

BEFRIEND AI, LLC,
Plaintiff,

v.

SWYPYR, INC.,
Defendant.

V.

For the reasons stated herein, Plaintiff BeFriend's motion to compel is DENIED.

Facts and Proceedings

BeFriend is a Stone limited liability company, formed as a startup focused on implementing large language models to simulate conversation.¹ To train its “chatbots,” BeFriend compiled a large set of data composed of writing and dialogue in the public domain (the “database”). BeFriend also offers licenses to the database to others in the industry.

Swypyr is a small Delaware corporation that specializes in app development. It had plans to integrate an AI assistant into the user interface of the apps it manages, but it wanted to minimize cost and risk related to the new venture. In late 2022, Giovanni Lewis, Swypyr’s founder and chief executive officer, and Gideon Graves, Swypyr’s chief financial officer, were interested in the AI industry but worried about potential copyright lawsuits, so they reached out to BeFriend about licensing the database. However, BeFriend did not license the database to Swypyr because the two companies were unable to come to an agreement on licensing terms.

In January 2023, Lewis and Graves solicited James Roy, who had accepted but not yet begun an internship at BeFriend, to gather information about the database. After several weeks working at BeFriend, Roy downloaded the database and transferred the information to Lewis, who passed the database on to Swypyr’s software developers. On March 1, 2023, Lewis sent an email to Samuel Oak—who serves as Swypyr’s in-house counsel, accountant, and general business consultant—requesting analysis of tax and legal implications of the new AI assistant venture. He copied Graves on the email. The request was apparently prompted by an email on February 28 from Graves to Lewis, stating in part:

Have Sam write off the cash we gave the kid. Pretty sure we can deduct that as R&D costs.

¹ This type of technology is frequently referred to as “artificial intelligence” or “AI.”

While you're at it, can you see if he thinks there's any issue with the AI thing? I don't have time this week to send him all the details and you know it better anyway.

Shortly after receiving Lewis's emailed request, Oak launched a rapid internal investigation into Lewis and Graves's acquisition and Swypyr's use of the database. On March 4, 2023, Oak replied to Lewis and Graves, detailing his findings as to Lewis's tax questions and his legal analysis based on his internal investigation. Both March emails included the word "confidential" in their subject lines, and only Lewis, Graves, and Oak had access to them.²

After detecting the unusual download and questioning Roy, BeFriend commenced the present action. During discovery, Swypyr refused to produce the two March 2023 emails between Lewis and Oak, citing the attorney-client privilege. In response, BeFriend filed the current motion to compel discovery, arguing that legal advice was not the primary purpose of the communications.³ After Swypyr filed its opposition to the motion, this Court ordered Swypyr to produce the claimed privileged communications for in camera review. The two emails contain inextricably intertwined requests for and dissemination of business, legal, and tax advice.

Discussion

"The attorney-client privilege is one of the oldest recognized privileges for confidential communications." Swidler & Berlin v. United States, 524 U.S. 399, 403 (1998). It protects communications between attorneys and their clients where those communications are confidential and pertain to the client seeking or receiving legal advice. E.g., Neece v. City of Chicopee, 106 F.4th 83, 98 (1st Cir. 2024); Restatement (Third) of the Law Governing Lawyers § 68 (Am. L. Inst. 2000). The purpose of the attorney-client privilege is to encourage frank

² Swypyr is asserting attorney-client privilege over the March emails, described in Swypyr's privilege log previously filed with this Court. Swypyr is not asserting any privilege over the February 28 email, which it produced in response to BeFriend's request for discovery.

³ BeFriend does not argue that the crime-fraud exception applies.

communication and full disclosure between attorneys and their clients, including clients that are corporations. Upjohn Co. v. United States, 449 U.S. 383, 389–90 (1981). The attorney-client privilege also serves to aid lawyers in gathering sufficient information to provide effective legal representation. Id. However, the privilege does not apply to ordinary business or tax advice. See, e.g., Sedco Int’l, S.A. v. Cory, 683 F.2d 1201, 1205 (8th Cir. 1982). Where a lawyer acts as both business advisor and attorney, courts must apply a test to determine whether the attorney-client privilege applies to the dual-purpose communication. In re Grand Jury, 23 F.4th 1088, 1091 (9th Cir. 2021).

Most courts agree that the attorney-client privilege applies only if legal advice is the primary or predominant purpose of the relevant communication. See, e.g., In re County of Erie, 473 F.3d 413, 417 (2d Cir. 2007). Courts disagree, however, about whether that means legal advice must be the sole primary purpose, merely one significant purpose, or somewhere in between. Compare In re John Doe Corp., 675 F.2d 482, 488 (2d Cir. 1982) (“The [attorney-client] privilege is clearly limited to communications made to attorneys solely for the purpose of the corporation seeking legal advice and its counsel rendering it.”), with In re Kellogg Brown & Root, Inc., 756 F.3d 754, 760 (D.C. Cir. 2014) (“[T]he test boils down to whether obtaining or providing legal advice was one of the significant purposes of the attorney-client communication.”). The appropriate test for application of the attorney-client privilege to dual-purpose communications is an issue of first impression in this jurisdiction.

In cases involving dual-purpose communications, many courts assess the applicability of attorney-client privilege using what is interchangeably referred to as the “predominant purpose” or “primary purpose” test. See, e.g., In re County of Erie, 473 F.3d at 420. Under this test, attorney-client privilege applies if the primary or predominant purpose of the dual-purpose

communication is to request or to give legal advice. Id. Under the strict formulation of this test, legal advice must be “the” primary purpose or the sole purpose of the communication, and not just “a” primary purpose or one of many primary purposes of the communication.⁴ In re Polaris, Inc., 967 N.W.2d 397, 408 (Minn. 2021).

In a common formulation of the primary-purpose test, the attorney-client privilege applies only where the legal purpose outweighs the business purpose. See Lindley v. Life Invs. Ins. Co. of Am., 267 F.R.D. 382, 391–92 (N.D. Okla. 2010). The primary-purpose test represents strict construction of the requirement that privileged communications be for purposes of obtaining or giving legal advice; it serves to limit the privilege to only communications—or portions of communications—that are primarily legal advice and to prevent abuse of the doctrine. See In re Polaris, 967 N.W.2d at 407–08.

Unlike the primary-purpose test, the significant-purpose test leaves open the possibility of multiple “primary” purposes⁵ and allows for application of the attorney-client privilege where obtaining legal advice is one such significant purpose. See In re Kellogg Brown & Root, Inc., 756 F.3d 754, 759–60 (D.C. Cir. 2014). Among the circuit courts, only the D.C. Circuit has explicitly adopted this rule, though others have yet to—or have declined to—expressly address the question. See In re Grand Jury, 23 F.4th 1088, 1094 (9th Cir. 2021). Nevertheless, the significant-purpose test has been broadly applied by state courts. Restatement (Third) of Law Governing Lawyers § 72 reporter’s note cmt. c (Am. L. Inst. 2000), cited in Univ. of Tex. Sys. v. Franklin Ctr. for Gov’t & Pub. Integrity, 675 S.W.3d 273, 281 (Tex. 2023).

⁴ Any unqualified usage of “primary-purpose test” in this memorandum and order refers to the “sole primary purpose” test.

⁵ The rest of this memorandum refers to multiple primary purposes as “significant purposes,” regardless of language used by various courts.

Before evaluating the parties’ arguments, this Court notes that in the past, some courts—particularly in the Ninth Circuit—have borrowed the “because of” test from the work-product doctrine when determining applicability of the attorney-client privilege to dual-purpose communications.⁶ See Visa U.S.A., Inc. v. First Data Corp., No. C-02-1786, 2004 WL 1878209, at *4 (N.D. Cal. Aug. 23, 2004). In the attorney-client privilege context, the “because of” test is arguably broader than either the primary-purpose or significant-purpose tests. In re Grand Jury, 23 F.4th at 1092. Any arguments attempting to apply the “because of” test to the attorney-client privilege are unpersuasive to this Court, however, because the Ninth Circuit itself disavowed such usage of the test in a recent case. See id. at 1093. The Supreme Court recently granted certiorari in that same case, on the question before this Court: the appropriate test to evaluate whether the attorney-client privilege applies to dual-purpose communications under common law. In re Grand Jury, 143 S. Ct. 80 (2022). The Court ultimately dismissed certiorari as improvidently granted, however, so the appropriate test for applicability of the attorney-client privilege remains an issue split amongst the circuits and amongst state courts. See In re Grand Jury, 143 S. Ct. 543 (2023).

Here, Swypyr’s communication with its in-house counsel-cum-accountant was initially a request for tax preparation and generalized advice, but it quickly morphed into an internal investigation and legal advice regarding potential liability. As an initial matter, BeFriend urges this Court to adopt a per se rule holding the privilege inapplicable in the tax context. This rule originates from the Seventh Circuit, where “a dual-purpose document—a document prepared for

⁶ When a lawyer creates work product “because of” anticipated litigation, such work product is protected under the work-product privilege. E.g., United States v. Adlman, 134 F.3d 1194, 1198 (2d Cir. 1998). Swypyr does not contend that the communications at issue here are protected as work product.

use in preparing tax returns and for use in litigation—is not privileged.” United States v. Frederick, 182 F.3d 496, 501 (7th Cir. 1999). This Court declines to adopt such a rule here, however.

Next, BeFriend argues that the appropriate primary purpose test is one that considers the single predominant purpose of the communications when evaluating the applicability of attorney-client privilege. BeFriend contends that the attorney-client privilege should be strictly construed as applying only to advice that is legal in nature. In re Polaris, Inc., 967 N.W.2d at 407–08. Additionally, Befriend points out that most courts’ use of “the” before “predominant” or “primary” suggests that sole primary purpose of the communication must be legal advice for the attorney-client privilege to apply. See, e.g., Allendale Mut. Ins. Co. v. Bull Data Sys., Inc., 152 F.R.D. 132, 137 (N.D. Ill. 1993). Thus, BeFriend argues that the communications cannot be privileged because legal advice was not the sole predominant purpose of the communications and that if anything was the predominant purpose, it was tax advice.

Swypyr contends, however, and this Court agrees, that the appropriate test is a significant-purpose test. In In re Kellogg, that court reasoned that the usual question—whether the communication was primarily to provide legal advice—is more precisely formulated as “Was obtaining or providing legal advice a primary purpose of the communication, meaning one of the significant purposes of the communication?” In re Kellogg, 756 F.3d at 760. This reasoning is persuasive, and best comports with the broad understanding that “[c]onfidential disclosures by a client to an attorney made in order to obtain legal assistance are privileged.” Fisher v. United States, 425 U.S. 391, 403 (1976). As a practical matter, it is simpler to determine if something is one of the primary purposes of a communication than to determine if it is the sole primary

purpose, which may not be even feasible in the context of overlapping and inextricable business and legal purposes. See In re Kellogg, 756 F.3d at 760.

BeFriend asserts that adopting a significant-purpose test risks broadening the privilege in a way that will incentivize wrongdoers to loop in attorneys on all communications in an effort to avoid future discovery. Cf. In re Grand Jury, 23 F.4th 1088, 1093–94 (9th Cir. 2021). The significant-purpose test is not so broad, however, as to leave the attorney-client privilege susceptible to abuse, as the significant-purpose test does not negate other judicial precedent that poses a barrier to such abuse. For example, attorney-client privilege cannot be “manufactured” by a client merely copying a lawyer on an email or letter. Phillips v. C.R. Bard, Inc., 290 F.R.D. 615, 630 (D. Nev. 2013). Thus, BeFriend’s concerns are unfounded.

Turning to the test itself, this Court need not consider whether legal advice was the sole predominant purpose of the communications between Lewis and Oak. Certainly, legal advice was a significant purpose of the communications, and as such, the communications are protected under attorney-client privilege.

Conclusion

For the foregoing reasons, Plaintiff BeFriend AI, LLC’s motion for to compel is DENIED.

SO ORDERED.

Dated: June 24, 2024

BEFRIEND AI, LLC,
Appellant,

v.

SWYPYR, INC.,
Appellee.

ORDER GRANTING INTERLOCUTORY APPEAL

This Court hereby GRANTS Appellants' interlocutory appeal and will review the district court's Order. This Court has jurisdiction of this appeal under 28 U.S.C. § 1292(b).

SO ORDERED.

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BEFRIEND AI, LLC,
Plaintiff,

v.

SWYPYR, INC.,
Defendant.

MEMORANDUM AND ORDER GRANTING
DEFENDANT'S MOTION FOR SUMMARY JUDGMENT

Plaintiff BeFriend AI, Inc. (“BeFriend”) filed a complaint alleging that Defendant Swypyr, Inc. (“Swypyr”) misappropriated BeFriend’s trade secrets and tortiously interfered with its employees’ contracts. Specifically, BeFriend alleges Swypyr misappropriated BeFriend’s “large language model training data” in violation of the Defend Trade Secrets Act (“DTSA”) and the Stone Uniform Trade Secrets Act (“SUTSA”).⁷ This Court has jurisdiction over the DTSA claim pursuant to 28 U.S.C § 1331 and supplemental jurisdiction over the SUTSA claim under 28 U.S.C. § 1367.

⁷ The Stone Uniform Trade Secrets Act is identical to the Trade Secrets Act promulgated by the Uniform Law Commission.

grant summary judgment if the movant shows that there is no genuine dispute as to any material fact and the movant is entitled to judgment as a matter of law.” Fed. R. Civ. P. 56(a).

For the reasons stated herein, Defendant Swypyr’s motion for summary judgment is GRANTED.

Facts

This Court incorporates the facts laid out in its Order Denying Plaintiff’s Motion to Compel Discovery, dated June 24, 2024.

The uncontested facts are as follows. BeFriend is a Stone limited liability company that leverages large language models, a type of artificial intelligence (“AI”) system, to simulate realistic conversation with historical and fictional figures. BeFriend trains its “chatbots” using a large set of data composed of writing and dialogue in the public domain (the “database”). This database is a key component of BeFriend’s chatbot services and is necessary for BeFriend to run its business. It cannot be reverse engineered through any of the chatbots.

The database is a compilation of entirely publicly available and free-to-use works that BeFriend collected using industry-standard “web scraping” tools and “categorization algorithms” alongside manual evaluation to ensure sources were not protected by copyright or otherwise legally encumbered. BeFriend’s founder, Dora Márquez, began studying large language models as an undergraduate student and collected the majority of the works in the database in her spare time over the course of several years. Currently, software developers at BeFriend are responsible for managing and updating the database with new sources. BeFriend’s efforts to compile and maintain the database are neither unique nor secret, but the database itself is unavailable to the public and is carefully and specifically curated to avoid any copyright issues arising from source

material. Some other companies may have access to similar databases, but most competitors use larger sets of training data despite the risk of running afoul of copyright issues.

Separately from its chatbot services, BeFriend offers licenses to the database to others in the industry. Despite offering licenses at a reasonable rate since 2022, it has not yet licensed the database to any other companies. BeFriend’s employees, including interns, all have access to the database, regardless of role at the company. To access the database, employees must connect to BeFriend’s encrypted internet network and enter their individualized passwords to log into their employee-specific accounts. BeFriend allows employees to download copies of the database to personal computers when those computers are on the company’s network, but it closely monitors such downloads. When BeFriend hires an employee or onboards an intern, the employee or intern must sign the “BeFriend Handbook” in acknowledgement and agreement of the policies therein. The BeFriend Handbook contains a section on “Intellectual Property,” which notes that “[e]mployees may not share intellectual property of the Company with outsiders.” Although the BeFriend Handbook does not explicitly describe the database as a part of BeFriend’s intellectual property, BeFriend’s employee and intern trainings during onboarding describe it as such. BeFriend does not require employees to sign separate non-disclosure agreements.

Swypyr is a small Delaware corporation specializing in app development and user interface productivity. Swypyr sought to integrate an AI assistant into the user interface of the apps it manages, but it wanted to minimize cost and risk related to the new venture. In late 2022, Swypyr’s executives reached out to BeFriend about licensing the database. BeFriend did not license the database to Swypyr because the two companies were unable to come to an agreement on licensing terms.

Around January 2023, Swypyr’s executives solicited James Roy, who was soon to be a marketing intern at BeFriend, to gather information about the database. Roy’s work at BeFriend was unrelated to the database and did not require him to interact with the database at all. After working for several weeks at BeFriend, including going through BeFriend’s onboarding process, Roy downloaded the database and transferred the information to Swypyr’s chief executive officer, who passed the database on to Swypyr’s software developers, who began working to integrate it into Swypyr’s products.

After detecting the unusual download and questioning Roy, BeFriend commenced the present action, alleging both trade secret misappropriation and tortious interference. After some discovery, Swypyr moved for summary judgment on the trade secret claims.

Discussion

Until Congress passed the Defend Trade Secrets Act of 2016 (“DTSA”), 18 U.S.C. § 1836, trade secret misappropriation fell solely under state law. All states except New York and North Carolina have adopted the Uniform Trade Secrets Act (“UTSA”), including the State of Stone. See S.G.L. ch. 99, § 13 (adopting UTSA as Stone’s trade secret law). The elements for a claim of trade secret misappropriation under the DTSA and UTSA are similar. E.g., Total Quality Sys., Inc. v. Universal Synaptics Corp., 679 F. Supp. 3d 1196, 1210 (D. Utah 2023). “To succeed on a claim for misappropriation of trade secrets under the DTSA, a plaintiff must prove: (1) that the plaintiff possessed a trade secret, (2) that the defendant misappropriated the trade secret; and (3) that the misappropriation caused or threatened damage to the plaintiff.” InteliClear, LLC v. ETC Glob. Holdings, Inc., 978 F.3d 653, 657–58 (9th Cir. 2020). The SUTSA requires the same elements of proof. S.G.L. ch. 99, § 13. Sywper has moved for

summary judgment solely on the grounds that BeFriend's database is not a trade secret as a matter of law. As such, the issues of misappropriation or harm are not before this Court.

Under the DTSA,

the term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if--

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information

18 U.S.C. § 1839(3). The factors most cited by courts considering trade secret eligibility of a business's information include:

- whether and the extent to which the information is known outside the business;
- the extent to which the information is known by the business's employees;
- how easily the information could be properly acquired by outsiders;
- the extent and type of precautions used by the business to keep the information secret;
- the value of the information to the business and its competitors; and
- the amount of resources used by the business to develop the information.

See Restatement of Torts § 757 cmt. b (Am. L. Inst. 1939). Underlying these factors is the general principle that "maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law." Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974). As with other intellectual property, a main purpose of trade

secret protection is to prevent outsiders from reaping the rewards of an innovator's research and development efforts. Id. at 482.

Compilations are explicitly included under both the DTSA and SUTSA as form of trade secret-eligible information. See 18 U.S.C. § 1839(3); S.G.L. ch. 99, § 13. However, trade secret eligibility of certain compilations of information, particularly customer lists, is often disputed in trade secret cases. See, e.g., Art & Cook, Inc. v. Haber, 416 F. Supp. 3d 191, 194 (E.D.N.Y. 2017). Where a customer list is composed of readily ascertainable information, it is not trade secret eligible in most jurisdictions. See, e.g., Guy Carpenter & Co. v. Provenzale, 334 F.3d 459, 467 (5th Cir. 2003). This rule is somewhat analogous to a similar rule in copyright law, under which a compilation of readily available information that has not been curated in an original way by the compiler is not eligible for copyright protection. See Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 358 (1991).

BeFriend argues the database is a trade secret because the compiled database required a very large amount of BeFriend's time and effort to create. BeFriend contends that this factor is especially relevant where compilations are at issue—"[c]ompilations are valuable, not because of the quantum of secret information, but because the expenditure of time, effort, and expense involved in its compilation gives a business a competitive advantage." AvidAir Helicopter Supply, Inc. v. Rolls-Royce Corp., 663 F.3d 966, 972 (8th Cir. 2011). BeFriend further points out that Swypyr went out of its way to solicit someone to infiltrate BeFriend and access the database, which supports a strong inference that the database derives economic value from secrecy. See Pelican Bay Forest Prods. v. W. Timber Prods., 443 P.3d 651, 558 (Or. Ct. App. 2019). Finally, BeFriend points to the steps it took to keep the database confidential, including confidentiality notices in its employee handbook and use of accounts and password protection

for employees accessing the database. See, e.g., Cemen Tech., Inc. v. Three D Indus., L.L.C., 753 N.W.2d 1, 7–8 (Iowa 2008); Allstate Ins. Co. v. Fougere, 79 F.4th 172, 193 (1st Cir. 2023).

Swypyr argues that BeFriend’s database cannot be a trade secret because all the information in it is publicly available. Swypyr points out that trade secrets, above all else, must be secret—a factor like “the amount of effort or money expended in developing information . . . alone cannot convert otherwise obvious shapes and forms, positions and relationships and materials into trade secrets.” Nat’l Rejectors, Inc. v. Trieman, 409 S.W.2d 1, 20 (Mo. 1966). Next, Swypyr contends that the information is not valuable in the industry, or at least does not derive independent value from secrecy. Swypyr points out that although the database may be key to BeFriend’s business, “[n]ot everything with commercial value constitutes a trade secret.” Synopsys, Inc v. Risk Based Sec., Inc., 70 F.4th 759, 772 (4th Cir. 2023). Finally, Swypyr argues that BeFriend’s distribution of database access to all employees, including interns who do not directly work with the database, represents a lack of reasonable precautions taken. See Finkel v. Cashman Pro., Inc., 270 P.3d 1259, 1264 (2012).

After weighing the factors and taking the broad policy goals of trade secret into consideration, this Court finds that although BeFriend took reasonable measures to keep the database out of the hands of others, the database does not derive independent value from secrecy and the information therein generally known and readily ascertainable through proper means. Thus, even construing the undisputed facts in the light most favorable to BeFriend, the non-moving party here, the database is not protectable as a trade secret as a matter of law. As such, this Court need not reach the issues of misappropriation or harm.

Conclusion

For the foregoing reasons, Defendant Swypyr's motion for summary judgment is GRANTED. Accordingly, Plaintiff BeFriend's trade secret misappropriation claim is DISMISSED.

SO ORDERED.

Dated: August 7, 2024

BEFRIEND AI, LLC,
Appellant,

v.

SWYPYR, INC.,
Appellee.

V.

Appellant BeFriend AI, LLC appeals the United States District Court for the District of Stone’s Order granting summary judgment in favor of Appellee Swypyr, Inc. and dismissing Appellant’s trade secret misappropriation claim.

On July 29, 2024, this Court granted Appellant’s interlocutory appeal regarding the district court’s denial of its motion to compel. That appeal is currently pending before this Court. In the interest of efficiency, this Court will hear both appeals together. This Court will consider all issues raised in the court below.

Dated: September 26, 2024