SUPERIOR COURT OF THE STATE OF DELAWARE

JOSEPH R. SLIGHTS, III
JUDGE

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Date Submitted: June 30, 2003 Date Decided: July 10, 2003

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Re: Total Care Physicians, P.A. v. O'Hara C.A. No. 99C-11-201 JRS

Dear Counsel:

The parties have requested the Court's guidance with respect to two pre-trial issues, the resolution of which will direct the parties' discovery efforts and trial preparations. The Court already has determined that the defendant, Kevin W. O'Hara ("Dr. O'Hara"), misappropriated trade secrets of his former employer, Total Care Physicians, P.A. ("TCP"), by utilizing confidential patient information to direct a

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letter to his patients which contained improper solicitations to join his new medical practice.¹ The issues of causation and damages are to be addressed in a separate trial. Before the Court receives evidence on these issues, the Court and the parties have agreed that it would help to streamline the discovery process, and to focus the trial presentations, if the Court resolved the following issues: (1) must TCP prove that its patients would not have transferred their care to Dr. O'Hara but for the solicitation letter and, if so, can TCP carry its burden to prove causation without calling each of the patients (approximately 900) who purportedly received the solicitation letter?; and (2) what is the proper measure of TCP's damages?

For the reasons that follow, the Court has determined that TCP must prove a proximate causal link between the misappropriation of trade secrets and its damages and that it may attempt to sustain its burden of proof without presenting testimony from all of the patients who received the solicitation letter or who transferred their care from TCP to Dr. O'Hara. As to the proper measure of damages, the Court will follow the methodology prescribed by Delaware's Uniform Trade Secrets Act, 6 *Del*. *C.* § 2001, *et seq.* ("the Act").

¹Total Care Physicians, P.A. v. O'Hara, 2002 WL 31667901 (Del. Super.)(decision after bench trial).

I. Causation

A. TCP Must Prove That O'Hara's Misappropriation Of Trade Secrets Proximately Caused Damages

The gravamen of TCP's misappropriation of trade secrets complaint is that Dr. O'Hara used TCP's confidential patient information to construct a letter to his patients that improperly solicited them to leave TCP and join Dr. O'Hara in his new medical practice. The Court already has determined that the patient information was entitled to trade secret protection and that a portion of Dr. O'Hara's letter to his patients misappropriated the trade secrets when it crossed the line of proper patient notification into the forbidden territory of patient solicitation.² Upon reaching this conclusion, the Court noted that the unique circumstances of the misappropriation raised a complicated issue of causation. Having concluded that a portion of Dr. O'Hara's letter reflected a proper use of TCP's trade secret information (notification of his patients that he was departing TCP), while another portion of the letter reflected a misappropriation of the trade secrets (solicitation of patients), the Court queried whether TCP would be required to prove that patients would not have left TCP but for the solicitous portions of Dr. O'Hara's letter.³ Implicitly, the Court also

²*Id.* at *9.

 $^{^{3}}Id.$ at *10.

questioned how TCP would go about proving causation if "but for" causation was a component of its *prima facie* case.⁴

The elements of a misappropriation of trade secrets claim are readily discerned from the Act itself. Among the elements identified, at section 2003(a), the Act provides that a plaintiff seeking damages must establish either "the actual loss ... [and/or] the unjust enrichment *caused* by [the] misappropriation." Although the causation element is not defined further in the Act, and case law on the subject is sparse, statutory construction and deductive reasoning lead to the clear conclusion that the causation referred to in the Act is proximate causation.

"There is a presumption that a statute is consistent with the common law...."

And the legislature is presumed to know the common law at the time it enacts a statute. Thus, to the extent matters are not addressed specifically in a statute, courts may properly seek guidance from settled common law principles. Misappropriation

 $^{^{4}}Id$.

⁵6 Del. C. §2003(a)(emphasis supplied). See also, Wilmington Trust Co. v. Consistent Asset Mgt. Co., 1987 WL 8459 at *3 (Del. Ch.)(fourth element of a misappropriation of trade secret claim is that "the secret information [has] been improperly used or disclosed by the defendant to the injury of the plaintiff.").

⁶2B Sutherland, *Statutes and Statutory Construction*, §50:05 at 162 (6th Ed. 2000).

⁷*Id.* at §50:01.

⁸*Id.* at §50:02.

of trade secrets is a tort.⁹ It is appropriate, then, for the Court to look to tort principles of causation when defining the scope of TCP's burden of production with respect to this issue.

At least one Delaware court has embraced the notion that a proximate causal link between a physician's improper use of patient information and economic harm to the medical practice must be established before a medical practice may recover damages. Although *Cole* addressed the issue in the context of plaintiff's claim for tortious interference with contract, the court's later discussion of damages in the context of the misappropriation of trade secrets claim clearly reflects the court's intent to hold the plaintiff to a burden of proving proximate cause in connection with that claim as well. This approach is in accord with the general approach taken by courts in other jurisdictions.

⁹See Moore v. Kulicke & Soffa Indus., 318 F.3d 561, 565 (3d Cir. 2003)(misappropriation of trade secrets is a "business tort"); Bell Helicopter Textron v. Tridair Helicopters, 982 F.Supp. 318, 322 (D. Del. 1997)(characterizing claim under the Act as a tort claim). See also 6 Del. C. §2007(a)(The Act "displaces conflicting tort ... law").

¹⁰See Marsico v. Cole, 1995 WL 523586 at *5 (Del. Ch.)(rejecting a claim that a physician tortiously interfered with a medical practice's contractual relationships with its patients by utilizing confidential patient information to notify patients of the opening of his new medical practice, the court noted, among other deficiencies, that the plaintiff had failed to show that such actions "proximately caused a loss of business to [plaintiff's] medical practice").

¹¹See e.g., World Wide Prosthetic Supply, Inc. v. Mikulski, 640 N.W.2d 764, 770 (Wis. 2002)(proximate cause an element of prima facie case under the Uniform Trade Secrets Act); Kenyon & Landon, Inc. v. Business Letter, Inc., 2002 WL 31309700, at *3 (Iowa App. 2002)(same); Byrd's Lawn & Landscaping, Inc. v. Smith, 542 S.E.2d 689, 691 (N.C. App. 2001)(same); Dunsmore v. D'Alessio, 2000 WL 124995, at *10-11 (Conn. Super.)(same); Gonzales v. Zamora, 791 S.W.2d 258, 266 (Tex. App. 1990)(same).

"Delaware recognizes the traditional 'but for' definition of proximate causation."12 "Our time-honored definition of proximate cause ... is that direct cause without which [an injury] would not have occurred."13 This definition directs the Court's analysis here. Before TCP may recover damages for misappropriation of trade secrets, it must prove by a preponderance of the evidence that its damages would not have been incurred but for Dr. O'Hara's solicitation of patients. And, to the extent TCP intends to seek damages for profits lost as a result of the departure of the wrongfully solicited patients, or profits of Dr. O'Hara gained by the arrival of such patients at his new medical practice, TCP must prove that such losses were proximately caused by the misappropriation, i.e., by the wrongful solicitation. Proof that a patient received the letter alone will not suffice since the letter contains both a proper notification and an improper solicitation. The patient's departure must be linked directly to the solicitation.

B. TCP May Attempt to Prove Causation and Damages Without Presenting the Testimony of Each of the Affected Patients

The Court is reluctant to venture too far into the territory of advising TCP how to make its causation and/or damages case. Dr. O'Hara has taken the position that the

 $^{^{12} \}ensuremath{\textit{Duphily}}$ v. Delaware Elec. Coop., Inc., 662 A.2d 821, 828 (Del. 1995).

¹³Chudnofsky v. Edwards, 208 A.2d 516, 518 (Del. 1965).

motives of each of the patients who joined him in his new practice must be presented to the Court before the Court can award damages for TCP's loss of any such patient. Because the number of patients who transferred their care from TCP to Dr. O'Hara exceeds six hundred, the parties have agreed that the Court should address this issue before discovery begins because the decision will dramatically affect the scope of discovery (and the length of the trial). In the interests of judicial economy and fairness to both parties, the Court has agreed to do so.

When assessing the adequacy of a plaintiff's causation and damages case, the analysis involves two steps. The court must first determine whether the plaintiff has proven that an injury or damage occurred and then must determine whether the plaintiff has adequately proven the amount of his damages.¹⁴ The quantum of proof required to establish the amount of damage is not as great as that required to establish

¹⁴See Pioneer Hi-Bred Int'l v. Holden Found. Seeds, 35 F.3d 1226, 1245 (8th Cir. 1994)("There are two distinct steps to a damages inquiry.").

the fact of damage.¹⁵ Delaware law is in accord with this general rule.¹⁶

When the fact of injury is made more difficult to ascertain by the nature of the tort itself, "it would be a perversion of fundamental principles of justice to deny all relief to the injured person and thereby relieve the wrongdoer from making any amend for his act."¹⁷ The fact that the universe of potentially misappropriated

is a clear distinction between the measure of proof necessary to establish the fact that petitioner had sustained some damage and the measure of proof necessary to allow the jury to fix some amount"); *Pioneer Hi-Bred Int'l.*, 35 F.3d at 1245 ("If it is speculative and uncertain whether damages have been sustained, recovery is denied. But if the uncertainty lies only in the amount of damages, recovery may be had if there is proof of a reasonable basis from which the amount can be inferred or approximated."); *Lightning Lube v. Witco Corp.*, 4 F.3d 1153, 1176 (3d Cir. 1993)(after plaintiff has established an injury, it need prove the amount of damages only to a reasonable degree of certainty, and not with precision).

¹⁶Del. Express Shuttle v. Older, 2002 Del. Ch. LEXIS 124, at *59-60 ("the law does not require certainty in the award of damages where a wrong has been proven and injury established. Responsible estimates that lack mathematical certainty are permissible so long as the court has a basis to make a responsible estimate of damages. Speculation is an insufficient basis, however.") (citation omitted). See also Tanner v. Exxon Corp., 1981 Del. Super. LEXIS 819, at *3 (the term "reasonable certainty [in the context of damages] is not equivalent to absolute certainty; rather, the requirement that plaintiff show defendant's breach to be the cause of his injury with 'reasonable certainty' merely means that the fact of damages must be taken out of the realm of speculation")(citations omitted); Henne v. Balick, 146 A.2d 394, 396 (Del. 1958)(when proving damages, plaintiff must offer "some reasonable basis upon which a jury may estimate with a fair degree of certainty the probable loss which the plaintiff will sustain in order to make an intelligent determination of the extent of the loss")(emphasis supplied).

¹⁷4 Callman, *Unfair Competition, Trademarks and Monopolies*, §22.51 at 444 (4th Ed. 1997)(citing *Darden v. Besser*, 1957 Trade Cas (CCH) ¶ 68,646 (D. Mich. 1956), *aff'd*, 257 F.2d 285 (6th Cir. 1958)). *Cf. Dionisi v. DeCampli*, 1995 Del. Ch. LEXIS 88 (acknowledging that public policy may require the wrongdoer to "bear the risk of uncertainty of damages where they cannot be proved with mathematical certainty," the court ultimately declined to lower the threshold of proof with respect causation where defendant presented "ample evidence suggest[ing] credible reasons [other than the misappropriation]" for plaintiff's damages).

patients exceeds 600 is not TCP's fault. The Court must be mindful of this fact as it fashions an approach to the presentation of evidence that will adequately address, on the one hand, the burdens on the plaintiff (and the Court) which are implicated by the size of the affected patient population and, on the other hand, Dr. O'Hara's right to expect that the plaintiff will be put to its burden of proof.¹⁸ Inevitably, the Court's balancing of these competing interests will be affected by the circumstances of the case.¹⁹

In this case, the fact of injury arguably could be proven by the testimony of one patient who was lured away from TCP by the solicitations in Dr. O'Hara's letter. Yet, in keeping with the notion that the fact of damage should be proven with a higher quantum of proof than the amount of damages, it is appropriate to expect more from TCP than one misappropriated patient. A statistically valid sampling of the affected

¹⁸See Blue Cross and Blue Shield of New Jersey, Inc. v. Philip Morris, Inc., 178 F. Supp.2d 198, 253 (E.D.N.Y. 2001)(noting that defendant's due process right to confront each member of a class of claimants must be weighed against the interest of the plaintiff in receiving complete relief and the interest of the court in efficiently using its resources).

¹⁹See 22 Am. Jur. 2d, Damages, §488 at 570-72 (1988)("Where it is reasonably certain that damage has resulted, mere uncertainty as to the amount of damage will not preclude the right of recovery or prevent a jury decision regarding damages. This view has been sustained where, from the nature of the case, the extent of the injury and the amount of damage are not capable of exact and accurate proof. Under such circumstances, all that can be required is that the evidence-with such certainty as the nature of the particular case may permit-lay a foundation which will enable the trier of facts to make a fair and reasonable estimate of the amount of damage. The plaintiff will not be denied a substantial recovery if he has produced the best evidence available and it is sufficient to afford a reasonable basis for estimating his loss.").

patients may provide the Court with an adequate basis to assess whether the misappropriation caused damage and, if so, in what amount. "Typically, the goal of sampling is to learn about an entire population of things by looking at a subset of them. The key to accomplishing this is to select the sample in such a way that it is representative of the population. Then, what one learns about the sample is likely to be true also for the population."

Statistical sampling is a tried and true approach to establishing causation and damages in cases involving a universe of claimants which exceeds the court's adjudicatory capacity.²¹ Of course, the methodology must be scientifically sound and

²⁰Faigman, *Science in the Law, Standards, Statistics & Research Issues*, §4-3.2 at 127 (West 2002).

²¹See generally Laurens Walker & John Monahan, Sampling Liability, 85 Va. L. Rev. 329 (1999). See e.g. Hilae v. Estate of Marcos, 103 F.3d 767, 782-87 (9th Cir. 1996)(allowing use of aggregation and statistical analysis to determine compensatory damages); Anderson v. Douglas & Lomason Co., Inc., 26 F.3d 1277 (5th Cir. 1994)(allowing statistical analysis to establish disparate treatment in civil rights action against large employer); Blue Cross and Blue Shield of New Jersey, Inc., 178 F. Supp.2d at 210-230(allowing statistical analysis to establish medical causation and deceptive trade practices).

the results based on an appropriate application of the methodology.²² Whether the causation and damages issues implicated by this case are appropriate subjects for statistical analysis cannot be answered definitively at this time. The experts must weigh in. The Court, however, will be receptive to this or any other approach which will package the causation and damages evidence manageably and reliably.²³

II. Damages

In a misappropriation of trade secrets case, "[d]amages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss." The starting point is actual loss (lost profits); this number must be proven before TCP may proceed further. To the extent the computation of this figure does not include Dr. O'Hara's enrichment as result of the misappropriation, that figure may also be

²²See Munoz v. Orr, 200 F.3d 291 (5th Cir. 2000)(expert statistical analysis properly excluded under *Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579 (1993) as unreliable for problems ranging from "particular miscalculations to his general approach to the analysis," including tables that did not add up to 100%, etc.); *Allapattah Services, Inc. v. Exxon Corp.*, 61 F. Supp.2d 1335 (S.D. Fla. 1999)(admitting statistical analysis under modified *Daubert* analysis).

²³TCP must be on notice, however, that if it chooses to attempt to make its causation case with the use of experts, the Court will hold it to that decision and will not reopen discovery in the event that the expert is deemed incompetent or the expert's methodology is deemed unreliable. TCP's causation/damages case will rise or fall with its expert(s).

²⁴6 *Del. C.* §2003(a).

calculated and included in the damages presentation.²⁵ The manner in which TCP attempts to prove its damages is for TCP to determine.

Exemplary damages and attorney's fees are appropriate in a misappropriation of trade secrets case when the plaintiff proves "willful or malicious" misappropriation.²⁶ The Court already has heard the evidence relating to Dr. O'Hara's conduct. Accordingly, no further evidence on this issue is required.

TCP has not proven that Dr. O'Hara acted willfully or maliciously. While it is true that Dr. O'Hara included some inappropriate language in a letter to his patients, he did so in the context of an appropriate effort to notify them of his departure from TCP and relocation to a new practice. That he overstepped the line between notification and solicitation in no way suggests that his conduct was willful or malicious. "Careless" is a more accurate description of his behavior. More is required to justify the imposition of exemplary damages and counsel fees.²⁷

²⁵See J. E. Rhoads & Sons, Inc. v. Ammeraal, Inc., 1988 Del. Super. LEXIS 116 at *47; Marsico, supra, at *25.

²⁶6 Del. C. §§2003(b), 2004.

²⁷See Marsico, 1995 WL 523586, at * 8 (concluding that exemplary damages and attorney's fees were not appropriate because Cole's conduct was not malicious); *Jardel Co. V. Hughes*, 523 A.2d 518, 527 (Del. 1987)(overturning jury's award of punitive damages because there was no evidence that Jardel engaged in "outrageous" conduct).

III. Conclusion

TCP must prove that Dr. O'Hara's wrongful solicitation of patients proximately caused its damages. TCP may attempt to prove causation and damages without presenting the testimony of each of the affected patients. To the extent it carries its burden of proof with respect to causation, its damages will be calculated according to the method prescribed by the Act. Exemplary damages will not be awarded and each side must bear its own counsel fees.

IT IS SO ORDERED.

Very truly yours,

Joseph R. Slights, III

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JRS, III/sb

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