



IN THE SUPREME COURT OF THE STATE OF DELAWARE

KEVIN MCLAREN, :
 :
 Appellant, : No.: 376,2023
 :
 v. : Trial Court Below:
 :
 SMASH FRANCHISE PARTNERS, : **Court of Chancery**
 LLC, : **Vice Chancellor J. Travis Laster**
 : **C.A. No.: 2020-0302-JTL**
 Appellee. :

APPELLANT'S SECOND CORRECTED OPENING BRIEF

OF COUNSEL:

Steven K. Fedder
Fedder & Janofsky
2850 Quarry Lake Drive
Suite 300
Baltimore, Maryland 21209
Telephone: (410) 415-0081
Facsimile: (410) 415-0085
sfedder@mdcounsel.com

COLE SCHOTZ P.C.

Andrew L Cole (No. 5712)
500 Delaware Ave, Suite 1410
Wilmington, Delaware 19801
Telephone: (302) 651-2002
Facsimile: (302) 574-2102
acole@coleschotz.com

*Attorneys for Defendant
Below/Appellant, Kevin McLaren*

Dated: December 21, 2023

TABLE OF CONTENTS

	<u>Page(s)</u>
NATURE OF PROCEEDINGS	1
SUMMARY OF ARGUMENT	6
STATEMENT OF FACTS	8
I. PERRI’S DUE DILIGENCE	8
II. SMASH’S CONTINUED LITIGATION AGAINST MCLAREN	15
III. THE DISCOVERY DISPUTE.....	17
ARGUMENT.....	20
I. THE COURT OF CHANCERY ABUSED ITS DISCRETION IN FAILING TO RULE UPON MCLAREN’S REQUEST FOR ATTORNEYS’ FEES UNDER DUTSA	20
A. Question Presented	20
B. Standard and Scope of Review	20
C. Merits of Argument	20
1. Despite McLaren’s Multiple Requests, the Court Failed to Specifically Discuss or Rule upon McLaren’s Request for Attorneys’ Fees in its Memorandum Opinion or Its Order and Final Judgment.....	20
2. The Chancery Court’s Failure to Address McLaren’s Request for Fees Constitutes an Abuse of Discretion.	21
II. AS A PREVAILING PARTY, MCLAREN IS ENTITLED UNDER DUTSA TO RECOVER HIS ATTORNEY FEES	23
A. Question Presented	23

B.	Standard and Scope of Review	23
C.	Merits of Argument	23
1.	The Defendants are Prevailing Parties under DUTSA.....	23
2.	Smash’s Claim Was Objectively Specious.....	24
a.	Smash’s DUTSA Claim Was Objectively Specious.	25
b.	Smash’s Conduct of the Litigation Provides Direct Evidence of its Subjective Bad Faith.....	29
c.	Perri’s Conduct Should Not Be Imputed to McLaren	33
d.	Perri’s Conduct of Due Diligence Was Not Improper	34
III.	THE COURT OF CHANCERY ERRED IN DENYING DEFENDANTS’ MOTION FOR A PROTECTIVE ORDER AND SANCTIONING DEFENDANTS IN THE AMOUNT OF \$55,280.....	38
A.	Question Presented	38
B.	Standard and Scope of Review	38
C.	Merits of Argument	39
1.	The Underlying Dispute	39
2.	The Legal Standard.....	41
	CONCLUSION	46

EXHIBITS

[Proposed] Order and Final Judgment

Exhibit A

TABLE OF AUTHORITIES

	Page(s)
Cases	
<i>Biddle v. Miller</i> , 234 A.3d 161 (Del. 2020).....	20, 23
<i>Bringhurst v. Harkins</i> , 32 Del. 324, 122 A. 783 (1923).....	21
<i>Burger v. Kemp</i> , 483 U.S. 776, 107 S. Ct. 3114 (1987)	33
<i>Data Gen. Corp. v. SCI Sys.</i> , Civil Action No. 5662, 1978 Del. Ch. LEXIS 563 (Del. Ch. Nov. 27, 1978).....	41
<i>Dura Glob. Techs., Inc. v. Magna Donnelly Corp.</i> , No. 07-CV-10945-DT, 2008 WL 2064516 (E.D. Mich. May 14, 2008).....	43
<i>E. & J. Gallo Winery v. Instituut Voor Landbouw-En Visserijonderzoek</i> , No. 1:17-cv-00808-DAD-EPG, 2018 WL 3062160 (E.D. Cal. June 18, 2018).....	43
<i>Engelhard Corp. v. Savin Corp.</i> , 505 A.2d 30 (Del. Ch. 1986).....	41
<i>FLIR Sys., Inc. v. Parrish</i> , 174 Cal. App. 4th 1270, 95 Cal. Rptr. 3d 307 (2009)	29
<i>Gunning v. State</i> , 347 Md. 332, 701 A.2d 374 (1997).....	21
<i>Harris v. State</i> , 198 A.3d 722 (Del. 2018).....	33
<i>IMAPizza, LLC v. At Pizza Ltd.</i> , 334 F. Supp. 3d 95 (D.DC 2018) <i>aff'd</i> 965 F.3d 871 (D.C. Cir. 2020)	35, 36

<i>Incyte Corp. v. Flexus Biosciences, Inc.</i> , 2019 WL 2361535 (Del. Super. Ct. May 7, 2019)	25, 29
<i>J.H. Desnick v. Am. Broad. Cos.</i> , 44 F.3d 1345 (7th Cir. 1995)	36
<i>Joshua David Mellberg, LLC v. Will</i> , 639 F. Supp. 3d 926 (D. Ariz. 2022)	25
<i>Krafft v. Downey</i> , 2013 PA Super 119, 68 A.3d 329 (May 17, 2013)	26
<i>Magnox v. Turner</i> , Civil Action No. 11951 - New Castle County, 1991 WL 182450 (Del. Ch. Sep. 10, 1991)	42, 43
<i>Munoz-Pacheco v. Holder</i> , 673 F.3d 741 (7th Cir. 2012)	21
<i>Nichols v. Chrysler Grp. LLC</i> , Civil Action No. 4348-VCP, 2010 WL 5549048 (Del. Ch. Dec. 29, 2010)	29
<i>OptimisCorp v. Waite</i> , 137 A.3d 970 (Del. 2016)	20
<i>Reinco, Inc. v. Thompson</i> , 906 A.2d 103 (Del. 2006)	33
<i>SASCO v. Rosendin Elec., Inc.</i> , 207 Cal. App. 4th 837, 143 Cal. Rptr. 3d 828 (2012)	26
<i>Savor, Inc. v. FMR Corp.</i> , No. 00C-10-249-JRS, 2004 WL 1965869 (Del. Super. July 15, 2004)	41
<i>Scion Breckenridge Managing Member, LLC v. ASB Allegiance Real Estate Fund</i> , 68 A.3d 665 (Del. 2013)	38
<i>SIGA Techs., Inc. v. Pharmathene, Inc.</i> , 67 A.3d 330 (Del. 2013)	38
<i>Smash Franchise Partners, LLC v. Kanda Holdings, Inc.</i> , No. 2020-0302-JTL, 2020 WL 4692287 (Del. Ch. Aug. 13, 2020)	2, 3, 26

<i>Smash Franchise Partners, LLC v. Kanda Holdings, Inc.</i> , No. 2020-0302-JTL, 2023 WL 4560984 (Del. Ch. July 14, 2023).....	<i>passim</i>
<i>SmithKline Beecham Pharm. Co. v. Merck & Co.</i> , 766 A.2d 442 (Del. 2000).....	42, 45
<i>Workplace Techs. Rsch., Inc. v. Project Mgmt. Inst., Inc.</i> , No. 18cv1927 JO(MSB), 2023 WL 3152157 (S.D. Cal. Mar. 28, 2023)	25
<i>Zoppas Indus. de Mexico, S.A. de C.V. v. Backer EHP Inc.</i> , No. 18-01693-GBW-CJB, 2023 WL 7530247 (D. Del. Nov. 13, 2023).....	30, 31
Statutes	
6 Del. C. § 2004.....	6, 23
Other Authorities	
Restatement (Second) of Torts § 892A(1) (1979).....	36

NATURE OF PROCEEDINGS

Over the course of more than three years of litigation, Smash Franchise Partners, LLC (“Smash”)¹ continuously changed its theories of liability. Plaintiff Smash filed its original Verified Complaint on April 23, 2020, against defendants Todd Perri (“Perri”), Kevin McLaren (“McLaren”), their business Dumpster Devil, and Perri’s business Kanda. In what the trial court later referred to as a “scattershot application” Smash accused Defendants of breach of contract, unjust enrichment, misappropriation of trade secrets under the Delaware Uniform Trade Secrets Act (“DUTSA”), conversion, unfair competition, fraud, deceptive trade practices, and trademark infringement. A0086-A0129. Most of the claims related to Defendant Perri’s due diligence investigation into a potential purchase of a Smash trash compacting franchise and his decision ultimately to forego that purchase. His decision followed his thorough review of risks and rewards as well as alternative avenues for investment. Defendant McLaren was specifically named in the claims for unjust enrichment, violations of DUTSA, and conversion. Smash also sought a preliminary injunction.

¹ Smash is the franchisor of Smash My Trash, Ltd. Both parties were the original plaintiffs in the proceedings below. During the litigation, without explanation, Plaintiffs dropped Smash My Trash LLC as a party.

On May 4, 2020, Smash amended its original complaint, likely because opposing counsel notified it that its initial confidentiality claims based on information contained in Smash’s public Franchise Disclosure Document were not viable. Smash dropped that line of attack and in its Verified Amended Complaint, alleged for the first time that Perri obtained the allegedly confidential information from various sales Zoom calls Smash held for prospective investors. A0130-A0206. Perri attended these calls at Smash’s invitation and did so as part of his due diligence regarding an investment in Smash. Smash invited all prospective franchisees to participate in the calls, had no way of knowing who was on the calls, and never changed the login information. Mr. Perri was invited to attend as many calls as he chose.

On August 13, 2020, the Court of Chancery denied Smash’s request for what it called a “business-stopping” injunction “that would shut down Dumpster Devil’s business.” *Smash Franchise Partners, LLC v. Kanda Holdings, Inc.*, No. 2020-0302-JTL, 2020 WL 4692287, at *1 (Del. Ch. Aug. 13, 2020). According to the Court,

The information was primarily designed to convince interested entrepreneurs to purchase a franchise, and it reflected the type of information that one would see in a detailed sales pitch. It was specific enough to attract prospective franchisees, but not specific enough to reveal critical information about Smash.

Id. The Court ruled that Smash failed to demonstrate a reasonable likelihood of success on its claim for misappropriation under DUTSA. *Id.* at *13-15. It ruled similarly on Smash's claims for trade secret misappropriation, unjust enrichment, conversion, unfair competition, and trademark infringement. *Id.* at * 13-14, 18-19.

Notably, given a subsequent opportunity in discovery to buttress the trade secret claims the Court determined were unlikely to succeed, Smash did not do so. It instead stated it had no new allegations and had already identified all the allegedly confidential information. A0572-A0717, A0712. From November 2020 until the November 2022 trial, Plaintiff never supplemented or amended this response and never expanded upon its trade secret allegations.

On June 22, 2021, nearly one year after the injunction decision, Smash again amended its Complaint. In this Verified Second Amended Complaint, Smash dropped its claims for trademark infringement and conversion. Despite the Court's decision and its lack of any new evidence in support, Smash continued to incorporate virtually the same misappropriation claims as in previous iterations of its complaints.

A0496-A0571

The litigation continued unabated for another year. Despite multiple requests, Smash never specified the alleged trade secrets in greater detail, and never presented any new documents or information regarding misappropriation other than the facts the Court of Chancery rejected in August 2020.

One month before trial, Smash abruptly dropped many of its claims, including that for misappropriation of trade secrets – 2 ½ years after filing its initial Complaint and more than two years after the court determined Smash had not demonstrated a likelihood of success on the claim. The only remaining claims were for fraud and for violating the Delaware Unfair and Deceptive Practices Act. McLaren was not a named Defendant in either of these remaining claims. A0729.

Given Smash’s abandonment of all claims against McLaren, in the Joint Pre-Trial Stipulation and Order, McLaren requested his dismissal as a party defendant and an award for his attorneys’ fees pursuant to DUTSA’s statutory provisions. A0728. The request was renewed in Defendants’ Trial and Post-Trial Briefs. A0164-A0618, A0626; A0894-A0899, A0908. The case was tried on November 14 & 15, 2022. During closing argument, counsel again requested McLaren’s dismissal from the action in light of Smash’s abandonment of all charges against him. A0914-A0915.

On July 14, 2023, the Court entered final judgment in favor of McLaren on the claims for misappropriation and unjust enrichment and held that Defendants were the prevailing parties under DUTSA. *Smash Franchise Partners, LLC v. Kanda Holdings, Inc.*, No. 2020-0302-JTL, 2023 WL 4560984, at * 30 (Del. Ch. July 14, 2023); see Exhibit A, at p. 1, attached hereto. The Court denied Perri’s request for attorneys’ fees pursuant to DUTSA. *Smash Franchise Partners, LLC*,

2023 WL 4560984, at *30. However, the Court did not specifically address or rule upon McLaren's request for such fees.

McLaren now appeals from the Court of Chancery's Order and Final Judgment insofar as it failed to address his request for attorneys' fees under DUTSA. Further, to the extent that denial of Perri's request for attorneys' fees also constituted an implicit denial of McLaren's request, the court additionally erred. There was no evidence that McLaren wrongfully obtained or used any of Smash's allegedly confidential information; to the contrary, all available evidence proves that he had no knowledge of and did not use any such information.

Moreover, if the Court denied McLaren attorney's fees because of what it perceived to be Perri's wrongful conduct, the Court erred because Perri's actions cannot be imputed to McLaren, and because Perri's conduct was not wrongful; Perri's thorough due diligence regarding an investment in a Smash franchise while also examining other opportunities was an appropriate part of a comprehensive appraisal of a business by any prospective investor.

Finally, McLaren appeals from the court's denial of Defendants' Motion for a Protective Order, including the sanction of \$55,280 for reimbursement of Plaintiff's attorneys' fees and costs. That assessment was based on the court's misinterpretation of the law regarding a defendant's discovery obligations when a plaintiff has failed to first identify its own trade secrets sufficiently.

SUMMARY OF ARGUMENT

1. The Court of Chancery erred by failing to address or rule upon McLaren's request for attorneys' fees pursuant to DUTSA despite finding that McLaren was a prevailing party under DUTSA.

2. The Court of Chancery erred if it held that neither Perri nor McLaren were entitled to attorneys' fees and expenses despite their status as prevailing parties under DUTSA. DUTSA provides that "the court may award reasonable attorney's fees to the prevailing party" where "a claim of misappropriation is made in bad faith. . . ." 6 Del. C. § 2004. Bad faith typically is shown through evidence of objective speciousness in bringing or maintaining the DUTSA claim, along with evidence of subjective bad faith. Defendants provided such evidence prior to trial (A0615-A0618), but because Plaintiff abandoned its DUTSA claim immediately prior to trial, defendants were denied the opportunity to provide evidence during trial as to the objective and subjective speciousness of the claim. Further, whether or not Perri was entitled to attorneys' fees, the calculus was different for McLaren; the record is devoid of any evidence supporting a good faith belief by Smash that McLaren received or used confidential information protected by DUTSA.

3. The Court of Chancery erred as a matter of law in failing to apply the correct legal standards in its ruling on Defendants' Motion for Protective Order and subsequent awarding \$55,280.20 to Smash for attorneys' fees and expenses incurred

in connection with Defendants' Motion and Smash's Motion to Compel. Defendants sought protection from responding to Plaintiff's discovery requests that would have revealed Defendants' confidential information because Plaintiff failed to first sufficiently identify its purported trade secrets. Cases have long held that a defendant may withhold production of its confidential information where the plaintiff has failed in its initial trade secret identification obligation.

STATEMENT OF FACTS

I. Perri's Due Diligence

Todd Perri has multiple degrees in mechanical and aerospace engineering and an MBA. A0785, at 158:13-19. After working in management for large companies, he later started a series of his own companies, many of which he subsequently sold. More recently, Perri focused on acquiring e-commerce companies and investing. During 2019, Perri looked at potentially investing in over 100 companies and only acquired one. A0786-A0787, at 159:5-160:15. He is selective in his investment decisions and exceptionally qualified to evaluate the Smash franchise investment opportunity.

Perri first learned of Smash in November 2019 through a blind ad on a website. The ad referenced an available opportunity in the commercial waste management field, one with patent-pending technology. A0787., at 160:10-18. He was initially attracted by the idea of a patented product. A0789at 162:20-21. He responded to the ad and in early December 2019 was contacted by Trish Scelfo (“Scelfo”), a franchise broker working on Smash’s behalf. Scelfo provided Perri with a Pitch Deck² and freely discussed a significant amount of information that Smash in litigation claimed was trade secrets, including Smash’s operations, its

² Although Smash asserted initially in this action that the information contained in the Pitch Deck was confidential, Smash’s founder and CEO Justin Haskin later admitted it was not. A0780, at 111:16-19.

economics, pricing strategies, potential customer types, territory demographics, and the number and location of upcoming franchises. [A0581]

Given Perri's interest in the patent issue, Scelfo also told him that Smash was "highly dependent" on the purported patent and exclusive distributorship with the manufacturer of the equipment and that the technology was indeed patent-pending. *Id.* Much of this was reflected in Perri's notes, the only record of this and all other conversations with Smash. A0788, at 161:7-18; A0580; A0765.

Scelfo introduced him to Brittany Bode ("Bode"), another Smash agent. Bode reiterated and expanded upon the information provided by Scelfo, repeating the assertion that the advertised patent that was central to Perri's investment was pending in the U.S. and that Smash was the exclusive distributor of the equipment. *Id.* Perri testified that the patent, along with the 50% claimed profit margin was "compelling" and "it's hard not to look at a business like that. A0789-A0790, at 162:5-163:6. The discussions and Pitch Deck boosted Perri's interest in the business and acquiring a franchise. Smash's founder and CEO, Justin Haskin ("Haskin") conceded that Perri had no reason to think that the information Smash provided him at this point was in any way confidential. This was also true for the Unit Economics Call Smash asked Perri to attend. A0783., at 142:4-21.

Smash soon invited Perri to join weekly Validation and Founder's Zoom calls. A0791, at 164:2-4. The Validation calls were run by existing Smash franchisees but

the Founder's Calls were run by Haskin alone. Neither invitation was conditioned on first signing Smash's Confidentiality Agreement, and Smash placed no limit on the number of calls Perri or any prospective franchisee could attend. A0802, at 179:11-21; A0833, at . Perri had no reason to believe that signing the NDA had anything to do with his right to participate in the Founder's or Validation Calls. A0791-A0792, at 164:23-165:4. There is no evidence that Smash or its agents advised Perri that he was being provided confidential information during these calls. To the contrary, Bode informed Perri, and Haskin later confirmed, that the NDA Perri signed was only pertinent to and required before (and if) he attended the final step in the process, Discovery Day (which Perri did not attend). A0784, at 143:8-14, A0792, at 165:2-4.

As a seasoned investor and engineer, Perri was intent on ferreting out details and ensuring accuracy. When introduced to an industry, he looks at every option and does not know who would not do the same. A0808, at 187:18-21. Perri knew he had to investigate carefully the Smash opportunity and any others before making any decision. He did "a lot of due diligence" because the Smash franchise would have been a \$2 million commitment that was required if Perri purchased the three territories that interested him. It was a ten-year horizon, with a purchase of a minimum of three trucks, and minimum royalty payments. As Perri stated, "so, sure

I'm doing due diligence, I've done a lot of due diligence.” A0793, at 170:4-18, A0816, at 198:19-24.

His initial investigation raised several questions as to Plaintiff's patent claims, both offensively and defensively. He discovered a patent held by a Smash competitor that was in his mind, “a huge risk.” A0794, at 171:16-23. Neither Bode nor Smash's franchisees could answer his patent questions and told Perri he had to speak with Haskin in the Founder's Calls about these matters. A0795, at 172:1-9. For Perri, the patent status was a critical issue requiring resolution before he made his investment decision.

Perri also reached out to McLaren, a college fraternity brother, to get his take on the franchising opportunity because McLaren had both a mechanical engineering degree and experience in franchising. A0793-A0794, at 170:22-171:8. Furthermore, Mr. McLaren owns a commercial landscaping business, a dumpster business, and has substantial expertise in the use of heavy equipment. After reading Smash's FDD and conducting further research on his own, McLaren pointed out the disadvantages of franchising. At one point, he suggested to Perri that they could buy a flatbed truck and put a mini excavator on it with a long reach boom and use a hydraulic attachment to perform the same operation as Smash and its competitors – something he had done frequently through his other businesses. Perri responded that that might be an option depending on certain issues, but that he wouldn't do anything

in this field, one way or another, until they could figure out the patent questions, specifically to understand the Smash patent claims and whether the Smash competitor, Smash-It, the US Patent holder on a mobile compaction unit, could potentially sue Smash and its Franchisees for patent infringement. A0817-A0819, at 213:23-215:1. Perri and McLaren continued to investigate other potential opportunities in the mobile trash compacting field. Haskin admitted at trial that it was not improper for someone to consider a Smash investment and concurrently consider alternative investments, including creating a competing business. A0781-A0782, at 132:24-133:21.

Perri participated in four Founder's Calls, in which Haskin presented sales information to his prospects. A0795, at 172:11-15. Smash never limited the number of Founder's Calls Perri could attend or told him the information was confidential. Over the series of Founder's Calls, Perri asked Haskin to discuss Smash's claimed pending patent as well as the risk Plaintiff or a franchisee faced of being sued for infringing the patent held by Smash competitor, Smash-It, for a very similar machine. Haskin responded with information that was vague and seemingly inconsistent with the patent-pending claims stated in Smash's Pitch Deck and FDD. A0851-A0853, A0741, A0744, A0745.

Given the contradictory and often evasive responses and his desire to get to the bottom of this issue, Perri attended more Founders' Calls. A0797, at 174:11-17,

A0799-A0801, at 176:19-178:9, A0805-A0807, at 184:4-186:16. During these calls, which were often held weeks apart, Perri, and other call participants, continued to try and get clarification on the patent issue; Haskin continued his pattern of ambiguous, confusing responses. A0797-A0798, at 174:18-175:21, A0800-A0801, at 177:15-178:4. In one call, Haskin maintained that Smash's equipment had a pending patent but hedged by saying that a prospect should not buy the franchise thinking it is a monopoly. A0804-A0805, at 183:15-184:3. Throughout, Perri remained interested in the Smash opportunity. A0803, at 180:14-15, A0820, at 230:12-20, A0822, at 236:2-5. Yet Perri was questioning whether Smash had any intellectual property that was truly valuable and whether Smash might be violating the patent of Smash-It, a similar business. A0794, at 171:16-23, A0804-A0805, at 183:18-184:10, A0823, at 248:2-19.

This was a critical point. Perri reasoned that if Smash lacked protectable intellectual property, any franchise he might buy would be vulnerable to competition from entrepreneurs who simply purchased equipment rather than buying a franchise. On the other hand, as McLaren testified, if Smash "truly had a patent that created a monopoly, as they advertised, then you limit competition, and it outweighs all of my negative comments about the franchise agreement. It becomes a great investment." A0829-A0830, at 287:22-288:7.

Given the potential upside, Perri still remained interested in the Smash opportunity. He continued to vet Smash along with other possible opportunities, including the possibility of purchasing equipment from Packmat, the European patent holder and manufacturer of mobile compactions equipment. A0821-A0822, at 235:19-236:5, A0808-A0810, at 187:22-189:12.

On February 5, 2020, Perri participated in what became his final Founder's Call. He had significant questions regarding Smash but wanted to try once more to get a final take on the business and the patent issue before he made his decision. A0813-A0814, at 194:15-195:4. To his dismay, he "didn't get any more clarity" and did not have a good feeling about Smash or Haskin. A0814, at 195:2-16. He then decided he was done with Smash and stopped communicating with it. A0814, at 195:10-16.

At that point, he was still talking to Packmat, but had not decided to enter into a relationship with it, particularly in light of his ongoing concerns about other patents that might adversely affect any deal with Packmat, just as they would with Smash. A0812, at 193:16-20. Perri testified he was not going to enter the industry and be potentially subjected to litigation regarding patents. A0812, at 193:16-20, A0796, at 173:11-13, A0824, at 265:10-16. Weeks later, and after Perri had rejected Smash, Packmat provided the patent protection and assurance Perri sought by way of an indemnification agreement. The parties then entered into an exclusive

distributorship agreement, that included indemnity for both Dumpster Devil and equipment purchasers from any possible claims of patent infringement. A0810-A0811, at 189:13- 190:1; A0815, at 197:3-22. With that agreement in place, Perri formed Dumpster Devil, which simply served as the exclusive distributor of Packmat equipment in the United States. Unlike Smash, Dumpster Devil was not, and is not, a franchising company.

II. Smash's Continued Litigation Against McLaren

Throughout the three years of this litigation, even after the trial court rejected Smash's claim that the contents of the Validation and Founders calls included trade secrets, and Smash failed to support those claims further, Smash continued to accuse Defendants of misappropriating Smash's trade secrets and confidential information. The issue was front and center in its succession of pleadings and throughout discovery, including an extensive number of depositions, hearings, motions and responses.

Smash conducted this years-long assault despite knowing that McLaren had testified as early as his June 2020 deposition that he did not receive any Smash information from Perri. The information he reviewed was derived from his own research and any information he had about Smash came from the FDD, not from Perri:

I really don't have any information on Smash My Trash. I have -- I did primarily research about what equipment is

out on the market.· Specifics about Smash My Trash I got from the FDD.

A0418, at 38:10-14. Smash's counsel also asked McLaren specifically if he ever talked to Perri about the Validation Calls in which Perri participated:

Q: Did you ever talk to Mr. Perri about the validation phone calls he was participating in?

A: Todd mentioned he was on phone calls, but not any specific information.

A0418, at 38:15-18.³ McLaren also testified he never saw Perri's notes regarding the Smash calls until discovery:

Q: Did he ever share any information from you that he had learned on the calls?

A:· No, with one correction being that in -- when you showed his -- those notes up in the -- in his deposition and when we were producing documents for the attorneys, I did see his notes then for the first time.

A0418, at 38:21-39:2. In response to a direct question from Smash's counsel, McLaren confirmed his June 2020 deposition testimony that before being shown documents produced by Smash in discovery, he had never seen Perri's notes of the Smash calls,⁴ and repeated that Perri never talked to him about other individuals on the Validation or Founder's Calls. A0418-A0419, at 38:15-39:14. Perri

³ Had the DUTSA claims remained at issue this evidence would have been presented at trial.

⁴ Those notes were the only evidence of what transpired at the Validation and Founder's Calls.

independently confirmed McLaren's testimony, including that he did not share his notes with McLaren. A0422, at 37:8-11. McLaren confirmed this at trial, testifying that his information came primarily from the internet and direct conversations with equipment manufacturers. A0825-A0826, at 281:24-282:2, A0828, at 286:2-21. He reaffirmed that the first time he saw Perri's notes was through discovery and that Perri never shared his notes with McLaren. A0830, at 288:8-13.

Based solely on speculation, Smash continued to insist that McLaren violated DUTSA. It maintained the action against him even though it never offered any actual evidence to support its claim that McLaren misappropriated trade secrets. To the contrary, the evidence demonstrated that McLaren never communicated with Smash or its agents, never received any information from Smash, never participated in any of the Founder's or Validation Calls and never received any trade secret information from Perri.

Smash nonetheless maintained its DUTSA claim for over two more years, until the eve of trial, when it simply abandoned the issue. The Chancery Court ruled that for the DUTSA claim, Perri and McLaren are the prevailing parties. But it did not award either party the requested attorneys' fees statutorily permitted by DUTSA.

III. The Discovery Dispute

During the litigation process, Smash and the Defendants were involved in many discovery disagreements. One such dispute arose out of Smash's claim that

the information Smash relayed during the Validation and Founder's Calls was confidential trade secrets. Smash's Complaint did not detail in any respect the trade secrets allegedly misappropriated. They merely identified general categories of information.

On June 5, 2020, Defendants filed a Motion for Protective order in which they sought to defer production of their own confidential and proprietary information until Smash particularly identified the confidential information it contends was misappropriated. A0207-A0293. Defendants asserted they should not be required to provide unfettered access to Dumpster Devil's confidential business information until Plaintiffs first identified the confidential information and trade secrets at issue with the requisite degree of particularity. A0207-A0293. Also on June 5, Smash filed a Motion to Compel Discovery along with a Motion for Protective Order. A0294-A0416.

At the hearing on these motions, the Court determined that Smash's supplemental interrogatory responses filed on May 22, 2020 (A0339-A0345) provided sufficient detail as to the identification of the confidential information and held that Defendants' positions on the motion for protective order and the motion to compel were not substantially justified. A0427. The Court also believed that an award of fees and costs was due Smash. A0427. Smash filed a fee petition one week

later, seeking \$55,820.20 in fees and costs. The Court granted it in total. [A0434-A0464; A0494-A0495.]

ARGUMENT

I. THE COURT OF CHANCERY ABUSED ITS DISCRETION IN FAILING TO RULE UPON McLAREN'S REQUEST FOR ATTORNEYS' FEES UNDER DUTSA

A. Question Presented

Whether the Court of Chancery erred in failing to address or rule upon McLaren's request for attorneys' fees as a prevailing party under DUTSA.

This question was preserved in the Court of Chancery in the Joint Pre-Trial Stipulation and Order (AO728), Defendants' Trial Brief (A0614-618), and in Defendants' Answering Post-Trial Brief (A0894-0899, 0908).

B. Standard and Scope of Review

The Court reviews decisions regarding attorneys' fee awards for abuse of discretion "but review[s] *de novo* the legal principles applied in reaching that decision." *Biddle v. Miller*, 234 A.3d 161 (Del. 2020). *See OptimisCorp v. Waite*, 137 A.3d 970, 971 n.1 (Del. 2016).

C. Merits of Argument

1. Despite McLaren's Multiple Requests, the Court Failed to Specifically Discuss or Rule upon McLaren's Request for Attorneys' Fees in its Memorandum Opinion or Its Order and Final Judgment.

Following Smash's abandonment of its DUTSA claim against McLaren, in the Joint Pre-Trial Stipulation and Order, McLaren requested his dismissal as a party defendant and as a prevailing party, an award for his costs and attorneys' fees.

A0728. McLaren renewed this request in Defendants’ Trial and Post-Trial Briefs and in closing argument. A0614; A0894-A0899, A0908; A0914-A0915.

In its post-trial Opinion, the Court recognized that McLaren was a prevailing party under DUTSA but did not rule upon his attorneys’ fee request or discuss the merits of the request. *Smash Franchise Partners, LLC v. Kanda Holdings, Inc.*, No. 2020-0302-JTL, 2023 WL 4560984, at * 30 (Del. Ch. July 14, 2023). In its accompanying Order and Final Judgment, the Court entered final judgment in McLaren’s favor on the DUTSA claim, but again did not reference McLaren’s request for fees. A0913-A0915.

2. The Chancery Court’s Failure to Address McLaren’s Request for Fees Constitutes an Abuse of Discretion.

A trial court has the responsibility to consider and weigh all the evidence and argument and make a reasoned decision. Many courts, including this one, have held that a court’s failure to do so, to exercise its discretion, is itself an abuse of discretion. *See Bringham v. Harkins*, 32 Del. 324, 330, 122 A. 783, 786 (1923) (an action might be in the trial court’s discretion, but the court’s “failure to exercise a sound, reasonable and legal discretion” is an abuse of discretion). *See also Munoz-Pacheco v. Holder*, 673 F.3d 741, 745 (7th Cir. 2012) (“Failure to exercise discretion is not exercising discretion; it is making a legal mistake.”); *Gunning v. State*, 347 Md. 332, 351, 701 A.2d 374, 383 (1997) (“It is well settled that a trial judge who encounters

a matter that falls within the realm of judicial discretion must exercise his or her discretion in ruling on the matter.”).

There is no evidence that the lower court considered, much less ruled upon McLaren’s request for attorneys’ fees. This constitutes an abuse of discretion.

II. AS A PREVAILING PARTY, McLAREN IS ENTITLED UNDER DUTSA TO RECOVER HIS ATTORNEY FEES

A. Question Presented

If the Court of Chancery implicitly denied McLaren’s request for attorneys’ fees, the question becomes whether the court erred in denying the request given the evidence showing Smash acted in bad faith.

This question was preserved in the Court of Chancery in the Joint Pre-Trial Stipulation and Order (A0728-728), Defendants’ Trial Brief (A0614-618), and in Defendants’ Answering Post-Trial Brief (A0894-0899, 0908).

B. Standard and Scope of Review

As noted above, this Court reviews decisions regarding attorneys’ fee awards for abuse of discretion “but review[s] de novo the legal principles applied in reaching that decision.” *Biddle v. Miller*, 234 A.3d 161 (Del. 2020).

C. Merits of Argument

1. The Defendants are Prevailing Parties under DUTSA.

DUTSA provides a remedy to a defendant who is subjected to a lawsuit made in bad faith. The Act provides that “the court may award reasonable attorney’s fees to the prevailing party” when “a claim of misappropriation is made in bad faith” 6 Del. C. §2004. The Chancery Court ruled that Defendants are the prevailing parties: “Smash dropped its claim under DUTSA on the eve of trial, making the

defendants the prevailing party.” *Smash Franchise Partners, LLC*, 2023 WL 4560984, at * 1.

The Court also noted that “[w]here a defendant prevails, it must demonstrate that the plaintiff brought the misappropriation claim in bad faith.” *Id.* at *30. “[A] prevailing party must show that the claim fits under one of the enumerated circumstances warranting an award of attorneys’ fees.” *Id.* According to the trial court’s own words, a prevailing defendant “must show” and “must demonstrate” bad faith on the part of a plaintiff.

Because Smash dismissed the DUTSA claims before trial, Defendants had no opportunity to offer proof of Smash’s bad faith. Given that the only Counts pursued at trial were for fraud and for deceptive trade practice, evidence of bad faith would not have been relevant to the remaining counts. Had Defendants been accorded the chance to put on the entirety of their evidence of bad faith, they would have presented the full and updated universe of relevant facts. The complete record would have shown that certain of the trial court’s conclusions on this issue relied on speculation that, given the opportunity, Defendants could have clarified and corrected.

2. Smash’s Claim Was Objectively Specious.

The Delaware Superior Court described the bad faith requirement for an award of attorneys’ fees under DUTSA:

The “bad faith” element of DUTSA requires objective speciousness of the plaintiff’s claim and its subjective bad faith in bringing or maintaining the claim. Objective speciousness exists where the action superficially appears to have merit, but there is a complete lack of evidence to support the claim. Subjective bad faith may be inferred by evidence that the plaintiff intended to cause unnecessary delay, filed the action to harass or harbored an improper motive. Similar inferences may be made where the plaintiff proceeds to trial after the action’s fatal shortcomings are revealed by opposing counsel.

Incyte Corp. v. Flexus Biosciences, Inc., 2019 WL 2361535, at *2 (Del. Super. Ct. May 7, 2019) (citation omitted). An award of fees under DUTSA thus requires evidence the claim was both objectively and subjectively specious.

a. Smash’s DUTSA Claim Was Objectively Specious.

Courts in Delaware and elsewhere generally agree that objective speciousness exists “where the action superficially appears to have merit, but there is a complete lack of evidence to support the claim.” *Id.* “In order to prove that a claim is objectively specious, ‘it is enough for defendants to point to the absence of evidence of misappropriation in the record.’” *Workplace Techs. Rsch., Inc. v. Project Mgmt. Inst., Inc.*, No. 18cv1927 JO(MSB), 2023 WL 3152157, * 9 (S.D. Cal. Mar. 28, 2023) (citation omitted). Speculation that a defendant must have taken trade secrets from a plaintiff does not constitute evidence of misappropriation. *Joshua David Mellberg, LLC v. Will*, 639 F. Supp. 3d 926, 935-36 (D. Ariz. 2022). Nor does speculation that a competitor’s success was based on

the theft of trade secrets constitute the requisite evidence. *SASCO v. Rosendin Elec., Inc.*, 207 Cal. App. 4th 837, 849, 143 Cal. Rptr. 3d 828, 837 (2012).

In August 2020, four months after Smash filed its first complaint, the Court ruled upon Smash's preliminary injunction motion. The Court made several findings relating to Smash's allegations that its sales materials and presentations constituted protectable trade secrets or confidential information. The Court found that "[t]his information does not qualify as trade secrets, at least in the form in which SFP presented the information to Perri." *Smash Franchise Partners, LLC*, 2020 WL 4692287, at * 14 (Del. Ch. Aug. 13, 2020).

The Court also concluded that "much of this information was not secret at all" because SFP made it publicly and freely available in various documents and calls with prospective franchisees as parts of its sales operation. *Id.* at *14. The Court further described some of the alleged trade secrets as "relatively obvious" plans. *Id.* at *15. While the Court likely expected more robust proof to develop over time, Smash offered nothing, and thus, the Court's finding that the claimed confidential information did not constitute trade secrets provided notice to Plaintiff that it could not prevail. *See Krafft v. Downey*, 2013 PA Super 119, 68 A.3d 329, 338 (May 17, 2013) (the trial court's determination at the injunctive stage that plaintiff lacked trade secrets is evidence of objective speciousness).

Despite the court's clear signal as to the claim's deficiency, Smash never reinforced its claim. In November 2020, Defendants propounded interrogatories specifically designed to flush out any additional trade secrets claims:

INTERROGATORY NO. 13. Identify all information that You contend was disclosed to any of the Defendants, that You did not previously disclose in the course of discovery, including Your answers to the first set of Interrogatories, documents produced by You, or the Rule 30(b)(6) deposition of Your corporate designee, that you contend is entitled to protection as confidential information, trade secret or otherwise.

RESPONSE: Subject to and without waiving the General Objections, to the best of their knowledge, *Plaintiffs have identified the information that was disclosed to Defendants.*

A0616, A0712 (emphasis supplied). Smash's response conceded it had no new confidential information, nothing other than what the Court already had rejected. And Smash never supplemented its response.

As to McLaren, he testified in his June 2020 deposition that he had never seen any supposedly confidential information until Smash produced it in discovery. That testimony was confirmed by Perri in his own deposition and reiterated by McLaren during trial. A0825-A0826, at 281:24-282:2, A0828, at 286:2-5. Smash never rebutted this testimony, either before or after trial. Further, the parties exchanged over 180,000 documents in discovery. Smash did not offer a single one of these

documents as revealing a disclosure by Perri to McLaren of any information obtained from Smash.

Even after (1) the trial court's denunciation of the claim, (2) McLaren and Perri's uncontroverted testimony directly contradicting Smash's speculative allegations, (3) Smash's inability to produce documents supporting its misappropriation allegations, and (4) Smash's admission that it had no new confidential information other than what the Court had found lacking, Smash filed yet another amended complaint on June 22, 2021. In this Second Amended Complaint, Smash continued to accuse Perri of sharing Smash's confidential information with McLaren, and McLaren of misappropriating the alleged confidential information in violation of DUTSA. A0509, at ¶ 48, A0513 at ¶ 76. But the record is clear and uncontradicted that until Plaintiff produced Mr. Perri's notes of the Smash sales presentations and calls during discovery, Mr. McLaren had never before seen those notes and had never discussed the calls with Mr. Perri.

After McLaren's June 2020 deposition, and certainly after the Court's ruling in August 2020, Smash had no basis for claiming, as required by Delaware Chancery Rule 11, that Smash's trade secret allegations against McLaren "have evidentiary support." Smash's actions constitute objective bad faith in bringing the DUTSA claim against Mr. McLaren. Then, it not only failed to withdraw the claim but doubled-down in reasserting it in the Second Amended Complaint. From the

beginning, there has been a complete lack of evidence, as opposed to Smash's mere belief, that McLaren misappropriated trade secrets. That is the essence of objective speciousness.

b. Smash's Conduct of the Litigation Provides Direct Evidence of its Subjective Bad Faith.

Subjective bad faith may be inferred by evidence that the plaintiff intended to cause unnecessary delay, filed the action to harass. . . . or harbored an improper motive. . . . Similar inferences may be made where the plaintiff proceeds to trial after the action's fatal shortcomings are revealed by opposing counsel. A subjective state of mind will rarely be susceptible of direct proof; usually, the trial will be required to infer it from circumstantial evidence.

Incyte, 2019 WL 2361535, at *2. See *FLIR Sys., Inc. v. Parrish*, 174 Cal. App. 4th 1270, 1278, 95 Cal. Rptr. 3d 307, 315 (2009) (Subjective bad faith may be inferred by evidence that appellants intended to cause unnecessary delay, filed the action to harass respondents, or harbored an improper motive. Similar inferences may be made based on the timing of the action or where the plaintiff proceeds to trial after fatal shortcomings are revealed).

In *Nichols v. Chrysler Grp. LLC*, Civil Action No. 4348-VCP, 2010 WL 5549048, at *4-5 (Del. Ch. Dec. 29, 2010), the plaintiff's non-DUTSA claims withstood a motion to dismiss because there was a conceivable cause of action. But the court nonetheless found plaintiff acted in bad faith in maintaining the claim: plaintiff's allegations are not "insulated from a claim of bad faith, especially when

she continues to make such allegations beyond the pleadings stage” and the defendant had denied under oath the substance of plaintiff’s claim.

At trial, Defendants were unable to present evidence regarding Smash’s bad faith in asserting its DUTSA claim because Smash had abandoned the claim. However, documents and testimony show that Smash harbored an improper motive in bringing and maintaining this claim despite its lack of substance. Smash was motivated by a desire to destroy Defendants’ new competing business, Dumpster Devil.

The Court of Chancery succinctly characterized Smash’s improper motive: “Smash pursued an aggressive lawsuit that made overblown claims in an effort to destroy a nascent competitor.” *Smash Franchise Partners, LLC*, 2023 WL 4560984, at *2. Evidence of this conclusion and Smash’s aggressive approach abounds. For instance, in discussing a potential customer who also was looking at Dumpster Devil, Smash CEO Haskin told a franchise broker that “I hope we don’t land up competing with them, but if we do they should know we will relentlessly work to put them out of business.” A0757-A0763.⁵ The court in *Zoppas Indus.de Mexico*, found similar evidence compelling evidence of bad faith, stating it could not “sanitize the direct evidence that [plaintiff’s CEO] sought to wield the legal system to harm a

⁵ Had the DUTSA claims remained pending, McLaren would have had the opportunity to present this evidence at trial.

competitor” and found subjective bad faith. *Zoppas Indus. de Mexico, S.A. de C.V. v. Backer EHP Inc.*, No. 18-01693-GBW-CJB, 2023 WL 7530247, at *3 (D. Del. Nov. 13, 2023).

Smash used the litigation as a weapon against Dumpster Devil. It publicized the lawsuit and used it to scare customers away from Dumpster Devil. *See, e.g.*, A0753 (Haskin asking a Smash franchise broker to let potential customer know of injunction hearing against Defendants, Smash’s intended pursuit of Dumpster Devil’s manufacturer, and that Smash will be deposing Defendants’ customers). Documents from Smash’s sales team separately illuminated Smash’s motives:

Our goal is a very strong first mover advantage, in which, we become the household name in trash compaction, get local contracts secured as well as national contracts before anyone else really hits the market.

A0618 and A0716 at 38:2-7. Tarinelli also testified he believed the lawsuit would put Dumpster Devil out of business because “[t]hose damages could be in the tens of millions and that could put them into bankruptcy” and then “they would be shut down.” A0896-A0897. When asked if that first-mover advantage is more attainable if Smash could keep Dumpster Devil out of the market by extensive and costly lawsuits, Smash’s franchise agent Don Tarinelli acknowledged “[t]heoretically, yes, if Dumpster Devil was to shut down, then we would have less competition.” A0618

and A0716 at 38:12-39:1.⁶ Mr. Tarinelli also told another broker in April 2020 that “Dumpster Devil won’t be around very long. We have filed a very aggressive lawsuit against them and are going after them with full force.” A0750-A0751.

Further evidence of Smash’s subjective bad faith is that Smash continued to press the trade secret claim long after the Court of Chancery revealed its critical shortcomings in August 2020. The Court’s ruling provided sufficient warning to Smash that it needed to carefully consider the sufficiency of its evidence before trial. Smash ignored the warnings; it never overcame these deficiencies or buttressed the insufficient evidentiary record presented to the lower court in the injunction hearing. It instead continued to hang on to the DUTSA claim for three years until abandoning it at the last minute.

To the extent the trial court implicitly denied McLaren’s request for attorneys’ fees under DUTSA, the trial court speculated that Smash dropped its DUTSA claim “as part of Smash’s effort to simplify the issues” and that “Smash may have made the decision to refine its theories based in part on information gleaned from the mediation.” *Smash Franchise Partners, LLC*, 2023 WL 4560984 at *30. The court did not cite any evidence whatsoever to support this belief, and none exists. A court

⁶ Smash also threatened other competitors with litigation if they did not immediately shut down their businesses, claiming that they too must have obtained confidential information from Smash. A0767-A0778.

abuses its discretion when, as here, it relies upon speculation and conjecture. *See Burger v. Kemp*, 483 U.S. 776, 804, 107 S. Ct. 3114, 3131 (1987) (trial court’s suggesting strategic reasons for actions taken by counsel was not supported by the record and was “sheer speculation”); *Harris v. State*, 198 A.3d 722 (Del. 2018) (abuse of discretion if trial court decision based on capricious grounds); *Reinco, Inc. v. Thompson*, 906 A.2d 103, 111-12 (Del. 2006) (trial judge abused her discretion in granting a new trial based in part upon her speculation).

Smash’s case has all of the indicia of having been conducted in subjective bad faith with the improper motive of putting Dumpster Devil out of business and running up Defendants’ fees and expenses over the course of three years. Nothing changed from August 2020 to the moment Smash abandoned the DUTSA claim. The inescapable inference is that Smash acted with an improper motive and in bad faith.

c. Perri’s Conduct Should Not Be Imputed to McLaren

On an exceedingly limited record in the first months of this litigation, the Court of Chancery arrived at a belief that Perri was deceitful in his dealings with Smash. Regardless of what the Court felt about Perri’s conduct, the evidence demonstrates that McLaren’s investigation of the Smash franchise opportunity was entirely proper as a matter of law. McLaren conducted his review of Smash’s business through the internet and telephone calls using his experience and common

sense. He testified he was familiar with the trash compacting procedure and thought it was relatively simple. He started researching everything he could find on what companies perform similar tasks and the available equipment. A0825, at 281:4-15, A0827 at 283:4-21; A0828 at 286:2-21, A0831-A0832, at 290:22-291:3. He never spoke with Smash and never spoke with Perri about any information Perri learned during the Smash sales calls: “Perri kept all the due diligence stuff he does to himself.” McLaren “learned most of the stuff - - I’d say all of it – in discovery.” A0830, at 288:8-13.

d. Perri’s Conduct of Due Diligence Was Not Improper

In its post-trial opinion, the Court of Chancery continued to opine that Perri engaged in wrongful conduct. *Smash Franchise Partners, LLC*, 2023 WL 4560984, at *2. The Court was troubled by the fact that Mr. Perri continued to listen to Mr. Haskin’s sales presentations after, according to the court, Mr. Perri “was sufficiently confident – 99% - about Smash’s lack of a patent that he decided to pursue a competing business with Mr. McLaren. However, it also acknowledged that “[t]here remained a slight possibility – 1% that he was wrong about Smash lacking a patent, and if it turned out to be true, Perri would have reconsidered.” *Id.* at *10.

Even assuming the trial court correctly determined the date (December 19th 2019) on which Perri’s concerns about Smash’s patent claims grew to a 99% belief that Smash did not have a patent, that 1% “slight possibility” that Perri was wrong,

along with his engineer's mindset to obtain an accurate response from Smash, justifies Perri's continued participation in the sales presentations and renders the trial court's opinion wrong as a matter of law.⁷

In *IMAPizza, LLC v. At Pizza Ltd.*, 334 F. Supp. 3d 95 (D.DC 2018) *aff'd* 965 F.3d 871 (D.C. Cir. 2020), the plaintiff had sued the defendant, a competing pizza chain, for trespassing on its property to obtain the other's trade secrets. The Circuit Court affirmed the decision of the United States District Court for the District of Columbia on the claim that the defendant's entry onto the property of Plaintiff's pizza restaurants and subsequent copying of the restaurant's concept was not actionable. According to the court,

IMAPizza repeatedly falls back on its theory that Defendants were "posing" or "masquerading as customers" (implicitly acknowledging that it let them in on that basis). . . . This theory rests on the flawed assumption that someone can be either a competitor or a customer, but not both. In fact, when Dhir patronized IMAPizza's restaurants, he was both a competitor and a customer. As such, IMAPizza consented for him, like all its other customers, to enter.

IMAPizza, 334 F. Supp. 3d at 125. On appeal, the Court reasoned: "[o]f course, it is black letter law that "one who effectively consents to conduct of another . . . cannot

⁷ Perri's patent concern was not simply whether Smash had a patent, but also whether a Smash franchisee would be protected against an infringement suit by Smash-It, a competitor with a viable patent that had already sued other competitors in the field.

recover in an action of tort for the conduct or for harm resulting from it.” Restatement (Second) of Torts § 892A(1) (1979). *IMAPizza, LLC v. At Pizza, Ltd.*, 965 F.3d at 881.

In an earlier decision from the Seventh Circuit, Judge Posner affirmed the district court’s decision to dismiss fraud claims against ABC News for sending test patients into an ophthalmic practice to request eye examinations. These “testers” were equipped with concealed cameras. The Court concluded that there was no fraud involved in sending the testers into the practice for investigative purposes, even though the testers concealed the fact that they were actually participating in investigative journalism:

Like testers seeking evidence of violation of antidiscrimination laws, the defendants’ test patients gained entry into the plaintiffs’ premises by misrepresenting their purposes (more precisely by a misleading omission to disclose those purposes). But the entry was not invasive in the sense of infringing the kind of interest of the plaintiffs that the law of trespass protects; it did not interfere with the ownership or possession of land.

J.H. Desnick v. Am. Broad. Cos., 44 F.3d 1345, 1353 (7th Cir. 1995).

Perri gained access to the Founders and Validation Calls due to his genuine interest in becoming a Smash franchisee, and Smash’s desire to sign up another prospective franchisee. Smash invited Perri to attend as many calls as he chose, and he continued to attend them until he realized Smash was simply not going to provide

the specificity he sought and that he did not trust Haskin sufficiently to invest millions in a Smash franchise. Smash never told Perri he was not invited to continue attending the calls if he was also interested in competing or purchasing a similar franchise from another franchisor. He was never told that the information he was receiving was confidential or non-public. And as the trial court acknowledged, “[i]nherent in this multi-stage process is the possibility that a prospect can decide against purchasing a franchise at any point” and that “[u]nder Smash’s franchising system, a prospect can go through the entire sales process. . . and then decide not to buy a franchise. During the due diligence process, a customer often will evaluate other options simultaneously.” *Smash Franchise Partners, LLC*, 2023 WL 4560984, at *5, *22. Smash’s founder and its expert both agreed with this proposition. A0781-A0782, at 132:24-133:21, A0834-A0835, at 432:20-433:2.

III. THE COURT OF CHANCERY ERRED IN DENYING DEFENDANTS' MOTION FOR A PROTECTIVE ORDER AND SANCTIONING DEFENDANTS IN THE AMOUNT OF \$55,280.

A. Question Presented

Whether the Court of Chancery applied the correct legal standard in denying defendants' motion for protective order and approving Smash's application for fees and expenses incurred in connection with the motion for protective order and Smash's motion to compel.

This question was preserved in the Court of Chancery in Defendants' Motion for Protective Order (A0207-0293), and in the hearing on that motion (A0425-0426).

B. Standard and Scope of Review

The appellate court exercises plenary review over the trial court's interpretation and application of the correct legal standard used in denying defendants' motion for a protective order. *See SIGA Techs., Inc. v. Pharmathene, Inc.*, 67 A.3d 330, 341 (Del. 2013) (although factual conclusion supporting legal standards are upheld if not clearly erroneous, whether a remedy exists or is applied using correct standard is reviewed *de novo*); *Scion Breckenridge Managing Member, LLC v. ASB Allegiance Real Estate Fund*, 68 A.3d 665, 675 (Del. 2013) (attorneys' fee award reviewed for abuse of discretion, but court's interpretation of contractual provision is reviewed *de novo*.)

C. Merits of Argument

1. The Underlying Dispute

On May 12, 2020, Defendants propounded discovery requests seeking to learn the basis of Smash's claims and the production of the relevant documents. Interrogatory No. 4 asked Smash to "[i]dentify each item of Confidential Information you contend that you communicated to, or was accessed by" Defendants, "specifying in detail the substance of the communication" and to sufficiently identify any responsive documents so as to serve as the basis for a document request. A0207-A0293, A0245.

Smash first responded by stating it would later identify responsive documents. It supplemented this response by providing Bates Numbers of a wide array of documents supposedly containing the confidential information. Plaintiff supplemented its answer once more by pointing to unidentified documents yet to be produced, and providing a generalized list of categories that contained "some" of the allegedly confidential information Perri received. Plaintiff failed to identify any specific confidential information or trade secrets allegedly disclosed as requested. A0286.⁸

⁸ When Smash produced the so-called responsive documents, it provided only 39 documents, none of which referred or related to allegedly confidential information.

Plaintiff also served its own first set of document requests on May 12, 2020.

Request No. 1 asked Defendants to:

Provide all Documents and Communications relating to SMT, SMT's Information, or DD, or in which SMT, DD, or SMT's Information is referenced or identified, including those referenced or identified in Your Answer and affirmative defenses set forth herein.

A0232. From a plain reading of the interrogatory, Plaintiff sought, inter alia, all information relating to Dumpster Devil or in which Dumpster Devil's information is referenced or identified. Smash's request was extensive, essentially all documents in Defendants' possession relating to their business whether or not obtained from Smash. Pertinent to this appeal, Defendants objected insofar as the request sought essentially every document relating to Dumpster Devil's business including Defendants' confidential business information but failed to describe a sufficiently identifiable category of documents with sufficient particularity as to serve as the basis for the request. Defendants agreed, however, to produce other documents. A0359-A0360.

On June 4, 2020, Defendants filed their Motion for Protective Order. A0207-A0293. Defendants sought the court's assistance in conditioning defendants' disclosure of confidential information upon Smash's first specifically identifying the trade secrets and confidential information that allegedly were disclosed to and misused by defendants. On June 12, 2020, the trial court issued an oral ruling

denying Defendant's Motion. A0425-A0426. The court determined that Smash's disclosures in its Interrogatory responses were sufficient. A0426.

2. The Legal Standard

Delaware courts have long held that unless and until a plaintiff fails to describe alleged trade secrets with reasonable particularity, a defendant is not required to divulge its own trade secrets in discovery responses.

[w]here, as here, a plaintiff in a trade secret case seeks to discover the trade secrets and confidential proprietary information of its adversary, the plaintiff will normally be required first to identify with reasonable particularity the matter which it claims constitutes a trade secret, before it will be allowed (given a proper showing of need) to compel discovery of its adversary's trade secrets.

Engelhard Corp. v. Savin Corp., 505 A.2d 30, 33 (Del. Ch. 1986) (granting defendant's motion for protective order). In *Savor, Inc. v. FMR Corp.*, No. 00C-10-249-JRS, 2004 WL 1965869 (Del. Super. July 15, 2004) the court granted the defendant protection from the plaintiff's discovery requests "[i]n keeping with well-settled case law that requires the plaintiff in a misappropriation of trade secrets case adequately to identify its own trade secret before seeking discovery of the defendant's trade secret" *Id.* at *2.

The plaintiff in *Data Gen. Corp. v. SCI Sys.*, Civil Action No. 5662, 1978 Del. Ch. LEXIS 563, at *1 (Del. Ch. Nov. 27, 1978) alleged a violation of its trade secrets and sought a list of secrets and data allegedly entrusted to the defendant. Defendant

filed a motion for a protective order and sought from plaintiff a more detailed list before responding. The court granted defendant protection until the issue was resolved.

In *SmithKline Beecham Pharm. Co. v. Merck & Co.*, 766 A.2d 442, 447 (Del. 2000), the information at issue was a specific proprietary technical process for manufacturing a specific vaccine. The Court held “the plaintiff is required to disclose, before obtaining discovery of confidential proprietary information of its adversary, the trade secrets it claims were misappropriated.” The directive was intended to assure a defendant would not have to disclose its own secrets beyond that necessary for the litigation and to prevent defendants from being subject to unfair surprise on the eve of trial.

This case also is similar to *Magnox v. Turner*, Civil Action No. 11951 - New Castle County, 1991 WL 182450 (Del. Ch. Sep. 10, 1991) in which Magnox alleged that a former employee solicited customers by using trade secrets and proprietary information revealed to him as an employee. As here, the document requests and the interrogatories in Magnox sought access to most, if not all, of defendants’ business records. The defendants objected to Magnox’s discovery requests on the grounds that the requests were not relevant to the subject matter of the litigation, stating that Magnox was required to first designate with specificity the trade secrets. According to the Court,

When the subject matter of a suit is a claim of misappropriation of trade secrets, ‘the plaintiff will normally be required first to identify with reasonable particularity the matter which it claims constitutes a trade secret, before it will be allowed (given a proper showing of need) to compel discovery of its adversary’s trade secrets. The purpose of this requirement is to set the outer boundaries of discovery in order to avoid the needless exposure of a defendant’s trade secrets. Only after a plaintiff has identified the trade secret that has allegedly been misappropriated can the relevance, and therefore the scope, of discovery be determined.’”

Id. at *1 (citations omitted). *See Dura Glob. Techs., Inc. v. Magna Donnelly Corp.*, No. 07-CV-10945-DT, 2008 WL 2064516, at *1-2 (E.D. Mich. May 14, 2008).

During the hearing on the Motion for Protective Order, Plaintiff’s counsel indicated she was relying first upon the categories of trade secrets as set forth in the Amended Complaint. A0424. That pleading identifies as trade secrets as “including” Plaintiff’s “sales, pricing, planning, marketing, customer, financial, operating tactics, processes, procedures, systems, and *other business information*” and also asserts that the confidential information included “profits and losses associated with a SMT franchise, specific performance metrics of the SFP equipment, and *other information . . .*” A0147, at ¶ 68 (emphasis supplied).⁹

⁹ The use of terms such as “other information” or “including” is itself indicative of the overall vagueness and insufficiency of the purported identification as it provides no indication as to what else a defendant might be required to defend. *See E. & J. Gallo Winery v. Instituut Voor Landbouw-En Visserijonderzoek*, No. 1:17-cv-00808-DAD-EPG, 2018 WL 3062160, * 5 (E.D. Cal. June 18, 2018).

Plaintiff's generalized, laundry list of basic business categories hardly constitutes an identification with "reasonable particularity" required in Delaware and elsewhere throughout the country.

Plaintiff's counsel also referred to the supplemental interrogatory response it served on May 22, 2020. This May 22 list was longer than what was found in the complaint, but also failed to describe the alleged secrets with reasonable particularity. A0287-A0289. Smash's list was too vague to adequately convey the scope of its claim or distinguish it from matters of general knowledge in the industry. It included topics such as "how to identify potential customers" (without identifying any of the alleged methods transmitted), general commonsense advice on the commercial waste industry (without specifics) and how to approach dumpster companies (without any information about the approach). Greater specificity was needed here because Plaintiff presented a wide range of economic, marketing, and operating information in its sales pitches to Perri and others without designating any of it as confidential, yet now claimed it was all confidential. During the hearing, the trial court held it was denying the protective order because it deemed sufficient the supplemental information Plaintiff provided in the May 22, 2020 supplemental interrogatory response.

The following month, however, the Court itself sought more specificity, indicating it was trying to "figure out what in there really. . . qualified as confidential

information. . . .” A0430. The Court stated that even when Smash’s CEO expanded upon the list in deposition, the problem was that it “just covered so much stuff, that, like, it almost became, you know, every single item about his business” and “I don’t think you can claim that the whole thing is confidential. . . .” A0430-A0431. Trying to discern the specifics of Smash’s confidential information, the Court had to repeatedly ask Plaintiff’s counsel for clarification as to what exactly they claimed was confidential and likened the scope of the alleged confidential information as an “elevator pitch about. . . why [Plaintiff’s] company is valuable and different and compelling. . . .” A0429, A0430, A0433. The law requires more. It requires reasonable particularity, which Smash never provided.

Because Plaintiff never identified the trade secrets information that it sought to protect, Defendants were entirely justified in seeking the protection of the Court of its own proprietary information. *SmithKline Beecham Pharm.*, 766 A.2d at 447. Thus, the Chancery Court erred as a matter of law by denying Defendants’ Motion for Protective Order, and sanctioning them for failing to produce documents.

CONCLUSION

For the foregoing reasons, Appellant Kevin McLaren respectfully requests that this Court reverse the decision of the Chancery Court denying McLaren's request for attorneys' fees, and that it reverse its decision denying Defendants' Motion for Protective Order and sanctioning Defendants for failure of discovery.

COLE SCHOTZ P.C.

/s/ Andrew L. Cole

Andrew L. Cole (No. 5712)
500 Delaware Avenue, Suite 1410
Wilmington, DE 19801
(302) 652-3131 (Phone)
(302) 652-3117 (Fax)
mbonkowski@coleschotz.com
acole@coleschotz.com

*Counsel for Appellant,
Kevin McLaren*

Of Counsel:

Steven K. Fedder
Fedder & Janofsky LLC
2850 Quarry Lake Drive
Suite 300
Baltimore, Maryland 21209
Telephone: (410) 415-0081
Facsimile: (410) 415-0085
sfedder@mdcounsel.com

Dated: December 21, 2023