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E-FILED 1/24/06

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

DIGITAL ENVOY, INC.,
Plaintiff,
v.
GOOGLE, INC.,
Defendant.

NO. 5:04-cv-1497 RS
**ORDER CLARIFYING AND
EXPANDING SCOPE OF ORDER
GRANTING GOOGLE'S
MOTION FOR SUMMARY
JUDGMENT REGARDING
DAMAGES**

I. INTRODUCTION

Defendant Google, Inc. ("Google") seeks clarification and expansion of the order issued on November 8, 2005, in which the Court granted Google's motion for partial summary judgment. There, the Court found that the License Agreement between the parties precluded the recovery of contract damages absent a showing of willful misconduct, which plaintiff Digital Envoy, Inc. ("Digital") failed to present. That order did not reach the issue of whether that same License Agreement provision applied to Digital's claim for unjust enrichment under California law arising out of Google's alleged misappropriation of Digital's trade secrets. Owing to ambiguity in the precise relief Google requested by its initial motion, the Court granted Google's request for reconsideration, permitted supplemental briefing, conducted a hearing on that isolated issue on January 12, 2006, and

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1 now concludes that Google's motion must be granted; in particular, that Digital is not entitled to
2 equitable relief on its claim for misappropriation of trade secrets, absent a showing of Google's
3 willful misconduct. In light of this Court's prior finding that evidence of willful misconduct on
4 Google's part had not been presented, Google is now entitled to summary judgment in its favor
5 precluding Digital, as a matter of law, from recovering any damages, based either upon unjust
6 enrichment or other theory, flowing from Google's alleged misappropriation of Digital's proprietary
7 technology.¹

8 II. THE PARTIES' CONTENTIONS

9 As noted in the November 8, 2005 order, Google focuses on Section 8 of the License
10 Agreement at issue, entitled "Warranties; Limitations; Disclaimer," providing in relevant part that
11 "NEITHER PARTY UNDERTAKES OR ACCEPTS ANY LIABILITY WHATSOEVER TO THE
12 OTHER FOR ERRORS, OMISSIONS, DELAYS, INTERRUPTIONS, OR LOSSES UNLESS
13 CAUSED BY THEIR WILLFUL MISCONDUCT." See Declaration of David Kramer, submitted in
14 support of motion for partial summary judgment, Exh. B, Section 8. Since Digital claims a "loss" in
15 this case, measured by any unjust enrichment gained by Google when it allegedly utilized Digital's
16 geo-location technology in an unauthorized manner, Google argues that Digital may only recover if
17 it establishes that such loss occurred as a result of willful misconduct committed by Google. It notes,
18 further, that in the prior order, the Court found no evidence that Google had engaged in willful
19 misconduct, defined as a positive intent actually to harm another or to do an act with a positive,
20 active, and absolute disregard of its consequences, Dazo v. Globe Airport Security Services, 295
21 F.3d 934, 941 (9th Cir. 2002), and that therefore Digital is precluded from any recovery, however
22 characterized, on its trade secrets claim.

23 Digital responds that Section 8 does not apply to its claim for misappropriation of trade
24 secrets since the parties intended, according to Digital, that such Section would only limit a claim
25 for breach of contract. Digital also argues that Google's interpretation of Section 8 renders it invalid

26 ¹ The factual background of the parties' dispute has been set forth in some detail in prior orders in this case and will
27 not, therefore, be reiterated here.

1 as a matter of law or, alternatively, that the Section is invalid under Cal. Civ. Code § 1668,
2 providing that any contract exempting anyone from responsibility for his own fraud or a violation of
3 the law is against public policy.

4 III. DISCUSSION

5 A. Application of Section 8 to the Trade Secret Misappropriation Claim

6 1. Meaning of the term "Loss"

7 Interpretation of a contract is an issue of law if: (1) the contract is not ambiguous, or (2) the
8 contract is ambiguous but no parol evidence is admitted or the parol evidence is not in conflict.
9 Walter E. Heller Western, Inc. v. Tecrim Corp., 196 Cal.App.3d 149, 158 (1987). In this instance, as
10 the Court noted in its prior order, neither Section 8 of the parties' Agreement nor the term "loss" is
11 ambiguous. Moreover, contrary to Digital's proffered interpretation, courts have noted that the words
12 "loss" and "damage" have been considered virtually synonymous, both referring to that which is
13 necessary to make the plaintiff whole. See e.g., Nordahl v. Franzalia, 48 Cal.App.3d 657, 664
14 (1975); Wilbur v. United States, 30 F.2d 871, 872 (1929). Similarly, the Ninth Circuit has indicated
15 that the proper measure of damages due to the misappropriation of trade secrets is no longer limited
16 to either plaintiff's loss or defendant's benefit, but includes a combination of both in order to make
17 the plaintiff whole. Clark v. Bunker, 453 F.2d 1006, 1011 (9th Cir. 1972). As a result, even
18 assuming Digital had submitted parol evidence which suggested that the word "loss" is ambiguous,
19 which it did not, it appears that the legal distinction between the terms "loss" and "damage" is
20 blurred, at least in the context of recovery based on the misappropriation of trade secrets.

21 Further, from a practical perspective, it would undercut the purpose of Section 8 if it were to
22 be interpreted as limiting liability only for those losses resulting from breach of the contract, for at
23 least two reasons. First, an injured party could always refrain from filing a breach of contract claim
24 and simply re-label the action as one for misappropriation of trade secrets, thereby avoiding
25 application of the limitations set forth in Section 8 entirely. Second, the inclusion of the term
26 "willful misconduct" would have been unnecessary if only contract claims were at issue since
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1 "wilfulness" is not an essential element of such a claim.² That term applies principally in the context
2 of tort claims. See e.g., Drum v. Bleau, Fox & Associates, 107 Cal.App.4th 1009, 1011 (2003) (tort
3 of abuse of process requires a willful act in use of process); Foley v. Interactive Data Corp., 47
4 Cal.3d 654, 712, fn. 9 (1988) (tort law is rife with subjective elements such as willful misconduct).

5 2. Plain Language of the Agreement is Unambiguous

6 The plain language of Section 8 similarly supports the interpretation discussed above. As the
7 Court noted in its prior order, Section 8 contains no limiting language suggesting that the parties
8 intended it to apply solely to breach of contract claims. A review of the entire Section illustrates this
9 point.³

10 The term "loss" first appears in the second sentence of Section 8, which reads, "It is mutually
11 acknowledged that data entry, communication and storage are subject to a possibility of human and
12 machine errors, omissions, delays, and losses, including inadvertent loss of data or damage to media,
13 which may give rise to loss or damage." Based on this sentence, the term "loss" clearly refers to the
14 deletion of "data entry, communication and storage," including the "loss of data," and does not
15 include any other type of loss, such as general economic damages or unjust enrichment.

16 Section 8 continues and states that, "Neither party hereto undertakes any liability to the other
17 for any such errors, omissions, delays, or losses." What the term "loss" refers to in this sentence is,
18 again, the loss of "data entry, communication, and storage," including the "loss of data", explaining
19 why the word "such" precedes the word "loss" in that sentence. Having defined the types of losses
20 that commonly occur, the parties agreed that those losses would not create liability on the part of
21 either of them.

22 ² In order to establish a claim for breach of contract, an injured party must show: (1) the existence of an agreement
23 between the parties; (2) performance by the party seeking relief under the agreement; (3) breach of such agreement by the
24 opposing party; and, (4) damage caused by such breach. McDonald v. John P. Scripps Newspaper, 210 Cal.App.3d 100, 104
(1989).

25 ³ Moreover, as stated in the Court's November 8, 2005 order, Digital's claim for misappropriation of trade secrets
26 does not arise independently of the License Agreement since it is undisputed that Google lawfully obtained Digital's
27 proprietary technology as a result of the License and, more importantly, that the License defines the permissible scope of
28 Google's use of that technology.

1 The next-to-the-last line of Section 8 then concludes, in capital letters, "NEITHER PARTY
2 UNDERTAKES OR ACCEPTS ANY LIABILITY WHATSOEVER TO THE OTHER FOR
3 ERRORS, OMISSIONS, DELAYS, INTERRUPTIONS, OR LOSSES UNLESS CAUSED BY
4 THEIR WILLFUL MISCONDUCT." The use of the term "loss" in this sentence, according to
5 Digital, must carry a meaning similar to the first two uses of that term and naturally relates, it
6 explains, to the same data losses as described in the preceding two sentences. As the Court stated in
7 its prior order, however, this interpretation defies common sense since, if it were to be adopted, the
8 sentence would be unnecessary for it would simply duplicate the third sentence in Section 8.

9 As related to the term "loss," the only difference between the third sentence and the fifth
10 sentence in Section 8, other than the addition of the "willful" phrase, is the use of the word "such" in
11 the third sentence, a word which is conspicuously omitted in the fifth sentence. The fact that Digital,
12 who drafted this paragraph, did not repeat the term "such losses" in the fifth sentence certainly
13 suggests a different loss than those previously discussed. Otherwise, the term "unless caused by their
14 willful misconduct" could simply have been added to the third sentence and there would be no need
15 to include it in the fifth sentence. Moreover, no parol evidence has been presented to explain the use
16 of "such loss" in the third sentence as opposed to "loss" in the fifth sentence.

17 For all of these reasons, the Court concludes that Section 8 of the parties' Agreement is
18 unambiguous and is simply not reasonably susceptible to the meaning ascribed to it by Digital in this
19 action. Barris Industries, Inc. v. Worldvision Enterprises, Inc., 875 F.2d 1446, 1450 (9th Cir. 1989)
20 (extrinsic evidence admissible if relevant to prove a meaning to which the language of the contract is
21 reasonably susceptible).

22 B. Validity of Section 8 as a Matter of Law

23 Similarly, Section 8 is not invalid as a matter of law. Digital contends that, since Section 8
24 does not expressly waive rights "under tort law" or "for any statutory claims," the attempted release
25 clause is invalid under California law. Lund v. Bally's Aerobic Plus, Inc., 78 Cal.App.4th 733, 738
26 (2000) (in order to be valid and enforceable, a written release clause which exculpates a tortfeasor
27 from liability for future misconduct must be clear, unambiguous, and explicit in expressing the
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1 intent of the parties); Baker Pacific Corp. v. Suttles, 220 Cal.App.3d 1148, 1153 (1990) (same). This
 2 argument ignores the actual language of the Agreement, which unambiguously states that neither
 3 party accepts "any liability whatsoever" for "losses" unless those losses are caused by the willful
 4 misconduct of one of the parties.⁴

5 C. Cal. Civ. Code § 1668 Does Not Apply to the Parties' Agreement

6 Digital's argument that Cal. Civ. Code § 1668 invalidates Section 8 of the parties' Agreement
 7 similarly fails since California courts have held that Section 1668 applies only to contracts that
 8 involve the "public interest" and not to private contracts. See e.g., Tunkl v. Regents of University of
 9 California, 60 Cal.2d 92, 101 (1963) (holding that public policy does not oppose private, voluntary
 10 transactions); Allan v. Snow Summit, Inc., 51 Cal.App.4th 1358, 1373 (1996) (release and waiver
 11 found valid where ski school contract did not affect public interest); YMCA of Metro. Los Angeles
 12 v. Superior Court, 55 Cal.App.4th 22, 27 (1997) (finding release enforceable as not contrary to
 13 public policy). Digital's contention that these cases involved only general negligence claims and,
 14 therefore, do not apply to the tort of trade secret misappropriation, is unpersuasive in the absence of
 15 any indication that the California state courts intended to limit their holdings to simple negligence
 16 claims.

17 IV. CONCLUSION

18 For the reasons stated above, and based on the entire record submitted, as well as on the prior
 19 orders issued in this action, Google's motion for partial summary judgment regarding damages is
 20 granted. Digital is precluded from recovering for any unjust enrichment earned by Google as a
 21 result of its alleged trade secret misappropriation based on the limitation of liability provision set
 22 forth in Section 8 of the parties' License Agreement, which permits recovery for "losses" only in
 23 instances of willful misconduct. Digital, therefore, cannot satisfy the damages element essential for
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25 ⁴ Moreover, California statutory law provides that in cases of uncertainty, the language of the contract should be
 26 interpreted most strongly against the party who caused the uncertainty to exist. Cal. Civ. Code § 1654. In this instance, the
 27 evidence submitted shows that Section 8 was drafted by Digital and was changed by Google only to the extent that the last
 28 sentence in that Section, regarding the cap on liability, was made reciprocal. See e.g., Supplemental Declaration of David
 Kramer, Exhs. P, R; Declaration of David Kramer, Exh. C; Declaration of Robert Waddell, Exh. A.

1 its remaining trade secret claim. See e.g., Sargent Fletcher, Inc. v. Able Corp., 110 Cal.App.4th
2 1658, 1666 (2003) (listing elements of California trade secret claim, including damages, and noting
3 that plaintiff bears burden of proof on each element). As a result, judgment will be entered in favor
4 of Google and against Digital in this action.⁵

5 IT IS SO ORDERED.

6 Dated: 1/24/06


7 RICHARD SEEBORG
United States Magistrate Judge

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United States District Court
For the Northern District of California

⁵ Based on this conclusion, the Court does not address Google's alternative argument regarding a cap on damages, and Digital's pending discovery motion is denied as moot.

1 **THIS IS TO CERTIFY THAT NOTICE OF THIS ORDER WAS ELECTRONICALLY**
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13 **Dated: 1/24/06**

Chambers of Judge Richard Seeborg

14 **By: _____ /s/ BAK**

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