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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

PROOFPOINT, INC., et al.,
Plaintiffs,

v.

VADE SECURE, INCORPORATED;
VADE SECURE SASU; OLIVIER
LEMARIÉ,
Defendants.

Case No. 19-cv-04238-MMC

**ORDER DENYING PLAINTIFFS'
MOTION FOR EXEMPLARY
DAMAGES**

Before the Court is plaintiffs Proofpoint, Inc. ("Proofpoint") and Cloudmark LLC's ("Cloudmark") "Motion for Exemplary Damages In Re Vade's Willful & Malicious Trade Secret Misappropriation," filed September 10, 2021. Defendants Vade Secure, Inc. and Vade Secure SASU (collectively, "Vade") have filed opposition, to which plaintiffs have replied. The matter came on regularly for hearing on October 29, 2021. Sean S. Pak, Iman Lordgoobie, and Jodie W. Cheng of Quinn Emanuel Urquhart & Sullivan, LLP appeared on behalf of plaintiffs. Douglas E. Lumish and Jeffrey G. Homrig of Latham & Watkins LLP appeared on behalf of Vade. Having read and considered the parties' respective written submissions, and having considered the arguments made at the hearing, the Court rules as follow.

BACKGROUND

In the operative complaint, the First Amended Complaint, plaintiffs allege that Vade, as well as defendant Olivier Lemarié ("Lemarié"), Vade's Chief Technology Officer and formerly Vice President of Gateway Technology at Cloudmark, misappropriated plaintiffs' trade secrets in violation of the Defend Trade Secrets Act ("DTSA").

1 MTA Builder. Plaintiffs contend they are entitled to an award of exemplary damages
2 based on the jury's findings as to both the spear phishing secrets and the licensing
3 reports.

4 Although there is no clearly articulated test for determining whether, upon a finding
5 of willful and malicious misappropriation, an award of exemplary damages is proper,
6 district courts have considered a number of factors. In particular, courts have considered
7 "the degree of reprehensibility associated with the wrongdoer's actions," see Syntel
8 Sterling Best Shore Mauritius Ltd. v. TriZetto Group, Inc., 2021 WL 1553926, at *8 (S.D.
9 N.Y. April 20, 2021 (internal quotation, alteration, and citation omitted), "the duration of
10 misappropriative conduct," see AgroFresh Inc. v. Essentiv LLC, 2020 WL 7024867, at *23
11 (D. Del. November 30, 2020), "the defendant's consciousness of resulting injury and any
12 efforts to cover up malfeasance," see id., "the need to deter similar misconduct in the
13 future," see DiscoverOrg Data, LLC v. Bitnine Global, Inc., 2020 WL 6562333, at *10
14 (N.D. Cal. November 9, 2020), "the amount of compensatory damages awarded," see
15 Citcon USA, LLC v. RiverPay, Inc., 2020 WL 5365980, at *5 (N.D. Cal. September 8,
16 2020), and "the wealth of the particular defendant," see id.²

17 Here, the Court begins with the degree of reprehensibility, a factor of particular
18 importance. See BMW of North America, Inc. v. Gore, 517 U.S. 559, 575 n.23 (1996)
19 (observing "flagrancy of the misconduct is thought to be the primary consideration in
20 determining the amount of punitive damages") (internal quotation and citation omitted).

21 With respect to the spear phishing secrets, plaintiffs argued Lemarié was the

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23 ² In Citcon, unlike the other three cases cited above, the district court addressed
24 the question of exemplary damages under the California Uniform Trade Secrets Act
25 ("CUTSA") rather than DTSA. As both DTSA and CUTSA are modeled after the Uniform
26 Trade Secrets Act ("UTSA"), the Court finds it appropriate to consider factors courts have
27 addressed in both DTSA and CUTSA cases. See Brand Energy & Infrastructure
28 Services, Inc., 2017 WL 1105648, at *7 (E.D. Pa. March 24, 20217) (examining
legislative history; finding "Congress expressed its specific intent to model the DTSA in
large part after the UTSA" and "directly modeled the DTSA's damages provisions after
the UTSA's damages provisions"); Cadence Design Systems, Inc. v. Avant! Corp., 29
Cal. 4th 215, 221 (2002) (noting UTSA was "adopted without significant change by
California").

1 individual at Vade who used those secrets in the design of Vade products; specifically,
2 plaintiffs argued, Lemarié incorporated secrets he developed while employed by
3 Cloudmark into the source code for Vade's O365.³ Lemarié, however, testified without
4 apparent dispute that, upon learning of plaintiffs' claims, he replaced the assertedly
5 secret code using publicly available code. (See Transcript of Trial Proceedings, July 29,
6 2021, at 740:17-741:4.) Moreover, it is undisputed that Vade thereafter went further and
7 engaged Zenika, a neutral non-party, to wholly redesign the spear phishing module in
8 O365, and, although plaintiffs argued Vade was unsuccessful in eliminating from the
9 redesign all potential influence derived from Cloudmark's trade secrets, there is no
10 showing any such failure was intentional.

11 Given the redesign, as well as the absence of a jury finding of willful and malicious
12 misappropriation by Lemarié, plaintiffs, relying primarily on an email written by Lemarié
13 (see PX-2146), contend other Vade officers or employees were involved in the
14 misappropriation of spear phishing trade secrets and that Vade can be held responsible
15 for their conduct as well. The Court, however, is not persuaded that the inferences
16 plaintiffs seek to draw from that email are of sufficient strength to support an award of
17 exemplary damages. Similarly lacking in sufficient strength is the other evidence on
18 which plaintiffs rely for the jury's finding of willful and malicious use of spear phishing
19 trade secrets by Vade, namely, Vade's recruitment of Cloudmark employees who had
20 knowledge of Cloudmark's spear phishing technology (see PX-2288), Vade's Chief
21 Executive Officer Georges Lotigier's ("Lotigier") failure to concede wrongdoing (see
22 Transcript of Trial Proceedings, August 5, 2021, at 1864:5 - 1865:20), Lotigier's decision
23 to place Lemarié on leave rather than to fire him (see id. at 1858:18-1859:7), and Vade's
24 use of strong language in internal documents discussing competition with Cloudmark

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26 ³ Although plaintiffs' technical expert, James Nielson, Ph.D., offered an opinion
27 that Cloudmark's spear phishing trade secrets were also incorporated in Vade's Content
28 Filter, he conceded he was unable to locate any such code therein (see Transcript of
Trial Proceedings, August 3, 2021, at 1344:4-13, 1388:4-19, 1395:1-6), and the instant
motion makes no reference to Content Filter.

1 (see PX-1863.0016).

2 With respect to Trade Secret 16, the Gateway Daily Licensing Reports, the jury's
3 finding as to willful and malicious use appears to have been based on Xavier Delannoy's
4 taking the reports when he left Cloudmark's employ and, subsequently, while employed
5 by Vade as its Vice President of Engineering, forwarding them to Lotigier, who, in turn,
6 forwarded them to Andre Gendre, Vade's Chief Product and Services Officer, via an
7 email in which Lotigier used a winking emoticon. (See PX-2254.0002.) The reports,
8 however, included no trade secrets as to the design of Cloudmark's MTA. Rather,
9 plaintiffs contended, they demonstrated the potential profitability of MTAs, and, although
10 plaintiffs argued Vade thereafter used Trade Secrets 17-20 in designing MTA Builder, the
11 jury did not find those secrets were misappropriated. Under such circumstances, the
12 Court finds Vade's misappropriation of the reports, whether considered separately or in
13 combination with the evidence pertaining to the spear phishing trade secrets, is not so
14 egregious as to weigh in favor of an award of exemplary damages.

15 The Court next turns to consciousness of resulting injury and any efforts to cover
16 up malfeasance. As to consciousness of injury, Vade, as noted, endeavored to rectify
17 any misuse of the spear phishing trade secrets, and the claimed misuse of and harm
18 from the forwarding of licensing reports was, essentially, indirect in nature. As to any
19 cover-up, plaintiffs' theory, both in pretrial proceedings and at trial, was based on
20 Lemarié's shredding of various computer files, conduct for which Lemarié provided a
21 benign explanation, which, given its finding that Lemarié did not act willfully or
22 maliciously, the jury apparently accepted. Consequently, this factor adds, at best, only
23 slight support for an award of exemplary damages.

24 The remaining factors add little weight in the balance. As noted, the jury found
25 plaintiffs incurred no actual loss from the misappropriation, and, although exemplary
26 damages can be based on a finding of unjust enrichment, see Syntel, 2021 WL 1553926,
27 at *10, no party or the Court has been able to determine, at least to date, how the jury
28 arrived at the amount it awarded. As to the matters of wealth and deterrence, although

1 Vade does not appear to be in difficult financial circumstances, and although, in an
2 apparent effort to put on what might be described as a brave face, as well as to reassure
3 its customers and potential customers it would remain a viable company, it may have
4 expressed satisfaction that the verdict was for an amount considerably less than that
5 sought by plaintiffs (see Cheng Decl., filed September 10, 2021, Ex. 1 at 3), the amount
6 awarded, close to thirteen and a half million dollars, is a substantial sum, a sum that may
7 well affect the manner in which Vade has chosen to allocate resources (see Transcript of
8 Trial Proceedings, August 5, 2021, 1900:8-21) and one the Court finds sufficient to deter
9 future misappropriation.

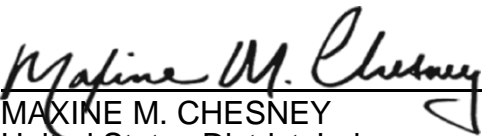
10 Accordingly, having fully considered the evidence presented at trial and in
11 connection with the instant motion, the Court finds imposition of exemplary damages is
12 not warranted.

CONCLUSION

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14 For the reasons stated above, Plaintiff's motion for an award of exemplary
15 damages is hereby DENIED.

16 **IT IS SO ORDERED.**

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18 Dated: November 18, 2021


MAXINE M. CHESNEY
United States District Judge