



Intellectual
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Evolving Monetary Remedies in Trade Secret Disputes

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Nature of the problem *

“computing damages in a trade secret case is *not cut and dry*”

“every [trade secret] case requires a *flexible and imaginative* approach to the problem of damages”

Overview

- **Basics of trade secret law & damages**
- **Important damages issues, including:**
 - Avoided development costs
 - Apportionment / Double recovery
 - Exemplary (punitive) damages
 - Relevance of patent damages theories

Our endnotes (*). Your questions.

Basics of a Trade Secret dispute *

- **What is a trade secret?**
 - Information, value, reasonable measures
- **Trade Secret misappropriation – the cause of the damage**
 - Acquisition, disclosure, use . . . by improper means

Sources of Trade Secret law *

- **Dual state-federal protection in the US**
 - UTSA as adopted by states, DTSA of 2016, contract law, unfair competition law, . . .
- **Outside the US?**
 - EU Trade Secret Directive, China's AUCL, TRIPS, . . .

Show me the money *

DuPont awarded \$920 million by 2012 jury

- reversed and remanded on appeal, and eventually settled for \$275 million

ASML awarded \$845 million by 2018 jury

HouseCanary awarded \$235 million (and \$470 million in *exemplary* damages) by jury in 2019

- reversed on appeal and remanded for a new trial

Injunctions & monetary remedies *

Historic importance of injunctions in trade secret cases

Why monetary remedies have grown in importance

- increasing value of trade secrets; better digital forensics reveal true consequences of misuse

Basic damages theories *

Outline of UTSA / DTSA damages theories:

1. **non-duplicative** damages for actual loss and unjust enrichment caused by misappropriation; or
2. in lieu of other methods, reasonable royalty for unauthorized disclosure or use

Exemplary damages and attorney fees

Financial models

Examples of *actual losses*

- lost profits; reduction in profit margins; loss in value of the business; mitigation costs; other out of pocket losses linked to conduct (e.g. increases in expenses)

Examples of *unjust enrichment*

- defendant's profits; increase in defendant's business value; defendant's head start benefit; defendant's savings or costs avoided

Avoided development costs *

Avoided development costs as a measure of damages

- How should they be calculated?
 - compare defendant's actual costs to expected costs
- Whose costs are considered (the trade secret owner or accused party or a hypothetical market)?
- Why don't all states recognize avoided development costs? (NY law / *E.J. Brooks*)

Other unjust enrichment issues *

- Calculating “head start” period and defendant’s profits during head start
- Determination by Court (vs. jury)?

Apportionment to multiple secrets *

- **Extent apportionment is required in trade secrets cases, and how it would be applied**
 - requiring expert assign damages amongst trade secrets vs. requiring jury answer questions separately for each trade secret
 - apportionment more likely in connection with lost profits or royalty, but not for equitable remedy of unjust enrichment
 - could *each* secret be source of *all* the damages?

Double recovery prohibition

To what extent is recovery prohibited?

- **Double recovery on the same claim** (i.e., misappropriation)
 - prohibited by the UTSA / DTSA
 - example of prohibited award: trade secret owner's lost profits and disgorgement of misappropriator's profits on the same sales without addressing overlap
 - example of permissible award: trade secret owner's lost profits and misappropriator's avoided R&D costs

Double recovery prohibition *

- Double recovery on different claims (e.g., trade secret and patent or contract) may be prohibited by case law
 - “The royalty award for patent infringement was therefore duplicative of some portion of the disgorgement award for trade secret misappropriation.” *Tex. Advanced Optoelectronic Solutions*
 - “even though damages are claimed based upon separate statutes or causes of action, when the claims arise out of the same set of operative facts . . . , there may be only one recovery.” *Aero Prods.*

Reasonable royalty issues *

Preferences and frequency of reasonable royalty awards

- least preferred option under many state laws; DTSA
- examples when reasonable royalty is proper measure
 - where it is difficult to prove lost profits or disgorgement to a reasonable certainty,
 - where trade secret holder didn't actually lose any sales, or
 - where defendant possessed, disclosed or used the trade secrets but had not (yet) profited or benefitted materially

Exemplary damages *

- When are they awarded?
- How are they determined?
- Limitations
 - statutory cap sizes
 - *Epic v. TATA* (\$280m punitive damages remanded by appellate court)

Compare with patent damages *

Application of patent damages principles in trade secrets disputes:

- lost profits issues
- reasonable royalties issues

Apportionment

Extraterritoriality issues *

DTSA may support damages for extraterritorial conduct.

- DTSA “applies to conduct occurring outside the United States if an act in furtherance of the offense was committed in the [US].” *Motorola Solutions*
- “use” within the US is an “act in furtherance of the offense,” and such “use” may support damages for extraterritorial conduct

State law may not support pursuit of damages for extraterritorial conduct.

The need for precision

**Speculative evidence vs. mathematical certainty
(and resolving doubts)**

**Need to prove nexus between misappropriation
of trade secrets and the actual loss**

Practical considerations

Development of damages cases can be impacted by:

- definition of asserted trade secrets
- strength of our liability case can be the driver of how much the jury awards – bad conduct drives high awards
- choice of law (e.g., DTSA vs. state law)
- ability of defendant to limit production of financial data based on relationship to trade secrets

Defendant strategies

- attack the expert and evidence they rely on
- advocate a special verdict form (but not too complicated)
- if possible, put the judge in charge, not the jury
- offer a damages calculation
- consider effect of an injunction (stops damages)

ENDNOTES

ENDNOTES - for slide 2

“computing damages in a trade secret case is not cut and dry”

- *Am. Sales v. Adventure Travel*, 862 F. Supp. 1476, 1479 (E.D. Va. 1994)

“every [trade secret] case requires a flexible and imaginative approach to the problem of damages”

- *Univ. Computing v. Lykes-Youngstown Corp.*, 504 F.2d 518, 538 (5th Cir. 1974)

ENDNOTES - for slide 4

The term ‘trade secret’ is defined for the DTSA as:

- “all forms and types of . . . information, if— (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information”

See 18 U.S.C. § 1839(3).

The term ‘misappropriation’ is defined for the DTSA as certain acquisition and disclosure involving “improper means.”

See 18 U.S.C. § 1839(5), (6).

ENDNOTES - for slide 5

US laws

- Uniform Trade Secret Act (UTSA) (1979, amended 1985)
- Defend Trade Secret Act of 2019 (DTSA), 18 U.S.C. 1836

Trade secret laws outside the US

- Directive (EU) 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure
- Law Against Unfair Competition (AUCL) of the People's Republic of China
- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Article 39

ENDNOTES - for slide 6

- *Dupont De Nemours & Co. v. Kolon Indus.*, (ED Va. Sept. 2011), reversed and remanded, 564 F. App'x 710 (4th Cir. 2014)
- ASML US v. XTAL, CV 16-cv-295051 (Santa Clara Superior Court 2015)
- *Title Source Inc. v. HouseCanary Inc.*, CV 04-18-00509 (Tex. 2019)

ENDNOTES - for slide 6

- Lex Machina's 2020 Trade Secret Litigation Report - Figure 24: Trade Secret Damages (Excluding Fees and Interest) in Cases with a Finding of DTSA Misappropriation (Part 1 of 3)

Award Date	Amount	Damage Types	Source	Case
08-20-19	\$49.96M	Other / Mixed Damage Types	Judgment on Merits	Liqwd v. L'Oreal
11-28-18	\$7.36M	Other / Mixed Damage	Default Judgment	Quadlogic Controls v. Pounce Electronics
09-18-17 10-11-19	\$7.35M	Actual Damages / Lost Profits, Other / Mixed Damage Types	Consent Judgment, Jury Verdict	AgroFresh v. Essentiv
12-07-18	\$2.04M	Other / Mixed Damage Types	Default Judgment	M S Internat. v. Pramod Patel

ENDNOTES - for slide 6

Figure 24: Part 2 of 3

Award Date	Amount	Damage Types	Source	Case
02-27-17, 10-12-17	\$1.70M	Actual Damages / Lost Profits, Other / Mixed Damage Types	Judgment on Merits, Jury Verdict	Dalmatia Import Group v. Foodmatch
12-20-19	\$1.50M	Actual Damages / Lost Profits	Jury Verdict	Citcon v. RiverPay
04-02-19	\$1.22M	Other / Mixed Damage Types	Default Judgment	Crestwood Technology Group v. Patrick Dunn
05-11-18	\$1.20M	Reasonable	Royalty Jury Verdict	Steves & Sons v. Jeld-Wen

ENDNOTES - for slide 6

Figure 24: Part 2 of 3

Award Date	Amount	Damage Types	Source	Case
05-02-17	\$.38M	Other / Mixed Damage Types	Consent	Judgment Quasco v. Hocutt
12-10-18	\$.24M	Actual Damages / Lost Profits	Jury Verdict	Enertrode v. General Capacitor
08-01-17	\$.18M	Actual Damages / Lost Profits, Punitive / Willfulness Damages	Default Judgment	Solarcity v. Girma
02-27-18	\$.66M	Actual Damages / Lost Profits	Default Judgment	Lightning Box Games v. Plaor

ENDNOTES - for slide 7

Defend Trade Secrets Act, 18 USC 1836(b)

(3) Remedies.—In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—

(A) grant an injunction—

(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not— (I) prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or (II) otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;

(ii) if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and

(iii) in exceptional circumstances that render an injunction inequitable, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited

See also 18 U.S.C. 1836(b)(3)(B) (monetary awards)

ENDNOTES - for slide 8

Defend Trade Secrets Act, 18 USC 1836(b)(3)

(B) award—

- (i) (I) damages for actual loss caused by the misappropriation of the trade secret; and
 - (II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or
 - (ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret;
- (C) if the trade secret is willfully and maliciously misappropriated, award exemplary damages in an amount not more than 2 times the amount of the damages awarded under subparagraph (B); and
- (D) if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, award reasonable attorney's fees to the prevailing party.

ENDNOTES - for slide 10

- *Steves and Sons v. Jeld-Wen*, No. 3:16-CV-00545-REP, 2018 WL 2172502, *6 (E.D. Va. May 10, 2018) (holding avoided cost calculations were “appropriately considered as part of unjust enrichment damages” under DTSA and Texas UTSA)
- *Via Technologies v. ASUS Computer Int’l*, No. 5:14-cv-03586, 2017 WL 3051048, *4 (N.D. Cal. July 7, 2017)(holding in a case brought under the DTSA and California’s UTSA that “Where the plaintiff’s loss does not correlate directly with the misappropriator’s benefit...defendant’s unjust enrichment might be calculated based upon cost savings or increased productivity resulting from use of the secret”)
- *Bourns, Inc. v. Raychem*, 331 F. 3d 704, 709-710 (9th Cir. 2003) (affirming award of damages under California’s UTSA based on defendant’s avoided development costs)

Compare with:

- *E.J. Brooks Co. v. Cambridge Sec. Seals*, 31 N.Y.3d 441 (N.Y.), remanded, 729 F. App’x 115 (2d Cir. 2018).

ENDNOTES - for slide 11

- *Tex. Advanced Optoelectronic Sols. v. Renesas Elecs. Am.*, 895 F.3d 1304, 1318 (Fed. Cir. 2018) (reversing \$48 million damages award because more than 90% of that award was attributable to sales that occurred outside the head start period, which ended when the trade secret had become accessible by proper means).

ENDNOTES - for slide 12

- *O2 Micro Int'l Ltd. v. Monolithic Power Sys.*, 399 F. Supp. 2d 1064 (N.D. Cal. 2005) (reversing because plaintiff had not provided a basis for jury to apportion damages between trade secrets it found were misappropriated vs. those it found were not)

Compare with

- *BladeRoom Grp. v. Facebook*, No. 5:15-cv-01370-EJD, 2018 U.S. Dist. LEXIS 57730, at *18 (N.D. Cal. Mar. 30, 2018) (“It is true that under CUTSA, damages claimed for actual loss or unjust enrichment must be caused by the misappropriation alleged. Cal. Civ. Code § 3426.3. This portion of CUTSA does not require, however, that an expert assign damages amongst the trade secrets for his or her opinion to be admissible. Nor must an expert provide separate estimations of misappropriation and breach of contract damages for an opinion to assist the jury.”)
- *Ice Corp. v. Hamilton Sundstrand*, 615 F. Supp. 2d 1256, 1264 (D. Kan. 2009) (“Plaintiff's theory is that misappropriation of any one of the three trade secrets caused plaintiff's lost profits. Therefore, the Court does not find that O2 Micro applies to the facts of this case as there is no damages claim for the value of the trade secrets themselves.”)

ENDNOTES - for slide 14

- *Tex. Advanced Optoelectronic Sols. v. Renesas Elecs. Am.*, 895 F.3d 1304, 1328 (Fed. Cir. 2018) (holding that where plaintiff requested disgorgement award for trade secret misappropriation for all profits made from sales of infringing products, and requested reasonable royalty for the patent infringement based on a fraction of the total profits for those infringing products, the patent award represents an impermissible double recovery)
- *Aero Prods. Int'l v. Intex Recreation*, 466 F.3d 1000, 1020 (Fed. Cir. 2006)

ENDNOTES - for slide 15

- *Ajaxo v. E*Trade Fin.*, 48 Cal. App. 5th 129 (2020)

ENDNOTES - for slide 16

- Defend Trade Secrets Act, 18 USC 1836(b)(3)(C)
- *Epic Systems v. Tata Consultancy Services*, No. 19-1613 (7th Cir., Aug. 20, 2020) (judgment of the district court awarding \$280 million in punitive damage vacated because it exceeded outermost limit of Due Process guarantee in the Constitution)

ENDNOTES - for slide 17

- *Ajaxo v. E*Trade Fin.*, 48 Cal. App. 5th 129, 161 (2020) (“Though derived from a patent case, the *Georgia-Pacific* factors are commonly referenced in trade secret reasonable royalty discussions.”)
- *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)

Compare with

- *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974)

ENDNOTES - for slide 18

- *Motorola Solutions v. Hytera Communications*, 436 F.Supp.3d 1150 (N.D. Ill. 2020) (“the Court holds that the DTSA may apply extraterritorially in this case because the requirement of Section 1837(b)(2) has been met. Plaintiffs thus may argue for extraterritorial damages resulting from the misappropriation . . .”)
- *WesternGeco LLC v. ION Geophysical Corp.*, 585 U.S. ____ (2018)