

Fifth Circuit Denies Defendants' "Halftime" Attempt to Shift Fees Under the DTSA

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by Benjamin Greenberg

Earlier this month, the Fifth Circuit ruled that under the Defend Trade Secrets Act (18 U.S.C. § 1836, *et seq.*) ("DTSA"), a defendant is not the "prevailing party" by virtue of a plaintiff voluntarily dismissing a DTSA claim, where the dismissal is without prejudice. The DTSA provides for fee shifting in favor of a "prevailing party" defendant in the event that "a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence." As a matter of first impression, in *Dunster Live, LLC v. Lonestar Logis Mgmt. Co., LLC, et al.* the Fifth Circuit determined that the defendants were not the prevailing party under the DTSA when a plaintiff voluntarily dismissed its DTSA claim shortly after the trial court denied plaintiff's request for a preliminary injunction. In affirming the lower court's ruling that the defendants were not the prevailing party, the Court reasoned that federal authority in the context of other similar federal fee-shifting statutes establish that "[a] dismissal without prejudice means no one has prevailed; the litigation is just postponed with the possibility of the winner being decided at a later time in a new arena."

In *Dunster*, the plaintiff and defendants were formerly members of the same LLC that held a contract with the state of Texas to construct and build the blue signs seen on Texas highways advertising food, lodging, and gas stations located at approaching exits. In the months leading up to the expiration of the contract, the defendants formed a new company without the plaintiff, and won the follow-on contract. The plaintiff sued the defendants in federal court in Texas claiming that the defendants stole proprietary software and a database in violation of the DTSA, and also alleged

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related state law claims. The plaintiff sought a preliminary injunction to stop the new company from taking over the contract, which was denied.

Following the denial, the plaintiff sought permission to dismiss the case without prejudice, explaining that it no longer wished to pursue the federal trade secret claim, which was the only basis for subject matter jurisdiction. The defendants opposed the motion on the ground that the plaintiff was engaging in “bad faith” by seeking to avoid an adverse ruling and liability for substantial attorneys’ fees. The trial court rejected the defendants’ argument and allowed the dismissal without prejudice, not reaching the question of whether the misappropriation theory was raised in bad faith. After the dismissal, the defendants sought an award of in excess of \$600,000 in attorneys’ fees that they had incurred in the litigation. The trial court denied the fee request, reasoning that a dismissal without prejudice did not make the defendants the prevailing party because the plaintiff is “free to resurrect its claims against the defendant[s] and may prevail at a later date.” In fact, the plaintiff filed essentially the same lawsuit in state court, excepting the DTSA claim, just six days after the federal court dismissal.

The defendants appealed the denial of their fee request, but did not appeal the trial court’s ruling that the dismissal could be entered without prejudice. The Fifth Circuit affirmed the trial court’s ruling on the fee request, finding that for a party to be eligible to obtain fees under the DTSA, they must (a) prevail; and (b) must do so under the listed scenarios provided under the statute that also require a showing of bad faith or malice. Relying on federal authority interpreting other federal fee-shifting statutes, the Court held that a party does not prevail when the plaintiff dismisses its DTSA claim without prejudice. In so ruling, the Court rejected defendants’ argument that this rule allows plaintiffs to evade paying the defendant’s fees by strategically seeking a dismissal without prejudice once a plaintiff realizes the suit is doomed. The Court reasoned that this argument ignores the fact that, under FRCP 41(a), a dismissal without prejudice requires court approval unless the dismissal occurs very early in the game (*i.e.* prior to the defendant filing either an answer or a motion for summary judgment), and one of the reasons a court may deny such a request is bad faith on plaintiff’s part; if a court finds bad faith, it can require a dismissal with prejudice. In such instances, the defendant may very well be the prevailing party. The Court noted that Rule 11 also provides a check against bad faith litigation conduct, as sanctions can be levied against a party litigating in bad faith even where there is no prevailing party.

The Court likewise rejected the defendants’ argument that they prevailed when the Court rejected plaintiff’s attempt to obtain a preliminary injunction. Borrowing from a sport’s analogy, the Court quipped that “prevailing party status ordinarily requires being ahead when the final whistle blows in a case, not at halftime.... Taking the lead early in the lawsuit thus did not make the [d]efendants eligible for fees.... The dispute has now been rescheduled for state court, where the winner will be decided. Because there was never a final score in this federal lawsuit, the [DTSA] does not allow attorney’s fees.”

In light of the Court’s bright line ruling, defendants seeking recovery of their fees after a halftime voluntary dismissal of a plaintiff’s meritless or frivolous DTSA claim would be

well-advised to put their eggs into the basket of arguing that the claim should be dismissed with prejudice, under a bad faith theory or otherwise.