

Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 76

Speaker 1: This podcast episode reflects the opinions of the hosts and guests and not of Greenberg Traurig, LLP. This episode is presented for informational purposes only and it is not intended to be construed or used as general legal advice nor a solicitation of any type.

Jordan Grotzinger:

Hi everybody, and welcome to episode 76 of the podcast. Today we're going to talk about two circuit cases involving [00:00:30] our favorite subject, trade secret identification, proof of misappropriation at trial, and a contractual damages limitation for trade secret misappropriation cases, which I don't believe we've addressed on the podcast before.

The first case is out of the Fifth Circuit, and it came down on April 3rd. In this case, the plaintiff is a management consulting firm claiming it has, "developed and safeguarded [00:01:00] sales and marketing processes and strategies that have given the plaintiff a competitive edge in the market." These processes and strategies generate, "information and data gained from decades of experience and thousands of client contacts."

The plaintiff put this information into a Salesforce database. We're going to call that the Salesforce database. It also maintained data on a SharePoint database, which we will call creatively the SharePoint database. [00:01:30] That included a compilation of data on prospective clients from the defense industry, which we'll call the DOD list.

The plaintiff claims that its clients, "and prospective clients have accounts within the Salesforce database allegedly containing non-public information, including call notes and meeting history, marketing strategies, and the contact information of key executives and decision makers." The plaintiff also said that it implemented measures to prevent leakage of data [00:02:00] from the Salesforce database, such as requiring employees to sign non-compete, non-solicitation and non-disclosure agreements. Pretty normal measures you see in these kinds of cases. Also, access to the database is limited to certain employees, another frequent measure taken to protect secrecy.

The plaintiff hired the defendant as a regional vice president in October of 2019. The defendant had access to the Salesforce database, but signed the non-disclosure, non-compete, and non-solicitation [00:02:30] agreements, and his access to the Salesforce database was password-protected.

In April 2020, the defendant accepted an offer of employment from a competitor, but didn't tell his employer at first. In May 2020, the next month, the plaintiff discovered that an employee of the competitor had emailed a plaintiff client at the direction of the defendant. The plaintiff confronted the defendant. The defendant resigned, and the plaintiff company revoked the defendant's access [00:03:00] to the Salesforce database.

The plaintiff alleges that the defendant diverted three prospective clients to the competitor, his new employer, and in June 2020 sued the plaintiff in Texas state court. The defendant removed the case to federal court, and the plaintiff amended its complaint to add the competitor company as a defendant also and assert a trade secret misappropriation claim. The defendants both moved to dismiss, but the trade secret misappropriation claim survived.

The plaintiff hired [00:03:30] an expert witness to calculate profits it would have made from the three allegedly stolen clients. The defendants moved to exclude the expert and also moved for summary judgment. The district court, the trial court, granted both motions. On appeal, the plaintiff contests the exclusion of the expert and the dismissal on summary judgment of its trade secret misappropriation claim. And the court of appeals said quote, "To prevail on a misappropriation claim under Texas law, a plaintiff must show that, one, [00:04:00] a trade secret existed, two, the trade secret was acquired through a breach of a confidential relationship or discovered by improper means, and three, the defendant used the trade secret without authorization from the plaintiff."

The defendants argue that the information the plaintiff, "offered as its protected trade secrets fails to qualify as such." The plaintiff counters that it, "identified trade secrets from both its Salesforce and SharePoint databases." [00:04:30] The trade secret information from its Salesforce database allegedly included, "one, confidential contact information for the three clients, two, demographic information, historical information, notes from prior meetings, and notes regarding specific needs or issues from the three clients, and three, documents at ESI, that stands for electronically stored information, containing confidential information related to business opportunities [00:05:00] with the prospects."

From the SharePoint database, the plaintiff, "identified the DOD list and other documents." But as evidence in support of these allegations, the plaintiff, "cites to a large portion of data pulled from its Salesforce database identified as Exhibit X and to the DOD list." As you'll see, that's going to be a problem.

The Fifth Circuit said, "Defendants are correct that plaintiffs labeling [00:05:30] large swaths of database information trade secrets is vastly overbroad, and that plaintiff failed to distinguish between the public information in its Salesforce database and the non-public information. More importantly, the plaintiff has not identified what specific information within its database constituted a trade secret."

The plaintiff, "directs this court's attention to Exhibit X. But not only is much of that exhibit redacted with no citation [00:06:00] to a sealed unredacted version for the court to review, the plaintiff fails to distinguish between what information within Exhibit X is a trade secret and what information is not." The plaintiff, "generally describes confidential contact information or notes from prior meetings, but nowhere is that information identified with specificity." And, "We, the court, have no obligation to sift through the record in search of evidence to support a party's [00:06:30] opposition to summary judgment."

The same problem the court found arises with respect to the DOD list. "From the face of the document, it is not obvious that the DOD list contains confidential or proprietary information. The plaintiff told the district court that the DOD list contained confidential contacts at other companies, but the individuals listed in the document are affiliated with the plaintiff. Without

any additional information, this court cannot say that the DOD list creates a genuine [00:07:00] dispute of material fact as to whether the plaintiff has presented legitimate trade secrets."

Thus, the court said, "Although the district court did not grant summary judgment on this basis, we can affirm the lower court's decision on any grounds supported by the record. The plaintiff's failure to identify a trade secret is one such ground." Plus the court held, "Even assuming the Salesforce database and DOD list contained proper trade secrets, [00:07:30] summary judgment would still be appropriate for the second reason identified by defendants. There is no evidence of the defendant's use or disclosure of any trade secret." That, of course, is misappropriation.

The court said, "Besides the allegedly suspicious timeline of the prospective clients hiring the competitor after the individual defendant left the plaintiff, the only evidence from the plaintiff that the defendant actually used or disclosed trade secrets is an email [00:08:00] from the defendant requesting a copy of the DOD list before leaving for the competitor. But as defendants point out, when the individual defendant had his computer imaged by a forensic specialists to delete any plaintiff data, the DOD list was not even one of the documents on the computer. Plaintiff has no evidence that defendant actually possessed the DOD list while at the competitor. More broadly, plaintiff has failed to show the defendant's use of any alleged [00:08:30] trade secret, and thus defendants are entitled to summary judgment on that basis as well."

The next case came out of the 11th Circuit and came down the day after the case I just discussed on April 4th. And I'm not going to get into the process of how we choose cases to address on the podcast, nor am I going to make the obvious joke here, but this opinion caught me because of what I thought was just great writing in the [00:09:00] opening paragraph, and I'm going to read it and I think you'll agree. This just hooked me and made me want to read the rest of the opinion. And sure enough, I found it interesting enough to discuss here.

Here's the introduction by this judge, "More than a dozen years ago, the parties to this appeal agreed to a contractual provision that limits the type of damages they could recover from each other if things went badly, which they did. The litigation is still going, but only a single statutory tort claim for trade secret [00:09:30] misappropriation remains. The question is whether at the motion to dismiss stage the contractual damages limitation provision forecloses all of the damages sought on that tort claim. The answer is that it almost does, but not quite. That answer comes from the plain language of the party's contractual provision read in light of the Missouri Uniform Trade Secrets Act, aka the Missouri Trade Secrets Act." I'm a sucker for good writing. That is good, punchy writing. It makes me want [00:10:00] to turn the page, so to speak. So here we go.

This case suffered from a long and winding factual and sometimes procedural history between two companies in the aviation business, which were sometimes competitors and sometimes not. All the matters for purposes of this discussion though is a limitation of damages provision in the party's contract. It said, "The parties recognize that one party, "the breaching party", may fail to perform its obligations under this agreement, a "breach", [00:10:30] and thereby cause damage to the other party, the "non-breaching party". The parties having full consideration to, and that was a typo in the contract, the nature of this transaction agree that the following categories of damages are disclaimed by each party, and the non-breaching party neither expects nor will seek to recover from the breaching party any incidental damages, punitive and

exemplary damages, and any consequential damages, [00:11:00] including but not limited to the following, A, any profits that the non-breaching party expected to earn on the prime contract or any other contract related to the program, B, any costs incurred by the non-breaching party related to resolving the dispute with the breaching party arising out of the breach, including litigation or arbitration expenses and attorney's fees."

So that was the limitation of damages clause. So [00:11:30] the court said, "The plaintiff agreed that it would not seek from defendant any incidental damages, punitive and exemplary damages, and any consequential damages, including but not limited to the plaintiff's lost profits and its attorney's fees and costs." The court noted that, "Even though the limitation of liability provision refers to a "breach" of the agreement," and breach is in quotes, "and not to a tort arising from [00:12:00] or involving the agreement, the district court determined that the provision also applies to and restricts damages for tort claims." Torts are basically breaches of a duty that is not imposed by a contract for those non-lawyers out there. It did so because the liability limitation provision bars punitive or exemplary damages that are available for tort claims, such as the plaintiff's statutory trade secrets claim, but are not available [00:12:30] for breach of contract claims.

As the district court explained, "Because punitive damages are not available in contract, the defendant is correct that the limitation of liability clause is necessarily broad enough to reach to at least some non-contract claims. Any other construction would leave the provision's reference to punitive damages with no independent meaning."

The 11th Circuit agreed. "Missouri [00:13:00] law emphatically does not permit punitive damages to be recovered for a breach of contract." This is a general rule not limited to Missouri. Thus, "If the limitation of liability provision were not construed to apply to some tort claims, the inclusion of punitive and exemplary damages in that limitation provision would not make sense, would serve no purpose, and would have no meaning or effect." That is a no-no in contract interpretation. Provisions [00:13:30] need to make sense.

In other words, "The parties would have had no reason to disclaim punitive and exemplary damages if the limitation of liability provision did not apply to tort claims like the plaintiff's trade secret claim that are intertwined with a breach of contract claim." All of which is to say the court said, "that the limitation of liability provision limits the damages available for the plaintiffs to recover on its Missouri [00:14:00] Trade Secrets Act claim."

But there was another issue here. The plaintiff argued that despite an award of damages for certain out-of-pocket expenses, it also is entitled to unjust enrichment damages under the Missouri Trade Secrets Act. Remember, unjust enrichment is a kind of damages or remedy that is recoverable under the Uniform Trade Secrets Act, so long as it's not duplicative of actual damages.

The 11th Circuit held, "The unjust enrichment recovery plaintiff seeks [00:14:30] is separate and distinct from its out-of-pocket expenses for which it was compensated by the jury verdict award on its claim against the defendant for a breach of the non-disclosure agreement. The two categories of recovery would not be duplicative."

The court analogized the case to a 10th Circuit decision out of Utah. "The relevant damages provision in the Utah Trade Secrets Act is the same as the one in the Missouri Act providing that damages can include both the actual loss caused by misappropriation [00:15:00] and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. Applying that plain language, the 10th Circuit recognized that a plaintiff may seek unjust enrichment damages to remedy trade secret misappropriation. The court recognized that the statutory language reflects the Utah Legislature's desire to ensure that misappropriators are not allowed to keep ill-gotten gains from their unlawful acts of misappropriation."

The same [00:15:30] reasoning applied here, and this is a common rule across the states. Thus, the Court of Appeals said, "The defendant has not shown at this stage that it's allegedly ill-gotten gains and cost savings costs duplicate, overlap, or double count the actual loss out-of-pocket damages that the plaintiff has already recovered on its claim that the defendant breached the non-disclosure agreement."

So here are the takeaways. The issue of trade secret identification [00:16:00] can pervade a case through trial. I think that most of the identification cases we've discussed have dealt with the pleading stage because it's such a common motion to dismiss argument. So just because you can get past the pleading stage, the defendants can still argue that the alleged trade secrets aren't sufficiently identified, of course absent a court finding that they are. And not distinguishing between public and private information or pointing to a kitchen [00:16:30] sink type exhibit and asking the court to do the homework won't cut it.

And it's interesting that here the plaintiff in the Fifth Circuit case was alleging a so-called compilation trade secret, which are becoming more and more common, and which I'm personally addressing right now in some of my cases, in many of my cases. But there's no argument or analysis in that case as to why the compilation is valuable or hard for others to ascertain, which can support a compilation status [00:17:00] as a trade secret even if it includes some public information.

Takeaway two, a suspicious timeline alone, like in the Fifth Circuit case, won't prove use at trial. You might get past pleadings, but you'll need more proof of misappropriation at trial.

And third, and lastly, the parties can limit damages for trade secret misappropriation of a contract, but that doesn't categorically prohibit the recovery of unjust enrichment if that is not duplicative of the contractually waived [00:17:30] damages.

I hope that was useful, everybody. Talk to you next month.