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Trade Secrets Issue

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Three Pitfalls for Trade Secret Plaintiffs

By Benjamin K. Riley

Arising from the intersection of cutting-edge technology and outright theft, trade secret litigation offers many fascinating challenges. But traps for the unwary plaintiff lurk at every stage of the proceeding. This article discusses three evolving pitfalls awaiting the trade secret plaintiff: the initial disclosure and description of the trade secrets, the problems encountered in responding to contention interrogatories regarding misappropriation that can be answered only by the plaintiff's expert, and the need for the damages expert to consider apportioning damages among multiple alleged trade secrets.

Initial Disclosure and Definition of Trade Secrets

The first important hurdle a trade secret plaintiff faces is defining and disclosing its trade secrets. Although this burden is not defined in the Uniform Trade Secrets Act, in adopting the act, California codified the procedures for the initial trade secret disclosure. California Code of Civil Procedure Section 2019.210 provides:

In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act, before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any [protective] orders that may be appropriate. . . . (internal citation omitted).

In other words, at the commencement of any trade secret case governed by California law, the plaintiff must serve a Section 2019 Statement that identifies, with reasonable particularity, the trade secrets alleged to have been misappropriated. Until an adequate Section 2019 Statement is served, the plaintiff cannot seek discovery of the other party's technical documents pertaining to the trade secrets. This rule has been adopted by the Ninth Circuit in cases where it follows California law.¹

Courts outside California also have required service of specific descriptions of the plaintiff's trade secrets in order to define the boundaries of discovery.² Nonetheless, California appears to be the only state that has enacted a pleading requirement that postpones discovery until service of the "reasonably particular" trade secret disclosure.³

Section 2019 serves four purposes: (1) "it promotes well-investigated claims and dissuades the filing of meritless trade secret complaints"; (2) "it

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THREE PITFALLS FOR TRADE SECRET PLAINTIFFS

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prevents plaintiffs from using the discovery process as a means to obtain the defendant's trade secrets"; (3) it "assists the court in framing the appropriate scope of discovery and in determining whether plaintiff's discovery requests fall within that scope"; and (4) "it enables defendants to form complete and well-reasoned defenses. . . ."⁴ As one court has put it, the plaintiff must describe its trade secrets "with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies."⁵ In part because this detailed description of the trade secrets normally must be served almost immediately upon filing the case, trade secret cases will normally need to be founded on well-understood and defined trade secrets for which there appears to be strong evidence of misappropriation.

A plaintiff who fails to adequately define its trade secrets and instead attempts to "get by" with amorphous concepts or vague descriptions will, at a minimum, temporarily derail its case and may well permanently damage it.

For that reason, a Section 2019 Statement and similar initial disclosure and description of trade secrets serve many important functions. First, the Section 2019 Statement provides the initial definition and notice to the defendant of the trade secrets. Second, it provides a perimeter around which technical discovery must be

framed. The defendant can resist technical discovery in areas that do not directly pertain to the trade secret.⁶ Third, even in responding to discovery framed by a "reasonably particular" trade secret disclosure, defendants may try to limit their responses to documents relevant to the alleged trade secret area at the same level of detail as disclosed in the disclosure. Thus, if the trade secret disclosure simply reveals a technical concept or overview schematic of a process, defendants may claim they need produce only the same type of concept or schematic documents, but not documents demonstrating actual detailed implementation.

Equally, and sometimes more importantly, the Section 2019 or other initial trade secret disclosure presents the first opportunity for a defendant to challenge the sufficiency of the alleged trade secrets. Where necessary, defendants will often bring deficiencies in the trade secret disclosure to the court's attention and decline to respond to discovery until an adequate disclosure is served. Accordingly, parties often engage in protracted correspondence and motion practice at the beginning of a trade secret case, arguing over whether the trade secrets have been described with "reasonable particularity" or as otherwise required by law. A plaintiff who fails to adequately define its trade secrets and instead attempts to "get by" with amorphous concepts or vague descriptions will, at a minimum, temporarily derail its case and may well permanently damage it.

For example, in *Diodes, Inc. v. Franzen*,⁷ the plaintiff's complaint described the alleged trade secret merely as a "secret process." Not surprisingly, the court found this description insufficient. Similarly, in *Imax Corp. v. Cinema Technologies, Inc.*,⁸ the Ninth Circuit held that the plaintiff had failed to adequately plead its trade secrets because it did not identify the specific dimensions and tolerances of the film projector at issue. The *Imax* court made clear that the "precise numerical dimensions and tolerances" were the trade secrets, but instead of providing the court and the parties with a list of the tolerances, the plaintiff simply referred to the design of the machinery involved and then referenced "every dimension and tolerance that defines or reflects that design."⁹

Summary judgment was affirmed for the defendant.

Fortunately, a relatively recent opinion from the California Court of Appeals, *Advanced Modular Sputtering, Inc. v. Superior Ct.*,¹⁰ examines the “reasonable particularity” requirement of Section 2019.210 and gives guidance to courts and trade secret litigants about assessing an initial trade secret disclosure. “‘Reasonable particularity’ . . . does not mean that the party alleging misappropriation has to define every minute detail” of the trade secret.¹¹ Reasonable particularity also does not require “such an exacting level of specificity that even [the plaintiff’s] opponents are forced to agree the designation is accurate.”¹² Instead, Section 2019.210 requires a description of trade secrets

“that is reasonable . . . under all of the circumstances to identify its alleged trade secrets in a manner that will allow the trial court to control the scope of subsequent discovery, protect all parties’ proprietary information, and allow them a fair opportunity to prepare and present their best case or defense at a trial on the merits.”¹³

Advanced Modular Sputtering should help limit the gamesmanship that can develop in the beginning of a case when both sides are jockeying for actual or perceived advantage in assessing the initial trade secret disclosure. The court noted that the purpose of the immediate disclosure of trade secrets is not to require miniature trials or prolonged evidentiary hearings on the trade secrets, but instead to help define discovery and let each side prepare its case.¹⁴ Consistent with *Advanced Modular Sputtering*, it seems that the best approach to preparing and analyzing a Section 2019 Statement or other initial trade secret disclosure is to measure it under a “notice pleading” standard applicable in federal court. The initial trade secret disclosure should provide the perimeters by which to understand and measure the trade secrets but allow room as the evidence develops for further particularity and refinement.¹⁵

Some flexibility as to trade secrets is essential. Defendants will often attempt to treat a trade secret as a recipe of which they are free to use fewer than all the steps or ingredients. However, liability for trade secret misappropriation “is not dependent upon proof that the alleged offender employed the trade secret in the precise form in which it was disclosed.”¹⁶ “The offender may be liable even though he uses differences in detail, modifications, or improvements.”¹⁷

Thus, while an initial trade secret disclosure must be sufficiently precise to define the trade secrets and frame the scope of technical discovery, the litigation process also needs to remain flexible enough to recognize the myriad ways in which trade secret information can be disclosed and misappropriated. If the plaintiff can establish that it possesses a legitimate trade secret for which it maintained reasonable confidentiality, then the defendant should not be able to make improper use of any confidential facet or step of the trade secret. Liability should attach even if the defendant made modifications to various elements of the trade secrets.

Following the guidance of *Advanced Modular Sputtering*, the initial trade secret disclosure should promptly provide detailed

descriptions and definitions of the trade secrets sufficient to enable discovery and to allow the case to proceed. As the evidence and case develop, certain of the trade secrets—and certain of the components of individual trade secrets—will become increasingly important and in the process will become more precisely defined.

“Fact” Discovery of an Expert’s Trade Secret Contentions

Once the plaintiff has adequately defined its trade secrets, discovery will focus on them. By definition, trade secret discovery will be taken under a protective order to preserve the confidentiality of the information. Most trade secret discovery will be covered by “Attorneys’ Eyes Only” protections, with perhaps an exception made so that the litigants’ in-house counsel can be briefed on confidential technical details and developments. This high level of confidentiality, in which important details cannot be shared with and guidance obtained from the clients’ engineers, presents acute challenges for litigating the case.

Defendants will often attempt to treat a trade secret as a recipe of which they are free to use fewer than all the steps or ingredients.

In drafting a Section 2019 Statement or similar initial trade secret disclosure, counsel will rely primarily on the engineers at the client company who develop, use, and maintain the confidentiality of the trade secrets. But after discovery starts, these same in-house engineers cannot be consulted with regard to the defendant’s development and use of the technology and whether misappropriation has occurred. Instead, in these highly complex and confidential trade secret cases, counsel must rely primarily on an outside independent expert, as supported by the attorneys’ own technical expertise, consultants, and other resources. Other than outside counsel, often only the expert can see both parties’ documents, and so ultimately it is the expert who must put together the misappropriation case.

With their respective expert’s help, each side will proceed with discovery about the other side’s technology. Documents can be obtained from the parties, and engineers from each side can be deposed on their companies’ technologies. To the extent the plaintiff itself has knowledge of how some misappropriation either might have or actually occurred, this information can be offered in response to interrogatories or deposition questions. For example, where the plaintiff knows of instances when confidential documents were taken to the defendant by former employees, or where the former employees were privy to trade secret material that now

apparently is being used by their new employer, such information can be provided during fact discovery.

The issue arises when the defendant serves contention interrogatories on the plaintiff, demanding detailed descriptions of how the defendant supposedly misappropriated the trade secrets and how that misappropriation allegedly is implemented. Other than the limited information known to the plaintiff, much of the responsive information must come from the expert's review and comparison of the parties' confidential documents. Normally, the expert would not be required to offer his or her opinions until the time set for service of expert reports or expert depositions. However, contention interrogatories offered in a trade secret case will seek to require the plaintiff to reveal all of its contentions regarding misappropriation—from any source available to it—during fact discovery.¹⁸ By necessity, most of this information will need to come from the expert. The defendant will claim it needs this information prior to expert discovery to prepare its defense properly.

What if the case proceeds to trial and the jury concludes that some but not all of the trade secrets have been misappropriated?

There does not appear to be a settled answer to this dilemma. Plaintiffs will argue that there is no authority to require its expert to provide a preliminary, piecemeal report on the defendants' misappropriation. This demand would violate Rule 26 of the Federal Rules of Civil Procedure as well as the court's expert discovery rules and schedule.¹⁹ Consequently, "interrogatories may not be served at a time that will require response in advance of the time set for expert discovery by the court or by Rule 26(a)(2)."²⁰ Plaintiff will argue that until the time set for expert discovery, the experts' opinions and work should be considered privileged under the work product doctrine.²¹

The plaintiff will also offer the practical argument that until documentary discovery is completed, documents are reviewed and digested, and depositions are taken, an expert would not yet be in a position to offer misappropriation contentions. For just this reason, expert discovery is customarily placed after the close of fact discovery. In formulating his or her opinions, an expert normally will need to consider and analyze all the evidence developed in the case to date.

In response, the defendant may cite cases for the proposition that a party may not withhold facts that support its trade secret claims just because experts will later provide opinions on those issues.²² Although there is room for argument, these cases properly

appear to stand for the proposition that a plaintiff must provide the factual basis of its claims to the extent that it *itself* possesses such information and cannot wait until expert reports to identify any facts it already possesses. These cases do not appear to reach the conclusion that facts of which *only the expert* is aware must be identified by the party before the time set for expert reports. *King v. E.F. Hutton* states that "while an expert . . . may be necessary to refine the evidence . . . , the plaintiffs must have had some factual basis . . . at the time the complaint was filed," and that "[plaintiffs] should have answered the interrogatories with such information as they then possessed"²³

Courts, however, obviously have the power to make adjustments in their case schedules, including with regard to requiring additional discovery from experts. Some trial courts, faced with the situation where the only information not revealed by plaintiff is available only from an expert, have required a party to obtain its expert's response to a contention interrogatory during fact discovery. Borrowing from the claim construction process in patent law, these courts have required the plaintiff to set forth its preliminary misappropriation contentions, including a detailed description of the trade secrets and citation to how or where those trade secrets have been used in the defendant's accused product. The court will then allow later amplification of these contentions in the expert's report but may not allow the expert to opine on trade secret areas or, possibly, areas of the defendant's alleged use of the trade secrets, which were not previously referenced in the preliminary misappropriation contention chart.

Forcing the plaintiff's expert to respond to contention interrogatories during fact discovery appears to impinge on the orderly and normal schedule of fact and then expert discovery. The solution appears to be that, during fact discovery, the plaintiff should be required to provide all factual and other information it knows itself or has obtained from nonconfidential, nonexpert sources. Information offered by experts regarding misappropriation derived from the defendants' confidential documents or even from deposition transcripts designated as confidential should not be required to be disclosed until expert discovery.

Apportioning Damages among Trade Secrets

When a trade secret case gets to the expert discovery stage, another potential trap faces the plaintiffs—this time in the realm of damages evidence. Often, multiple trade secrets will be disclosed in the Section 2019 or other preliminary trade secret disclosure. As fact discovery proceeds and liability expert discovery is completed, some trade secrets may fall out of the case as the plaintiff hones its theories and proof of misappropriation. However, by the time the damages expert offers an opinion on the lost profits, unjust enrichment, or reasonable royalty that should be awarded to the plaintiff,²⁴ multiple trade secrets will likely remain. The expert will opine on precisely what damages the plaintiff suffered as a result of the misappropriation of these various trade secrets.

Having succeeded in reaching trial, a trade secret plaintiff risks

confronting a major problem: What if the case proceeds to trial and the jury concludes that some but not all of the trade secrets have been misappropriated? Has the plaintiff's expert provided the jury with the evidence it needs to determine what amount of damages to award for misappropriation of fewer than all of the trade secrets?

This was the situation in *O2 Micro International Ltd. v. Monolithic Power Systems, Inc.*,²⁵ a case involving both trade secret and patent claims. The plaintiff alleged that eleven trade secrets were misappropriated, but the jury found that only five of the trade secrets were misappropriated and that only one misappropriated trade secret resulted in the defendant being unjustly enriched.²⁶ The problem, according to the court, was that the plaintiff's damages expert "provided the jury with a damages calculation based on an assumption that all of the trade secrets were misappropriated."²⁷ The court observed that "[a]fter the jury concluded that [the defendant] did not misappropriate all of [the plaintiff's] trade secrets, [the expert's] testimony regarding damages for misappropriation of all trade secrets was useless to the jury. The jury was then left without sufficient evidence, or a reasonable basis, to determine the unjust enrichment damages."²⁸ As a result, the defendant's motion for judgment as a matter of law was granted on the grounds that the plaintiff failed to prove unjust enrichment damages for the trade secret that the jury found to have been misappropriated.²⁹

Prudent practice suggests that counsel and experts should present both a unitary damages model and a model that breaks down the effect of the misappropriation of each trade secret.

Other cases make a similar point. In *Schiller & Schmidt, Inc. v. Nordisco Corp.*,³⁰ the court found that "[t]he expert should have tried to separate the damages that resulted from the lawful entry of a powerful competitor . . . from the damages that resulted from particular forms of misconduct allegedly committed by that competitor,"³¹ which included misappropriation of trade secrets.

Accordingly, prudent practice suggests that counsel and experts should present both a unitary damages model and, when possible, a model that breaks down the effect of the misappropriation of each trade secret. Thus, the total damages award would be premised on the finder of fact accepting liability on all the proffered claims. Supporting damages analysis would then, depending on the facts,

be offered as to the damages from misappropriating each individual trade secret and/or perhaps groups of related trade secrets. For example, in cases where the plaintiff claims that misappropriation of its trade secrets provided the defendant with a "head start" in developing and bringing a competing product to market, the head start obtained by a defendant who misappropriates only one or two trade secrets could be shorter than the head start accorded a defendant who misappropriated multiple trade secrets, depending upon the complexity and length of the applicable development processes. The key is to consider and address this apportionment issue in connection with the damages expert's report.

Conclusion

As in any litigation, trade secret cases require counsel to be strategically aware of the potential problems that might arise in the case and to plan for them. Offering prompt and detailed disclosure and descriptions of the trade secrets, fully disclosing the plaintiff's own factual knowledge and contentions regarding misappropriation while reserving an expert's opinion for expert discovery, and, where possible, apportioning damages among trade secrets should help counsel avoid three of the most challenging trade secret pitfalls. ■

Endnotes

1. *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161 (9th Cir. 1998). However, note that the U.S. District Court for the Eastern District of California recently held in *Funcat Leisure Craft, Inc. v. Johnson Outdoors, Inc.* (S-06-0533, 2007 U.S. Dist. LEXIS 8870, at *7-8 (E.D. Cal. Jan. 29, 2007)) that section 2019.210 "simply sets out a procedural pleading or identification threshold prior to the initiation of discovery—both purely procedural matters," and is therefore preempted by Federal Rule of Civil Procedure 26 in federal diversity actions.

2. See *Xerox Corp. v. Int'l Bus. Machs. Corp.*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974); *Loctite Corp. v. Fel-Pro Inc.*, 28 Fed. R. Serv. 2d 99 (N.D. Ill. 1978); *Porous Media Corp. v. Midland Brake Inc.*, 187 F.R.D. 598, 600 (D. Minn. 1999); *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1322, 1324 (S.D. Fla. 2001).

3. *Computer Econ., Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 984 n.3 (S.D. Cal. 1999). See also *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 33 (Del. Ch. 1986) (court refused to compel discovery of defendant's technical documents until plaintiff identified its trade secrets with "reasonable particularity").

4. *Computer Econ.*, 50 F. Supp. 2d at 985 (citations omitted).

5. *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 253 (Cal. Ct. App. 1968).

6. See *Struthers Scientific & Int'l Corp. v. Gen. Foods Corp.*, 51 F.R.D. 149 (D. Del. 1970) (plaintiff required to specifically identify its trade secrets before it may compel discovery of adversary's

relevant technical documents); *Engelhard*, 505 A.2d at 33 (same).

7. *Diodes*, 260 Cal. App. 2d at 253.

8. *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161, 1167 (9th Cir. 1998).

9. *Id.* at 1166–67.

10. 132 Cal. App. 4th 826, 835 (Cal. Ct. App. 2005).

11. *Id.*

12. *Id.* at 836.

13. *Id.* (internal citation omitted).

14. *Id.* at 835–36.

15. See, e.g., *Cinebase Software, Inc. v. Media Guaranty Trust, Inc.*, No. C98-1100, 1998 U.S. Dist. LEXIS 15007, *21 (N.D. Cal. Sept. 21, 1998).

16. *Digital Dev. Corp. v. Int'l Memory Sys.*, No. 72-55, 1973 U.S. Dist. LEXIS 11388, at *17–18 (S.D. Cal. Oct. 24, 1973).

17. *Id.* at *18. See also *Engelhard Indus., Inc. v. Research Instrumental Corp.*, 324 F.2d 347, 353 (9th Cir. 1963) (“[T]o sustain [plaintiff's] claim of unfair competition it is only necessary that some secret information relating to one or more essentials of the method or apparatus invented by [inventor] have been misappropriated.”); *Sinclair v. Aquarius Elecs., Inc.*, 42 Cal. App. 3d 216, 222 (Cal. Ct. App. 1974) (“‘Outright and forthright duplication is a dull and very rare type of infringement.’”) (quoting *Graver Tank & Mfg. Co. v. Linde Air Prods. Co.*, 339 U.S. 605, 607 (1950)); *Cybertek Computer Prods., Inc. v. Whitfield*, 1977 Cal. App. LEXIS 2140, at *20 (Cal. App. Dep't Super. Ct. 1977) (“[T]rade secrets need not be exactly copied in order to impose liability.”); *Mycalex Corp. of Am. v. Pemco Corp.*, 64 F. Supp. 420, 425 (D. Md. 1946) (“[I]n determining the question of liability for disclosure or use of another's trade secret . . . there is no requirement to prove, in order to impose liability, that the alleged offender use such trade secret in precisely the form in which it was disclosed to him. He may be liable even though he use [sic] it with various modifications or improvements, as a result of his own efforts.”).

18. See FED. R. CIV. P. 33(a) (party responding to interrogatories “shall furnish such information as is available”).

19. See FED. R. CIV. P. 26(a)(2)(C) (“[expert] disclosures shall be made at the times and in the sequence directed by the court”).

20. 7 JAMES WM. MOORE ET AL., *MOORE'S FEDERAL PRACTICE* § 33.71 (3d ed. 2006); see also *B.C.F. Oil Refining, Inc. v. Consol. Edison Co. of N.Y.*, 168 F.R.D. 161, 166 (S.D.N.Y. 1996) (answers to interrogatories regarding the scope of expert's testimony not required until expert report); *New Haven Temple SDA Church v. Consol. Edison Corp.*, 94 Civ. 7128, 1995 U.S. Dist. LEXIS 8220,

at *15–16 (S.D.N.Y. June 13, 1995) (party need not answer interrogatories requiring expert opinion until “a later point, normally at or near the close of fact discovery”).

21. See, e.g., *FMC Corp. v. Vendo Co.*, 196 F. Supp. 2d 1023, 1044 (E.D. Cal. 2002).

22. E.g., *Essex Builders Group, Inc. v. Amerisure Ins. Co.*, 230 F.R.D. 682, 685 (M.D. Fla. 2005) (“It is no answer for plaintiffs to assert that they will need discovery or to consult with an expert to determine their losses.”) (quoting *King v. E.F. Hutton & Co.*, 117 F.R.D. 2, 5 (D.D.C. 1987)).

23. 117 F.R.D. at 5 (emphases added); accord *Magarl, L.L.C. v. Crane Co.*, IP 02-0478, 2004 U.S. Dist. LEXIS 24283, at *18–19 (S.D. Ind. Sept. 29, 2004).

24. See Uniform Trade Secrets Act § 3 (1985).

25. 399 F. Supp. 2d 1064 (N.D. Cal. 2005).

26. *Id.* at 1076.

27. *Id.*

28. *Id.* at 1077.

29. *Id.*

30. 969 F.2d 410, 415–16 (7th Cir. 1992).

31. See also *RESTATEMENT (THIRD) OF UNFAIR COMPETITION* § 45 cmt. f (1995): “[i]f 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[.]” *Estate of Vane v. The Fair, Inc.*, 849 F.2d 186, 188 (5th Cir. 1988) (plaintiff's proof of profits in copyright infringement case was considered too speculative where “[s]ome portion of the profits may have been attributable to the infringement, but much of the profits must be attributed to noninfringing aspects of the commercials”). But cf. *DSC Comm'nns Corp. v. Next Level Comm'nns*, 107 F.3d 322, 330 (5th Cir. 1997) (trade secret plaintiff “was not obligated to precisely apportion damages for each instance of wrongful conduct it alleged, as unitary damages models are permissible under Texas law”); *Am. Loan Corp. v. Cal. Commercial Corp.*, 211 Cal. App. 2d 515, 524 (Cal. Ct. App. 1963) (court rejected claim in trade secret case that there was no evidence to support a finding of damages where it was unclear what percentage of defendant's transactions were with customers taken from plaintiff's customer list, stating, “[o]ne whose wrongful conduct has rendered difficult the ascertainment of the damages cannot escape liability because the damages could not be measured with exactness.”) (quoting *Tomlinson v. Wander Seed & Bulb Co.*, 177 Cal. App. 2d 462, 474 (Cal. App. 2d Dist. 1960)).