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CALIFORNIA COURT AWARDS ATTORNEYS' FEES AND COSTS IN BAD FAITH TRADE SECRET LAWSUIT

In July 2012, a California appellate court affirmed a trial court's award of attorneys' fees to a trade secret defendant, finding that the plaintiff that had raised the claim of trade secret misappropriation in the case did so in "bad faith." Most state enactments of the Uniform Trade Secrets Act (UTSA) allow an award of defense fees when a trade secret claim has been initiated or maintained in bad faith, and courts in several states have issued such awards in recent years. As a result, the potential for a trade secret defendant to recover fees and costs from a trade secret plaintiff is an important consideration in trade secret litigation.

In *SASCO v. Rosendin Electric, Inc.*, the plaintiff sued three former employees and their new employer, alleging that the defendants misappropriated trade secrets relating to a software system for construction projects. The plaintiff argued that the defendants used the proprietary system to underbid the plaintiff and that the plaintiff lost a lucrative contract as a result. The defendants submitted declarations stating that they had not taken software from the plaintiff and that the plaintiff used an off-the-shelf software product. They also submitted a declaration from a third-party company explaining that the plaintiff lost the project bid because the plaintiff was the highest bidder. By contrast, the plaintiff's CEO testified, among other things, that he had no evidence that the former employees took anything. He further stated his belief that the defendants had to prove that they had not taken documents when they left the company. In response to a question about whether the plaintiff had actual evidence of trade secret

misappropriation, the court noted, the company's CEO stated that "they either took it or they're stupid."

When the defendants moved for summary judgment, the plaintiff voluntarily dismissed the lawsuit. The defendants then moved for a finding of bad faith and an award of fees and costs under California Civil Code Section 3426.4. Relying in part on a 2009 decision (*FLIR Systems, Inc. v. Parrish*) in which Wilson Sonsini Goodrich & Rosati won a \$1.6 million fee award for two prevailing trade secret defendants, the appellate court affirmed the trial court's finding that the plaintiff had acted in bad faith because the lawsuit was objectively and subjectively unreasonable. The court held that trade secret defendants need not show that a case is frivolous in order to establish "bad faith."

SASCO makes clear that to establish "bad faith" under California's trade secret statute, subjective bad faith must exist on the part of the plaintiff (i.e., the plaintiff must have filed the lawsuit for an improper purpose such as harassment, delay, or to thwart competition). In addition, to prove bad faith, a defendant must demonstrate "objective speciousness," which is present "where the action superficially appears to have merit but there is a complete lack of evidence to support the claim." Because subjective bad faith was not an issue presented on appeal, the court's analysis focused primarily on whether objective bad faith existed. The court held that it did, finding "no evidence in the record supporting the claim that defendant misappropriated SASCO's trade secrets."

The potential availability of attorneys' fees for trade secret defendants in UTSA jurisdictions means that both sides must plan their litigation positions carefully. For a potential trade secret plaintiff, it is important to make sure that there is a colorable claim of trade secret misappropriation and to distinguish the legitimate goal of intellectual property protection from merely stopping former employees from engaging in competition against their former employer—a goal that trade secret law does not encompass. The *SASCO* court underscored that speculation that the individuals must have taken trade secrets based on their decision to join a competitor does not constitute evidence of misappropriation, nor does the mere fact that their former employer may lose (or has lost) business as a result of the employees' change in employment. The court also noted the absence of (but did not require) any pre-litigation investigation or forensics work prior to the filing of the complaint.

For a trade secret defendant, if an early case investigation shows that the case lacks merit, it is important to put the plaintiff on notice of the defendant's intention to seek attorneys' fees early in the case and to point out the absence of supporting evidence continually as the case proceeds.

Wilson Sonsini Goodrich & Rosati is following developments around the country with respect to fees awards in trade secret cases actively, and the firm is available to assist companies, employees, newly formed businesses, and investors with every aspect of trade secret litigation and counseling. For more information, please contact Fred

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