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Defense Attorneys' Fee Standards Set in Pennsylvania Trade Secret Suits

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In *Best Medical International, Inc. v. Spellman*, a federal court in Pennsylvania determined—in a case of first impression—that attorneys' fees may be awarded to the prevailing defending party under the Pennsylvania Uniform Trade Secrets Act ("PUTSA") when it has demonstrated:

1. the prosecuting party's claim was objectively specious; and
2. the prosecuting party "knows or is reckless in not knowing that" that the misappropriation claim is meritless, but continues to prosecute it anyway.

This decision provides prevailing defendants in misappropriation cases brought or maintained in bad faith with a roadmap for obtaining attorneys' fees under the PUTSA.

Background

After a former employee of Best Medical joined a competitor and sued Best Medical for breach of a severance agreement, Best Medical asserted a counterclaim under the PUTSA for misappropriation of trade secrets. Early in the litigation, the former employee produced various documents and provided his computer to Best Medical for forensic analysis.

The information recovered from his computer revealed that three other former employees, all of whom had reported to him and left Best Medical soon after he did, had joined the same competitor. Best Medical then filed suit against those three former employees alleging (among other claims) violations of the PUTSA for misappropriating its trade secrets. These former employees likewise produced various documents and provided their computers for forensic evaluation.

Critically, neither the documents nor the computers revealed any evidence to suggest that they misappropriated Best Medical's trade secrets. Nevertheless, Best Medical continued to prosecute its claims against them for approximately two more years, and even added a misappropriation claim against their new employer. Further, although the court repeatedly ordered Best Medical to identify the trade secret(s) at issue "with 'reasonable particularity' as an initial step in discovery," the company waited almost two years to comply. The court subsequently awarded summary judgment for the former employees, after which they all filed motions for attorneys' fees, arguing that Best Medical filed and prosecuted its PUTSA claims in bad faith.

The Court Establishes a Two-Prong Test for Awarding Attorneys' Fees Under the PUTSA's Bad Faith Provision

The PUTSA provides that attorneys' fees may be awarded when a claim of misappropriation of trade secrets was made in "bad faith," but does not define the term. Since the PUTSA was enacted in 2004, no reported decisions in Pennsylvania have provided guidance on what constitutes "bad faith." After surveying the laws of other jurisdictions, the court determined that fees may be awarded when the defendant proves: (1) the "objective speciousness of the [prosecuting party's] claim;" and (2) the prosecuting party's "subjective bad faith in bringing or maintaining the claim."

The court went on to state that a claim is objectively specious when there is no basis, after discovery, to conclude that the defending party misappropriated a trade secret. In this case, the court found Best Medical's claims objectively specious because: (1) "Best Medical failed entirely to come forth at summary judgment with [any] evidence to support any of its misappropriation claims;" and (2) Best Medical could not even "produce a witness who could testify with particularity about the trade secrets allegedly misappropriated"

In terms of the second prong, the court explained that subjective misconduct exists where "the [prosecuting party] knows or is reckless in not knowing that its claim for trade secret misappropriation has no merit." In this case, the court concluded that Best Medical had a good faith belief in the merit of its claims at the outset, but its conduct after the initial filing was fatal. The court noted that, "despite having had access to all the information on the [former employees'] computers for two years, Best Medical failed to acknowledge that it had no evidence of misappropriation," which implied that Best Medical either "did not promptly investigate the content of those computers or it withheld exculpatory information from [the former employees]." Either way, the court concluded that Best Medical acted in bad faith.

Rationalizing that a reasonable party in Best Medical's position would have completed its review of the information stored on the former employees' computers within two months, the court determined that the attorneys' fees incurred by the former employees after that two-month period were recoverable.

Practical Implications of *Best Medical*

Best Medical provides some practical lessons for prosecuting misappropriation claims under the PUTSA:

- Before filing suit, identify with reasonable particularity the trade secrets that the individual(s) allegedly stole. The court in this case was palpably frustrated with Best Medical's failure to identify the allegedly misappropriated trade secrets until more than two years into the litigation. Further, had Best Medical identified the relevant trade secrets earlier in the case, it would have become apparent to Best Medical soon after the former employees' production of their computers and documents that there was no evidence that they had misappropriated that particular data.
- Once the requested computer files and other discovery materials are produced, they should be inspected as quickly as possible to determine whether there is evidence that the individual(s) misappropriated the trade secrets at issue, or any other trade secrets. Although a reasonable amount of time for review will vary from one case to the next, *Best Medical* suggests that two months may be a good benchmark.
- Parties have an ongoing duty to assess the viability of their misappropriation claims. As noted above, a party's subjective bad faith is measured at the time claims are brought or *maintained*. Because claims that are brought in good faith may later be maintained in bad faith, it is wise to assess periodically whether the existing evidence supports, or any further discovery is reasonably likely to support, the conclusion that a trade secret was stolen.

Conversely, *Best Medical* provides practical lessons for parties defending against claims of misappropriation of trade secrets under the PUTSA:

- Cooperate promptly with reasonable discovery requests. A critical factor in favor of the former employees' fee request in *Best Medical* was that they turned over their computers promptly, and an equally prompt examination of those computers would have made Best Medical aware that no misappropriation occurred. In those circumstances, the court reasoned, Best Medical's failure to acknowledge for over two years that it had no evidence of misappropriation meant it failed to promptly examine the former employees' computer files or it withheld

exculpatory information. Either way, according to the court, Best Medical acted in bad faith. A different conclusion might have been made by the court if the former employees had not cooperated with discovery early in the case.

- After the close of discovery, if there is no evidence of misappropriation, demand that the prosecuting party withdraw the PUTSA claim.
- If the prosecuting party does not comply, and the defending party prevails on summary judgment because there is no competent evidence to suggest any misappropriation of trade secrets in violation of the PUTSA, it may be worth considering a motion for recovery of attorneys' fees.

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