

Taking the Fifth in Civil Trade Secret Litigation: Win the Battle but Lose the War?

By Craig Tyler and Wendy Wang of Vinson & Elkins – (Sept. 20, 2017) – Oliver North and Mark McGwire are two of many notable examples of people who have asserted their Fifth Amendment right against self-incrimination by refusing to answer questions.

Fifth Amendment protection—originally framed in the U.S. Constitution to protect individuals from being compelled to testify against



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themselves in criminal cases—was expanded by the U.S. Supreme Court to be available in civil litigation as well.

But there's a catch. In *Baxter v. Pamigiano*, the Supreme Court has held that "the Fifth Amendment does not forbid adverse

inferences against parties to civil actions when they refuse to testify in response to probative evidence offered against them." The Court noted that "[s]ilence is often evidence of the most persuasive character."

And now the highly-visible trade secret litigation between Waymo, Google's self-driving car division, and Uber has added a new twist. There, the individual accused of wrongdoing—Anthony Levandowski—is asserting the Fifth Amendment not to avoid answering questions, as is the typical case, but to avoid producing the more than 14,000 trade secret documents he allegedly stole from Waymo.

It's an interesting strategy that allows Levandowski to avoid putting the probative evidence in the hands of Waymo's lawyers. But history suggests that his strategy may seal his fate in the long run.



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In February 2017, Waymo sued Uber in the Northern District of California, alleging that Waymo's former software engineer—Levandowski—downloaded nearly 10 gigabytes of trade secret documents before leaving Waymo. It alleged that Levandowski improperly used and disclosed these trade secret documents while leading Uber's self-driving car division.

Since then, the *Waymo v. Uber* litigation has attracted wide attention from various industries and sectors. Indeed, District Judge William Alsup commented that "I've never seen a record this strong in 42 years" as he referred the evidence to the U.S. attorney's office for a potential criminal investigation.

Faced with potential criminal charges, Levandowski invoked his Fifth Amendment privilege against self-incrimination but not to avoid answering questions, as is typically the situation in such cases. Instead, he asserted the Fifth to avoid producing documents in response to Waymo's request to produce "misappropriated materials" or documents referring to the those materials.

Waymo filed a motion to compel Levandowski to produce the withheld documents. After reviewing Levandowski's privilege log in camera, Judge Alsup denied Waymo's motion to compel and concluded that Levandowski had properly asserted his Fifth Amendment privilege against compelled incrimination.

And in doing so, Levandowski avoided providing Waymo's lawyers with the evidence they need to make their case. Pretty slick, right? But that is likely not how this story will end. >

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Stepping back, it is important to know the ramifications of pleading the Fifth in a civil case. Although the Fifth Amendment specifically references a privilege in a criminal case, the Supreme Court held that this privilege also prohibits compelling a person to testify in a civil case when the testimony could later be used against the person in a criminal case.

In addition, the Court has extended the privilege to cover testimony “which would furnish a link in the chain of evidence needed to prosecute the claimant for a federal crime.”

Once the person pleading the Fifth has shown that requiring production of documents, answering interrogatories or testifying in deposition or trial would violate the individual’s privilege against self-incrimination, courts have liberally upheld the individual’s Fifth Amendment rights. That is the card Levandowski has played successfully—for now—in the Waymo case.

But the Fifth Amendment is a personal privilege only. The purpose is to protect personal civil liberties. The privilege cannot be asserted on behalf of a business entity. Nor does it prevent the adversary from seeking the withheld information elsewhere, such as company records. As Justice Oliver Wendell Holmes wrote, “A party is privileged from producing the evidence, but not from its production.” So Waymo’s lawyers can attempt to obtain the same evidence from Uber or elsewhere.

But what ultimately may come back to haunt Levandowski (and Uber) is that federal courts allow an “adverse inference” to be drawn in a civil case against the party claiming the Fifth Amendment privilege. The Supreme Court has held that “the Fifth Amendment does not forbid adverse inferences against parties to civil actions when they refuse to testify in response to probative evidence offered against them.”

An “adverse inference” is an evidentiary rule which lets the trier of fact infer that if the witness claiming the Fifth Amendment privilege were

actually compelled to answer the questions posed, the witness’s answers would be adverse or unfavorable.

Courts have placed limits on the availability of adverse inferences in the civil cases. For example, the Ninth Circuit has held that a negative inference can be drawn if “there is a substantial need for the information and there is not another less burdensome way of obtaining that information.”

Several courts have held that there must be corroborating evidence to make sure the probative value of the adverse inference is substantially outweighed by the danger of unfair prejudice. And any negative inference is limited to the scope of the specific questions where the witness invokes the privilege.

Most state courts will also draw an adverse inference from the privilege. But in California, state law prohibits the trier of fact from drawing a negative inference. In a case with both federal and state claims, if the evidence relates only to the California claims, the California rule would apply; but if the evidence relates to both the federal and the California law claims, “federal privilege law governs.”

Can the court draw an adverse inference against a corporate co-defendant based on an individual’s invocation of the Fifth Amendment? The Second Circuit developed a non-exclusive four-factor test, which guides the trial court in making determinations on whether adverse inferences can be drawn from non-parties’ decisions to invoke the Fifth. The factors include:

1. the nature of the relevant relationships;
2. the degree of control of the party over the witness pleading the Fifth;
3. the compatibility of the interests of the party and the witness in the outcome of the litigation; and
4. the role of the witness in the litigation. >

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In the *Waymo* case, Levandowski had likely played a key role in the technology area in which the trade secrets are at issue. Thus, the court will likely allow an adverse inference against both Levandowski and Uber.

History suggests that such an adverse inference will ultimately be very difficult for Levandowski and Uber to overcome. In *Schleifmittel v. Design Industrial*, a federal district court granted a preliminary injunction based in part on an adverse inference drawn from the defendant's invocation of his Fifth Amendment privilege in his answer to the complaint. In granting the preliminary injunction, the court concluded that since the defendant invoked his "Fifth Amendment privilege, the court will give greater credence to Plaintiff's evidence." The court later granted a permanent injunction against the defendants, and the case settled shortly thereafter.

Similarly, invocation of the Fifth Amendment led to a granting of a preliminary injunction in *Toyota Industrial Equipment v. Land*. Toyota brought a trade secret misappropriation case against the defendant who then testified at the first TRO hearing that he "copied electronic files that [he] should not have." Soon after that, he invoked his Fifth Amendment right by not answering Toyota's interrogatories. Relying on its adverse inference, the court found Toyota to have a likelihood of success and granted the motion for preliminary injunction.

The same has held true in jury trials. In *Nu-Chem Labs. v. Dynamic Labs.*, the district court denied the defendant's motion for a judgment as a matter of law noting that, with the adverse inference drawn from the invocation of the Fifth Amendment, there was more than enough evidence to find for the plaintiff.

In the case, an individual defendant took the Fifth during his deposition and did not testify at trial. The court allowed the jury to draw an adverse inference against both the individual and

corporate defendants, even though the individual had never been an employee of the corporation. The jury found for the plaintiff and awarded nearly \$570,000 in lost profits, in addition to punitive damages.

And in *Aspen Technology v. Kunt*, the U.S. District Court in Houston gave a jury instruction allowing the jury to use the individual defendant's invocation of the Fifth as an adverse inference. The court chose the jury instruction proposed by the defendant (the harshest of the three against the plaintiff), which stated:

During the trial you heard testimony from [individual defendant] refusing to answer certain questions about his work at [corporate defendant] on the grounds that his answers might incriminate him. A witness has a constitutional right to decline to answer on the grounds that his answer might incriminate him, and the Fifth Amendment may be invoked by an innocent party. You may, but are not required to, infer by [his] refusal to answer that his answers to the questions posed to him would have been adverse to [the corporation's] interests. You may not base your verdict solely on that adverse inference."

The jury returned a verdict of over \$11 million for the plaintiffs. The court then permanently enjoined the corporation from possessing, publishing, disclosing or utilizing in any form or for any purpose any of the plaintiff's trade secrets found to have been misappropriated by the jury in its verdict.

Thus, it appears that the strategy of pleading the Fifth in civil cases to avoid document discovery and admissions during depositions may provide some short-term wins early in a case. But ultimately such a strategy typically backfires and provides the plaintiff with a strong evidentiary hammer when the case is to be decided by the judge or jury. Will Levandowski and Uber suffer or escape this fate in the *Waymo v. Uber* case? History is not on their side. >



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