

# Federal Judge Demonstrates High Bar for DTSA Fee Shifting

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A federal court judge in the U.S. District Court for the Southern District of New York recently denied the prevailing Defendants' motion for \$11.6 million in attorneys' fees in a trade secret misappropriation case between two large competitors providing translation services. Despite the Court indicating that the lawsuit had not been filed and pursued in good faith, and also finding the Plaintiff's overall litigation conduct to be "unsavory business," the Court nevertheless ruled that the Defendants failed to meet the requisite standard of bad faith necessary to receive an award of fees under the Defend Trade Secrets Act ("DTSA"). The Court's ruling is a useful illustration of the high bar that courts may set for establishing bad faith under the DTSA.

The dispute goes back to August 2015 when the Delaware Court of Chancery ordered a

court-supervised auction for the sale of Plaintiff TransPerfect Global, Inc. (“TransPerfect”), so that one of its co-founders could dissolve her relationship with TransPerfect and sell her ownership interest. Defendant H.I.G. Middle Market, LLC (“H.I.G.”), which acquired TransPerfect’s largest competitor—Lionbridge Technologies, Inc. (“Lionbridge”), a second defendant in the case—in February 2017, was one of the participants in the auction. As such, H.I.G. was given access to TransPerfect’s confidential information. TransPerfect claimed that H.I.G. was never a legitimate bidder in the auction, but instead used the auction to gain access to TransPerfect’s trade secrets and confidential information, including documents that a court-appointed TransPerfect Custodian erred in uploading in unredacted form, and then unfairly competed with TransPerfect. TransPerfect also alleged that Lionbridge changed its sales strategy, offered products and pricing to mirror those of TransPerfect, and used TransPerfect’s trade secrets to poach its clients. Accordingly, TransPerfect filed suit in 2019 against Lionbridge and H.I.G. alleging, among other claims, misappropriation of trade secrets under the DTSA and state law. TransPerfect sought injunctive relief and damages.

Approximately two years later, and after significant discovery, Defendants moved for summary judgment on all of TransPerfect’s claims. The Court granted the motion, finding that TransPerfect had failed to show sufficient evidence to support its claims. In analyzing the trade secret misappropriation claims, the Court found that TransPerfect failed to show evidence that a majority of the documents identified by TransPerfect as allegedly containing trade secrets that were misappropriated by Defendants, were either accessed by Defendants or actually contained trade secrets.

However, the Court confirmed that two categories of information that were accessed by H.I.G.—TransPerfect’s average payment to its freelance linguists in cents per word and its 2014 and 2015 revenues per customer—constituted trade secrets. But the open question before the Court was whether these trade secrets had been acquired by improper means so as to constitute misappropriation. The Court ruled that TransPerfect had failed to establish misappropriation. The Court reasoned that the parties had a confidentiality agreement explicitly permitting H.I.G. and its representatives to access information about TransPerfect to conduct due diligence and evaluate a potential acquisition of TransPerfect, and that the court-appointed TransPerfect Custodian’s error in uploading unredacted documents that included the trade secrets at issue was not in fact misappropriation by Defendants. The Court also stressed that TransPerfect had not requested the return or destruction of that information. Finally, the Court found that the confidentiality agreement permitted Defendants to use information about TransPerfect in connection with the auction and that TransPerfect has failed to demonstrate that its trade secrets were used for any other purpose.

Having prevailed on their motion for summary judgment, H.I.G. and Lionbridge filed a motion for attorneys’ fees exceeding \$11.6 million. In support of their motion, Defendants argued that TransPerfect had initiated the lawsuit solely to seek revenge against, and to harass Lionbridge, its largest competitor, and H.I.G., Lionbridge’s private equity sponsor, for their participation in the auction of TransPerfect, even though there was no supporting

evidence for TransPerfect's allegations.

Under the DTSA, a court can award reasonable attorneys' fees to the prevailing party when a claim of misappropriation is made in bad faith, which can be established by circumstantial evidence. Courts also have inherent power to award attorneys' fees for bad faith, which requires the movant to show that the challenged claim lacks any legal or factual basis and was brought in bad faith, *i.e.*, was motivated by improper purposes such as harassment or delay. A finding of improper purposes can be inferred when an action is so completely without merit so as to necessitate the conclusion that the action must have been undertaken for some improper purpose.

In light of the summary judgment ruling, Defendants were clearly the prevailing party. Accordingly, the Court analyzed whether Defendants had demonstrated that TransPerfect filed the misappropriation claim in bad faith. First, the Court indicated that TransPerfect did not have a good faith basis to file the lawsuit initially, seemed to be conducting a search for a viable claim after commencing suit, and then continued to pursue its claims even after it became clear that it had not suffered any damages. Second, the Court looked at the conduct of TransPerfect's CEO in other lawsuits against almost every other entity connected to the auction, in what was alleged to be an orchestrated campaign to undermine the auction, which the Delaware Supreme Court described as "reprehensible." The Court stated that, "this is unsavory business" but the question remained whether Defendants had established TransPerfect's "bad faith to the degree demanded by law." The Court ultimately concluded that Defendants had made a strong showing of TransPerfect's bad faith but had failed to reach the required standard, and thus denied their motion for fees.

As this case demonstrates, the expense of trade secrets litigation can be very significant. Yet, prevailing defendants may nonetheless be left holding the bag for their fees, as establishing the bad faith required for fee shifting to occur under the DTSA may require extraordinary circumstances.