I. Introduction

For a company faced with a trade secret action, one of the most important questions will be the amount of potential damages to which the company is exposed. The amount at stake will affect everything from responding to the complaint to trial strategy. This article presents an overview of damages rules in trade secret cases, discusses some real world examples of how those rules play out in litigation, and outlines some potential defense strategies to reduce the risk of an oversized judgment on damages issues.

II. Overview of Damages Law

The remedies for trade secret misappropriation are damages, an injunction, or some combination of the two. For the majority of states, the basic damages rules are set out in the Uniform Trade Secrets Act, which we discuss below. First, we discuss the damages rules for the three main types of intellectual property protections: patent, copyright, and trademark. These other statutory schemes, particularly patent, often provide guidance for trade secret damages calculations.

A. Comparison Between Trade Secret Damages and Other IP Damages

Each of the intellectual property schemes – patent, copyright, trademark and trade secret – permit recovery of “actual damages” where those can be ascertained. The intellectual property statutes specify a variety of ways to actual damages. The statutes also differ with regard what other measures of damages are available.

**Patent Damages.** Damages for patent infringement are governed by statute and case law. The basic rule of patent damages is that the patent owner must be awarded “damages adequate to compensate for the infringement, but in no event less than a reasonable royalty.” Most often the

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1 The states that have not adopted some form of the UTSA are New York, New Jersey, Massachusetts, and Texas.

2 35 U.S.C. § 284
choice of damages models comes down to a lost profits model or a reasonable royalty model. Both have been the subject of a great deal of litigation. Proving lost profits generally requires the patent owner to prove “(1) demand for the patented product, (2) absence of acceptable noninfringing substitutes, (3) his manufacturing and marketing capability to exploit the demand, and (4) the amount of profit he would have made.” Reasonable royalty calculations almost invariably invoke the factors and analysis described in Georgia-Pacific Corporation v. United States Plywood Corp. Georgia-Pacific listed fifteen representative factors that may be considered in determining an appropriate reasonable royalty calculation, including any royalties received in licenses for the patent at issue and rates paid for licenses for the use of similar patents. The Federal Circuit in Uniloc v. Microsoft arguably tightened the analysis by clarifying that these factors must be tied to the facts of the particular case.

In addition, the judge may increase the damages, up to triple the calculated damages. Although the statute does not specify the conditions under which damages may be increased, the test is generally understood to be whether the infringement was willful. In “exceptional cases,” reasonable attorneys’ fees may be awarded to the prevailing party.

Copyright Damages. The copyright statute provides several damages alternatives for the successful plaintiff. Courts may award lost profits and the defendant’s unjust enrichment, to the degree not already incorporated into the lost profits calculation. Alternatively, plaintiffs may elect to receive statutory damages, which permit the plaintiff to recover a sum of between $750 and $30,000. The plaintiff under this scheme recovers only one damages award per copyrighted work, regardless of how many individual instances of infringement occurred. Thus the total amount of damages depends on how the “work” is defined. Statutory damages are only available if the plaintiff registered the copyright before the infringement occurred or within three months of the publication of the copyrightable work. In instances where infringement is proven but neither lost profits nor unjust enrichment can be established, courts must award statutory damages.

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5 318 F. Supp. at 1120.
6 632 F.3d 1292, 1318 (Fed. Cir. 2011).
8 In re Seagate Tech., LLC, 497 F.3d 1360, 1368 (Fed. Cir. 2007), cert. denied, 552 U.S. 1230 (2008).
10 17 U.S.C. § 504(b).
11 Id. at § 504(c).
12 Id.; Mason v. Montgomery Data, Inc., 967 F.2d 135, 144 (5th Cir. 1992).
13 See, e.g., Bryant v. Media Rights Prods., Inc., 603 F.3d 135, 140-142 (2d. Cir. 2010) (finding that plaintiff could recover only one statutory damages award for a music album instead of an award for each track because the album is a compilation and each track is not available individually).
15 Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc., 772 F.2d 505, 520 (9th Cir. 1985)
Trademark Damages. As in copyright, the trademark statute permits successful plaintiffs to recover lost profits or the defendant’s unjust enrichment, although typically not both, as this would constitute double recovery. As part of lost profits, plaintiffs may also recover the amount needed to launch an advertising campaign to ameliorate the damage caused by the infringement. Plaintiffs may also recover a reasonable royalty, although typically this measure is only granted in situations where the parties have some previous licensing history, particularly where the parties had a licensing agreement which the defendant somehow violated. Courts will not typically grant reasonable royalties in cases where the parties have no such history. Finally, the trademark statute permits recovery of statutory damages for claims under the Anticybersquatting Consumer Protection Act (under which plaintiffs can recover between $1,000 and $100,000 “per domain name.”)

The following table summarizes the various statutory schemes.

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<th>Reasonable Royalty</th>
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B. Trade Secret Damages

Section 3(a) of the UTSA provides as follows:

 Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by

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16 15 U.S.C. § 1117(a); Nintendo of Am. v. Dragon Pac. Int’l, 40 F.3d 1007, 1010 (9th Cir. 1994).
17 See, e.g., Adray v. Adry-Mart, Inc., 76 F.3d 984, 988 (9th Cir. 1996).
19 Id.
21 Id. at § 1117(d).
imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret. \(^{22}\)

The basics of trade secrets damages, in other words, are “actual loss” (including lost profits where applicable), “unjust enrichment,” and “reasonable royalties.” As we discuss below, despite the widespread adoption of the UTSA, the specifics differ from state to state.

1. Types of damages available.

Lost profits. Lost profits, in essence, are actual damages in the form of profits that would have been made by the trade secret owner if there had been no misappropriation. \(^{23}\) Perhaps as a result of the inherent difficulty in ascertaining what the lost profits are in any given case, courts have developed a wide variety of methods of calculation. \(^{24}\) A common method of calculation is to treat the defendant’s sales volume as if made by the plaintiff, and determine lost profits “by applying the plaintiff’s profit margin, as a multiplier, to the defendant’s sales volume.” \(^{25}\) In *Salsbury Laboratories v. Merieux Laboratories*, for example, the court granted a lost profits award of $207,000 to the plaintiff, which was the amount the court determined the plaintiff would have earned had the defendant not diverted its sales. \(^{26}\) The court determined that at least 3,445 bottles of the plaintiff’s vaccine would have been sold at the original price of $92.50 had the defendant not started selling its product at a lower price; at approximately a 65% profit margin, the plaintiff would have earned $207,000 if it had sold those bottles. \(^{27}\) At least one court has permitted plaintiffs to recover other incidental losses, such as overhead and administrative costs incurred as a result of the misappropriation. \(^{28}\)

Unjust enrichment. Unjust enrichment can be awarded instead of lost profits (typically in situations where there are no provable profits) or in addition to lost profits, to the degree that doing so does not result in double recovery for the plaintiff. \(^{29}\) Courts are split as to both when the accounting period starts—upon filing the suit or on a prior date. \(^{30}\) The duration of the accounting period also varies, depending on whether the trade secret can still be protected. Some courts apply the “head start” rule, which applies in cases where the misappropriation permitted the defendant to develop a product sooner than she would have without the misappropriation. The rule allows courts to limit the duration of unjust enrichment damages to the amount of “time

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\(^{22}\) UTSA § 3(a) (amended 1985). The UTSA also has provisions for punitive damages and attorneys’ fees, but those are beyond the scope of this paper. *Id.* at § 4.


\(^{27}\) *Id.* at 1567, 1573.


\(^{29}\) UTSA § 3(a) (amended 1985).

the defendant saved in getting a product to market by virtue of its misappropriation."\(^3\)

Examples of cases where the rule is applied involve defendants who put some competing product on the market unusually quickly; for example, in *Reinforced Molding Corp. v. General Electric Co.*, the defendant took only four months to develop a product which took the plaintiff an entire year to develop.\(^3\) In those cases, the accounting period lasts only as long as the time it would have taken the defendant to develop the product without the misappropriation.\(^3\)

**Reasonable Royalty.** Royalties are alternative to the actual damages options provided by the UTSA. Where available, evidence of royalties charged in an actual licensing agreement is the most persuasive measure of a reasonable royalty, but that kind of evidence is rarely available. As in patent cases, courts may try to determine a reasonable royalty by attempting to analyze the likely results of a hypothetical negotiation between the parties occurring at the time infringement begins.\(^3\) In fact, courts in trade secret cases may apply the same set of factors, the “Georgia Pacific factors,” as courts in patent cases.\(^3\) In an attempt to reach a reasonable estimate of the terms upon which the parties might have agreed, courts will consider a number of factors in order to ascertain what the terms resulting from a potential negotiation might have been, including terms of similar licenses between the parties, “the value of the secret to the plaintiff” and the defendant’s proposed use at the time of infringement.\(^3\)

**“Full Market Value.”** A recent California case included language suggesting that there may a separate notion of awarding the “full market value” of a trade secret as damages if the other measures are inadequate to compensate the plaintiff for its loss.\(^3\) This has not been followed by other cases, far as the authors are aware, and in any event it seems that the other damages measures provide the fair market value. The *Ajaxo* case is worth noting, though, because it is likely to be cited by plaintiffs in future cases.

2. **Variations among the states.**

The National Conference of Commissioners on Uniform State Laws initially promulgated the Uniform Trade Secret Act to address a perceived need for uniformity in trade secret law.\(^3\) Instead of attempting to summarize general principles of trade secret common law, as the Restatement had done, the UTSA provided a model statute in the hopes of widespread acceptance.\(^3\) As Section 8 of the UTSA states, the hope was that state legislatures would apply

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\(^3\) Russo *v.* Ballard Med. Prods., 550 F.3d 1004, 1020 (10th Cir. 2008).  
\(^3\) Id.  
\(^3\) LinkCo, Inc. *v.* Fujitsu Ltd., 232 F. Supp. 2d 182, 186 n.7 (S.D.N.Y. 2002).  
\(^3\) JAMES POOLEY, TRADE SECRETS § 7.03[2][d] (2010).  
and construe the UTSA “to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.”

For the most part, the goals of the UTSA have been realized—46 out of the 50 states have adopted the UTSA. Furthermore, of the four states that have not adopted the UTSA (Massachusetts, New Jersey, New York, and Texas), both Massachusetts and Texas allow plaintiffs to recover the same measures of damages enumerated in the UTSA. However, many of the states that have adopted the UTSA have altered certain provisions, resulting in some inconsistencies in trade secret law from state to state.

Reasonable royalty is the main subject of differences among the states, including those states that have adopted some form of the UTSA. The majority of states have enacted the version of the UTSA as amended in 1985, which makes reasonable royalties available “in lieu of damages measured by any other method.” However, California and Indiana only make royalties available “if neither damages nor unjust enrichment are provable.” Georgia and Illinois only make reasonable royalties available if “neither damages nor unjust enrichment caused by the misappropriation are proved by a preponderance of the evidence.” Oregon has adopted the patent law formulation of the provision; a successful plaintiff may recover no less than a reasonable royalty in that state. Virginia and Wisconsin have similar but not identical provisions, making a reasonable royalty available if the successful plaintiff “is unable to prove a greater amount of damages by other methods of measurement.” To make matters more complicated, seven states still have retained an earlier version of the UTSA, which did not mention reasonable royalties at all. And even among the states that do have the same provisions, there is no guarantee that the state courts will interpret those provisions in the same manner—some states even continue to rely on their own common law even though they have enacted the UTSA.

In some states, the reasonable royalty (when applicable) is determined by the judge. In other states, however, the jury may determine the amount of the royalty.

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40 UTSA § 8 (amended 1985).
42 POOLEY § 2.03[7][b].
43 USTA § 3(a) (amended 1985); for the full list of states that have adopted the current version of the UTSA, see Appendix A.
44 CAL.CIV.CODE § 3426.3 (2010); BURNS IND. CODE ANN. § 24-2-3-4 (2010).
47 VA.CODE ANN. § 59.1-338 (2010); WIS.STAT. § 134.90 (2010) (making royalties available “if the complainant cannot by any other method of measurement prove an amount of damages which exceeds the reasonable royalty”).
III. Representative Cases

Section II surveyed the law, but it can also useful to review case studies. This section reviews several cases in which the reported verdict for trade secret damages was either very high or very low. In one of the cases discussed below (AlphaMed v. Arriva) the damages analysis was largely conducted with respect to claims ancillary to the trade secret cause of action: unfair competition and tortious interference with advantageous business relationships. We have included a discussion of that case because it addresses many of the issues that frequently arise with respect to trade secret damages claims. The following summaries are based on a review of the publicly available court files, supplemented in the Hansen Medical v. Luna Innovations case by personal knowledge of the trial.

**Lockheed Martin Corporation v. L-3 Communications Corporation, et al., N.D.Ga (05-cv-902)**

In the late 1950s, the Navy hired Lockheed Martin to design and develop the P-3 antisubmarine warfare aircraft. In connection with this project, Lockheed created information, referred to as P-3 data, which included structural specifications among other information. Lockheed classified the P-3 information as trade secret information and marked it with confidential legends. In the 1990s it became necessary for Lockheed to agree to allow third parties to review the P-3 data in order to complete further projects on P-3 aircraft.

L-3 was a successor to one of the third-parties that obtained access to the trade secret information under an NDA. In December 2004, the Republic of Korea (ROK) awarded L-3 a contract to refurbish eight P-3 aircraft, which had been purchased by ROK. The total revenue for the life of the contract was $312 million. Lockheed and L-3 submitted competing bids to ROK for the project. According to Lockheed, the refurbish work could not be properly or safely completed without the use of its P-3 data. Thus, Lockheed claimed L-3 was using its trade secret P-3 data to complete the contract with the ROK.

Prior to the trial, L-3 moved *in limine* to exclude a portion of Lockheed’s damages expert report regarding the proper calculation of lost profits. Lockheed’s expert opined that while the plaintiff bore the burden of gross revenue achieved through misappropriation, the burden shifted to the defendant to prove the offsets, such as costs or non-infringing profits. L-3 argued that it was the plaintiff’s burden to prove the amount of unjust enrichment, including the offsets to the gross revenue. The Court agreed with Lockheed’s expert.

At trial, Lockheed’s expert testified that Lockheed was entitled $312 million as unjust enrichment because L-3 produced no discovery about the appropriate amount of offsets. In the alternative, Lockheed’s expert testified that Lockheed was entitled to $21 million dollars for a reasonable royalty. L-3’s expert testified that either under a reasonable royalty calculation or a
lost profits calculation, Lockheed was not entitled to *any* damages because L-3 would have been able to complete the contract without the information.

A jury returned a verdict finding that L-3 violated the Georgia Trade Secrets Act by misusing various P-3 data, and awarded Lockheed $30,000,000 for damages. The jury also awarded Lockheed an additional $7,280,000 for L-3’s breach of a non-disclosure agreement. The jury awarded Lockheed attorneys’ fees but declined to award punitive damages, despite having found the defendant’s actions to be willful and malicious. During post-trial motions, the parties settled on confidential terms.

*AlphaMed Pharmaceuticals v. Arriva Pharmaceuticals*, S.D.Fla. (03-cv-20078)

AlphaMed was a small startup pharmaceutical company formed to work on developing synthetic Alpha 1-Antitrypsin (“AAT”). AAT is a therapeutic protein, which is believed to be useful in treating a wide range of human and veterinary indications. The plaintiff alleged that the world-wide market for AAT-derived pharmaceuticals exceeded $10 billion annually in 2006. Defendant Arriva was also focused on developing AAT.

AlphaMed was able to secure startup funding in 1999, largely from a single investor. The investor also committed to supply funding as needed to help bridge any times of low cash flow up until AlphaMed successfully generated synthetic AAT.

Shortly after AlphaMed’s formation, Arriva hired private investigators to research AlphaMed’s activities. Arriva’s investigation included pulling trash from AlphaMed’s offices. In the summer of 2000, Arriva induced a special agent of the FBI to investigate AlphaMed. As part of the investigation, the FBI agent contacted AlphaMed’s primary investor during the 2000-01 timeframe. As a result of these contacts, the investor decided to forgo providing AlphaMed with any further investments.

AlphaMed sued Arriva based on the interference with its relationship with its investor. The case went to trial on three primary causes of action: theft of trade secrets, unfair competition, and tortious interference with advantageous business relationship. AlphaMed argued that *but for* Arriva’s interference with its investor, it would have been able to bridge the difficult financial situation it faced in 2000-01, and it would have become a very successful company selling AAT-based products.

Prior to the trial, the Court had ruled that AlphaMed was limited to nominal damages for its trade secret claim because through expert discovery it had failed to produce *any* evidence of the value of its trade secrets. The court permitted AlphaMed to present its trade secret case at trial, but ruled that AlphaMed’s recovery was limited to nominal damages.

Prior to the trial, the Court also limited AlphaMed’s damages expert from supplementing his report to include a theory of “lost royalties” because the supplementation was late, and the
information on which it was based had been given to the expert prior to his initial report. As a result, AlphaMed was constrained at trial to arguing a theory of “lost profits.”

The jury found in favor of AlphaMed on each of its claims. It awarded AlphaMed $78,000,001.00, which included $26 million in compensatory damages against Arriva on the claim of tortious interference with advantageous business relationship, $22 million in compensatory damages against Arriva on the claim for unfair competition, $20 million in punitive damages on the claim of tortuous interference and $10 million in punitive damages on the claim of unfair competition. It also awarded $1 in nominal damages for the theft of trade secret claim.

On Arriva’s motion for judgment of a matter of law, however, the court vacated the jury’s verdict and entered judgment in favor of Arriva. The court’s decision was founded on AlphaMed’s failure of proof with respect to its damages. The court held that AlphaMed failed to provide enough evidence to establish that Arriva caused damages to AlphaMed. Thus, the court held that AlphaMed’s claims all failed because of a failure of proof on the damages elements for each cause of action (including the trade secret claim). The court held that in order to have become successful, AlphaMed would have had to clear numerous hurdles including issues with FDA approval and international regulatory compliance for pharmaceuticals and there was no evidence in the record to support that the lack of funding was the “but for” cause of all of these attenuated events.

This case is instructive in several ways. First, although the record does not say so, it appears that AlphaMed had not considered what its damages theory was going to be until the damages expert report was filed. This oversight led to the expert report’s being incomplete. When the expert sought to supplement his report with a new theory, he was barred. This oversight also led to a failure to develop the factual record regarding the causation and valuation of the damages from each of the causes of action. The expert’s report was also hampered because he did not have sufficient information to support the basis for his discount rate.

Hexion Specialty Chemicals, Inc. v. Formosa Plastics Corporation, Tex. Dist. Ct. (No. 004-43879).\(^5^1\)

In 2004 the predecessor to Hexion was a world leader in production of epoxy resins, a primary manufacturer of epichlorohydrin (ECH), a precursor chemical necessary to make epoxy resins. Hexion made ECH via a trade secret process. In 2004, the predecessor to Hexion alleged that an employee, a consultant, and a former employee, sold its confidential, proprietary information to Formosa, one of Asia’s leading producers of ECH.

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\(^5^1\) The public record for this case is not as extensive as some of the others discussed in this paper.
Hexion sued Formosa, alleging misappropriation of trade secrets, unfair competition, common-law misappropriation, conversion, fraud, breach of contract, breach of fiduciary duties, tortious interference, conspiracy and malice.

Formosa contended that it did not know that the information it received from the former employees and the consultant was Hexion’s proprietary information. Formosa contended that it believed it was hiring consultants whose technical knowledge had been in the public domain for 50 years.

The claims against the Formosa defendants were tried to a jury. Hexion sought approximately $200 million. Hexion claimed that the damages resulted from the benefits that Formosa gained without paying a reasonable royalty for the unauthorized use of the trade secrets. The defense argued that, at most, Hexion’s damages were $10 million to $20 million.

While the jury was deliberating, the parties entered into a confidential “hi-lo” arrangement under which Formosa agreed to pay specified sums depending on the amount of the jury verdict, make full payment within 30 days of the verdict and waive all appeals.

The jury found in favor of Hexion, awarding it $251.7 million, including $152.7 million to disgorge the improper benefits gained by Formosa as a result of its theft of Hexion’s trade secrets and $99.255 million as a reasonable royalty for the unauthorized use of Hexion’s trade secrets. The jury also found that Formosa’s theft of trade secrets was done with specific intent to harm Hexion, thereby making it possible for plaintiff to seek punitive damages in a second phase of trial. However, the high amount recovered by plaintiff was reached through the actual damages awarded.

_Hansen Medical v. Luna Innovations, California State Superior Court, Santa Clara County (No. 107CV88551)_

Hansen Medical is a manufacturer of robotically controlled catheters for use in medical procedures. Luna develops, among other things, fiber optic shape sensing technologies. In September 2006, Hansen and Luna entered into an agreement under which Luna would adapt its technology for use with Hansen’s products. The agreement provided that Hansen would own any technology developed by either party in the course of the project. Hansen and Luna also entered a non-disclosure agreement.

Luna did not deliver the technology to Hansen. In June 2007, Luna announced that that it was entering a licensing, development, and supply agreement with Intuitive Surgical, which was a competitor of Hansen. Hansen filed suit against Luna for trade secret misappropriation, breach of the non-disclosure agreement, and breach of the licensing agreement. The essence of the case was that Luna used Hansen’s technology to close and perform its deal with Intuitive.
The case was tried to a jury. At trial, Hansen sought actual damages, lost profits, and unjust enrichment. Actual damages were based on Hansen’s development costs of the technology. Hansen’s lost profits were based on projections of the additional sales of its products that Hansen would have made if Luna had delivered the technology to Hansen. Unjust enrichment was based on payments that Luna received from Intuitive. Hansen’s damages expert did not provide separate damages amounts for each asserted trade secret. She assumed that each trade secret was a but/for cause of the damages. Hansen employees provided factual testimony upon which the damages testimony was based, providing information about the expected increase in sales and the resulting profits that Hansen expect to receive. Luna challenged these estimates as being speculative. Luna’s expert also did not provide a separate damages estimate for each individual trade secret.

The jury was asked to render a general verdict. Luna had proposed a special verdict form, with separate interrogatories for each element of each trade secret. Hansen opposed this, arguing that it would be too complicated, confuse the jury, and increase the chance of the jury reaching an inconsistent verdict.

The jury awarded $95,815 in actual damages, $26,012,057 in lost profits, and $10,195,771 for unjust enrichment. Luna filed for bankruptcy, and the case was eventually settled.

IV. Defense Strategies

Understanding the law is the first part of the equation. The second part is implementing the damages part of a trial strategy. For the purposes of this paper we are focusing on a defense perspective, but the basic points are applicable to plaintiffs’ case analysis as well.

Here are several strategies that a defendant in a trade secret case should consider.

*Attack the Expert.*

Damages experts are usually professionals, but they may exaggerate their expertise. Particularly in highly technical or specialized areas, it may be possible to attack the expert’s credentials. This extends to the work that the expert did. If the expert does not have specialized knowledge in the area that is the subject of the litigation, and has not done the necessary work to learn about that area in the course of forming her opinion, that may provide grounds for attacking the expert. The best preparation for such a motion is a thorough deposition of the expert, making sure to cover every opinion and every basis for the opinion.

It may also be possible to develop evidence from fact witnesses that the expert is not well known and has no real expertise. This may not be dispositive, but for a jury struggling with the question of whose testimony to believe, it can be useful to know that the person being offered as an expert is not known by others to be an expert in the field.
**Attack the evidence the expert relied on.**

Damages experts, by themselves, cannot testify about ultimate facts in the case. They can only testify to opinions that are based on facts they learn from others. The expert’s opinion can be no more reliable than the factual assumptions upon which it is based. Experts are allowed to rely on inadmissible evidence like hearsay, but that does not give the expert license to make things up. You may wish to consider taking the damages expert’s deposition earlier than the typical timing of after the close of fact discovery. That would allow you to ask fact witnesses about the factual assumptions underlying the expert’s testimony. If the expert testifies about a better widget that could be made using the trade secrets, for example, it may be helpful to depose the knowledgeable fact witness after the expert’s deposition to test those assumptions.

**Attack “causation.”**

The UTSA requires a plaintiff to establish that its damages or unjust enrichment were “caused by misappropriation.” Other factors that may have caused the plaintiff to lose market share or the defendant to be “enriched” are pertinent to this calculation. The Ninth Circuit Court of Appeal recently reiterated the latter idea in the *Mattel* case, where the district court was prepared to place a constructive trust over all Bratz doll merchandise. The Ninth Circuit reversed on the grounds that most of the success of the Bratz line was the fruit of the defendant’s labor, not of the initial misappropriated design.52 This ruling has carried forward in a subsequent retrial of the copyright and related trade secret claims, where the district court has precluded an expert from calculating unjust enrichment or reasonable royalty without taking the defendant’s “sweat equity” into account.53

**Attack the numbers.**

Damages experts’ opinions often rise or fall on the numbers underlying their final opinion. Some of the numbers are obvious: sales figures, profit margins, and the discount rate used for a net present value calculation are examples. Sometimes the numbers are simply made up, such as the 25% rule that was rejected by the Federal Circuit in *Uniloc*.54 Sometimes the numbers may be buried within other numbers, such as profit margins that are built into sales figures without an explicit acknowledgment of what has been done. All of these numbers can be attacked in discovery and in trial.

**Attack the trade secrets.**

One potential avenue for defendants to explore is the allocation of damages among multiple trade secrets. Authority on this question is surprisingly sparse. Standard jury instructions do not

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52 *Mattel, Inc. v. MGA Entm’t, Inc.*, 616 F.3d 904, 910-11 (9th Cir. 2010).
54 632 F.3d at 1318.
require damages to be allocated among trade secrets. The most notable case on this issue is *O2 Micro*. In *O2 Micro* the plaintiff declined to offer testimony to allocate damages among the various asserted trade secrets. The verdict form itemized the trade secrets for liability purposes, however. When the jury found that only five of the listed twelve trade secrets were misappropriated, the court found that the jury did not have an adequate basis to determine damages because there was no evidence that would allow damages to be allocated among the trade secrets. The facts of *O2 Micro* are unusual and several courts have declined to follow its lead. This may still be a viable argument, though, when the facts and procedural posture of the case lend themselves to it.

**Advocate a special verdict form.**

Closely related to the preceding point is the question of whether to use a general verdict form or a special verdict form. A general verdict form asks simply whether trade secrets were misappropriated. A special verdict form, by comparison, can ask as many specific questions as the judge finds appropriate. For example, a special verdict form can ask the jury to answer the question of whether each specific trade secret was misappropriated, or even whether each element of the trade secret statute is met for each identified trade secret. A special verdict form can be beneficial to defendants by highlighting all of the elements. It also creates more opportunities for appeal. However, the use of a special verdict form versus a general verdict form is discretionary. The judge may find that a special verdict will unnecessarily complicate trial and increase the possibility of an inconsistent verdict. From the defense perspective, the key strategic point may be to keep the special verdict reasonably narrow and brief, to overcome these objections.

**If possible, put the judge, not the jury in charge.**

It is not true in every case, but conventional wisdom holds that a jury (particularly one that has gotten to the point of finding liability) is more likely to give a large damage award than a judge. Although defendants cannot unilaterally waive a jury, defendants can argue that some remedies are beyond the jury’s power. In California, for example, the statute provides that “the court may order payment of a reasonable royalty for no longer than the use could have been prevented.” Some litigants have argued that “unjust enrichment” is an equitable issue, to be determined by a court and not a jury, but to the author’s knowledge this argument has not been vetted by an appellate court.

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55 See CACI No. 4409; New York Pattern Jury Instructions Civil Division 3 G-4 Intro. 1.
60 *CAL. CIV. CODE § 3246.3(a).
61 See, e.g., *Shum v. Intel Corp.*, 630 F. Supp. 2d 1063, 1078 (N.D. Cal. 2009), aff’d 633 F.3d 1067 (Fed. Cir. 2010).
Use motions in limine.

In limine motions are most effective when they result in the exclusion of evidence, as in a Daubert motion for example. However, they can also be useful to limit the scope of evidence. For example, an in limine motion might restrict what a damages expert can say about particular trade secrets if he or she does not have adequate technical knowledge about the alleged trade secrets. An in limine motion might also be effective to address specific aspects of the opinion, such as the time frame over which damages may be calculated. The degree to which these types of motions might be successful depends on the specific judge, the specific court, and the facts of the case.

Object to the scope of the opinion.

States requirements for expert reports vary. The California Civil Procedure Code does not require experts to prepare reports. If they do prepare a report, though, some judges will limit the scope of the expert’s testimony to what was discussed in the report. Other judges will limit the scope of the expert’s testimony to opinions that were stated in her deposition. In states with rules modeled after the Federal Rules of Civil Procedure the rules themselves may provide the grounds for limiting the scope of the opinion. This varies by judge and jurisdiction, so in all matters it is important to become familiar with local custom and unwritten rules.

Offer something.

It is tempting for a defendant to argue that damages are zero. If the case has reached the damages phase, though, it means by definition that liability has been found. The jury or judge will want to award something in the way of damages. A good damages expert will recognize this. Otherwise, the jury or judge will be left without any damages figure at all from the defendant and may default to the plaintiff’s numbers.

Consider the effect of an injunction.

If an injunction is issued, that may stop the calculation of damages. The groundwork for this argument can prepared during discovery, for example by having the damages expert confirm that damages would not continue to accrue while an injunction is in place. The defendant may be able to put the plaintiff in the position of having to choose between an injunction and damages.

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V. Conclusion

The law of trade secrets damages continues to evolve, leaving room for creativity for both plaintiffs and defendants. The information in this article should be useful in evaluating and responding to damages claims.
APPENDIX A

Variations on UTSA Reasonable Royalty Provisions

“In lieu of” other damages:

Except to the extent that a material and prejudicial change of position before acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a complainant is entitled to recover damages for misappropriation. Damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. **In lieu of damages measured by any other methods**, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

<table>
<thead>
<tr>
<th>Other damages not “provable”:</th>
<th>California *(Cal Civ Code § 3426.3 (2010)), Indiana *(Burns Ind. Code Ann. § 24-2-3-4 (2010))</th>
</tr>
</thead>
<tbody>
<tr>
<td>If neither damages nor unjust enrichment caused by misappropriation are provable, the court may order payment of a reasonable royalty for no longer than the period of time the use could have been prohibited</td>
<td><strong>Georgia (O.C.G.A. § 10-1-763 (2011)), Illinois (765 ILCS 1065/4 (2011))</strong></td>
</tr>
<tr>
<td>Other damages not “proved by a preponderance of the evidence”:</td>
<td><strong>“Not less than a reasonable royalty”</strong>: Oregon <em>(ORS § 646.465 (2009))</em>*</td>
</tr>
<tr>
<td>If neither damages nor unjust enrichment caused by the misappropriation are proved by a preponderance of the evidence, the court may award damages caused by misappropriation measured in terms of a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret for no longer than the period of time for which use could have been prohibited.</td>
<td><strong>“Unable to prove a greater amount”</strong> by other methods: Virginia <em>(Va. Code Ann. § 59.1-338 (2010)), Wisconsin <em>(Wis. Stat. § 134.90 (2010))</em></em></td>
</tr>
<tr>
<td>“Not less than a reasonable royalty”:</td>
<td><strong>“Unable to prove a greater amount”</strong> by other methods:</td>
</tr>
<tr>
<td>Damages may include both the actual loss caused by misappropriation, and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss, but <strong>shall not be less than a reasonable royalty</strong> for the unauthorized disclosure or use of a trade secret.</td>
<td>If a complainant is unable to prove a greater amount of damages by other methods of measurement, the damages caused by misappropriation can be measured exclusively by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.</td>
</tr>
</tbody>
</table>