Attorneys' Fees in Trade Secrets Litigation

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Introduction

The awarding of attorneys' fees in trade secrets litigation differs in many respects from the fee-shifting statutes applicable in copyright, trademark, and patent cases. Whereas those statutes are federal enactments that provide some degree of uniformity, trade secrets law is the product of state statutes. Accordingly, not only may states' trade secrets protection statutes vary in their express terms, but, more importantly, the courts' (state and federal) interpretation of these terms varies as well. In theory, therefore, conduct that may warrant an attorneys' fee award in one state may not warrant an award in another state.

Prior to 1979, most, if not all, of states' trade secrets protection laws arose through courts' common law application of existing tort law. *See generally* Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. Pa. L. Rev. 378 (1971). Citing a need for a more uniform application of trade secret law, the National Conference of Commissioners on Uniform State Laws adopted the Uniform Trade Secrets Act (UTSA) in 1979, and amended this act in 1985. In adopting the UTSA, the commissioners noted that the common law development of trade secrets protection laws was uneven among the states—jurisdictions containing populous commercial centers had a more developed body of law than jurisdictions containing agricultural areas. Moreover, the commissioners found that, even in jurisdictions where judicial decisions existed, "there [was] undue certainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret." Unif. Trade Secrets Act, Prefatory Notes.

The uniform act includes an attorneys' fee-shifting provision that permits an award of attorneys' fees in certain, defined circumstances. For a variety of reasons, however, there has yet to emerge a uniform implementation or application of the UTSA's attorneys' fee provision. For example, not all states have adopted the UTSA and, even among those states that have, not all have incorporated the UTSA's attorneys' fee provision. In addition, definitions contained in this provision have

been interpreted differently in different states, and procedural differences have arisen between federal and state courts. Moreover, while some state courts (notably California, Maryland, and Washington) have been presented with issues under the attorneys' fee provision, other states have only recently adopted the UTSA and, consequently, have decided few, if any, cases in this area.

Some common themes and emerging trends are beginning to develop, however. This article provides an overview of the states' adoption of the UTSA's attorneys' fee provision and the express terms of that provision. It also addresses the standards employed by courts in awarding attorneys' fees to prosecuting parties as well as those parties defending a trade secrets misappropriation action. Finally, the article addresses the prevailing party requirements for obtaining attorneys' fees by either the plaintiff or defendant, and the discretion a court maintains when awarding attorneys' fees, regardless of a party's conduct.

Attorneys' Fee Provisions in the UTSA and the Various States

The UTSA specifically includes an attorneys' fee provision that permits, but does not require, an award of attorneys' fees in certain situations arising in trade secrets litigation. In this regard, the UTSA provides that "the court *may* award reasonable attorneys' fees to the *prevailing party*" if:

(i) claim of misappropriation is made in bad faith,
(ii) a motion to terminate an injunction is made or resisted in bad faith, or
(iii) willful and malicious misappropriation exists.

Unif. Trade Secrets Act, §4 (emphasis added). The drafters of the UTSA, as well as the state legislatures adopting the uniform law, included the attorneys' fee provision "as a deterrent to specious claims of misappropriation, to specious efforts by a misappropriator to terminate injunctive relief, and to willful and malicious misappropriation." Unif. Trade Secrets Act, §4, Cmt; *see also*, *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 587 (Md. Ct. Spec. App. 1991) (stating that "[t]he purpose of this provision is to 'discourage conduct that abuses legal and business process.'"); *Gemini Aluminum Corp. v. Cal. Custom Shapes, Inc.*, 116 Cal. Rptr. 2d 358, 367 (Ct. App. 2002). Thus, the uniform act provides attorneys' fee reimbursement to defendants faced with baseless misappropriation

claims, plaintiffs that are the victim of willful and malicious misappropriation, and to any party that acts in bad faith regarding a motion to terminate a previously obtained injunction. This reimbursement, however, is only awarded to the prevailing party in one of these three scenarios.

To date, 45 states (plus the District of Columbia and the U.S. Virgin Islands) have adopted the UTSA. Of the five states that have not adopted the UTSA, three (Massachusetts, New Jersey, and New York) currently have legislation pending that would adopt the UTSA. Not all of the adopting states, however, elected to include the UTSA's attorneys' fee provision. Moreover, while most adopting states enacted the UTSA provision verbatim, some modified the provision to varying degrees. A table summarizing the status of the UTSA adoption in the various states, and specifically the adoption of the attorneys' fee provision, is set forth below.

State	Citation	Attorneys' Fees Provision?
Alabama	Ala. Code §8-27-4	Yes
Alaska	Alaska Stat. §45.50.915	No
Arizona	Ariz. Rev. Stat. §44-404	Yes
Arkansas	Ark. Code Ann. §4-75-607	Yes
California	Cal. Civ. Code §3426.4	Yes, as modified
Colorado	Colo. Rev. Stat. §7-74-105	Yes
Connecticut	Conn. Gen. Stat. §§35-53 & 35-54	Yes
Delaware	Del. Code Ann. Tit. 6, §2004	Yes
District of Columbia	D.C. Code Ann. §36-404	Yes
Florida	Fla. Stat. Ann. §688.005	Yes
Georgia	Ga. Code Ann. §10-1-764	Yes
Hawaii	Haw. Rev. Stat. §482B-5	Yes
Idaho	Idaho Code §48-803	No
Illinois	765 Ill. Comp. Stat. Ann. §1065/5	Yes
Indiana	Ind. Code §24-2-3-5	Yes
Iowa	Iowa Code Ann. §550.6	Yes
Kansas	Kan. Stat. Ann. §60-3323	Yes
Kentucky	Ky. Rev. Stat. Ann. §365.886	Yes
Louisiana	La. Rev. Stat. Ann. §51:1434	Yes

State	Citation	Attorneys' Fees Provision?
Maine	Me. Rev. Stat. Ann. tit. 10, §1545	Yes
Maryland	Md. Code Ann. Com. Law §11-1204	Yes
Michigan	Mich. Comp. Laws Ann. §445.1905	Yes
Minnesota	Minn. Stat. Ann. §325C.04	Yes
Mississippi	Miss. Code Ann. §75-26-9	Yes
Missouri	Mo. Ann. Stat. §417.457	No
Montana	Mont. Code Ann. §30-14-405	Yes, as modified
Nebraska	Neb. Rev. Stat. §87-504	No
Nevada	Nev. Rev. Stat. §600A.060	Yes
New Hampshire	N.H. Rev. Stat. Ann. §350-B:4	Yes
New Mexico	N.M. Stat. Ann. §57-3A-5	Yes
North Dakota	N.D. Cent. Code §47-25.1-04	Yes
Ohio	Ohio Rev. Code Ann. §1333.64	Yes
Oklahoma	Okla. Stat. Ann. tit. 78, §89	Yes
Oregon	Or. Rev. Stat. §646.467	Yes
Pennsylvania	12 Pa. Cons. Stat. §5305	Yes
Rhode Island	R.I. Gen. Laws §6-41-4	Yes
South Carolina	S.C. Code Ann. §39-8-80	Yes, as modified
Tennessee	Tenn. Code Ann. §47-25-1705	Yes
Utah	Utah Code Ann. §13-24-5	Yes
Vermont	Vt. Stat. Ann. tit. 9, §4603	No
Virginia	Va. Code Ann. §59.1-338.1	Yes, as modified
Washington	Wash. Rev. Code Ann. §19.108.040	Yes
West Virginia	W. Va. Code §47-22-4	Yes
Wisconsin	Wis. Stat. Ann. §134.90(4)(c)	Yes
Wyoming	Wyo. Stat. §40-24-104	Yes

As noted in the table, of the 45 states that adopted the UTSA, Alaska, Idaho, Missouri, and Vermont elected *not* to include the attorneys' fee provision of the UTSA. Virginia adopted the attorneys' fee provision, but slightly modified the language by not permitting attorneys' fees in situations where a party seeks or resists in bad faith a motion to terminate an

injunction. Va. Code Ann. §59.1-338.1. Montana modified its attorneys' fee provision to include recovery for costs as well. Mont. Code Ann. §30-14-405. Just recently, California similarly modified its version of the attorneys' fee provision to permit an award of costs in addition to an attorneys' fee recovery. The statute now provides as follows:

> If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney's fees and costs to the prevailing party. Recoverable costs hereunder shall include a reasonable sum to cover the services of expert witnesses, who are not regular employees of any party, actually incurred and reasonably necessary in either, or both, preparation for trial or arbitration, or during trial or arbitration, of the case by the prevailing party.

Cal. Civ. Code §3426.4. Thus, in California, a party may recover its costs associated with preparing an expert for trial as well as the expert's actual trial time.

Attorneys' Fee Awards to the Prosecuting Party

The most common example of an attorneys' fee award in trade secrets litigation occurs when the prosecuting party obtains, in addition to compensatory and exemplary damages, an award of attorneys' fees. The UTSA, as adopted in 45 states, provides that attorneys' fees are available to a prosecuting party if it prevails on the merits and proves not only that a misappropriation occurred, but that "willful and malicious misappropriation exists." Unif. Trade Secrets Act, §4(iii). As noted by several courts, however, neither the UTSA nor the individual state statutes define the terms "willful" and "malicious." Moreover, the UTSA employs, again without definition, this same standard for the awarding of exemplary damages, stating that, "[i]f willful and malicious misappropriation exists, the court may award exemplary damages…" Unif. Trade Secrets Act, §3(b). Thus, in theory a court has the discretion, upon a finding of willful and malicious misappropriation by the defendant, to award exemplary damages and attorneys' fees to the prosecuting party.

The issue most frequently addressed by the courts is the application of the willful and malicious standard necessary for a prosecuting party

to prove in order to receive an attorneys' fee award. Courts generally equate this application with the willful and malicious standard necessary to obtain exemplary damages. *See*, *e.g.*, *Yeti By Molly, Ltd. v. Deckers Outdoor Corp.*, 259 F.3d 1101, 1111 n.4 (9th Cir. 2001) (stating that, "[b]ecause the exemplary damages analysis and the fees analysis turn on the construction of the same language, we focus on the former"). In any event, because these terms are undefined, state courts have historically looked to their analyses of these terms in other statutes within its own state, rather than how other states following the UTSA have applied these terms. *See*, *e.g.*, *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 587 (Md. Ct. Spec. App. 1991). This inward-looking approach, however, appears contrary to the goals and dictates of the uniform act. *See* Unif. Trade Secrets Act, §8 (stating that "[t]his act shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this act among the states adopting it."). Nevertheless, as set forth below, a common theme arises from a review of the court decisions addressing the issue.

In *Mangren Research & Dev. Corp. v. Nat'l Chem. Co.*, 87 F.3d 937 (7th Cir. 1996), the federal appellate court, applying Illinois' version of the UTSA, stated that, "[a]lthough we have found no Illinois case interpreting that phrase [willful and malicious], it surely must include an intentional misappropriation as well as a misappropriation resulting from the conscious disregard of the rights of another." *Id.* at 943–44 (interpreting "willful and malicious" phrase under exemplary damages provision of UTSA). *See also Real-Time Labs., Inc. v. Predator Sys., Inc.*, 757 So. 2d 634, 637 (Fla. Dist. Ct. App. 2000). Similarly, the U.S. District Court for the Eastern District of Virginia stated, in a more colorful fashion, that "malice necessary to support an award of attorneys' fees in a trade secret misappropriation case requires a finding of ill will, malevolence, grudge, spite, wicked intention, or a conscious disregard for the rights of another." *MicroStrategy, Inc. v. Business Objects*, 331 F. Supp. 2d 396, 430 (E.D. Va. 2004) (applying Virginia's version of the UTSA). A Maryland appellate court described the "willful and malicious" standard as follows:

> The word willfully often denotes an act which is intentional, or knowing, or voluntary, as distinguished from accidental.
>
> . . .

> Malice is the intentional doing of a wrongful act without legal justification or excuse. An act is malicious if it is done knowingly and deliberately for an improper motive and without legal justification. *Bond v. PolyCycle, Inc.*, 732 A.2d 970, 978 (Md. Ct. App. 1999).

The court's decision in *Haught v. The Louis Berkman, LLC*, 417 F. Supp. 2d 777 (N.D. W. Va. 2006), is particularly insightful as to how courts will apply this standard. In that case, three former female employees of the defendant-employer, including an employee named Joyce Leonard, filed suit against their employer for sex discrimination, harassment, and retaliation. *Haught*, 417 F. Supp. 2d at 779. As part of her filing the prerequisite charge with the EEOC, Leonard produced to the EEOC and her attorneys confidential information of her employer, such as customer lists, pricing information, and profit margins. *Haught*, 417 F. Supp. 2d at 782. The employer therefore filed a counterclaim against Leonard alleging, among other things, that Leonard misappropriated its trade secrets in violation of West Virginia's version of the UTSA. *Haught*, 417 F. Supp. 2d at 780. The employer later filed a motion for summary judgment on its trade secrets claim and asked the court to award attorneys' fees under West Virginia Code §47-22-4, which provides that, if willful and malicious misappropriation occurs, the court may award attorneys' fees to the prevailing party. W. Va. Code §47-22-4(c). The court granted summary judgment to the employer—thus making it a prevailing party—and then addressed the attorneys' fee issue.

In attempting to define the "willful and malicious" standard, the court, like many other courts, first looked to how other West Virginia courts had defined "malice," and concluded that "[m]alice is 'characterized by, or involving, malice; having, or done with, evil or mischievous intentions or motives; wrongful and done intentionally without just cause or excuse or as a result of ill will." *Haught*, 417 F. Supp. 2d at 784 (quoting *State v. Burgess*, 516 S.E.2d 491, 493 (W. Va. 1999) (quoting *Black's Law Dictionary* 958 (6th Ed. 1990)). The court, however, also looked at the application of this standard under other states' version of the UTSA and concluded simply that "[t]here is no basis for awarding attorney's fees in a trade secrets case when there is no evidence to support a conclusion of malicious intent." (citing *MicroStrategy, Inc. v. Business Objects*, 331 F. Supp. 2d 396, 430 (E.D. Va. 2004)). Applying this

standard, therefore, the court found that Leonard "act[ed] willfully in misappropriating the documents because she took the documents and kept them." *Haught*, 417 F. Supp. 2d at 784. The court further found, however, that Leonard did not act maliciously because she "did not provide the documents to a third party to intentionally financially hurt the defendant or its clients." As such, the court held that "there is no malicious misappropriation and the West Virginia Uniform Trade Secrets Act does not apply to this civil action." *Haught*, 417 F. Supp. 2d at 785.

Although neither the UTSA nor any state version of the UTSA defines the willful and malicious standard, the practitioner should note that courts will more than likely look at two sources to find the appropriate standard: definitions within the particular state as found in other statutes or common law; and definitions as applied in other states interpreting that state's version of the UTSA. The common theme running through these sources is that a defendant misappropriates a plaintiff's trade secrets willfully and maliciously when it (1) intentionally takes and uses these secrets without any legally supportable justification or excuse, and (2) does so with either ill will or a conscious disregard for the rights of the plaintiff to protect and enjoy its trade secrets.

Attorneys' Fee Awards to the Defending Party

Unlike many one-sided fee-shifting statutes, the UTSA and all of the states that adopted the UTSA's attorneys' fee provision recognize that a defendant is entitled to attorneys' fees if the plaintiff's "claim of misappropriation is made in bad faith." Unif. Trade Secrets Act, §4(i). The purpose of this potential award to defendants is to deter "specious claims of misappropriation." Unif. Trade Secrets Act, §4 Cmt. Of course, even if a specious claim is asserted in bad faith, before actually receiving attorneys' fees the defendant must be deemed a prevailing party and persuade the court to exercise discretion in its favor.

Defining Bad Faith

Neither the UTSA nor the various adopting state legislatures define the term "bad faith" for purposes of permitting a court to award attorneys' fees to a defendant. Much like the "willful and malicious" phrase, however, a court will generally look to its own state's comparable statutes

or common law to determine the appropriate standard. For example, in *Ex parte Waterjet Sys., Inc.*, 758 So. 2d 505 (Ala. 1999), the Alabama Supreme Court was presented with the issue of interpreting the "bad faith" requirement of Alabama's version of the UTSA. In doing so, the court noted that "[n]either the Alabama legislature nor this Court has defined the term 'bad faith' as it appears in §8-27-4(2)(a)." *Waterjet Systems*, 758 So. 2d at 509. The court looked to similar state statutes and discovered that the Alabama Litigation Accountability Act ("ALAA") also provided for the recovery of attorneys' fees. In examining the standards under the ALAA, the court stated that, under the ALAA, "a trial court must award attorney fees when a claim is brought without substantial justification, either in whole or part," and that "[t]he phrase 'without substantial justification means that the claim is frivolous, groundless in fact or in law, or vexatious, or interposed for any improper purpose…" (citations omitted). After making this comparison, the court held that, "[b]ecause of the similarity in the purpose of §8-27-4(2) and the purpose of the ALAA,… the term 'bad faith' under the Alabama Trade Secrets Act means the same as the phrase 'without substantial justification' in the ALAA." *Waterjet Systems*, 758 So. 2d at 509.

Other courts have similarly looked inward for defining "bad faith" under the UTSA. In *Russo v. Baxter Healthcare Corp.*, 51 F. Supp. 2d 70, 76 (D.R.I. 1999), the court, applying Rhode Island and Providence Plantations' UTSA statute (R.I. Gen. Laws §6-41-4), noted that it could not find "a case that interprets 'bad faith' in the context of RIUTSA." The court, therefore, stated that, "[i]n defining 'bad faith' under the RIUTSA, this Court must look to Rhode Island law." In doing so, the court found a comparable bad faith requirement under Rule 37 of the Rhode Island rules of civil procedure. Under that body of law, the court applied a "subjective test for bad faith" and held that "bad faith could not exist where the claim has some legal and factual basis when considered in light of the reasonable belief of the individual making the claim." (citations omitted). In short, "a court must find subjective bad faith before it can impose sanctions under the RIUTSA." *Russo*, 51 F. Supp. 2d at 76.

In contrast to Alabama and Rhode Island, a federal court applying Kansas law decided to look at other UTSA interpretations for guidance on defining bad faith. In *The Bradbury Co., Inc. v. Teissier-Ducros*,

2005 WL 2972323 (D. Kan. Nov. 3, 2005), the court was asked to assess attorneys' fees against the plaintiff because it made a claim of misappropriation of trade secrets in bad faith in violation of the Kansas Uniform Trade Secrets Act as codified at Kansas Statutes Annotated §60-3323. The court noted, however, that "[t]he Kansas Supreme Court has not defined bad faith as used in" the KUTSA. The court then surveyed other jurisdictions interpreting "bad faith" phrase under the UTSA and found that "[o]ther jurisdictions that have been confronted with this issue… have outright defined bad faith in the Uniform Trade Secrets Act (UTSA) as a frivolous claim or one brought without substantial justification or supporting evidence." *Bradbury*, 2005 WL 2972323 at *2 (citations omitted).

The Kansas court based its reliance upon other states' interpretations of UTSA's "bad faith" language on another UTSA provision. Specifically, Section 8 of UTSA provides that "[t]his act shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this act among states enacting it." Unif. Trade Secrets Act, §8. As Kansas had adopted this provision, *see* Kan. Stat. Ann. §60-3327, the *Bradbury* court found that "cases from other jurisdictions are persuasive" when interpreting the KUTSA. *Bradbury*, 2005 WL 2972323 at *2.

The *Bradbury* court's reliance upon other states' interpretation of this uniform law is persuasive in arguing that courts trying to define "bad faith" should first look to how other states interpret their UTSA statutes containing identical language. This tactic complies with Section 8 of UTSA (and thus with that provision in the various states' UTSA) and promotes uniformity on this important issue around the country—one of the stated goals of the National Conference of Commissioners on Uniform State Law in adopting the UTSA.

Emerging Trend?

Regardless of where a court looks to define the term "bad faith," courts apply somewhat different standards in applying the bad faith requirement. In Kansas and Alabama, for example, courts apply an objective standard of bad faith, meaning they must find that the plaintiff's claim was brought without substantial justification or without supporting evi-

dence. *See Bradbury*, 2005 WL 2972323 at *2; *Waterjet Systems, Inc.*, 758 So. 2d at 509. Rhode Island, on the contrary, applies a self-described subjective standard of bad faith and looks, in part, to the plaintiff's reasonable belief of the merits of his claim. *See Russo*, 51 F. Supp. 2d at 76–77. Despite these differences, it appears that there is an emerging trend in defining the standards to apply in assessing whether a trade secrets claim was brought in bad faith and, thus, whether a defendant is entitled to its attorneys' fees.

California courts, both federal and state, have addressed the bad faith standard under California's UTSA on several occasions, and now have developed a two-pronged standard for determining when a plaintiff makes a claim of misappropriation in bad faith. *See Gemini Aluminum Corp. v. Cal. Custom Shapes, Inc.*, 116 Cal. Rptr. 2d 358 (Ct. App. 2002); *JLM Formation, Inc. v. Form+Pac*, 2004 WL 1858132 (N.D. Cal. Aug. 19, 2004); *Stilwell Dev., Inc. v. Chen*, 1989 WL 418783, 11 U.S.P.Q. 2d 1328 (C.D. Cal. Apr. 25, 1989). In developing this two-pronged standard, the courts relied upon the legislative history of the UTSA and California's version, which "construe[s] the 'bad faith' language of the Uniform Act to encompass deterrable conduct which maintains a specious claim of misappropriation." *Stilwell*, 11 U.S.P.Q. at 1330. In order to serve as a deterrent, the courts held that bad faith "requires conduct more culpable than mere negligence" and "must be at least reckless or grossly negligent, if not intentional and willful." *Gemini*, 116 Cal. Rptr. 2d at 1261 (quoting *Stilwell*, 11 U.S.P.Q. at 1331)). Furthermore, the term "specious" as used in the legislative history of UTSA means "apparently right or proper: superficially fair, just, or correct but not so in reality." (quoting *Webster's Third New International Dictionary* 1287 (1986)). "Thus, the claim must have been without substance in reality, if not frivolous." *Gemini*, 116 Cal. Rptr. 2d at 1261.

From this history, the courts concluded that "bad faith for purposes of [Cal. Civ. Code §3426.4] requires objective speciousness of the plaintiff's claim, as opposed to frivolousness, and its subjective bad faith in bringing or maintaining the claim." *Gemini*, 116 Cal. Rptr. 2d at 368. In other words, "in awarding attorneys' fees under §3426.4, courts require that a trade secret claim involve two elements: (1) objective speciousness; and (2) subjective misconduct." *JLM Formation, Inc.*, 2004 WL

1858132 at *2. Under the first element, the defendant must show that the claim "is completely unsupported by the evidence." (citing *Computer Econ., Inc. v. Gartner Group, Inc.*, 1999 WL 33178020 at *6 (S.D. Cal. 1999)). As for the second element, "subjective misconduct exists where a plaintiff knows or is reckless in not knowing that its claim for trade secret misappropriation has no merit." To determine whether the subjective misconduct prong is met, courts may examine evidence of the plaintiff's knowledge at various points of the litigation. Importantly for defendants, however, courts may also infer subjective misconduct from the objective speciousness of the plaintiff's trade secret claim. *JLM Formation, Inc.*, 2004 WL 1858132 at *2.

When compared to the somewhat ambiguous standards of, for example, "without substantial justification" and "subjective bad faith," the two-pronged standard seems straightforward and easier to apply. In addition, this standard as applied by California finds its roots in the legislative history of the UTSA rather than an individual state rule of procedure or similar state bad-faith statute; thus, this fact promotes the uniformity sought by the UTSA and its adopting states.

The argument that *Gemini*'s two-pronged test for bad faith is an emerging trend, moreover, is buttressed by the court's decision in *Contract Materials Processing, Inc. v. Kataleuna GMBG Catalysts*, 222 F. Supp. 2d 733 (D. Md. 2002). In that case, following a successful summary judgment motion on the plaintiff's claims of violations of the Maryland Uniform Trade Secrets Act (MUTSA), the defendant moved for an award of its attorneys' fees. *Contract Materials*, 222 F. Supp. 2d at 734. Maryland's fee-shifting statute in the MUTSA is identical to the UTSA provision and California's UTSA provision, and permits an award upon the defendant's showing of bad faith. *Contract Materials*, 222 F. Supp. 2d at 744 & n.3. In determining how to apply the bad faith standard of the MUTSA, the federal district court first recognized that Maryland courts required "clear evidence that the action was entirely without color and taken for other improper purposes amounting to bad faith." *Contract Materials*, 222 F. Supp. 2d at 744 (quoting *Optic Graphics, Inc. v. Agee*, 591 A.2d 578, 588 (Md. Ct. Spec. App. 1991)).

The court went on, however, to compare Maryland's stated standard and the two-part standard espoused by the California courts in *Gemini*

and *Stilwell*, noting that "courts considering attorneys' fees provision under the California Uniform Trade Secrets Act have reasoned persuasively that 'bad faith' exists when the court finds (1) objective speciousness of the plaintiff's claim and (2) plaintiff's subjective misconduct in bringing or maintaining a claim for misappropriation of trade secrets." (quoting *Gemini*, 116 Cal. Rptr. 2d at 367). In rejecting Maryland's prior standard in favor of California's two-pronged approach, the district judge reasoned as follows:

> [Plaintiff] expresses a preference for the application of the more awkward "without color" standard mentioned in the Maryland cases, rather than *Stilwell*'s "objective speciousness" standard, in my determination of whether defendants have established by clear and convincing evidence [plaintiff's] bad faith pursuit of its misappropriation claims. Nevertheless, it is undisputed that "Maryland's trade secrets statute… closely tracks the Uniform Trade Secrets Act" and although I believe that any differences between the two formulations are more linguistic than substantive, I have no hesitation in concluding that Maryland's Court of Appeals would find persuasive the more workable 'objective speciousness' elaboration on the bad faith requirement applied in the state and federal cases construing the identical attorneys' fees provision in the California Uniform Trade Secrets Act. Accordingly, I shall apply the *Stilwell* test in the case at bar.

Contract Materials, 222 F. Supp. 2d at 744 (citations omitted). It is this "workable standard"—based expressly on the purposes of the adoption of the attorneys' fee provision in the UTSA—that qualifies the *Gemini*/*Stilwell* test as the one that will likely persuade future courts as they determine the correct "bad faith" standard under their version of the UTSA.

Discretion of the Court

Whether the prosecuting party is seeking attorneys' fees under the "willful and malicious" standard or the defendant is seeking attorneys' fees under the "bad faith" standard, it nevertheless remains within the discretion of the court whether to award attorneys' fees. The UTSA specifically states that, upon a finding of "willful and malicious" or "bad faith" conduct, "the court *may* award reasonable attorneys' fees." Unif. Trade Secrets Act, §4 (emphasis added). This means that, even if a court

finds culpable conduct, it may nevertheless determine within its discretion not to award attorneys' fees. *See*, *e.g.*, *Real-Time Labs., Inc. v. Predator Sys., Inc.*, 757 So. 2d 634, 638 (Fla. Dist. Ct. App. 2000) (stating that Florida's UTSA "gives the trial court discretion to award attorneys' fees even if the actions of the misappropriating parties is found to be willful and malicious").

While the trial court's discretion is relatively unbridled, one express factor must play a role in whether attorneys' fees should be awarded in favor of the prosecuting party. Specifically, the damages section of the UTSA permits the award of exemplary damages to a plaintiff if it proves that the misappropriation was willful and malicious—the same standard as needed to obtain attorneys' fees. *See* Unif. Trade Secrets Act, §3. In permitting the award of attorneys' fees in this situation, however, the Commissioners stated that "the courts should take into consideration the extent to which a complainant will recover exemplary damages in determining whether additional attorneys' fees should be awarded." Unif. Trade Secrets Act §4 Cmt. It appears, therefore, that courts will exercise their discretion toward not awarding attorneys' fees to plaintiffs who also obtain a recovery for exemplary damages. *See*, *e.g.*, *O2 Micro Int'l, Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064, 1080 (N.D. Cal. 2005) (refusing to award attorneys' fees to the plaintiff, in part, because of "the exemplary damages awarded").

Another interesting issue arising from the discretionary aspect of UTSA's attorneys' fee provision is whether the judge is bound by a jury's finding with respect to whether the defendant acted willfully and maliciously. In other words, if a jury finds that the defendant acted willfully and maliciously, is the judge required to award attorneys' fee and, conversely, if the jury finds that the defendant did not act willfully and maliciously, may the court nevertheless award attorneys' fees? It appears that the answer to the first question is yes. In *O2 Micro Int'l, Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064 (N.D. Cal. 2005), the jury returned a verdict in favor of the plaintiff and also found that the defendant's misappropriation was willful and malicious. The judge, however, stated that he had discretion to refuse to award attorneys' fees under California's UTSA even though the jury found that the defendant

acted willfully and maliciously and, for a variety of reasons, decided not to award attorneys' fees to the plaintiff. 399 F. Supp. 2d at 1080.

In *Pearl Invs., LLC v. Standard I/O, Inc.*, 297 F. Supp. 2d 335 (D. Me. 2004), on the other hand, the jury returned a verdict finding that the defendant had misappropriated the plaintiff's trade secrets, but that it did not do so willfully and maliciously. The plaintiff nevertheless filed a post-trial motion asking the court to award it attorneys' fees. Citing the discretion a court has under Maine's UTSA, the defendant argued that the judge could ignore the jury's finding. *Pearl*, 297 F. Supp. 2d at 339. The judge, however, stated that, while a jury's finding of willfulness may have left him with some discretion as to what attorneys' fees to impose (which is contrary to the *O2 Micro* ruling), "the jury's finding that there was *no* willful or malicious conduct precludes any recovery of additional damages." 297 F. Supp. 2d at 339 (emphasis in original).

Prevailing Party

The final requirement for obtaining attorneys' fees under the states' uniform trade secrets act is that the party seeking its fees must be deemed a "prevailing party." Like the terms "willful and malicious" and "bad faith," however, the attorneys' fee provisions do not define the term "prevailing party." While on the surface it would seem easy to determine whether the plaintiff or defendant prevailed on a trade secrets misappropriation claim, some interesting issues arise. For example, is a plaintiff entitled to attorneys' fees if it obtains a preliminary injunction even though a jury later finds against it? Is a defendant entitled to attorneys' fees if the plaintiff voluntarily dismisses its trade secrets claim?

In the trade secrets act context, many of these questions have not been answered; however, it seems likely that courts would look to the prevailing party definitions and standards espoused by courts in other fee-shifting statutes, until at least a body of law develops under the UTSA. Some of these questions, however, have been answered by a few courts. In *Beer & Wine Servs., Inc. v. Dumas*, 2003 WL 1194725 (Cal. Ct. App. Mar. 17, 2003), for example, the plaintiff-employer brought a trade secrets misappropriation claim against one of its former employees. Several months into the lawsuit, however, it voluntarily dismissed the trade secrets misappropriation claim against the employee, and the court

thereafter awarded the employee her attorneys' fees under California's UTSA, California Civil Code §3426.4.

On appeal, the employer argued that, because it voluntarily dismissed its trade secrets misappropriation claim, the employee-defendant was not the prevailing party. Thus, the issue on appeal was whether "a defendant may be designated a prevailing party for purposes of Civil Code section 3426.4 when the misappropriation claim at issue was voluntarily dismissed by the plaintiff." *Dumas*, 2003 WL 1194725 at *5. Interpreting this statute, the court noted that it "does not define prevailing party or specify the effect of a voluntary dismissal." *Dumas*, 2003 WL 1194725 at *6. The court reviewed other fee-shifting statutes with a prevailing party requirement and stated that, "[w]hen attorneys' fees are authorized under a statute that does not define the prevailing party, appellate courts have 'declined to adopt a rigid interpretation of the term and, instead, have analyzed which party had prevailed *on a practical level*." (emphasis added) (quoting *Heather Farms Homeowners Ass'n v. Robinson*, 26 Cal. Rptr. 2d 758 (Ct. App. 1994)). Using this "practical level" standard for determining the prevailing party, the court further stated that "a court may base its attorney fees decision on a pragmatic definition of the extent to which each party has realized its litigation objectives, *whether by judgment, settlement or otherwise*." (emphasis added) (quoting *Santisas v. Goodin*, 71 Cal. Rptr. 2d 830 (1998)). Using this standard, the court found that, by obtaining a voluntary dismissal from the plaintiff, the employee-defendant "succeeded in her litigation objective of defeating an unmeritorious claim, and thus prevailed on a practical level."; *see also*, *Lamb v. Dobson Cellular Sys., Inc.*, 2006 WL 1360859 (Ky. Ct. App. May 19, 2006) (relying upon *Black's Law Dictionary* to define a prevailing party as "a party in whose favor a judgment is rendered" but also stating that "a prevailing party is one who prevailed on a significant issue involved in the litigation"); *Eagle Group, Inc. v. Pullen*, 58 P.3d 292 (Wash. Ct. App. 2002) (stating that "a party who prevails *in part* is entitled to attorney fees for its successful claims" and permitting award of attorneys' fees for a successful appeal).

These cases provide the perception that, so long as a party can show that it achieved its litigation objective, prevailed on a significant issue, or simply won on a "practical level," then it is entitled to attorneys' fees

(assuming bad faith or willful and malicious conduct is proven). It does not appear, however, that any state appellate court of federal court has applied the prevailing party standard adopted by the U.S. Supreme Court in *Buckhannon Board & Care Home, Inc. v. W. Va. Dep't of Health & Human Resources*, 121 S. Ct. 1835 (2001), in a case involving a state's version of prevailing party standard under the UTSA. In *Buckhannon*, the Supreme Court held that a prevailing party is one who receives an enforceable judgment on the merits or a court-ordered consent decree "that creates the material alteration of the legal relationship between the parties necessary to permit an award of attorneys' fees." *Buckhannon*, 121 S. Ct. at 1840. Private settlements, for instance, would not fall within this objective framework. *See*, *Buckhannon*, n.7. Thus, if *Buckhannon* is followed in the future by state courts interpreting the prevailing party language of the UTSA, then the cases cited above applying the flexible "practical level" standard will not be followed.

Conclusion

To date, 41 states have adopted the fee-shifting provision of the Uniform Trade Secrets Act. Relatively few of these states, however, have addressed the standards and elements that a party must prove in order to actually obtain such an award. And of those that have, there is no uniformity in the definition and explanation of these standards, despite the UTSA's encouragement that the act should be construed to make uniform law among the states enacting it. Nevertheless, practitioners should be aware of the common theme for showing that a defendant acted "willfully and maliciously," and the emerging trend of the *Gemini* rules for proving that a plaintiff brought its trades secrets misappropriation claim in bad faith. Armed with this guidance, the practitioner should be able to prepare his or her case with an eye toward obtaining attorneys' fees when the case is complete.

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