

## Turbulence on Breach of Employment Agreement, Trade Secret Misappropriation

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Addressing a bench trial decision concerning a former employee's retention of confidential information and violation of a non-compete provision, the US Court of Appeals for the Fourth Circuit found no abandonment of the employer's breach claims and concluded that while certain flowcharts contained protectable trade secrets, there was no breach of the non-compete. [AirFacts, Inc. v. De Amezaga](#), Case No. 17-2092 (4th Cir. Nov. 20, 2018) (Agee, J).

Mr. de Amezaga is a former employee of AirFacts, which develops and licenses accounting and auditing software for the airline industry. Mr. de Amezaga served as the director responsible for developing such software.

Mr. de Amezaga's employment agreement required him to return to AirFacts all documents relating to his employment upon leaving the company. Mr. de Amezaga left the company in 2015, and AirFacts told Mr. de Amezaga that it might need to contact him about his work after his departure. On his last day at the company, Mr. de Amezaga emailed documents relating to a database model to his personal email account. A month after his employment ended, Mr. de Amezaga used his still-active credentials to download two flowcharts that he had created concerning airline ticket price rules. Mr. de Amezaga submitted these flowcharts along with a job application to an AirFacts competitor. AirFacts claimed that Mr. de Amezaga breached his agreement by retaining these documents after he left the company and misappropriated trade secrets.

The employment agreement also prohibited Mr. de Amezaga from doing work similar to his work for AirFacts or in competition with AirFacts for one year after he left the company. Three months after leaving the company, Mr. de Amezaga began working in American Airline's refunds department, where he managed the processing of passenger refunds. American uses proprietary software to analyze tickets under industry fare rules and then issues refunds when appropriate. AirFacts claimed that Mr. de Amezaga's responsibilities at American breached the non-compete provision of his employment agreement. AirFacts also claimed that Mr. de Amezaga breached the non-compete provision as a consequence of his communications with American's proration department because Mr. de Amezaga had worked on developing proration software while at AirFacts.

The district court held a five-day bench trial, ultimately finding that AirFacts had abandoned its breach claim based on Mr. de Amezaga's agreed retention of certain documents. The district court also found that the flowcharts retained by Mr. de Amezaga did not constitute trade secrets under the Maryland Uniform Trade Secrets Act (MUTSA). Finally, the district court ruled that while the development documents retained by Mr. de Amezaga were trade secrets, Mr. de Amezaga had not misappropriated them. Thus, the district court entered judgment for Mr. de Amezaga on all of AirFacts's claims. AirFacts appealed.

The Fourth Circuit first took issue with the district court's finding that AirFacts had abandoned its breach claim (based on Mr. de Amezaga's retention of certain documents). The Court found that AirFacts had not unambiguously abandoned its breach claim because AirFacts had (1) pleaded the claim in the complaint, (2) discussed it in a joint pretrial order, (3) reviewed evidence in closing argument in support of the claim, and (4) never expressed to the district court that it was abandoning the claim. The Court thus vacated the district court's judgment on this portion of AirFacts's breach claim and remanded for further proceedings.



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The Fourth Circuit did, however, affirm the district's court judgment that Mr. de Amezaga had not breached the non-compete provision. The Court reasoned that Mr. de Amezaga's work at American and his work with AirFacts were not sufficiently similar to constitute a breach. Mr. de Amezaga's primary work at American is processing passenger refunds, while AirFacts audits the pricing and refunding of airline tickets. Mr. Amezaga does no work related to proration of refunds, and AirFacts and American do not compete with one another.

With respect to AirFacts's breach claim based on Mr. de Amezaga's retention of flowcharts, the Fourth Circuit concluded that the flowcharts did constitute trade secrets under the MUTSA. While the flowcharts contained publicly available information, the distillation of publicly available information in the flowcharts was inherently valuable because it enabled AirFacts's employees to more quickly analyze airline ticket pricing. AirFacts protected these flowcharts by requiring employees to sign a confidentiality agreement and monitored employees' access to these documents.

Finally, the Fourth Circuit affirmed the district court's decision that Mr. de Amezaga had not misappropriated trade secrets by emailing development documents to his personal email. Mr. de Amezaga testified that he had only done this to answer any questions AirFacts might have about his work after he resigned. The district court found Mr. de Amezaga's testimony credible, and the Fourth Circuit followed the district court's credibility determination.

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