

No. 90962-8

SUPREME COURT
OF THE STATE OF WASHINGTON

No. 70047-2-I

COURT OF APPEALS, DIVISION ONE
OF THE STATE OF WASHINGTON

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STATE OF WASHINGTON

ADA MOTORS, INC., dba BURIEN TOYOTA,
a Washington corporation,

Plaintiff/Appellant/Cross-Respondent,

v.

DAVID L. BUTLER and ELIZABETH BUTLER, and
their marital community, and THE ROBERT LARSON
AUTOMOTIVE GROUP, INC., a Washington corporation,
dba LARSON TOYOTA,

Defendants/Respondents/Cross-Appellants.

2014 OCT 27 AM 11:06
COURT OF APPEALS
STATE OF WASHINGTON

RESPONDENTS' PETITION FOR REVIEW

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I. IDENTITY OF PETITIONERS

Petitioners David L. Butler and Elizabeth Butler (collectively the “Butlers”) and The Robert Larson Automotive Group, Inc. (“Robert Larson”), Respondents/Cross-Appellants in the Court of Appeals, seek review of the decision identified below.

II. COURT OF APPEALS DECISION

Petitioners seek review of the unpublished decision terminating review entered by Division One of the Court of Appeals on August 18, 2014, in which the court vacated a judgment on a jury verdict in favor of Petitioners on Burien Toyota’s Uniform Trade Secrets Act claim. Petitioners timely moved for reconsideration and to publish; the Court of Appeals denied both motions on September 29, 2014.¹

III. ISSUES PRESENTED FOR REVIEW

1. Burden of Proof for a Trade Secret Misappropriation

Claim: Did the Court of Appeals err in holding that a plaintiff alleging misappropriation of a trade secret and claiming unjust enrichment bears only the initial burden of establishing the defendant’s sales, as opposed to the amount of its damages? This issue warrants review because the Court of Appeals’ holding improperly dilutes a trade secret plaintiff’s burden to prove damages. *See* RAP 13.4(b)(4).

¹ A copy of the decision is attached as Appendix A. All citations are to the Slip Opinion version (App. A), which is reported at ___ Wn. App. ___, 2014 WL 4067876 (Aug. 18, 2014). Copies of the Order Denying Reconsideration and the Order Denying Motion to Publish are attached as Appendices B and C, respectively.

2. Clear Misstatement of the Law: Did the Court of Appeals err in summarily concluding that the trial court's jury instructions constituted a clear misstatement of law, therefore entitling the plaintiff to a new trial based solely on a presumption of prejudice? This issue warrants review because of the need for a standard for determining what constitutes a clear misstatement of the law. *See* RAP 13.4(b)(4).

IV. STATEMENT OF THE CASE

A. The Customer List Dispute.

After a 32-year career as a Nordstrom shoe salesman, David Butler went to work selling motor vehicles for, first, Burien Toyota and, later, Robert Larson. CP 57, 60 & 64. While at Nordstrom, Butler maintained a list of the customers he amassed over the years. CP 59. Butler brought his customer list with him when he went to work at Burien Toyota in February 2003. CP 62. Burien Toyota put Butler in touch with Sobel and Associates, a company Burien Toyota used to manage its own client lists and to keep the information on its lists current, and Butler gave his list to Sobel. CP 18, 45-47. Butler resigned his employment with Burien Toyota in March 2011 and took a copy of the list he gave to Sobel with him. CP 72. Thereafter, he began working for Robert Larson, specifically at Larson Toyota; in April 2011, Burien Toyota sent Butler a cease and desist letter, claiming that his customer list was actually Burien Toyota's trade secret. CP 65-66.

B. Proceedings at Trial.

In April 2011, Burien Toyota sued Butler and Robert Larson, alleging causes of action for violation of the Uniform Trade Secrets Act (“UTSA”), RCW Chapter 19.108), breach of contract, unfair competition, tortious interference with a business relationship, and breach of the duty of loyalty. CP 1-9. Only Burien Toyota’s UTSA claim went to the jury. See CP 545-69, 906-09.

Both sides proposed jury instructions on the burden of proof on a trade secret misappropriation claim. Petitioners’ proposed instruction closely tracked the language of the Washington Pattern Instruction (“WPI”), using the alternative approach appropriate when the plaintiff seeks unjust enrichment damages.² CP 518; WPI 351.01. Burien Toyota’s proposed instruction contained only a portion of WPI 351.01, which Burien combined with a quotation from *Petters v. Williamson & Assocs., Inc.*, 151 Wn. App. 154, 210 P.3d 1048 (2009), *rev. denied*, 168 Wn.2d 1007 (2010).³

The trial court was not satisfied with either instruction and also questioned whether Burien Toyota’s incorporation of language from *Petters* into an instruction was appropriate. RP (1/29/13) at 2-4. The trial

² Petitioners did not propose an instruction on the burden of proof using the alternative approach for when the plaintiff seeks actual damages, given Burien Toyota’s failure at trial to present evidence of actual damages. RP (1/30/13) at 14. Petitioners proposed instructions and WPI 351.01 are reproduced in Appendices D and E, respectively.

³ *Petters* is discussed more fully below. Burien Toyota’s proposed instruction, CP 900-901, is reproduced in Appendix F.

court was concerned not only because *Petters* was factually distinguishable from this case, but also because the language Burien Toyota wanted to incorporate into a jury instruction was dicta and suggested a burden-shifting scheme that would relieve the plaintiff of its traditional burden of proving damages in a civil case. RP (1/30/13) at 33. The trial court drafted its own instruction, using the WPI as guidance, and this instruction became the court's Instruction No. 8, which reads:

TRADE SECRETS – BURDEN OF PROOF

On the claim of misappropriated trade secrets, Burien Toyota has the burden of proving each of the following propositions:

- (1) That Burien Toyota had a trade secret;
- (2) That Mr. Butler and/or Larson Toyota misappropriated Burien Toyota's trade secret; and
- (3)(a) That Mr. Butler and/or Larson Toyota[']s misappropriation was a proximate cause of damages to Burien Toyota (Actual Damages); and/or

(3)(b) That, as a result of the misappropriation, Mr. Butler and/or Larson Toyota received money or benefits that in justice and fairness belong to Burien Toyota (Unjust Enrichment). Under (3)(b) (Unjust Enrichment), plaintiff has the initial burden of proving damages from sales attributable to the use of a trade secret. The burden then shifts [to] Mr. Butler and/or Larson Toyota to establish any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.

If you find from your consideration of all the evidence that proposition (1), (2) and either (3)(a) or (3)(b) have been proved, then your verdict should be for Burien Toyota. On the other hand, if you find that propositions (1) nor (2) nor alternatives (3)(a) or (3)(b) have not been proved, your verdict should be for Mr. Butler and Larson Toyota.

CP 555. The trial court's instruction on damages was Instruction No. 18.⁴

After trial, the jury returned a verdict finding that Burien Toyota suffered no damage proximately caused by any action of Butler or Robert Larson. CP 906-09. Burien Toyota appealed. CP 970-71.

C. Proceedings on Appeal to the Court of Appeals.

On appeal, Burien Toyota assigned error to the trial court's giving of Instruction No. 8.⁵ CP 970. The record before the Court of Appeals contained a transcript of the proceedings on the proposed jury instructions, but no verbatim report of the entire trial proceedings. Instead of providing a full record of the trial, Burien Toyota based its right to relief on a claim that Instruction No. 8 was a clear misstatement of the law and prejudice therefore should be presumed. *See* Brief of Appellant at 22, citing *Anfinson v. FedEx Ground Package Sys., Inc.*, 174 Wn.2d 851, 860, 281 P.3d 289 (2012). The Court of Appeals issued its Decision on August 18, 2014, holding that Instruction No. 8 contained a clear misstatement of the law and therefore presumptively prejudiced Burien Toyota. *See ADA Motors, Inc. v. Butler*, __ Wn. App. __, 2014 WL 4067876, at *3. Specifically, the Court of Appeals held that the trial court's "inclusion of the language 'damages from sales' rather than just 'sales' in Instruction 8 was an incorrect statement of the law[]" under *Petters* and that

⁴ Instruction No. 18, CP 565, is set forth in Appendix G. Burien Toyota's proposed damages instruction is at CP 772; Petitioners' proposed damages instruction is at CP 530.

⁵ Burien Toyota also assigned as error the trial court's entry of judgment, but that assignment of error is subsumed in its assignment of error and argument regarding Instruction No. 8. Butler and Robert Larson cross-appealed. CP 1016. No issue raised in the cross-appeal is relevant to this petition for review.

“Instruction 18 compounds the impact of the misstatement in Instruction 8 by expressly stating that Burien Toyota has the burden to prove ‘damages’ defined as something more than sales.” *ADA Motors*, 2014 WL 4067876, at *3 (emphasis added). The Court of Appeals reversed and remanded for a trial on the issues of damages and unjust enrichment. *Id.* at *5.

V. ARGUMENT WHY REVIEW SHOULD BE ACCEPTED

A. The Court of Appeals Misstates the Law Regarding the Burden to Show Damages in a Trade Secret Misappropriation Case.

The Court of Appeals’ holding on the burden of proof in a trade secret misappropriation case misstates the law by relieving the plaintiff of the burden a plaintiff in every civil case carries, namely the burden of proving damages caused by the defendant’s conduct. *See* Restatement (Third) of Unfair Competition, § 45 (1995), cmt. a (“The general rules relating to the recovery of compensatory damages in tort actions apply in actions for the appropriation of trade secrets.”).

1. The Proper Measure of Damages for an Unjust Enrichment Claim in a Trade Secrets Case is the Defendant’s Profits on Sales Made Possible by the Misappropriation.

Under the UTSA, a plaintiff may recover damages for its actual loss caused by the misappropriation and for the unjust enrichment caused by the misappropriation that is not taken into account in computing damages for actual loss. RCW 19.108.030(1). The issue before this Court involves unjust enrichment damages. Section 45(1) of the Restatement (Third) of Unfair Competition provides for the same measure of monetary

relief for unjust enrichment damages, holding the defendant liable for its “pecuniary gain resulting from the appropriation.”⁶ A trade secret defendant’s unjust enrichment “is represented by *profits from sales* made possible by the appropriation.” Restatement (Third) of Unfair Competition § 45, cmt. c (emphasis added).⁷ Similarly, the plaintiff’s “*damages* for misappropriation of a trade secret may be measured by the *amount of profits* [] gained by the defendant.” Michael A. Rosenhouse, Annotation, “Proper Measure and Elements of Damages for Misappropriation of Trade Secret,” 11 A.L.R.4th 12, § 10 (1982 & Supp. 2014) (emphasis added).⁸

Comment f to the Restatement provides that restitutionary relief in an action for the misappropriation of a trade secret “is an accounting of the defendant’s *profits on sales attributable* to the use of the trade secret. . . . The plaintiff is entitled to recover the *defendant’s net profits*.” (emphasis added)⁹; *see also id.* at cmt. d (for unjust enrichment damages, the plaintiff is entitled to “the defendant’s *profits earned on sales* that are attributable to the trade secret.”) (emphasis added).

⁶ The Restatement (Third) of Unfair Competition § 45 is set forth in Appendix H.

⁷ Comment c recognizes that, in some cases, the defendant’s enrichment is represented by savings achieved through the use of the trade secret in the defendant’s business. This action does not present such a case.

⁸ The comments to WPI 351.01 reference this annotation on the proper measure and elements of damages for misappropriation of trade secrets.

⁹ As the Reporter’s Notes elaborate: “The plaintiff is entitled to the defendant’s net profits from the sales of goods incorporating the trade secret.” Restatement (Third) of Unfair Competition § 45, Reporter’s Notes on cmt. f, citing *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 170-71, 385 N.E.2d 1349 (1979).

Courts, too, have held that the appropriate measure of monetary relief when awarding unjust enrichment damages in a trade secret case is the defendant's profits on sales made possible by the misappropriation, not simply the defendant's sales as the Court of Appeals held in this case. *See e.g., Siemens Water Technologies Corp. v. Revo Water Sys., LLC*, 74 So. 3d 824, 828 (La. App. 2011) ("One proper measure of damages for misappropriation of a trade secret is the profit derived from the misappropriation."); *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 170-71, 385 N.E.2d 1349 (1979) (a plaintiff "may proceed in the alternative to determine whether the defendant's wrongful profits exceed the plaintiff's losses caused by the misuse of the plaintiff's trade secrets"). In other words, sales alone do not represent damages for unjust enrichment; *profit* from sales represents the correct measure of damages.¹⁰

2. A Plaintiff Seeking Unjust Enrichment Damages for Trade Secret Misappropriation Has the Burden of Proving the Defendant's Profits on Sales Attributable to the Misappropriation.

A plaintiff seeking damages because of a defendant's alleged wrongdoing has the burden of proving the damage it suffered as a result of the defendant's conduct. *See e.g., Newport Yacht Basin Ass'n of Condo.*

¹⁰ Measuring the restitutionary relief by the defendant's profit on sales, rather than just the defendant's sales, makes sense. If, for example, the defendant sold a product through use of the misappropriated trade secret, but sold it at cost, then the plaintiff, if seeking unjust enrichment (*i.e.*, the defendant's ill-gotten gain), would be entitled to nothing. In order for a plaintiff to be "damaged" under an unjust enrichment theory, the defendant must have realized a gain. *See Weibler v. Universal Technologies, Inc.*, 29 Fed. Appx. 551, 555 (10th Cir. 2002) (the "lack of profits thus made disgorgement of profits an inappropriate measure of damages."). In fact, if a plaintiff proved only "sales," the jury would have nothing on which to base a monetary award of damages.

Owners v. Supreme Northwest, Inc., 168 Wn. App. 86, 101-02, 285 P.3d 70 (2012); *ESCA Corp. v. KPMG Peat Marwick*, 86 Wn. App. 628, 639-40, 939 P.2d 1228 (1997), *aff'd*, 135 Wn.2d 820, 959 P.2d 651 (1998).

This rule is reflected in the Restatement of Unfair Competition:

The plaintiff bears the burden of proving the fact and cause of any loss for which recovery is sought. However, the plaintiff is required to prove the amount of such loss only with as much certainty as is reasonable under the circumstances.

Restatement (Third) of Unfair Competition § 45, cmt. b, citing to Restatement (Second) of Torts § 912.¹¹ *Accord Frazier v. Bowmar*, 42 Wn.2d 383, 385, 255 P.2d 906 (1953) (adopting the substantially similar Restatement of Torts § 912 and holding that the party seeking damages bears the burden of proving with reasonable certainty the damages resulting from the wrongful act).

Thus, the plaintiff pursuing unjust enrichment damages bears the burden of proving the defendant's profits from sales attributable to the misappropriation with as much certainty as is possible. The burden then shifts to the defendant to demonstrate any offsetting costs and any portion of its profits not attributable to use of the plaintiff's trade secret. The

¹¹ Restatement (Second) of Torts § 912 (1979) states:

One to whom another has tortiously caused harm is entitled to compensatory damages for the harm, if, but only if, he establishes by proof the extent of the harm and the amount of money representing adequate compensation with as much certainty as the nature of the tort and the circumstances permit.

ultimate burden of proving damages rests, as it does in all civil cases, on the plaintiff.¹² As stated by a leading case:

Once *a plaintiff demonstrates that a defendant made a profit from the sale of products produced by improper use of a trade secret*, the burden shifts to the defendant to demonstrate those costs properly to be offset against its profit and the portion of its profit attributable to factors other than the trade secret.

USM Corp. v. Marson Fastener Corp., 392 Mass. 334, 338, 467 N.E.2d 1271 (1984) (emphasis added).¹³

The court in *Jet Spray Cooler* likewise held that the plaintiff's burden is to prove "that the defendants have made profits from sales of products incorporating the misappropriated trade secrets," after which the burden shifts to the defendants to prove those profits "not attributable to the trade secrets." *Jet Spray Cooler*, 385 N.E.2d at 1358, n.14. In support of its holding, the court relied on the U.S. Supreme Court's holding as to the plaintiff's burden of proof in a patent infringement case: "And so, having sued for profits, the [plaintiff] *was under the burden of showing*

¹² A plaintiff's burden to show, with only reasonable certainty, the amount it was damaged by defendant's sales is not an unreasonable or unworkable burden should the plaintiff conduct discovery on the topic of the defendant's profits. Then the defendant, who is presumably in possession of such information, is required "to explain why any particular portion of the money that it received as a result of the" misappropriation should not be considered an actual loss suffered by the plaintiff. See *Petters*, 151 Wn. App. at 165. This burden-shifting approach is not unlike the familiar burden-shifting scheme set forth by the U.S. Supreme Court in *McDonnell Douglas Corp. v. Green*, 411 U.S. 792, 93 S. Ct. 1817, 36 L. Ed. 2d 668 (1973), for use with employment discrimination claims. Under that test, the "ultimate burden of persuading the trier of fact that the defendant intentionally discriminated against the plaintiff remains at all times with the plaintiff." *Texas Dep't of Community Affairs v. Burdine*, 450 U.S. 248, 253, 101 S. Ct. 1089, 67 L. Ed. 207 (1981).

¹³ *USM Corp. v. Marson Fastener Corp.*, is cited in the Restatement (Third) of Unfair Competition § 45, Reporter's Notes on cmt. f.

they had been made. . . . The defendant then had the right either to disprove the plaintiff's case, or to offer evidence in mitigation, or both." *Westinghouse Elec. & Mfg. Co. v. Wagner Elec. & Mfg. Co.*, 225 U.S. 604, 616, 32 S. Ct. 691, 56 L. Ed.1222 (1912) (emphasis added) (cited in *Jet Spray Cooler*, 385 N.E.2d at 1358, n.14).

In another trade secret misappropriation case in which the plaintiff sought unjust enrichment damages, *Cartel Asset Mgmt. v. Ocwen Fin'l Corp.*, 2007 WL 2733725, 249 Fed. Appx. 63 (10th Cir. 2007), the court similarly held that the plaintiff has the burden of proving the defendant's profits attributable to the misappropriation, after which the burden shifts to the defendant to apportion any profit not attributable to the misappropriation. In support of its holding, the court cited, *Wynn Oil Co. v. American Way Service Corp.*, 943 F.2d 595 (6th Cir. 1991), where the court held that the plaintiff has the initial burden of proving "gains to the defendant from the infringement" and then the burden shifts to the defendant to apportion profits not attributable to the infringement. *Cartel Asset Mgmt.*, 249 Fed. Appx. at 78 (citing *Wynn Oil*, 943 F.2d at 606-07 and noting, at 79, that the Restatement (Third) of Unfair Competition § 45, cmt. f sets forth a similar burden-shifting scheme).

Consistent with these well-established principles, the Court of Appeals in *Petters* recognized that the plaintiff's burden is to prove not just sales but "the defendant's profits on sales attributable to use of the trade secret." 151 Wn. App. at 165, quoting the Restatement of Unfair Competition. *Petters* held that the plaintiff "**met his burden of**

demonstrating the total value” of the defendant’s contract with a third-party which incorporated a term licensing the misappropriated technology. 151 Wn. App. at 165 (emphasis added). *Petters* further held that the plaintiff met his burden of showing the total revenue from the contract in which the defendant agreed to license the misappropriated technology, and that the defendant in turn demonstrated that no revenue was attributable to the license agreement such that the trier of fact was justified in finding no unjust enrichment damages from the license agreement. 151 Wn. App. at 165-67. That understanding is confirmed by the statement in *Petters* that the defendant had “the burden of demonstrating which portion, if any, of the *revenue* obtained through transfer of the trade secret was not, in fact, attributable to the transfer.” 151 Wn. App. at 165 (emphasis added). The defendant would not have been able to make such a showing if the plaintiff had not first made a showing of the defendant’s “revenue obtained through the transfer of the trade secret,” and not merely that the defendant had made a sale attributable to the trade secret.¹⁴

3. The Court of Appeals Misstates the Law. The Trial Court’s Instruction No. 8 Was a Correct Statement of the Law

The Court of Appeals in this case decided that the plaintiff met its burden by proving nothing more than sales. *ADA Motors*, 2014 WL

¹⁴ The parties in this case disputed whether Robert Larson in fact made *any* sales *at all* attributable to Butler’s customer list. By not providing a full trial transcript, and resting its appeal solely on a claim of a clear misstatement of law, Burien Toyota avoided scrutiny of its proof (or the *lack* thereof) on this point.

4067876, at *1 (holding that a “plaintiff alleging misappropriation of trade secrets and claiming unjust enrichment bears the initial burden of establishing the defendant’s sales.”) (footnote omitted); *see also id.* at *3 (“The plaintiff’s initial burden in proving unjust enrichment for trade secret misappropriation is to prove only ‘sales.’”). This was error; its source is the Court of Appeals’ reliance on *Petters*’ quotation of a portion of comment f to the Restatement (Third) of Unfair Competition, instead of relying on *Petters*’ application of the Restatement as a whole to the facts of that case.

First, comment f to the Restatement provides (in a portion quoted by *Petters* but not addressed by the Court of Appeals in this case) that the “traditional form of restitutionary relief in an action for the appropriation of a trade secret is an accounting *of the defendant’s profits on sales attributable to the use of the trade secret.*” Restatement (Third) of Unfair Competition § 45, cmt. f (emphasis added), cited by *Petters*, 151 Wn. App. at 165. Consistent with this basic principle, *Petters* did not actually relieve the plaintiff of meeting his “burden of demonstrating the total value” of the contract that incorporated the trade secret in favor of a lesser burden of showing that there was a sale. *See* 151 Wn. App. at 165. *Petters* instead held that, once the plaintiff established the defendant’s revenue (*i.e.*, the value of the contract incorporating the misappropriated trade secret), then the defendant had “the burden of demonstrating which portion, if any, of the revenue obtained through the transfer of a trade secret was not, in fact, attributable to the transfer.” 151 Wn. App. at 165.

Petters' application of the burden of proof cannot fairly be read as setting forth a rule allowing a plaintiff claiming unjust enrichment to prove only the defendant's sales, rather than the plaintiff's damages as measured by the defendant's profits from sales.

The Court of Appeals' jury instruction, derived from its overly narrow reading of *Petters* and in disregard of the actual holding in that case, starkly illustrates why "language quoted from an appellate court opinion does not necessarily make a proper jury instruction." *State v. Dunning*, 8 Wn. App. 340, 342, n.2, 506 P.2d 321 (1973) (citing *Turner v. City of Tacoma*, 72 Wn.2d 1029, 1034, 435 P.2d 927 (1967)). The court in *Petters* was not concerned with how to correctly instruct a jury on the burden of proof in a trade secrets case involving an unjust enrichment claim; the trial in *Petters* was a *bench* trial. The Court of Appeals in this case, by adopting only the second half of *Petters*' edited quotation of an excerpt from a comment to the Restatement as a jury instruction, has effectively ordered the trial court on remand to give a jury instruction that misstates the law.

Far from constituting a clear misstatement, the trial court's Instruction No. 8 was a correct statement of the law. The instruction, by requiring the plaintiff to prove "damages from sales attributable to the use of a trade secret," properly stated Burien Toyota's burden to initially prove the amount of its damages as measured by the defendants' profits on sales attributable to misappropriation. "[D]amages from sales" correctly describes both Burien Toyota's burden as the plaintiff to prove its

damages, as well as the source of any unjust gains -- the sales attributable to the customer list. If Burien Toyota could prove profits on sales attributable to misappropriation, the trial court correctly stated that the burden then would shift to “Mr. Butler and/or Larson Toyota to establish any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.” CP 555. The court’s instruction thus accurately expressed the rule that a plaintiff must satisfy its burden before the defendant must prove what portion was not attributable to the misappropriation.¹⁵

B. This Court Should Grant Review in Order to Set Forth a Standard for Determining When a Jury Instruction Has Clearly Misstated the Law.

1. The Court of Appeals Did Not Explain Why It Concluded that Instruction No. 8 Contained a Clear Misstatement of the Law.

The Court of Appeals cited to this Court’s *Anfinson* opinion for the proposition that “[p]rejudice is presumed if the instruction contains a *clear misstatement* of the law, but prejudice must be demonstrated if the instruction is merely misleading.” *ADA Motors, Inc.*, __ Wn. App. __, 2014 WL 4067876, at *1, citing *Anfinson v. FedEx Ground Package Sys., Inc.*, 174 Wn.2d 851, 860, 281 P.3d 289 (2012) (emphasis added). The

¹⁵ The instruction was especially appropriate given Instruction No. 18’s (equally correct) statement that damages include the amount of “money that will reasonably and fairly compensate Burien Toyota for any injury [that] was proximately caused by [Petitioners]” and its caution that the jury could “include as damages both plaintiff’s lost profits as actual damages and defendants gain as unjust enrichment only if and to the extent they do not overlap in any way.” CP 565 (App. G).

Court of Appeals also set forth a test to determine whether an instruction is misleading: an “instruction is misleading if it permits both an interpretation that is, arguably a correct statement of the law and an interpretation that is an incorrect statement of the law[.]” *ADA Motors*, 2014 WL 4067876, at *1, citing *Anfinson*, 174 Wn.2d at 876.

The Court of Appeals did not, however, set forth a test for determining what constitutes a clear misstatement of the law. Instead, it simply summarily concluded that the “instruction was not merely misleading.” *ADA Motors*, 2014 WL 4067876, at *3. While the court stated that “the deviation from *Petters* and the WPI alters the fundamental meaning of the initial burden of proof of the plaintiff[.]” the court did not explain how this constituted a clear misstatement of the law. *ADA Motors*, 2014 WL 4067876, at *3.¹⁶ Then having found a clear misstatement, the court shifted the burden to Petitioners to show that the instructional error was harmless, which they could not do because there was not a verbatim report of proceedings of the full trial. 2014 WL 4067876, at *4 & *4 n.16¹⁷

¹⁶ Apparently the Court of Appeals believed that not quoting verbatim from the portion of *Petters* quoted in the *comments* to the WPI constituted a clear misstatement of the law. See *id.* at *3 n.14 (quoting from the “Unjust Enrichment” section in the comments to WPI 351.01). But if that was the case, the court offered no explanation for *why* it believed such a failure constituted a clear misstatement.

¹⁷ There was no such record *because Burien Toyota the Appellant chose not to have such a record prepared*, evidently preferring to gamble that it would prevail on its clear misstatement claim rather than incur the expense of a full trial transcript. And as previously observed (note 14, *supra* at 12), this tactical choice also meant the Court of Appeals could not evaluate whether the jury’s verdict was in actuality the result of a failure by Burien Toyota to show any sales (much less profits from such sales) attributable to Butler’s customer list.

2. The Court of Appeals Has Not Been Using Any Standard For Determining Whether a Misstatement of the Law in a Jury Instruction Constitutes a Clear Misstatement, and the Resulting Ad Hoc Approach Threatens to Sanction Reversals Based on Presumed Prejudice Where There Was No Clear Misstatement.

Instructional errors constitute reversible error only where they prejudice a party. *Anfinson*, 174 Wn.2d at 860, citing *Joyce v. State Dept. of Corr.*, 155 Wn.2d 306, 323, 119 P.3d 825 (2005). In *Anfinson*, this Court held that “prejudice must be demonstrated if the instruction is merely misleading[,]” but that “[p]rejudice is presumed if the instruction contains a clear misstatement of the law[.]” 174 Wn.2d at 860. The issue was the proper test to determine a worker’s status as either an employee or an independent contractor. The trial court instructed the jury using the federal “right of control” test; this Court held that trial court had presented the jury with a clear misstatement of the law because the court did not use the federal “economic dependence” test. 174 Wn.2d at 871-72, 874-76. This Court further held that a “mere latent possibility of misunderstanding” in an ambiguous jury instruction renders the instruction merely misleading and therefore not presumed to be prejudicial. *Id.* at 874-76. This Court, however, did not set forth a standard for what constitutes a clear misstatement of the law, other than to indicate that an instruction using a test that is “materially distinct...” from the correct test constitutes a clear misstatement. *Id.* at 872.¹⁸

¹⁸ *Keller v. City of Spokane*, the case cited by *Anfinson*, likewise does not provide a standard for distinguishing between jury instructions that are merely misleading and those that contain clear misstatements of the law. *See* 146 Wn.2d 237, 2549-50, 44 P.3d (Footnote continued next page)

While the materially distinct concept of *Anfinson* could provide the foundation of a workable standard, *none* of the post-*Anfinson* cases on instructional error from the Court of Appeals have applied that standard *or any other standard* to determine when an instructional error is presumptively prejudicial. *See, e.g., Chunya & Conley/Quad-C v. Bray*, 156 Wn. App. 246, 248-49, 232 P.3d 564, *review denied*, 169 Wn.2d 1031 (2010) (holding that an instruction was misleading, and therefore not presumptively prejudicial, to the extent the jury was allowed to “premise its verdict on whether [the Plaintiff]’s industrial injury caused the accepted conditions, rather than whether the accepted conditions would have prevented [the Plaintiff] from working.”); *Armantrout v. Carlson*, 141 Wn. App. 716, 731-32, 170 P.3d 1218 (2007), *reversed*, 166 Wn.2d 931, 940-41, 214 P.3d 914 (2009) (while the Court of Appeals held that the trial court clearly misstated the law in its financial dependence instruction in a wrongful death case, this Court then reversed the Court of Appeals, holding that the trial court *correctly* stated the law); *Flyte v. Summit View Clinic*, ___ Wn. App. ___, 333 P.3d 566, 572-76 (2014) (holding there were two clear misstatements of the law in the jury instructions).

The Court of Appeals has been applying an ad hoc “know-it-when-they see-it” approach for clear misstatements of the law, and in doing so

845 (2002). In *Keller*, the instruction, and the pattern instruction after which it was modeled, made it possible for the jury to conclude that the defendant municipality in a negligence action owed the plaintiff no duty if it determined that the plaintiff was negligent. The plaintiff proposed a clarifying instruction, but the trial court did not give it. *Keller*, 146 Wn.2d at 249-51.

has been finding clear misstatements where there were none. Here, it should not have been enough to find a clear misstatement merely because the trial court decided against including half of a Restatement comment quoted in a Court of Appeals decision, given (1) the Court of Appeals in that decision ultimately applied the legal principle in question consistent with the jury instructions given in this case, and (2) Washington trial courts have long been cautioned against turning language from appellate opinions into jury instructions.¹⁹ A standard is needed to prevent the Court of Appeals from too readily throwing out the results of jury trials based only on presumed prejudice.

To prevent such outcomes, this Court should expand on its statement in *Anfinson* that a jury instruction does not contain a clear misstatement of the law unless the instruction given is “materially distinct” from a correct instruction. In order for an instruction to be “materially distinct” from a correct instruction, and therefore constitute a “clear misstatement” of the law, it must (for example) set forth a test with different factors from the correct test (as in *Anfinson*) or conflict with fundamental legal principles (as in *Keller*), or leave the court with a “definite and firm conviction” that a mistake has been made (the test employed by the “clearly erroneous” standard of review case law). *See, e.g., Lands Council v. Wash. State Parks Recreation Comm’n*, 176 Wn.

¹⁹ Similarly troubling is the finding of a clear misstatement in *Flyte v. Summit View Clinic*, __ Wn. App. __, 333 P.3d 566, 572-76 (2014), for a failure to give an instruction based on a 1979 Supreme Court decision, whose viability *had been called into question by the Court of Appeals because of subsequent Supreme Court decisions*.

App. 787, 795, 309 P.3d 734 (2013), citing *Norway Hill Pres. & Prot. Ass'n v. King County Council*, 87 Wn.2d 267, 274, 552 P.2d 674 (1976); see also *Ancheta v. Daly*, 77 Wn.2d 255, 259, 461 P.2d 531 (1969) (borrowing the clear error standard from *United States v. U.S. Gypsum Co.*, 333 U.S. 364, 395, 68 S. Ct. 525, 92 L. Ed. 746 (1948)).²⁰ Under any such standard, the trial court did not clearly misstate the law here.

VI. CONCLUSION

This Court should grant review, reverse the Court of Appeals and reinstate the judgment on the jury's verdict. The Court of Appeals erred by ordering a new trial, and further erred by relieving Burien Toyota of the burden to show prejudice from any instructional error.

RESPECTFULLY SUBMITTED this 27th day of October, 2014.

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²⁰ The Ninth Circuit, in applying the “clearly erroneous as a matter of law” factor in its writ of mandamus law provides an illustration of how this test could work in practice. For example, *Bauman v. U.S. Dist. Court*, 557 F.2d 650, 660 (9th Cir. 1977) reasoned that “[i]n light of th[e] absence of Supreme Court and Ninth Circuit decisions and a split of authority in other jurisdictions” it could not conclude that the district court's order was clearly erroneous as a matter of law. Similarly, in *In re Han Yong Kim*, the court held it could not hold that the district court's order was clearly erroneous when it was not firmly convinced that the district court had erred in light of the fact that sister courts had taken different positions on the issue. 2014 WL 1624310, 571 Fed. Appx. 556, 559 (9th Cir. 2014). In contrast, in *United States v. Fei Ye*, the Ninth Circuit held that ignoring an “extensive body of law” without otherwise citing any support for a position constituted a clear error. 436 F.3d 1117, 1124 (9th Cir. 2006).

APPENDICES

- Appendix A:** ADA Motors, Inc., v. Butler, ___ Wn. App. ___,
2014 WL 407876 (August 18, 2014)
- Appendix B:** September 29, 2014 Order Denying Reconsideration
- Appendix C:** September 29, 2014 Order Denying Motion to Publish
- Appendix D:** Defendants' Proposed Instruction No. 6, at CP 518
- Appendix E:** WPI 351.01 Trade Secrets – Burden of Proof
- Appendix F:** Plaintiff's Proposed Burden of Proof Instructions at CP 900-901
- Appendix G:** Instruction No. 18, at CP 565
- Appendix H:** Restatement (Third) of Unfair Competition § 45

APPENDIX

A

2014 WL 4067876

Only the Westlaw citation is currently available.

NOTE: UNPUBLISHED OPINION, SEE WA R GEN
GR 14.1

Court of Appeals of Washington,
Division 1.

ADA MOTORS, INC., dba Burien Toyota, a
Washington corporation, Appellant/Cross
Respondent,

v.

David L. BUTLER and Elizabeth Butler, and their
marital community, and The Robert Larson
Automotive Group, Inc. a Washington
corporation, dba Larson Toyota,
Respondents/Cross Appellants.

No. 70047-2-I. | Aug. 18, 2014.

Appeal from King County Superior Court; Honorable
Dean S. Lum, J.

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UNPUBLISHED OPINION

VERELLEN, A.C.J.

*1 A plaintiff alleging misappropriation of trade secrets and claiming unjust enrichment bears the initial burden of establishing the defendant's sales.¹ Then the burden shifts to the defendant to establish any portion of sales not attributable to the trade secret and any expenses to be deducted in determining net profits.² Here, the jury instruction that Burien Toyota had the initial burden to prove "damages from sales" rather than "sales" misstated the law and presumptively prejudiced Burien Toyota.

Therefore, we remand for a new trial on the issues of

damages and unjust enrichment. If the jury determines that the misappropriation of the trade secret was wilful and malicious, Burien Toyota may seek an award of attorney fees and costs both for proceedings in the trial court and for this appeal. Butler and Larson Toyota's issues on cross appeal do not warrant any relief.

FACTS

David Butler began working at Burien Toyota after he retired from a long career as a Nordstrom salesman. He alleges that he brought a list of his Nordstrom customers with him to Burien Toyota and gave it to Sobel & Associates, a third party that contracted with Burien Toyota to provide direct marketing materials to customers on behalf of its sales people. Burien Toyota alleges it also allowed Butler to select customers from its database for participation in Sobel's direct marketing program.

After eight years, Butler left Burien Toyota and began working for Larson Toyota. He took a list of customers with him. The parties refer to this as the "Sobel list," but disagree whether the list included only Butler's Nordstrom customers or extended to customers and contacts developed while Butler worked for Burien Toyota. Burien Toyota alleges that once at Larson Toyota, Butler contacted all of the customers on the Sobel list. Burien Toyota sued Butler and Larson Toyota for breach of contract; accounting; unjust enrichment; breach of the duty of loyalty; violation of the uniform trade secrets act; tortious interference with business expectancies; injunctive relief, and attorney fees.

The case eventually went to trial on only the trade secrets claim. By special verdict form, the jury found that the Sobel list was a "trade secret" belonging to Burien Toyota and that both Larson Toyota and Butler misappropriated that trade secret. But the jury expressly concluded that Burien Toyota was not financially harmed.

Burien Toyota appeals. Butler and Larson Toyota (collectively, Butler) cross appeal.

DISCUSSION

Jury Instructions on Unjust Enrichment on a Trade

Secrets Claim

Burien Toyota argues that the trial court's instructions to the jury regarding the burden of proof for unjust enrichment misstated Burien Toyota's burden of proof. We agree.

"Jury instructions are reviewed de novo for errors of law."³ Instructions are sufficient " 'when they allow counsel to argue their theory of the case, are not misleading, and when read as a whole properly inform the trier of fact of the applicable law.' "⁴ "If any of these elements are absent, the instruction is erroneous."⁵ Prejudice is presumed if the instruction contains a clear misstatement of law, but prejudice must be demonstrated if the instruction is merely misleading.⁶ An instruction is misleading if it permits both an interpretation that is, arguably, a correct statement of the law and an interpretation that is an incorrect statement of the law.⁷

*2 In *Petters v. Williamson & Associates, Inc.*, we adopted the *Restatement (Third) of Unfair Competition* § 45 comment f and held that in a trade secrets claim alleging unjust enrichment, the plaintiff has the initial burden of establishing the defendant's sales, and then the burden shifts to the defendant to establish any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.⁸ This approach "places on the party in possession of the relevant information—the defendant—the burden of demonstrating which portion, if any, of the revenue obtained through the transfer of a trade secret was not, in fact, attributable to the transfer."⁹

Here, the trial court gave Instruction 8, an elements instruction that also included the burden of proof for damages and unjust enrichment:

TRADE SECRETS—BURDEN OF PROOF

On the claim of misappropriated trade secrets, Burien Toyota has the burden of proving each of the following propositions:

- (1) That Burien Toyota had a trade secret;
- (2) That Mr. Butler and/or Larson Toyota misappropriated Burien Toyota's trade secret; and
- (3)(a) That Mr. Butler and/or Larson Toyota[s] misappropriation was a proximate cause of damages to Burien Toyota (Actual Damages);

and/or

(3)(b) That, as a result of the misappropriation, Mr. Butler and/or Larson Toyota received money or benefits that in justice and fairness belong to Burien Toyota (Unjust Enrichment). Under (3)(b) (Unjust Enrichment), **plaintiff has the initial burden of proving damages from sales** attributable to the use of a trade secret. The burden then shifts [to]

Mr. Butler and/or Larson Toyota to establish any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.

If you find from your consideration of all the evidence that proposition (1), (2) and either (3)(a) or (3)(b) have been proved, then your verdict should be for Burien Toyota. On the other hand, if you find that propositions (1) nor (2) nor alternatives (3)(a) or (3)(b) have not been proved, your verdict should be for Mr. Butler and Larson Toyota.¹⁰

The court also gave Instruction 18 articulating the requirements to prove damages:

TRADE SECRETS—DAMAGES

It is the duty of the Court to instruct you about the measure of damages. By instructing you on damages, the Court does not mean to suggest for which party your verdict should be rendered.

If you find for Burien Toyota on its claim, you must determine Burien Toyota's damages. The Plaintiff, Burien Toyota, has the **burden of proving damages. Damages means the amount of money that will reasonably and fairly compensate Burien Toyota for any injury you find was proximately caused by Mr. Butler and/or Larson Toyota.** Plaintiff may recover actual damages in the form of past and future lost profits as well as related expenses and may recover restitution for unjust enrichment, but the law does not permit the plaintiff to recover twice for the same damages. Thus, you may include as damages both plaintiff's lost profits as actual damages and defendants' gain as unjust enrichment only if and to the extent that they do not overlap in any way.¹¹

*3 Burien Toyota specifically objected to the inclusion of the phrase "damages from sales" rather than "sales" in Instruction 8, claiming that it improperly shifted the burden of proof from the defendants back to Burien Toyota. Burien Toyota also objected to Instruction 18 on

the same basis.

Despite the trial court's efforts to apply *Petters* and the *Restatement*, inclusion of the language "damages from sales" rather than just "sales" in Instruction 8 was an incorrect statement of the law. *Petters* holds that the plaintiff's initial burden is to prove only "sales," not "damages from sales," before the burden shifts to the defendant. Instruction 18 compounds the impact of the misstatement in Instruction 8 by expressly stating that Burien Toyota has the burden to prove "damages" defined as something more than just sales.¹² Therefore, insertion of the word "damages" into Instruction 8 misstates the law by requiring Burien Toyota to prove something beyond sales. The instruction was not merely misleading. Because the error was a misstatement of the law, prejudice is presumed.

Butler's arguments to the contrary are not persuasive. First, he contends that the jury instructions at issue here should be reviewed for an abuse of discretion. While the precise wording of an instruction is within the trial court's discretion, a claimed error of law in a jury instruction is reviewed de novo.¹³

Second, Butler argues that insertion of the language "damages from" may be unartful, but when the instructions are considered as a whole, they adequately track both *Petters* and Washington Pattern Instruction (WPI) 351.01.¹⁴ But the deviation from *Petters* and the WPI alters the fundamental meaning of the initial burden of proof of the plaintiff.

Third, Butler contends that the burden to prove sales is the same as the burden to prove damages from sales. This is not accurate, especially in view of the definition of damages included in the Instruction 18.

Fourth, Butler argues that *Petters* can be read to hold that the burden to prove unjust enrichment is the same as the burden to prove an "actual loss," i.e., damages. But this ignores the core holding of *Petters*, which expressly adopts comment f of the *Restatement*. The plaintiff's initial burden in proving unjust enrichment for trade secret misappropriation is to prove only "sales." The burden to prove actual damages is different. Instruction 8 misstated the law.

Fifth, at oral argument, Butler asserted that the trial court inserted "damages from sales" rather than "sales" in order to incorporate Burien Toyota's burden to prove that the misappropriation of a trade secret proximately caused the sales at issue. Nothing in the record reveals such an intent. And a "damages from sales" instruction remains

inconsistent with the burden shift outlined in *Petters* and the *Restatement*. It is also inconsistent with the underlying policy of requiring the defendant to establish any portion of the sales not attributable to misappropriation of the trade secret because the defendant possesses such information.¹⁵

*4 Finally, Butler argues that even if Instruction 8 is erroneous, any error is harmless because Burien Toyota failed to prove any sales.¹⁶ Because the misstatement of law in Instruction 8 is presumed prejudicial, the harmless argument fails.

Cross Appeal

Butler's arguments on cross appeal are not compelling. First, Butler argues that the trial court erred in denying his motion for summary judgment on the trade secrets claim. But if a trial court denies summary judgment based on the presence of material, disputed facts, the summary judgment motion will not be reviewed on appeal after a trial on the merits.¹⁷ Here, the trial court denied Butler's summary judgment motion because there were issues of fact as to whether there was a trade secret and whether it was misappropriated. Therefore, we do not review the summary judgment motion.

Second, Butler argues that the trial court erred in denying his motion for a directed verdict on the trade secrets claim. But Butler has not met his burden to provide a record of the evidence presented at trial.¹⁸

Third, Butler argues that the trial court abused its discretion in denying his motion in limine to exclude as irrelevant certain documents and employee handbook provisions he signed. Granting or denying a pretrial motion to exclude evidence is a matter within the trial court's discretion.¹⁹ Butler contends there was inadequate consideration to make those documents binding and that the documents related only to federal privacy laws. But the trial court decided the jury should weigh testimony that the documents reflected Burien Toyota's efforts to protect its trade secrets as well as satisfy federal privacy laws. Butler contends that only designated federal agencies have the authority to enforce the federal privacy laws and that those laws do not allow Burien Toyota to rely on the documents at issue for a trade secrets claim. But he cites no persuasive authority that the documents could not serve such a dual purpose.²⁰

Finally, Butler challenges the trial court's rejection of several of his proposed jury instructions. He argues that

the trial court should have given his two proposed burden of proof instructions rather than combining both into Instruction 17. He contends that the combined instruction unduly emphasized his burden of proof by mentioning it in both paragraphs of the instruction, while only mentioning Burien Toyota's burden of proof in the first paragraph.²¹ But with only minor differences, Butler's two proposed instructions mirror the language of Instruction 17. Because the precise wording of a jury instruction is within the broad discretion of the trial court, Butler does not establish any basis for relief.²²

Butler also argues that the trial court erred in failing to give his proposed instruction that Burien Toyota had no right to privately enforce federal customer privacy laws, a theory he contends is supported by the evidence presented at trial. But he has not provided an adequate record of the evidence that was presented at trial and does not establish that Burien Toyota ever asserted any right to privately enforce federal privacy laws. Butler fails to demonstrate any basis for relief based upon the jury instructions.

Attorney Fees on Appeal

*5 Both Burien Toyota and Butler request attorney fees and costs on appeal. Butler did not prevail on appeal, and we deny his request. Whether Burien Toyota is entitled to

fees depends on whether Butler's misappropriation of the trade secret was wilful and malicious.²³ The jury did not reach that question on the special verdict form.

On remand, if the jury finds that Butler's misappropriation of the trade secret was wilful and malicious, then the trial court may address Burien Toyota's request for attorney fees and costs, including any fees incurred on this appeal.

CONCLUSION

We reverse and remand for a trial on the issue of damages and unjust enrichment resulting from Butler's misappropriation of Burien Toyota's trade secret. If the jury determines that Butler's misappropriation was wilful and malicious, then the trial court may consider an award of attorney fees both for proceedings in the trial court and in this appeal.

WE CONCUR: LEACH, and COX, JJ.

Footnotes

¹ *Petters v. Williamson & Assocs., Inc.*, 151 Wn.App. 154, 165, 210 P.3d 1048 (2009) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. f., at 516–17 (1995)).

² *Id.*

³ *Anfinson v. FedEx Ground Package Sys., Inc.*, 174 Wn.2d 851, 860, 281 P.3d 289 (2012).

⁴ *Id.* (quoting *Bodin v. City of Stanwood*, 130 Wn.2d 726, 732, 927 P.2d 240 (1996)).

⁵ *Id.*

⁶ *Id.*

⁷ *Id.* at 876.

⁸ 151 Wn.App. 154, 165, 210 P.3d 1048 (2009) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. f., at 516–17 (1995)).

⁹ *Id.*

- 10 Clerk's Papers at 555 (emphasis added).
- 11 *Id.* at 565 (emphasis added).
- 12 The concluding sentences of the second paragraph of Instruction 18 address the concept that a plaintiff can recover both actual damages (lost profits and related expenses) as well as restitution for unjust enrichment (defendants' gains) so long as the actual damages and restitution do not overlap. But that does not resolve the dilemma resulting from defining the plaintiff's initial burden of proof for unjust enrichment in terms of "damages from sales" in Instruction 8, especially as impacted by Instruction 18's broad definition of the plaintiff's burden of proof for damages.
- 13 *Housel v. James*, 141 Wn.App. 748, 758, 172 P.3d 712 (2007).
- 14 The WPI suggests the following instruction:
On the claim of misappropriated trade secrets, (name of plaintiff) has the burden of proving each of the following propositions:
(1) That (name of plaintiff) had a trade secret;
(2) That (name of defendant) misappropriated (name of plaintiff's) trade secret; and
[(3) That (name of defendant's) misappropriation was a proximate cause of damages to (name of plaintiff)];
[(3) That, as a result of the misappropriation, (name of defendant) received money or benefits that in justice and fairness belong to (name of plaintiff)].
If you find from your consideration of all the evidence that each of these propositions has been proved, then your verdict should be for (name of plaintiff) [on this claim]. On the other hand, if you find that any of these propositions has not been proved, your verdict should be for (name of defendant) [on this claim].
6A WASHINGTON PRACTICE: WASHINGTON PATTERN JURY INSTRUCTIONS: CIVIL 351.01, at 449–50(2012).
Under the "Unjust enrichment" heading in the comment on WPI 351.01, it states that "[u]nder this unjust enrichment alternative, the Court of Appeals has held that, once the plaintiff proves sales attributable to the use of a trade secret, the burden shifts to the defendant to establish 'any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.'" *Id.* at 451–52 (quoting *Petters*, 151 Wn.App. at 165).
- 15 *See Petters*, 151 Wn.App. at 165 (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION N § 45 cmt. f., at 516–17 (1995)).
- 16 Burien Toyota vigorously argues it presented credible evidence of Larson Toyota's sales by comparing lists of car sales provided by Larson Toyota to its own customer database. Butler challenges the evidence of sales relied upon by Burien Toyota. But in the absence of a more comprehensive record, Butler cannot support its argument that the evidence of sales was inadequate to go to the jury.
- 17 *Weiss v. Lonnquist*, 173 Wn.App. 344, 354, 293 P.3d 1264, *review denied*, 178 Wn.2d 1025(2013).
- 18 The belated offer at oral argument to supplement the record comes too late.
- 19 *Douglas v. Freeman*, 117 Wn.2d 242, 255, 814 P.2d 1160(1991).
- 20 The only authority he cites for this proposition is an unpublished opinion from a United States District Court in Illinois.
- 21 Instruction 17 stated:
Except for defendants' equitable estoppel and "unclean hands" affirmative defenses, when it is said that a party has the burden of proof on any proposition, or that any proposition must be proved by a preponderance of the evidence, or the expression "if you find" is used, it means that you must be persuaded, considering all the evidence in the case bearing on the question that the proposition on which that party has the burden of proof is more probably true than not true.
The defendants have the burden of proving their equitable estoppel and "unclean hands" affirmative defenses by a different standard of proof, by clear, cogent and convincing evidence. Proof by clear, cogent and convincing evidence means that the element must be proved by evidence the carriers [sic] greater weight and is more convincing than a preponderance of evidence. Clear, cogent and convincing evidence exists when occurrence of the element has been shown by the evidence to be highly probable. However, it does not mean that the element must be proved by evidence that is convincing beyond a reasonable doubt.

Clerk's Papers at 564.

22 *Housel*, 141 Wn.App. at 758.

23 RCW 19.108.040 provides that “[i]f a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or wilful and malicious misappropriation exists, the court may award reasonable attorney’s fees to the prevailing party.”

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APPENDIX

B

*The Court of Appeals
of the
State of Washington*

RICHARD D. JOHNSON,
Court Administrator/Clerk

DIVISION I
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September 29, 2014

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CASE #: 70047-2-1

ADA Motors, Inc., Appellant/Cr-Respondent v. David Butler, Respondents/Cr-Appellants

Counsel:

Enclosed please find a copy of the Order Denying Motion for Reconsideration entered in the above case.

Within 30 days after the order is filed, the opinion of the Court of Appeals will become final unless, in accordance with RAP 13.4, counsel files a petition for review in this court. The content of a petition should contain a "direct and concise statement of the reason why review should be accepted under one or more of the tests established in [RAP 13.4](b), with argument." RAP 13.4(c)(7).

In the event a petition for review is filed, opposing counsel may file with the Clerk of the Supreme Court an answer to the petition within 30 days after the petition is served.

Sincerely,



Richard D. Johnson
Court Administrator/Clerk

jh

Enclosure

c: The Hon. Dean Lum

IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON
DIVISION ONE

ADA MOTORS, INC., dba BURIEN)
TOYOTA, a Washington corporation,)
)
Appellant/Cross Respondent,)
)
v.)
)
DAVID L. BUTLER and ELIZABETH)
BUTLER, and their marital community,)
and THE ROBERT LARSON)
AUTOMOTIVE GROUP, INC. a)
Washington corporation, dba LARSON)
TOYOTA,)
)
Respondents/Cross Appellants.)
_____)

No. 70047-2-1

ORDER DENYING MOTION
FOR RECONSIDERATION

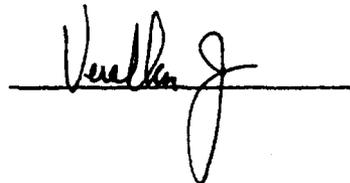
Pursuant to RAP 12.4, respondents/cross appellants filed a motion for reconsideration of the court's opinion entered August 18, 2014. The appellant/cross respondent filed an answer. After due consideration of the motion and answer, the panel has determined that the motion should be denied.

Now therefore, it is hereby

ORDERED that the motion for reconsideration is denied.

Done this 29th day of September, 2014.

FOR THE PANEL:



FILED
COURT OF APPEALS DIV 1
STATE OF WASHINGTON
2014 SEP 29 PM 4:01

APPENDIX

C

*The Court of Appeals
of the
State of Washington*

RICHARD D. JOHNSON,
Court Administrator/Clerk

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September 29, 2014

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CASE #: 70047-2-I

ADA Motors, Inc., Appellant/Cr-Respondent v. David Butler, Respondents/Cr-Appellants

Counsel:

Enclosed please find a copy of the Order Denying Motion to Publish entered in the above case.

Within 30 days after the order is filed, the opinion of the Court of Appeals will become final unless, in accordance with RAP 13.4, counsel files a petition for review in this court. The content of a petition should contain a "direct and concise statement of the reason why review should be accepted under one or more of the tests established in [RAP 13.4](b), with argument." RAP 13.4(c)(7).

In the event a petition for review is filed, opposing counsel may file with the Clerk of the Supreme Court an answer to the petition within 30 days after the petition is served.

Sincerely,



Richard D. Johnson
Court Administrator/Clerk

jh

Enclosure

c: The Hon. Dean Lum

IN THE COURT OF APPEALS OF THE STATE OF WASHINGTON
DIVISION ONE

ADA MOTORS, INC., dba BURIEN)
TOYOTA, a Washington corporation,)
)
Appellant/Cross Respondent,)
)
v.)
)
DAVID L. BUTLER and ELIZABETH)
BUTLER, and their marital community,)
and THE ROBERT LARSON)
AUTOMOTIVE GROUP, INC. a)
Washington corporation, dba LARSON)
TOYOTA,)
)
Respondents/Cross Appellants.)
_____)

No. 70047-2-1

ORDER DENYING MOTION
MOTION TO PUBLISH

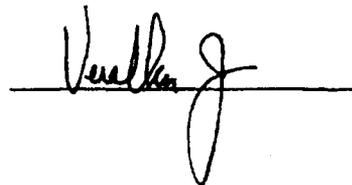
Pursuant to RAP 12.3(e), respondents/cross appellants filed a motion to publish the court's opinion entered August 18, 2014. The appellant/cross respondent filed an answer. After due consideration of the motion and answer, the panel has determined that the motion should be denied.

Now therefore, it is hereby

ORDERED that the motion to publish the opinion is denied.

Done this 29th day of September, 2014.

FOR THE PANEL:



FILED
COURT OF APPEALS, DIV. ONE
STATE OF WASHINGTON
2014 SEP 29 PM 4:01

APPENDIX

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INSTRUCTION NO. 6

TRADE SECRETS – BURDEN OF PROOF

On the claim of misappropriated trade secrets, Burien Toyota has the burden of proving each of the following propositions:

- (1) That Burien Toyota had a trade secret;
 - (2) That Mr. Butler and Larson Toyota misappropriated Burien Toyota’s trade secret;
- and
- (3) That, as a result of the misappropriation, Mr. Butler and Larson Toyota received money or benefits that in justice and fairness belong to Burien Toyota.

If you find from your consideration of all the evidence that each of these propositions has been proved, then your verdict should be for Burien Toyota. On the other hand, if you find that any of these propositions has not been proved, your verdict should be for Mr. Butler and Larson Toyota.

WPI 351.01 (Modified)
Ed Nowogroski Ins., Inc. v. Rucker, 137 Wn.2d 427, 971 P.2d 936 (1999)

APPENDIX

E

Washington Practice Series TM
Database updated June 2013

Washington Pattern Jury Instructions--Civil
Washington State Supreme Court Committee on Jury Instructions

Part
XVIII. Commercial Litigation
Chapter
351. Trade Secrets

WPI 351.01 Trade Secrets—Burden of Proof

On the claim of misappropriated **trade secrets**, (name of plaintiff) has the burden of proving each of the following propositions:

(1)

That (name of plaintiff) had a trade secret;

(2)

That (name of defendant) misappropriated (name of plaintiff's) trade secret; and

[(3)

That (name of defendant's) misappropriation was a proximate cause of damages to (name of plaintiff)];

[(3)

That, as a result of the misappropriation, (name of defendant) received money or benefits that in justice and fairness belong to (name of plaintiff)].

If you find from your consideration of all the evidence that each of these propositions has been proved, then your verdict should be for (name of plaintiff) [on this claim]. On the other hand, if you find that any of these propositions has not been proved, your verdict should be for (name of defendant) [on this claim].

NOTE ON USE

Use this instruction in a **trade secrets** case not involving any affirmative defenses. For **trade secrets** cases having an affirmative defense, set forth the affirmative defense using WPI 21.05, Burden of Proof on the Issues—Affirmative Defenses Other than Contributory Negligence/Assumption of Risk.

This instruction includes alternative versions of the third element. Choose from between these two alternatives depending on whether the plaintiff claims actual damages or unjust enrichment. For a discussion of the alternative version for unjust enrichment, see the Comment below. If a plaintiff claims both damages and unjust enrichment, then

the instruction will need to be modified in accordance with the discussion in the Comment below.

For a discussion of punitive damages, see the Comment below.

Use this instruction with WPI 351.02 (Trade Secret—Definition), WPI 351.03 (Misappropriation—Definition), and WPI 21.01 (Meaning of Burden of Proof—Preponderance of the Evidence).

When vicarious liability is an issue, this instruction may be used with the appropriate instruction from WPI Chapter 50, Agency and Partnership. For further discussion, see the Comment.

If needed, a “summary of claims” instruction may be drafted using WPI Chapter 20, Issues in the Case, as modified to fit a **trade secrets** case.

COMMENT

Background. Washington adopted the Uniform Trade Secrets Act in 1981, with some variations from the Uniform Act. Washington has not adopted the 1985 amendments to the Uniform Act. The Act is codified as RCW Chapter 19.108. For an extended discussion of the Uniform Act and its general principles, see *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d 38, 738 P.2d 665 (1987).

“In the absence of legislative intent to the contrary, prior common law which is not contradicted by the Uniform Trade Secrets Act should continue to guide courts in the interpretation of the Act.” *Ed Nowogroski Ins., Inc. v. Rucker*, 137 Wn.2d 427, 444–45, 971 P.2d 936 (1999). Nevertheless, courts should also construe the Washington statute with the objective of national uniformity when possible. *Thola v. Henschell*, 140 Wn.App. 70, 78, 164 P.3d 524 (2007).

Existence of trade secret. A plaintiff seeking damages for the misappropriation of a trade secret has the burden of proving that a legally protectable trade secret exists. *Ed Nowogroski Ins., Inc. v. Rucker*, *supra*; *Boeing Co. v. Sierracin Corp.*, *supra*.

Multiple forms of damages. Under the Act, plaintiffs may recover actual damages, restitution for unjust enrichment, and punitive damages, with limitations noted below. RCW 19.108.030. The 1985 amendments to the Uniform Act added explicit provision for recovery of royalties, but Washington has not adopted that change.

Under the Act, a jury's verdict may combine recoveries for actual damages and unjust enrichment in a single case, but only to the extent that the award for unjust enrichment does not duplicate the recovery of actual damages. See RCW 19.108.030(1) (“A complainant also may recover unjust enrichment ... that is not taken into account in computing damages for actual loss.”). If both forms of damages are being presented to the jury, the instruction will need to be modified to clearly express this limitation. For example: “The law does not permit a plaintiff to recover twice for the same damages. Thus, you may include as damages *both* plaintiff's lost profits *and* defendant's gain *only* if and to the extent that they do not overlap in this way.” Am. Bar Ass'n Section of Litigation, Model Jury Instructions: Busi-

ness Torts Litigation § 8.6.2, p. 420 (4th ed.) (emphasis in original).

Unjust enrichment. Washington courts have described the doctrine of unjust enrichment as the:

[g]eneral principle that one person should not be permitted unjustly to enrich himself at expense of another, but should be required to make restitution of or for property or benefits received, retained or appropriated, where it is just and equitable that such restitution be made, and where such action involves no violation or frustration of law or opposition to public policy, either directly or indirectly. Unjust enrichment of a person occurs when he has and retains money or benefits which in justice and equity belong to another.

Bailie Comm'ns, Ltd. v. Trend Bus. Sys., Inc., 61 Wn.App. 151, 159, 810 P.2d 12, 814 P.2d 699 (1991) (quoting Black's Law Dictionary (6th ed. 1990)) (citations omitted). WPI 351.01 follows this approach but uses the word “fairness” instead of “equity” for better juror comprehension.

Under this unjust enrichment alternative, the Court of Appeals has held that, once the plaintiff proves sales attributable to the use of a trade secret, the burden shifts to the defendant to establish “any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.” *Petters v. Williamson & Assocs., Inc.*, 151 Wn.App. 154, 165, 210 P.3d 1048 (2009) (quoting Restatement (Third) of Unfair Competition § 45, comment f).

Punitive damages. The Act allows for the imposition of punitive damages. Under the Act, “[i]f willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award [for actual damages and unjust enrichment].” RCW 19.108.030(2).

Pursuant to this statute, the amount of any punitive damages is determined by the judge, not the jury, after a threshold finding has been made as to willful and malicious misappropriation. *Thola v. Henschell*, 140 Wn.App. at 89 (trial court determines exemplary damages and fees in its discretion); see Uniform Trade Secrets Act with 1985 Amendments, 14 Uniform Laws Annotated, Comment to § 3, p. 635 (2005) (clarifying that “the court” in this context means the judge); Am. Bar Ass'n Section of Litigation, Model Jury Instructions: Business Torts Litigation § 8.7, p. 426 (4th ed.).

The statute, however, is unclear as to whether the threshold finding of willful and malicious misappropriation in a jury case is to be made by the judge or the jury. Two Washington cases highlight this ambiguity, although in neither case was this issue directly addressed in the appellate opinion. In one case, the trial judge submitted the threshold factual finding to the jury and used that finding in deciding whether to impose punitive damages. *Eagle Group, Inc. v. Pullen*, 114 Wn.App. 409, 422, 58 P.3d 292 (2002). In the other case, the parties agreed that the trial judge should decide both the threshold factual issue and the ensuing issue of the amount of any punitive damages. *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d at 61–62.

Because this issue is still unsettled, the instructions for a particular case will depend on who the judge determines should make the threshold finding. If the judge rules that “willful and malicious misappropriation” is to be determined by the jury rather than the judge, then the jurors should be given the following special interrogatory: “If you find that

(name of defendant) misappropriated a trade secret, was this misappropriation willful and malicious?" If, however, the threshold issue is to be determined by the judge, then the jurors need not be instructed on punitive damages at all.

Separate damages instruction. A separate damages instruction will need to be drafted, using one of the instructions from WPI Chapter 30, Personal and Property Damages, as a model, setting forth in greater detail the methods for calculating actual damages and unjust enrichment. The contents of this instruction will necessarily vary depending on the facts of each case.

Actual damages are generally calculated by measuring the plaintiff's lost profits, while unjust enrichment awards are generally calculated by measuring the defendant's ill-gotten profits. See Annotation, Proper Measure and Elements of Damages for Misappropriation of Trade Secret, 11 A.L.R.4th 12 § 2[a] (1982); Am. Bar Ass'n Section of Litigation, Model Jury Instructions: Business Torts Litigation § 8.6 (4th ed.). Actual damages include both past and future lost profits, as well as related expenses. *Eagle Group, Inc. v. Pullen*, 114 Wn.App. at 420–21 (also setting forth a damages instruction addressing actual damages).

Pre-emption issues. The Act does not displace other statutory or common law claims for misappropriation of intellectual property except to the extent that these remedies conflict with those provided by the Act. *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d at 48.

Federal copyright law does not pre-empt Washington state trade secret law claims. *Boeing Co. v. Sierracin Corp.*, 108 Wn.2d at 49. However, the Act is the exclusive remedy for the misappropriation of **trade secrets**. Claims seeking recovery based on tort, restitution, or other legal theories must be supported by evidence of conduct other than the misappropriation of **trade secrets**. See *Thola v. Henschell*, 140 Wn.App. at 82, 85 (trial court erroneously failed to instruct jury that evidence of misappropriation of **trade secrets** could not be used to support common law claims).

Vicarious liability. In some cases, vicarious liability may be an issue. See *Thola v. Henschell*, 140 Wn.App. at 78–79 (vicarious liability is a general civil liability principle that is consistent with Uniform **Trade Secrets Act**).

Cross-reference. An extended, treatise-style discussion of the Uniform **Trade Secrets Act** can be found in another volume of Washington Practice. See DeWolf & Allen, 16A Washington Practice, Tort Law and Practice §§ 22.31 et seq. (3d ed.). The pre-emption issue is discussed in 16A Washington Practice § 22.31A. *[Current as of January 2012.]*

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APPENDIX

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THE HONORABLE DEAN LUM
KING COUNTY

SUPERIOR COURT CLERK

E-FILED

CASE NUMBER: 11-2-14916-1 KNT

SUPERIOR COURT OF THE STATE OF WASHINGTON
FOR KING COUNTY

ADA MOTORS, INC., dba BURIEN)
TOYOTA, a Washington Corporation,)

Plaintiff,)

vs.)

DAVID L. BUTLER and ELIZABETH)
BUTLER, and their marital community,)
and THE ROBERT LARSON)
AUTOMOTIVE GROUP, INC., a)
Washington corporation, dba LARSON)
TOYOTA,)

Defendants.)

No. 11-2-14916-1 KNT

PLAINTIFF'S AMENDED PROPOSED)
JURY INSTRUCTION ON BURDEN)
OF PROOF)

[WITH CITATION]

PLAINTIFF'S PROPOSED NO. _____

INSTRUCTION NO. ____

BURDEN OF PROOF

On the claim of misappropriated trade secrets, Burien Toyota has the burden of proving each of the following propositions:

- (1) That Burien Toyota had trade secrets; and
- (2) That Larson Toyota or David Butler misappropriated Burien Toyota's trade secrets.

If these things have been established, the plaintiff has the burden of establishing the defendants' sales; the defendants have the burden of establishing any portion of the sales not attributable to the trade secrets and any expenses to be deducted in determining net profits.

WPI 351.01; WPI 30; RCW 19.108.030; RCW 19.108.040
Petters v. Williamson & Associates, Inc., 151 Wn.App. 154, 210 P.3d 1048 (Wash.App. Div 1
2009)

APPENDIX

G

1 INSTRUCTION NO. 18

2 TRADE SECRETS – DAMAGES

3 It is the duty of the Court to instruct you about the measure of damages. By instructing
4 you on damages, the Court does not mean to suggest for which party your verdict should be
5 rendered.

6 If you find for Burien Toyota on its claim, you must determine Burien Toyota's
7 damages. The Plaintiff, Burien Toyota, has the burden of proving damages. Damages means the
8 amount of money that will reasonably and fairly compensate Burien Toyota for any injury you
9 find was proximately caused by Mr. Butler and/or Larson Toyota. Plaintiff may recover actual
10 damages in the form of past and future lost profits as well as related expenses and may recover
11 restitution for unjust enrichment, but the law does not permit the plaintiff to recover twice for
12 the same damages. Thus, you may include as damages both plaintiff's lost profits as actual
13 damages and defendants' gain as unjust enrichment only if and to the extent that they do not
14 overlap in any way.

15 It is for you to determine what damages, if any, have been proved. Your award must be
16 based upon evidence and not upon speculation, guesswork or conjecture.

APPENDIX

H

Restatement (Third) of Unfair Competition § 45 (1995)

Restatement of the Law - Unfair Competition

Database updated October 2014
Restatement (Third) of Unfair Competition

Chapter 4. Appropriation of Trade Values

Topic 2. Trade Secrets

§ 45 Monetary Relief: Appropriation of Trade Secrets

Comment:

Reporters' Note

Case Citations - by Jurisdiction

(1) One who is liable to another for an appropriation of the other's trade secret under the rule stated in § 40 is liable for the pecuniary loss to the other caused by the appropriation or for the actor's own pecuniary gain resulting from the appropriation, whichever is greater, unless such relief is inappropriate under the rule stated in Subsection (2).

(2) Whether an award of monetary relief is appropriate and the appropriate method of measuring such relief depend upon a comparative appraisal of all the factors of the case, including the following primary factors:

- (a) the degree of certainty with which the plaintiff has established the fact and extent of the pecuniary loss or the actor's pecuniary gain resulting from the appropriation;**
- (b) the nature and extent of the appropriation;**
- (c) the relative adequacy to the plaintiff of other remedies;**
- (d) the intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor;**
- (e) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights; and**
- (f) any related misconduct on the part of the plaintiff.**

Comment:

a. Scope. This Section states the rules governing the recovery of monetary relief in actions for the appropriation of a trade secret. Monetary relief may consist of compensatory damages measured by the loss to the plaintiff or restitutionary relief measured by the unjust gain to the defendant. This Section states the rules applicable to both measures of monetary relief.

The general rules relating to the recovery of compensatory damages in tort actions apply in actions for the appropriation of trade secrets. This Section addresses only issues that have particular significance to the recovery of damages in trade secret actions. The following sections of the Restatement, Second, of Torts are also relevant: §§ 902 and 903 defining "damages" and "compensatory damages"; § 907 stating the rule for recovery of nominal damages; §§ 908 and 909 stating the rules for recovery of punitive damages; § 912 stating the requirement of "certainty"; and §§ 435A and 435B stating rules relating to intended and unintended consequences of tortious conduct.

The general rules relating to the restitution of benefits tortiously acquired are also applicable in actions for the appropriation of trade secrets. See Restatement of Restitution § 136 (1937).

b. Appropriateness of monetary relief. Loss to the plaintiff or gain to the defendant can result from either unauthorized use or unauthorized disclosure of a trade secret. The courts have recognized the need for flexibility in formulating monetary remedies in order to achieve both compensatory and restitutionary objectives.

The plaintiff is generally entitled to recover any proven pecuniary loss attributable to the appropriation of the trade secret. The plaintiff bears the burden of proving the fact and cause of any loss for which recovery is sought. However, the plaintiff is required to prove the amount of such loss with only as much certainty as is reasonable under the circumstances. See Restatement, Second, Torts § 912. If otherwise appropriate, the plaintiff may also recover any gain acquired by the defendant as a result of the appropriation, subject to the limitation on double recovery. See Comment *c*.

The knowledge and intent of the defendant are relevant in determining appropriate relief. A defendant is not subject to liability under the rules stated in § 40 until the defendant has actual or constructive knowledge that the use or disclosure of the trade secret is wrongful. See § 40, Comment *d*. If the defendant has invested in the trade secret prior to acquiring such knowledge, it may be inequitable to deprive the defendant of all gains attributable to subsequent use of the trade secret. The award of a reasonable royalty for use made after notice and an injunction conditioning further use upon payment of a reasonable royalty may be an appropriate remedy. See Comment *g*.

The conduct of the plaintiff may also affect the appropriateness of monetary relief. The traditional equitable doctrines of laches, estoppel, and unclean hands are applicable to the award of monetary as well as injunctive relief in trade secret actions. Cf. §§ 31 and 32.

c. Relationship of legal and equitable remedies. The rules governing the award of monetary relief for the appropriation of a trade secret derive from both legal and equitable principles. Cf. § 36, Comment *b*. The traditional measure of damages awards relief measured by the loss to the plaintiff resulting from the appropriation. The nature of a competitive marketplace, however, often makes it difficult for a plaintiff to prove lost sales or other losses attributable to the appropriation of a trade secret. Similarly, the value of a trade secret that has been destroyed through public disclosure is often speculative. The remedy of restitution is thus an important form of monetary relief in trade secret cases. The restitution remedy awards to the plaintiff the enrichment unjustly acquired by the defendant as a result of the appropriation of the plaintiff's trade secret. In some situations the defendant's enrichment is represented by profits from sales made possible by the appropriation; in others, by savings achieved through the use of the trade secret in the defendant's business. In some cases the measure of the plaintiff's compensatory damages and the measure of the defendant's unjust enrichment may converge. For example, relief based on the defendant's profits on sales can measure either the gain derived by the defendant or the loss to the plaintiff from diverted business. Similarly, relief based on a reasonable royalty for the defendant's use may measure either the defendant's savings or the plaintiff's lost revenue. Thus, many cases do not maintain a sharp distinction between compensatory and restitutionary remedies.

Although a few cases have required the plaintiff to elect between compensatory damages and restitution, others permit the plaintiff to pursue both measures provided that there is no double recovery. The better rule permits the plaintiff to prove either or both measures since in many circumstances the loss to the plaintiff and the gain to the defendant do not fully overlap. Both compensatory and restitutionary objectives are ordinarily satisfied, however, if the plaintiff is permitted to recover only the greater of the two measures. The restitutionary remedy serves to deprive the defendant of unjust gains, but it also has the effect of compensating the plaintiff to the extent of the award for any losses resulting from the appropriation. Similarly, an award of the plaintiff's proven losses also has the effect of reducing the defendant's unjust enrichment by the amount of the award. An award of the greater of the two remedies thus ordinarily serves the objectives of both forms of relief and best prevents double recovery. See also § 36, Comment *c*.

Illustration:

Illustration:

1. *A* and *B* are competing manufacturers of radar antennas. *C*, a former employee of *A*, discloses *A*'s trade secrets to *B* in breach of a duty of confidence owed to *A*. *B*, with notice of *C*'s breach of confidence, relies on the trade secrets to underbid *A* on a government contract. The use of *A*'s trade secrets saves *B* \$175,000 in manufacturing costs and causes *A* \$231,000 in lost profits on the government contract. In an action against *B* for the appropriation of *A*'s trade secrets, an award of both *B*'s savings and *A*'s lost profits would result in double recovery. In addition to appropriate injunctive relief, *A* may recover \$231,000, which is the greater of the loss to *A* and the gain to *B* that

is attributable to the appropriation.

d. Measures of monetary relief. Courts have recognized at least four methods of measuring monetary relief in trade secret cases. The first method measures the loss to the plaintiff caused by the appropriation. The plaintiff's loss usually consists of profits lost on sales diverted from the plaintiff by the appropriation, loss of royalties or other income that would have been earned by the plaintiff but for the appropriation, or the value of the trade secret if it has been destroyed through a public disclosure by the defendant. The second measure awards to the plaintiff the defendant's profits earned on sales that are attributable to the trade secret. A third method, the "standard of comparison" measure, is derived from patent infringement cases and measures the savings to the defendant that are attributable to the use of 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. The fourth method awards to 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. The method is not limited to a percentage of the defendant's sales or profits and may instead rely on any appropriate measure of the fair market value of the defendant's use. Selection of the appropriate method of measuring monetary relief depends on the facts and circumstances of the particular case. See Comments *e-g*.

e. Relief measured by plaintiff's loss. A frequent element of loss resulting from the appropriation of a trade secret is the lost profit that the plaintiff would have earned in the absence of the use by the defendant. The plaintiff may prove lost profits by identifying specific customers diverted to the defendant. The plaintiff may also prove lost profits through proof of a general decline in sales or a disruption of business growth following the commencement of use by the defendant, although the presence of other market factors that may affect the plaintiff's sales bears on the sufficiency of the plaintiff's proof. If the evidence justifies the conclusion that the sales made by the defendant would have instead been made by the plaintiff in the absence of the appropriation, the plaintiff may establish its lost profits by applying its own profit margin to the defendant's sales. Upon sufficient proof, the plaintiff may also recover lost profits on sales of spare parts, service, supplies, or other items normally purchased from the original seller. In some cases it may be appropriate to measure the plaintiff's loss by a reasonable royalty on the sales made by the defendant. See Comment *g*.

A plaintiff may also recover any other proven pecuniary loss attributable to the appropriation. Courts have permitted recovery of the costs of remedial efforts such as promotional expenses undertaken to recapture customers lost as a result of the defendant's appropriation. The plaintiff is also entitled to recover losses associated with sales of its own goods at reduced prices resulting from the wrongful competition of the defendant.

Damages resulting from the unauthorized disclosure of a trade secret are frequently more difficult to measure than damages caused by unauthorized use. For example, in some cases a defendant's unauthorized disclosure to one competitor of the plaintiff may cause the trade secret to become known to other competitors or to enter the public domain, thus destroying the value of the secret. The appropriate measure of relief may then be the fair market value of the trade secret at the time of the appropriation. This measure can depend upon a variety of factors, including the likelihood that the trade secret would have become known in the absence of the defendant's appropriation. See Comment *h*. If the destroyed trade secret is a central asset of the plaintiff's business, the plaintiff can in some cases measure damages by the reduction in the capital value of the business caused by the appropriation.

f. Relief measured by defendant's gain. The traditional form of restitutionary relief in an action for the appropriation of a trade secret is an accounting of the defendant's profits on sales attributable to the use of the trade secret. The general rules governing accountings of profits are applicable in trade secret actions. 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 to be deducted in determining net profits. The rules governing the deductibility of expenses and the allocation of overhead are analogous to those stated in § 37, Comments *g* and *h*, on accountings in actions for trademark infringement. The defendant must account not only for profits earned on sales of products incorporating the trade secret, but also on other sales dependent on the appropriation. For example, profits on the sale of consumable supplies used in a machine embodying the trade secret or profits on spare parts and service may be included in the accounting to the extent that such profits were made possible by the defendant's sale of the original product.

If the trade secret accounts for only a portion of the profits earned on the defendant's sales, such as when the trade secret relates to a single component of a product marketable without the secret, an award to the plaintiff of defendant's entire profit

may be unjust. The royalty that the plaintiff and defendant would have agreed to for the use of the trade secret made by the defendant may be one measure of the approximate portion of the defendant's profits attributable to the use. See Comment *g*.

If the benefit derived by the defendant consists primarily of cost savings, such as when the trade secret is a more efficient method of production, the "standard of comparison" measure that determines relief based on the savings achieved through the use of the trade secret may be the most appropriate measure of relief. The standard of comparison measure determines the defendant's gain by comparing the defendant's actual costs with the costs that the defendant would have incurred to achieve the same result without the use of the appropriated trade secret. When 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 appropriated information. In determining the costs of proper acquisition, the court 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 costs of alternative methods available to the defendant to achieve the same result.

Under the principles discussed in § 44, Comment *f*, it is often appropriate to enjoin the defendant's use of a trade secret only for the period of time that would have been required for the defendant to acquire the information by proper means. In such cases, however, the defendant remains liable for any development or reverse engineering costs saved as a result of the appropriation that are not otherwise accounted for through an award of the defendant's profits or other monetary relief.

Illustrations:

Illustrations:

2. *A* and *B* are competing manufacturers of poultry vaccines. *A* spends \$400,000 to develop a secret process for the production of a new vaccine. *B* appropriates the trade secret and begins to produce the vaccine in competition with *A*. *B* earns \$50,000 in net profits on sales of the vaccine. In the absence of evidence indicating loss to *A* in excess of \$50,000, *A* may recover *B*'s \$50,000 profit in addition to the award of an injunction prohibiting further use of the process by *B*.
3. The facts being otherwise as stated in Illustration 2, *B* establishes that other competitors have already succeeded in duplicating *A*'s secret process by analyzing samples of *A*'s vaccine and that *B* would have been similarly successful. The cost of such an analysis is \$150,000. The court may properly conclude that an injunction against *B*'s use of the process would be inappropriate and that an award to *A* of \$150,000 representing *B*'s savings in analysis costs and \$50,000 representing the net profits earned by *B* prior to the time it would have been able to market the vaccine in the absence of the appropriation is an appropriate remedy.
4. *A*, a shipper, invents several techniques and devices to improve efficiency in the unloading of ships. *B*, a former employee of *A*, discloses the trade secrets to *C*, a competing shipper, in breach of a duty of confidence. *C*, with notice of *B*'s breach of confidence, adopts the techniques and devices in its business. In addition to appropriate injunctive relief, *A* may recover from *C* any savings that have resulted from *C*'s use of *A*'s trade secrets.

g. Reasonable royalty. A reasonable royalty measure of relief awards to the plaintiff the price that would be set by a willing buyer and a willing seller for the use of the trade secret made by the defendant. However, the royalty agreed to in an actual market transaction reflects a price at which both parties gain from the transaction. To the extent that a court-awarded reasonable royalty accurately reflects the marketplace, the royalty may compensate the plaintiff for loss but it does not necessarily deprive the defendant of the full gain attributable to the appropriation. Since the imposition of a reasonable royalty requires the defendant to pay only the amount it would have paid had it fairly bargained for use of the plaintiff's secret, it may not adequately discourage the appropriation of trade secrets.

There are at least three situations in which the reasonable royalty measure of relief has been applied. First, when the defendant has made a substantial good faith investment in the trade secret prior to receiving notice of the plaintiff's claim, it may be inequitable to require the relinquishment of all profits earned by the defendant after notice. An award of damages measured by a reasonable royalty for use subsequent to the notice and an injunction conditioning future use on the payment of a reasonable royalty gives the plaintiff the market value of the trade secret but protects the defendant's good faith reliance. Second, when the plaintiff's loss, although difficult to measure, is apparently greater than any gain acquired by the defendant, a reasonable royalty may be the most appropriate measure of relief. For example, if the defendant's inefficiency results in little or no profit from the exploitation of the trade secret and the loss to the plaintiff cannot otherwise be established, a

reasonable royalty may be the best available approximation of the plaintiff's loss. Third, in cases in which the defendant's gain from the trade secret is difficult to measure but apparently exceeds the plaintiff's loss, a reasonable royalty may be the best means of approximating the defendant's unjust enrichment.

The purpose for which the reasonable royalty measure is invoked and the equities of the particular case may properly influence the calculation of the appropriate royalty. To insure adequate deterrence and to prevent unjust enrichment, a court may resolve issues relating to the amount of the royalty against a defendant who has willfully appropriated the trade secret.

Illustration:

Illustration:

5. The facts being otherwise as stated in Illustration 4, *C* has no notice of *B*'s breach of confidence until after *C* has invested in equipment designed to implement the trade secrets in its business. A court may properly conclude that the appropriate remedy is a monetary award measured by a reasonable royalty for use of the trade secret by *C* subsequent to the notice of *B*'s breach of confidence and an injunction conditioning future use by *C* on the payment of a reasonable royalty.

h. Limitation on monetary relief. Monetary remedies, whether measured by the loss to the plaintiff or the gain to the defendant, are appropriate only for the period of time that the information would have remained unavailable to the defendant in the absence of the appropriation. This period may be measured by the time it would have taken the defendant to obtain the information by proper means such as reverse engineering or independent development. Similarly, the issuance of a patent or other public disclosure of the information by the plaintiff or a third person terminates the secrecy necessary to the protection of the trade secret. Monetary relief based on the defendant's use of the information after the loss of secrecy is therefore appropriate only to the extent necessary to remedy a head start or other unfair advantage attributable to the defendant's prior access to the information. The limitations on the appropriate duration of injunctive relief as stated in § 44, Comment *f*, are thus also generally applicable to the calculation of monetary relief.

The rules governing the appropriate period of liability for monetary relief in actions in tort for the appropriation of a trade secret are not necessarily applicable in actions in contract for breach of agreements relating to the use or disclosure of trade secrets. Remedies for breach of contracts relating to trade secrets are ordinarily measured by the terms of the obligations imposed under the agreement. Licensing agreements, for example, can ordinarily provide for royalty payments covering a period that ends before or after any public disclosure of the trade secret. See § 41, Comment *d*. Similarly, although a nondisclosure agreement that is interpreted to extend beyond a public disclosure of the trade secret may be unenforceable as an unreasonable restraint of trade, *id.*, obligations under a nondisclosure agreement may terminate according to its terms prior to any public disclosure. The use of a trade secret in breach of an enforceable agreement, however, can give rise to both a claim for breach of contract and a claim for appropriation in tort under the rules stated in § 40. Durational limits contained in the agreement may influence but do not necessarily determine the appropriate duration of monetary relief awarded in a tort action pursuant to the rules stated here.

i. Punitive damages. A successful plaintiff in an action at common law for the appropriation of a trade secret may recover punitive damages under the rules generally applicable in the jurisdiction to the award of punitive damages in tort actions. See Restatement, Second, Torts § 908. The purpose of punitive damages is to deter and punish egregious conduct, and normally proof of malice or willful misconduct is required. Section 3(b) of the Uniform Trade Secrets Act provides for an award of punitive damages not exceeding twice the amount of compensatory and restitutionary damages in cases of "willful and malicious misappropriation."

j. Attorney's fees. Most states do not provide for an award of attorney's fees in actions at common law. In actions under the Uniform Trade Secrets Act, reasonable attorney's fees may be awarded if the appropriation is "willful and malicious," if the claim of appropriation is made in bad faith, or if a motion to terminate an injunction is made or resisted in bad faith. *Id.* § 4.

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Comment a. Monetary relief for the appropriation of a trade secret was discussed only briefly in the former Restatement of this topic. See Restatement of Torts § 757, Comment *e* (1938). See generally Jager, Trade Secrets Law § 7.03; Milgrim on Trade Secrets § 7.08[3]; Johnson, Remedies in Trade Secret Litigation, 72 Nw.U.L.Rev. 1004 (1978); Prandl, Damages for Misappropriation of Trade Secret, 22 Tort Ins.L.J. 447 (1987). See also § 3 of the Uniform Trade Secrets Act.

Comment b. The cases reflect considerable flexibility in the calculation of appropriate monetary relief in trade secret actions. See, e.g., University Computing Co. v. Lykes—Youngstown Corp., 504 F.2d 518, 538 (5th Cir.1974) (“[E]very case requires a flexible and imaginative approach to the problem of damages. ... [C]ases reveal that most courts adjust the measure of damages to accord with the commercial setting of the injury, the likely future consequences of the misappropriation, and the nature and extent of the use the defendant put the trade secret to after misappropriation.”).

For cases recognizing both compensation and unjust enrichment as objectives of monetary relief, see, e.g., Telex Corp. v. Int’l Business Machines Corp., 510 F.2d 894 (10th Cir.), cert. dismissed 423 U.S. 802, 96 S.Ct. 8, 46 L.Ed.2d 244 (1975) (recovery of elements representing plaintiff’s loss and defendant’s gain); Carter Products, Inc. v. Colgate-Palmolive Co., 214 F.Supp. 383 (D.Md.1963); Jet Spray Cooler, Inc. v. Crampton, 377 Mass. 159, 385 N.E.2d 1349 (1979). A few cases suggest that remedies in trade secret cases should foster commercial morality. See, e.g., Adolph Gottscho, Inc. v. American Marking Corp., 18 N.J. 467, 114 A.2d 438, cert. denied 350 U.S. 834, 76 S.Ct. 69, 100 L.Ed. 744 (1955) (injunction granted despite public disclosure); Kilbarr Corp. v. Business Systems Inc., 679 F.Supp. 422 (D.N.J.1988), affirmed 869 F.2d 589 (3d Cir.1989) (refusing to limit an accounting of profits to the period of the defendant’s head start). However, full compensatory and restitutionary relief is ordinarily sufficient to accomplish such an objective.

The plaintiff bears the burden of proving any loss for which relief is sought, but the amount of loss must be proved only with such certainty as is reasonable under the circumstances. See Electro-Miniatures Corp. v. Wendon Co., 771 F.2d 23 (2d Cir.1985); Tri-Tron Int’l v. Velto, 525 F.2d 432 (9th Cir.1975) (the rule precluding an award of speculative profits goes to the fact and cause of the lost profits rather than to the amount); DeVries v. Starr, 393 F.2d 9 (10th Cir.1968); Julius Hyman & Co. v. Velsicol Corp., 123 Colo. 563, 233 P.2d 977, cert. denied 342 U.S. 870, 72 S.Ct. 113, 96 L.Ed. 654 (1951). But cf. Elcor Chemical Corp. v. Agri-Sul, Inc., 494 S.W.2d 204 (Tex.Civ.App.1973) (insufficient evidence to support an award of damages).

Comment c. Monetary remedies may be awarded in conjunction with injunctive relief. See, e.g., Tri-Tron Int’l v. Velto, 525 F.2d 432 (9th Cir.1975) (damages and injunction); USM Corp. v. Marson Fastener Corp., 392 Mass. 334, 467 N.E.2d 1271 (1984) (accounting and injunction); Cherne Industrial, Inc. v. Grounds & Associates, Inc., 278 N.W.2d 81 (Minn.1979) (same). In some cases an injunction may eliminate the need for monetary relief. See, e.g., Winston Research Corp. v. Minnesota Mining and Mfg. Co., 350 F.2d 134 (9th Cir.1965) (defendant was enjoined before any sales of the appropriated product). In other cases, monetary relief may be the more appropriate remedy. See, e.g., Schreyer v. Casco Products Corp., 190 F.2d 921 (2d Cir.1951), cert. denied 342 U.S. 913, 72 S.Ct. 360, 96 L.Ed. 683 (1952) (accounting of profits from defendant’s head start in using information later disclosed in a patent was an adequate remedy); Tolchester Lines, Inc. v. Dowd, 253 F.Supp. 643 (S.D.N.Y.1966) (monetary relief may be sufficient when an injunction would have the effect of denying the defendant a livelihood).

Section 136 of the Restatement of Restitution (1937) recognizes the importance of a remedy based on unjust enrichment in light of the difficulty of proving damages in trade secret actions. The merger of law and equity allows plaintiffs in most circumstances to pursue both legal and equitable remedies. Section 3(a) of the Uniform Trade Secrets Act authorizes the recovery of both “actual loss” and any “unjust enrichment” not taken into account in calculating actual loss.

Numerous cases hold that monetary relief in trade secret actions is limited to the greater of the plaintiff’s loss or the defendant’s gain. Clark v. Bunker, 453 F.2d 1006 (9th Cir.1972) (plaintiff is entitled to lost profits but not less than the defendant’s gain from the appropriation); Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387 (4th Cir.1971), cert. denied 405 U.S. 1017, 92 S.Ct. 1292, 31 L.Ed.2d 479 (1972) (awarding plaintiff’s lost profits in an amount larger than the defendant’s savings); Tolchester Lines, *supra* (plaintiff is entitled to defendant’s profits and any damages exceeding that amount); Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co., 381 Mass. 1, 407 N.E.2d 319 (1980) (the appropriate measure is the greater of the plaintiff’s lost profits or the defendant’s gain); Jet Spray Cooler, Inc. v. Crampton, 377 Mass. 159, 385 N.E.2d 1349 (1979) (plaintiff is entitled to lost profits, but not less than the monetary gain to the defendant).

Illustration 1 is derived from *Sperry Rand Corp.*, *supra*.

Comment d. For discussions of the various measures of monetary relief in trade secret cases, see, e.g., *Telex Corp. v. Int'l Business Machines Corp.*, 510 F.2d 894 (10th Cir.), cert. dismissed 423 U.S. 802, 96 S.Ct. 8, 46 L.Ed.2d 244 (1975); *University Computing Co. v. Lykes—Youngstown Corp.*, 504 F.2d 518 (5th Cir.1974); *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 385 N.E.2d 1349 (1979). See generally Prandl, *Damages for Misappropriation of Trade Secret*, 22 Tort Ins.L.J. 447 (1987); Annot., *Proper Measure and Elements of Damages for Misappropriation of Trade Secret*, 11 A.L.R.4th 12 (1982).

Comment e. The actual loss to the plaintiff caused by the defendant's appropriation is an appropriate measure of monetary relief. See, e.g., *Tri-Tron Int'l v. Velto*, 525 F.2d 432 (9th Cir.1975); *Sperry Rand Corp. v. A-T-O, Inc.*, 447 F.2d 1387 (4th Cir.1971), cert. denied 405 U.S. 1017, 92 S.Ct. 1292, 31 L.Ed.2d 479 (1972); *Kamin v. Kuhnau*, 232 Or. 139, 374 P.2d 912 (1962). See also § 3 of the Uniform Trade Secrets Act.

Lost profits on sales that would have been made by the plaintiff but for the appropriation were awarded in, e.g., *Sperry Rand Corp.*, *supra* (loss of specific contract); *Clark v. Bunker*, 453 F.2d 1006 (9th Cir.1972) (adopting the presumption that the plaintiff would have made all the sales in the area absent the defendant's appropriation); *Telex Corp. v. Int'l Business Machines Corp.*, 510 F.2d 894 (10th Cir.), cert. dismissed 423 U.S. 802, 96 S.Ct. 8, 46 L.Ed.2d 244 (1975) (lost rental income). Evidence of a decline in plaintiff's sales subsequent to the appropriation is relevant in establishing lost profits. *DeVries v. Starr*, 393 F.2d 9 (10th Cir.1968). Plaintiff's lost profits are sometimes measured by applying the plaintiff's profit margin to the sales made by the defendant. See *Jet Spray Cooler, Inc. v. Crampton*, 377 Mass. 159, 385 N.E.2d 1349 (1979) (approving the principle although the evidence did not support its application); *DeVries*, *supra*; *Tri-Tron Int'l*, *supra*. The loss of future profits likely to result from the appropriation may also be compensable. See *Sperry Rand Corp.*, *supra* (future sale of spare parts); *Financial Programs, Inc. v. Falcon Financial Services, Inc.*, 371 F.Supp. 770 (D.Or.1974) (future profits on diverted accounts calculated on the basis of past experience); *Dozor Agency, Inc. v. Rosenberg*, 218 A.2d 583 (Pa.1966) (loss of future premiums calculated on the basis of past experience). The plaintiff was awarded damages reflecting the reduced price received for its own goods as a result of competition attributable to the defendant's appropriation in *Julius Hyman & Co. v. Velsicol Corp.*, 123 Colo. 563, 233 P.2d 977, cert. denied 342 U.S. 870, 72 S.Ct. 113, 96 L.Ed. 654 (1951).

A royalty adopted by the parties in an "agreement in principle" was applied as the appropriate measure of damages in *Vitro Corp. v. Hall Chemical Co.*, 292 F.2d 678 (6th Cir.1961). See also *Kamin*, *supra*. A reasonable royalty reflecting the likely loss to the plaintiff was awarded in *Carter Products, Inc. v. Colgate-Palmolive Co.*, 214 F.Supp. 383 (D.Md.1963). See also *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219 (7th Cir.1982) (10% royalty on defendant's sales awarded when it was unlikely that the plaintiff could have marketed the trade secret on its own).

In *Precision Plating & Metal Finishing Inc. v. Martin-Marietta Corp.*, 435 F.2d 1262 (5th Cir.1970), cert. denied 404 U.S. 1002, 92 S.Ct. 571, 30 L.Ed.2d 556 (1971), the value of the trade secret was destroyed by the defendant's disclosure. The court affirmed an award of damages based on the "fair market value" of the trade secret. See also *Smith v. Dravo Corp.*, 208 F.2d 388 (7th Cir.1953) (plaintiffs recovered capital investment losses caused by the appropriation of their trade secret); *Registered Physical Therapists, Inc. v. Jepson*, 584 P.2d 857 (Utah 1978) (awarding damages measured by the value of the plaintiff's business when the appropriation required the plaintiff to terminate operation).

Comment f. An accounting of the defendant's profits from unauthorized use of the plaintiff's trade secret is a common remedy. See, e.g., *Clark v. Bunker*, 453 F.2d 1006 (9th Cir.1972); *Schreyer v. Casco Products Corp.*, 190 F.2d 921 (2d Cir.1951), cert. denied 342 U.S. 913, 72 S.Ct. 360, 96 L.Ed. 683 (1952); *Carter Products, Inc. v. Colgate-Palmolive Co.*, 214 F.Supp. 383 (D.Md.1963); *Julius Hyman & Co. v. Velsicol Corp.*, 123 Colo. 563, 233 P.2d 977, cert. denied 342 U.S. 870, 72 S.Ct. 113, 96 L.Ed. 654 (1951). Section 3 of the Uniform Trade Secrets Act provides that the plaintiff may recover "the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss." See also Restatement of Restitution § 136 (an accounting of profits in trade secret cases is the "usual method of seeking restitution"); Restatement, Second, Agency § 404, Comment *b* (an agent who uses assets, including trade secrets, belonging to the principal is subject to liability for "the value of the use," including profits). See also *id.* § 407, Comment *a* (agent is liable for the amount received from a sale of the principal's trade secret).

The plaintiff is entitled to the defendant's net profits from sales of goods incorporating the trade secret. E.g., *Jet Spray*

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Cooler, Inc. v. Crampton, 377 Mass. 159, 385 N.E.2d 1349 (1979). The defendant may also be held accountable for sales of other products that are dependent upon sales of the appropriated product. Adolph Gottschko, Inc. v. American Marking Corp., 26 N.J. 229, 139 A.2d 281 (1958) (defendant's profits on ink and solvents were included in an accounting of profits from the appropriation of a trade secret for the design of a marking machine). The plaintiff bears the burden of establishing sales; the defendant has the burden of establishing deductible expenses and any sales not attributable to the use of the trade secret. E.g., USM Corp. v. Marson Fastener Corp., 392 Mass. 334, 467 N.E.2d 1271 (1984); Julius Hyman & Co, *supra*.

Courts are divided on the deductibility by the defendant of bad debts arising from sales of products incorporating the trade secret. Compare Jet Spray Cooler, *supra* (treated as a deductible manufacturing expense) with Julius Hyman & Co., *supra* (the defendant should assume the risk of credit extensions). On the deductibility of income taxes paid by the defendant on the profits for which it is accountable, see § 37, Comment g. Cf. USM Corp., *supra* (dictum suggesting that a deduction for income taxes is generally proper, but permitting a claim by the plaintiff to any tax benefits accruing to the defendant as a result of the defendant's payment of the awarded profits); Julius Hyman & Co., *supra* (deductibility of income taxes conditioned on payment to the plaintiff of any tax benefits to the defendant arising from payment of the judgment). On the deductibility of salaries and consulting fees paid to the individual defendants, compare Jet Spray Cooler, *supra* (salaries deductible if reasonable) with Julius Hyman & Co., *supra* (denying the deduction).

In allocating overhead among products derived from the appropriation and other products marketed by the defendant, the courts generally apply an incremental cost allocation that allows deductions only for additional expenses made necessary by the manufacture or sale of the products subject to the accounting. USM Corp., *supra*; Carboline Co. v. Jarboe, 454 S.W.2d 540 (Mo.1970). The defendant may set off losses from prior accounting periods against subsequent profits only if the profits are dependent on expenses incurred in the prior period, such as advertising costs that result in profits in a succeeding year. See Carter Products, *supra*; Adolph Gottschko, Inc., *supra*.

The leading case applying the "standard of comparison" measure is Int'l Industries, Inc. v. Warren Petroleum Corp., 248 F.2d 696 (3d Cir.1957), cert. dismissed 355 U.S. 943, 78 S.Ct. 529, 2 L.Ed.2d 523 (1958) (plaintiff was awarded the defendant's savings measured by the difference in cost between rail transportation and transportation by boat that was made possible by the use of the trade secret). See, e.g., Matarese v. Moore-McCormack Lines, Inc., 158 F.2d 631 (2d Cir.1946) (awarding the defendant's savings from implementing the plaintiff's ideas relating to loading operations less the cost of implementation). The standard of comparison method has also been invoked to support recovery of development and reverse engineering costs saved by the defendant as a result of the appropriation. See, e.g., Salsbury Laboratories, Inc. v. Merieux Laboratories, Inc., 908 F.2d 706 (11th Cir.1990); Telex Corp. v. Int'l Business Machines, Corp., 510 F.2d 894 (10th Cir.), cert. dismissed 423 U.S. 802, 96 S.Ct. 8, 46 L.Ed.2d 244 (1975) (awarding savings in development costs although the defendant did not produce a marketable product); Servo Corp. v. General Electric Co., 393 F.2d 551 (4th Cir.1968); Analogic Corp. v. Data Translation, Inc., 371 Mass. 643, 358 N.E.2d 804 (1976) (suggesting that the dissolution of an injunction after the period necessary for reverse engineering may be conditioned on payment to the plaintiff of costs saved by the defendant).

Illustrations 2 and 3 are suggested by the facts in *Salsbury Laboratories, supra*. Illustration 4 is suggested by the facts in *Matarese, supra*.

Comment g. A reasonable royalty measure of damages is expressly authorized in § 3(a) of the Uniform Trade Secrets Act. A reasonable royalty has been described as the royalty that would have been agreed to by a willing buyer and a willing seller. See, e.g., University Computing Co. v. Lykes—Youngstown Corp., 504 F.2d 518 (5th Cir.1974); Forest Laboratories, Inc. v. Pillsbury Co., 452 F.2d 621 (7th Cir.1971). The fact that payment of a reasonable royalty does not deprive the defendant of the entire unjust gain was recognized in Carter Products, Inc. v. Colgate-Palmolive Co., 214 F.Supp. 383 (D.Md.1963), in which the court awarded a reasonable royalty plus additional profits on sales. See also Molinaro v. Burnbaum, 201 U.S.P.Q. 150, (D.Mass.1978). Cf. Pioneer Hi-Bred Int'l v. Holden Foundation Seeds, Inc., 35 F.3d 1226 (8th Cir.1994) (reasonable royalty measure "is most appropriate when the other theories would result in no recovery or when the parties actually had or contemplated a royalty arrangement").

A reasonable royalty is most often awarded as compensation for the plaintiff's loss when actual damages cannot be determined more directly. See University Computing Co., *supra*; Vitro Corp. v. Hall Chemical Co., 292 F.2d 678 (6th Cir.1961); Carter Products, *supra*. The reasonable royalty measure has also been invoked when the defendant began its use of the trade secret in good faith. See Forest Laboratories, *supra* (reasonable royalty awarded for use by the defendant after

notice of the plaintiff's claim). Cf. *San Manuel Copper Corp. v. Redmond*, 8 Ariz.App. 214, 445 P.2d 162 (1968), applying the reasonable royalty measure in connection with an appropriation that was not "willful." In some circumstances the defendant's good faith reliance may make any monetary relief inappropriate. See § 3(a) of the Uniform Trade Secrets Act.

A reasonable royalty has been used to apportion the defendant's profits when it would be inequitable to award the plaintiff the entire profit on defendant's sales. See *Laurie Visual Etudes, Inc. v. Chesebrough-Pond's, Inc.*, 105 Misc.2d 413, 432 N.Y.S.2d 457 (Sup.Ct.1980), reversed on other grounds 83 A.D.2d 505, 441 N.Y.S.2d 88 (1981) (defendant contributed substantially to the product's success); *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219 (7th Cir.1982) (awarding a 10% royalty on the defendant's sales because it was unlikely that the plaintiff could have marketed the trade secret without entering into a licensing agreement). See also *Egry Register Co. v. Standard Register Co.*, 23 F.2d 438 (6th Cir.1928) (a patent infringement case apportioning profits by a reasonable royalty when the patented device was only one component of the defendant's product).

In determining the amount of a reasonable royalty, the courts have considered a variety of factors including the nature and importance of the trade secret, the nature and extent of the defendant's use, royalties discussed by the parties or common in the industry, resulting or foreseeable changes in the competitive position of the parties, the development costs of the plaintiff, the availability of alternatives to the trade secret, and other factors that might affect an agreement between willing buyers and sellers. See *University Computing Co., supra*; *Forest Laboratories, supra*; *Carter Products, supra* (royalty rate charged by the plaintiff to other manufacturers is relevant); *Vitro Corp., supra* (royalties established in an "agreement in principle" used to determine a reasonable royalty); *Laurie Visual Etudes, supra* (royalties based on prior negotiations between the parties). The royalty is not limited to a percentage of the defendant's sales. *University Computing Co., supra*.

Illustration 5 reflects the rule in § 2 of the Uniform Trade Secrets Act. See also *Forest Laboratories, supra*. In an extreme case the defendant's good faith reliance may justify the denial of all injunctive and monetary relief. See § 3(a) and the Comment to § 2 of the Uniform Trade Secrets Act.

Comment h. The Comment to § 3 of the Uniform Trade Secrets Act states the rule on the duration of monetary relief as follows: "Like injunctive relief, a monetary recovery for trade secret misappropriation is appropriate only for the period in which information is entitled to protection as a trade secret, plus the additional period, if any, in which a misappropriator retains an advantage over good faith competitors because of misappropriation." Cases limiting monetary relief under principles analogous to those applicable to the duration of injunctive relief include, e.g., *Schreyer v. Casco Products Corp.*, 190 F.2d 921 (2d Cir.1951), cert. denied 342 U.S. 913, 72 S.Ct. 360, 96 L.Ed. 683 (1952) (affirming an accounting of profits attributable to an acceleration of the date when production by the defendant would otherwise have been possible); *Engelhard Industries, Inc. v. Research Instrumental Corp.*, 324 F.2d 347 (9th Cir.1963), cert. denied 377 U.S. 923, 84 S.Ct. 1220, 12 L.Ed.2d 215 (1964) (accounting of defendant's profits during the head start period is appropriate); *Reinforced Molding Corp. v. General Electric Co.*, 592 F.Supp. 1083 (W.D.Pa.1984) (accounting of profits limited to the period required for independent development); *Structural Dynamics Research Corp. v. Engineering Mechanics Research Corp.*, 401 F.Supp. 1102 (E.D.Mich.1975) (imposing a reasonable royalty during the period required for independent development); *Carboline Co. v. Jarboe*, 454 S.W.2d 540 (Mo.1970) (accounting of profits limited to the time required for reverse engineering). Cf. *Kilbarr Corp. v. Business Systems Inc.*, 679 F.Supp. 422 (D.N.J.1988), affirmed 869 F.2d 589 (3d Cir.1989) (limitation of damages to the head start period was not appropriate when the defendant's appropriation effectively preempted the market).

Contractual royalties for the use of a trade secret may extend beyond public disclosure of the information. *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*, 178 F.Supp. 655 (S.D.N.Y.1959), affirmed 280 F.2d 197 (2d Cir.1960). See also *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 99 S.Ct. 1096, 59 L.Ed.2d 296 (1979) (federal patent law does not preempt state enforcement of a contractual obligation to pay royalties after a public disclosure of the trade secret). In awarding monetary relief in an action in tort for the appropriation of a trade secret, the court may consider but is not bound by the duration of any contractual obligation. See *Sikes v. McGraw-Edison Co.*, 665 F.2d 731 (5th Cir.), cert. denied 458 U.S. 1108, 102 S.Ct. 3488, 73 L.Ed.2d 1369 (1982) (although confidentiality agreement terminated after two years, an award of defendant's profits from an appropriation of the trade secrets was not limited to the two-year period); compare *Premix, Inc. v. Zappitelli*, 561 F.Supp. 269 (N.D. Ohio 1983) (awarding lost profits for the agreed period of confidentiality in a breach of contract action).

Comment i. Courts approving punitive damage awards in trade secret cases include, e.g., *Clark v. Bunker*, 453 F.2d 1006 (9th

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Cir.1972); Sperry Rand Corp. v. A-T-O, Inc., 447 F.2d 1387 (4th Cir.1971), cert. denied 405 U.S. 1017, 92 S.Ct. 1292, 31 L.Ed.2d 479 (1972); Telex Corp. v. Int'l Business Machines Corp., 510 F.2d 894 (10th Cir.), cert. dismissed 423 U.S. 802, 96 S.Ct. 8, 46 L.Ed.2d 244 (1975); Boeing Co. v. Sierracin Corp., 108 Wash.2d 38, 738 P.2d 665 (1987) (Uniform Trade Secrets Act). See generally Jager, Trade Secrets Law § 7.03[3].

Comment j. For cases awarding attorney's fees under § 4 of the Uniform Trade Secrets Act, see, e.g., Boeing Co. v. Sierracin Corp., 108 Wash.2d 38, 738 P.2d 665 (1987); Aries Information Systems, Inc. v. Pacific Management Systems Corp., 366 N.W.2d 366 (Minn.App.1985). See generally Jager, Trade Secrets Law § 7.04; Milgrim on Trade Secrets § 7.08[3][e].

Case Citations - by Jurisdiction

C.A.2
C.A.5
C.A.7
C.A.10
Ct.Fed.Cl.
D.Md.
S.D.N.Y.
Kan.
Mass.App.
Tex.App.
Vt.
Wash.App.
Wis.
Wis.App.

C.A.2

C.A.2, 1998. Com. (f) quot. in disc. Computer-software company sued competitor for misappropriation of trade secrets. Following a bench trial, the district court entered judgment for plaintiff in the amount of \$14 million. Affirming in part and vacating in part, this court held, inter alia, that the damages award was too great, and that, under the reasonable royalty rule, plaintiff was entitled to damages in the amount of \$7.7 million. Vermont Microsystems, Inc. v. Autodesk, Inc., 138 F.3d 449, 450.

C.A.5

C.A.5, 2010. Com. (f) cit. and quot. but not fol. Owner of copyrighted software sued former customer, after a group of defendant's employees obtained a copy of plaintiff's software from an unknown source and used it without authorization. The district court entered judgment on a jury verdict in favor of plaintiff. This court reversed as to plaintiff's claims for misappropriation of trade secrets and unfair competition and rendered a take-nothing judgment for plaintiff, holding that, while plaintiff demonstrated defendant's total revenue, it failed to deduct unrelated revenue and costs to demonstrate defendant's profits related to the infringement. The court rejected plaintiff's argument that its exhibit showing total revenue satisfied its burden of proof with regard to defendant's "sales" and that defendant subsequently had the burden of demonstrating which portions of its revenue were not attributable to the state-law claims, concluding that the Texas Supreme Court would not adopt the burden-shifting procedures of Restatement Second of Torts § 45, *Comment f.* MGE UPS Systems,

Inc. v. GE Consumer and Indus., Inc., 622 F.3d 361, 369, 370.

C.A.7

C.A.7, 2011. Cit. in disc. S corporation and its shareholders challenged the issue of deficiency notices by the Commissioner of Internal Revenue following Commissioner's finding that settlement income that corporation received in an underlying trade secrets misappropriation suit should have been taxed as ordinary income, rather than long-term capital gain. The tax court agreed with Commissioner and ordered deficiency judgments. Affirming, this court rejected plaintiffs' argument that the settlement was payment for damage to corporation's trade secrets, which it alleged were capital assets, holding that, because corporation's litigation strategy had been to seek profits and other types of monetary recovery that could properly be taxed as ordinary income, and not to focus on the damage to or destruction of its capital asset, the settlement was not in lieu of a replacement of capital, and was properly identified as ordinary income. *Freda v. C.I.R.*, 656 F.3d 570, 574, 575.

C.A.10

C.A.10, 2008. Com. (d) cit. in disc., com. (g) quot. in sup. Inventor sued manufacturer of medical devices, alleging that it misappropriated his trade secrets and breached a confidentiality agreement by incorporating his inventions into one of its medical devices after the parties failed to reach a license agreement regarding the inventions. The district court entered judgment on a jury verdict for plaintiff. Affirming, this court held, inter alia, that the district court did not err in allowing plaintiff to recoup unjust-enrichment damages against defendant; while the unjust-enrichment award put plaintiff in a much better position than if he had entered a licensing agreement with defendant, under Utah law, defendant, as the party that acted wrongfully, had to assume the risk it took by misappropriating rather than licensing plaintiff's trade secrets. The court also noted that unjust-enrichment awards could in these circumstances serve a legitimate deterrent function. *Russo v. Ballard Medical Products*, 550 F.3d 1004, 1021.

Ct.Fed.Cl.

Ct.Fed.Cl.2011. Com. (d) quot. in fn. Munitions-assembly-systems manufacturer sued the United States, alleging that the U.S. Air Force breached the parties' cooperative research and development agreement by releasing plaintiff's proprietary information to unauthorized recipients, including its competitors. After this court entered judgment for plaintiff on liability, it awarded plaintiff damages for the loss of its proprietary information as an income-producing asset, concluding that plaintiff showed that the damages it sought were foreseeable and caused by the Air Force's breach of the agreement. The court pointed out the distinction between recovering, on the one hand, the value of a lost income-generating asset, as here, and, on the other, expectation damages in the form of lost profits, and noted that the Restatement Third of Competition recognized a similar distinction with respect to the monetary relief appropriate for the tort of trade-secret appropriation. *Spectrum Sciences and Software, Inc. v. U.S.*, 98 Fed.Cl. 8, 15.

D.Md.

D.Md.2011. Quot. in sup. Former employee sued former employer, alleging that employer retaliated for whistle-blowing activities; employer counterclaimed for, inter alia, misappropriation of trade secrets. Denying in part employee's motion for summary judgment, this court rejected employee's argument that because employer did not demonstrate actual business loss, it could not prove damages. The court explained that damages could include both the actual loss and the unjust enrichment caused by employee's own pecuniary gain from the appropriation, and, here, if employer proved that employee took and used trade secrets to create products that were incorporated into successful bids for government contracts, the amount of compensation received by employee under those contracts could serve as a basis for employer's unjust-enrichment recovery. *Glynn v. Impact Science & Technology, Inc.*, 807 F.Supp.2d 391, 433.

S.D.N.Y.

S.D.N.Y.2002. Com. (g) quot. in fn. in sup. Computer-systems designer that had ceased operations sued competitor for, in part, trade-secret misappropriation. The court ruled that the appropriate measure of damages, where defendant did not profit from the alleged infringement, was a reasonable royalty. The royalty could result in a lump-sum payment based on a reasonable royalty as applied to expected sales or a running royalty based on actual sales. *LinkCo, Inc. v. Fujitsu Ltd.*, 232 F.Supp.2d 182, 186.

Kan.

Kan.2011. Com. (d) cit. in disc. Pipe-coating company sued former employees seeking damages, a restraining order, and an injunction against further use of purportedly misappropriated trade secrets, alleging that employees wrongfully took and used, among other things, a secret coating formula developed by company. The trial court found for plaintiff and required defendants to pay a limited-term royalty for any sales to plaintiff's customers based on use of the formula; the court of appeals affirmed in part, but found that the royalty injunction was not warranted. Affirming in part, reversing in part, and remanding, this court held that, although defendants were liable for misappropriating the trade secret, evidence that plaintiff was lax in protecting the secret, that defendants' formula differed from plaintiff's, and that other companies used similar processes, could be exceptional circumstances that justified the imposition of royalties in lieu of other, more substantial damages. *Progressive Products, Inc. v. Swartz*, 292 Kan. 947, 258 P.3d 969, 979.

Mass.App.

Mass.App.2011. Com. (f) quot. in sup. Developer of an innovative method to produce a specialized encapsulant used in making solar cells sued competitor and former employee who left to work for competitor, alleging misappropriation of trade secrets and other claims. The trial court found in favor of plaintiff. Affirming, this court held that the use of disgorgement of profits to compensate plaintiff for defendants' misuse of its trade secrets was appropriate. The court noted that, while the precise scope of plaintiff's monetary loss was difficult to quantify, the record supported the trial judge's implicit conclusion that plaintiff, which enjoyed a 25% global market share in a highly specialized product, suffered a loss of sales when it suddenly faced competition from another producer in its own backyard based on improper use of its trade-secret manufacturing process. *Specialized Technology Resources, Inc. v. JPS Elastomerics Corp.*, 80 Mass.App.Ct. 841, 849, 957 N.E.2d 1116, 1123.

Mass.App.1993. Subsec. (1) cit. in disc., com. (b) quot. in part in disc. (citing § 45 of T.D. No. 4, 1993. § 45 has since been revised; see Official Text). The operators of a billiard parlor sued for injunctive relief to prevent a competitor from opening, alleging unfair trade practices and theft of trade secrets. This court, affirming the trial court's grant of an injunction only preventing the competitor from revealing financial information including accounting procedures obtained from the plaintiffs, held, *inter alia*, that, as the competing parlor had not yet opened, there was no basis for an award of damages, as these would have been highly speculative. The court noted also that the plaintiffs had not sought damages in their pleadings. *Jillian's Billiard v. Beloff Billiards*, 35 Mass.App.Ct. 372, 375, 619 N.E.2d 635, 638.

Tex.App.

Tex.App.2013. Com. (d) cit. in sup. and quot. in fn., com. (g) cit. in sup. and in fn., coms. (d)-(g) cit. in fn. Inventor and owners of a process for mining potash (potassium-containing ore) in a specific area that had anomalously high temperatures brought claims for misappropriation of trade secrets, *inter alia*, against inventor's former business partner and partner's company's subsidiary, alleging that defendants used plaintiffs' proprietary information in developing their own mining project. The trial court entered judgment on a jury verdict for plaintiffs. Affirming, this court held, among other things, that

there was sufficient evidence in the record to support the jury's finding that plaintiffs were entitled to \$1,696,428.55 in damages for defendants' misappropriation of trade secrets, which was based on the jury's determination of what a reasonable royalty would have been had the parties negotiated for use of plaintiffs' trade secrets at the time the information was used. In making its decision, the court noted that there were several possible measures of damages in trade-secrets cases in addition to reasonable royalty, including the plaintiff's lost profits, the defendant's gain, and the defendant's savings from using the trade secrets. *Bishop v. Miller*, 412 S.W.3d 758, 776, 778.

Vt.

Vt.2002. Subsec. (1) quot. in sup. Owners of advertisement-based newspaper sued former operators of paper for conversion and unfair competition, alleging misappropriation of business assets. The trial court entered judgment on jury verdict for owners. Modifying conversion award and affirming, this court held, *inter alia*, that evidence that former operators took business assets such as customer lists, bookkeeping records, and office equipment supported unfair-competition claim based on misappropriation. *Maguire v. Gorruso*, 174 Vt. 1, 800 A.2d 1085, 1092.

Wash.App.

Wash.App.2009. Com. (f) quot. in sup. and adopted. Design engineer contested drill manufacturer's application to terminate a 2001 injunction enjoining manufacturer from misappropriating engineer's design of a particular seafloor drilling technology. The trial court dissolved the injunction, and also ruled that engineer failed to prove that he suffered any damages from manufacturer's licensing to a third party of technology almost identical to his own design. Affirming, this court held that the undivided price of manufacturer's contract with the third party was the correct basis upon which to calculate the proper amount of restitutionary unjust-enrichment damages, and thus manufacturer's royalty payments to engineer based on revenues from the contract properly compensated him; the evidence did not require a separate damages award based on the license agreement, since the trial court could reasonably have concluded that the license of engineer's technology could not realistically have been separated from the overall contract price but, rather, served as an inducement to third party that did not have independent value. *Petters v. Williamson & Associates, Inc.*, 151 Wash.App. 154, 210 P.3d 1048, 1054.

Wis.

Wis.2002. Com. (e) quot. in sup. Seller of prosthetic components brought suit for trade-secret misappropriation against former manufacturer of its components. The trial court granted defendant's motion for a mistrial. The court of appeals reversed and remanded for a new trial. Affirming, this court held that evidence that defendant marketed defective products incorporating plaintiff's trade secret was relevant and admissible to show plaintiff's damages. *World Wide Prosthetic Supply, Inc. v. Mikulsky*, 251 Wis.2d 45, 640 N.W.2d 764, 769.

Wis.App.

Wis.App.2001. Com. (e) cit. in disc. Seller of prosthetic components sued company that formerly manufactured the components for it, alleging that defendant's continued production of the components after their relationship ended constituted misappropriation of trade secrets, and that the misappropriation had caused it to lose profits. The trial court granted defendant's motion for mistrial on the ground that evidence that the components were defective had been erroneously admitted to prove damages. Reversing and remanding, this court held that evidence that the product defendant allegedly produced and distributed after misappropriating plaintiff's trade secrets was defective was admissible to prove that plaintiff suffered actual loss caused by the misappropriation. *World Wide Prosthetic Supply, Inc. v. Mikulsky*, 246 Wis.2d 461, 471, 631 N.W.2d 253, 258, affirmed 251 Wis.2d 45, 640 N.W.2d 764 (2002).

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