United States District Court
Northern District of California

IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

PROOFPOINT, INC., et al.,

Plaintiffs,

v.

VADE SECURE, INCORPORATED, et al.,

Defendants.

Case No. 19-cv-04238-MMC

ORDER DENYING PLAINTIFFS' MOTION FOR ATTORNEYS' FEES

Before the Court is plaintiffs Proofpoint, Inc. and Cloudmark LLC's Motion for Attorneys' Fees, filed February 10, 2023. Defendants Vade Secure, Inc. and Vade Secure SASU (collectively, "Vade") have filed opposition, to which plaintiffs have replied. Having read and considered the parties' respective written submissions, the Court rules as follows.[1]

In the above-titled action, plaintiffs asserted that Vade and Olivier Lemarié ("Lemarié"), who Vade formerly employed as its Chief Technology Officer, misappropriated twenty of plaintiffs' trade secrets in violation of the Defend Trade Secrets Act ("DTSA"). Beginning July 26, 2021, a jury trial was conducted. On August 20, 2021, the jury rendered its verdict as follows: (1) plaintiffs' asserted Trade Secrets 1-7 and 9-20 qualified as trade secrets, but asserted Trade Secret 8 did not, (2) Vade willfully and maliciously misappropriated Trade Secrets 1-7 and 9-16,[2] but did not misappropriate

[1] By order filed March 13, 2023, the Court deferred ruling on the instant motion until after resolution of plaintiffs' motion for judgment as a matter of law, which motion was denied by order filed April 18, 2023.

[2] The jury also found Lemarié misappropriated Trade Secrets 1-7 and 9-15, but that he did not do so willfully and maliciously. Plaintiffs do not seek an award of attorneys' fees as against Lemarié.

Trade Secrets 17-20, (3) plaintiffs did not suffer an actual loss as a result of the misappropriation, and (4) Vade, by reason of the misappropriation, was unjustly enriched in the amount of $13,495,659.

By the instant motion, plaintiffs seek, pursuant to DTSA, an award of attorneys' fees as against Vade. Under DTSA, "a court may . . . [,] if . . . the trade secret was willfully and maliciously misappropriated, award reasonable attorneys' fees to the prevailing party." See 18 U.S.C. § 1836(b)(3)(D). Here, as noted, the jury found Vade willfully and maliciously misappropriated plaintiffs' trade secrets, and, consequently, the Court has discretion to award reasonable attorneys' fees to plaintiffs.

The instant motion is the second motion whereby plaintiffs seek, under DTSA, a remedy that a district court has discretion to award upon a finding of willful and malicious misappropriation. Specifically, on September 10, 2021, plaintiffs sought an award of exemplary damages under a subsection providing "a court may . . .[,] if the trade secret is willfully and maliciously misappropriated, award exemplary damages." See 18 U.S.C. § 1836(b)(3)(C). By order filed November 18, 2021, the Court considered and weighed six factors relevant to a determination of whether a plaintiff, upon a finding of willful and malicious misappropriation, is entitled to an award of exemplary damages, and, having found those factors did not support such an award in the above-titled action, denied the motion for exemplary damages.

As Vade points out, in the cases cited by plaintiffs in which a court awarded attorney's fees to a plaintiff who prevailed on its trade secret claims, the court also awarded the plaintiff exemplary damages. See, e.g., Mattel, Inc. v. MGA Entertainment, Inc., 801 F. Supp. 2d 950, 956 (C.D. Cal. 2011) (finding plaintiff entitled to exemplary damages where "all of the factors . . . appear[ed] to have been satisfied"; further finding plaintiff entitled to fees). Vade argues the converse is appropriate here, namely, that where exemplary damages are not awarded, attorney's fees likewise should not be awarded.

Although both an award of exemplary damages and an award of attorney's fee

require a finding of willful and malicious misappropriation, the purpose of an award of exemplary damages is "to punish the tortfeasor whose wrongful action was intentional or malicious, and to deter him and others from similar extreme conduct," see City of Newport v. Fact Concerts, Inc., 453 U.S. 247, 266-67 (1981), while the purpose of an award of attorney's fees is "to compensate the prevailing party for its monetary outlays in the prosecution or defense of the suit," see Central Soya, Inc. v. Geo. A. Hormel & Co., 723 F.2d 1573, 1578 (Fed. Cir. 1983). Given those different purposes, the factors considered in determining whether an award of exemplary damages is appropriate do not directly apply to the determination as to whether an award of attorney's fees is appropriate, and, consequently, the Court's denial of plaintiffs' motion for exemplary fees is not, standing alone, a basis for denying plaintiffs' motion for attorney's fees.

As noted, however, as with exemplary damages, a plaintiff may seek an award of attorney's fees only where the trier of fact has determined the misappropriation was willful and malicious, in which case a court has discretion, but is not required, to award fees. In that regard, Vade argues plaintiffs have not identified evidence of Vade's having engaged in willful and malicious misappropriation sufficient to warrant an award of fees.

At the close of plaintiffs' case, Vade moved for judgment as a matter of law, in which motion it argued plaintiffs lacked evidence to establish Vade engaged in willful and malicious misappropriation. As the Court did not grant Vade's motion, the question was "submitted . . . to the jury subject to the court's later deciding the legal questions raised by the motion." See Fed. Civ. P. 50(b). After entry of judgment, however, Vade did not file a "renewed motion for judgment as a matter of law," see id, and, consequently, the Court lacks authority to set aside the finding that Vade engaged in willful and malicious misappropriation, see Johnson v. New York, N.H. & N.R. Co., 344 U.S. 48, 50 (1952) (holding, in absence of timely motion for judgment notwithstanding verdict, district court lacks authority to enter such judgment).

Nevertheless, even if the Court is not in a position to consider whether evidence of willful and malicious misappropriation on the part of Vade is entirely missing, such

evidence is, at best, of such minimal character as to present one of the unusual situations where it is appropriate to deny an award of fees.

At trial, plaintiffs' showing as to willful and malicious misappropriation centered on Lemarié. In particular, as to plaintiffs' spear phishing trade secrets, which plaintiffs argued and the jury appears to have found were included in a Vade program called identitymatch (see Transcript of Trial Proceedings ("Tr.") 2769:1-5), plaintiffs argued Lemarié "work[ed] alone" on identitymatch (see id. 2762:24-2763:3), "secretly" and without "any collaboration" (see id. at 2770:19-23), thus acknowledging the lack of evidence that any other Vade employee was involved in developing identitymatch, much less that another Vade employee engaged in willful and malicious misappropriation in connection with identitymatch.

Thereafter, having failed to convince the jury that Lemarié engaged in willful and malicious misappropriation, plaintiffs, in support of their motion for exemplary damages, endeavored to identify acts on the part of other Vade officers, employees, or agents that rose to that level of misconduct. In its order denying plaintiffs' motion for exemplary damages, the Court addressed those acts and found that none, whether considered separately or together, were sufficient to support an award of exemplary damages. Having again reviewed those acts, almost all of which are asserted by plaintiffs in connection with the instant motion, the Court finds, as discussed below, they constitute, at best, minimal evidence of willful and malicious misappropriation.

More specifically, with regard to Vade's infringement of Trade Secrets 1-7 and 9-15, which pertain to spear phishing, although plaintiffs have cited an email Lemarié sent to several Vade employees discussing spear phishing (see PX2146), the email did not, contrary to what plaintiffs have claimed, state or suggest to its receipients that Lemarié had used or would use plaintiffs' trade secrets to develop a spear phishing product for Vade. Rather, as the Court noted at a prior hearing, it referred to no more than the general subject of spear phishing. (See Transcript of Proceedings by Zoom Webinar, August 12, 2022, 23:24-24:6.) Although, as another example, plaintiffs rely on internal

Vade documents using strong language in discussing competition with Cloudmark (see PX100.3, PX 1863.0016), those documents appear to pre-date the time at which Lemarié acknowledged to anyone at Vade that he had used Cloudmark code to develop identitymatch and, in any event, internal Cloudmark documents use similar strong language (see, e.g., Tr. 1044:1-1045:25), thus suggesting strong competitive language is common in the industry.

With regard to Vade's misappropriation of Trade Secret 16, which consists of Cloudmark licensing reports as to its "MTA" product, plaintiffs rely, as they did in seeking exemplary damages, on evidence that former Cloudmark employee Xavier Delannoy retained the reports when he left Cloudmark's employ and, subsequently, while employed by Vade, forwarded them to Georges Lotigier, Vade's Chief Executive Officer ("Lotigier"), who, in turn, forwarded them to Andre Gendre, Vade's Chief Product and Services Officer, via an email in which Lotigier used a winking emoticon. (See PX2254.0002.) The reports, however, included no trade secrets as to any Cloudmark product, and, although plaintiffs contend the reports demonstrated the potential profitability of an MTA product, the jury found Vade did not infringe Trade Secrets 17-20, which contain Cloudmark's secrets pertaining to the design and implementation of an MTA.

Additionally, plaintiffs repeat their argument that Vade engaged in vexatious conduct during the course of discovery. Other than citing unsuccessful arguments made by Vade over the lengthy course of discovery, plaintiffs rely on a finding by the magistrate judge overseeing discovery that plaintiffs were entitled to recover monetary sanctions due to Vade's delay in producing source code. Plaintiffs, however, were financially compensated for that delay, which did not prejudice plaintiffs' ability to present their case to the jury. Although plaintiffs also argue that the magistrate judge found "Vade" engaged in spoliation of evidence during the course of discovery (see Pls.' Mot. at 10:2-3), the magistrate judge did not find any Vade employee other than Lemarié engaged in spoliation. Rather, the magistrate judge's finding was based solely on conduct by Lemarié, and the evidence pertaining to Lemarié's asserted spoliation was presented to

the jury, who, in light of the finding that he did not engage in willful and malicious misappropriation, did not find plaintiffs' evidence persuasive.

The Court next considers three arguments now made by plaintiffs but not previously raised in connection with their motion for exemplary damages, and, for the reasons set forth below, finds they do not support an award of attorneys' fees, whether considered separately or in connection with plaintiffs' other arguments.

First, plaintiffs assert that, if they are not awarded fees, "there may well be a chilling effect of future enforcement actions by other trade secret owners, who would be forced to weigh the costs of complex litigation against enforcing their rights and protecting U.S. innovation." (See Pls.' Mot. [Doc. No. 865] at 2:1-4.) The Supreme Court, however, has rejected a similar argument where, as here, such contention was "unsupported by any empirical evidence." See Buckhannon Board and Care Home, Inc. v. West Virginia Dep't of Health and Human Resources, 532 U.S. 598, 608 (2001) (rejecting, as unsupported, argument that, for purposes of Americans With Disabilities Act, failure to adopt "catalyst theory" of attorneys' fees would "deter plaintiffs with meritorious but expensive cases from bringing suit").

Next, plaintiffs, citing a United States Senate report recommending the enactment of DTSA, see S. Rep. No. 114-220 (2016), assert that "the[ ] goals and purposes of the DTSA would be undermined if a prevailing plaintiff is faced with the prospect of expensive, uncoverable legal fees to enforce its rights." (See Pls.' Mot. at 7:18-19.) Congress, however, chose to make an award of attorneys' fees under DTSA both contingent and discretionary, as opposed to mandatory to the prevailing party, which it has done in other statutes. See, e.g., 15 U.S.C. § 1692k(a)(3) (providing, where plaintiff prevails on claim under Fair Debt Collections Practices Act, defendant "is liable" for "the costs of the action, together with a reasonable attorney's fee as determined by the court"); 18 U.S.C. § 1964(c) (providing plaintiff who prevails on RICO claim "shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee").

Lastly, plaintiffs argue that "[t]he need for recovery of fees" is "even more articulated here where no exemplary damages or injunctive measures have been imposed" against Vade, which "could easily revert back to using the misappropriated technology, forcing [p]laintiffs to incur yet more legal fees to bring a new suit." (See Pls.' Mot. at 7:23-8:3.) Plaintiffs, however, have not shown an award of attorneys' fees is necessary to deter Vade from using plaintiffs' trade secrets in the future. As the Court found in denying plaintiffs' motion for exemplary damages, "the amount awarded, close to thirteen and a half million dollars, is a substantial sum, a sum that may well affect the manner in which Vade has chosen to allocate resources." (See Order [Doc. 820] at 6:5-7.)

Additionally, Vade replaced identitymatch with a program designed by Zenika, an unrelated company, and plaintiffs have suggested no reason why Vade would "revert back" to selling products it has discontinued. Moreover, although the Court denied plaintiffs' motion for a permanent injunction, there being a lack of evidence of "continuing use" of plaintiffs' trade secrets by Vade (see Order [Doc. No. 860] at 3:23-24), the Court issued a Final Disposition Order, by which it established a protocol for disposition of the source code files that had been left in Vade's possession by Lemarié (see Order [Doc.No. 862]), and plaintiffs have not suggested Vade, in the more than seven months since its issuance, has in any manner failed to comply therewith.

Accordingly, for all the reasons set forth above, plaintiffs' motion for an award of attorneys' fees is hereby DENIED.

IT IS SO ORDERED.

Dated: September 5, 2023

MAXINE M. CHESNEY
United States District Judge

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Northern District of California