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No. 64408-4

IN THE COURT OF APPEALS  
OF THE STATE OF WASHINGTON, DIVISION I

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FLUKE CORPORATION and DANAHER CORPORATION,  
Appellants and Cross Respondents,

v.

JONATHAN MORROW, EVANS NGUYEN and  
MILWAUKEE ELECTRIC TOOL CORPORATION,  
Respondents and Cross Appellants.

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COURT OF APPEALS  
DIVISION I

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**CROSS APPELLANTS' REPLY BRIEF**

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## I. INTRODUCTION

**Fees Related to Nguyen Defense.** The trial court found that Evans Nguyen<sup>1</sup> was entitled under RCW 4.84.330 to recover fees related to the defense of Nguyen’s alleged breach of the Standard Agreement.<sup>2</sup> But it denied the award of fees to MET for its defense of a directly derivative claim – tortious interference with that same contract. This denial was error for two reasons. First, the tortious interference with contract defense was based on the same grounds and asserted in the same motion for summary judgment as the breach of contract defense. The fees incurred are, therefore, not susceptible to segregation. Second, because Nguyen’s Standard Agreement was a necessary component of the tortious interference claim against MET, the tortious interference claim is an “action on a contract” for purposes of RCW 4.84.330. Accordingly, an award of fees related to MET’s defense of the tortious interference of contract is also mandatory under RCW 4.84.330.

**Fees Related to Morrow Defense.** The trial court also erred as a matter of law in holding that neither Morrow nor MET was entitled under RCW 4.84.330 to recover fees related to the successful defense of claims against Morrow for breach of the Jacobs Chuck Agreement (“JCA”), or

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<sup>1</sup> Cross Respondents are Fluke Corporation (“Fluke”) and its parent, Danaher Corporation (“Danaher”). Cross Appellants are Evans Nguyen, Jon Morrow and Milwaukee Electric Tool Corporation (“MET”).

<sup>2</sup> The issue posed to the trial court – and on appeal here – is limited to entitlement; issues of quantum were reserved for resolution after entitlement is conclusively determined.

the successful defense of Fluke's derivative tortious interference with contract claims against MET. A choice of law clause does not automatically govern entitlement to fees related to the contract claims. Thus, the mere fact that the JCA's choice of law clause was held to be controlling in regard to certain other issues is not determinative of whether it controls in regard to the attorneys' fee issue; the right to recover fees requires a separate choice of law analysis. Under RESTATEMENT (SECOND) OF CONFLICT OF LAWS ("RESTATEMENT") § 187 (1965), a choice of law provision does not govern when: (1) the chosen state has no substantial relationship to the parties or the transaction; *or* (2) it is against public policy. It has now been established that "Fluke has no rights under the" JCA.<sup>3</sup> Accordingly, South Carolina has no interest in Fluke's claims. In addition, Washington has a fundamental public policy of mutuality of remedy regarding the recovery of fees, recognized by statute and independently in case law regarding equitable rights. It would, therefore, be contrary to Washington public policy to deny fees here. The trial court thus erred in refusing to award fees to Morrow and MET under both RCW 4.84.330 and applicable equitable grounds under Washington law.

The trial court similarly erred in refusing to award Morrow fees incurred in dissolving the TRO and preliminary injunction, both of which this Court concluded were wrongfully granted. It is of no consequence

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<sup>3</sup> *Fluke Corp. v. Milwaukee Elec. Tool Corp.*, No. 61928-4-I, 2009 WL 376801, at \*6 (Wash. App. Div. 1 Feb. 17, 2009) ("COA Opinion").

that the issue of entitlement to fees for overturning wrongfully obtained injunctive relief was not first posed to the Court of Appeals on interlocutory appeal. Indeed, when Morrow and MET first moved for an award of fees shortly after remand, Fluke successfully argued that the request was *premature* – not too late – because the record was not adequate to consider the issue until final judgment had been entered in regard to *all* of Fluke’s claims. Nor is Morrow’s entitlement to fees limited to those incurred on interlocutory appeal; it also encompasses fees incurred before the trial court in making the record on which the Court of Appeals based its earlier ruling vacating the injunction. The trial court not only had the authority to award fees related to the proceedings before it, but it erred as a matter of law in failing to do so. This Court similarly now has the authority both to correct the trial court’s error and to award fees incurred on interlocutory and final appeal and cross appeal.

Finally, the trial court erred in refusing to award Morrow and MET fees incurred in defending the trade secret claims. To the extent the ruling was based on application of the “frivolous” standard advocated by Fluke, this was an error of law, as that is not (nor should it be) the standard. To the extent the ruling was based on the “objective speciousness/subjective bad faith” standard described in California cases, denial of fees was an abuse of discretion, as Fluke’s bad faith in continuing to pursue its trade secret claims long after its lack of merit was clear is patent.

## II. REPLY ARGUMENT

### A. **MET Is Entitled to Fees Related to Defense of Fluke's Claims of Tortious Interference With Fluke's Contract With Nguyen.**

“Whether a party is entitled to an award of attorney fees is a question of law that [is] review[ed] *de novo*.” *Hough v. Stockbridge*, 152 Wn. App. 328, 347, 216 P.3d 1077 (2009); *Ledcor Indus. (USA), Inc. v. Mut. of Enumclaw Ins. Co.*, 150 Wn. App. 1, 16, 206 P.3d 1255 (2009). The trial court erred in failing to award mandatory fees to MET for its defense of the tortious interference with contract claim on two distinct grounds.

#### 1. MET's Fees Are Incapable of Segregation from Nguyen's.

The general rule is that when fees are recoverable for only some claims, fee awards must “reflect a segregation of the time spent on issues for which fees are authorized from time spent on other issues.” *MP Med., Inc. v. Wegman*, 151 Wn. App. 409, 426, 213 P.3d 931 (2009). However, segregation of fees is not required for claims that are so related that no reasonable segregation of claims can be made. *Id.*; *see also Hume v. Am. Disposal Co.*, 124 Wn.2d 656, 673, 880 P.2d 988 (1994) (remanding the fee award to the trial court for a determination of what fees related to a “common core of facts”); *Ethridge v. Hwang*, 105 Wn. App. 447, 461, 20 P.3d 958 (2001) (finding no requirement to segregate attorneys' fees when they were incurred on different claims that shared the same underlying facts).

The trial court awarded attorneys fees to Nguyen under RCW 4.84.330 for his defense of the breach of contract claim. The tortious interference of contract claim alleged against MET was based on the same common core of facts. In fact, the two claims were premised on the *same* contract and were subject to and ultimately defeated by the *same* arguments relating to its validity successfully asserted in the *same* motion for summary judgment. The fees associated with those claims are, therefore, inextricably linked as to preclude segregation. The trial court should have awarded fees for defense of the tortious interference claim on this basis.

2. MET Is Also Entitled to Fees Under RCW 4.84.330.

Fluke contends that MET is not entitled to fees under RCW 4.84.330 because MET was not a party to the Standard Agreement between Nguyen and Fluke. But the statute does not say “in any breach of contract claim.” It says “in any action on a contract.” RCW 4.84.330 (emphasis added). Tortious interference with a contract is an action on a contract. Indeed, Fluke’s own authorities support that point.

Fluke cites *Hemenway v. Miller*, 116 Wn.2d 725, 742, 807 P.2d 863 (1991), for the proposition that a claim that relies on an underlying document that merely provides “background” to a dispute does not constitute an “action on a contract.” That may be true. However, *Hemenway* goes on to say that “[i]f the contract containing the attorney fee provision is central to the controversy, the statute applies.” *Id.* That is the

case here. Fluke's Standard Agreement with Nguyen is the *raison d'être* of Fluke's tortious interference of contract claim against MET. It is thus "central to the controversy" of MET's alleged tortious interference.

Fluke also relies on *G.W. Equipment Leasing, Inc. v. Mt. McKinley Fence Co.*, 97 Wn. App. 191, 982 P.2d 114 (1999), for the proposition that a "stranger" to a contract may not recover fees under that contract. In reality, *G.W. Equipment* simply states that a fee request could not appropriately come from a non-party to the suit, not a non-party to the contract. *Id.* at 200. MET is a party to this suit because Fluke sued it for interfering with Fluke's contract with Nguyen. Thus, MET was and is entitled to the mandatory award of fees as a prevailing party in an "action on a contract" which contains a unilateral fee provision. RCW 4.84.330.

**B. Morrow and MET Are Entitled to Fees Related to Their Defense of the Claims Against Morrow.**

1. Morrow and MET Are Entitled to Fees Incurred in Defense of Claims Related to the JCA Under RCW 4.84.330.

Contrary to Fluke's assertion, a contractual choice of law clause does not automatically extend to all issues related to the contract, or to related claims affecting non-parties to the agreement. Rather, the enforceability of the choice of law provision may appropriately vary by the issue or party involved. *See Freestone Capital Partners LP v. MKA Real Estate Opportunity Fund I, LLC*, 155 Wn. App. 643, 658-63, 230 P.3d 625 (2010) (choice of law clause in promissory note did not control in regard to related guarantees subjoined to note); *see also Ribbens Int'l v.*

*Transp. Int'l Pool*, 47 F. Supp. 2d 1117, 1120 (C.D. Cal. 1999) (finding that just because Pennsylvania law governed liability and damage issues by virtue of a contractual choice of law clause, it did “not foreclose further consideration of the choice of law issue with respect to the issue of entitlement to attorney’s fees”); *ABF Capital Corp. v. Grove Props. Co.*, 126 Cal. App. 4th 204, 23 Cal. Rptr. 3d 803 (2005) (even though prevailing defendant successfully argued that New York choice of law clause controlled in regard to liability for alleged breach of contract with unilateral fee clause, court held that California law governed entitlement to fees, and that trial court erred in failing to award defendant fees under mutuality of fees provision). While the trial court correctly determined that no public policy of Washington would be contradicted by applying South Carolina law regarding the enforceability of a non-competition agreement, it erred in refusing to recognize that a party’s right to recover fees presents a separate public policy question, and requires a separate choice of law analysis.<sup>4</sup>

In Washington, the enforceability of a choice of law provision is governed by the RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 187

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<sup>4</sup> Fluke can hardly dispute this fundamental principle, having prominently cited to the trial court (and less prominently to this Court) an opinion clearly stating this principle. See CP 5879 (citing *Boise Tower Assocs. v. Washington Capital Joint Master Trust Mortgage Income Fund*, No. 03-141-S-MHW, 2007 WL 4355815, at \*3 (D. Idaho Dec. 10, 2007) (“With that said, the law governing liability for the underlying cause of action, e.g., breach of contract, does not automatically control the fee issue.”); *id.* at \*4 (fee issue must be subjected to separate choice of law analysis)).

(1965). *Freestone Capital*, 155 Wn. App. at 659 (citing *McGill v. Hill*, 31 Wn. App. 542, 547-48, 644 P.2d 680 (1982)).<sup>5</sup> Section 187 provides that a contractual choice of law clause should not be applied if: (a) the chosen state has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties choice; *or* (b) application of the law of the chosen state would be contrary to a fundamental policy of a state with a materially greater interest in the determination of the particular issue and which, under RESTATEMENT § 188, would be the state of applicable law absent an effective choice of law clause. RESTATEMENT § 187(2). Under either criteria, it is clear that South Carolina law should not govern the issue of Morrow’s and MET’s entitlement to prevailing party fees, and that Washington law governs.

- a. RESTATEMENT § 187(2)(a): South Carolina Has No Substantial Relationship to the Parties or the Transaction.

South Carolina had a relationship to the parties to the JCA – Jacobs Chuck and Morrow – and, therein, to Morrow’s employment at Jacobs Chuck. But South Carolina’s interest in this case ended once this Court held that Fluke was not a party to, and had no rights under, the JCA as a matter of law. And while Morrow and Jacobs Chuck had an agreement regarding choice of law governing *their* contractual relationship, no such “choice” was made in regard to the relationship between Morrow and

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<sup>5</sup> Choice of law is an issue of law that is reviewed *de novo*. *Freestone Capital*, 155 Wn. App. at 659.

Fluke. Fluke had no expectation that it would be protected by South Carolina law from a claim for fees; indeed, Fluke itself argued that its relationship with Morrow was governed entirely by Washington law. South Carolina never had a relationship with Fluke, or any interest in Fluke's employment of Morrow, or in the conduct that Fluke alleged was a breach of Morrow's duties to Fluke, all of which transpired in Washington. The outcome of the claims based on the JCA establishes as a matter of law that South Carolina has no interest in regard to an award of fees on claims by Fluke against Morrow, much less MET. Thus, under RESTATEMENT § 187(2)(a), Washington law controls.

RCW 4.84.330 requires an award of fees based upon the mere *allegation* of a contract containing a unilateral attorneys' fees clause, even if the defendant ultimately proves that no contract existed. *Herzog Aluminum v. Gen. Am. Window Corp.*, 39 Wn. App. 188, 191-97, 692 P.2d 867 (1984). Fluke's allegations against MET and Morrow were based on the JCA, which contained a unilateral fee provision. *See, e.g.*, Plaintiffs' Opp'n to Def.'s Mot. to Dissolve Temporary Restraining Order (Dkt. No. 27) at 4-8, attached to Appendix as Exhibit B. MET and Morrow are, therefore, entitled to fees under RCW 4.84.330.

b. RESTATEMENT § 187(2)(b): Failure To Apply RCW 4.84.330 Would Be Against Washington Public Policy

Even if South Carolina were deemed to have some residual interest based on the JCA, Washington law still governs entitlement to prevailing

party fees under RESTATEMENT § 187(2)(b), because if there is no mutuality of remedy in regard to the right to prevailing party fees, fundamental Washington public policy is violated.

Washington's public policy emphatically favors mutuality of remedy in regard to the right to recover attorneys' fees. First, Washington recognizes the right both statutorily and in equity. *See* RCW 4.84.330; *see Kaintz v. PLG, Inc.*, 147 Wn. App. 782, 786-789, 197 P.3d 710 (2008) (awarding fees based on equitable grounds of mutuality of remedy, even though RCW 4.84.330 did not apply and no contract existed).<sup>6</sup> In addition, Washington's public policy in favor of mutuality is so strong that the Legislature deemed it non-waivable. *See* RCW 4.84.330. Fluke cannot circumvent this policy via a choice of law clause in an agreement directly with Morrow, much less through a clause in a contract under which it had no rights as a matter of law.

The non-waivable nature of RCW 4.84.330 distinguishes this case from those primarily relied upon by Fluke. *See Fairmont Supply Co. v. Hooks Indus., Inc.*, 177 S.W.3d 529 (Tex. Ct. App. 2005), and *Kucel v. Walter E. Heller & Co.*, 813 F.2d 67 (5th Cir. 1987). Both cited cases involved a *waivable* Texas fee provision. *Id.* Neither addressed the role

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<sup>6</sup> Indeed, even if RCW 4.84.330 does not apply, Morrow would be entitled to an award of prevailing party fees related to the claims under the JCA on equitable grounds, based on Washington's judicially-recognized policy of mutuality of remedy regarding recovery of fees. *See Kaintz*, 147 Wn. App. at 786-89 (awarding fees based on equitable grounds of mutuality of remedy, even though RCW 4.84.330 did not apply and no contract existed).

of public policy in applying choice of law provisions. *Id.* And Texas jurisprudence makes clear that the fee statute at issue did not represent a fundamental public policy of Texas. *Id.* The cases are, therefore, inapt.

A more apt comparison is made with the case law of California, which, like Washington, has a non-waivable statutory right of mutuality of remedy in “actions on a contract” which contain unilateral fees provisions - Cal. Civ. Code § 1717(a). *See Herzog Aluminum*, 39 Wn. App. at 195 (“The marked similarities between § 1717 and RCW 4.84.330 strongly supports [sic] the conclusion that our Legislature utilized § 1717 as a paradigm.”). A California court evaluating the same issue in a virtually identical situation concluded that failure to enforce the non-waivable mutuality provision of § 1717(a) would violate fundamental California public policy. *See Ribbens Int’l*, 47 F. Supp. 2d at 1120. The *Ribbens* court applied the same Restatement provision that Washington law follows (RESTATEMENT § 187) to evaluate the choice of law issue. *Id.* It found that the mutuality of remedy regarding fees required by Cal. Civ. Code § 1717(a) (the equivalent of RCW 4.84.330) represented “a strongly held public policy of California.” *Id.* at 1122-24. It explained:

It is common knowledge that parties with superior bargaining power, especially in ‘adhesion’ type contracts, customarily include attorney fee clauses for their own benefit. This places the other contracting party at a distinct disadvantage. Should he lose in litigation, he must pay legal expenses for both sides and even if he wins, he must bear his own attorney’s fees. One-sided attorney’s fees clauses can thus be used as instruments of oppression to force settlement of dubious or unmeritorious claims.

Section 1717 was obviously designed to remedy this evil. *Id.* at 1122-23 (citing *Coast Bank v. Holmes*, 19 Cal. App. 3d 581, 596-97, 97 Cal. Rptr. 30, 39 (1971)). The court concluded that applying Pennsylvania law (which it had done in regard to other contract issues based on a contractual choice of law provision) would violate the public interest and fundamental public policy of California in regard to the issue of entitlement to prevailing party attorneys' fees. *Id.* at 1123. On that basis, the *Ribbens* court applied California law and Cal. Civ. Code § 1717(a). *Id.*

*Ribbens* is on point not only because it addresses the same issue in regard to a virtually identical statute, but because, as this Court held in *Herzog*, the Washington legislature specifically modeled RCW 4.84.330 on Cal. Civ. Code § 1717(a). 39 Wn. App. at 194-97. Thus, the conclusion in *Ribbens* that Cal. Civ. Code § 1717(a) represents a strongly held public policy worthy of overriding a choice of law provision is highly instructive of the importance of RCW 4.84.330 in Washington. 47 F. Supp. 2d at 1122-24.

In light of the demonstrable public interest in the enforcement of RCW 4.84.330, Washington clearly has a greater interest in this issue than South Carolina. Thus, under RESTATEMENT § 187(2)(b) the choice of law provision of the JCA should not apply to the determination of entitlement to prevailing party attorneys' fees. Rather, Washington law should govern; indeed, Fluke itself alleged that the JCA should be governed by

Washington law, and brought the rest of its claims against Morrow (and all claims against MET) under Washington's common law and Trade Secrets Act. Under Washington law, MET and Morrow are entitled to attorneys' fees under RCW 4.84.330, and on independent equitable grounds mandating mutuality of remedy, for the reasons discussed above.

c. MET Is Not Subject to the JCA or Its Choice of Law Provision

MET is not a party to the JCA. Accordingly, the JCA's choice of law clause is irrelevant to the issue of MET's entitlement to fees. *See, e.g., G.W. Equip.*, 97 Wn. App. at 199 (Washington choice of law clause in husband's lease did not apply to claims against wife or marital community, who were not parties to agreement). Thus, for purposes of fees related to the defense of Fluke's tortious interference claims with contract against MET, the choice of law analysis is limited to that under RESTATEMENT § 188. Fluke's prosecution of claims against MET solely under Washington law leaves no dispute as to the applicable law. For the reasons stated above, Fluke's claims against MET for tortious interference with contract claims fall within the purview of RCW 4.84.330 and MET is entitled to recover its fees.

2. RAP 18.1 Did Not Preclude the Trial Court From Awarding Fees Related To Dissolving the TRO and Injunction.

Morrow and MET also requested an award of fees on equitable grounds related to Fluke's request for injunctive relief. Well established

Washington precedent holds that a defendant is entitled as a matter of law to an award of reasonable attorneys' fees and costs incurred in obtaining dissolution of a wrongfully issued injunction. *See Ino Ino., Inc. v. City of Bellevue*, 132 Wn.2d 103, 143, 937 P.2d 154 (1997).

Contrary to Fluke's contention, an award of fees is mandatory; only the quantum of fees awarded is subject to the trial court's discretion. *Id.* at 143.<sup>7</sup> In light of the Court of Appeals' ruling on interlocutory appeal, Fluke does not (and cannot) contend that Morrow and MET have not met the standard of proving the TRO and injunction wrongful. *See Swiss Baco Skyline Logging Co. v. Haliewicz*, 14 Wn. App. 343, 346, 541 P.2d 1014 (1975) (injunction is wrongfully obtained where there is a judicial determination establishing the wrongfulness of the restraint based upon the merits of the case). Thus, its sole argument on appeal regarding the fee award is that Morrow and MET somehow waived the right to seek these fees because they did not request an award of fees during the interlocutory appeal process.

Fluke's argument ignores not only the procedural posture of the

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<sup>7</sup> Although the decision in *Confederated Tribes of Chehalis Reservation v. Johnson*, 135 Wn.2d 734, 958 P.2d 260 (1998), suggests (and subsequent cases cite it accordingly) that the decision to award fees is discretionary, the case on which *Confederated Tribes* relies holds that only the quantum of the award is subject to the Court's discretion. *See Ino Ino*, 132 Wn.2d at 142-43. At least two Supreme Court Justices read *Ino* as mandating an award of fees. *See San Juan County v. No New Gas Tax*, 160 Wn.2d 141, 170, 157 P.3d 831 (2007) (Johnson, J.M. concurring) (court held in *Ino* "that a court shall award reasonable attorney fees when a person prevails in dissolving a wrongfully issued temporary injunction").

case at that time, but its own arguments when Morrow and MET first requested fees before the trial court on remand. Fluke did not then argue that the request for fees was tardy at that point, but rather that the request was premature. *See generally* CP 8279-91.

Specifically, Fluke contended that the interlocutory ruling was not dispositive to its JCA related claims, and thus forced Morrow and MET to the expense of bringing a motion for summary judgment on remand, which Fluke opposed then and now challenges on appeal. *See generally* CP 1051-151. After the trial court dismissed those claims, Morrow and MET moved for an award of fees related to overturning the grant of a TRO and injunction, and as the prevailing parties on Fluke's claims related to the JCA. CP 4971-5058, 5059-66. The grounds asserted by Morrow and MET then were the same as those asserted later at the conclusion of the case: (1) entitlement as a matter of statute under RCW 4.84.330; (2) on equitable grounds based on Washington's stated policy requiring mutuality of remedy in the recovery of fees; and (3) on equitable grounds requiring an award of fees incurred in obtaining dissolution of wrongfully issued injunctive relief (in this case, a TRO and a preliminary injunction). CP 4974-75.

In response, Fluke did not suggest that such a request was barred by RAP 18.1. Rather, *and as to all grounds*, Fluke argued that the request was premature because no final judgment had been entered on the contract claims, and because the trial court could not consider a request for fees on

equitable grounds related to the injunction until the remaining claims were adjudicated on a full record. *See* CP at 8279-80, 8285-86, 8290.<sup>8</sup> Fluke prevailed on this argument, as the trial court denied Morrow's and MET's motion at that time *without prejudice*. CP 5067-69. Fluke does not now appeal that ruling, which thus became binding as the law of the case.

Several months later, the trial court found Fluke's remaining claims equally lacking as a matter of law, and entered final judgment. Only then did the trial court have the benefit of the full record that Fluke had previously convinced the trial court was necessary to rule on equitable fee claims. With no substantive argument available as to why fees should

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<sup>8</sup> Among other things, Fluke stated:

[D]efendants' request is premature. . . . [D]efendants' claim for fee damages for reversal of the preliminary injunction sounds in equity. Because "one who seeks equity must do equity," equity requires that the Court fully consider the conduct of all the parties on a complete evidentiary record before deciding whether defendants are entitled, *in equity*, to a fee award. That should not be done before discovery is completed and all relevant facts and conduct are before the Court.

. . . .

Before it can appropriately balance the equities of this case, the Court should consider not only the disposition of the plaintiffs' contract claims, but also plaintiffs' remaining claims. Plaintiffs' claims that Morrow misappropriated Fluke's trade secrets and violated his common law duties of loyalty and confidentiality arise out of the same operative facts as the now-dismissed contract claim . . . . If plaintiffs' claims are proven after discovery and a trial, the equities of this case would weigh even more heavily against an award of fees to Morrow or MET.

CP 8280, 8290.

not be awarded, Fluke reversed course and argued that Morrow and MET waived claims for fees related to the interlocutory appeal by not requesting them during the interlocutory appeal process. CP 5881-82. But even then, Fluke did not suggest that the trial court was without jurisdiction to award fees related to the proceedings before the trial court prior to appeal. Only now, for the first time, does Fluke suggest that *only* the appellate fees could have been awarded in regard to dissolving the injunction.

Whether the trial court had authority to award fees is an issue of law subject to *de novo* review. No case holds that the trial court lacked authority to award fees incurred on interlocutory appeal, when the right to appellate fees could not have been presented during the interlocutory appeal process.<sup>9</sup> RAP 7.2(d) expressly recognizes the authority of the trial court to award attorney fees and litigation expenses for an appeal “in any action in which applicable law gives the trial court authority to do so.” Here, the applicable law is the right to recover attorney fees in dissolving a wrongfully issued injunction.

Moreover, the fees incurred by Morrow and MET in dissolving the TRO and injunction are not limited to fees incurred on interlocutory

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<sup>9</sup> Fluke’s cited authorities involve circumstances where the trial court granted fees related to prosecution of a final appeal as of right. *See, e.g., Thompson v. Lennox*, 151 Wn. App. 479, 212 P.3d 597 (2009) (prevailing party first requested appellate fees from trial court on remand after Court of Appeals dismissed final appeal); *Hedlund v. Vitale*, 110 Wn. App. 183, 39 P.3d 358 (2002) (prevailing party first requested appellate fees from trial court on remand after Court of Appeals affirmed trial court’s dismissal).

appeal; they also include the fees incurred at the trial court level in developing the record on which the trial court should have dissolved the TRO and denied an injunction, and which was the basis for the Court of Appeals' interlocutory ruling. RAP 18.1 in no way precludes the trial court from awarding fees incurred in proceedings at the trial court level. *See, e.g., Hedlund v. Vitale*, 110 Wn. App. 183, 186-91, 39 P.3d 358 (2002) (reversing only award of fees incurred on final appeal, but affirming award of fees incurred at trial level). Given the outcome of Fluke's remaining claims – dismissal on summary judgment based on a full record – the trial court's refusal to award any fees related to the injunction hearing constitutes reversible error even under the abuse of discretion standard advocated by Fluke.

Nor did Morrow or MET waive the right to fees incurred on interlocutory appeal. As Fluke successfully argued, Morrow and MET could not have presented the issue of whether appellate fees should be awarded to the Court of Appeals on interlocutory appeal. If the record was incomplete for purposes of awarding fees *after* the trial court dismissed Fluke's contract claims on remand, when Morrow and MET first moved for fees on these grounds, it was certainly inadequate several months earlier when all the Court of Appeals had before it was the record at the preliminary injunction hearing. According to Fluke, the trial court had to pass judgment on this issue first, at the conclusion of the case, with a full record before it, before the issue could even be considered by the

Court of Appeals.<sup>10</sup> Morrow and MET have now asked this Court to consider this issue in accordance with RAP 18.1.

3. The Trial Court Either Applied the Wrong Standard or Abused Its Discretion in Failing To Award Fees Related to the Defense of Fluke’s Trade Secret Claims.

The Wrong Standard. Citing *Precision Airmotive Corp. v. Rivera*, 288 F. Supp. 2d 1151 (W.D. Wash. 2003), Fluke contends that the trial court properly applied by analogy the “frivolousness” standard of RCW 4.84.185 in determining whether Fluke’s claims were brought in bad faith, and thus were subject to an award of prevailing party fees under the Washington Trade Secrets Act. But RCW 19.108.040 allows an award of fees incurred in defending trade secrets claims made in “bad faith.” Nothing in the trade secrets statute’s language suggests that RCW 4.84.185 or its “frivolousness” standard are applicable. Indeed, they are not. In using different terms, the Legislature is presumed to have intended different meanings. *See State v. Flores*, 164 Wn.2d 1, 14, 186 P.3d 1038 (2008) (when legislature uses different terms in statutes relating to similar subject matter, it intends different meanings).

Nor does the opinion in *Precision Airmotive* purport to define the test for proving “bad faith” under the Washington Trade Secrets Act. That

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<sup>10</sup> By the same token, if the trial court could not award fees under RCW 4.84.330 after dismissing the contact-related claims on summary judgment because no final judgment had yet been entered, then the Court of Appeals was similarly without authority to consider an award of fees on these grounds on interlocutory appeal.

court held only that the trial court's denial of fees was justified where the defendant did not call out the lack of merit prior to moving to dismiss, and absent other evidence of bad faith. 288 F. Supp. 2d at 1155. As Fluke acknowledges, no Washington court has defined the bad faith standard under the Washington Trade Secrets Act. Reply Brief at 41 n.25. This issue of first impression is one of law, and thus is reviewed *de novo*.

Fluke's reliance on non-trade secret cases interpreting standards under other statutes is misplaced. Once again, cases interpreting other state's trade secret statutes are more relevant. Fluke discusses only one involving an award of fees under a trade secrets statute – *Optic Graphics, Inc. v. Agee*, 591 A.2d 578 (Md. App. 1991) – and mischaracterizes the holding of that case in order to suggest a higher standard. The *Optic Graphics* court vacated the fee award related to the trade secrets claims because proof of bad faith – use of a forged confidentiality agreement – related only to the breach of contract claim, which was severable. Absent other evidence of bad faith, an award of fees was improper in a case where the evidence regarding alleged misappropriation of trade secrets had been sufficient to go to trial. *Id.* at 586-89.

The cases from California represent the most developed body of jurisprudence analyzing the identical “bad faith” standard under the Uniform Trade Secrets Act. The “objective speciousness/subjective bad faith” test was developed and applied in those cases specifically to serve the policy objectives of the UTSA fee provision. It is a workable standard

that Washington should apply for purposes of its own statute. The trial court's denial of fees should be reversed, and the case remanded with instructions to apply this standard.

Abuse of Discretion. To the extent the trial court applied the correct standard, it abused its discretion in denying fees. The grant of summary judgment conclusively establishes the "objective speciousness" prong. *See FLIR Sys., Inc. v. Parrish*, 174 Cal. App. 4th 1270, 1276, 95 Cal. Rptr. 3d 307 (2009) (objective speciousness exists where action superficially appears to have merit but there is complete lack of evidence to support claim). And while Fluke tries to defend itself with arguments about its good faith when it filed its claims in 2008, the issue is whether Fluke's continued pursuit of those claims after May 2009 (following a year of discovery and appeals) was in subjective bad faith. It clearly was.

Fluke presented trade secret evidence in seeking a preliminary injunction, and the trial court's comments in ruling on that motion that the "case is not about trade secrets" are quoted precisely and in context. Fluke was cognizant of the tenuous nature of its trade secret claims by then, if not sooner. Fluke touts its supposed identification of "fourteen specific trade secrets" (Reply Brief at 43) and argues that the trial court found these disclosures adequate when it declined to sanction Fluke. But the trial court's denial of sanctions was not an affirmation of the adequacy of Fluke's disclosures. By its own admission, Fluke's later disclosures were substantively the same as its prior disclosures (Reply Brief at 2), which the

trial court expressly found to be inadequate in compelling Fluke to disclose the trade secrets at issue with particularity. CP 985-87. The trial court clarified any ambiguity in its decision to deny sanctions during oral argument on summary judgment, when it made clear that its ruling on sanctions was *not* an endorsement of Fluke's disclosures:

Mr. Petrak: [I]f [I] understand your ruling the last time [on the motion for sanctions], which I respectfully disagree with it. But if I understand it, your ruling was that the disclosure [Fluke] made in May of this year was adequate.

The Court: No. My ruling was that [Fluke's May disclosure] is what it is. They have identified what they claim that the trade secrets to be. Then we take it from there.

Mr. Petrak: All right. If that identification isn't adequate, then it doesn't meet the standard under that summary judgment.

RP 9/18/09 at 63. Even now, Fluke persists in describing the trade secrets in only the vaguest generalities about a "3-year strategic plan," a "cross-market product list," "Voice of the Customer information" and "product performance testing results." Reply Brief at 45.

By May 2009, after a year of discovery, Fluke had not identified any trade secrets with particularity, had no proof of misappropriation, and no evidence that it had been injured or that MET had benefited improperly. Its broad accusations that, *e.g.*, Morrow shared information about Fluke's plans to market a laser distance finder is not supported by any actual evidence. Fluke showed only that Morrow had access to the document at Fluke several months before he left – a document that Fluke

*never* identified as containing trade secrets in *any* of its disclosures. But there was no evidence that Morrow recalled the document, or that he took a copy of the document with him months later when he left.<sup>11</sup> Nor is there any evidence that Morrow was referring to this document in telling his boss at MET that he “knew stuff” about distance finders. No MET witness testified that Morrow shared information about Fluke’s marketing plans with them. Nor is there even indirect evidence that MET’s plans for its own product were altered or otherwise tailored based on Fluke’s plans.<sup>12</sup> One cannot infer *actual* misappropriation based only on evidence of access to information at one company and that one merely discussed similar products at another.<sup>13</sup>

Fluke’s broad assertions that Morrow’s references to “actionable distributor data” and “low hanging fruit” suggest misappropriation of unspecified trade secrets from the cross market analysis are similarly unsupported by any actual evidence. Once again, there was no direct or

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<sup>11</sup> Flukes’ speculation regarding the thumb drive is unsupported by any evidence to rebut the testimony of Morrow’s forensic computer expert that no Fluke documents were or had been copied onto the thumb drive. Fluke was informed of the thumb drive at the outset of the case. Fluke never asked that it be produced for forensic analysis in the 17 months that the case was pending.

<sup>12</sup> To the contrary, MET shelved development of its distance finder product for a year, and did not resume until *after* Fluke’s product was on the market.

<sup>13</sup> To hold otherwise would be to extend the inevitable disclosure doctrine, which Washington has never applied even in the context of injunctive relief, into the realm of claims for damages. Even Fluke concedes that this doctrine has no application here. CP 1585 n.8.

indirect evidence that Morrow took a copy of the document with him, or that he was capable of recalling hundreds of pages of data regarding products offered by Amprobe and its competitors in the T&M market. Morrow testified that these references were to independent work performed at MET related to MET's existing non-T&M products, and MET produced documentation of that work. No witness testified to the contrary, nor did Fluke offer even indirect evidence of conduct by MET in developing or marketing its T&M products that suggest it was somehow guided by information in or unspecified insight derived from the cross market analysis. Once again, Fluke offered only evidence of access to information at Fluke, which alone allows no basis to infer misappropriation once employed at MET.

Fluke's dogged pursuit of these claims in the absence of supporting evidence proves its bad faith. Further corroborating evidence exists in the form of Fluke's "settlement" demand that MET fire Morrow's boss and pay excessive damages it has never been able to substantiate. This demand cannot credibly be defended as "non-monetary avenues to structure an amicable resolution." Reply Brief at 46-47.

Nor can Fluke's failure to proffer an adequately prepared 30(b)(6) witness be justified because certain documents were designated as "Attorneys' Eyes Only." CP 3819-861. If the protective order were an impediment, it was incumbent on Fluke to proffer another witness who was allowed to have access to AEO materials. *See State Farm Mut. Auto.*

*Ins. Co. v. New Horizon, Inc.*, 250 F.R.D. 203 (E.D. Pa. 2008) (granting sanctions where 30(b)(6) witness was unprepared to testify and instructed not to disclose facts learned through counsel); *Great Am. Ins. Co. of N.Y. v. Vegas Constr. Co.*, 251 F.R.D. 534 (D. Nev. 2008) (duty to prepare 30(b)(6) witness goes beyond matters personally known to witness and must include matters known to counsel; granting sanctions where witness did nothing to prepare and could not testify regarding subjects outside testimonial knowledge); *Smith v. Gen. Mills, Inc.*, No. C2 04-705, 2009 WL 2525462 (S.D. Ohio Aug. 13, 2009) (assertion of attorney client privilege improper in 30(b)(6) context where questions sought information regarding factual bases supporting claims, even if learned from counsel).

### III. CONCLUSION

This Court should affirm the dismissal of Fluke's claims and remand to the trial court for the sole purpose of awarding Nguyen, Morrow and MET their attorney fees in the trial court, and in this court on the previous appeal. Respondents are also entitled to fees in connection with the instant appeal.

DATED this 3rd day of September, 2010.

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A handwritten signature in black ink, appearing to read 'H. Goodfriend', written over a horizontal line.

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**PROOF OF SERVICE**

The undersigned certifies that on the 3rd day of September, 2010, he caused to be served in the manner noted below a copy of Respondents' Brief on the following counsel of record:

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DATED this 3rd day of September, 2010.



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