

NOT DESIGNATED FOR PUBLICATION

STATE OF LOUISIANA

COURT OF APPEAL

FIRST CIRCUIT

NUMBER 2017 CA 0459

SOUTHERN MARSH COLLECTION, LLC

VERSUS

STATE TRADITIONS, LLC

Judgment Rendered: NOV 01 2017

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Appealed from the
19th Judicial District Court
In and for the Parish of East Baton Rouge, Louisiana
Trial Court Number 648699

Honorable William A. Morvant, Judge

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BEFORE: McCLENDON, WELCH, AND THERIOT, JJ.

Handwritten initials and signatures on the left margin, including 'JEW', 'ME', and 'M.A.'.

WELCH, J.

The defendant/appellant, State Traditions, LLC (“State Traditions”), appeals a district court judgment granting a preliminary injunction in favor of the plaintiff/appellee, Southern Marsh Collection, LLC (“Southern Marsh”), enjoining State Traditions from the use, copying, or distributing of Southern Marsh’s customer list. For reasons that follow, we affirm the judgment of the district court and remand the matter for further proceedings.

FACTUAL AND PROCEDURAL BACKGROUND

Southern Marsh is a Louisiana company engaged in designing, marketing, and selling casual and lifestyle clothing for men, women, and children. State Traditions is an Alabama based company and a direct competitor of Southern Marsh in the lifestyle apparel business. Both entities sell their products in retail stores and online. Since its inception in 2008, Southern Marsh has developed and maintained customer information regarding the retailers with whom it conducts business, including the name, physical address, and the direct email address of the contacts associated with each retailer. This information is currently maintained electronically on an Enterprise Ready Platform System, which is used to integrate customer accounts, information, and communication. Southern Marsh implemented a new platform in 2016. In the process of testing and setting up the new platform, Southern Marsh associated various test email addresses from several different email providers with real customer accounts. One of the purposes of adding the test email accounts was to ensure that the various computer servers were accepting Southern Marsh emails.

On April 18, 2016, a test email address received an unsolicited email from Emily Scott, the account manager for State Traditions. Ms. Scott, under the impression that she was emailing only the retailer, indicated that State Traditions was looking to expand in Louisiana, and she felt the retailer would be a good

match for the State Traditions product line. Ms. Scott attached a catalogue, price sheet, and links for State Traditions products. Another more personalized solicitation email was sent by Ms. Scott on behalf of State Traditions to a Southern Marsh test address on May 9, 2016. Ms. Scott's salutation in the May 9, 2016 email was personally addressed to the contacts associated with the customer ("Hi David and Janice!"), and the subject line contained the name of the customer store. Again, Ms. Scott's email indicated that State Traditions was looking to expand their business in Louisiana and attached product and pricing information.

Based on the localized information contained in the two emails sent by State Traditions and the fact that they arrived unsolicited to the test email address, Southern Marsh believed that State Traditions had somehow accessed the data contained in its Enterprise Ready Platform System, but was uncertain as to the method and manner of the breach. In response to the suspected breach, Southern Marsh initiated the underlying suit on May 31, 2016, by filing a petition for damages and injunctive relief against State Traditions. Southern Marsh's petition alleged claims for damages and injunctive relief under the Louisiana Uniform Trade Secrets Act ("LUTSA"), La. R.S. 51:1431, *et seq.*, and the Louisiana Unfair Trade Practices Act ("LUTPA"), La. R.S. 51:1401, *et seq.* On June 27, 2016, after the filing of Southern Marsh's petition, but before service of process on State Traditions, Ms. Scott sent another email that was received by a Southern Marsh test address. Ms. Scott's June 27, 2016 email encouraged recipients to setup appointments with State Traditions representatives during "market season."

On July 27, 2016, Southern Marsh filed a motion for temporary restraining order and preliminary injunction in connection with its trade secret claims. The motion alleged that counsel for State Traditions had recently provided counsel for Southern Marsh a copy of an email demonstrating that a former employee of Southern Marsh had provided a State Traditions employee a list of Southern

Marsh's customers. Contained in the record is the email dated March 11, 2016, sent from the personal email account of John Lierley, the former Southern Marsh employee, to Maury Lyons at a State Traditions email address. It is uncontested that the March 11, 2016 email attached a Southern Marsh customer list containing information regarding 583 customers in over 15 states. In its motion seeking an injunction, Southern Marsh alleged that the list was confidential and maintained as a trade secret.

The district court denied the temporary restraining order and set the preliminary injunction for hearing. The record indicates during a meeting between the parties and the district court regarding the temporary restraining order, State Traditions agreed not to use the customer list pending a hearing on the preliminary injunction. Due to flooding in the Baton Rouge metropolitan area, the preliminary injunction, originally set for August 16, 2016, was not heard until September 22, 2016. Prior to the hearing, on September 19, 2016, Ms. Scott sent another solicitation email to the test account, despite reassurances from State Traditions to the district court that it would not use the list pending the hearing on the preliminary injunction.

At the September 22, 2016 hearing on the preliminary injunction, Southern Marsh presented evidence to support its assertions that the customer list had independent economic value, the details of its efforts made to maintain the secrecy of the customer list, the fact that John Lierley had violated a contractual obligation to not disclose the customer lists of Southern Marsh, and that State Traditions misappropriated the list through its undisputed use. Evidence submitted by Southern Marsh included the following: (1) the emails sent by Ms. Scott to the test email account; (2) the testimony of Mr. Matthew Valiollahi, the founder and manager of Southern Marsh; (3) the March 11, 2016 email from John Lierley to

Maury Lyon; and (4) a “Confidentiality, Non-Competition and Non-Solicitation Agreement” dated February 24, 2014 between John Lierley and Southern Marsh.

State Traditions countered that the information in the customer list had no value as it represented generalized business information that was publically available and the functional equivalent of the list could be easily recreated using the internet. State Traditions alternatively argued that even if the customer list did qualify as a trade secret, it could not be liable for misappropriation because the customer list was provided to it voluntarily by Southern Marsh’s employee, and there was no evidence to suggest that State Traditions knew or should have known that Mr. Lierley owed Southern Marsh a duty of confidentiality. Additionally, State Traditions presented the testimony of its co-president, Keith Brown, to support its contention that it was common practice in the specialty apparel industry for competitors to share customer lists; therefore, State Traditions had no reason to know that the list was derived from a source that owed a duty of secrecy.

At the close of the hearing, the district court provided oral reasons for its decision to issue the injunction. The district court found that the evidence presented by the plaintiff demonstrated a sufficient likelihood that the plaintiff would prevail on the merits of its LUTSA claim. The district court explained that the definition of misappropriation under La. R.S. 51:1431 included information derived from a person who owed a duty to the person seeking relief to maintain secrecy or limit the use. The district court found that Southern Marsh had presented evidence to show that the customer list was a secret with independent value and that Mr. Lierley, who, while subject to a confidentiality agreement, had improperly transmitted the customer list in violation of his confidentiality agreement to an employee of State Traditions, which used the customer list to the detriment of Southern Marsh.

On December 30, 2016, the district court signed a judgment issuing a preliminary injunction enjoining State Traditions from “using, copying[,] or distributing the Southern Marsh customer list received on March 11, 2016, or contacting any customers on the Southern Marsh customer list except those for which [State Traditions] had a previous and demonstrable relationship prior to receipt of the Southern Marsh customer list.”

State Traditions appeals the district court’s December 30, 2016 judgment and asserts several assignments of error to the district court’s judgment granting the motion for preliminary judgment. State Traditions avers the district court erred in finding that Southern Marsh had made a *prima facie* showing that it could prevail on the claim under the LUTSA. First, State Traditions maintains that the evidence was insufficient to demonstrate that the Southern Marsh customer list was a protectable trade secret. Second, State Traditions contends that even if the customer list properly qualifies as a trade secret, there was no legal basis to find that it was misappropriated by State Traditions. Third, State Traditions argues that Southern Marsh failed to demonstrate irreparable harm as required when seeking a preliminary injunction. Fourth, State Traditions asserts error by the district court in connection with certain evidentiary rulings.¹

¹ State Traditions challenges the district court’s ruling sustaining an objection to the introduction of certain alleged customer lists that had been provided to State Traditions by other businesses at trade shows. Additionally, State Traditions contends that the district court erred in not allowing testimony on behalf of State Traditions regarding how the “store locator” function on the Southern Marsh website could be used to create the functional equivalent of the customer list. However, in both instances, State Tradition did not proffer the evidence into the record. It is well settled that error may not be predicated upon a ruling that excludes evidence unless a substantial right of a party is affected and the substance of the evidence was made known to the court by counsel. *See* La. C.E. art. 103(A)(2); **Goza v. Parish of West Baton Rouge**, 2008-0086 (La. App. 1st Cir. 5/5/09), 21 So.3d 320, 330-331, writ denied, 2009-2146 (La. 12/11/09), 23 So.3d 919, cert denied, 560 U.S. 904, 130 S.Ct. 3277, 176 L.Ed.2d 1184 (2010). It is incumbent upon the party who contends his evidence was improperly excluded to make a proffer, and if he fails to do so, he cannot contend such exclusion was erroneous. **Hurts v. Woodis**, 95-2166 (La. App. 1st Cir. 6/28/96), 676 So.2d 1166, 1175. State Traditions neglected to proffer the evidence it contends was erroneously excluded. Based on its failure to proffer the evidence, we decline to review this assignment of error.

STANDARD OF REVIEW

Appellate review of a district court's issuance of a preliminary injunction is limited. **Concerned Citizens for Proper Planning, LLC v. Parish of Tangipahoa**, 2004-0270 (La. App. 1st Cir. 3/24/05), 906 So.2d 660, 663. The issuance of a preliminary injunction addresses itself to the sound discretion of the district court and will not be disturbed on review unless a clear abuse of discretion has been shown. *Id.*

LAW AND ANALYSIS

Standard for Preliminary Injunction

A preliminary injunction is an interlocutory procedural device designed to preserve the status quo between the parties, pending a trial on the merits. **Acadian Ambulance Service, Inc. v. Parish of East Baton Rouge**, 97-2119 (La. App. 1st Cir. 11/6/98), 722 So.2d 317, 322, writ denied, 98-2995 (La. 12/9/98), 729 So.2d 583. An appeal may be taken as a matter of right from an order or judgment relating to a preliminary or final injunction. La. C.C.P. art. 3612. Generally, plaintiffs seeking issuance of a preliminary injunction bear the burden of establishing by a preponderance of the evidence a *prima facie* showing that they will prevail on the merits and that irreparable injury or loss will result without the preliminary injunction. La. C.C.P. art. 3601; **Hill v. Jindal**, 2014-1757 (La. App. 1st Cir. 6/17/15), 175 So.3d 988, 1002, writ denied, 2015-1394 (La. 10/23/15), 179 So.3d 600. "Irreparable injury" is considered to be a loss sustained by an injured party, which cannot be adequately compensated in money damages or for which such damages cannot be measured by a pecuniary standard. **Sorrento Companies, Inc. v. Honeywell Intern., Inc.**, 2004-1884 (La. App. 1st Cir. 9/23/05), 916 So.2d 1156, 1163, writ denied, 2005-2326 (La. 3/17/06), 925 So.2d 541.

In making a *prima facie* showing, the plaintiff is required to offer less proof than is necessary in an ordinary proceeding for permanent injunction. **Vartech**

Systems Inc. v. Hayden, 2005-2499 (La. App. 1st Cir. 12/20/06), 951 So.2d 247, 255 n.8; **State through Louisiana State Bd. of Examiners of Psychologists of the Dept. of Health and Human Services v. Atterberry**, 95-0391 (La. App. 1st Cir.11/9/95), 664 So.2d 1216, 1220. The principal demand is determined on its merits only after a full trial under ordinary process, even though the hearing on the summary proceedings to obtain the preliminary injunction may touch upon or tentatively decide merit issues. **Novelaire Technologies, LLC v. Harrison**, 2008-157 (La. App. 5th Cir. 8/19/08), 994 So.2d 57, 60-61, citing, **Smith v. West Virginia Oil & Gas Co.**, 373 So.2d 488, 494 (La. 1979).

Louisiana Trade Secrets Act

The purpose of LUTSA is to prevent one person or business from misappropriating a trade secret developed by another. See **Bihm v. Deca Systems, Inc.**, 2016-0356 (La. App. 1st Cir. 8/8/17), --- So.3d ---. Under La. R.S. 51:1431(4) “trade secret” is defined in pertinent part as “information” that:

- (a) derives independent economic value, actual or potential, from not being generally known to and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and
- (b) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

“Misappropriation” is defined in La. R.S. 51:1431(2) as follows:

- (a) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (b) disclosure or use of a trade secret of another without express or implied consent by a person who:
 - (i) used improper means to acquire knowledge of the trade secret; or
 - (ii) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:
 - (aa) derived from or through a person who had utilized improper means to acquire it;
 - (bb) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - (cc) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(iii) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Louisiana Revised Statutes 51:1432 allows a plaintiff to obtain injunctive relief for actual or threatened misappropriation of a trade secret. See B & G Crane Serv., L.L.C. v. Duvic, 2005-1798 (La. App. 1st Cir. 5/5/06), 935 So.2d 164, 166, writ denied, 2006-1820 (La. 10/27/06), 939 So.2d 1280.

The threshold inquiry in every trade secrecy case is whether a legally protectable trade secret exists in fact. **Engineered Mechanical Services, Inc. v. Langlois**, 464 So.2d 329, 333 (La. App. 1st Cir. 1984), writ denied, 467 So.2d 531 (La. 1985). If the information is found in fact to be a protectable secret, it then becomes necessary to determine whether an express or implied contractual or confidential relationship existed between the parties which obligates them not to use or disclose the secret information. *Id.* Finally, the plaintiff must prove the party receiving the secret information wrongfully breached its duty of trust or confidence by disclosing or using the information to the injury of plaintiff. *Id.* at 334; see also Pontchartrain Medical Labs, Inc. v. Roche Biomedical Laboratories, Inc., 95-2260 (La. App. 1st Cir. 6/28/96), 677 So.2d 1086, 1090.

In its first assignment of error, State Traditions questions the district court's finding that the customer list was a trade secret. Specifically, State Traditions argues that the customer list at issue herein contained generalized business information that could be recreated using publically available information, and that Southern Marsh did not take reasonable steps to maintain the secrecy of the list. State Traditions stressed that a list of Southern Marsh's customers could be recreated by using the "store locator" function on the Southern Marsh website.

A customer list may be a trade secret if efforts are made to maintain its secrecy. **Pontchartrain Medical Labs, Inc.**, 677 So.2d at 1090. The efforts required to maintain secrecy are those "reasonable under the circumstances."

Comment (f), La. R.S. 51:1431. Controlled disclosure to employees and licensees is consistent with the requirement of relative secrecy. See Id. At the hearing, Mr. Valiollahi, the founder and manager of Southern Marsh, testified as to the efforts made in compiling the information found in the customer list as well as the efforts of Southern Marsh to maintain this information over the years. According to Mr. Valiollahi, the information on the list had been actively compiled since the inception of the company, through cold calls, in-store meetings, trades shows, and research. Further, a great deal of expense had been incurred in its compilation. Mr. Valiollahi testified that he has never authorized any employee to provide a customer list to a competitor and, further, that he has never personally provided such information to a competitor.

Mr. Valiollahi further testified as to the reasonable efforts to maintain the secrecy of the information in the customer list. Specifically, Mr. Valiollahi explained that a person needed “export admin credentials” to generate the customer list and said credentials were “only entrusted to high-level representatives of the company, and only on a need-to-have basis.” Relevantly, Mr. Valiollahi testified that Mr. Lierley, a salesman, did not have such credentials. Mr. Valiollahi explained that the information was restricted because it could be used to immediately formulate a marketing campaign to the detriment of Southern Marsh.

In challenging whether the list was in fact a trade secret, State Traditions asserted that the information on the list was readily ascertainable from public sources. Mr. Valiollahi acknowledged that the addresses and names of Southern Marsh retailers are generally available; however, he testified that the real value of the customer list was found in the email addresses on the list. He explained that these are “real” email addresses and explained that many buyers or store owners have multiple email addresses, with one being a “public facing” address, while the other is a “private” address where people expect to get “real” information that is

not unsolicited mail (i.e. “spam” email). Mr. Brown reluctantly conceded that there was value in the type of email addresses on the list as they could be used as a start to a marketing effort.

State Traditions cites two cases in support of its position that the customer list did not constitute a trade secret: **Nursing Enterprises, Inc. v. Marr**, 30,776 (La. App. 2nd Cir. 8/19/98), 719 So.2d 524, and **Millet v. Crump**, 96-639 (La. App. 5th Cir. 12/30/96), 687 So.2d 132. However, we find both cases distinguishable factually. In **Nursing Enterprises, Inc.**, the customer information that the defendant allegedly misappropriated from her former employer was publically available through the local telephone book; whereas, the evidence submitted by Southern Marsh supports a finding the emails on the customer list are not readily available from a single independent source. State Traditions also cites **Millet**, wherein the seller of an insurance company was sued by the buyer of the company for allegedly misappropriating trade secrets in the form of names, addresses, and renewal dates for policy holders. However, unlike the instant case, there was no evidence in **Millet** submitted to demonstrate valid efforts to keep the information confidential. **Millet**, 687 So.2d at 136. Further, the defendant in **Millet** testified that she was able to recall some of the renewal information at issue from her memory, which is further distinguishable from the facts herein. *Id.*

Based on the above, we cannot say that the district court was manifestly erroneous in finding that Southern Marsh made a *prima facie* showing that information contained in the customer list, and in particular the email addresses contained therein, was not generally known or readily ascertainable, possessed an independent value, and that reasonable steps had been taken by Southern Marsh to keep this information a secret. The record supports these findings, and we will not disturb them. See **Tubular Threading, Inc. v. Scandaliato**, 443 So.2d 712, 715 (La. App. 3rd Cir. 1983).

In its second assignment of error, State Traditions contends that even if the customer list is properly classified as a trade secret, the district court legally erred in finding that State Traditions misappropriated the customer list because there was no evidence to show that State Traditions knew that Mr. Lierley owed a contractual duty of confidentiality to not disclose the customer list. We disagree. The question of what State Traditions knew or should have known for determining misappropriation under the facts presented herein raises a question of fact not law, and we find no error in the district court's factual finding that Southern Marsh made a *prima facie* showing of misappropriation under La. R.S. 51:1431(2)(b)(ii)(cc).

Louisiana Revised Statutes 51:1431(2)(b)(ii)(c) defines misappropriation in relevant part, as follows:

[U]se of a trade secret of another without express or implied consent by a person who...at the time of the...use, knew or had reason to know that his knowledge of the trade secret was...derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use[.]

State Traditions' arguments before this court conveniently ignore the evidence admitted into the record regarding Ms. Scott's September 19, 2016 email. The September 19, 2016 email constitutes irrefutable evidence that the information in the customer list was used by State Traditions after it had been sued for misappropriation of a trade secret and unfair trade practices and three days before the hearing on the preliminary injunction under La. R.S. 51:1432. Clearly, State Traditions knew at that point the customer list was derived from a person [Mr. Lierley] who owed a duty of confidence to the person seeking relief [Southern Marsh]. We find this event alone is a sufficient factual and legal basis to support the district court's finding a *prima facie* showing of an actual misappropriation

under La. R.S. 51:1431(2)(b)(ii)(cc); therefore, it constitutes grounds for the issuance of a preliminary injunction under La. R.S. 51:1432.²

Finally, we find no merit in State Traditions' fourth assignment of error asserting that the plaintiff failed to show irreparable harm sufficient to warrant the granting of an injunction. State Traditions argues that Southern Marsh's damages are measurable in the form of lost profits; thus, rendering the granting of an injunction inappropriate. First, we note that La. R.S. 51:1432 expressly provides that "in cases involving trade secrets, [La.] R.S. 51:1432 directs the court to issue injunctions but only *actual or threatened misappropriations* may be enjoined." **Tubular Threading, Inc.**, 443 So.2d at 715 (emphasis in original); see also **B & G Crane Serv., L.L.C.**, 935 So.2d at 166.³ Second, LUTSA provides that "in addition to or in lieu of injunctive relief" a party can seek damages for actual loss caused and/or unjust enrichment by the misappropriation; thus, the fact that monetary damages are incurred is not fatal to a party seeking an injunction. La. R.S. 51:1433; see also Comment (a), La. R.S. 51:1433. In the instant matter, an actual misappropriation of the list has been indisputably demonstrated, and the possible existence of a damage claim does not preclude the granting of injunctive relief as to a trade secret. Thus, the injunction was properly ordered in accordance with La. R.S. 51:1432.

Based on the facts and circumstances presented herein, we do not find that the district court manifestly erred in its factual conclusions or abused its discretion when it granted Southern Marsh's request for a preliminary injunction.

² As noted above, the principal demand is determined on its merits only after a full trial under ordinary process. See **Smith**, 373 So.2d at 494.

³ State Traditions mistakenly relies upon **Innovative Manpower Solutions, LLC v. Ironman Staffing, LLC**, 929 F. Supp. 2d 597, 615 (W.D. La. 2013) to support its claim that a showing of irreparable harm is required herein. However, the court in **Innovative Manpower** expressly did not consider the injunction under LUTSA because it found that no trade secret existed under the facts. *Id.*, 929 F.Supp.2d at 615. However, the court did acknowledge that La. R.S. 51:1432 provided for the issuance of an injunction in the instance of an actual or threatened misappropriation of a trade secret. *Id.*, 929 F.Supp.2d at 611-612.

CONCLUSION

For the reasons discussed, we affirm the district court's judgment signed December 30, 2016, granting Southern Marsh's request for preliminary injunction. The matter is remanded to the district court for further proceedings. All costs of this appeal are assessed against the defendant/appellant, State Traditions, LLC.

AFFIRMED AND REMANDED.