

IN THE COURT OF APPEALS 12/17/96

OF THE

STATE OF MISSISSIPPI

NO. 94-CA-00384 COA

FRIDGAMERICA, INC., NORMAN PITTS, EARLENE SCARBOROUGH, AND EARL E. SCHNEIDER, JR.

APPELLANTS

v.

MID-SOUTH INDUSTRIES, INC. D/B/A THERMO-KOOL

APPELLEE

THIS OPINION IS NOT DESIGNATED FOR PUBLICATION AND
MAY NOT BE CITED, PURSUANT TO M.R.A.P. 35-B

TRIAL JUDGE: HON. SHANNON S. CLARK

COURT FROM WHICH APPEALED: JONES COUNTY CHANCERY COURT

ATTORNEYS FOR APPELLANTS:

CAREY R. VARNADO

HAROLD W. MELVIN

ATTORNEY FOR APPELLEES:

THOMAS T. BUCHANAN

NATURE OF THE CASE: MISAPPROPRIATION OF A TRADE SECRET

TRIAL COURT DISPOSITION: TRIAL COURT FOUND THE APPELLANTS
MISAPPROPRIATED TRADE SECRETS OF THERMO-KOOL

MANDATE ISSUED: 6/10/97

BEFORE FRAISER, C.J., KING, AND PAYNE, JJ.

FRAISER, C.J., FOR THE COURT:

Plaintiff, Mid-South Industries d/b/a Thermo-Kool (Thermo-Kool), sued three of its former employees, Norman Pitts, Earlene Scarborough, Earl Schneider, and FridgAmerica, a company the three formed after leaving Thermo-Kool's employ, seeking injunctive relief and damages on the basis of alleged misappropriation of trade secrets in conjunction with the setting up and operation of their new business. In a bifurcated trial, the chancery court found FridgAmerica, Pitts, Scarborough, and Schneider liable for the misappropriation of trade secrets belonging to Thermo-Kool, and Thermo-Kool was awarded \$20,000 in actual damages and \$10,000 in attorney's fees. FridgAmerica, Pitts, Scarborough, and Schneider appeal from the judgment of the chancery court alleging that the amount of damages awarded is not supported by substantial evidence. Schneider individually complains that he may not be held jointly and severally liable for a tort in which he took no part. Also, Thermo-Kool cross appeals claiming that the chancery court applied an improper measure of damages for the misappropriation of a trade secret. After examining the relevant precedent, we conclude, as a matter of law, that the chancery court applied an improper measure of damages for the tortious misappropriation of a trade secret. Therefore, we do not reach the question of whether the chancellor's award of damages is supported by substantial evidence but reverse and remand this case for a computation of damages consistent with the criteria announced herein. Further, Schneider's counsel failed to preserve his alleged error in the trial court, and we will not hold the court in error on an issue not raised before it.

I.

FACTS

Thermo-Kool is an installer and manufacturer of "walk-in" refrigeration units. Pitts, Scarborough, and Schneider (collectively the former employees) were employees of Thermo-Kool prior to June of 1993. They departed from their employment at Thermo-Kool to form FridgAmerica, a corporation in direct competition with Thermo-Kool. The former employees misappropriated, among other things, the Kool-Cad computer program for drawing "walk-in" refrigerator units and the drawings generated by this program.

On September 25, 1990, Thermo-Kool filed a complaint alleging that the former employees misappropriated trade secrets. The chancery court ordered a bifurcated trial. In the liability phase of the trial, the chancery court held that the Kool-Cad menu, symbols library, and pregenerated drawings were trade secrets that had been misappropriated by the former employees. On appeal, none of the parties dispute that Kool-Cad is indeed a trade secret.

Before the second phase of the trial, the chancery court made a pre-trial determination of the measure of damages. The chancery court found the only proper measure of damages to be the fair market value of the property wrongfully taken and/or the increase in the amount of profits resulting from the use of the property wrongfully taken for the amount of time it reasonably would have taken the defendants to have reproduced the properties by independent means. Based on the above articulated

measure of damages the chancery court awarded Thermo-Kool \$20,000 in actual damages and \$10,000 in litigation costs.

With no dispute as to the chancery court's findings of liability, the central issue on appeal is one of damages. Appellants Fridgamerica, Pitts, and Scarborough argue that the chancery court applied the proper measure of damages; however, they maintain that there was not sufficient evidence to support the court's finding of \$20,000 in actual damages and that litigation costs were not recoverable because punitive damages are not allowable in trade secrets cases. Thermo-Kool cross appeals arguing that the chancery court applied an improper measurement of damages. Thermo-Kool argues that the proper measurement of damages includes the cost of bringing Fridgamerica and its employees to justice, loss of profits to Thermo-Kool, the profits earned by Fridgamerica, the advantage gained by Fridgamerica in beginning manufacturing, the in-house cost of litigating this suit, punitive damages, court costs, and attorney's fees.

II.

DISCUSSION

A. THE MEASURE OF DAMAGES FOR THE COMMON LAW

TORT OF MISAPPROPRIATION OF A TRADE SECRET

This is a case of first and last impression in this jurisdiction. The question of what damages are available to a successful plaintiff in an action for the common law misappropriation of a trade secret is as yet unresolved under the common law. Had this tortious misappropriation occurred a month later the measure of damages would be controlled by the Mississippi Uniform Trade Secrets Act at section 75-26-1 *et seq.* of the Mississippi Code. The Mississippi Uniform Trade Secrets Act provides that the proper measure of damages for the misappropriation of a trade secret includes the actual loss caused by the misappropriation, any unjust enrichment caused by the appropriation, a reasonable royalty, exemplary, damages and attorney's fees. Miss. Code Ann. §§ 75-26-7, -9 (Supp. 1995). As mentioned above, the statutory remedies are inappropriate in this case because the misappropriation occurred before July 1, 1990. *See* Miss. Code Ann. § 75-26-1 editor's note (Supp. 1995). Thus, this action is compensable only by the damages permitted by the common law.

FridgAmerica and the former employees argue that the trial court employed the correct measure of damages--the fair market value of the property wrongfully taken and/or the increase in the amount of profits resulting from the use of the property wrongfully taken, as articulated in *Planhouse, Inc. v. Breland & Farmer Designers, Inc.*, 412 So. 2d 1164, 1168 (Miss. 1982). *Planhouse* is not dispositive of the proper damages for the misappropriation of a trade secret. The *Planhouse* Court held that that case was not a trade secrets case as it involved no trade secrets. *Id.* at 1166-67 n.1. The supreme court specifically found that the *Planhouse* plaintiff recovered for the breach of a cooperate director's fiduciary duty and not for misappropriation of a trade secret. *Planhouse, Inc.*, 412 So. 2d at 1166. Although some jurisdictions treat a misappropriation of a trade secret as a type of breach of

fiduciary duty, the Mississippi Supreme court has adopted the rationale that a misappropriation of a trade secret is a crime against property and not a breach of a fiduciary duty. *Rice Researchers, Inc. v. Hiter*, 512 So. 2d 1259, 1268 (Miss. 1987); *American Tobacco Co. v. Evans*, 508 So. 2d 1057, 1059-60 (Miss. 1987) (citing *Developments-Competitive Torts*, 77 Harv. L. Rev. 888, 947 (1964)); see James L. Robertson, *The Law of Business Torts in Mississippi*, 15 Miss. C. L. Rev. 331 (1995); see also *Restatement (Third) Unfair Competition* § 39 cmt. b (1995). Therefore, *Planhouse* is not controlling precedent and is not dispositive in determining the proper measure of damages recoverable for the misappropriation of a trade secret. Unfortunately, no appellate court applying Mississippi trade secret law has addressed what damages are available.

The Mississippi Supreme Court has had few opportunities to expound on the law of misappropriation of a trade secret. The first judicial recognition of trade secret jurisprudence came in 1961 when the Mississippi Supreme Court recognized the evidentiary privilege against revealing a trade secret. See *Electric Reduction Co. v. Crane*, 120 So. 2d 765, 770-71 (Miss. 1960). While trade secrets have been of some importance in employment contract cases involving noncompetition clauses, it was not until 1987 that the Mississippi Supreme Court recognized a cause of action based on the misappropriation of a trade secret. See *Hiter*, 512 So. 2d at 1268. Neither in *Rice* nor *ACI Chemicals v. Metaplex, Inc.*, 615 So. 2d 1192, 1195 (Miss. 1993), the only other trade secrets case to date, did the Mississippi Supreme Court reach the issue of what damages a plaintiff may recover under the Mississippi common law for the misappropriation of a trade secret. Neither case addresses the proper measure of damages because the defendant prevailed on the issue of liability in each case. However, both *Hiter* and *Metaplex* rely on section 757 of the first *Restatement of Torts*. The *Restatement* provides that a plaintiff may receive "a remedy or remedies appropriate under the circumstances." *Restatement (First) of Torts* § 757 cmt. e (1939). The restatement specifically provides for compensatory damages for past harm, future harm, or an accounting for the wrongdoer's profits; however, there is no comment on punitive damages or attorney's fees. *Id.* The ambiguities of the *Restatement of Torts* regarding damages are somewhat clarified in the later treatise, *Restatement of the law of Unfair Competition*. The latter explains that there are three methods of determining actual damages, which are appropriate in this case. A successful plaintiff may recover (1) actual damages for the loss to him caused by the misappropriation, (2) the defendant's profits earned on sales attributable to the use of the trade secret, (3) and/or the standard of comparison, which measures the savings to the defendant that are attributable to the use of the trade secret. *Restatement (Third) of the law of Unfair Competition* § 45 cmt. d (1993). Of course, the plaintiff cannot receive a double recovery. That is he cannot receive damages for his loss of sale and the resulting profit to the defendant. However, we need not address the first two methods of recovery, since the trial court has already considered them and awarded \$20,000 in compensatory damages, which we affirm.

However, recovery under the standard of comparison was not available under the lower court's holding. In cases like the one before us, the standard of comparison is also recoverable as an element of damages. Indeed, the standard of comparison is an essential element of damages when the stolen trade secret is not a final product. Where the gain to FridgAmerica is a vastly decreased startup time for the new company, merely compensating Thermo-Kool for its lost profits does not adequately compensate it for the wrong that it has suffered. At trial, most of Thermo-Kool's proof of damages related to the savings to FridgAmerica in start up time by misappropriating the Kool-Cad program. Under the chancery court's conclusions of law such evidence could not be considered in determining

damages. The trial court only awarded damages for Thermo-Kool's loss and/or FridgAmerica's profits from the misappropriation. The true benefit to FridgAmerica was its ability to have a functioning Kool-Cad program long before it could have created a comparable program. FridgAmerica benefited from the misappropriation in several ways. FridgAmerica was able to begin business in five weeks instead of the norm of two years. FridgAmerica was able to enter the marketplace with standard drawings known to potential customers because they were the Thermo-Kool's drawings. FridgAmerica did not have to do pre-engineering on their walk-in refrigeration units because they had approximately 600 standard, pre-engineered units. FridgAmerica did not have to create the modifications of Auto-Cad in-house since they had misappropriated those modifications from Thermo-Kool's Kool-Cad. The parties do not dispute that FridgAmerica must either create the program itself or steal it. The Kool-Cad program was not a final product. Thermo-Kool is entitled to damages based on the standard of comparison in addition to the damages already awarded for the loss to Thermo-Kool and the profit to FridgAmerica. Thus, we remand this case to the lower court for a determination of additional actual damages based on the standard of comparison in addition to those already awarded.

Additionally, the *Restatement (Second) of Torts* and the *Restatement (Third) of Unfair Competition* address the availability of punitive damages. These restatements provide that "[a] successful plaintiff in an action at common law for the appropriation of a trade secret may recover punitive damages under the rules generally applicable in the jurisdiction to award punitive damages in tort actions." *Restatement (Third) of Unfair Competition* § 45 d (1993); *Restatement (Second) of Torts* § 908 (1965).

An award of punitive damages in the case *sub judice* is in accord with Mississippi tort law. As noted, the misappropriation of a trade secret is a tort against property and is subject to punitive damages as is any other tort against property. Mississippi law provides that a plaintiff may receive punitive damages for an intentional tort if the defendant "has demonstrated a willful or malicious wrong or the gross, reckless disregard for the rights of others." *Valley Forge Ins. Co. v. Strickland*, 620 So. 2d 535, 540 (Miss. 1993) (citing *Strickland v. Rossini*, 589 So. 2d 1268, 1272 (Miss. 1991)). Thermo-Kool is entitled to have the chancery court consider awarding punitive damages. Further, under Mississippi law, attorney's fees are appropriate if punitive damages are available. *Valley Forge*, 620 So. 2d at 542. Thus, attorney's fees are appropriate in this case.

Thus, we conclude that the proper measure of damages in this case includes the following:

1. *Actual Damages*: Damages for the profit lost to Thermo-Kool and the profit gained by FridgAmerica have already been considered by the chancery court. We affirm the chancery court's award of \$20,000 based on these considerations, but remand for a determination of additional damages under the standard of comparison.

2. *Punitive Damages*: As a matter of law, Thermo-Kool can recover punitive damages for the misappropriation of a trade secret. Whether punitive damages will be awarded is a question for the chancery court to determine. In order to receive punitive damages the finder of fact must determine that the defendant acted with "either malice or gross neglect/reckless disregard." *Ross-King-Walker, Inc. v. Henson*, 672 So. 2d 1188, 1992 (Miss.

1996). Thus, we remand for a hearing to determine whether FridgAmerica is entitled to punitive damages, and if FridgAmerica is entitled to punitive damages, a determination of the amount.

3. *Attorney's Fees*: Punitive damages are available to Thermo-Kool; consequently, attorney's fees are available to Thermo-Kool. Because attorney's fees were not available to Thermo-Kool under the measure of damages employed by the chancery court, we remand for a determination of attorney's fees.

B. SCHNEIDER'S CROSS APPEAL

On cross appeal, Schneider argues that he should not be held jointly and severally liable for the tort of misappropriation of a trade secret. *See Turner v. Wilson*, 620 So. 2d 545, 548 (Miss. 1993). Schneider failed to argue this point to the trial court or to preserve it in the motion for a new trial. Absent plain error, this Court will not consider an assertion of error that has not been presented to the trial court or in a motion for a new trial. *American Fire Protection v. Lewis*, 653 So. 2d 1387, 1390 (Miss. 1995). Finding no plain error and no evidence in the record before us that this argument was ever made to the chancery court, we conclude that Schneider has waived this issue. Therefore Schneider's cross appeal is denied.

III.

CONCLUSION

The measure of damages espoused in *Planhouse* is not appropriate in this case as *Planhouse* involved a breach of fiduciary duty, while this case presents a misappropriation of a trade secret. Without disturbing the chancery court's determination of liability, we reverse the chancery court's legal findings as to the appropriate measure of damages in this case and remand for a determination of actual damages in addition to those already awarded based on the standard of comparison and attorney's fees as well as consideration of whether punitive damages are appropriate, consistent with this opinion. Finally, we deny Schneider's cross appeal because it was not timely raised.

THE JUDGMENT OF THE JONES COUNTY CHANCERY COURT ON CROSS-APPEAL, AS TO THE APPROPRIATE MEASURE OF DAMAGES IN A TRADE SECRETS CASE, IS REVERSED AND REMANDED FOR A HEARING ON DAMAGES CONSISTENT WITH THIS OPINION; CONSEQUENTLY, THE DIRECT APPEAL AS TO THE SUFFICIENCY OF DAMAGES IS RENDERED MOOT. SCHNEIDER'S DIRECT APPEAL AS TO HIS PERSONAL LIABILITY IS DENIED. ALL COSTS OF THIS APPEAL ARE TAXED TO APPELLANTS.

BRIDGES AND THOMAS, P.JJ., BARBER, COLEMAN, DIAZ, KING, McMILLIN, PAYNE, AND SOUTHWICK, JJ., CONCUR.

