EXHIBIT 34

INTELLECTUAL PROPERTY

VALUATION, EXPLOITATION, AND INFRINGEMENT DAMAGES

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CHAPTER 44

TRADE SECRET DAMAGES

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Unfortunately, there is no consensus among the various state courts regarding the appropriate way to measure damages for trade secret misappropriation cases. As a result, there are numerous conflicting state court opinions on various issues related to the calculation of damages for trade secret misappropriation.

44.1 SUMMARY OF TRADE SECRET DAMAGES

Damages for trade secret misappropriation may be based on three different theories: tort, contract implied in law or implied in fact, and contract law. Each theory measures the damages award differently.

In the contract cause of action, the misappropriator is theoretically liable to the trade secret owner for the loss of value of the trade secret as a result of the breach, as well as any special or consequential damages, offset by any benefit the trade secret owner receives from the breach. Under a contract implied-in-law or implied-in-fact cause of action, the trade secret owner can recover by way of restitution the value of the benefits received by the misappropriator.

In addition to contractual theories, most jurisdictions recognize misappropriation as a tort. Misappropriation requires proof that:

- A trade secret existed
- The trade secret was acquired through a confidential relationship
- The defendant used the trade secret without authorization from the plaintiff

The tort is the breach of the confidential relationship. Therefore, this theory looks at the injury to the relationship rather than the loss of information to establish liability. An important point regarding the tort theory is that a court can use it to award punitive damages. However, it requires a showing that the misappropriator knew of the confidential relationship. In addition, the statute of limitations in most jurisdictions is shorter for torts than contracts, and may therefore limit use of this approach. Using a tort theory, a trade secret owner may recover "damages for past harm, or . . . an accounting of the wrongdoer's profits."

Section 59.1-338(A) of the Virginia Uniform Trade Secrets Act states:

> Except where the user of a misappropriated trade secret has made a material and prejudicial change in his position prior to having either knowledge or reason to know of the misappropriation and the court determines that a monetary recovery would be 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

damages, even if the plaintiff has not shown that it lost any profits and the only advantage to the defendant is that it saved time in developing a new product. See *Jet Spray Cooler, Inc. v. Crampton*, 385 N.E.2d 1349 (Mass. 1979). In *Jet Spray Cooler*, the court said that the measure of damages in cases involving business torts such as the misappropriation of trade secrets entitles a plaintiff to recover full compensation for his lost profits and requires a defendant to surrender the profits that he realized from his tortious conduct. The court explained that it is the policy of the law, for the advantage of the public, to encourage and protect invention and commercial enterprise. This encouragement and protection is afforded trade secrets because the public has a manifest interest not only in commercial innovation and development, but also in the maintenance of standards of commercial ethics. Thus, the court said, while a plaintiff in a trade secret misappropriation case is not entitled to a double recovery, they are entitled to the profits they would have made had their secret not been unlawfully used, but not less than the monetary gain that the defendant reaped from his improper acts.

Similarly, in *Reinforced Molding Corp. v General Electric Co.*, 592 F.Supp. 1083 (W.D. Pa. 1984), an action by a manufacturer of fiberglass products for misappropriation of trade secrets concerning a manufacturing process of coil brace parts, the court held that the appropriate measure of damages would be benefits, profits, or advantages gained by defendant in using trade secrets. The court also held that damages would commence from the time defendant began using the misappropriated trade secret and accrue for the period of time it would have taken defendant to create its product absent its misappropriation, and, in accordance with "head start" doctrine, an accounting of defendant's profits would be appropriate for time it saved by misappropriation.

Reasoning from the rule that the appropriate measure of damages in a trade secret case is the benefits, profits, or advantage gained by the defendant in the use of the secret, the court in *International Industries, Inc. v Warren Petroleum Corp.*, 248 F.2d 696 (3rd Cir. 1957), held that the advantage enjoyed by the defendant is to be measured by what is called the "standard of comparison method," under which the measure of recovery is the difference between the cost of obtaining the result achieved by the use of the infringing method or device and the cost of obtaining the same result by another method, the "standard of comparison," available at the time of the appropriation. The court asserted that there was no substantial distinction between the standard of comparison measure, which measures savings, and a direct measure of the defendant's profits.

However, in *Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co.*, 407 N.E.2d 319 (Mass. 1980), the court held that the lower court incorrectly had limited the plaintiff's recovery to the amount of the defendant's gain because such gain was exceeded by the amount of the plaintiff's lost profits.

44.5 OTHER METHODS OF CALCULATING DAMAGES FOR MISAPPROPRIATION OF TRADE SECRET

In the absence of proper proof as to either the plaintiff's lost profits or the defendant's profits from the sales of a specific trade secret product, or where such measures have been deemed insufficient, the courts have resorted to other measures of damages for trade secret misappropriation.

(a) COST FOR DEFENDANT TO DEVELOP ITS PRODUCT WITHOUT USING PLAINTIFF'S TRADE SECRETS. For example, where a misappropriated device contained several technological innovations, some of which may have been publicly disclosed at the time the

device was misappropriated, the court in *Servo Corp. of America v. General Electric Co.*, 393 F.2d 551 (4th Cir. 1968), held that the measure of damages would be the cost of experimentation to develop the component or components not disclosed and to discover how to combine all components, in addition to the cost of discovering the disclosure of the information that had been publicly disclosed. The court accordingly remanded for consideration of the amount of damages.

The court in *Telex Corp. v. International Business Machines Corp.*, 510 F.2d 894 (10th Cir. 1975), held that it was proper to measure the savings of a trade secret misappropriator according to the owner's cost of development of the trade secret information. The counterdefendant was engaged in a practice of hiring away key employees of the counterplaintiff so as to acquire trade secrets and develop certain products. As to one of the plaintiff's development projects, the defendant did its hiring when the project was approximately half-finished. The defendant subsequently developed its own product and diverted some of the plaintiff's customers to itself, while also gaining other customers. The plaintiff was awarded its lost rentals on the diverted customers. In addition, however, the district court calculated an award by dividing in half the plaintiff's total development cost, since the key employees had been hired away when the project was half-done, and by subtracting therefrom a further amount in consideration of the award of lost rentals to the plaintiff. Affirming the awards, the court of appeals explained that the resulting figure represented the amount by which the defendant had been enriched unjustly. It held that, while the law concerning measure of damages in a trade secret case is far from uniform, a common thread is to make the plaintiff whole, while avoiding double recovery.

In *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518 (5th Cir. 1974), the court held it proper for the district court to have instructed the jury that it should consider the development cost incurred by the plaintiff in arriving at the proper damages for the defendant's misappropriation of the plaintiff's computer program, where there was no evidence of any sales that had been lost by the plaintiff or gained by the defendant as a result of the misappropriation.

However, in *Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387 (4th Cir. 1971), the court held that the plaintiff, which had been deprived of a contract as a result of the defendant's trade secret misappropriation, was not entitled to recover the amount saved by the defendant in research and development costs while also recovering its own losses on the contract, including amounts attributable to fixed and material overhead and certain "additional" general and administrative expenses, in an amount exceeding the defendant's savings.

(b) COSTS OF OTHER LITIGATION. In *McNamara v. Powell*, 11 N.Y.S.2d 491 (1939), a plaintiff whose invention had been misappropriated was held entitled to recover litigation fees and expenses incurred by him in defending in separate litigation his right to the invention and to letters patent thereon, as an element of compensatory damages for the defendants' misappropriation. The court reasoned that since the defendants' patent application was a part of their scheme to deprive the plaintiff of his invention, and since they apparently anticipated that the plaintiff would find it extremely burdensome to carry on the litigation, the ensuing litigation was undoubtedly the intended result of their actions. The court concluded that the defendants were responsible for the natural and proximate consequences of their *misconduct*, and it accordingly affirmed the trial court's award of damages including such litigation expenses.