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Remedies for trade secret misappropriation

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The primary remedy in a trade secrets case is injunctive relief — "stop the bleeding" or "plug the dike" to prevent the continued misappropriation of trade secrets.

Monetary damages can then be assessed for the wrongful misconduct that occurred before the injunctive relief was entered.

For many years, a trade secret misappropriation lawsuit was resolved by the entry of a temporary restraining order followed by the entry of preliminary and permanent injunctive relief. If the plaintiff lost, the case was over. If the plaintiff won, the case was over. This was the state of trade secrets law.

Injunctions are appropriate in trade secret cases to protect the plaintiff from future harm caused by the unauthorized use or disclosure of a trade secret and to deprive the defendant of further unjust enrichment.

Today, things have changed dramatically. Plaintiffs now file trade secret misappropriation lawsuits seeking injunctive relief in the prayer for relief but then "leapfrog" over the injunction remedies to pursue massive and complex damage awards.

The transformation of a trade secret misappropriation claim into a pure tort damages claim was not envisioned by the drafters of the Uniform Trade Secrets Act (UTSA). Look closely at the provisions in the UTSA. Injunctive relief [Section 2] precedes damages [Section 3]. This is the proper order for determining the remedies in a trade secret misappropriation lawsuit. The first step should always be injunctive relief — a trade secret once lost is lost forever.

Injunctions are appropriate in trade secret cases to protect the plaintiff from future harm caused by the unauthorized use or disclosure of a trade secret and to deprive the defendant of further unjust enrichment. Actual or threatened misappropriation may be enjoined.

Injunctive relief should be tailored to protect the trade secret owner's legitimate interests without unduly interfering with legitimate competition by the defendant.

Monetary relief in a trade secret misappropriation case follows once the contours of equitable relief have been established by injunctive relief. Loss to the plaintiff or gain to the defendant can result from either unauthorized use or unauthorized disclosure of a trade secret. Courts have identified four methods of measuring monetary relief.

The first method measures the loss to the plaintiff caused by the misappropriation. The plaintiff's loss usually consists of profits lost on sales diverted from the plaintiff by misappropriation, including loss of royalties or other income that would have been earned by the plaintiff but for the misappropriation. The plaintiff may prove lost profits by identifying specific customers diverted to the defendant. However, the plaintiff can also prove lost profits through proof of a general decline of sales or a disruption of business growth following the commencement of use by the defendant of the purloined trade secrets.

A plaintiff can also recover any pecuniary loss attributable to the misappropriation. For example, if the evidence justifies the conclusion that the sales made by the defendant would have instead been made by the plaintiff absent the misappropriation, the plaintiff may establish its lost profits by applying its own profit margin to the defendant's sales.

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Upon sufficient proof, the plaintiff may also recover lost profits on sales of spare parts, service, supplies, or other items normally purchased with the misappropriated product or service. These are lost profits often called convoyed sales.

The second method awards the plaintiff the defendant's profits earned on sales attributable to the trade secret. This remedy seeks a disgorgement of the defendant's ill gotten gains. The plaintiff may recover damages for the actual loss caused by the misappropriation, and the plaintiff may recover damages for the unjust enrichment caused by the misappropriation that is not taken into account in computing damages for the actual loss.

The traditional form of restitutionary relief in an action for trade secret misappropriation is an accounting of the defendant's profits

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on sales attributable to the theft of trade secrets. The plaintiff is entitled to recover the defendant's net profits. The plaintiff has the burden of establishing the defendant's sales; the defendant has the burden of establishing any portion of the sales not attributable to the trade secret and any expenses deducted in calculating net profits.

The third method — sometimes called the "standard of comparison" measure — calculates the savings to the defendant attributable to using the trade secret. This method compares the costs to the defendant of achieving the same result *with* and *without* the improper use of the trade secret and awards the difference to the plaintiff.

If the evidence establishes that it would have been possible for the defendant to acquire the trade secret by proper means such as reverse engineering or independent development, the appropriate comparison may be between the costs of such acquisition and the cost of using the misappropriated information. In determining the costs of proper acquisition, the trier of fact may consider the actual development costs of the plaintiff and, if available, the development or reverse engineering costs of third persons.

When acquisition of the trade secret by proper means is unlikely, the appropriate comparison may be between the costs of using the trade secret and the cost of alternative methods available to the defendant to achieve the same result.

The fourth method awards the plaintiff a reasonable royalty for the defendant's use of the trade secret. A reasonable royalty is the price that would be agreed upon by a willing buyer and a willing seller for the use made of the trade secret by the defendant. This method is based upon a hypothetical negotiation that is not limited to a percentage of the defendant's sales or profits and may instead rely on any economic measure of the fair market value of the defendant's unauthorized use of the trade secret.

The "reasonable royalty" measure of damages requires the defendant to pay only the amount it would have been paid had it fairly bargained for a license to use the plaintiff's trade secret. The reasonable royalty rate can be adjusted by the court to insure adequate deterrence and prevent unjust enrichment.

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