2014 WL 12647878
Only the Westlaw citation is currently available.
United States District Court,
N.D. Georgia, Atlanta Division.

Warehouse Solutions, Inc., Plaintiff,
v.
Integrated Logistics, LLC et al.,
Defendants/Third-Party Plaintiffs,
v.
Aaron Scott Langley, Third-Party Defendant.

CIVIL ACTION NO. 1:11-CV-02061-RLV
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Signed 07/07/2014

Attorneys and Law Firms

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ORDER

ROBERT L. VINING, JR., Senior United States District Judge

***1** This action is before the court on the defendants' motion for summary judgment [Doc. No. 133], the plaintiff's motions for summary judgment [Doc. Nos. 134 and 136], the defendants' motion for leave to file a surreply [Doc. No. 155], the plaintiff's motion to strike [Doc. No. 163], and the plaintiff's motion for sanctions [Doc. No. 164]. After reviewing the record, the court enters the following order.

I. Background

A. Factual Background

1. The Business Relationship

In this action, the plaintiff, Warehouse Solutions, Inc. ("Warehouse Solutions"), brings several claims related to the alleged misappropriation of software it developed. In 1998, the owner of Warehouse Solutions, Joseph Lebovich, developed Intelligent Audit, a web-based program that interfaces with UPS and FedEX tracking systems to assist companies in tracking and collecting funds for late or missing packages. To assist in selling Intelligent Audit, Lebovich hired Scott Langley and Langley's company, nSite. In exchange for his services, Langley received a 20% interest in the software.

In 2002, Langley demonstrated the Intelligent Audit program to defendant Integrated Logistics, LLC ("Integrated Logistics"), a company also in the business of providing software to end-users for tracking packages. Integrated Logistics and Langley entered into an agreement whereby Langley would work for Integrated Logistics. [1]

Integrated Logistics began reselling Intelligent Audit to its customers under the name "ShipLink." As a reseller, Integrated Logistics paid Warehouse Solutions a penny and a half per transaction processed using the software. There was never a written agreement between Integrated Logistics and Warehouse Solutions. Integrated Logistics and Langley, however, did execute a written contract.

Over the course of the parties' business relationship, Integrated Logistics helped develop and improve the Intelligent Audit system. Defendant Michael Heyden previously worked with UPS and had specific knowledge about UPS's billing, which was unavailable to the public. Integrated Logistics used this knowledge to help develop the e-bill portion of Intelligent Audit.

2. Access to Intelligent Audit

Intelligent Audit is a password protected web-based program. To log into the program, a user must have an authorized identification and password. As a reseller of the software, Integrated Logistics "actively managed" its accounts and was authorized to establish and distribute user identifications and passwords to its customers. Moreover, Integrated Logistics had the ability to designate a user as a "manager" and give that person the ability to add other users.

The program source code, however, was never accessible to Integrated Logistics or any end-user. Additionally, Lebovich told Integrated Logistics "on numerous occasions" that the software was "highly confidential" and instructed them not to share the software "with anyone outside of Integrated Logistics, other than customers who had signed a contract that expressly forbade outside disclosure."

***2** Warehouse Solutions alleges Integrated Logistics required customers to sign a contract to prevent unauthorized disclosure of Intelligent Audit to noncustomers. For support, Warehouse Solutions cites portions of Langley's deposition and a contract executed by Langley in October 2003. In response, Integrated Logistics highlights that the cited contract was executed by Langley on behalf of nSite, not Integrated Logistics. Integrated Logistics, however, does not directly dispute the content of Langley's deposition, wherein Langley stated that while he was employed with Integrated Logistics, the company routinely required customers to sign a contract with a confidentiality provision. See Langley Dep. 146:11-22.

3. Efforts to "Copy" Intelligent Audit

In 2004, Integrated Logistics began to create its own web-based tracking system. Without Warehouse Solutions' knowledge, Integrated Logistics hired Platinum Circle Technologies to develop a program that "looked like" and "performed the same functions" as Intelligent Audit. Integrated Logistics gave several individuals who worked with Platinum Circles Technologies a password and user identification to log into the web-based program. Like Integrated Logistics, however, Platinum Circles Technologies never had access to Intelligent Audit's source code. Ultimately, Platinum Circles Technologies developed a program that was visually and functionally similar to Intelligent Audit.

On September 30, 2005, when the software was completed, Integrated Logistics terminated the business relationship with Warehouse Solutions. After terminating the business relationship, Integrated Logistics sold the program developed by Platinum Circles Technologies under the ShipLink brand name.

In October 2009, Warehouse Solutions discovered that Integrated Logistics was selling the "copied" program developed by Platinum Circles Technologies and initiated the present action. Additionally, Warehouse Solutions approached at least one of Integrated Logistics' prospective customers, VWR, and stated that Integrated Logistics had "stole[n] their system." VWR decided not to conduct business with Integrated Logistics.

B. Procedural History

1. Pleadings

On November 12, 2009, Warehouse Solutions commenced this action against Integrated Logistics and its owners, Daniel Wotring, Michael Heyden, and David Ivie (collectively, "the defendants"). In its amended complaint, Warehouse Solutions brings claims for (1) breach of contract, (2) unjust enrichment, (3) breach of the implied covenant of good faith and fair dealing, (4) conversion, (5) misappropriation of trade secrets, (6) tortious interference with a business relations, (7) accounting, (8) misappropriation of confidential information, (9) false designation of origin, and (10) violation of the Georgia Uniform Deceptive Trade Practices Act. On March 19, 2014, Warehouse Solutions moved to voluntarily dismiss its unjust enrichment, conversion, and tortious interference claims.

On August 15, 2011, the defendants filed an answer and counterclaim against Warehouse Solutions and a third-party complaint against Langley. Against each party, Integrated Solutions brought claims for (1) misappropriation of trade secrets, (2) unjust enrichment, (3) quantum meruit, (4) tortious interference with business relations, (5) breach of fiduciary duty, and (6) violation of the Georgia Uniform Deceptive Trade Practices Act. On March 3, 2014, the defendants moved for leave to dismiss their third-party complaint against Langley, which the court granted.

2. Pending Motions

Several motions are presently before the court. First, the defendants have moved for summary judgment on Warehouse Solutions' remaining claims [Doc. No. 133]. Second, Warehouse Solutions has moved for summary judgment on its claim for trade secret misappropriation [Doc. No. 134] and moved for summary judgment on all of the defendants' counterclaims [Doc. No. 136].

***3** In connection with these motions, the defendants have moved for leave to file a surreply [Doc. No. 155],

Warehouse Solutions has filed a motion for sanctions [Doc. No. 164], and Warehouse Solutions has filed a motion to strike an affidavit filed by the defendants [Doc. No. 163].

a. The Defendants' Motion for Leave to File a Surreply

The defendants move the court for leave to file a surreply in opposition to Warehouse Solutions' motion for summary judgment on the defendants' counterclaims,[2] The defendants argue a surreply is necessary to respond to Warehouse Solutions' "inaccurate characterizations of Defendants' motives presented for the first time in Plaintiff's Reply Brief." More specifically, the defendants contest Warehouse Solutions' assertion that the defendants failed to offer any legal or factual support to refute Warehouse Solutions' argument that the defendants' counterclaims were time-barred. To address this characterization, the defendants request leave to file a twelve-page surreply, which includes arguments relating to the timeliness of each counterclaim.

"Neither the Federal Rules of Civil Procedure nor this Court's Local Rules authorize the filing of surreplies." Fedrick v. Mercedes-Benz USA, LLC, 366 F. Supp. 2d 1190, 1197 (N.D. Ga. 2005) (internal citations omitted). Although the court may in its discretion permit the filing of a surreply, this discretion should be exercised in favor of allowing a surreply only where a valid reason for such additional briefing exists, such as where the movant raises new arguments in its reply brief. See, e.g., Hammett v. Am. Bankers Ins. Co., 203 F.R.D. 690, 695 n.1 (S.D. Fla. 2001) ("Because Plaintiff presented new arguments and a new theory for certification in her Reply [,] the Court will grant Defendants' Motion for Leave to File a Sur-Reply....").

The court concludes the defendants have not identified any valid reason for additional briefing. In the motion for summary judgment, Warehouse Solutions clearly argued the defendants' counterclaims were barred by the applicable statutes of limitations. In their response brief, the defendants appear to disagree with Warehouse Solutions, but they failed to offer any legal or factual support to refute Warehouse Solutions' statutes of limitations arguments. Warehouse Solutions' "characterization" of the defendants' response brief is not inaccurate. The proposed surreply addresses statutes of limitations arguments that were raised by the plaintiff in its original motion. The defendant had the opportunity to bring these arguments in their response brief but failed to do so. Therefore, the defendants' motion for leave to file a surreply [Doc. No. 155] is denied.

b. Warehouse Solutions' Motion to Strike

On March 3, 2014, the defendants filed the affidavit of Dan Wotring. The defendants state the affidavit supports their motion for leave to file a surreply and, in addition, supports their opposition to Warehouse Solutions' motion for sanctions. Warehouse Solutions move to strike this affidavit.

Rather than filing a motion to strike, the proper method for challenging the admissibility of evidence in an affidavit is to file a notice of objection to the challenged testimony. Circle Group, LLC v. Se. Carpenters Rea'l Council, 836 F. Supp. 2d 1327, 1347-48 (N.D. Ga. 2011); Morgan v. Sears. Roebuck & Co., 700 F. Supp. 1574, 1576 (N.D. Ga. 1988). Accordingly, Warehouse Solutions' motion to strike [Doc. No. 163] is denied. Nevertheless, when deciding Warehouse Solutions' motion for sanctions, the court still considered Warehouse Solutions' objections to the testimony presented in the Wotring affidavit. Because the court has denied the defendants' motion for leave to file a surreply, however, the affidavit will not be considered for the purposes of summary judgment.

II. Legal Standard

***4** A court "shall grant summary judgment if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(a). Parties "asserting that a fact cannot be or is genuinely disputed must support that assertion by ... citing to particular parts of materials in the record, including depositions, documents, electronically stored information, affidavits or declarations, stipulations (including those made for purposes of the motion only), admissions, interrogatory answers, or other materials." Fed. R. Civ. P. 56(c) (1).

The party seeking summary judgment bears the burden of demonstrating the absence of a genuine dispute as to any material fact. Herzog v. Castle Rock Entm't, 193 F.3d 1241, 1246 (11th Cir. 1999). Once the moving party

has met this burden, the nonmovant must demonstrate that summary judgment is inappropriate by designating specific facts showing a genuine issue for trial. Graham v. State Farm Mut. Ins. Co., 193 F.3d 1274, 1282 (11th Cir. 1999). Nonmoving parties "need not present evidence in a form necessary for admission at trial; however, [they] may not merely rest on [their] pleadings." Id.

The court must view all evidence in the light most favorable to the party opposing the motion and must draw all inferences in favor of the nonmovant, but only "to the extent supportable by the record." Garczynski v. Bradshaw, 573 F.3d 1158, 1165 (11th Cir. 2009) (quoting Scott v. Harris, 550 U.S. 372, 381 n.8 (2007)). "[C]redibility determinations, the weighing of evidence, and the drawing of inferences from the facts are the function of the jury...." Graham, 193 F.3d at 1282. "If the record presents factual issues, the court must not decide them; it must deny the motion and proceed to trial." Herzoq, 193 F.3d at 1246. "Where the record taken as a whole could not lead a rational trier of fact to find for the nonmoving party," summary judgment for the moving party is proper. Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 587 (1986).

III. Discussion

A. The Defendants' Motion for Summary Judgment

The defendants seek summary judgment on all of Warehouse Solutions' remaining claims, which includes breach of contract, breach of the implied covenant of good faith and fair dealing, misappropriation of trade secrets, accounting, misappropriation of confidential information, false designation of origin, and violation of the Georgia Deceptive Trade Practices Act [Doc. No. 133].

1. Breach of Contract

Warehouse Solutions alleges the defendants breached a contract when Integrated Logistics continued to use Warehouse Solutions' "proprietary business products" (i.e., Intelligent Audit) after the parties' business relationship ended. Additionally, according to Warehouse Solutions, confidentiality was a part of the parties' contractual agreement, and the defendants breached this contractual provision when Integrated Logistics allowed Platinum Circles Technologies to access Intelligent Audit.

It is undisputed that the parties never entered into a written contract. As such, the defendants argue that any contract would necessarily be oral and, pursuant to O.C.G.A. § 9-3-25, a four-year statute of limitations applies. In response, Warehouse Solutions claims Langley assigned his contractual rights to Warehouse Solutions. Accordingly, Warehouse Solutions asserts the parties were "bound" by a written contract and, consequently, the six-year limitations period in O.C.G.A. § 9-3-24 applies.

As an initial matter, under Georgia law, "[an] assignment must be in writing in order for the contractual right to be enforceable by the assignee." Bobick v. Cmty. & S. Bank, 743 S.E.2d 518, 525 (Ga. Ct. App. 2013) (quoting Arrow Fin. Servs. v. Wright, 715 S.E.2d 725 (Ga. Ct. App. 2011)). The record does not include any evidence that Langley assigned his contractual rights in writing to Warehouse Solutions. As such, Warehouse Solutions' assertion that a written contract applies is without merit. Because the parties never entered into a written contract, a four-year statute of limitations applies. O.C.G.A. § 9-3-25. [3]

***5** The record demonstrates any relationship between the parties, contractual or otherwise, ended no later than October 1, 2005. The defendants argue no breach could occur after the relationship terminated. In response, Warehouse Solutions alleges that "[t]he duty to maintain the confidentiality certainly did not expire with [Integrated Logistics's] termination of the contract, but rather was clearly understood to exist in perpetuity."

To support its assertion that confidentiality was a part of the contractual agreement, Warehouse Solutions cites Lebovich's declaration, wherein Lebovich indicates he "stated on numerous occasions ... that the Intelligent Audit software was highly confidential and propriety ... [and] instructed [the defendants] not to share the software with anyone outside of Integrated Logistics...." This citation does not support Warehouse Solutions' assertion that confidentiality was a term agreed upon by the defendants, see O.C.G.A. § 13-3-1, nor does this citation support the assertion that the parties understood this duty to "exist in perpetuity."

As such, the court concludes the plaintiff has not cited any evidence that demonstrates a contract existed that included a confidentiality term. Additionally, even if such a term did exist, the breach of contract claim would be barred by the applicable four-year statute of limitations. [4]

For these reasons, the court grants the defendants' motion for summary judgment on Warehouse Solutions' breach of contract claim.

2. Breach of the Implied Covenant of Good Faith and Fair Dealing

A claim for breach of the implied covenant of good faith and fair dealing cannot be asserted independent of a claim for breach of contract. Morrell v. Wellstar Health Sys., Inc., 633 S.E.2d 68, 72 (Ga. App. 2006); Stuart Enters. In't, Inc. v. Peykan, Inc., 555 S.E.2d 881, 883 (Ga. App. 2001). Therefore, the court must also grant the defendants' motion for summary judgment on Warehouse Solutions' claim for breach of the implied covenant of good faith and fair dealing.

3. Misappropriation of Trade Secrets

Both parties seek summary judgment on Warehouse Solutions' misappropriation of trade secrets claim. A claim for misappropriation of trade secrets under the Georgia Trade Secrets Act ("GTSA") requires a plaintiff prove that "(1) it had a trade secret and (2) the opposing party misappropriated the trade secret." Capital Asset Research Corp. v. Finnegan, 160 F.3d 683, 685 (11th Cir. 1998) (quoting Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp., 139 F.3d 1396, 1410 (11th Cir. 1998)). According to Warehouse Solutions, Intelligent Audit is a trade secret, which the defendants misappropriated by creating a functionally identical program. The defendants argue the record does not support-a misappropriation of trade secrets claim because (1) Integrated Logistics only had access to the visible output of Intelligent Audit, which was not a trade secret, and (2) the software was not misappropriated within the meaning of the GTSA.

i. Existence of Trade Secret

The party asserting the existence of a trade secret has the burden of proving that the information qualifies as a trade secret. Capital Asset, 160 F.3d at 685. The GTSA defines "trade secret" as

> ***6** information, without regard to form, including, but not limited to, technical or nontechnical data, a formula, a pattern, a compilation, a program, a device, a method, a technique, a drawing, a process, financial data, financial plans, product plans, or a list of actual or potential customers or suppliers which is not commonly-known by or available to the public and which information:
>
> (A) Derives 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.
>
> O.C.G.A. § 10-1-761(4).

Warehouse Solutions alleges the *visible output* of Intelligent Audit (i.e., the screen displays customers interact with while running the program) is a trade secret. Specifically, Warehouse Solutions asserts the "look and feel" of the program and the program's "functionality" are trade secrets.

O.C.G.A. § 10-1-761(4) lists "programs" as information that may qualify as trade secrets; Intelligent Audit meets this requirement. To be a trade secret, however, the information must also "not be [ ] readily ascertainable by proper means," and it must be the "subject of efforts that are reasonable under the circumstances to maintain its secrecy." O.C.G.A. § 10-1-761(4)(A)-(B). According to the defendants, only Intelligent Audit's underlying "source code" may be a trade secret, and since the parties agree the defendants never accessed the source code, the trade secret misappropriation claim must fail. The court agrees.

a. Readily Ascertainable by Proper Means

The distinction between source code and the visible output of the software program is important. A software program's source code is written in a programming language, after which a compiler converts the source code into "object code." A computer will then execute the object code in a manner that makes the program cognizable for human users, resulting in the end-product (i.e., what the user perceives as the software, the program, or the "system"). To a program user, the source code is not accessible. As such, source code is not readily ascertainable and generally considered to be a trade secret.

See Silvaco Data Sys. v. Intel Corp., 184 Cal. App. 4th 210, 217-18 & n.4 (6th Cir. 2010).

In the present action, however, Warehouse Solutions is alleging the visible output of Intelligent Audit is a trade secret. A user of Intelligent Audit can readily ascertain the appearance and functionality of the system and, thus, the visible output cannot be a trade secret pursuant to O.C.G.A, § 10-1-761(4) (A). Other courts have similarly distinguished between source code and the visible output of a software program and concluded that the appearance and functionality of the software program are not trade secrets. See, e.g., IPX Sys. Corp. v. Epic Sys. Corp., 285 F.3d 581 (7th Cir. 2002) (stating "details that ordinary users of the software could observe without reverse engineering" are not trade secrets); Silvaco Data Sys., 184 Cal. App. 4th at 221-22 (indicating the design of a program cannot be a trade secret if it is "evident to anyone running the finished program").

In its brief, Warehouse Solutions argues that the self-revealing nature of Intelligent Audit's functionality "does not mean it cannot be a trade secret." Warehouse Solutions appears to contend that as long as it took steps to preserve the confidentiality of the software, it can still be a trade secret. To support this assertion, Warehouse Solutions cites four cases, including AirWatch LLC v. Mobile Iron, Inc., No. I:12cv3571, 2013 WL 4757491 (N.D. Ga. Sept. 4, 2013), TDS Healthcare Systems Corp. v. Humana Hospital Illinois. Inc., 880 F. Supp. 1572 (N.D. Ga. 1995), CMAX/Cleveland, Inc. v. UCR, Inc., 804 F. Supp. 337 (M.D. Ga. 1992), and University Computing Co. v. Lvkes-Youngs town Corp., 504 F.2d 518 (5th Cir. 1974). After careful review, the court concludes these cases do not support Warehouse Solutions' position.

***7** In AirWatch LLC v. Mobile Iron, Inc. the plaintiff sold security software for mobile phones. The defendant, a competitor, posed as a different company and requested a free trial of the software. In addition to accessing the trial environment, the defendant also contacted the plaintiff with questions about the software throughout the trial. After discovering the trial-user was actually a competitor, the plaintiff brought a misappropriation of trade secrets claim, alleging the defendant had learned technical details about the plaintiff's security software and its functionality. The court denied the defendant's motion to dismiss the claim, reasoning that "information regarding [the] software may still be a trade secret if [the plaintiff] worked to preserve the secrecy of its program's functions, specifications and pricing." AirWatch LLC. No. 1:12cv3 571, at *4. Importantly, the court noted, "[T]he nature of [the plaintiff's] product—i.e., security software for mobile phones—is not such that a typical user of the software would be exposed to the software's capabilities by using the program.... [D]issemination of the program to smartphone users would not in itself reveal the program's specifications and capabilities." Id. In contrast, dissemination of Intelligent Audit necessarily reveals the information Warehouse Solutions alleges to be secret, i.e., the visible output of the software program. [5]

The other cases cited by Warehouse Solutions are also distinguishable. In CMAX/Cleveland, Inc. v. UCR, Inc., a copyright holder of a computer software system brought an action against a licensee for creating a copycat system. When creating its system, however, the defendant in CMAX/Cleveland, Inc. "had continuous access to [the plaintiff's system], including its source code." 804 F. Supp. at 345. Similarly, in TDS Healthcare Systems Corp. v. Humana Hosp. Illinois, Inc., the defendant also had access to the plaintiff's "matrix code." 880 F. Supp. at 1576. [6] These facts are important; when a party has access to the underlying code, it has access to information that is not "readily ascertainable by proper means." In the present action, it is undisputed that the defendants did not have access to Intelligent Audit's source code. [7]

For these reasons, the court concludes the visible output of Intelligent Audit is readily apparent to the users of the software.

b. Reasonable Efforts to Maintain Secrecy

Moreover, pursuant to O.C.G.A. § 10-1-761(4), to be a trade secret, the information must be "subject of efforts that are reasonable under the circumstances to maintain its secrecy," Warehouse Solutions alleges it made reasonable efforts to keep the visible output secret, pointing to evidence that (1) Lebovich verbally instructed the defendants that the system was "confidential" and "proprietary," (2) Warehouse Solutions required licensees to have a username and password to access the system, and (3) the defendants required customers to sign confidentiality agreements.

While there is some evidence that the defendants required users to sign a confidentiality agreement, see Langley Dep. 146:11-22, there is no evidence that Warehouse Solutions required the defendants to sign a confidentiality agreement. The only efforts actually taken by Warehouse Solutions to maintain the secrecy involved a verbal warning and requiring customers to access the system with a username and password. In light of the self-revealing nature of the alleged trade secret, the court concludes these efforts were not reasonable to keep the information secret.

***8** In sum, because the visible output of Intelligent Audit is readily apparent to users of the software and Warehouse Solutions did not make reasonable efforts to maintain its secrecy, the court concludes that information is not a trade secret within the meaning of O.C.G.A. § 10-1-761(4). As such, the defendants' motion for summary judgment on this claim is granted and Warehouse Solutions' motion for summary judgment on this claim is denied.

3. Misappropriation of Confidential Information

The defendants argue Warehouse Solutions' claim for misappropriation of confidential information is preempted by the GTSA. In the amended complaint, Warehouse Solutions states that "to the extent that any of [its] proprietary intellectual property and business products ... do not constitute trade secrets, they constitute protectable confidential information. Defendants have misappropriated ... [Warehouse Solutions] confidential information."

"[T]he GTSA is the exclusive remedy for misappropriation of trade secrets, and plaintiff cannot plead an alternative theory of recovery should the information ultimately not qualify as trade secrets." Opteum Fin. Servs., LLC v. Spain, 406 F. Supp. 2d 1378, 1380 (N.D. Ga. 2005). On the face of the amended complaint, Warehouse Solutions alleges misappropriation of confidential information as an alternative theory of recovery for its misappropriation of trade secrets claim. The claim is clearly based on an alleged trade secret and, therefore, is preempted by the GTSA. The defendants' motion for summary judgment on this claim is granted.

4. The Lanham Act

In its brief, Warehouse Solution alleges the defendants violated the Lanham Act by copying Intelligent Audit and "us[ing] its own marks on that interface." Because consumers are likely to be confused about the origin of the defendants' copycat system, Warehouse Solutions alleges the defendants falsely designated the system as their own.[8] In response, Warehouse Solutions alleges it has met each element of a "reverse passing of claim," which does not require the use of a trademark.

Section 43(a) of the Lanham Act provides:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
>
> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

***9** 15 U.S.C.A. § 11259(a)(1)(A)-(B).

Claims under § 42(a)(1)(A) are generally referred to as "false designation of origin" claims, while claims under § 42(a)(1)(B) are generally referred to as "false advertising" claims. Warehouse Solutions argues the record contains sufficient evidence for a false designation of origin claim.

Warehouse Solutions' false designation of origin claim is one for "reverse passing off," which occurs when the defendant "misrepresents [the plaintiff's] goods or services as his own." Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 27 n.1 (2003). To maintain a claim for reverse passing off, Warehouse Solutions must prove: "(1) that the work at issue originated with the plaintiff; (2) that origin of the work was falsely designated by the defendant; (3) that the false designation of origin was likely to cause consumer confusion; and (4) that the plaintiff was harmed by the defendant's false designation of origin." Softel, Inc.

v. Dragon Med. & Scientific Commc'ns, Inc., 118 F.3d 955, 970 (2d Cir. 1997).

The court's analysis begins, and ends, with the first element: the origin of the goods. Warehouse Solutions alleges the system created by the defendants "originat[ed] with the plaintiff" because the defendants "copied" the Intelligent Audit system.

In Dastar Corp., the Supreme Court explained, "[T] he phrase ['origin of goods'] refers to the producer of the tangible goods that are offered for sale, and not the author of any ideas, concept, or communication embodied in those goods." 539 U.S. at 37. In the present action, the "tangible good" at issue is the software system created and produced by the defendants; the "tangible good" is not the system created by the plaintiff (i.e., Intelligent Audit). Accordingly, Warehouse Solution does not have a viable claim for reverse passing off under the Lanham Act. The defendants' motion for summary judgment on this claim is granted.

5. The Georgia Uniform Deceptive Trade Practices Act

Warehouse Solutions also alleges the defendants violated the Georgia Uniform Deceptive Trade Practices Act by using Warehouse Solutions "marks." The defendants argue this claim must be dismissed because Warehouse Solutions admitted the defendants never used Warehouse Solutions product designations on the defendants' product. In its response brief, Warehouse Solutions does not address the defendants' argument as to this claim.

The court concludes the record does not include any evidence that suggests the defendants falsely designated the origin of the software system they created. As such, the defendants' motion for summary judgment on this claim is granted.

B. Warehouse Solutions' Motion for Summary Judgment

Warehouse Solutions has moved for summary judgment on all of the defendants' counterclaims [Doc. No. 136], which include misappropriation of trade secrets, unjust enrichment, quantum meruit, tortious interference with business relations, breach of fiduciary duty, and violation of the Georgia Uniform Deceptive Trade Practices Act.

1. Misappropriation of Trade Secrets

***10** The defendants allege Warehouse Solutions misappropriated Integrated Logistic trade secrets. Specifically, the defendants state that in order to improve the Intelligent Audit system, the defendants provided Warehouse Solutions with specific knowledge about UPS's billing practices. According to the defendants, Warehouse Solutions used this knowledge to develop the e-bill portion of Intelligent Audit in December 2003. The defendants allege the knowledge provided was "trade secret information" and Warehouse Solutions' "disclosure, receipt and use" of the information constitutes misappropriation of trade secrets.

Warehouse Solutions argues summary judgment is appropriate on this claim because (1) the claim is time barred, (2) there is no evidence that the information allegedly transmitted to Warehouse Solutions was a trade secret, (3) there is no evidence Warehouse Solutions "misappropriated" the alleged trade secret, and (4) there is no evidence the defendants made reasonable efforts to maintain the secrecy of its alleged trade secret.

a. Statute of Limitations [9]

"An action for misappropriation must be brought within five years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered." O.C.G.A. § 10-1-766. The defendants filed their misappropriation of trade secrets counterclaim on August 15, 2011. Warehouse Solutions alleges the defendants' claim is untimely because the record demonstrates that any perceived "misappropriation" occurred in December 2003, eight years prior to the filing of the defendants' counterclaims against Warehouse Solutions.

In 2003, the defendants voluntarily disclosed the alleged trade secret information to Warehouse Solutions in order to improve the Intelligent Audit system. The record demonstrates that the defendants were aware that Warehouse Solutions was using the information provided for this purpose and, in fact, "spent thousands of hours" assisting Warehouse Solutions in this endeavor. See Heyden Dep. 315-317. The defendants allege that Warehouse Solutions "misappropriated" the information by receiving, using, and disclosing it. As such, the defendants necessarily "discovered" the alleged misappropriation in 2003. Therefore, the defendants'

misappropriation of trade secrets counterclaim is untimely and must be dismissed. [10]

2. Unjust Enrichment and Quantum Meruit

The defendants' claims for unjust enrichment and quantum meruit are preempted by the GTSA. The defendants describe these claims as "alternative" theories of recovery if the misappropriation of trade secrets claim fails. As the court previously noted, however, "the GTSA is the exclusive remedy for misappropriation of trade secrets, and plaintiff cannot plead an alternative theory of recovery should the information ultimately not qualify as trade secrets." Opteum Fin. Servs., 406 F. Supp. 2d at 1380. Accordingly, these claims are preempted by the GTSA and must be dismissed.

4. *Tortious Interference with Business Relations*

***11** Warehouse Solutions argues the defendants' claim for tortious interference with business relations should be dismissed because (1) the record does not support such a claim and (2) it is barred by the applicable statute of limitations.

a. Claim

To establish a cause of action for tortious interference with business relations, a plaintiff must demonstrate that the defendant: (1) acted improperly and without privilege; (2) acted purposefully and maliciously with the intent to injure; (3) induced a third party or parties not to enter into or continue a business relationship with the plaintiff; and (4) caused the plaintiff some financial injury. Zampatti v. Tradebank Intern. Franchising Corp., 508 S.E.2d 750, 757 (Ga. App. 1998). Warehouse Solutions alleges no facts in the record demonstrate that it acted improperly and without privilege.

In response, the defendants highlight testimony that states Warehouse Solutions approached a prospective customer, VWR, and "told the prospect that [the defendants] had stole [n] their system and—and some other derogatory things." Heyden Dep. 326:1-6. The court concludes this testimony is sufficient for a jury to conclude Warehouse Solutions acted improperly and with the intent to prevent the prospective customer from conducting business with the defendants.

b. Statute of Limitations

Warehouse Solutions also argues that the claim is time-barred. A claim for tortious interference with business relations must "be brought within four years after the right of action accrues," O.C.G.A. § 9-3-31. In 2009, Warehouse Solutions told VWR that the defendants had stolen Warehouse Solutions' system. As such, accrual of the right of action necessarily occurred after 2009. On August 15, 2011, the defendants filed their counterclaim. Accordingly, the claim was brought within the statute of limitations and therefore timely. Therefore, Warehouse Solutions' motion for summary judgment as to this counterclaim is denied.

5. Breach of Fiduciary Duty

A party must prove three elements to establish a claim for breach of fiduciary duty: (1) the existence of a fiduciary duty; (2) breach of that duty; and (3) damage proximately caused by the breach. SunTrust Bank v. Merritt, 612 S.E.2d 818, 822 (Ga. App. 2005). A fiduciary relationship arises only "where one party is so situated as to exercise a controlling influence over the will, conduct, and interest of another or where, from a similar relationship of mutual confidence, the law requires the utmost good faith, such as the relationship between partners, principal and agent, etc." O.C.G.A. § 23-2-58. Warehouse Solutions argues there is no evidence from which a jury could conclude there was a fiduciary relationship between the parties. Instead, according to Warehouse Solutions, the parties were simply engaged in a mutually beneficial business relationship. In response, the defendants argue that whether a confidential relationship existed is a question for the jury. Specifically, the defendants allege a jury could find such a relationship existed based upon the defendants' role as "reseller" of Intelligent Audit and based upon the efforts taken by the defendants to help develop the product.

While "[b]usiness relationships are not ordinarily confidential relationships," Wilchombe v. TeeVee Toons, Inc., 555 F.3d 949, 958-59 (11th Cir. 2009), "a confidential relationship may be found whenever one party is justified in reposing confidence in another," Yarbrough v. Kirkland, 548 S.E.2d 670, 673 (Ga. App. 2001). After reviewing the record, the court concludes that a jury could

not reasonably find that the relationship between the parties deviated from traditional business relationships such that the defendants were "justified in reposing confidence" in Warehouse Solutions. See Yarbrough, 548 S.E.2d at 673. Accordingly, Warehouse Solutions' motion for summary judgment on the breach of fiduciary duty claim is granted. [11]

6. The Georgia Uniform Deceptive Trade Practices Act

***12** The defendants allege Warehouse Solutions violated the Georgia Uniform Deceptive Trade Practices Act by "attempting to pass off the package tracking software [i.e., Intelligent Audit] ... as their own without crediting Integrated Logistics, and by actively disavowing Integrated Logistics' ownership interest in the same." Warehouse Solutions argues summary judgment should be granted on this claim because the record simply does not include any facts to support this allegation. The court agrees.

The record demonstrates Intelligent Audit was a product owned by Warehouse Solutions, which the defendants resold to their customers. The court concludes the record does not include any evidence that suggests Warehouse Solutions falsely designated the origin of the software system they created. As such, this claim must also be dismissed. [12]

In summary, the court grants in part and denies in part Warehouse Solutions' motion for summary judgment on the defendants' counterclaims [Doc. No. 13 6]. The defendants' claims for misappropriation of trade secrets, unjust enrichment, quantum meruit, breach of fiduciary duty, and violation of the Georgia Uniform Deceptive Trade Practices Act are dismissed. The only-counterclaim remaining is the defendants' claim for tortious interference with business relations.

C. Warehouse Solutions' Motion for Sanction

Warehouse Solutions moves the court to sanction the defendants for filing frivolous counterclaims. Although the court has determined that most of the defendants' counterclaims are without merit, after considering the record, the court concludes the counterclaims were not frivolous and Rule 11 sanctions are not warranted. Therefore, no sanctions will be imposed.

IV. Conclusion

The defendants' motion for summary judgment [Doc. No. 133] is GRANTED, and the plaintiff's cross-motion for partial summary judgment [Doc. No. 134] is DENIED. The third-party defendant's motion for summary judgment [Doc. No. 135] is DENIED as moot. The plaintiff's motion for summary judgment on the defendants' counterclaims [Doc. No. 136] is GRANTED in part and DENIED in part. The defendants' motion for leave to file a surreply [Doc. No. 155] is DENIED. The plaintiff's motion to strike [Doc. No. 163] is DENIED, and the plaintiff's motion for sanctions [Doc. No. 164] is DENIED. All of the plaintiff's claims have been dismissed. The only claim remaining before the court is the defendants' counterclaim for tortious interference with business relations.

SO ORDERED, this 7th day of July, 2014.

All Citations

Slip Copy, 2014 WL 12647878

Footnotes

1 Integrated Logistics alleges Langley agreed to assign his 20% interest in Intelligent Audit to Integrated Logistics in return for a 17.5% ownership interest in Integrated Logistics. Langley disputes such an agreement was reached; he states that Integrated Logistics proposed this arrangement, but he ultimately declined.

2 Warehouse Solutions' motion for summary judgment was submitted to this court on February 7, 2014. The defendants did not file their motion for leave to file a surreply until March 3, 2014.

3 Moreover, the agreement between nSite and Integrated Logistics did not include a confidentiality provision.

4 The alleged breach of confidentiality occurred in 2004 when Integrated Logistics provided Platinum Circles Technologies with access to Intelligent Audit. Warehouse Solutions brought this action on November 12, 2009. As such, Warehouse Solutions did not bring its claim within the four-year statute of limitations.

5 Additionally, in AirWatch LLC, the plaintiff required users to agree to the terms of an End User License Agreement, which provided that the user only had "license to use the software solely for the purposes of testing and evaluating the software." *1. Further, the Agreement stated the user "shall not engage in competitive analysis." Id.

6 In TDS Healthcare Systems Corp., the court concluded summary judgment was unwarranted on procedural grounds. The court stated, "Because it appears that [the defendant] failed to timely provide [the plaintiff] with discoverable information about the [ ] system, the court cannot say that genuine issues of material fact do not exist." TDS Healthcare Systems Corp., 880 F. Supp. at 1582.

7 Moreover, in the court's discussion of the misappropriation of trade secrets claim, the court never directly addresses whether the plaintiff's software system was "readily ascertainable by proper means."

8 Although this argument was presented in briefing the motion before the court, the amended complaint alleges the defendants used "marks" owned by Warehouse Solutions in a manner that was likely to cause confusion or mistake. As the defendants stated in their briefs, however, Warehouse Solutions does not have any registered trademarks and the defendants never used any of Warehouse Solutions' product designations.

9 In their response brief, the defendants contend that if the court decides the defendants' counterclaims are untimely, the claims set forth in Warehouse Solutions' complaint must also be untimely. This contention is clearly without merit. Different statutes of limitations and facts apply to each claim.

10 Moreover, even if the claim was timely, the court agrees with Warehouse Solutions' other arguments: the defendants have not identified with specificity a trade secret nor have they demonstrated how Warehouse Solutions "misappropriated" the alleged trade secret through improper means. Additionally, there is no evidence that the defendants made reasonable efforts to maintain the secrecy of the alleged trade secret.

11 This claim is also barred by the applicable four-year statute of limitations, O.C.G.A. § 9-3-31.

12 This claim is also barred by the applicable four-year statute of limitations, O.C.G.A. § 9-3-31.

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