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Valuing Trade Secret Damages – Considerations and Observations

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Legislative Background

- Traditionally, the states had jurisdiction over trade secrets
- State Law: Most states have adopted some version of the Uniform Trade Secret Act (UTSA)
 - New York is not governed by the UTSA; Massachusetts recently passed the UTSA on August 10, 2018
- Federal Law: **Defend Trade Secrets Act (DTSA)** enacted May 11, 2016
- DTSA modeled after UTSA
- Trade secret owners can chose to seek remedies in either state or federal court; requirements for consideration under federal law:
 - Misappropriation occurred **on or after May 11, 2016**
 - Misappropriation must be “related to a product or service used in, or intended for use in, **interstate or foreign commerce**”





Key Additional Benefit of DTSA

➤ *Ex Parte* Seizure in Extraordinary Circumstances

- Trade secret owner can seize property to prevent imminent disclosure of the trade secret to a third party or risk of flight to another country
- Offsetting provision enables defendants to seek damages if harmed by wrongful or excessive seizure





Available Remedies

- Injunctive relief - 18 U.S. Code § 1836 (b)(3)(A)
- Award of damages - 18 U.S. Code § 1836 (b)(3)(B)
 - Actual Losses
 - Unjust Enrichment
 - Reasonable Royalty
- Willful and malicious misappropriation
 - Exemplary or doubled damages - 18 U.S. Code § 1836 (b)(3)(C)
 - Reasonable attorney fees - 18 U.S. Code § 1836 (b)(3)(D)



Actual Losses

- Lost Profits in the form of:
 - Lost sales of protected products, services, or conveyed sales items
 - Price erosion
 - Future lost profits may be recoverable
- Important to have documentary evidence establishing that these future sales were at least *highly likely* to occur
- Reduction of Business Value
 - Applicable when Defendant has destroyed value of the trade secrets
 - Development costs of trade secrets may be used as proxy for damages (*University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 183 U.S.P.Q. (BNA) 705 (5th Cir. 1974))





Actual Losses – Documents

1. Plaintiff's cost information related to the development of the trade secrets and timelines
2. Plaintiff's sales information before and after date of misappropriation
3. Plaintiff's expenses associated with the products that the trade secrets contribute to
4. Profitability of plaintiff's product that the trade secrets contribute to, before and after the date the trade secrets were misappropriated
5. Projections related to future expectations
6. Price erosion evidence, negotiation docs, price declines.
7. Patents and other demand/apportionment docs



Unjust Enrichment

- Measured as defendant's *ill-gotten gains* caused by the misappropriation that are not accounted for in computing plaintiff's actual losses
- State courts differ in their treatment of which expenses may be deducted from unjust enrichment revenue
 - Incremental Costs – costs that generally vary with sales volume
 - *Carboline Co. v Jarboe* (1970, Mo) 454 SW2d 540
 - Direct (Assistance) Costs – variable costs and direct overhead costs
 - *Carter Products, Inc. v Colgate-Palmolive Co.* (1963, DC Md) 214 F Supp 383, 136 USPQ 348, 136 USPQ 577
 - Fully Allocated Costs – all costs including variable costs and direct and indirect overhead costs
 - *Basic American, Inc. v Sbatila*, 992 P.2d 175 (1999)
 - *Jet Spray Cooler, Inc. v Crampton*, 385 NE 2d 1349 (Mass. 1979)





Unjust Enrichment

- Not limited to defendant's profits
- If a recovery based on the misappropriator's profits does not adequately reflect the unjust enrichment, plaintiff can recover the value attributable to any **cost savings** or **increased efficiencies**, resulting from the **“head-start” advantage** enjoyed by the misappropriator.
 - *Cardiovention, Inc. v. Medtronic, Inc.*, 483 F. Supp. 2d 830, 846 (D. Minn. 2007)
 - *Salsbury Labs, Inc. v. Merieux Labs, Inc.*, 908 F.2d 706, 714 (11th Cir. 1990)
- Calculating head-start damages requires “evidence and a determination of the time at which the trade secret” is properly accessible
 - *Texas Advanced Optoelectronic v. Renesas Electronics America*, (Fed. Cir. 2018)



Unjust Enrichment – Documents

1. Defendant's sales information of products and services benefitting from the misappropriated trade secrets
2. Cost and Profitability of defendant's product that the trade secrets contribute to
3. Cost information related to the development of the defendant's infringing products (may also consider plaintiff's development costs as a proxy)
4. Technical documents connecting the trade secrets to the defendant's infringing products
5. Documents relevant to apportioning defendant's profits to the trade secrets
6. Price declines and negotiation docs
7. Patents and other demand/apportionment docs



Reasonable Royalty

- A remedy of “last resort” – companies rarely voluntarily license their crown jewel trade secrets
- Parties have used a hypothetical negotiation at the time the misappropriation took place to determine a “fair licensing price”
- The *University Computing Co. v. Lykes-Youngstown Corp.* case notes several factors that the parties should consider in setting a “**fair licensing price**” in a hypothetical negotiation:
 - Resulting and foreseeable changes in the parties’ competitive posture;
 - The prices past purchasers or licensees may have paid;
 - The total value of the secret to the plaintiff, including the plaintiff’s development costs and the importance of the secret to the plaintiff’s business;
 - The nature and extent of the use the defendant intended for the secret;
 - Whatever other unique factors in the particular case which might have affected the parties’ agreement, such as the ready availability of alternative processes.



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Typical Damages Issues

- Plaintiff **has not established** the nexus between the misappropriation of trade secrets and the actual loss
 - Losses to the business were caused by other reasons (i.e. changes in consumer demand, emergence of non-infringing alternative products or other competitors, etc.)
- Plaintiff fails to **deduct** relevant expenses
- Plaintiff fails to **apportion** to the trade secrets or fails to apportion damages among trade secrets
 - The damages amounts claimed include components that are unrelated to the alleged trade secret misappropriation
- Plaintiff **overstates** the value of the trade secret
 - Alleged trade secret information can be easily reverse engineered or does not provide competitive advantage



Recent Court Rulings

➤ *CP Kelco v. Chienkuo Yuan*

➤ *Waymo LLC v. Uber Technologies, Inc., Ottomotto LLC and Otto Trucking LLC*

- Plaintiff's expert relied on a company presentation and answers to interrogatories to calculate unjust enrichment and an email for his alternative
- The Court excluded Plaintiff's expert's opinions finding that Plaintiff's expert (1) cherry-picked facts, (2) did not provide any substantive expert opinion other than simple arithmetic, and (3) determined a royalty ten times the baseline royalty without bridging the gap in his analysis



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Notable Quotes from Order Excluding Waymo's Expert

➤ Head-Start/Clean-Room Re-Engineering of Trade Secrets

*“Second, the general proposition that LiDAR is important to Uber in **no way justifies** [Expert’s] decision to **selectively rely** on Uber’s redesign estimates while **ignoring** its accompanying commentary about the impact of redesign on its **overall development timeline**. Nor does it explain away the tension between [Expert’s] (and Waymo’s) assumptions that (1) each asserted trade secret would bottleneck Uber’s entire development timeline, yet (2) Waymo’s damages are not additive because different aspects of LiDAR development could proceed in parallel”*

➤ Apportioning Between Each Individual Trade Secret

*“As stated, this assumption was **highly suspect**, a way to deflect attention from the **stratospheric figures** [Expert] would assign to **each asserted trade secret** so as to avoid the absurd result of an even higher total while preserving high numbers in case the jury finds liability only as to one or a few asserted trade secrets.”*

➤ Limiting Introduction of Future Revenue/Estimated Lost Profits

*“This order therefore concludes Waymo must also seek the Court’s **advance permission** via a written offer of proof before introducing evidence of its **future revenue forecasts** and **estimated lost profits** at trial.”*



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Recent Court Rulings

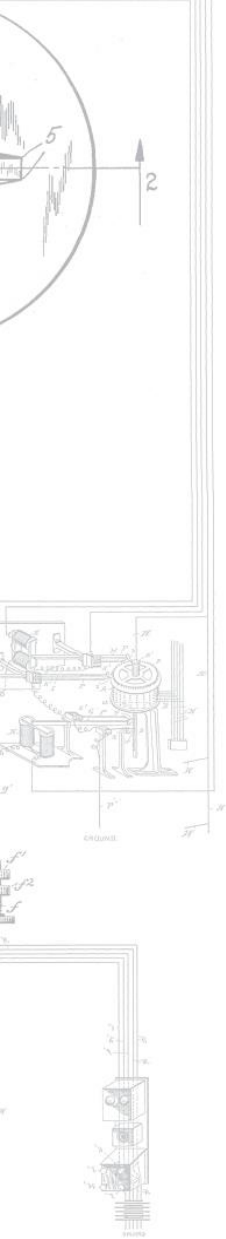
➤ *Dalmatia Import Group, Inc. v. FoodMatch, Inc. et al*

- Plaintiff claimed Defendants sold and distributed a stolen recipe for fig jam
- In first jury verdict under the DTSA, Defendant was found liable for misappropriation and ordered to pay \$2.5M in damages

➤ *E.J. Brooks Co. v. Cambridge Security Seals*

- New York's Court of Appeals ruled that saved costs are not recoverable, setting it apart from other jurisdictions (as noted by the minority)
- Decision limits recoverable injuries to only those incurred by the plaintiff





Questions or Comments?



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