Trade Secret Litigants Face Heavy Burden of Proof in Court

By Kelso L. Anderson, *Litigation News* Associate Editor

A federal appellate court has ruled that a plaintiff failed to satisfy its burden of proof in establishing trade secret protection of information that was arguably public knowledge, even though public data may be protected as a trade secret. The ruling highlights the heavy burden plaintiffs face in proving the existence of protectable trade secrets but also reveals strategies and lessons that litigators may use to protect their clients' trade secrets, according to ABA Section of Litigation leaders.

In *TLS Management & Marketing Services v. Rodriguez-Toledo*, the plaintiff sued the defendants in the U.S. District Court for the District of Puerto Rico alleging breach of contract and misappropriation of trade secrets. The plaintiff, TLS Management and Marketing Services, LLC, was a tax planning and consulting firm based in Puerto Rico. Its business was divided into a consulting division and a Puerto Rico division.

The consulting division prepared a Capital Preservation Report based on statutes and regulations and made tax recommendations to clients based on the analysis therein. The trade secret was alleged to be the portion of the report that was not specific to a client. The Puerto Rico division provided tax services to clients based on a U.S. Possession Strategy. Under the strategy, a U.S.-based client became a member of one of the plaintiff's divisions and purchased shares of the plaintiff by signing a buy-sell agreement that limited the client's rights to transfer its membership shares. The plaintiff and its affiliate limited liability companies had tax-exempt grants pursuant to Puerto Rican law that afforded them favorable corporate tax rates and made dividend distributions to their members tax-free under certain conditions. Therefore, the net effect of the strategy was to provide a favorable tax rate and tax-exempt dividends for U.S.-based, Puerto Rican clients.

The defendant Ricky Rodriguez-Toledo was an employee of the plaintiff. Defendants Accounting Solutions Group, Inc. (ASG) and Global Outsourcing Services, LLC (GOS) were tax planning and accounting companies in which Rodriguez-Toledo had a majority interest. ASG signed a subcontractor agreement with the plaintiff that included a nondisclosure provision. The defendant Rodriguez-Toledo also signed a confidentiality and nondisclosure agreement. After Rodriguez-Toledo ended his employment with the plaintiff, he provided tax services in competition with the plaintiff through ASG and GOS.

The plaintiff alleged that Rodriguez-Toledo misappropriated the plaintiff's trade secrets by using the strategy to provide tax services to two of the plaintiff's former clients. Those clients sought advice from the defendants to exit their "membership" with the plaintiff, so the defendants created a limited liability company to minimize the tax consequences for the two clients. The plaintiff also alleged that the defendants misappropriated trade secrets by downloading copies of particular reports without the plaintiff's authorization. The district court found that the plaintiff's report and the strategy were trade secrets and that the defendants misappropriated the same by downloading two reports without authorization.

In reversing the district court, the U.S. Court of Appeals for the First Circuit noted that the definition of trade secrets under Puerto Rican law is similar to the definition under the Uniform Trade Secrets Act and requires, among other things, proof that the alleged trade secret was "not readily ascertainable" and distinct from general knowledge. Here, the court of appeals concluded that the plaintiff did not prove that the report and the strategy were distinct from public knowledge or not readily ascertainable.

"This was a unique case because the plaintiff tried to argue that a combination of tax laws could be a trade secret," observes Gregory S. Bombard, Boston, MA, cochair of the Trade Secrets Litigation Subcommittee of the Section of Litigation's Commercial & Business Litigation Committee. "There is plenty of case law to support the proposition that a particular combination of publicly known information can qualify as a trade secret, but the difficulty for a plaintiff is articulating why a particular combination differs from the public domain," Bombard explains.

Given the burden of proof and contentious nature of trade secret litigation, Section leaders see some key strategies and lessons from the opinion. "As a defendant, it is best to force the plaintiff to be as specific as possible when identifying a trade secret, " advises Travis S. Hunter, Wilmington, DE, cochair of the Trade Secrets Litigation Subcommittee of the Section's Commercial & Business Litigation Committee. "This can limit discovery and bolster a potential motion if the trade secret changes later," Hunter continues.

Having a plan prior to any potential litigation is especially critical, advises Dawn Mertineit, Boston, MA, cochair of the Intellectual Property Subcommittee of the Section's Woman Advocate Committee. "Obviously, this decision puts a lot more pressure on plaintiffs to put forth facts establishing that the information at issue is in fact a trade secret subject to protection. I would expect savvy defendants to put plaintiffs through their paces by pushing hard early on for detailed disclosures as to the basis for the claim that information is not publicly available. At a minimum, this will force plaintiffs to do more work up front, and, at best, it could lead to success on a dispositive motion before the matter proceeds to trial," Mertineit emphasizes.

Evidence of Juror Dishonesty Requires Evidentiary Hearing

By John M. McNichols, *Litigation News* Associate Editor

When evidence emerges that jurors lied about their involvement in prior litigation, a court must conduct an evidentiary hearing to investigate whether juror bias requires a new trial. In *Torres v. First Transit, Inc.*, the defendant discovered, after losing at trial, that two jurors failed to disclose that they had previously been defendants in multiple

debt-collection lawsuits and sought an evidentiary hearing to assess whether the jurors harbored biases against corporate entities.

The district court denied the motion, but the Eleventh Circuit Court of Appeals reversed, holding that a court "must" hold an evidentiary hearing when presented with "incontrovertible" evidence of juror dishonesty. ABA Litigation Section leaders view the decision as sound, but caution that requiring an evidentiary hearing for juror dishonesty on any subject, regardless of materiality, could invite post-trial challenges and upset the finality of verdicts.

Two plaintiffs sued a transportation company for negligence after a bus owned by the company struck their vehicle. The defendant stipulated to liability, and the jury returned a verdict of $7.4 million in the damages-only trial.

After trial, the defendant learned that two members of the jury had lied about their prior experiences in civil lawsuits. Although both jurors had stated that they had not "ever been a party to lawsuit," both had been involved in numerous debt-collection cases. The defendant moved for a new trial or, alternatively, an evidentiary hearing to examine the jurors about whether their prior experiences had rendered them biased.

The U.S. District Court for the Southern District of Florida denied the motion, holding that even if the jurors had told the truth about their prior lawsuits, the mere fact of those lawsuits would not suffice to challenge them for cause and, thus, taking evidence on the issue was unnecessary. The defendant appealed, and the Eleventh Circuit reversed. Although noting that "[t]here is no per se rule that requires a district court to investigate all claims of juror misconduct," the court of appeals nevertheless held that the district court had abused its discretion by failing to hold an evidentiary hearing given the "clear, strong, substantial and incontrovertible evidence" that the jurors had lied.

Litigation Section leaders observe that a key basis for the Eleventh Circuit's decision was the defendant's lack of opportunity to explore the issue of bias. "The important part was that the defense lawyers never had an opportunity to question the jurors and make the case for bias," observes Kenneth M. Klemm, cochair of the Section's Trial Evidence Committee. "It's something of a jump simply to assume that the jurors' prior experiences would not leave them biased, and allowing the defense lawyers to examine the jurors could have resulted in a very different perception by the trial court," notes Klemm.

Joshua F. Kahn, cochair of the Section's Subcommittee on Multi-District Litigation and Class Procedures Practice of the Mass Torts Litigation Committee, concurs. "The fact that the jurors answered the questions incorrectly doesn't necessarily mean they were not impartial. But that's exactly what needs to be explored. Without an evidentiary hearing, the defendant's hands were basically tied in its ability to make the case for a new trial," adds Kahn.

Section leaders also noted, however, that in requiring trial courts to investigate juror dishonesty, the Eleventh Circuit did not expressly limit its holding to misrepresentations on any particular subject. "There's something fundamentally unsettling about a juror lying," opines Blanca Fromm Young, cochair of the Section's Trial Practice Committee, "but it's kind of surprising that the Eleventh Circuit's standard didn't include a materiality requirement as to the juror's false statement." Without a materiality standard, Young continues, "lawyers who don't like the verdict are going to go out of their way to find evidence that jurors may have lied. That's a tactic that losing parties will now have."

No COVID-19, No Emotional Distress Claim

By Andrew K. Robertson, *Litigation News* Contributing Editor

Fear of contracting COVID-19, without more, is insufficient to state a claim for negligent infliction of emotional distress, according to one federal court. In *Weissberger et al. v. Princess Cruise Lines*, the court held that permitting fear-based emotional distress claims would lead to "bizarre results" and unpredictable and unlimited liability. ABA Litigation Section leaders believe that the plaintiffs may have had a viable claim with better facts but that the court expressed legitimate public policy concerns.

The Grand Princess cruise ship departed from San Francisco for Hawaii. Onboard were 62 passengers continuing from the ship's prior voyage to Mexico. While en route to Hawaii, the cruise staff informed those passengers that they had potentially been exposed to COVID-19, as two persons from the earlier leg of their trip had COVID-19 symptoms.

The plaintiffs sued the cruise line for negligence and gross negligence in the U.S. District Court for the Central District of California, alleging the cruise line breached its duty to keep passengers safe by failing to properly screen passengers or warn them of possible exposure to COVID-19. Though the plaintiffs did not contract the virus or exhibit any of its symptoms, they alleged that they had suffered emotional distress from fear of becoming infected.

Because of the absence of alleged physical injury, the district court construed plaintiffs' negligence claim as one for negligent infliction of emotional distress (NIED), under which a plaintiff must either (1) "sustain a physical impact as a result of a defendant's negligent conduct" or (2) be "placed in immediate risk of physical harm from that conduct."

The court dismissed the complaint. It concluded that the plaintiffs failed to satisfy the zone of danger test because their claim could not be "based solely on their proximity to individuals with COVID-19 and resulting fear of contracting the disease." The court relied on the U.S. Supreme Court's ruling in *Metro-North Commute Railroad Co. v. Buckley*, which held that a plaintiff must exhibit symptoms of the feared disease to recover for NIED, and that "exposure . . . to a substance that poses some risk of fear of future disease" alone did not constitute a "physical impact." Because the plaintiffs had no COVID-19 symptoms, they did not satisfy the test's first prong.

The district court also declined to extend the second prong to disease-based emotional distress claims. It observed that under the plaintiffs' interpretation, "it would be possible to sneak in through the back door what

The employees, however, still have their individual actions, though it is a separate type of relief," he adds.

Dustin L. Crawford, Atlanta, GA, cochair of the Litigation Section's Employment Litigation Subcommittee of the Civil Rights Litigation Committee, also believes this case highlights protections available to employees from mandatory arbitration provisions and class waivers. Crawford notes, "PAGA is intended to level the playing field so that even when employers have mandatory arbitrations and class waivers, there is still a regulatory enforcement mechanism that the employer must be aware of."

Law Firm Not Liable to Adverse Party for Groundless Suit

By John M. McNichols, *Litigation News* Associate Editor

A lawyer who files suit solely to earn legal fees is not liable to the adverse party even if the suit is groundless. According to the Supreme Court of Kentucky, a lawyer's desire to earn fees is not an improper purpose sufficient to sustain a claim for wrongful use of civil proceedings against an attorney who represented the adversary in a prior litigation. The high court also held that a negligence claim would not lie because an attorney owes no duty of care to an adverse party. ABA Litigation Section's leaders view the decision in *Seiller Waterman, LLC v. RLB Properties* as consistent with existing legal principles and expect that other high courts will come to similar conclusions if presented with the same issue.

The conflict began when RLB Properties engaged Skyshield Roof and Restoration to repair damage to a building that RLB owned in downtown Louisville. When one of RLB's tenants sued Skyshield for deficient repairs, Skyshield filed a third-party claim against RLB and a mechanic's lien against RLB's building, alleging outstanding charges for its repair work. RLB moved to dissolve the lien and counterclaimed against Skyshield, ultimately obtaining a $3 million judgment plus attorney fees when Skyshield defaulted.

RLB thereafter sued Skyshield's law firm, Seiller Waterman LLC, and several of its attorneys for, among other things, wrongful use of civil proceedings, sometimes referred to as a malicious prosecution claim, and negligence. RLB alleged that both the lien and the third-party claim were baseless and that the law firm filed them merely to advance its client's interest and obtain fees for itself. On the law firm's motion, the trial court dismissed all of the claims as either legally deficient or barred by the statute of limitations. In so holding, the trial court observed that RLB's claim for wrongful use of civil proceedings failed to allege an improper purpose and that its negligence claim failed because, as an adversary in litigation, RLB was not in the class of non-clients to whom a lawyer owes a duty of care. The Kentucky Court of Appeals agreed with the legal deficiency analysis, but reversed the portion of the decision resting on statute of limitations.

Both the law firm and RLB petitioned the Supreme Court of Kentucky for review, and the high court reinstated the trial court's ruling in full. The Supreme Court held that the trial court properly dismissed RLB's claim for wrongful use of civil proceedings because RLB failed to allege an improper purpose. Citing both the *Restatement of Torts* and the *Restatement of the Law Governing Lawyers*, the court ruled that the law firm's desire for fees was not an "improper purpose," even if the firm had "act[ed] without probable cause to believe the client's claim will succeed." While the suit against RLB was eventually deemed meritless, the court concluded that a "lack of probable cause alone cannot support a legally sufficient inference that the attorney acted with an improper purpose" and that "[i]ndependent evidence of malice is required."

The Supreme Court of Kentucky also ruled that the trial court properly dismissed the negligence claim against Seiller Waterman because no duty of care flowed from the law firm to its client's adversary.

Litigation Section leaders agree that caution should be exercised when counseling a client who wants to sue opposing counsel from prior litigation. Although a baseless lawsuit can be frustrating, parties still have recourse beyond filing suit. "If a client wants to sue the opposing counsel, I would remind them of the attorney's ethical duties and the possibility of sanctions. That avenue still exists, even if civil liability is out of reach," observes Tiffany Rowe, Washington, DC, cochair of the Section's Professional Liability Litigation Committee. Moreover, Section leaders note, the standard to bring a wrongful use of civil process action is high. To identify a sufficient motive, "you would have to see some kind of personal animosity as the driving force behind the litigation, like using the burden of litigation to punish someone, perhaps for pre-existing personal reasons," comments Michael S. LeBoff, Newport Beach, CA, cochair of the Professional Liability Litigation Committee.

Section leaders also agree with the high court's ruling that no duty flows from an attorney to the attorney's client's adversary. "This part of the opinion rests on the very basic idea that if you don't require a duty of care as an element of the claim, you will have essentially limitless liability," observes Rowe. Moreover, "if an adverse party could bring this claim, it would be a serious imposition on an attorney's ability to provide zealous advocacy to a client," she adds. This does not mean, however, that attorneys never have duties to non-clients. "Attorneys may have duties to persons other than the client. It's just it's quite a stretch from there to say that you could have a duty of care to an adverse party, particularly in the litigation context where you are duty-bound to work against that party's interests," observes LeBoff. LN

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