

ROBERT FEINERMAN

Presiding Justice (Ret.)
California Court of Appeal
1159 Lachman Lane
Pacific Palisades, California 90272-2227

Telephone
(310) 454-1049
Fax
(310) 454-6129

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Sean M. Kneafsey, Esq.
Kneafsey Tostado & Associates
800 Wilshire Boulevard, Suite 710
Los Angeles, CA 90017

Elizabeth Pechota, Esq.
Simpson Delmore Greene, LLP
One American Plaza
600 West Broadway, Suite 400
San Diego, CA 92101

John D. Lombardo, Esq.
Arnold & Porter, LLP
777 South Figueroa Street, 44th Floor
Los Angeles, CA 90017

**Re: TPE Associates LLC v. Team Termite & Pest Control Inc.,
dba Team Too, et al.**

Dear Counsel:

Having reviewed the testimonial and documentary evidence received in the above-entitled matter, and having considered the opening, closing and reply briefs of the parties, the Arbitrator has made the following determinations:

1. The TPE techniques and methods delineated in the 1999 manual are trade secrets and are entitled to trade secret status under Civil Code Section 3426.1(d) of the Uniform Trade Secrets Act. They derive independent actual

or potential economic value from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use and are the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The 1999 manual contains novel material regarding the proper insertion and location of temperature probes and detailed information on ducting, venting and airflow to protect the clients' property from damage. These are areas that were not covered in the patent that expired in 2006. There is no dispute that some of the materials in the manual fall within the public domain, but as the court pointed out in 3M v. Pribyl, "a trade secret can exist in a combination of characteristics and components, each of which by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secret." It is commonly known as a "know how" trade secret.

2. Given the totality of the evidence, the Claimant has sustained its burden of proof by a preponderance of the evidence to establish that the Respondents have misappropriated TPE's trade secrets. Misappropriation may be inferred from access to trade secrets and similarity between the end products. In the case at bench, Respondents had access to Claimant's trade secrets and manual for a number of years and their "Heat Blast" methods, excluding the lack of filtration, are substantially similar to the TPE procedures. Moreover, Respondents cited the Efficacy Study and TPE's registration in its registration

application (See Exhibit 223 "Please be advised that "Heat Blast" may be similar to the "Thermapure" process recently registered by TPE.")

3. The evidence also demonstrates that Respondents breached its contractual obligation not to use or disclose TPE's trade secrets for 20 years following the date of the last renewal. This obligation was not affected by the expiration of the 1986 Forbes and Ebeling patent because the trade secrets misappropriated were developed independently from the patent as a result of Dr. Linford's research and testing between 1989 and 1998.
4. William Houtchens is a proper party. The evidence received indicates that he signed the addendum adding his name on June 23, 1999 and the Estoppel Certificate on June 25, 1999. An estoppel certificate binds the signatory to the statements made and estops that party from making a claim to the contrary at a later point in time. Furthermore, Evidence Code Section 622 states that "The facts recited in a written instrument are conclusively presumed to be true as between the parties thereto, or their successors in interest, but this rule does not apply to the recital of a consideration."
5. Damages

Civil Code Section 3426.3 provides as follows:

- (a) A complainant may recover damages for the actual loss caused by misappropriation. A complaint also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.
- (b) If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.
- (c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).

In this case, Claimants are seeking Pre-Termination compensatory damages of \$17,223.00, Post-Termination damages in the amount of \$230,800.00 and unjust enrichment damages in the amount of \$591,861.00, for a total of compensatory damages in the amount of \$839,894.00. They are also requesting enhanced damages, attorney fees and injunctive relief.

After due consideration of all of the relevant evidence on this issue, the Arbitrator has determined that the following damages have been established by Claimants:

- A. Given the testimony of Jeff Ibach, Respondent's employee, that Respondent was performing approximately 15 heat jobs per month between August 2004 and June 2006, and given the fact that Respondent only reported 88 heat jobs,

it is reasonable to conclude that Respondent should have reported 330 jobs during this period of time. Since Respondent's average royalty payment per job during that period was \$78.85, this resulted in an underpayment of \$12,758.00. Prejudgment interest on that amount is \$4,465, resulting in an award of \$17,223.00 as pre-termination damages.

- B. Since 2006, Claimant has charged \$100,000 as an upfront payment for a 5 year license plus a monthly minimum royalty of \$2000.00. This totals \$184,000.00 for the period of July 2006 through January 2010. With prejudgment interest of \$45,800.00, the total damages awarded to claimant are \$229,800.00. This was an actual loss that they sustained as a result of Respondent's misappropriation of its trade secrets without payment of the required license fee. This is not the royalty alternative set forth in Civil Code Section 3426.3(b) that can be selected by the court when it finds that neither damages or unjust enrichment caused by misappropriation are provable. This was a provable "out of pocket" loss. An injured party may recover the profits or benefits which he would have obtained by performance, if he can establish them with reasonable certainty (See Civil Code Section 3301).
- C. The Arbitrator declines to award additional damages for unjust enrichment. The evidence presented to support this claim is too speculative and uncertain. For example, there is a failure to deduct the license and royalty fees awarded to Claimant as compensatory damages from the gross revenues attributed to

Heat Blast. Fundamental fairness requires this deduction in determining whether or not Respondent was unjustly enriched. The calculation of profits Respondent received from non-heat work based on its advertising of heat work is not rooted in facts that meet the test of reasonable certainty required by Civil Code Section 3301.

- D. Claimant's request for exemplary damages pursuant to Civil Code Section 3426.3(c) and for attorney fees pursuant to Civil Code Section 3426.4 is denied. It has not sustained its burden of proof by a sufficient quantum of evidence to demonstrate the element of malicious misappropriation required by these sections.
- E. Pursuant to Civil Code Section 3426.2 Respondent is hereby enjoined from using, advertising, or selling or offering to sell its Heat Blast method until December 2025. Respondent contracted with Claimant in its last renewal on December 2005 that it would not use or disclose Claimant's trade secrets for 20 years from the date of its renewal. The time has come for it to honor this obligation.

Very truly yours,



Robert Feinerman