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**THE COURT OF APPEALS
OF THE
STATE OF WASHINGTON
Division III**

FILED

OCT 9 2015

COURT OF APPEALS
DIVISION III
STATE OF WASHINGTON

CASE #326161

LAKODA, INC., a Washington corporation; DALE AMES and DODIE AMES, husband and wife, and the marital community comprised thereof,

Respondents

v.

OMH PROSCREEN USA, INC., a Washington corporation; and BRAD HILMOE, a married individual; JOHN O'CONNELL, a married individual; OMH INNOVATIONS, USA, INC., a Washington corporation; and OMH INNOVATIONS, INC., a foreign corporation,

Appellants.

**APPELLANTS' PETITION FOR REVIEW
TO THE SUPREME COURT**

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TABLE OF CONTENTS

I. IDENTITY OF PETITIONER	1
II. COURT OF APPEALS DECISION	1
III. ISSUES PRESENTED FOR REVIEW	1
IV. STATEMENT OF THE CASE	2
V. ARGUMENT	7
1. The Lower Courts Erred by Precluding Evidence Regarding Longfei’s Registration of OMH Drawings in China.	7
2. The lower courts erred by not interpreting the contract and denying Defendants’ motion for directed verdict.	11
3. The lower courts erred in denying Defendants Motion for Directed Verdict on Lakoda’s trade secrets claim.	13
4. The lower courts erred in allowing attorney fees for work unrelated to Lakoda’s trade secrets claim.	16
VI. CONCLUSION	19

TABLE OF AUTHORITIES

CASES

<i>Boeing Co. v. Sierracin Corp.</i> , 108 Wn. 2d 38, 49-50, 738 P.2d 665, 674 (1987)	14,16,17
<i>Bright v. Frank Russell Investments</i> , 191 Wn. App. 73, 361 P.3d 245 (2015)	17
<i>Bruning v. Pixler</i> , 949 F.2d 352 (10 th Cir. 1991); <i>Ferguson v. U.S.</i> , 484 F.3d 1068, 1074 (2007)	11
<i>Chauvlier v. Booth Creek Ski Holdings, Inc.</i> , 109 Wn. App. 334, 339-40, 35 P.3d 383, 385 (2001)	12
<i>de Fontbrune v. Wofsy</i> , 14-15790, 2016 WL 5349749, at *4 (9th Cir. Sept. 26, 2016)	8,9
<i>Dix v. ICT Grp., Inc.</i> , 160 Wn.2d 826, 833, 161 P.3d 1016, 1020 (2007)	10
<i>Ferguson v. U.S.</i> , 484 F.3d 1068, 1074 (2007)	11
<i>Hansard v. Pepsi-Cola Metro. Bottling Co., Inc.</i> , 865 F.2d 1461, 1466 (5th Cir. 1989)	11
<i>Hardie v. Cotter & Co.</i> , 849 F.2d 1097, 1101 (8th Cir. 1988)	10
<i>In re Marriage of Landry</i> , 103 Wn.2d 807, 811, 699 P.2d 214, 216 (1985)	9
<i>Johnson v. State Dept. of Transp.</i> , 177 Wn.App. 684, 313 P.3d 1193 (2013)	16
<i>Keystone Masonry, Inc. v. Garco Const., Inc.</i> , 135 Wn. App. 927, 932, 147 P.3d 610, 613 (2006)	12
<i>Moore v. Sears, Roebuck & Co.</i> , 683 F.2d 1321, 1322-23 (11th Cir. 1982)	11

<i>Nordstrom, Inc. v. Tampoulos</i> , 107 Wn.2d 735, 743, 733 P.2d 208 (1987)	17
<i>Paradise Orchards Gen. P'ship v. Fearing</i> , 122 Wn. App. 507, 518, 94 P.3d 372, 378 (2004)	13
<i>Precision Moulding & Frame, Inc. v. Simpson Door Co.</i> , 77 Wn. App. 20, 26, 888 P.2d 1239, 1243 (1995)	14
<i>Riss v. Angel</i> , 80 Wn. App. 553, 562, 912 P.2d 1028, 1033 (1996)	10
<i>U.S. v. Seckinger</i> , 397 U.S. 203, 216, 90 S.Ct. 880, 25 L.Ed.2d 224 (1970)	13
<i>Valve Corp. v. Sierra Entm't Inc.</i> , 431 F.Supp.2d 1091, 1100 (W.D. Wash. 2004)	12

RCW

19.108.040	16
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COURT RULES

CR 9	8,9
CR 9(k)(2)	8
CR 44.1	8
FRCP 44.1	8

TREATISES

5 Wash. Prac., Evidence Law and Practice § 201.14 (6 th Ed.)	8
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I. IDENTITY OF PETITIONER

OMH PROSCREEN USA, INC. is a Washington corporation. BRAD HILMOE is a married individual; OMH INNOVATIONS, USA, INC. is a Washington corporation; and OMH INNOVATIONS, INC. is a foreign corporation. John O'Connell is a married individual. Mr. O'Connell and Mr. Hilmoe are officers and owners of the OMH entities. Collectively they are the Petitioner.

II. COURT OF APPEALS DECISION

Petitioner requests the Supreme Court review the order of the Court of Appeals, Division III, entered on September 8, 2016. No motion for reconsideration has been filed. The Decision terminated review.

III. ISSUES PRESENTED FOR REVIEW

1. Did the Lower Courts commit error by misapplying court rules and controlling case law when they precluded evidence regarding Longfei's registration of OMH designs?
2. Did the Lower Courts commit error in conflict with decisions of the Supreme Court of Washington and the Supreme Court of the United States when denying OMH's motion for directed verdict by not interpreting the contract as a question of law.
3. Did the Lower Courts commit error by erroneously

concluding TPD was an agent of Lakoda when denying Defendants' Motion for Directed Verdict on the trade secrets claim.

4. Did the Lower Courts commit error in awarding attorney fees relating to Lakoda's defense of OMH's counter-claims and other fees not related to Lakoda's trade secrets claim.

IV. STATEMENT OF THE CASE

OMH is a manufacturer of soil screening equipment. RP 454-459. Brad Hilmoe ("Hilmoe") and John O'Connell (O'Connell) are officers and owners of each of the entities. RP 460-462. Dales Ames is an owner and officer of Lakoda. Ames offered his services to help with manufacturing OMH's products in China. RP 475-76. Hilmoe had been manufacturing screeners at the Yantai Sky factory prior to meeting with Ames. RP 473-475.

Ames told Hilmoe he would look for lower priced parts and negotiate the best price for the best quality on the manufacture of screeners. RP 484-485. Ames, Hilmoe and John O'Connell met on or about March 19, 2010 and O'Connell signed Lakoda's Vendor Non-Disclosure Agreement ("NDA") on behalf of OMH Proscreen USA, Inc. RP 82-83; 87-88. Lakoda obtained a quote to produce the screeners. RP 486. Although the Longfei factory actually built the screeners, Lakoda

received its quote through another company, Tomorrow Product Development (“TPD”), a company owned by Geng Min (aka “Peter”). RP 74-75;158. Peter located the Longfei factory and obtained the quote for manufacturing. RP 74; 158-159; 161; 954. Peter was good friends with the boss at Longfei and regularly brought work to Longfei. RP 955. Peter sourced the parts for the screeners. RP 205; 207. Peter paid the Longfei factory for the screeners. RP 207-208. Peter taught and controlled the factory and every item relating to production of OMH’s screeners. RP 75.

Xiao Ping, the owner of the Longfei factory, testified that he had a relationship with Peter (RP 298), that Longfei was building the screeners for Peter (RP 299), and that Peter was Longfei’s customer (RP 294).

The purchasing of the screeners worked as follows: OMH would submit a Purchase Order (“P.O.”) to Lakoda. RP 402. Lakoda would issue a P.O. to TPD. RP 402. TPD would issue an invoice to Lakoda. RP 402. Lakoda would issue an invoice to OMH. RP 403. After Lakoda received payment from OMH, Lakoda issued payment to various different entities or individuals as instructed by Peter. RP 403.

Hilmoe became concerned that OMH’s designs were not properly protected. CP at 208. Hilmoe asked Ames to provide him with a copy of the NDA with the Longfei factory. CP at 208. Lakoda did not obtain an

NDA with Longfei until after Hilmoe requested a copy. RP 167.

Hilmoe was confronted by the owner of Longfei and was advised the factory was losing money on the project and would be terminating the manufacturing of the OMH product. RP 300-304; 525-530. Hilmoe learned TPD was paying Longfei substantially less than what OMH was paying Lakoda. RP 529-532.

In March 2011, Hilmoe learned that the Longfei factory had registered the designs for OMH's products. CP at 205; CP at 208. Hilmoe learned the effect of the registrations was that Longfei now owned the exclusive right to manufacture the screeners in China. CP at 205. The factory owner told Hilmoe he would continue to manufacture screeners whether OMH bought them or not. CP at 205. If OMH did not buy the screeners from Longfei, the factory would sell them to OMH competitors. CP at 205. This forced OMH to agree to purchase all of the OMH screeners manufactured by the factory. CP at 205.

Hilmoe fired Lakoda. CP 208; RP 138-140; Exhibit 48, Bates OMH00607. Lakoda filed suit against OMH, Hilmoe and O'Connell on May 5, 2011. CP at 3. Lakoda claimed the Longfei factory was its trade secret, that OMH violated the NDA by cutting Lakoda out of the program, and that OMH tortiously interfered with Lakoda's relationship with

Longfei. CP at 37-47. OMH answered and counterclaimed that Lakoda breached the NDA by failing to obtain similar non-disclosure agreements from those that had access to OMH's designs and drawings, including Peter Geng and the Longfei factory. CP at 50-63.

Trial was conducted from May 5, 2014 until May 16, 2014.

Lakoda brought a motion in limine to exclude any mention of the registration of design drawings by Longfei. RP 6, l.11-14. Plaintiffs' argument was based on Defendants' not pleading foreign law. RP 6, l.15-8, l.19. Defendants argued the registration documents were admissible for the purposes of understanding the effect registering the designs had on Hilmoe and his reason for remaining with the Longfei factory. RP 8, l.21- 9, l.13. The trial court ruled that the factory owner could say that he registered the document and told OMH that, but would not allow the registrations in as exhibits because "if we start getting into the actual registration, probably not going to be relevant." RP 10, l. 8 - 11, l.12.

Before the close of Plaintiffs' case, the trial court allowed Defendants to call two witnesses out of order to accommodate witness scheduling. RP 240. One of these witness was the factory owner Xiao Ping. RP 292. When defendants attempted to authenticate the documents

PETITION FOR REVIEW - 5

through the factory owner the court stated it was not relevant. RP 296, l. 1-14. The trial court also sustained objections to any mention of the registration.

Later in the trial, Plaintiffs' attorneys cross-examined Hilmoe and O'Connell on whether they had patented the screener designs in the U.S. or Canada. RP 640. OMH argued that this line of questioning opened the door to allow testimony regarding the registration of the designs in China. RP 839, 861-862. The court denied OMH's argument.

At the close of Plaintiffs' case in chief Defendants made several motions for a directed verdict. RP 431-453. Defendants requested that the court interpret paragraph 15 of the NDA, which precludes the remedy of damages in both contract and tort. RP 434, l. 5-11; RP 441, l.23-44, l.1. The trial court held that there was conflicting testimony on the meaning of the no-damage clause and, therefore, the jury would have to determine what the contract meant. RP 452, l.25-453, l. 17.

The jury returned a special verdict form on May 15, 2014. CP at 1059-1061. The jury found that OMH tortuously interfered with Lakoda's business expectancy with damages in the amount of \$1; that OMH willfully and maliciously misappropriated a trade secret with damages in the amount of \$1; and that OMH Proscreen USA breached a contract with

Lakoda with damages in the amount of \$250,000. CP at 1060.

A hearing on Plaintiffs' motion for attorney fees was held on June 27, 2014. June 27, 2014 RP 1. Plaintiffs' motion for attorney fees was based on a finding of willful and malicious behavior under the misappropriation of trade secrets statute. June 27, 2014 RP 7, 1.4-7. Defendants filed a brief in response to Plaintiffs' motion for attorney fees arguing an award of attorney fees is inappropriate when the plaintiff obtains only a nominal damages award; Plaintiffs' argument that an award of attorney fees is justified because it offered to walk away from the lawsuit is meritless; Plaintiffs failed to establish those fees that were related to the prosecution of the trade secrets claim; and that Plaintiffs are not entitled to the costs claimed. CP at 1062-1068. The trial court granted attorney fees and costs to plaintiffs. June 27, 2014 RP 21, 1.4-10.

V. ARGUMENT

1. The Lower Courts Erred by Precluding Evidence Regarding Longfei's Registration of OMH Drawings in China.

Whether or not a party is required to plead foreign law is an issue of substantial public interest that should be determined by the Court. As noted by the 9th Circuit, such issues will undoubtedly continue coming to the courts with increasing frequency as the global economy expands and

cross-border transactions increase. *de Fontbrune v. Wofsy*, 14-15790, 2016 WL 5349749, at *4 (9th Cir. Sept. 26, 2016) (internal quotations omitted).

The trial court and the court of appeals misapplied the requirement to plead foreign law. A party who wishes to rely upon a foreign country's law must give notice in his pleading of the foreign jurisdiction whose law he contends may be applicable to the determination of the case. CR 9(k)(2); CR 44.1. The notice requirement does not however amount to a burden of proof. *de Fontbrune v. Wofsy*, 14-15790, 2016 WL 5349749, at *5 (9th Cir. Sept. 26, 2016)¹ (burden of proving foreign law is “semantic sloppiness”). However, OMH never intended to assert that foreign law applied to any of Lakoda’s claims, OMH’s affirmative defenses or OMH’s counterclaims. OMH merely attempted to introduce factual testimony that the Longfei factory had registered its designs.

Second, both courts failed to follow the presumption established by CR 9. CR 9 states when a party does not plead foreign law the law of a foreign jurisdiction is presumed to be the same as the law of Washington.

¹de Fontbrune is discussing FRCP 44.1. FRCP 44.1 is similar to CR 44.1 and federal cases may be persuasive. 5 Wash. Prac., Evidence Law and Practice § 201.14 (6th ed.)

In re Marriage of Landry, 103 Wn.2d 807, 811, 699 P.2d 214, 216 (1985); CR 9 (the court at the time of trial shall apply the law of the State of Washington). This would not have confused the issues or worked a hardship on the jury because Lakoda introduced evidence that OMH failed to obtain patents in Canada (a foreign jurisdiction) and the trial court did not find this reference objectionable. RP 568-572; RP 640; 839; 864-865. It would be no different to have allowed OMH to introduce evidence that the Longfei factory registered OMH designs in China. The absence of a patent in Canada or the presence of a registration in China are both presumed to be the same as the law in Washington and the trial court committed error by admitting the former and denying the latter.

Moreover, if a matter is subject to determination under foreign law, the process of ascertaining the applicable foreign law should be equivalent to the process of determining domestic law, in so far as possible. *de Fontbrune* at *4. The process is intended to be “flexible and informal,” encouraging the court and counsel to cooperate in the foreign law analysis and, if necessary, requiring the court to conduct an independent analysis. *Id.* Thus, if the Court determined that foreign law needed to be addressed, the proper procedure would have been to request additional briefing on the applicable law rather than to exclude relevant evidence.

Appellate courts review admission of evidence under an abuse of discretion standard. *Riss v. Angel*, 80 Wn. App. 553, 562, 912 P.2d 1028, 1033 (1996), *amended* (Feb. 13, 1996), *aff'd and remanded*, 131 Wn. 2d 612, 934 P.2d 669 (1997). If the trial court's ruling is based on an erroneous view of the law or involves application of an incorrect legal analysis, it necessarily abuses its discretion. *Dix v. ICT Grp., Inc.*, 160 Wn.2d 826, 833, 161 P.3d 1016, 1020 (2007).

The trial court abused its discretion when it ruled that evidence regarding registration of OMH's designs was irrelevant without first pleading foreign law. The jury was never tasked with determining the legal effect of design registration in China. The jury was tasked with determining whether OMH had a legitimate purpose in continuing to work with Longfei after Lakoda was fired. The jury was also tasked with determining if Lakoda violated the non-disclosure agreement by failing to prevent Longfei from stealing OMH's designs.

Evidence is allowed to be presented for the purpose of showing the motive and intent of a party at the time of an event. *Hardie v. Cotter & Co.*, 849 F.2d 1097, 1101 (8th Cir. 1988) (documents offered to demonstrate supervisor's state of mind and understanding of the circumstances existing at the time of plaintiffs discharge were admissible);
PETITION FOR REVIEW - 10

Moore v. Sears, Roebuck & Co., 683 F.2d 1321, 1322-23 (11th Cir. 1982) (documents were admissible evidence to show employer was motivated in good faith to discharge the employee). This is particularly the case when state of mind is an essential element of a claim. *Bruning v. Pixler*, 949 F.2d 352 (10th Cir. 1991); *Ferguson v. U.S.*, 484 F.3d 1068, 1074 (2007) (spreadsheet offered by IRS was admissible, not to prove the truth of the document, but as evidence of what the IRS relied on in making its assessment).

Opinions by lay witnesses need only be “rationally based on the perception of the witness and ... helpful to ... the determination of a fact in issue.” *Hansard v. Pepsi-Cola Metro. Bottling Co., Inc.*, 865 F.2d 1461, 1466 (5th Cir. 1989).

OMH should have been allowed to fully present evidence of Longfei’s registration of OMH’s designs. Longfei’s registration of OMH’s screener designs is highly relevant to OMH’s defenses and its counter claims.

2. The lower courts erred by not interpreting the contract and denying Defendants’ motion for directed verdict.

The trial court and the appellate court made decisions in conflict with decisions of the Supreme Court of Washington and the Supreme

Court of the United States when denying OMH's motion for directed verdict.

The legal effect of a contract is a question of law that appellate courts review de novo. *Keystone Masonry, Inc. v. Garco Const., Inc.*, 135 Wn. App. 927, 932, 147 P.3d 610, 613 (2006). The lower courts erred by not interpreting the limitation of liability clause and presenting that issue for the jury to determine because it is a question of law not fact. A de novo review will show that this clause does not require extrinsic evidence, is plain on its face and that plaintiff is precluded from damages.

Under Washington law, parties may limit their liability for breach of contract and the interpretation of such clauses is a matter of law. *Valve Corp. v. Sierra Entm't Inc.*, 431 F.Supp.2d 1091, 1100 (W.D. Wash. 2004). The trial court should have interpreted the language as a matter of law because it is clear and unambiguous. *Chauvlier v. Booth Creek Ski Holdings, Inc.*, 109 Wn. App. 334, 339-40, 35 P.3d 383, 385 (2001). Lakoda was the drafter of the contract but claimed not to know what the limitation of damages clause meant. Based on this testimony, the trial court concluded that there was "conflicting" testimony as to the meaning of the clause and, thus, its meaning must be determined by the jury.

Lakoda's proclaimed ignorance of the clause's meaning does not create

ambiguity. The NDA agreement clearly states that monetary damages are not recoverable. This clause did not render the NDA illusory because it contained a second clause allowing equitable relief (for example, specific performance).

The function of a liquidated damages provision is to limit the non-breaching party's recovery of monetary damages. *Paradise Orchards Gen. P'ship v. Fearing*, 122 Wn. App. 507, 518, 94 P.3d 372, 378 (2004).

The lower courts allowing Lakoda to obtain damages for lost profits is contrary to the established law that exculpatory clauses are construed against the drafter if more than one construction of a term is reasonable. *U.S. v. Seckinger*, 397 U.S. 203, 216, 90 S.Ct. 880, 25 L.Ed.2d 224 (1970). If the contract was ambiguous the trial court and the court of appeals should have interpreted the provision against Lakoda as the drafter and lost profits should not have been awarded. If the contract was not ambiguous then lost profits are again explicitly excluded. It was error for the lower courts to conclude otherwise.

3. The lower courts erred in denying Defendants Motion for Directed Verdict on Lakoda's trade secrets claim.

The lower courts erroneously assumed that TPD was an agent of Lakoda and that TPD's knowledge of the Longfei factory was a trade secret belonging to Lakoda.

For trade secrets to exist, they must not be "readily ascertainable by proper means" from some other source. *Boeing Co. v. Sierracin Corp.*, 108 Wn. 2d 38, 49-50, 738 P.2d 665, 674 (1987). A plaintiff cannot establish that a trade secret exists if the information is generally known to or readily ascertainable by other persons who can obtain economic value from its disclosure or use. *Precision Moulding & Frame, Inc. v. Simpson Door Co.*, 77 Wn. App. 20, 26, 888 P.2d 1239, 1243 (1995). A separate entity's trade secret cannot be used to support another party's action under the Uniform Trade Secrets Act.

OMH made a motion in limine to exclude Lakoda's trade secrets claims on the basis that all of the pre-trial evidence showed that Lakoda was merely a purchaser of products from TPD, a separate entity from Lakoda and Longfei. RP 42, l.15 - 43, l.15. Thus, even if the Longfei factory could be considered a trade-secret, it was not Lakoda's trade secret.

At trial, Lakoda presented only two witnesses in their case-in-chief - Dale Ames and Cindy Thompson. These witnesses testified that TPD had located the Longfei factory and that Lakoda merely purchased product

from TPD and re-sold it to OMH. RP 75, 1.9; 76, 1. 23 - 77, 1.2; 102, 1. 5-8; 375, 1.18; 402, 1.19-20; 403, 1.1-3. TPD was paid for the products it produced at Longfei by submitting invoices to Lakoda. RP 405, 1. 10-17. Ames also testified that Peter developed the procedures, sources and contacts to do its business in China. RP 162, 1. 1-2.

TPD was the middle man between Longfei and Lakoda, just as Lakoda was the middle man between OMH and TPD. There was no agency relationship between Lakoda and TPD.

Nevertheless, the court determined that the trade secret was Lakoda's knowledge of the Longfei factory. The evidence does not support this determination. The only testimony was that TPD had located, trained, and contracted with Longfei. If the Longfei factory was a trade secret, it was TPD's trade secret.

The Court of Appeals held that TPD was an agent when there was no evidence of an agency relationship. The Court of Appeals then stated that it was OMH's burden to cite authority to support the proposition that a principal cannot obtain trade secrets through an agent.

Additionally, the Court of Appeals has, perhaps inadvertently, raised an issue of first impression for the Supreme Court. No Washington appellate court has addressed the issue of whether a principle can claim the

PETITION FOR REVIEW - 15

trade secrets of an agent that were developed prior to the principle/agency relationship.

4. The lower courts erred in allowing attorney fees for work unrelated to Lakoda's trade secrets claim.

The trial court and the Court of Appeals erred in awarding attorney fees relating to Lakoda's defense of OMH's counterclaims.

RCW 19.108.040 allows the court discretion to award attorney fees in a trade secrets action upon a finding of willful or malicious conduct. However, the court is tasked with differentiating the fees and costs associated with the trade secrets cause of action from other causes that do not allow an award of trade secrets. *Boeing Co. v. Sierracin Corp.*, 108 Wn. 2d 38, 64-66, 738 P.2d 665 (1987) (the prevailing party would receive an unfair benefit if awarded attorney fees for the entire case, rather than the causes of action that allow for fees).

The exception to this rule is that, if the lawsuit encompasses a common core of interrelated facts or legal theories, that cannot be segregated from the issues allowing for attorney fees, the fees related to the common core may be allowed. *Johnson v. State Dept. of Transp.*, 177 Wn. App. 684, 313 P.3d 1193 (2013).

The trial court's decision to award attorney fees is reviewed on an abuse of discretion basis and will not be overturned unless the award is manifestly unreasonable or based on untenable grounds or untenable reasons. *Bright v. Frank Russell Investments*, 191 Wn. App. 73, 361 P.3d 245 (2015).

It is unreasonable, and therefore, an abuse of discretion to award attorney fees relating to the defense of counterclaims unrelated to the trade secrets claims. *Boeing*, supra, 108 Wn.2d at 66; *Nordstrom, Inc. v. Tampoulos*, 107 Wn.2d 735, 743, 733 P.2d 208 (1987).

Here, OMH asserted counterclaims for breach of contract, tortious interference and violations of the trade secrets act against Lakoda. These claims stemmed from OMH's assertion that (1) Lakoda failed to protect its designs by obtaining non-disclosure agreements from TPD and the Longfei factory and (2) that Lakoda facilitated the manufacture of competing screeners in Canada by Valid Manufacturing.

A substantial amount of the trial and pre-trial discovery was dedicated to OMH's counterclaims. Gerald Clancy, the owner of Valid, was deposed in Canada to perpetuate his testimony. That testimony was read at trial. Viorel Mazilescu, who OMH alleged conspired with Clancy to produce the counterfeit screeners, was called to testify by Lakoda at trial

to rebut those assertions. Both Brad Hilmoe and John O'Connell testified at trial in both direct and cross examination regarding the counterclaims. A number of exhibits were introduced through their testimony. Additionally, Dale Ames, Xiao Ping and Peter testified regarding OMH's allegations that Lakoda failed to obtain NDA agreements. None of those claims had anything to do with Lakoda's trade secrets claim relating to the use of the Longfei factory.

During the attorney fees hearing, OMH objected to the attorney fees award, "particularly, on the defense" of the counterclaims. In the trial court's oral ruling, no mention was made regarding segregation of the fees relating to the counterclaims. Nor did the court's statements of fact supporting the attorney fees award make any mention of the defense of the counterclaims.

The court also expressed that discovery violations by OMH were a significant factor in awarding attorney fees as a whole:

After looking over the tortured history of this case with your's client's discovery issues, not giving discovery to the other side and having to come to Court and order that they do it, as the Court went through those, I do believe that these fees are reasonable attorney fees.

Although it would be appropriate to award attorney fees relating to Lakoda's motion to compel, it is not an appropriate basis to award attorney fees to the entire case. Moreover, the trial court did not address that OMH also had to file motions to compel to obtain discovery. The Court awarded attorney fees to Lakoda for OMH's successful discovery motions to compel Lakoda's answers.

In the statement of facts in support of the attorney fees award, the trial court reiterated its "tortured history" comments and held that the discovery issues were relevant in the determination of the attorney fees award. The award of clearly unrelated attorney fees and comments regarding OMH's past conduct suggest that the trial award was based on untenable grounds or untenable reasons and, thus, an abuse of discretion by the Court.

VI. CONCLUSION

This case involves multiple issues of substantial public interest:

1. Must foreign law be plead in order introduce factual evidence, and if so, what is the proper procedure for determining the foreign law?
2. Should a jury be required to determine the meaning of an unambiguous contract?

3. Can a person or entity claim the trade secrets of another person or entity?
4. Can a party claim attorney fees for causes of action or defenses unrelated to a “common core” of facts giving rise to a fee-shifting cause of action?

For these reasons, Petitioner respectfully requests that the petition for review be granted.

RESPECTFULLY SUBMITTED this 7 day of October, 2016.

PHILLABAUM, LEDLIN, MATTHEWS
& SHELDON, PLLC



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APPENDIX

Court of Appeals, Division III Unpublished Opinion filed September 8,
2016

FILED
SEPTEMBER 8, 2016
In the Office of the Clerk of Court
WA State Court of Appeals, Division III

IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON
DIVISION THREE

LAKODA, INC., a Washington corporation,)	
)	No. 32616-1-III
)	
Respondent,)	
)	
v.)	
)	UNPUBLISHED OPINION
OMH PROSCREEN USA, INC., a Washington corporation; BRAD HILMOE, a married individual; JOHN O'CONNELL, a married individual; OMH INNOVATIONS, INC., a foreign corporation,)	
)	
Appellants.)	
<hr/>		
OMH PROSCREEN USA, INC., a Washington corporation,)	
)	
Third-Party Plaintiff,)	
)	
v.)	
)	
DALE AMES and DODIE AMES, husband and wife, and the marital community comprised thereof,)	
)	
Third-Party Defendants.)	

SIDDOWAY, J. — OMH Proscreen USA, Inc. and its codefendants in the trial below appeal the results of a 9-day jury trial at the conclusion of which the jury awarded a total of \$250,002 in damages to Lakoda, Inc., for breach of contract, tortious

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

interference with a business expectancy, and misappropriation of trade secrets. The trial court awarded an additional \$231,441 in attorney fees. The defendants challenge the trial court's exclusion of evidence they contend was critical to their defense and counterclaims, the admissibility and sufficiency of Lakoda's evidence of damages, and the trial court's award of attorney fees.

We find no error or abuse of discretion and affirm.

FACTS AND PROCEDURAL BACKGROUND

Lakoda is a self-described "contract manufacturer." 1 Report of Proceedings (RP) (May 6, 2014) at 66. It acts as an intermediary between businesses that need a product manufactured and factories that can deliver an acceptable product at an acceptable price. As middle man, Lakoda identifies a factory capable of producing the desired product, obtains a price, marks it up, and then offers the product to the manufacturing customer at the marked-up price. To protect itself from customers who might try to go around it and contract directly with the factory once the manufacturing operation has been established, Lakoda has a vendor nondisclosure agreement that it requires customers to sign before arranging manufacturing services.

Among areas of the world in which Lakoda has established expertise and manufacturing contacts is China. Its manufacturing contacts in China at times relevant to this dispute included the Longfei factory in Changzhou, and Geng Min, an engineer and the owner of a business called Tomorrow Product Development, or TPD. Virtually all

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

references to Geng Min during trial were as “Peter” or “Peter G.,” his nickname, which we will use, intending no disrespect.

In March 2010, Dale Ames, Lakoda’s owner, met Brad Hilmoe, an officer and owner of OMH or its affiliates¹ on a flight to San Francisco. Both men’s ultimate destination was China. OMH was in the business of selling soil screening equipment and at the time was having some of its soil screeners manufactured at a factory in Yantai. The products were not being made to Mr. Hilmoe’s satisfaction.

After Mr. Hilmoe returned to the states, he arranged for Mr. Ames to meet with him and his co-owner of OMH, John O’Connell, to explore whether to have Lakoda assist them in lining up manufacture of their soil screeners in a different Chinese factory. Before the meeting, Mr. Ames e-mailed Lakoda’s standard nondisclosure agreement to Mr. Hilmoe. The agreement contains provisions protecting both Lakoda’s and “the Vendor’s” (in this case, OMH’s) “Confidential Information” disclosed in connection with evaluating a potential “customer/supplier relationship.” The agreement defines “Confidential Information” as

¹ At trial, the three affiliated OMH companies named as defendants presented a united defense. Midtrial, Lakoda stipulated to dismissal of its claims against the Canadian corporation, OMH Innovations, Inc. Judgment was entered against the two remaining corporations. Since the history and roles of the entities need not be distinguished (and from the record, probably could not be) we refer to them individually and collectively as “OMH.”

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

all information of either Party that is not generally known to the public, whether of a technical, business or other nature (including, without limitation, trade secrets, know how and information relating to the technology, customers, business plans, promotional and marketing activities, finances and other business affairs of such Party), that (i) is disclosed by one Party (the "Disclosing Party") to the other Party (the "Receiving Party"), and (ii) if in tangible form, is identified by the Disclosing Party . . . as confidential. . . . Confidential Information also includes all information concerning the existence and progress of the Parties' dealings.

Ex. 5, at 1 (emphasis added).

The agreement provided that a receiving party would not disclose a disclosing party's confidential information without consent, that it would take measures to protect confidential information, and that it "[would] not use, or permit others to use, Confidential Information for any purpose other than evaluation and performing its obligations under any customer/supplier relationship between the parties resulting therefrom." *Id.* Mr. Ames signed the agreement on behalf of Lakoda, Inc., and Mr. O'Connell signed on behalf of OMH. The parties then orally agreed that Lakoda would undertake to identify a new manufacturing source in China for OMH's products.

OMH provided Lakoda with target pricing for the screeners, some idea of the quantity to be produced, and OMH's screener designs. Armed with this information, Mr. Ames contacted Peter, who worked with the Longfei factory to arrive at a quote for producing the screeners.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

Lakoda began to source parts necessary for the production of the screeners at Longfei and manufacturing began. For almost a year, OMH accepted Lakoda quotes, provided Lakoda with purchase orders, and Lakoda invoiced OMH at the marked-up price it had quoted.

In October 2010, OMH hired an employee in China to monitor quality control at Longfei. His name was Wang Fuliang, but most witnesses at the trial referred to him by his nickname, “Jack.” Through Jack and through his own time spent in Changzhou, Mr. Hilmoe began to receive information about how Longfei was faring under the manufacturing relationship. He learned Longfei’s management was disgruntled about slow payment and the price it was receiving for the screeners. The information Mr. Hilmoe received led to a dispute between OMH and Lakoda over whether Lakoda was taking a bigger markup than had been agreed, leaving Longfei with too little to make the manufacturing relationship worthwhile. Facing threats from Longfei that it would cease manufacturing the screeners, OMH “cut [Lakoda] out of the picture” in April 2011 and began purchasing screeners directly from Longfei. 1 RP (May 6, 2014) at 137-38.

Lakoda filed suit against OMH and Mr. Hilmoe shortly thereafter, alleging breach of contract; breach of the implied covenant of good faith and fair dealing; violation of Washington’s Uniform Trade Secrets Act, chapter 19.108 RCW; and tortious interference with a business expectancy. Lakoda accused OMH of using its confidential information

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

(the identity of the Longfei factory and the screener manufacturing capability it had developed) in violation of the nondisclosure agreement.²

In answering the complaint, OMH counterclaimed, alleging Lakoda had failed to protect its proprietary designs in violation of the nondisclosure agreement and had violated an alleged oral agreement that Lakoda's markup of Longfei's price would be limited to 10 percent. According to OMH, Peter or Lakoda misled Longfei about the volume of screeners OMH would purchase, leading Longfei to quote a price at which it could not make money.

OMH also claimed Lakoda did not obtain a nondisclosure agreement from Longfei until February 2011, two months *after* Longfei registered OMH's designs in China, in Longfei's name. OMH contended Longfei alone could manufacture OMH's screeners in China and as a result, when Longfei refused to continue manufacturing unless it was paid more, OMH "*was forced to renegotiate the terms of the manufacturing agreement*" with Longfei. Clerk's Papers (CP) at 61 (emphasis added). According to Mr. Hilmoe, "OMH had no recourse against the [Longfei] factory." CP at 208. Finally, OMH alleged Longfei sold OMH's designs to two Canadians, Viorel Mazilescu and Gerald Clancy,

² After Lakoda learned in discovery of the OMH affiliates and that the business had not been incorporated when the nondisclosure agreement was signed, it amended its complaint to name the affiliates and Mr. O'Connell, individually, as defendants.

who began selling “knock-off” screeners in competition with OMH. CP at 191. It accused Mr. Ames of being complicit in that misappropriation of its designs.

In pretrial rulings, the court held that a document that appeared to be written in Chinese and that OMH represented was Longfei’s “registration” in China of its drawings was inadmissible. It reserved ruling on whether testimony about the registration would be admitted.

When OMH sought to elicit testimony about the registration during trial, the court sustained an objection to its relevance. OMH renewed its effort to offer the evidence after Lakoda allegedly “opened the door” by inquiring into what measures OMH had taken to protect its designs in the United States and Canada. The court again held that testimony about the alleged Chinese registration was not relevant.

Also during trial, the court excluded a portion of testimony from Gerald Clancy’s perpetuation deposition about a videoclip, as well as the videoclip itself, which OMH offered as evidence during the deposition. The court rejected OMH’s argument that Mr. Clancy’s limited testimony about the videoclip was relevant or sufficient.

A halftime motion by OMH on several claims was denied.

After a week and a half of trial, the jury returned a special verdict in favor of Lakoda on every claim and counterclaim. It awarded \$1 in damages on the tortious interference claim, \$1 in damages for misappropriation of trade secrets, and \$250,000 for breach of contract. Lakoda contended, and the trial court agreed, that the three claims

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

overlapped and that the \$1 verdicts merely reflected the jury's compliance with the court's instruction not to duplicate damages.

The court thereafter granted Lakoda's motion for an award of attorney fees on its trade secret claim, finding reasonable attorney fees of \$231,441.

OMH appeals.

ANALYSIS

OMH assigns error to (1) the trial court's exclusion of evidence that Longfei registered its designs in China, including after Lakoda allegedly "opened the door" to that evidence; (2) the court's exclusion of a videoclip and testimony offered as authentication; (3) the court's denial of its halftime motion that its nondisclosure agreement with Lakoda barred recovery of lost profits; (4) the trial court's denial of its halftime motion on Lakoda's trade secret claim; (5) the trial court's admission of Lakoda's damage summaries and the sufficiency of those summaries to support the jury's verdict; and (6) the trial court's award of attorney fees. We address the issues in the order stated.

I. Exclusion of evidence of Chinese "registration"

A. Initial exclusion

Before trial, Lakoda filed a motion in limine asking the court to exclude all evidence and argument that Longfei had registered OMH's screener designs in China. Among its arguments were that Chinese law had not been pleaded as required by CR 9 and 44.1 and the legal effect of any registration (if its proposed exhibit *was* a registration)

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

was unknown by the parties or the court. It also argued that because a culpable mental state was not relevant to Lakoda's claims, Mr. Hilmoe's motivation for continuing to work with Longfei was irrelevant.

OMH responded that it intended to offer evidence of the registration and authentication through Xiao Ping Zahang, an owner or manager of the Longfei factory, who could read Chinese. Either Mr. Zahang or Mr. Hilmoe could testify to their understanding of the registration's significance. It argued that Mr. Hilmoe's motivation was relevant to its affirmative defense to Lakoda's tortious interference claim and the element of willfulness or maliciousness under the Uniform Trade Secrets Act, chapter 19.108 RCW.

The court ruled that the purported registration, defendants' proposed Exhibit 329, was irrelevant, would not be admitted, and that it would sustain an objection to testimony about the actual legal effect of registration. But it reserved ruling on whether to admit evidence bearing on Mr. Hilmoe's beliefs and how they affected his motivation in continuing to work with Longfei.

When OMH called Mr. Zahang at trial, he was allowed to answer the following questions about registration:

Q [A]t that time that you decided not to manufacture anymore, were you concerned about the money that you had invested in building the screeners?

A Yes.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

Q Did you take any measures to try to protect your investment that you had put into the manufacture of the screeners? Yes or no, please.

A To protect the product, we applied to get a document.

[LAKODA'S LAWYER]: Judge, I'm going to object. This goes to the Motion in Limine.

THE COURT: I understand. If he can answer the question as a yes or no, can he answer the question as it's asked as a yes or no?

THE WITNESS: Yes.

2 RP (May 7, 2014) at 306-07. Shortly thereafter, Mr. Zahang referred to a time “[w]hen I told, you know, they are not working with Peter anymore [sic].” 2 RP (May 7, 2014) at 307. He was then asked, and answered:

Q At any time subsequent—anytime after that, did you tell Brad or Jack that Longfei was the only one that was allowed to manufacture screeners in China?

A Yes.

Id.

OMH then called Mr. Hilmoe as a witness, and the following testimony was given and objections were made:

Q Do you recall hearing [Xiao Ping] state that he believed that only the Longfei factory could manufacture your product?

A Yes.

Q What was your understanding of that situation?

A I no longer had any control over my designs at the time.

3 RP (May 8, 2014) at 540. When OMH's lawyer then asked Mr. Hilmoe how he came to that conclusion, the trial court sustained the objection.

In analyzing OMH's asserted need for evidence of the Chinese registration, we bear in mind that OMH offered other reasons why it had no choice but to agree to

continue a business relationship with Longfei that excluded Lakoda. They included the timing of the threatened termination of manufacture which came just as OMH was moving into its busiest sales season. OMH also contended Lakoda failed to obtain a nondisclosure agreement from Longfei until February 2011, well after Lakoda had already passed along the screener designs.

Mr. Zahang testified during his direct examination that the "2010. 4. 15" date he had written when he signed the Lakoda/Longfei nondisclosure agreement was not the date he actually signed it. CP at 281. Instead, he testified, the agreement, which he said was characterized to him by Peter as having something to do with quality control, was not presented to him until about six months after that date.

In closing argument, OMH's lawyer told the jury:

Longfei says we're going to build all the screeners that we can produce, and if you, OMH, don't buy it, we're going to sell [them] to someone else, and they put up OMH's own product on their own website, and they steal the website information from OMH and go into business for themselves.

So you might be asking yourselves, how can they do that? Longfei had signed an NDA [nondisclosure] agreement. . . . [B]ut there's a lot of discrepancies to this, folks.

We've got an [agreement] effective July 9, 2010 that's signed on April 15, 2010, and you heard the testimony from Mr. Ames that he only obtained this NDA agreement in February of 2011 when Mr. Hilmoe asked him to give him a copy of it.

....

We know that the NDA agreement [that] was signed . . . states it's effective July 9, 2010, but is dated April 15, 2011 [sic],³ and then we have

³ Presumably April 15, 2010.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

the cryptic e-mail from Mr. Ames to Peter saying I need an NDA agreement for OMH, and it will relate back to some earlier agreement that Mr. Ames had with Peter.

Let's go back now to OMH. *The factory is competing with OMH for OMH's own products. OMH is told it can't build its product at any other factory in China.*

RP (May 15, 2014) at 121-23 (emphasis added).

On appeal, OMH renews its arguments that evidence of Longfei's registration of its screener designs was relevant and important to its defense to tortious interference and to whether it willfully and maliciously misappropriated a trade secret.

1. Relevance to defense to tortious interference

Evidence is only admissible if relevant. ER 402. Evidence is relevant if it has any tendency to make the existence of a fact of consequence more probable or less probable than it would be without the evidence. ER 401. A trial court's decision regarding relevancy will not be reversed absent an abuse of discretion. *State v. Suarez-Bravo*, 72 Wn. App. 359, 364, 864 P.2d 426 (1994).

The court instructed the jury that OMH and Mr. Hilmoe claimed that "even if their conduct interfered with Lakoda's prospective business relationship or future contract, that conduct was justified because they were acting reasonably to protect their financial interest from being harmed." CP at 1036 (Jury Instruction 28). It further instructed the jury:

To establish the defense of financial interest, the Defendants have the burden of proving each of the following propositions:

- (1) That prior to any conduct of the Defendants interfering with a business relationship or future contract of Lakoda, Inc., the Defendants had a financial interest connected to Longfei; and
- (2) That the Defendants did not use wrongful means to protect that interest from harm.

Id.

An implicit jury finding, unchallenged by OMH, is that by entering into the agreement with Longfei that excluded Lakoda, OMH interfered with the Lakoda/Longfei nondisclosure agreement and the purchase orders expected to arise from it.

In defending, OMH was entitled to offer relevant, admissible evidence that its interference was privileged if it had acted, without using wrongful means, to protect an existing financial interest of its own. In that connection, it offered evidence of several reasons for its actions, including its evidence, alluded to in closing argument, that Mr. Hilmoe or Jack was told by Mr. Zahang that “Longfei was the only one that was allowed to manufacture screeners in China” and that Mr. Hilmoe understood he “no longer had control over [his] designs.” 2 RP (May 7, 2014) at 307; 3 RP (May 8, 2014) at 540.

The court allowed OMH to offer this evidence of Longfei’s bare assertion of its rights but excluded evidence of “registration” because OMH never pleaded the foreign law that would make information about “registration” meaningful to the jury. Evidence that is meaningless has no “tendency to make the existence of any fact that is of consequence more probable or less probable” as required for it to be relevant under ER 401.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

Instead, OMH sought to inform the jury about “registration” through the testimony of a lay witness offering a lay understanding of its legal effect. But ER 701 provides that for a lay witness to testify to an opinion it must be rationally based on the witness’s perception, helpful to a clear understanding of the witness’s testimony or a fact in issue, and not based on scientific, technical, or other specialized knowledge. And even legal experts are not permitted to testify about issues of law, which is the province of the court. *Crow Tribe of Indians v. Racicot*, 87 F.3d 1039, 1045 (9th Cir. 1996).

OMH misreads the Washington decisions it cites as supporting its right to offer a lay witness’s belief or understanding about the law.⁴ And the Ninth Circuit decision it cites actually undercuts its position. In *Nationwide Transport Finance v. Cass Information Systems, Inc.*, the court affirmed the trial court’s ruling that a businessman defending his company’s alleged tortious interference could provide testimony “regarding why he believed [the plaintiff] *acted improperly* and why he believed *it was reasonable* to rescind [a] hold harmless agreement,” but could not testify that the reason he thought he could rescind the agreement was his understanding or belief that the

⁴ *Skagit State Bank v. Rasmussen*, 109 Wn.2d 377, 745 P.2d 37 (1987) does not analyze, let alone hold, that a witness may testify to the legal effect of a document. *Bennett v. Shinoda Floral, Inc.*, 108 Wn.2d 386, 394, 739 P.2d 648 (1987) never discusses the plaintiffs’ understanding of the legal effect of settlement releases they signed, but only whether a releasor “fairly and knowingly” releases claims when he knows he has been injured but does not know the extent or consequences of the injury.

No. 32616-1-III
Lakoda, Inc. v. OMH Proscreen USA, Inc.

plaintiff had violated the Uniform Commercial Code (U.C.C.). 523 F.3d 1051, 1060 (9th Cir. 2008) (emphasis added).

OMH was allowed to present equivalent evidence of what it contended was Lakoda's improper action and its reasonable response. The court properly sustained objections to OMH's efforts to present a lay witness's understanding of the legal landscape. Since the jury would have no basis for assessing the concept of registration or its consequences, the court did not abuse its discretion in finding evidence about registration to be irrelevant.⁵

2. Relevance to "willful and malicious" trade secret misappropriation

The Uniform Trade Secrets Act provides that "[i]f . . . willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party." RCW 19.108.040. The special verdict form asked jurors whether OMH's or Mr. Hilmoe's "misappropriation of a trade secret owned by Lakoda [was] willful and malicious," to which jurors answered yes. CP at 1060.

Only "malicious," not "willful," was defined for the jury. "Malicious" was defined as

⁵ Although not argued on appeal and not the stated grounds for the trial court's exclusion of the registration, the evidence could also have been excluded under ER 403, based on its potential for confusing the issues or misleading the jury.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

characterized by, or involving, malice, having, or done with, wicked or mischievous intentions or motives; wrongful and done intentionally without just cause or excuse.

CP at 1044 (Jury Instruction 33).

Evidence of registration was irrelevant here for the same reason it was irrelevant to OMH's affirmative defense to the tortious interference claim. Because OMH had not pleaded foreign law and could not inform the jury of the legal significance of registration through a lay witness, the jury would not know what "registration" meant. Evidence referencing it would have been meaningless.

The trial court did not abuse its discretion in sustaining Lakoda's objections to the registration evidence.

B. Revisiting rulings following an "opened door"

OMH argues the trial court abused its discretion when it continued to sustain objections to evidence about registration after Lakoda examined witnesses about OMH's failure to take steps to protect its purported trade secret information, including the fact that OMH held no U.S. or Canadian patents. Lakoda's examination was relevant to its defense to OMH's trade secret claim and came in without objection. Whether information is a "trade secret" depends in part on whether it "[i]s the subject of efforts that are reasonable under the circumstances to maintain its secrecy." RCW 19.108.010(4)(b).

As pointed out by Professor Tegland, there are two senses in which questioning a witness can be said to "open a door" and thereby waive evidentiary objections. One

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

sense is where a party introduces evidence of questionable admissibility itself. 5 KARL B. TEGLAND, WASHINGTON PRACTICE: EVIDENCE LAW AND PRACTICE § 103.14 (5th ed. 2007). A second sense is where, by being the first to raise a subject matter at trial, a party invites the opposing party to explain, clarify or contradict its evidence. *Id.* at § 103.15, at 80. “Rules of evidence are designed to aid in establishing the truth,” and refusing to allow a party to respond to a subject opened up by its adversary “might well limit the proof to half-truths.” *State v. Gefeller*, 76 Wn.2d 449, 455, 458 P.2d 17 (1969). If questioning “opens the door” with *admissible* evidence in this second sense, it does not waive all objections to any evidence its adversary offers in response.

There is only one respect in which the trial court’s continued exclusion of registration evidence arguably prevented OMH from explaining, clarifying or contradicting Lakoda’s evidence about OMH’s lack of effort to maintain the secrecy of its screener designs: it prevented OMH from trying to prove that once the Longfei factory registered the screener designs as its own, there was nothing OMH could do to protect itself from that particular compromise of secrecy. Outside the presence of the jury, OMH’s lawyer made the following offer of proof:

If Mr. Hilmoe were allowed to testify on the subject, he would be expected to offer evidence that he was given copies of the design registrations that were filed in China. Based on his investigation, he was of the belief that the Longfei factory owned the right to the OMH Proscreen brand collar designs in China, and that only Longfei could produce the screeners in China.

5 RP (May 13, 2014) at 861.

Here again, for reasons earlier stated, Mr. Hilmoe’s lay belief about the legal effect of registration, including his apparent understanding that a wrongful registration could not be challenged, was inadmissible under ER 701. Other evidence concerning registration was irrelevant not because evidence that OMH tried to protect secrecy was irrelevant—*meaningful* evidence about efforts to protect secrecy *would be* relevant. Evidence concerning registration was irrelevant because without guidance on the legal effect of registration—which could come only from the court—“registration” was meaningless. The trial court did not abuse its discretion.

II. Exclusion of videoclip and supporting deposition testimony

OMH conducted a perpetuation deposition of Gerald Clancy, one of the Canadians allegedly selling “knock off” screeners using OMH designs. On the trial day when lawyers read the deposition to the jury, the court entertained objections to portions of the deposition.

One of Lakoda’s objections was to 5 questions and responses dealing with a 10-second videoclip the defendants had identified as their proposed Exhibit 330. The pertinent questions posed and answers given during the perpetuation deposition were:

- Q. . . . [D]o you recall as part of your prior deposition producing a document that was on a video of testing of one of the screeners?
- A. Yes, I do.
- Q. I want to show you a video. And this is marked as Defendants’ D-330. . . . I’m going to go ahead and play this video for you.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

CP at 622-23. OMH's lawyer then played the video twice for Mr. Clancy. The questioning continued:

Q. Does that appear to be a correct copy of the video that you submitted in conjunction with your previous deposition?

A. It appears to be.

[OMH'S LAWYER]: Move to admit defendants' 330.

[LAKODA'S LAWYER]: I'm going to object based on foundation and hearsay. And I haven't been provided a copy of that video so I'm going to reserve any right to object at the time [of] trial.

[OMH'S LAWYER]: Q. Submitted as D-330.

Do you recognize the individual that was testing that screener in that video?

A. I do not.

Q. You don't know if that is Peter G. or TG?

A. I do not.

CP at 623.

Before the perpetuation deposition was read, Lakoda renewed its objection to a lack of foundation for admitting the videoclip and asked the court to exclude the related testimony. The court sustained the objection.

It is OMH's position that it needed to lay a two-part foundation for the videoclip: its relevance depended on the facts that (1) it was received by Mr. Clancy in connection with the "knock-off" screeners he was purchasing, and (2) it depicted Peter. OMH argues on appeal that the foundation it laid in the perpetuation deposition was sufficient for the limited purpose of establishing that the videoclip had been received by Mr. Clancy. As OMH's lawyer argued to the trial court when the objection was raised at trial, "The relevance is going to come later, Your Honor. We believe it depicts Peter Geng testing

this machine, and we have witnesses that will be able to identify him in that video.” 5 RP (May 13, 2014) at 821.

ER 104(b) provides that when the relevancy of evidence depends on the fulfillment of a condition of fact, a trial court shall admit it either “upon, or subject to” the introduction of evidence sufficient to support a finding of the fulfillment of the condition. The rule gives the court discretion to either admit the primary evidence subject to connecting up, or to refuse to admit the primary evidence until its relevance is shown by the foundation evidence. *TEGLAND, supra*, § 104.6, at 126.

OMH challenges the trial court’s ruling on appeal as if the court failed to provide it with the opportunity to “fulfill the condition” of relevance. But the trial court’s actual reasoning was that the perpetuation deposition did not prove what OMH said it proved. As the court pointed out, at the perpetuation deposition Mr. Clancy testified only that he had submitted the videoclip in his previous deposition. He did not testify that the videoclip was one that he had received. OMH’s lawyer admitted he would have to go back to Mr. Clancy’s previous deposition to see if the testimony about receiving the videoclip was there. It was at that point that the court ruled,

At this point, I don’t see the relevance. I don’t see it’s been authenticated. So . . . I’m going to go ahead and strike that at this time.

5 RP (May 13, 2014) at 822 (emphasis added).

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

The clear implication of the trial court's ruling was that OMH was free to offer additional foundation later. But OMH did not thereafter seek to conditionally offer other deposition testimony and other witnesses to "connect up" relevance before offering the perpetuation deposition testimony and videoclip again.

The trial court did not abuse its discretion by excluding the deposition testimony and videotape at the time they were offered. The deposition testimony had not been shown to be relevant or even conditionally relevant.

III. Denial of judgment as a matter of law: breach of contract

Paragraph 15 of the Lakoda-OMH nondisclosure agreement is a "Limitations on Liability" clause:

Neither party shall be liable for special, indirect or consequential damages, or lost profits, arising out of or in connection with this Agreement, whether based on contract, tort, including negligence, or otherwise.

Ex. 5, at 3. At the close of Lakoda's case, OMH moved for judgment as a matter of law on its breach of contract claim, arguing Lakoda's only evidence of damages was of lost profits, liability for which is foreclosed by paragraph 15.

Lakoda responded that paragraph 15 is ambiguous in light of paragraph 8 of the agreement, captioned "Injunctive Relief," which acknowledges Lakoda's right to seek injunctive relief "in addition to [Lakoda's] other rights and remedies"—implying that Lakoda *has* other rights and remedies. Ex. 5, at 2. It argued that the contract would be illusory if it did not afford a right to sue for benefit of the bargain damages, which, given

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

the nature of the breach, were lost profits. Its final argument for ambiguity was that OMH had itself sued for damages for breach of the same agreement.

The court denied the motion for a directed verdict, deeming interpretation of the contract to be a question for the jury. In closing argument, OMH pointed out the limitation on liability clause to the jury. The jury still returned a verdict finding \$250,000 in damages for the breach of contract claim.

Judgment as a matter of law is appropriate when no competent and substantial evidence exists to support a verdict. *Paetsch v. Spokane Dermatology Clinic, P.S.*, 182 Wn.2d 842, 848, 348 P.3d 389 (2015). In reviewing the denial of a CR 50 motion for judgment as a matter of law, all facts and reasonable inferences are construed in favor of the nonmoving party. *Yakima Fruit & Cold Storage Co. v. Cent. Heating & Plumbing Co.*, 81 Wn.2d 528, 530, 503 P.2d 108 (1972). We review the denial of such a motion de novo. *Schmidt v. Coogan*, 162 Wn.2d 488, 491, 173 P.3d 273 (2007), *aff'd*, 181 Wn.2d 661, 335 P.3d 424 (2014).

In Washington, the primary goal in interpreting a contract term is to ascertain the parties' intent at the time they executed the contract. *Paradise Orchards Gen. P'ship v. Fearing*, 122 Wn. App. 507, 516, 94 P.3d 372 (2004). And Washington cases hold that the intent of the parties to a particular agreement

may be discovered not only from the actual language of the agreement, but also from "viewing the contract as a whole, the subject matter and objective of the contract, all the circumstances surrounding the making of the

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

contract, the subsequent acts and conduct of the parties to the contract, and the reasonableness of respective interpretations advocated by the parties.”

Scott Galvanizing, Inc. v. Nw. EnviroServices, Inc., 120 Wn.2d 573, 580-81, 844 P.2d 428 (1993) (quoting *Berg v. Hudesman*, 115 Wn.2d 657, 667, 801 P.2d 222 (1990)).

When interpretation of a contract depends on the use of extrinsic evidence and more than one reasonable inference can be drawn from the extrinsic evidence, interpretation presents a question of fact, not law. *SAS America, Inc. v. Inada*, 71 Wn. App. 261, 857 P.2d 1047 (1993); RESTATEMENT (SECOND) OF CONTRACTS § 212(2) (1981).

Before moving for the directed verdict, OMH had cross-examined Mr. Ames about the meaning of the limitation of liability provision. In response to repeated questions, reflected over three pages of the transcript, Mr. Ames consistently responded that he was not sure what paragraph 15 of the nondisclosure agreement meant. In response to one of the last questions, “You don’t have any idea what that means?” Mr.

Ames responded:

I know that the overall agreement as expressed to me and best articulated to me to OMH Proscreen was that I had protected information which I found necessary to protect, and that’s why I asked them to sign the nondisclosure agreement with me prior to conducting business with them to protect my interest.

2 RP (May 7, 2014) at 349.

In closing argument, Lakoda's lawyer reminded the jury of the nondisclosure agreement's paragraph 8 with its reference to "other remedies" and said:

Well, those two paragraphs have to be reconciled. It can't be interpreted so one doesn't have any impact at all. If you look at 15, the fair reading of it is that it doesn't make the nondisclosure agreement meaningless.

The fair reading of it is that it's talking about consequential damages, incorrect [sic]⁶ damages of other business, not the business under the nondisclosure agreement. Otherwise, the nondisclosure agreement wouldn't mean a hill of beans.

RP (May 15, 2014) at 108-09.

Evidence at trial supported several factors that could make contract interpretation a question of fact. There was paragraph 8's reference to Lakoda's "other rights and remedies" (a contract is viewed "as a whole"). 3 RP (May 8, 2014) at 435. There was Lakoda's practice of requiring the contract at the very outset of a relationship to protect itself from being cut out of a manufacturing relationship (the subject matter and objective of the contract). There was the fact that Lakoda required the contract up front in its dealings with OMH (all "the circumstances surrounding the making of the contract"). CP at 1011. There was the fact that OMH was asserting its own breach of contract claim ("the subsequent acts and conduct of the parties"). CP at 300. There was Mr. Ames's testimony that he did not know what paragraph 15 meant.

⁶ Presumably "indirect."

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

As to the reasonableness of the parties' respective interpretations, Lakoda's contention that paragraph 15 was intended to exclude only indirect and consequential harm to the nonbreaching party's relationships with third parties is not unreasonable. The limitation looks like one more likely to be found in contracts Lakoda would use for sales of goods. *Cf.* RCW 62A.2-719(1) (permitting limitation of damages in Article 2 sales to, e.g., return of goods and repayment of the price to repair and replace nonconforming goods); U.C.C. § 2-719 cmt. 1 ("However, it is of the very essence of a sales contract that at least minimum adequate remedies be available.").

If the intent was to limit only these attenuated damages, the provision could have been more clearly written, to be sure. But OMH's interpretation—that the parties intended to foreclose all remedies other than injunctive relief—fails under every nontextual factor we apply in interpreting contracts.

Over 25 years ago, our Supreme Court disapproved the "plain meaning rule[']s]" application to contract interpretation and adopted the context rule. *Berg*, 115 Wn.2d at 671. Under the context rule, the interpretation of the parties' nondisclosure agreement

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

presented a question of fact, not law.^{7, 8}

IV. Denial of judgment as a matter of law: trade secret misappropriation

OMH also challenges the trial court's denial of its CR 50 motion to dismiss Lakoda's trade secret misappropriation claim. It contends Lakoda had not presented sufficient evidence of a trade secret or, if a trade secret existed, that it was *Lakoda's* trade secret. Again, we review de novo whether Lakoda's evidence was insufficient to support a verdict in its favor.

Washington law provides remedies to parties harmed by misappropriation of their trade secrets. RCW 19.108.020-050. Lakoda's position was that its contacts in China, the factories it had identified and developed working relationships with, and its knowledge of methods for working with factories and manufacturers in China were its trade secrets.

⁷ In its reply brief, OMH argues the contract should have been construed against Lakoda. The principle that a contract may be construed against the drafter applies only if the context rule has been applied and the contract still remains ambiguous. *Forest Mktg. Enters. Inc. v. Dep't Nat. Res.*, 125 Wn. App. 126, 132-33, 104 P.3d 40 (2005) (citing *Roberts, Jackson & Assoc. v. Pier 66 Corp.*, 41 Wn. App. 64, 69, 702 P.2d 137 (1985)). It is a possible matter of instruction to the jury, but since it applies to only ambiguous contracts it has no application where we are being asked following a jury trial to decide that the contract had a clear meaning as a matter of law.

⁸ On appeal, Lakoda also argues that even if the interpretation proposed by OMH is correct, it would not matter because a limitation on liability is excused when the breaching party acted in bad faith. The jury was not asked to determine whether OMH breached the contract in bad faith, however, and we do not view its finding of a willful and malicious trade secret violation as a substitute for instruction and finding on a distinct contract issue.

Lakoda presented testimony that it would be difficult for someone to work with a factory in China if they had not done so before, and testimony explaining why. Mr. Ames testified to the tremendous amount of time Lakoda spent locating and investigating factories. Lakoda presented evidence that Mr. Ames visited the Longfei factory a number of times in order to assess, among other things, what equipment was available, what the manufacturing process was, what quality checks were in place, and what communication barriers might exist. Mr. Ames testified he had worked with Longfei for years. Evidence was presented that OMH had encountered problems with its prior manufacturing relationship in China and, notwithstanding OMH's contention that Chinese factories could be searched for on the Internet, it had elected to find its next manufacturer with the assistance of Lakoda and signed a nondisclosure agreement in order to do so.

Because the evidence established that Lakoda often worked with and through Peter and TPD, OMH argues, "If the Longfei factory was a trade secret, it was TPD's trade secret." Br. of Appellant at 41. But it cites no legal authority that working through agents prevents a person from having trade secrets.

The Uniform Trade Secrets Act defines "trade secret" as

information, including a formula, pattern, compilation, program, device, method, technique, or process that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

proper means by, other persons who can obtain economic value from its disclosure or use; and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

RCW 19.108.010(4). The definition does not exclude information obtained through agents. The evidence presented by Lakoda was sufficient to support a jury verdict that the Longfei factory and methods of working with it was Lakoda's trade secret.

V. Sufficiency of evidence on damages

OMH challenges the damage award, alleging the jury's award is not supported by "sufficient and accurate" evidence. Br. of Appellant at 30.

Lakoda presented its evidence on damages through Mr. Ames. He first identified an exhibit that was a collection of invoices from Lakoda to OMH and an exhibit that was a collection of purchase orders Lakoda had placed with TPD. He testified that the collections of invoices and purchase orders would reflect, respectively, all of Lakoda's costs of goods sold to OMH and all of Lakoda's revenue received from OMH, with the difference being Lakoda's gross profit. He also identified exhibits that had been prepared to summarize information from the invoices and purchase orders that was relevant to Lakoda's calculation of its damages. Lakoda offered the summaries under ER 1006.

OMH objected to the first summary offered, Exhibit 16, on the basis that one type of entry was an "average unit price" rather than a figure actually reflected on the underlying documents. 1 RP (May 6, 2014) at 112. The trial court overruled the

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

objection and the summary was admitted into evidence. When other summaries that were even more key to Lakoda's damage claim were offered thereafter, OMH indicated that they were "subject to the same objection." *See* 1 RP (May 6, 2014) at 140-42 (offer and admission of Ex. 126).

OMH now challenges the trial court's ruling admitting several of the summaries, arguing they were not accurate.

ER 1006 provides that "[t]he contents of voluminous writings, recordings, or photographs which cannot conveniently be examined in court may be presented in the form of a chart, summary, or calculation." The rule requires that the summary and the originals be made available at a reasonable time and place. No challenge was made at trial to Lakoda's representation that its summaries and underlying documents were made available to OMH before trial.

Relying on case law holding that the proponent of a summary offered under ER 1006 must show that it is "accurate," OMH identifies three alleged errors in the summaries. But only one of the alleged errors was raised as an objection when the summaries were offered. That objection was to the inclusion of an average unit price in exhibit 16. While the average unit price did not itself appear on the summarized documents, it was derived from them, and its correctness or incorrectness could be determined from them. It fell within the rule's authorization to present the contents of voluminous documents "in the form of a . . . calculation."

OMH's other objections come too late.⁹ Lakoda laid the required foundation of accuracy. *See* 1 RP (May 6, 2014) at 111-12, 142 (“Q. Is this an accurate summary of the information contained in Exhibit 18? A. Yes.”; “Q. Do you believe that this is an accurate summarization of the information contained within Exhibit 128? A. Yes, I do.”). The foundation requirement is not a guarantee of accuracy. *See Fidelity Nat. Title Ins. Co. v. Intercountry Nat. Title Ins. Co.*, 412 F.3d 745, 753 (7th Cir. 2005) (“[T]he fact that [summaries] *might* be inaccurate is not a ground for excluding them.”) The reason the rule requires advance production of the summarized documents is so that an adversary can spot check the summary for accuracy and, should it reveal inaccuracies, “have solid grounds for moving to exclude [the summary] from the trial unless the inaccuracies were promptly corrected.” *Id.*

OMH's identification for the first time on appeal of asserted errors in the summaries admitted into evidence is no basis for setting aside the damages awarded. “A strong presumption exists in Washington that a jury's determination of the amount of damages to be awarded is valid.” *Palmer v. Jensen*, 81 Wn. App. 148, 150, 913 P.2d 413 (1996). An appellate court will generally not disturb a jury's verdict on damages if the verdict is within the range of the evidence presented at trial. *Steele v. Queen City Broad.*

⁹ They also depend on exhibits 126 and 128, neither of which was designated as part of the record on appeal.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

Co., 54 Wn.2d 402, 409, 341 P.2d 499 (1959). OMH presents no basis for disturbing this verdict.

VI. Attorney fees

Finally, OMH challenges the trial court's award of attorney fees to Lakoda. It argues the court abused its discretion when it awarded fees because: (1) Lakoda only recovered a nominal award on the trade secret claim, (2) the award did not segregate time spent on claims for which Lakoda was not entitled to recover fees, and, (3) the final award included hours spent to recover fees and the costs of a court reporter at Mr. Hilmoe's depositions.

Lakoda was awarded reasonable attorney fees under RCW 19.108.040, which provides that "[i]f . . . willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party."

"This court reviews the reasonableness of attorney fees awards under an abuse of discretion standard." *Brand v. Dep't of Labor & Indus.*, 139 Wn.2d 659, 665, 989 P.2d 1111 (1999). A trial court abuses its discretion if its award is manifestly unreasonable or based on untenable grounds. *Id.* "The trial court's discretion is not unbridled" and the Washington State Supreme Court has overturned attorneys fee awards when it "disapproved of the method utilized by the trial court" to calculate an award. *Progressive Animal Welfare Soc. v. Univ. of Wash.*, 114 Wn.2d 677, 689, 790 P.2d 604 (1990).

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

A. "Nominal" award

OMH first argues that because Lakoda was only awarded nominal damages on its trade secret claim, the court abused its discretion when it awarded Lakoda fees and costs in the amount of \$231,441.78. It cites *Farrar v. Hobby*, in which the United States Supreme Court held that in a civil rights case, a prevailing party who receives an award of nominal damages may not be entitled to a recovery of fees and costs. 506 U.S. 103, 111-12, 113 S. Ct. 566, 121 L. Ed. 2d 494 (1992); see also *Sintra, Inc. v. City of Seattle*, 131 Wn.2d 640, 664-65, 935 P.2d 555 (1997). Still, "*Farrar* does not set forth a per se rule that attorney's fees are improper when only nominal damages are obtained." *Ermine v. City of Spokane*, 143 Wn.2d 636, 644, 23 P.3d 492 (2001). And this is not a Section 1983 case.

Most persuasive to us is the overlapping nature of the claims and the implausibility that the jury believed Lakoda suffered only \$1 in damages from trade secret misappropriation. The jurors were instructed that Lakoda had the burden on its trade secret claim of proving "[t]hat Defendants' misappropriation was a proximate cause of damages to Lakoda, Inc., or as a result of the misappropriation Defendants received money or benefits that in justice and fairness belong to Lakoda, Inc." CP at 1026. In completing the special verdict, the jury not only found misappropriation, it separately found that the misappropriation was willful and malicious. OMH points us to no

No. 32616-1-III
Lakoda, Inc. v. OMH Proscreen USA, Inc.

evidence presented during the trial that would explain \$1.00 in damages resulting from the misappropriation.

We agree with the trial court that it appears the jurors were heeding the court's instruction that they "should not duplicate the damages in your award." CP at 1059; *cf. Reazin v. Blue Cross & Blue Shield of Kansas, Inc.*, 663 F. Supp. 1360, 1430 (D. Kan. 1987), (rejecting defense argument that a punitive damage award could not stand where jurors awarded only \$1.00 in damages for the underlying claim; "[v]iewing all the facts of this case and the jury instructions in their entirety, the verdict can only be understood as the jury's conclusion [that plaintiff] suffered in excess of one and a half million dollars of damages as a direct consequence of defendant's conduct violating both the antitrust laws of the United States and the tort law of the State of Kansas."), *aff'd in part*, 899 F.2d 951 (10th Cir. 1990).

We doubt the jury viewed Lakoda's damage from the trade secret misappropriation as nominal and even if it did, the trial court would have discretion to award the fees. *Ermine*, 143 Wn.2d at 650 (emphasizing the deferential abuse of discretion standard applied in reviewing a court's decision to grant or deny attorney fees in a nominal damages case). We find no abuse of discretion.

B. Segregation

OMH next argues the trial court abused its discretion because it did not segregate

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

the time Lakoda spent on the breach of contract claim or OMH's counterclaims from the misappropriation claim.

To calculate an attorney fee award, a court multiplies the number of hours reasonably expended by the reasonable hourly rate. *Chuong Van Pham v. Seattle City Light*, 159 Wn.2d 527, 538, 151 P.3d 976 (2007). The court should discount hours spent on unsuccessful claims, duplicated or wasted effort, or otherwise unproductive time. *Bowers v. Transamerica Title Ins. Co.*, 100 Wn.2d 581, 597, 675 P.2d 193 (1983). “[H]ours reasonably expended must be spent on claims having a ‘common core of facts and related legal theories,’” to those for which the party is entitled to recover. *Chuong Van Pham*, 159 Wn.2d at 538 (quoting *Martinez v. City of Tacoma*, 81 Wn. App. 228, 242-43, 914 P.2d 86 (1996)).

Lakoda's lawyers provided its billing statements to the court and a representation of the amount they believed reflected efforts enabling them to prevail on the trade secret claim. They acknowledged the work related to other claims, but all involved a common core of fact and were not easily segregated. They reduced the fees by 14 percent, an amount they believed was a reasonable adjustment for duplicate billing.

The court found that the claims were “intertwined,” and explained that after going through the supporting billing information it believed the 14 percent reduction was fair. RP (June 27, 2014) at 20-21.

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

There may be some overlapping. As I went through and looked at those, I was trying to figure out how to tally and calculate them. Mr. Roberts agreed he would take a percentage off even what he figured to make sure that it stays fair. To the Court, that seems like a very reasonable way.

Id.

This is a case in which there was a substantial overlap of conduct relevant to each of Lakoda's claims. And because of OMH's "financial interest" defense to trade secret misappropriation, the disputes of fact over OMH's own situation and course of action became relevant to prevailing on the trade secret claim. The trial court considered the overlap and was in the best position to assess and account for it. OMH has not provided us with any basis for finding the 14 percent discount manifestly unreasonable.

C. Fees-on-fee fights and deposition costs

Finally, OMH argues the court abused its discretion when it awarded Lakoda fees for the time spent arguing the attorney fees motion and court reporter costs for Mr. Hilmoe's deposition. Of the \$231,441 awarded in fees, \$8,600 were incurred arguing the fee motion. OMH does not identify the amount of costs associated with the depositions of Mr. Hilmoe.

"As a general rule, fees incurred while litigating an entitlement to fees are recoverable under remedial statutes." *Johnson v. Dep't of Transp.*, 177 Wn. App. 684, 695 n.7, 313 P.3d 1197 (2013) (citing *Fisher Props., Inc. v. Arden-Mayfair, Inc.*, 115 Wn.2d 364, 378, 798 P.2d 799 (1990)). OMH nonetheless complains that Lakoda waited

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

until it filed its reply brief on the fee motion to raise its request for fees incurred in seeking fees. OMH had the opportunity to voice its objections to the additional fees when the motion on the fee award was heard, however, and does not claim to have requested and been denied a continuance. The trial court did not abuse its discretion in awarding fees based on the supplemental request.

As to deposition costs, the trial court awarded the entire cost of the court reporter in attendance at Mr. Hilmoe's several depositions. With the benefit of a transcript of trial at this point, OMH contends only three pages of the Hilmoe deposition were used at trial. It counts only pages 566, 573, and 574 of the Report of Proceedings (5 RP (May 8, 2014)), on which Mr. Hilmoe is impeached with his deposition. It is obvious from the transcript, however, that Lakoda's lawyer used the depositions to keep Mr. Hilmoe on a short leash throughout his cross-examination. Impeachment only happened when Mr. Hilmoe strayed.

At the time it ruled on the fee award, the trial court did not have the trial transcript, but only Lakoda's lawyers' recollection that the depositions were used extensively, OMH's lawyers' recollection that they were not used extensively, and its own recollection. It entered a finding that "[d]uring trial, the depositions sought as costs were used extensively." CP at 1171.

Under RCW 4.84.010(7), a party may recover a reasonable expense for the transcription of depositions used at trial "[t]o the extent that the court . . . finds that it was

No. 32616-1-III

Lakoda, Inc. v. OMH Proscreen USA, Inc.

necessary to achieve the successful result . . . PROVIDED, That the expenses of depositions shall be allowed on a pro rata basis for those portions of the depositions introduced into evidence or used for purposes of impeachment.” In other words, a cost award for portions of a deposition used for impeachment is a floor, below which the court may not go. It is not a cap. Cases have upheld an award of the costs of depositions where they are used at trial “during cross-examination *and* for impeachment purposes,” and even where they are successfully used in procuring a summary judgment. *Payne v. Paugh*, 190 Wn. App. 383, 414, 360 P.3d 39 (2015) (emphasis added). The court did not abuse its discretion in awarding the depositions’ cost.

Attorney fees on appeal

Lakoda seeks an award of its reasonable attorney fees and costs on appeal under RCW 19.108.040 and RAP 18.1. As the prevailing party, Lakoda has the right to recover reasonable fees and costs incurred in this appeal that are associated with its trade secret claim. They are awarded subject to Lakoda’s compliance with RAP 18.1(d).

Affirmed.

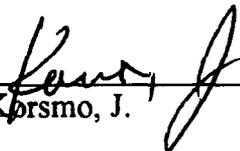
A majority of the panel has determined this opinion will not be printed in the

No. 32616-1-III
Lakoda, Inc. v. OMH Proscreen USA, Inc.

Washington Appellate Reports, but it will be filed for public record pursuant to RCW
2.06.040.


Siddoway, J.

WE CONCUR:


Korsmo, J.


Fearing, C.J.

CERTIFICATE OF SERVICE

I declare under penalty of perjury of the laws of the state of Washington that on the 7th day of October, 2016, a true and correct copy of APPELLANTS' PETITION FOR REVIEW TO THE SUPREME COURT, to which this declaration is attached, was served by the method indicated below, and addressed to the following:

Kevin W. Roberts
Roberts | Freebourn
313 West Riverside Avenue
Spokane, Washington 99201

- U.S. Mail
- Hand Delivered
- Overnight Mail
- Fax: 455-8734
- Email:

DATED: 10/7/16

Shannan Sheldon
Shannan Sheldon