UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

PROGRESSIVE SOLUTIONS, INC.,

Plaintiff,

v.

MICHAEL STANLEY, et al.,

Defendants.

Case No. 16-cv-04805-SK

ORDER REGARDING MOTION FOR ATTORNEYS' FEES AND COSTS

Regarding Docket No. 102

Now before the Court is the motion for attorneys' fees and costs filed by Defendants City of Oakland (the "City") and Michael Stanley ("Stanley") (collectively referred to as "Defendants"). Having carefully considered the parties' papers, relevant legal authority, and the record in the case, the Court hereby GRANTS IN PART and DENIES IN PART Defendants' motion for the reasons set forth below.

Defendants seek their attorneys' fees and costs as the prevailing parties in this matter pursuant to the contracts at issue and based on state and federal statutes relating to the trade secret claims. Here, the same set of lawyers defended both the City and Stanley throughout this action. The Court will first address Defendants' entitlement to attorneys' fees and costs under the contracts between Plaintiff Progressive Solutions, Inc. ("PSI") and Defendants and then will address whether Defendants have any statutory rights to their attorneys' fees and costs.

Procedural Background

In 2007, PSI and the City entered into a contract in which PSI licensed PSI's tax software to the City and provided related services (the "City Contract"). Stanley had previously entered into an employment agreement with PSI (the "Stanley Contract"). In 2012, Stanley stopped working for PSI and began working for the City. Stanley retired in May 2015.

PSI accused Stanley of breaching the Stanley Contract and accused the City of breaching

the City Contract. PSI also accused both Defendants of misappropriating its trade secrets and confidential information. PSI also accused the City of failing to pay fees allegedly owed under the City Contract. In its original complaint filed in state court, PSI alleged claims for breach of contract against Stanley and the City, misappropriation of trade secrets against Stanley and the City, and a claim for violation of Cal. Bus. & Prof. Code § 17200 *et seq.* ("unfair competition") against both Stanley and the City. (Dkt. 1-2.) PSI then amended its complaint, and in the Second Amended Complaint, PSI dropped its unfair competition claim but added claims for breach of the implied covenant of good faith and fair dealing, intentional interference with contract, intentional and negligent interference with prospective economic advantage, and violation of the federal Defend Trade Secrets Act, 18 U.S.S. section 1831 et seq. ("DTSA"). (Dkt. 1-11.) The inclusion of the federal DTSA claims led to removal of the action to this Court.

PSI based its claims for both breach of contract and misappropriation of trade secrets on the City's and Stanley's misuse of PSI's trade secrets and confidential information. (*Id.*) Thus, PSI based its claim for breach of the City Contract against the City on both failure to pay and misappropriation of trade secrets, and PSI also asserted a separate claim against the City for misappropriation of trade secrets under California law (Cal. Civ. Code s§3426 *et seq.*) and the DTSA. PSI also asserted a claim for breach of the Stanley Contract on Stanley's alleged misappropriation of trade secrets and also asserted separate claims for misappropriation of trade secrets under California law and the DTSA.

Defendants brought a motion for partial summary judgment to address PSI's state-law claims and PSI's compliance with the California Government Claims Act ("CGCA"). *See* Cal. Gov't Code §§ 900 *et seq*. The California Government Claims Act requires that, before a party can sue a municipal entity like the City, the party must first present the same claim to the City. *See* Cal. Gov't Code §§ 905, 945.4, 950.2; *City of San Jose v. Superior Court*, 12 Cal. 3d 447, 454 (1974). Defendants argued that PSI presented a claim to the City on a narrow ground of overpayment but not for misappropriation of trade secrets. (Dkt. 50.) The Court found that PSI's pre-suit claim to the City only addressed PSI's alleged failure to pay fees and granted judgment on all of PSI's state-law claims against Stanley and all of PSI's non-contractual state-law claims

against the City. Thus, the only claims that remained were PSI's breach of contract claim against the City and both of PSI's DTSA claims against Stanley and the City.[1] (Dkt. 58.)

Although the Court held, in adjudicating the first motion for partial summary judgment, that PSI's pre-suit claim presentment was limited to the City's alleged failure to pay fees, the Court did not formally grant summary judgment on any part of PSI's breach of contract claim. Because PSI based its claim for breach of contract against the City both on failure to pay and on misappropriation of trade secrets in violation of the City Contract, Defendants moved again for summary judgment on PSI's claim for breach of contract against the City and on PSI's DTSA claims against Stanley and the City. In opposition to the second motion for summary judgment, PSI argued that the City breached the software agreement both by failing to pay fees and by misappropriating trade secrets. On March 8, 2018, the Court granted summary judgment on PSI's breach of contract claim against the City in full, but reserved ruling pending briefing on jurisdiction over PSI's DTSA claims. (Dkt. 86.) Thus, as of March 8, 2018, the only claims remaining were for violation of the DTSA against the City and Stanley. The Court requested briefing on jurisdictional issues related to the DTSA claims. (Dkt. 88.) Then, on April 24, 2018, the Court then granted summary judgment for the City and Stanley on the remaining DTSA claims. (Dkt. 99.)

Analysis

A. PSI's State Law Claims.

Eligibility for an award of attorneys' fees and costs for state law claims is a matter of California law. *See Mangold v. Cal. Pub. Utils. Comm'n*, 67 F.3d 1470, 1478 (9th Cir. 1995); *see also Ford v. Baroff*, 105 F.3d 439, 442 (9th Cir. 1997). California follows the so-called "American Rule," which provides that each party in a lawsuit is ordinarily responsible for its own attorneys' fees. *Hensley v. Eckerhart*, 461 U.S. 424, 429 (1983). Courts may, however, award attorneys' fees when a party has sued under a contract that includes a valid agreement for a fee

[1] The Court held and the parties appeared to agree that California Government Claims Act applies only to state law claims and does not affect a party's right to pursue a federal claim against a municipal entity because state procedural law cannot affect the ability of a party to assert a federal claim in federal court.

award to the prevailing party. *See* Cal. Code Civ. Proc. § 1021 ("Except as attorney's fees are specifically provided for by statute, the measure and mode of compensation of attorneys and counselors at law is left to the agreement, express or implied, of the parties."); *see also* Cal. Code Civ. Proc. §§ 1032(b); 1033.5(a)(10). Pursuant to Section 1021, "parties may validly agree that the prevailing party will be awarded attorney fees incurred in any litigation between themselves, whether such litigation sounds in tort or in contract." *Xuereb v. Marcus & Millichap, Inc.*, 3 Cal. App. 4th 1338, 1341 (citations omitted).

Here, it is undisputed that Defendants are the prevailing parties in this matter. It is also undisputed that the contracts at issue provide for attorneys' fees and costs.[2] Nor does PSI challenge Defendants' right to recover any of their costs. The only disputed issues regarding PSI's state-law claims are the scope of coverage regarding the attorneys' fees (*i.e.*, whether the attorneys' fee provision applies to PSI's non-contractual claims) and whether the requested fees are reasonable.[3]

When a party sues on contract and non-contract claims, the prevailing party may only recover attorneys' fees as they relate to the contract claims. *Reynolds Metals Co. v. Alperson*, 25 Cal. 3d 124, 129 (1979). Nevertheless, attorneys' fees need not be apportioned between covered contract and non-covered contract claims when they were incurred on issues that were common to both types of claims. *Id.* at 129-30. Stated another way, when the covered and non-covered claims are "inextricably intertwined . . . making it impracticable, if not impossible, to separate the

[2] The City Contract provides: "If either party commences an action or proceeding to determine or enforce its rights hereunder, the prevailing party shall be entitled to recover from the losing party all expenses reasonably incurred, including court costs, reasonable attorneys' fees and costs of suit as determined by the court." (Dkt. 102-2 (Declaration of Ilse C. Scott), Ex. I.) The Stanley Contract provides: "In the event any action is subsequently brought by one party against the other party to enforce this Agreement or to pursue any matter or issue which is deemed to be within the scope of this Agreement, the losing party shall be responsible to the prevailing party for all actual costs and actual attorney fees incurred as a result of taking such action in contravention of the terms of this Agreement." (*Id.*, Ex. J.)

[3] PSI also suggests that because the Court determined that the contract between it and the City had expired, perhaps the attorneys' fee provision had expired as well. (Dkt. 106 (Opp.) at 2-3.) However, PSI alleged that the City breached the contract, and, thus, the City was obligated to defend the lawsuit. As noted above, the City Contract provides for attorneys' fees to the prevailing party "[i]f either party commences an action or proceeding to determine or enforce its rights" under the agreement. The fact that the Court ultimately determined that the contract had expired does not erase the fact that PSI sued for breach of the contract and that the City prevailed.

multitude of conjoined activities into compensable or noncompensable time units," a court need not apportion the attorneys' fees between the claims. *Abdallah v. United Sav. Bank*, 43 Cal. App. 4th 1101, 1111 (1996) (internal citation and quotation marks omitted).

Here, all of PSI premised all its non-contractual causes of action on the same theory – that Defendants improperly used and/or disclosed PSI's trade secrets and confidential information. Although PSI accused the City of breaching the contract by failing to pay PSI, PSI also alleged that the City breached the City Contract and that Stanley breached the Stanley Contract by misappropriating and disclosing PSI's trade secrets and confidential information. (Dkt. 1-11.) Notably, even after the Court granted judgment on all PSI's state-law claims except for its breach of contract claim against the City on the grounds that PSI's pre-suit claim presentment only addressed the City's alleged monetary breach, PSI continued to assert that the City wrongfully used and/or disclosed PSI's proprietary information. (Dkt. 72.) Therefore, the Court finds that it would be impracticable – if not impossible – to separate out which tasks were incurred in defending PSI's contractual claims as opposed to its non-contractual claims.[4] Defendants before March 8, 2018 defended against the allegations of misappropriation under both the claims for breach of contract and state and federal law specifically targeted to misappropriation. If PSI had only attacked Defendants for misappropriation in their breach of contract claims, Defendants would have incurred the same attorneys' fees. For this reason, the Court finds that Defendants are entitled to all their attorneys' fees before March 8, 2018, based on the attorneys' fees provision in the City Contract and the Stanley Contract.

B. PSI's Defend Trade Secret Act Claims.

On March 8, 2018, after the Court granted summary judgment on PSI's breach of contract claim against the City, only PSI's DTSA claims against the City and Stanley remained. Under the DTSA, the prevailing party may recover its reasonable attorneys' fees if the claim of misappropriation under the Act was made in bad faith. *See* 18 U.S.C. § 1836(b)(3)(D). Therefore, Defendants may only recover their attorneys' fees incurred after March 8, 2018 if they

[4] The Court thus need not address Defendants' alternative arguments regarding PSI's non-contractual state-law claims.

demonstrate that PSI's DTSA claims were brought in bad faith or that the fees incurred after March 8, 2018 actually relate to their defense of PSI's state-law claims.

1. PSI's DTSA Claim against the City

Although PSI was ultimately not successful in its DTSA claim against the City, the Court finds that PSI did not bring this claim in bad faith. PSI did not garner sufficient evidence to prove that the City had misappropriated a protected trade secret, but that does not mean that no evidence existed. For example, the City argues the Court can infer that PSI's DTSA claim was brought to stifle competition with its competitor, HdL, based on PSI's lack of evidence of misappropriation. PSI failed to obtain a copy of the database the City provided to HdL through discovery, and thus, did not have the evidence to prove its claim. However, it is uncertain whether PSI could have demonstrated that the City provided HdL protected trade secrets if had obtained, and filed with the Court, a copy of the database. On the record before it, the Court finds that PSI's DTSA claim against the City was not brought in bad faith.

2. PSI's DTSA Claim against Stanley

In contrast, the Court finds that PSI did litigate its DTSA claim against Stanley in bad faith. The DTSA became effective on May 11, 2016 and applies only to misappropriation that occurred after that date. Defend Trade Secrets Act of 2016, Pub. L. No. 114-153, 130 Stat. 376 (2016). Stanley's employment with the City ended in May 2015, a year before the DTSA's effective date. In their motion for summary judgment, Defendants argued that Stanley did not engage in any relevant conduct under the DTSA after he stopped working for the City. In opposition to the motion for summary judgment, PSI failed even to address its DTSA claim against Stanley. In their motion for attorneys' fees, Defendants again noted PSI's failure to show that Stanley engaged in any relevant conduct after the DTSA's effective date. (Dkt. 102 at p.15.) Again, in its opposition brief, PSI failed to address this point. (Dkt. 106.) It was not until the Court indicated that it was inclined to find that PSI's DTSA claim against Stanley was in bad faith that PSI first addressed this timing issue. (Dkt. 115.)

PSI argues that it filed its Second Amended Complaint with its DTSA claims shortly after the DTSA was enacted and that it was not aware how the DTSA would be interpreted. It further

argues that the DTSA does not include any "anti-retroactive language." However, "[a]bsent clear legislative intent to the contrary, a presumption exists against retroactive application of new statutes." *See TwoRivers v. Lewis*, 174 F.3d 987, 993 (9th Cir. 1999) (citing *Landgraf v. USI Film Products*, 511 U.S. 244, 265 (1994) (stating that "the presumption against retroactive legislation is deeply rooted in our jurisprudence"); *Bowen v. Georgetown Univ. Hosp.*, 488 U.S. 204, 208 (1988) ("Retroactivity is not favored in the law.")). PSI does not make a serious argument that the DTSA could be interpreted to apply retroactively in light of this presumption.

PSI cites to one district court case, *Brand Energy & Infrastructure Servs. Inc. v. Irez Contracting Corporation*, 2017 WL 1105648 (E. D. Pa. March 24, 2017), which PSI argues "found that pre-enactment acts of misappropriation may be compensable under the DTSA." (Dkt. 115 at p. 3.) However, the court in that case simply found that the plaintiff alleged "multiple uses of its trade secrets that *continued* to occur *after* the date the DTSA *was enacted*" and therefore the plaintiff could pursue its claim under the DTSA for these continuing violations. *Brand Energy & Infrastructure Servs.*, 2017 WL 1105648, at *4 (emphasis added). Here, PSI has never argued, and there is no evidence in the record to show, that Stanley engaged in any conduct even potentially covered by the DTSA after he stopped working for the City. In the absence of any evidence that PSI ever had a potentially viable DTSA claim against Stanley, the Court finds that it brought this claim against Stanley in bad faith. Therefore, Stanley may recover his reasonable attorneys' fees incurred in defense of the DTSA claim. Thus, after March 8, 2018, Defendants may only recover their attorney's fees attributable to the defense of PSI's DTSA claim against Stanley or relating to post-judgement defense of PSI's state-law claims.

C. Determining the Amount of Attorneys' Fees.

After a court decides that a contractual provision provides attorneys' fees for a prevailing party, the court must determine the reasonableness of the requested fees. "Where a contract provides for attorneys' fees but does not specify a particular sum, it is within the trial court's discretion to determine what constitutes reasonable attorneys' fees." *Niederer v. Ferreira*, 189 Cal. App. 3d 1485, 1507 (1987) (citations omitted). In California, this inquiry "ordinarily begins with the 'lodestar,' i.e., the number of hours reasonably expended multiplied by the reasonable

hourly rate." *PLCM Group v. Drexler*, 22 Cal. 4th 1084, 1095 (2000). "The reasonable hourly rate is that prevailing in the community for similar work." *Id.* (citations omitted).

"The lodestar figure may then be adjusted, based on consideration of factors specific to the case, in order to fix the fee at the fair market value for the legal services provided." *Id.* These factors include:

> the nature of the litigation and its difficulty; the amount of money involved in the litigation; the skill required and employed in handling the litigation; the attention given to the case; the attorney's success, learning, age and experience in the particular type of work demanded; the intricacy and importance of the litigation; the labor and necessity for skilled legal training and ability in trying the case; and the amount of time spent on the case

Niederer, 189 Cal. App. 3d at 1507. Federal law similarly uses the lodestar method to calculate reasonable attorneys' fees. *See, e.g., Grove v. Wells Fargo Fin. Cal., Inc.*, 606 F.3d 577, 582 (9th Cir. 2010).

Upon review of the Defendants' supporting evidence, with a few exceptions addressed below, the Court finds that the rates and hours expended by Defendants' counsel were reasonable. The Court notes that the way PSI litigated this action needlessly inflated the hours Defendants' counsel need to expend. PSI repeatedly filed its briefs and supporting evidence late. PSI continued to shift its theory of misappropriation and the identity of trade secrets at issue. PSI also pursued theories that bordered on frivolous. For example, PSI asserted state-law claims for misappropriation of trade secrets under state law, even though PSI's pre-suit presentment claim only addressed the City's alleged monetary breach. After the Court determined that PSI's pre-suit presentment claim was limited to the City's alleged monetary breaches, PSI continued to assert that the City misappropriated its trade secrets as a basis for its claim for breach of contract. PSI did not dismiss its DTSA claim against Stanley but then did not defend the motion for summary judgment against this claim.

The Court finds that Defendants have not charged for duplicative, unnecessary, or nonrecoverable work, with a few exceptions. Defendants explain that they incurred $2,265 in fees after March 8, 2018, when only the DTSA claims were pending, for tasks relating to the administration of the action, but included assessing PSI's public records requests. (Dkt. 113.) The

Court finds that the time spent for assessing PSI's public records request is not a litigation-related task, and thus deducts $1,000 for that task. Defendants also explain that they incurred $1,698.50 in analyzing the Court's final order on their motion for summary judgment, which resolved the DTSA claims against both Stanley and the City. (*Id.*) The overwhelming majority of that Order addressed PSI's DTSA claim against the City, as opposed to against Stanley. Because the Court determined that Defendants could only recover their attorney's fees regarding PSI's DTSA claim against Stanley, the Court finds that Defendants may only recover twenty-five percent of this amount, or $424.62. The Court also finds that expending $51,111.50 in bringing this motion for attorneys' fees and costs was excessive and thus deducts twenty-five percent, which amounts to $12,777.88. The Court will also deduct the deductions to which Defendants agreed, which amount to $15,000, as discussed in Defendants' supplemental brief. (Dkt. 113.)

CONCLUSION

Accordingly, HEREBY GRANTS IN PART and DENIES IN PART Defendants' motion for attorneys' fees and costs. The Court awards $802,436.40 in attorneys' fees and $175,363.05 in costs, which takes into account the deductions noted above. The Court did not include the amount Defendants estimated they would incur with respect to post judgment activities and instead used the amounts actually incurred set forth in Defendants' supplemental brief. (Dkt. 113.)

IT IS SO ORDERED.

Dated: July 13, 2018

Sallie Kim

SALLIE KIM
United States Magistrate Judge

United States District Court
Northern District of California