Avoiding the jaws of defeat: tips for building a strong trade secret damages model

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Trade secret claims can result in extraordinary damages awards. In the past few years, juries have returned verdicts awarding hundreds of millions, and even billions, of dollars to trade secret plaintiffs. While the awards can be staggering, sometimes the wins evaporate post-trial due to defects in plaintiffs' presentations.

Regardless, plaintiffs seeking trade secret damages face a number of unique challenges and potential pitfalls. In particular, trade secret plaintiffs should consider these three issues when crafting their damages model.

(1) Develop a damages model that can be adapted to the subset of trade secrets that prevail at trial.

At trial, a trade secret plaintiff will be required to show a causal link between its misappropriated trade secret and its requested damages. But, early on in a case, it's hard to know which of a plaintiff's trade secret claims will ultimately succeed at trial. A plaintiff may start with a large number of trade secrets (and a large damages request) only to drop the majority of its asserted trade secrets before the case is presented to the jury.

For trade secret plaintiffs, the outcome in Alifax *provides a clear lesson: A head start damages award requires both expert and fact evidence.*

To avoid getting zeroed out on damages — or reversed on appeal — the plaintiff should develop a damages model that can be tailored to a shifting landscape of trade secrets.

For those wondering if this approach is worth the extra effort, just ask the plaintiff in *02 Micro Intern. Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064 (N.D. Cal. 2005). In that case, an electronic manufacturing company claimed that its competitor misappropriated 11 of its trade secrets. *Id.* at 1069. At trial, the plaintiff's expert presented a $16 million damages calculation that assumed all 11 trade secrets were misappropriated. *Id.* at 1076.

Following an 11-day trial, the jury found that the defendant stole just five of the plaintiff's trade secrets, and that only one of those stolen trade secrets resulted in damages. *Id.* The jury awarded the plaintiff $12 million in damages. *Id.* The damages award lasted only momentarily, though. Reasoning that the plaintiff's damages expert failed to provide the jury a reasonable basis by which to apportion the damages, the court threw out the jury's verdict. *Id.*

Plaintiffs seeking unjust enrichment damages should be very clear that they are seeking a legal remedy to ensure that they preserve their right to a jury trial.

Courts have since relied on *02 Micro* to exclude an expert's opinion, *LivePerson, Inc. v. [24]7.AI, Inc.*, 2018 WL 6257460, at *2 (N.D. Cal. Nov. 30, 2018), and, more recently, to vacate a jury award of unjust enrichment, *Proofpoint, Inc. v. Vade Secure, Inc.*, 2023 WL 4475587, at *4 (N.D. Cal. July 10, 2023). Plaintiffs should craft their damages model with these cases in mind, by ensuring that their initial damages calculation can be tailored to the subset of trade secrets that ultimately prevail at trial.

(2) Ensure that a head start damages theory has both factual and expert evidentiary support.

Trade secret plaintiffs commonly ask for "head start" damages — that is, the savings achieved by a defendant who was able to launch their product more quickly, as a result of the trade secret misappropriation.

It can be tempting for plaintiffs seeking head start damages to become overly reliant on an expert's opinion. But experts can be struck in *Daubert* proceedings and, ultimately, the existence of a head start is a factual question for the jury. *See Johns Manville Corp. v. Knauf Insulation, LLC*, 2017 WL 4222621, at *9 (D. Colo. Sept. 22, 2017) ("the application of a head start period is for the jury to decide").

Plaintiffs that fail to develop a sufficient factual record to support their head start theory may end up zeroed out on damages. For example, in *Alifax Holding Spa v. Alcor Sci. Inc.*, the court excluded the plaintiff's head start expert opinion under *Daubert.* 404 F. Supp. 3d 552, 580 (D.R.I. 2019). Notwithstanding that ruling, a jury found

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that the defendant had stolen the plaintiff's trade secret algorithm and awarded the plaintiff $6.5 million in unjust enrichment damages. *Id.*

The defendant contested the award post-trial, arguing that the damages lacked a reasonable basis in light of the expert's exclusion under *Daubert*. *See* Order, *Alifax Holding SpA v. Alcor Sci. Inc.*, No. 14-440 (D.R.I. Feb. 18, 2022). The court agreed, finding that, absent the expert's opinion, the plaintiff had no admissible evidence that could support an award of unjust enrichment based on its head start theory. *See id*. at 3-5. The court thus vacated the jury's award and ordered a new trial limited to nominal damages. *See id.* at 5.

For trade secret plaintiffs, the outcome in *Alifax* provides a clear lesson: A head start damages award requires both expert and fact evidence. This requires careful planning in the early stages of fact discovery, so that plaintiffs can identify the key documents and witnesses they'll need to present their head start theory to the jury.

(3) Frame any request for unjust enrichment as legal rather than equitable relief.

Plaintiffs seeking unjust enrichment damages should carefully word their requested relief in legal terms, rather than equitable, at every stage of the case. While it's well-settled that the trade secret statutes enable plaintiffs to recover unjust enrichment damages, the law is unsettled as to whether a plaintiff seeking such damages is entitled to a jury trial on that issue.

The panel in *Texas Advanced Optoelectronic Solutions, Inc. v. Renesas Electronics America, Inc.*, 895 F. 3d 1304, 1326 (Fed. Cir. 2018), held that a trade secret plaintiff seeking disgorgement of a defendant's profits under Texas common law sought equitable relief, and therefore was *not* entitled to a jury trial under the Seventh Amendment. To reach that conclusion, the U.S. Court of Appeals for the Federal Circuit conducted a historical survey of the Seventh Amendment and concluded that no analogous claim could have been brought in the English courts of law in 1791. *See id.* at 1319-20.

One year after *TAOS*, the same court appeared to reverse course in *TCL Commc'n Tech. Holdings Ltd. v. Telefonaktiebolaget LM Ericsson*, 943 F.3d 1360, 1374 (Fed. Cir. 2019). The *TCL* plaintiff sought the money that the defendant received from making unlicensed sales of products that infringed its patent. *See id.* at 1372-73.

The defendant argued that the request was equitable, thereby depriving the plaintiff of a right to a jury trial. The Federal Circuit disagreed, reasoning that a request for monetary damages that "estimate[s] the benefits conferred" to the defendant is legal in nature. *Id.* at 1374. And that, as a result, the plaintiff had a right to a jury trial. *Id.*

While the distinction may sound like mere semantics, the categorization has significant impacts on the case's trajectory. Thus, until the dust settles on this dispute, plaintiffs seeking unjust enrichment damages should be very clear that they are seeking a legal remedy to ensure that they preserve their right to a jury trial. In practical terms, plaintiffs should avoid using terms like "disgorgement" to describe unjust enrichment. Instead, plaintiffs should characterize unjust enrichment as a type of monetary damages.

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