's trade secret misappropriation or, by extension, his misrepresentation and mislabeling. The corporate defendant is surely right that the individual defendant's preexisting relationships and industry expertise set corporate defendant up for some measure of success. The departure of plaintiff's national sales manager would likewise be a blow to the company's bottom line, regardless of the circumstances."

Jordan Grotzinger ([12:51](#)):

But the fact remains that the district court received abundant evidence that the defendants misappropriated the plaintiff's trade secret database content and used it to launch corporate defendant's serum and divert the plaintiff's customers. The fact remains that we are conducting deferential clear error review of the district court's factual finding that the defendant's conduct injured the plaintiff. Keeping in mind the difficulty of determining damages and misappropriation cases, we can hardly say that it was clear error for the district court to use the corporate defendant's profits as a benchmark for Colorado Uniform Trade Secrets Act Recovery.

Jordan Grotzinger ([13:31](#)):

Far from it, the district court's decision found abundant support in the record and governing law as CUTSA, the Colorado Uniform Trade Secrets Act, expressly envisions, unjust enrichment damages." Exhale. Now, we've heard a couple of references to clear error, which is the applicable appellate standard in this case. While we're not going to get into burdens of proof on appeal here, what that essentially means is that unlike some appeals, based on the facts and law, in this case, the Court of Appeals was required to give some level of deference to the judgment in the district court, which was relevant to its affirming the judgment here.

Bina Palnitkar ([14:16](#)):

It was also different. It happens many times, but here the court also affirmed exemplary damages, which as you know, you have to have some kind of level of egregiousness or willfulness in order to justify that kind of award. It's not given out like candy in these kind of cases. Here, the court affirmed the exemplary damages of the trial court, which I think were around \$681,000 give or take. The court said under CUSA, "If the misappropriation is attended by circumstances of fraud, malice, or a willful and wanton disregard of the injured party's rights and feelings, the court or the jury may award exemplary damages in an amount not exceeding the base award." Defendants argue that the individual defendant did not permanently deprive the plaintiff of its proprietary files.

Bina Palnitkar ([15:11](#)):

I mean, the plaintiff still had them right? "But," the court said, "the fact that the defendant's misappropriation did not deprive the plaintiff of its database content permanently does not undermine the district court's finding of a willful and wanton disregard of the injured party's rights and feelings. Plaintiff had the right to prevent others from using its proprietary information improperly," I mean, it spent a lot of money on developing its database, "and it took steps to protect its content, such as securing the database and adopting a confidentiality policy."

Bina Palnitkar ([15:45](#)):

Also, in this case, the defendants, both the corporate defendant and the individual defendant, did not challenge that the individual defendant "had the development of the corporate defendant serum in mind when he emailed the plaintiff's customer information to his personal account." Here, the defendants are not saying that we were not thinking about this new company during the time that he emailed all this information out. That also

went to the justification that this was in fact willful and wanton and in need of exemplary damages. And that's why it was affirmed here.

Jordan Grotzinger ([16:17](#)):

The evidence was that they, they meaning the corporate defendant and his new company, were clearly intending to use what they took to develop a competitor and were doing so before the individual even left the plaintiff company.

Bina Palnitkar ([16:34](#)):

Absolutely.

Jordan Grotzinger ([16:35](#)):

We're at the point of the takeaways and we have two. Takeaway number one is that a trade secret plaintiff doesn't have to prove that the defendant's misappropriation was the only cause of its damages. The more evidence of value of the trade secrets, the more likely a finding of causation of damages will hold up. Examples of value are where the plaintiff's database included exactly when customers were likely to buy again, which would save a competitor a lot of effort and expense, and where it took the plaintiff nearly a decade with multiple salespeople to reach the volume that the defendant had reached in a much shorter amount of time.

Bina Palnitkar ([17:13](#)):

Right. It doesn't have to be the only cause of damages, but it's pretty obvious, to the court at least, that this did damage the plaintiff after all the work and efforts it took into securing the data, developing the data, and maintaining it over time. That was enough to show that this was the likely cause of damages.

Jordan Grotzinger ([17:33](#)):

What's takeaway number two?

Bina Palnitkar ([17:34](#)):

Well, that's to the exemplary damages, the takeaway is that it doesn't matter if the plaintiff was not deprived of its trade secrets permanently, so forever. If a defendant had a competing product in mind when he took those trade secrets, there's going to be evidence of willful misappropriation which supports an award for exemplary damages, as in the case here.

Jordan Grotzinger ([17:55](#)):

Interesting case. I'm glad we discussed it. And now for the fun part. You're competing with some co-hosts who were state troopers or possible medieval art experts. I'm hoping that you can compete here. You're an interesting person and I have no doubt that you will.

Bina Palnitkar ([18:16](#)):

Well, let's see. There's some big shoes to fill. What can I offer? I can tell you that after coming out of the University of Texas at Austin, right after college, I went to Chicago to start my first career. I was one of the very few and first women on the floor of the Chicago Board of Options. I worked with the company there in Chicago. It was very exciting. It was about 700 guys and about three of us ladies as traders on the floor. It was quite an experience, but you learned a lot. You got a very thick skin quickly. You have to be fast with numbers. It was a whole career I had before I went to law.

Jordan Grotzinger ([18:54](#)):

The Board of Options. You're talking about the floor of the Board of Options and I'm picturing...

Bina Palnitkar ([19:03](#)):

Trading places.

Jordan Grotzinger ([19:05](#)):

I wasn't going to say it, but yeah, exactly.

Bina Palnitkar ([19:08](#)):

Yeah, there's pits.

Jordan Grotzinger ([19:08](#)):

The floor of the stock exchange with the little pieces of paper and everybody screaming and yelling. Was that what it was like?

Bina Palnitkar ([19:16](#)):

A little more modernized. We have tablets and everything was electronic, but you do shout out to get on a ticket. You have your brokers and you're the market makers. You wear a jacket. There's about, I don't know, 10 pits at the CBO. Then you could always go with the Merc down the street or the DJX. It's a lot of fun. I mean, you come to know all those guys. Let me tell you, by the end of my tenure there in Chicago, I could walk into any bar and I knew at least one guy in there would have my back because I work with like 700 guys. It was a get out of jail free card. It was very nice. At first, it was a little rocky, but I was very proud to have been part of that. Now the floors have dissolved. Everything's on electronic.

Jordan Grotzinger ([19:57](#)):

Yeah, that is really cool. How long did you work there?

Bina Palnitkar ([20:00](#)):

About two and a half years.

Jordan Grotzinger ([20:02](#)):

Wow! Did you buy frozen concentrated orange juice?

Bina Palnitkar ([20:05](#)):

No, that's at the Merc. We're a little more derivatives kind of people.

Jordan Grotzinger ([20:11](#)):

All right. Wow. Now when I see you, I'm going to have a different image in my head of you standing in a thong of people and waving your arms about some emergency purchase. That's really interesting. I didn't know that. Thank you for sharing.

Bina Palnitkar ([20:24](#)):

I stood out a little, because my voice was a little different than the rest of the fellows. It was easier to get on tickets supposedly.

Jordan Grotzinger ([20:30](#)):

Yeah, that's really cool. All right. Well, Bina, you've got to come back and do another one of these. This was great.

Bina Palnitkar ([20:36](#)):

Happy to.

Jordan Grotzinger ([20:37](#)):

Thanks so much for coming on and bye everybody.

Jordan Grotzinger ([20:40](#)):

Okay, that's a wrap. Thanks for joining us on this episode of the Trade Secret Law Evolution Podcast. As the law evolves, so will this podcast, so we value your feedback. Let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at GrotzingerJ@gtlaw.com or on LinkedIn. And if you like what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on Apple Podcast, Stitcher, Spotify, and other platforms. Thanks, everybody. Until next time,

Audio ([21:15](#)):

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