

Future Damages Under the Defend Trade Secrets Act

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A Summary Judgment ruling in *Steves and Sons, Inc. v. JELD-WEN, Inc.* heard in U.S. District Court for the Eastern District of Virginia in 2018, provides guidance to trade secret owners seeking damages under the Defend Trade Secrets Act (“DTSA”). The Court ruled that trade-secret damages may include anticipated future use of the trade secret under the DTSA if the anticipated future use is non-speculative and based on solid evidence.

Steves and JELD-WEN are competitors in the interior molded doorskin market. Steves brought suit against JELD-WEN for antitrust and breach of contract claims. In response, JELD-WEN brought counterclaims against Steves for trade secret misappropriation under the DTSA and Texas Uniform Trade Secret Act, after it discovered Steves retained two former JELD-WEN employees who allegedly provided Steves with JELD-WEN’s trade secrets. JELD-WEN claims Steves used its trade secrets to create a “feasibility study” to build a manufacturing plant of its own to compete with JELD-WEN.

JELD-WEN’s expert developed three separate damage scenarios. The first scenario considered Steves’ ill-gotten gain should it use JELD-WEN’s trade secrets to build a doorskin manufacturing plant. The second scenario considered Steve’s ill-gotten gain that had accrued and would continue

to accrue, as a result of the misappropriation if JELD-WELD chooses not to build a manufacturing plant. The third scenario considered Steves' actual damages calculated as a reasonable royalty for the trade secrets using the incremental-benefits approach and the licensing-comparable approach.

Steves sought summary judgment that JELD-WEN's expert failed to apportion damages to specific trade secrets and that the damages calculated on anticipated future use were too speculative. The Court denied Steves' Summary Judgment Motion while also clarifying what damages are available under the DTSA.

The Court began its Summary Judgment ruling by defining damages available under the DTSA, which are (i) actual loss, (ii) unjust enrichment, or (iii) a reasonable royalty. The Court then referenced a leading trade secret misappropriation case, *University Computing Co v. Lykes-Youngstown Corp.*, which stresses that courts should remain "flexible and imaginative" when determining trade secret damages, and should afford the plaintiff every opportunity to prove damages by introducing evidence the jury can use to value the trade secrets.

The Court agreed with JELD-WEN that Steves would likely reduce its manufacturing costs and vendor costs should it build a doorskin manufacturing plant. The Court concluded that future damages are permissible because the hypothetical manufacturing plant would replicate JELD-WEN's existing plant and would, therefore, be non-speculative and based on evidence.

This case, however, is distinct because it does not involve untested product, an unknown market, or an unproven enterprise. To the contrary, Steves' hypothetical plant would be modeled on JELD-WEN's own manufacturing plants, which are successful and operate efficiently based on years of development. The time for Steves' plant to reach target productivity also has some basis in the evidence, as several witnesses have testified about that issue.

The Court next considered reasonable royalty damages. JELD-WEN's expert provided an alternative reasonable royalty analysis using the incremental-benefits approach and the licensing-comparables approach. The incremental-benefits approach considered the benefits to Steves enumerated in the first two scenarios—reduced manufacturing costs and better vendor pricing. The licensing-comparables approach considered three industry comparable license agreements in the “doorskin context” and several more in “other manufacturing settings,” all of which relied on future sales or uses of the licensed technology.

The Court disagreed with Steves that JELD-WEN's reasonable royalty damages were improperly based on future use of the trade secrets instead of actual past use. The *University Computing* case again was cited as support for reliance on future damages in reasonable royalty analyses, “the likely future consequences of the misappropriation should be considered in deciding on the proper measure of reasonable royalty damages.” The Court also specified that it is appropriate to incorporate the future earnings of the misappropriator and the loss of revenue and future worth to the owner in determining the present value of the technology for royalty purposes.

The Court rejected Steves motion for summary judgment and allowed the case to proceed to trial. At trial, on May 11, 2018, the jury awarded JELD-WEN \$1.2 million of reasonable royalty damages, well below the \$9.9 million JELD-WEN requested. JELD-WEN then filed a motion for permanent injunction to prevent Steves from using its trade secrets, which was denied. In a November 30, 2018, memorandum opinion, The Court determined a permanent injunction would result in a double recovery to JELD-WEN since it based its \$1.2 million award on future use of the trade secrets.