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# Trade Secret Damages: Client and Juror Expectations About How to Compensate the Loss of Valuable Secrets

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Successful litigators or experts tend to be effective teachers and good storytellers who can adapt their messages and present a coherent thematic story, whether the audience is a client, a jury, or a judge. Teaching, as opposed to advocating and thematic storytelling, however, can be particularly challenging in trade secrets litigation, which often involves some type of amorphous product (a recipe, a formula) and ambiguous legal principles.

Persuasive and credible communication of the damages case in trade secret trials often can be even more difficult than in cases involving other intellectual property rights. For example, while patents cover discrete and tangible products, trade secrets protect more nebulous types of information, such as manufacturing processes, know-how, and business practices, whose value may be harder to ascertain and

communicate. This article focuses on *how to present* trade secret damages claims effectively, whether to a client, a jury, or a judge, rather than *how to calculate* trade secret damages.

The first section of this article explores the development of the damages case with the client by counsel and the damages expert. The next section discusses the teaching of the damages case to jurors, focusing on what jurors are most likely to hear and apply with respect to the measure of harm in the trade secret trial context.

## Trade Secret Damages and the Client

### How to Pursue a Neglected Orphan

"Despite the practical importance of trade secrets to the business community, the law of trade secrets is a neglected orphan in economic analysis."<sup>1</sup> It has been more than 20 years since this quote was written, and the area of trade secrets remains a relatively neglected orphan without as robust a body of case law as its intellectual property (IP) cousins: patents, copyrights, and trademarks. Accordingly, initiating an economic damages claim for trade secret misappropriation presents specific challenges that must be identified, communicated, and resolved. The first task is getting the client to understand these challenges.

How much are the damages? Even before discovery has started, this is one of the first questions in-house counsel and the respective business people openly ask, or at least are silently curious about. For a client unfamiliar with trade secret litigation from either side of the case, first and foremost it is important to help set the client's expectations—or bridge an expectations gap that already may exist.

### *Put the Trade Secrets into Context*

When quantifying losses related to the theft of trade secrets, it is critical to define exactly what was purportedly stolen and to consider that loss from

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several different perspectives. Damages must be a direct result of the theft. To help establish context, spend time with the business people who use and sell the products that incorporate the trade secrets to focus discovery on identifying the trade secrets and building the proper nexus of the theft and its consequences.

For example, consider the case when four employees left a chemical company and were accused of stealing multiple formulas for specialty chemicals. The theft caused an economic loss to the old employer and an economic benefit to the new employer. But the old employer has to determine whether there was “use,” a concept that suffers from legal ambiguity. Was there positive use, in which the former employees benefited from using the stolen formulas? Was there negative use, meaning they knew, based on their former employer’s R&D work, how not to use the formula? How did the loss take something away from the old employer?

Typically, the defendant will attempt to force the plaintiff to identify with specificity what embodies the trade secret. The problem, however, is that the trade secret may not be separable from other assets—a necessary clarification to establish a proper foundation for the economic analysis.

### ***Determine What Will Yield the Most Credible Damage Analysis***

Despite the widespread adoption of the Uniform Trade Secrets Act, trade secret laws vary significantly from state to state, and decisions about trade secret damages continue to show variation at every stage of the damages analysis.<sup>2</sup>

Whether damages are classified as unjust enrichment (disgorgement) or lost profits, the issues often center on how many extra sales were made or would have been made but for the misappropriation. Selecting the baseline can be difficult because the but-for world is not what happened in reality and is based on estimation, conjecture, and, at times, guesswork. Not all trade secrets are created equal. There may be some that are required to enable the success. Conversely, without the enabling trade secret, the full benefit may not be achieved. Each fact pattern presents benefits and challenges to the damages scenario.

Motions *in limine* often attack an expert’s methodology based more on the alleged failure to have an adequate factual basis than on the actual method used for analysis.<sup>3</sup> The calculation of the total sales or profits usually is not the focus of the motion *in limine*, because such numbers are closely connected to the actual facts. The attacks usually are aimed at the causation link and the baseline chosen.

The causation challenge often is formed along the lines that there is no scientific or factual basis for the assertion that the alleged trade secret enabled additional sales. Then, the argument essentially is reversed to argue that there is no scientific or factual basis for the conclusion that the accused would have made the baseline profits or sales “but for” the alleged misappropriation. The accused essentially argues that the increase in sales was the result of independent efforts.

The trade secret owner and employees will need to confirm that each of the trade secrets actually is implemented. Their credibility can be undermined if the experts opine that a given trade secret is enabling, but it is not found to be used. The remaining trade secrets can be included as supporting, but not enabling, the additional sales or profits.

It may be possible to overcome such issues with a blended approach, which involves segregating the trade secrets depending on which are enabling. The benefit of this approach is that the damages can be sustained if some, but not all of the enabling trade secret technologies are not accepted by the jury.

It also is important for the damages expert to interface with an industry expert or other knowledgeable witnesses. The damages expert may not have sufficient expertise in the industry to opine on what the technology would have enabled. Thus, a damages expert working alone may face a substantial challenge.

Offering alternative scenarios can be helpful. In the case of baselines, the expert may offer the opinion that the damages would be different depending on what the jury finds likely would have resulted without the trade secret misappropriation. In the case of head-start damages, the expert may offer damages based on different lengths of head-start times, for example, a 12-month or 18-month head start.

### **Challenges to the Underlying Premises**

One way that the underlying merits of the case might be challenged is through a “nexus” or “causation” argument. The underlying point of the argument is that the trade secrets were not valuable and made no difference, at least no difference supported by evidence. The motion *in limine* may argue that the damages expert has built a damages calculation without ever determining a nexus between his calculations and the real world. In this example, if the experts are working together, a response might be a blended one where the damages expert relies on the industry expert (or other witnesses) and also confirms the industry expert’s views through his own expertise. But, if the industry expert has disagreed

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with a factual underpinning relied on by the damages expert, the damage theory may be imperiled.<sup>4</sup>

The defendant can:

- Assert that the plaintiff has not met its burden of proving that its damages were in fact caused by the defendant's misappropriation;
- Demonstrate that the claimed amount, or portions thereof, are unrelated to the trade secret;
- Attempt to offset the claimed amount by the expenses it incurred in connection with its alleged use of the trade secret;
- Try to shorten the accounting period for the damages; or
- Show that some portion of the claimed amount constitutes an impermissible double recovery.

Accordingly, it is critical to separate out the extraneous variables and define the proper nexus.

## Take Emotions Off the Table

Theft of any type can cause an emotional response. Trade secret matters involve a purported theft oftentimes by an employee or business partner. One of the challenges an expert faces in trade secret litigation is working with the client to check their emotions at the door.

First, remind the client that emotional damages are not recoverable. In the case of the four employees who were accused of taking trade secrets from a chemical company, the company still had an ongoing, viable business—in fact, its business grew. But the owner wanted his pound of flesh—to make the accused employees pay for what he felt was the harm to his business. Any damages claimed, however, must be a result of theft of trade secrets.

Second, emotions must not be allowed to cloud the damage analyses. An emotional plaintiff, for example, may push an expert to opine on speculative or baseless accusations. While a plaintiff must commit time and energy, financial and human resources, and the emotional “stomach” to litigate a case, harboring visceral and emotional feelings against the accused former employees or partners will impact decisionmaking.

Ensuring the client uses logic and reason to make its case will help prevent the charges being tossed out by the court—the death knell for any claim.

## Trade Secret Damages and the Jury

By the time the jurors have reached the issue of damages, much of the fight at trial is over—liability

established and all or some amount to be awarded; zero has already been taken off the table. For these jurors at this point in their decisionmaking, the issue is how much, and the deliberation process tends to become a negotiation between low-, middle-, and high-damages jurors. How best to plan for this negotiation in the jury room; to arm your jurors with the information, motivation, and skills to work the jury room in your favor?

This challenge is one faced in any civil case when money is the remedy, but the challenges faced in an IP case particularly are difficult. We have found that in anticipating and planning for these challenges in trade secret cases a useful starting point is to visualize the negotiations you hope to create. As you do this visualization, be fair. If you are the plaintiff there is no sense in thinking: The jurors will decide the defendants are bad and they are liable; they should pay everything the plaintiff asks. Similarly, if you are speculating from the defense perspective do not think the jurors will feel that we found them liable but the plaintiff does not deserve anything, certainly nothing close to what they are seeking. Instead, whether plaintiff or defendant, think ahead to the situation in which the jurors faced a real conflict during their resolution of the liability issues. In light of that very real conflict in the jury room, how does the damages phase of deliberations sound? What are “opening bids and arguments” of the low- versus the high-damages jurors?

During these opening deliberation arguments that might take place between a plaintiff juror and a defense juror, it is often the case that each will try to explain what they feel “really went on here” even when it comes to the issue of damages. Listen to that dialogue and consider it a strategic target. What story can you present that will engage, persuade, and motivate your juror to participate in the “what really happened here?” dialogue in the way most favorable to the outcome you seek. What story provides the answers to the jurors’ questions? By helping jurors address *their* challenges, you are more likely to persuade and motivate them to speak for your damages case during deliberations. As Yogi Berra once quipped, “If you don’t know where you are going, you’ll wind up somewhere else.”

But finding the understandable damages narrative is not an easy task. We often have heard counsel or experts say, with a fair degree of frustration: I know where I would like to go but I don’t see how I can get the jury there. It is not because the analysis or the conclusions are unsound or flawed, but because the learning and understanding that provide the foundation appear out of reach for many jurors. The job of



teaching jurors what they need to know to do their work regarding damages is a difficult task. Trying your case to a judge does not necessarily provide an easier route. While the question remains open, there is at least some evidence in the context of punitive damages that “decisions made by judges and by juries differ little, either in the rate at which punitive damages are awarded or the size of the awards.”<sup>5</sup>

The challenge is not limited to the jurors’ level of mathematical sophistication. If jurors arrived at their damages assessment by following the legal instructions, then perhaps the damages case would become more formulaic—more a matter of inserting the correct numbers to a set formula. This assumes that there is a nonambiguous set of damages instructions provided by judges, and it also assumes that jurors correctly follow legal instructions. As to this latter point, Sunstein et al. found, again in the context of punitive damages, that “less than 20 percent of jurors correctly calculated the award according to the instructions.”<sup>6</sup>

We have found it useful and important to recognize that whether jurors are faced with a liability decision or a damages decision, one of the central drivers in their decisionmaking is their search for a sense of what feels fair. This perspective comes with its own issues, especially in connection with the determination of a “fair” amount of damages because, in part, the link between the concepts of how much the plaintiff deserves and the specific quantification of that amount is fuzzy at best. In this regard, Sunstein wrote, “...a major source of this unpredictability comes from the fact that people do not know how to ‘translate’ their moral judgments into dollar amount...The legal system does not give people a sense of how to measure, in dollars, different moral evaluations of the cases.”<sup>7</sup>

The road that leads from what you and your expert say about the issue of damages and what jurors hear, learn, recall, and are willing and able to discuss and debate during deliberations is travelled most effectively on a thematic story. As Richard Waites and Cynthia Zarling explain:

All courtroom decisionmakers, no matter how educated and sophisticated they are, believe that at the heart of every complex situation is a simple story waiting to be discovered.... They believe that the meaning of the case, its essence, lies in the human story at the core of the case.<sup>8</sup>

The trier of fact is likely to be motivated by the understanding of the underlying personal dynamics: what went on between and among the individuals,

what were the crucial relationships, what went wrong, why did people act the way they did, and what harm resulted? The essential truth in a case is found first by the trier of fact in his or her feelings about the thematic story rather than in the underlying information and facts, or “The emotional brain generates the verdict...the rational brain explains the verdict”<sup>9</sup> and “The emotional tail wags the rational dog.”<sup>10</sup>

As jury consultants we have found that this holds true for the damages verdict as well as the liability verdict. Damages decisions often are motivated by jurors’ feelings about who is deserving, who needs to be punished, what harm was caused, and why. It is the human story that appeals to the so-called emotional brain; it is the packaging of the data (the facts, the information, the evidence, and the law) in the context of the story and its themes that give the so-called rational brain the support it needs to explain and rationalize its more impulsive conclusions.

The utility of stories to engage, equip, and motivate jurors to hear, decide, and discuss the case in a way favorable to you has been the subject of numerous books and articles regarding effective communication. In his book “Winning with Stories,” Jim Perdue explains, “A trial is a competition of stories. The conflicting facts, opinions, and scientific principles are part of the opposing stories. Trial advocates must first persuade the listener to adopt a narrative. Then they must empower the jury to act on it.”<sup>11</sup>

Among the important components of an interesting and empowering story is the theme or themes—the often implicit chorus—that anchors the plot. Perdue notes that: “...the case theme is the unifying image, idea, or concept each person uses to remind himself what the story is all about.... Every case will have a theme in the mind of each juror; whether counsel offers one or not.”<sup>12</sup>

There is a difference between a story’s theme and its moral. While there is overlap, themes tend to be descriptive. For example, this story is about personal responsibility, fair competition, and betrayal. Morals tend to be prescriptive. For example, listening to this case, it is clear that people should be held accountable and that real secrets deserve to be protected. Similarly, case themes can be found in core values. Whatever theme the plaintiff chooses for its story, it becomes difficult for the defense to reset. The plaintiff has a compelling list of potential core concepts in copyright and trade secret litigation, including dishonesty, copying, theft, disloyalty, self-promotion/ambition, and unfair competition.

Finding a compelling theme for the defense on the issue of damages is very difficult, and waiting until the jurors have resolved that liability issue is

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far too little, too late. The defense narrative about the absence of injury and harm related to the alleged wrongdoing has to be integrated into the trial narrative and not simply be an “add-on” thrown in at the end as a contingency should the jury find liability. Of course, crafting this piece of the overall story is no easy matter because as soon as the issue of injury or harm is raised, some jurors hear a concession on liability.

As the damages narrative is crafted and integrated into your trade secrets case, we have found that a critical component or “scene” is the one that develops your story of harm. In the context of a trade secrets narrative, what story will you craft that links the alleged conduct to the injury or, if you are on the defense, decouples any harm the plaintiff purportedly suffered from the defendant’s conduct?

As you think of your damages case, backward-forward thinking can again be a very useful tool. What is the damages case really about, and how do you hear the jurors talking about it? As you anticipate that deliberation dialogue and negotiation and begin to plan for how you and your expert can best generate it, here are a few things to keep in mind.

- **Remember context.** Numbers are best learned when placed in a context. Your damages case fits in a broader context and in the first instance is about teaching why rather than about how much.
- **Focus on harm and injury.** How do you make the loss real and concrete? How does it relate to the jurors’ real-life experiences? The best and most frequently used “analogies” in a jury room are the lives and experiences of the jurors themselves. Few if any will have had a real-life experience with trade secrets, but, on the plaintiff side, they do have experience with the feelings that result from betrayal, disloyalty, dishonesty, and theft. Putting a number to it may be difficult, but if they feel the harm, accepting your number will be a lot easier. From the defense side, if you can decouple the alleged harm from the alleged wrongful conduct and link it to another cause, such as the plaintiff, the business conditions, a competitor, a technological shift, then accepting the plaintiff’s number becomes more difficult for some jurors.
- **Recognize that jurors sometimes use the damages discussion as a means to allocate fault or compromise with respect to liability.** In the absence of another path to compromise (comparative fault for example), jurors often express their disappointment with the plaintiff’s own conduct by reducing damages to reflect a share of fault.
- **Teach the approach to solving the damages question.** Typically, both sides have credentialed and experienced damages experts. What often distinguishes one from the other is the credibility the expert earns with the jurors. Why should the jurors trust your expert’s conclusions? In some ways, it is like a teacher trusting a student’s answer to a math problem. The juror, as does the skeptical teacher, requests: Explain to me how you got there—show me your proof.” Teach the jurors your method in a way that they can understand and recreate in the jury room if necessary. Teaching the *how*, not just the *what*, is an important element to credible expert testimony.
- **Connect to the jurors’ world.** Expecting jurors to learn the business, accounting, and economic concepts that underlie your expert’s damages analysis is unrealistic. You and your expert need to move the analysis into the jurors’ world and experience. Make it as concrete as possible. Comparisons often are often useful in this regard—creating for the jurors a clear picture of what the plaintiff’s world would have been expected to look like in the absence of the defendant’s conduct, versus the world as it looked in the presence of the conduct.
- **Keep an eye on consequences.** Perhaps more than with respect to liability, the WIIFM (what’s in it for me) principle needs to be kept in mind. On one level or another, jurors worry about the consequences of their verdict. When it comes to trade secrets damages, how, for example, will the award affect me as a consumer, employee, innovator, or researcher?
- **Relate to the law.** Although it may be ambiguous and, as noted above, may not be followed by many jurors, the legal instructions on damages can be an important tool when the deliberation discussions reach an impasse. While the law is the judge’s territory, the connection of your damages story to the rules that jurors are told to apply should not be left for the jurors to make on their own. The law of damages often is just a codification of how business losses are determined every day outside the courtroom. The more your damages analysis fits into the ordinary and the less it sounds like it was created for the courtroom, the more credible it becomes. It is, in part, the reason why the parties’ own documents and contemporaneous assessments of value often have such impact in the deliberations.
- **Empower and arm your jurors.** When the deliberation dialogue has reached the point of the discussion of damages, the plaintiff jurors are

likely to feel momentum and success while the defense jurors may well feel that there is little left to fight for. Worse, now that they have been convinced of the defendant's wrongdoing they may experience new anger with or disappointment in the defendant—and feel ready to award or punish appropriately. But in preparing, both plaintiff and defense counsel should anticipate that even as to damages there may be some fundamental disagreements. The resolution of these disagreements, the jurors are told, should not be a simple averaging but should be a number based on the evidence and the law. So think about what tools your jurors need to work through this problem with the jurors who disagree. If the process is not going to be zero-sum and it is not going to be a form of averaging to find an acceptable number in between, what will it look like? What are the factors that give legitimacy to a negotiated compromise on the damages question? Strategically, do you want to provide those tools or, by doing so, do you feel you will be seen as making concessions regarding your damages and/or liability positions?

In short, crafting an effective, thematic, credible, and memorable damages narrative in a trade secrets case presents an enormous challenge to counsel and to the experts. There is no “damages case in a box” that can be taken off the shelf and rolled into court. Your first effort may not work. If time, circumstances, and budgets allow, fold jury testing into your development and preparation of your trade secrets case. Doing so will give you and your client the best chance of understanding whether jurors hear your case and how you might better communicate and motivate those who will be making the damages determination.

## Conclusion

Whether working with clients or jurors, an awareness of and sensitivity to their expectations and real-life experiences will sharpen your development of the trade secret damages case. Learn what they will hear and see together with crafting what you will say and show, and your case of harm and loss will become more teachable, credible, and persuasive.

1. David D. Friedman, William M. Landes, & Richard A. Posner, “Some Economics of Trade Secret Law,” *Journal of Economic Perspectives*, 5(1): 61–72 (1991).
2. Christopher P. Gerardi & Daniel L. Jackson, Trade Secrets Damages—An Overview, in *Trade Secrets 2013: What Every IP Attorney Should Know* (Course Handbook), Practising Law Institute (P. Anthony Sammi ed., 2013).
3. See, e.g., *American Booksellers Ass’n, Inc. v. Barnes & Noble, Inc.*, 135 F. Supp. 2d 1031, 1041–1042 (N.D. Cal. 2001) (Finding that “assumptions and simplifications that are not supported by real-world evidence” are “too speculative to support a jury verdict.”)
4. See *Greenwell v. Boatwright*, 184 F.3d 492, 497 (6th Cir. 1999) (“Expert testimony...is inadmissible when the facts upon which the expert bases his testimony contradict the evidence.”)
5. Cass Sunstein et al., *Punitive Damages, How Juries Decide* (2002); at 251.
6. Sunstein et al. at 24.
7. Sunstein et al. at 29.
8. Richard Waites & Cynthia Zarling, “Judge, Juror and Arbitrator Perceptions in Trade Secret and Copyright Infringement Cases,” <http://www.theadvocates.com/Juror%20Perceptions%20of%20Issues%20in%20Patent%20Infringement%20Cases.pdf>.
9. Jonah Lehrer, *How We Decide* (2010); at 174–175.
10. Daniel Kahneman, *Thinking, Fast and Slow*, 140 (2011); see also Joseph Hallinan, *Why We Make Mistakes* (2009), Ori Brafman & Rom Brafman, *Sway* (2008).
11. Jim M. Perdue, *Winning With Stories: Using the Narrative to Persuade in Trials, Speeches & Lectures* (2006); at 90.
12. Perdue at 91.

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