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COURT OF APPEALS

STATE OF NEW YORK

E.J. BROOKS COMPANY,

Appellant-Respondent,

-against-

No. 26

CAMBRIDGE SECURITY SEALS,

Respondent-Appellant.

20 Eagle Street
Albany, New York
February 8, 2018

Before:

CHIEF JUDGE JANET DIFIORE
ASSOCIATE JUDGE JENNY RIVERA
ASSOCIATE JUDGE LESLIE E. STEIN
ASSOCIATE JUDGE EUGENE M. FAHEY
ASSOCIATE JUDGE MICHAEL J. GARCIA
ASSOCIATE JUDGE ROWAN D. WILSON
ASSOCIATE JUDGE PAUL FEINMAN

Appearances:

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1 CHIEF JUDGE DIFIORE: Okay. First matter on the
2 calendar is appeal number 26, which is E.J. Brooks Company
3 v. Cambridge Security Seals.

4 Counsel?

5 MR. GOLDMAN: My name is Daniel Goldman. I'm
6 from Kramer Levin. I represent the appellant, TydenBrooks.
7 I'd respectfully request to reserve two minutes for
8 rebuttal.

9 CHIEF JUDGE DIFIORE: You may, sir.

10 MR. GOLDMAN: Tyden has an affirmed jury verdict
11 by the Second Circuit that appellee-defendant stole Tyden's
12 manufacturer process and thereby was unjustly enriched by
13 this fact. The award of avoided development costs is
14 simply a disgorgement of that unjust enrichment.

15 JUDGE FEINMAN: So before we get into that, I
16 just want to understand the underlying premise or framework
17 that you want us to use. Do you want us to say that these
18 damages are restitutionary or compensatory?

19 MR. GOLDMAN: These are compensatory damages.

20 JUDGE FEINMAN: Okay. So then if they are
21 compensatory, why is it that the avoided costs are the
22 appropriate proxy for the plaintiff's own costs?

23 MR. GOLDMAN: Well, I would respectfully disagree
24 that they have to be a proxy for - - - well, for
25 plaintiff's costs. But in this case, the avoided



1 development costs were a combination of two factors. One,
2 it was based upon Tyden's own capital costs and the
3 defendant's labor costs. So it was a combination of both.
4 And in this case, avoided development cost was the most
5 direct way to measure the harm. The defendant was unjustly
6 enriched, by stealing this manufacturing process, to the
7 tune of 3.9 million dollars.

8 JUDGE FEINMAN: See, that gets back to my first
9 question, because once we start talking about unjust
10 enrichment and - - - you know, are we really talking about
11 compensatory damages - - -

12 MR. GOLDMAN: Well, it's a form of compensatory;
13 it could be restitution.

14 JUDGE FEINMAN: - - - and disgorgement, you know
15 - - -

16 MR. GOLDMAN: But in this case, though, Tyden has
17 an affirmed jury verdict on the cause of action for unjust
18 enrichment.

19 JUDGE GARCIA: We all agree on that.

20 MR. GOLDMAN: Right.

21 JUDGE GARCIA: So why don't we talk about
22 damages? So I'm having some trouble understanding why we
23 would want to carve out a separate category for damages
24 where it seems like there are three categories,
25 traditionally: plaintiff's loss, profits unjustly



1 received, reasonable royalty. Why couldn't you, in the
2 appropriate circumstances, use whatever calculations you
3 want to try to use to show avoided costs that fit within
4 one of the established theories?

5 MR. GOLDMAN: Well, as the district court held,
6 this was a form of the defendant's profits. It's not
7 bottom-line profits, but they got a gain. They got a
8 tremendous gain, to the value of 3.9 million dollars. So
9 the term "profits" should not be construed in a narrow
10 fashion.

11 JUDGE RIVERA: Are you saying it's a calculation
12 method more than a new category?

13 MR. GOLDMAN: Yeah, exactly; it is not a new
14 category.

15 JUDGE FAHEY: But don't you have to link it to
16 plaintiff's actual losses? Don't you have to show your
17 actual losses, not - - - not costs that they avoided, but
18 instead your actual losses? What actual losses would you
19 link it up to?

20 MR. GOLDMAN: I do not believe, nor should this
21 court adopt a rule that - - - that would very narrowly say
22 that the plaintiffs have to link - - -

23 JUDGE FAHEY: What I struggle with, though, is
24 whether New York already has that rule. And that - - -
25 that's one of the questions in - - - in the damages



1 question.

2 MR. GOLDMAN: Right, and - - -

3 JUDGE FAHEY: So why don't you address that?

4 MR. GOLDMAN: Right.

5 JUDGE FAHEY: Okay.

6 MR. GOLDMAN: And certainly that's defendant's
7 position, but I would - - - I would respectfully disagree;
8 that is the law in New York. And in fact, the one court of
9 appeals case they do cite, which is the Michel Cosmetics
10 case - - - it's from 1940 - - - states, I quote, "a
11 wrongdoer who has used defendant's secret processes might
12 be compelled to yield up his gains under constructive trust
13 theory". That's the - - -

14 JUDGE STEIN: Yeah, but gains are generally
15 thought of as their profits, right? And - - - and so if
16 they - - - if they had profits which would otherwise have
17 been the profits of plaintiffs, that's different from
18 saying costs, that they - - - that they gained by not
19 having to spend something.

20 MR. GOLDMAN: I understand - - -

21 JUDGE STEIN: Do you see - - -

22 MR. GOLDMAN: I understand. I understand, Your
23 Honor.

24 JUDGE STEIN: So - - -

25 MR. GOLDMAN: But it's really - - -



1 JUDGE STEIN: So the connection isn't really the
2 same.

3 MR. GOLDMAN: Well, it's really the flip side of
4 the same coin. I mean, this was the start up a company.
5 It probably wouldn't have been even been able to exist but
6 for the fact that it stole the processes. Say - - -

7 JUDGE WILSON: I mean, essentially, what's you're
8 saying, I think, and stop me if I'm wrong, is that their
9 profits were X, they didn't have to spend the development
10 costs of Y, and therefore their profits would have been X-Y
11 instead of X, and you're entitled - - - essentially, their
12 profit is greater than it would have been because they
13 didn't have to spend something to develop a product.

14 MR. GOLDMAN: Correct. Correct.

15 JUDGE WILSON: Would - - - would you agree that
16 it would have been possible for them - - - I realize - - -
17 I don't know if they did this, but you would agree that
18 they could put in proof that their development costs at the
19 time they would have developed this, some other method or
20 your method, would have been less than what you actually
21 incurred?

22 MR. GOLDMAN: They could have put in proof, but
23 they didn't. They didn't even - - -

24 JUDGE GARCIA: Right, but you - - - you admit
25 that they could - - -



1 MR. GOLDMAN: Exactly.

2 JUDGE WILSON: - - - do that?

3 MR. GOLDMAN: Sure. They could put in proof.
4 They could have an expert, they could put in proof, and say
5 our development costs would have been actually what we
6 spent. It took us nine months, we spent X; that's what
7 they would have been had we not stolen the trade secrets.

8 JUDGE WILSON: Or well, they could have - - - or
9 they could have said, look, your development costs were ten
10 million dollars, but times have changed, there's now some
11 new things that we could have used, labor is cheaper,
12 whatever, and so our development costs, had we not stolen
13 this, could have been five.

14 MR. GOLDMAN: Yeah.

15 JUDGE WILSON: They could have put that proof on?

16 MR. GOLDMAN: Absolutely.

17 JUDGE FAHEY: But in that - - -

18 JUDGE RIVERA: But I assume your position is
19 that, yes, they could have done that, but they couldn't
20 have said the development costs would have been lower
21 because they had the benefit of what you had already done.

22 MR. GOLDMAN: Correct.

23 JUDGE RIVERA: Unless that was out in the public
24 domain.

25 MR. GOLDMAN: Which it was not. There's a jury



1 verdict that they stole our trade secrets, that they were
2 unjustly enriched, and there was unfair competition. So we
3 established that at trial, and then the question here is
4 just what the damage is.

5 JUDGE STEIN: Have you made an alternative
6 argument, because it's not clear to me that you have, that
7 if we disagree with you that we should consider using the
8 reasonable royalty measure of damages?

9 MR. GOLDMAN: I have not made that argument.

10 JUDGE STEIN: Okay.

11 MR. GOLDMAN: I mean, the point is, look, this is
12 - - - this is widely recognized by federal court - - -
13 federal circuits, by the Northern District of New York in
14 the Cargill case, by the Restatement of Unfair Competition.
15 It's widely rec - - -

16 JUDGE RIVERA: Can I ask? Did you go one step
17 further, though? Did you say that they would not have even
18 existed but for the theft?

19 MR. GOLDMAN: Well, they - - - that was an
20 extreme statement. They would have - - - they would have
21 assisted, but it would have taken them, instead of hitting
22 the ground running in nine months, they would have hit the
23 ground running maybe in two or three years. So yes, they
24 would have existed. They were - - -

25 JUDGE FAHEY: We get your argument: savings



1 equals profits. That's - - - that's straightforward. I
2 understand that argument. What I struggle with is - - - is
3 the proximate cause problem. And I suppose, and you can
4 react to this, is - - - it's simply a matter of saying are
5 the damages that we've identified, or are the losses or the
6 savings that they generated, the proximate cause of our
7 lost profits. And isn't that what you're arguing here?
8 And - - -

9 MR. GOLDMAN: Well - - -

10 JUDGE FAHEY: And so isn't it really simply a
11 jury question then, ultimately, all the time: can you
12 connect this - - - we said they saved this much money; can
13 you connect that to profits that we would have made? And
14 that's where you get into the problem of actual losses
15 versus specu - - - or actual profits versus speculative
16 profits, that you would have had those profits, somehow, if
17 they had - - - if they had those savings.

18 MR. GOLDMAN: Well, I - - - we don't believe that
19 - - - that we have to show that the avoided development
20 costs are - - - are actually a proxy of the profits that we
21 otherwise lost. That - - - in - - - in trade secret cases,
22 particularly with manufacturing processes, it's oftentimes
23 difficult to calculate - - -

24 JUDGE FAHEY: Um-hum.

25 MR. GOLDMAN: - - - what - - - what the actual



1 lost profits are, why - - - which is why this measure of
2 damages exists.

3 JUDGE RIVERA: Yeah, but isn't it really a - - -
4 isn't it really a profit because either they spend whatever
5 X amount of time it would be to develop it on their own, or
6 they have to pay you? It's money you would not have gotten
7 from them to do this.

8 MR. GOLDMAN: It's - - - it's lost value. They
9 have a gain - - -

10 JUDGE RIVERA: Sure.

11 MR. GOLDMAN: - - - which is the value of our
12 manufacturing.

13 JUDGE RIVERA: Yeah, so I'm saying, to the extent
14 that you're being asked about - - - that's the plus side.
15 Where's the minus side? It strikes me that if you're
16 arguing about what you're equating with this trade secret,
17 they have two choices: develop it on their own, or knock
18 on your door and say I'll pay you for it because I want to
19 get into this market.

20 MR. GOLDMAN: Well, I think - - -

21 JUDGE FAHEY: Here's the problem, though. The
22 problem is is that in tort law you have to show an actual
23 loss to be compensated. And your difficulty is showing the
24 actual loss.

25 MR. GOLDMAN: Well, I - - - I think, by



1 definition, when they stole our trade secrets in the
2 manufacturing process, that alone is an actual loss.

3 JUDGE WILSON: So an element of something being a
4 trade secret is it has to have economic value?

5 MR. GOLDMAN: Exactly. It has to be - - - it has
6 to have economic value, which it - - - which it does, and
7 the jury found it did. It has to be - - - it has to be,
8 obviously, a secret. So by definition, when they steal the
9 trade secret, we have a loss. They have a manufacturing
10 process they stole - - -

11 JUDGE STEIN: But if you - - - if your profits
12 haven't changed one bit from what they would have been had
13 they not stolen your trade secret, then the question is
14 what is your loss.

15 MR. GOLDMAN: Our loss is that - - - that - - -
16 that they - - - they could have come to us and, you know,
17 attempted to - - - they could have come to us and
18 negotiated to try to - - -

19 JUDGE STEIN: So that sounds like a royalty
20 payment.

21 MR. GOLDMAN: Well, it could be a royalty
22 payment, but in - - - but - - -

23 JUDGE STEIN: But it's not - - - it - - -

24 MR. GOLDMAN: - - - our loss is that we have - -
25 - that there's an inherent right to protect intellectual



1 property.

2 JUDGE STEIN: Agreed.

3 MR. GOLDMAN: And - - -

4 JUDGE STEIN: But - - - but their loss - - -
5 there's no - - - there's no necessary connection that - - -
6 that what you lost is the same as what they gained. That -
7 - - I think that's what Judge Fahey is saying.

8 MR. GOLDMAN: Well, we - - - we did not put in
9 evidence to show that we lost 3.9 million dollars of sales,
10 which is what the jury verdict was, on the value of the
11 avoided development costs. So we didn't have that
12 evidence.

13 JUDGE GARCIA: Well, couldn't you use avoided
14 costs to show the value of a royalty payment in calculating
15 what an appropriate royalty would be? I mean, they avoided
16 these costs, so what would they have paid you to license
17 it?

18 MR. GOLDMAN: It could be a royalty payment. It
19 could be. And what I think - - -

20 JUDGE GARCIA: And wouldn't that fit within one
21 the standard - - -

22 MR. GOLDMAN: But I think - - -

23 JUDGE GARCIA: - - - measures of damages - - -

24 MR. GOLDMAN: But I think - - -

25 JUDGE GARCIA: - - - that we've been talking



1 about?

2 MR. GOLDMAN: I think here that is their gain.
3 Their gain is that they hit the ground running in nine
4 months. Their gain was 3.9 million dollars. And that's
5 what they should disgorge. And it took twenty years to
6 develop this process. They walked out the door with it.

7 JUDGE RIVERA: So is your point that they need to
8 be put on the same - - - at the same footing that they
9 would have been in if they had not - - -

10 MR. GOLDMAN: Exactly.

11 JUDGE RIVERA: - - - taken the trade secret?

12 MR. GOLDMAN: And they should disgorge that
13 unjust gain.

14 JUDGE RIVERA: And then you can compete with them
15 on that level, or whoever they would have stolen it from
16 could compete with them on that level?

17 MR. GOLDMAN: That's correct.

18 JUDGE GARCIA: Did you ask for punitive damages
19 here?

20 MR. GOLDMAN: We did ask for punitive damages.

21 JUDGE GARCIA: And it - - - that went to the
22 jury?

23 MR. GOLDMAN: That went to the jury, and we did
24 not receive them.

25 CHIEF JUDGE DIFIORE: So can the avoided-loss



1 method be viewed as a way of punishing the alleged mis - -
2 - or the misconduct without meeting the high standard of a
3 punitive-damages - - -

4 MR. GOLDMAN: No - - -

5 CHIEF JUDGE DIFIORE: - - - award?

6 MR. GOLDMAN: No, because it can be measured.
7 Punitive damages is a punishment - - - you know, has a - -
8 - has, obviously, a very high standard - - -

9 CHIEF JUDGE DIFIORE: Um-hum.

10 MR. GOLDMAN: - - - in the State of New York.
11 This is not punitive. This is - - - this is a measurable
12 damage which was based upon facts, based upon capital costs
13 of Tyden, based upon their labor costs, based upon expert
14 testimony. It's not a punitive. This is what they gained
15 when they took - - - you know, unjustly, when they stole
16 the trade secret. This is what they should give up. And
17 again, it's widely recognized around the country. We've
18 cited many cases. I'm not going to recite - - - you know,
19 repeat them. But it's widely recognized and the - - - you
20 know, in the State of New - - -

21 JUDGE STEIN: But in most of those states, didn't
22 - - - haven't they - - - don't they base that on their - -
23 - their adoption of the Uniform Act?

24 MR. GOLDMAN: Some do, but the Uniform Act is
25 just a codification of the common law, and a number of the



1 cases that we cite pre - - - pre-date the Uniform Act. And
2 you have the Restatement of Unfair Competition, which is
3 just a restatement of common law which - - - which states
4 that this is a method of damage. So New York, which is a
5 center of the technology financial manufacture sector, the
6 New York law should provide this remedy to protect
7 intellectual property. It should be more restrictive than
8 places like California and Pennsylvania and Delaware.

9 CHIEF JUDGE DIFIORE: Thank you, counsel.

10 MR. GOLDMAN: You're welcome.

11 CHIEF JUDGE DIFIORE: Counsel?

12 MR. FETTERMAN: May it please the court. Daniel
13 Fetterman for the respondent-appellate, Cambridge Security
14 Seals, or as it often is referred to as CSS.

15 JUDGE STEIN: Counsel, so what happens when you
16 have a situation where someone has stolen someone else's
17 trade secrets and - - - and the - - - the defendant, the
18 person who allegedly stole those trade secrets, doesn't
19 have profits that can be, you know, attributable to a loss
20 of profits from the plaintiff? What do you do? Are you
21 saying that - - - that then there are no damages
22 recoverable?

23 MR. FETTERMAN: Well, no, Your Honor. In fact, I
24 think that the - - - the classic rule in - - - in - - - in
25 this court, going back, you know, a hundred years, is that



1 the measure of damages in torts is the plaintiff's loss
2 that was caused by the defendant and not from some other
3 cause. So if the defendant has no profits, then there are
4 cases which suggest that the - - - the remedy, it would be
5 the injunction that you could get, the injunctive relief.

6 And I - - - I think you can look to some of the
7 cases here. For example, in the Electrolux case I think is
8 a good example, where what happened in that case was a bait
9 and switch scheme where they were taking rebuilt Electrolux
10 - - - another company was taking rebuilt Electrolux vacuum
11 cleaners into homes, with brand new vacuum cleaners of - -
12 - of competitors and basically denigrating the Electrolux
13 vacuum cleaners and saying you should buy one of these
14 other new ones. And the court there said that the
15 plaintiff is not entitled to all of the defendant's
16 profits, and in fact, the only profits that they'll be
17 entitled to is any loss that the plaintiff suffered as a
18 result of the denigration.

19 JUDGE STEIN: But there there was some provable
20 profits that the - - - that the defendant did earn. And
21 what the court said was, but not all of those profits are
22 attributable, necessarily, to - - - to what you did, and
23 you have to connect up which ones didn't. I am suggesting
24 that - - - or I'm asking the question of what happens when
25 you don't have proof of any profits at all on the part of



1 the defendant.

2 MR. FETTERMAN: Well, I think if there - - - if
3 there are no profits on the part of the defendant, then
4 there is no loss to the plaintiff. If the defendant hasn't
5 sold a single widget yet, then they haven't - - -

6 JUDGE STEIN: I'm not saying they haven't sold
7 one, but they - - - but they haven't profitted from one.

8 MR. FETTERMAN: Well, I think maybe profits is
9 the wrong - - - is the wrong measure then. The question is
10 what sales were diverted from the plaintiff? How did the
11 plaintiff - - - how is the plaintiff harmed? And the - - -

12 JUDGE WILSON: And what happens if in the real
13 world that's very difficult to prove? Can't we use the
14 value of what was stolen as a proxy?

15 MR. FETTERMAN: Well, here, I think, Your Honor,
16 the - - - the correct proxy, then, is reasonable royalty.
17 If you're going to go to a proxy - - - and I think the
18 cases basically say that lost profits are the best measure,
19 but for - - -

20 JUDGE WILSON: Well, then go to Judge Garcia's
21 question, which is could you base the profits so that it
22 yielded the net present value of the 3.9 million dollars?

23 MR. FETTERMAN: Well, I think - - - I think the
24 reasonable royalty wouldn't end up being 3.9 million.

25 JUDGE WILSON: Why?



1 MR. FETTERMAN: 3.9 million in this case was a
2 very unjust result.

3 JUDGE WILSON: Well, that - - - I mean, that's
4 the judgment of the federal district court. We're not - -
5 -

6 MR. FETTERMAN: I understand. But there - - -

7 JUDGE WILSON: - - - able to reformulate the
8 number.

9 MR. FETTERMAN: - - - there was - - - there was a
10 - - -

11 JUDGE RIVERA: So maybe you can help with the - -
12 - you say it wouldn't have been the same. What's the
13 calculation for the royalty that's different from the
14 calculation that we're talking about here?

15 MR. FETTERMAN: There - - - there was evidence in
16 the record. It's at A.1087 and 1088. It was an evaluation
17 company that looked at what the technology was worth and
18 came up with what a reasonable royalty would be, which is
19 about 4.5 percent. They are standard measureable
20 benchmarks for reasonable royalties and - - - and for
21 royalties. And if you multiply that times CSS's sales of
22 4.1 million, you end up with, like, 200,000 dollars. If
23 you think about it, the result here is punitive; it is not
24 compensatory. It is completely untethered from the
25 plaintiff's losses.



1 JUDGE FAHEY: Well, so, I - - - I understand. So
2 you're arguing reasonable royalty as a financial
3 alternative to the punitive nature of avoided costs; is - -
4 - is that what you're saying to us?

5 MR. FETTERMAN: Correct.

6 JUDGE FAHEY: All right. Let me just turn to
7 another - - - we don't have a lot of time here, and I just
8 want to turn to one area that I think is very important.
9 It's the public policy implications of - - - of whether we
10 go forward with avoided costs or don't. It seems to me
11 there are four reasons to go forward with avoided costs.

12 First, you've got New York as a national
13 commercial center, in combination with the fact that if we
14 don't go forward with a uniform trade secret type of
15 avoided costs formula, plaintiffs will simply go into
16 federal court, and New York will lose that litigation and
17 its - - - its pre-eminence in commercial litigation.

18 Secondly, there's a lack of clear precedent in
19 our court. We've got two - - - three cases; none of them
20 break the 1950 mark, I don't think.

21 The third is that I count six federal circuits
22 that have already adopted this philosophy. It seems to be
23 the prevalent legal philosophy in the country right now.

24 And - - - and finally, that the common law
25 tradition, stated by the Restatement (Third), which seems



1 to support New York moving in - - - in this as a public
2 policy direction.

3 And I don't - - - I don't expect you to answer
4 them all at once, but what are the public policy reasons
5 against us going this way?

6 MR. FETTERMAN: Okay. The first one, I - - - I
7 would submit, is that you're going to be overruling
8 literally a hundred years of precedent of - - - of damages
9 in New York which is - - -

10 JUDGE FAHEY: You mean we're going to be changing
11 the definition of damages, in essence? We're not talking
12 about actual losses now; we're talking about speculated
13 avoided costs. That's - - - that's your argument, isn't
14 it?

15 MR. FETTERMAN: That - - - that - - - well, - - -
16 well, there - - - these are not compensatory. That - - -
17 that's really my argument, Your Honor, that - - - that when
18 - - - when a - - - a plaintiff who had a trademark, when
19 you look at all of the cases that where a trademark - - - a
20 trademark or some other process was stolen, and then they
21 look at which sales caused harm - - - and I understand that
22 there may be a situation where there are no sales. But - -
23 - but they only allow a plaintiff to recover some small
24 percentage of those sales that actually harmed the
25 plaintiff. Here they recovered virtually a hundred percent



1 of CSS's sales, including its sales revenues from
2 noninfringing products.

3 JUDGE WILSON: I don't see why it's not - - - I
4 mean, if I have a brief case with four million dollars and
5 - - - and you take it, I don't see why giving it back to me
6 isn't compensatory. What's different about this?

7 MR. FETTERMAN: Because we - - - because we
8 didn't steal their - - - we didn't steal their process. We
9 didn't steal their money. What we took was their exclusive
10 right to the use of their process, which they could have
11 licensed. We got the benefit of a license. And there was
12 evidence that we could have gone out and licensed this,
13 actually had it developed by a third party, for less money.
14 And these were fairly - - -

15 JUDGE WILSON: Presumably, the trier of fact
16 rejected that evidence.

17 MR. FETTERMAN: That may - - - that may be that
18 the trier of fact did - - -

19 JUDGE WILSON: Aren't we stuck with that then?

20 MR. FETTERMAN: What's that?

21 JUDGE WILSON: Are we then stuck with that? We
22 can't undo that judgment.

23 MR. FETTERMAN: But - - - but again, you're - - -
24 you're awarding something - - - well, let me make two
25 points. One is the - - - the avoided costs that the



1 plaintiffs are advocating here are not the avoided costs
2 that have been recognized across the country. I think when
3 you go back and look at the cases you'll see, as Judge
4 Garcia suggested, that avoided costs are used as a factor
5 in determining what a reasonable royalty would be. So
6 that's the first point.

7 The - - - the use of alternative measures of
8 damages are not standard to - - - to address the policy
9 point. They're - - - they're all over the map. And - - -
10 and most courts will use the reasonable royalty method as a
11 proxy when loss profits aren't available, and they use
12 avoided costs as a factor in determining what an
13 appropriate reasonable royalty should be because that's
14 what was taken, the right, the exclusive right. The
15 plaintiff's still benefiting from their process and their
16 manufacturing; we just aren't paying a licensing fee. And
17 that's how avoided costs are typically used. When the
18 avoided costs are used in those cases, and I - - - and I
19 invite the court to go back and look at the cases that
20 they've cited, they typically look to what the plaintiff's
21 development costs were, the actual costs, not speculative
22 testimony about what it would cost.

23 And so I would submit, if the court decides that
24 it's going to move to an alternative measure of damages,
25 that this court should adopt a reasonable royalty and have



1 avoided costs be a factor in that. And frankly, it should
2 be based on what the plaintiff actually spent, not, you
3 know, a battle of experts about speculation about how many
4 months or years it would have taken, because a party in the
5 position of CSS could go into the market and license the
6 technology. And I - - - I believe - - - let me check - - -
7 I believe that evidence was in the record. I believe
8 evidence was in the record. The fact finder, you know, the
9 jury may not have accepted it, but there was evidence in
10 the record that we could have licensed this from another
11 party for less.

12 JUDGE RIVERA: But I think the point is you
13 didn't, right? So - - -

14 MR. FETTERMAN: We didn't. I agree. And so - -
15 - so the question is - - -

16 JUDGE RIVERA: So they're stuck with you've
17 stolen their secret.

18 MR. FETTERMAN: They're stuck with stolen - - -
19 but the question is not - - -

20 JUDGE RIVERA: And otherwise, are you walking
21 away with a windfall?

22 MR. FETTERMAN: We don't walk away with a
23 windfall if we have to pay an appropriate reasonable
24 royalty. We're paying for what we took. We - - - we took
25 the - - - basically the right to use their process, and in



1 the marketplace, in the commercial marketplace, what
2 parties do when they want to use someone's process is they
3 license it and they pay a reasonable royalty. I would
4 submit that - - - that - - - that - - -

5 JUDGE RIVERA: But who knows, in the marketplace,
6 if you had gone to them, what you would have had to pay?

7 MR. FETTERMAN: I'm sorry?

8 JUDGE RIVERA: Who knows, in the marketplace,
9 what you would have had to pay if you went to them? You
10 stole it from them; you didn't steal it from the other
11 group that you're saying you would have licensed it from.

12 MR. FETTERMAN: I understand that, Your Honor,
13 but I think here the - - - the question is we're - - -
14 we're trying to fashion a compensatory remedy. This is a
15 proxy. And the proxy should be the - - - the fairest proxy
16 possible. And it should be based on commercial - - -
17 commercially reasonable norms. And - - - and I submit that
18 actually the - - - the kinds of results that you'll get if
19 you adopt the measure of damages that they suggested, which
20 is, you know, the sort of hypothetical cost to the
21 defendant, instead of a reasonable royalty, will make this
22 a much less attractive place for businesses. And it's - -
23 -

24 JUDGE FEINMAN: I guess I'm still struggling
25 where I started with your adversary, which is, you know,



1 perhaps it's time to move away, if we're really going to
2 enforce trade secrets and anti-compet - - - and fair trade,
3 to do a deterrent-based calculation as opposed to just a
4 purely compensatory model, and why we shouldn't be doing
5 that to catch up with some of the other jurisdictions.

6 MR. FETTERMAN: Well, I would - - - I would
7 respectfully submit that you have a hundred years of
8 jurisprudence that - - - that, in New York, that cases and
9 the outcome are - - - are uniform. The measure of - - - of
10 damages that - - - that is applied is uniform, and if there
11 needs to be punishment, punitive damages are available.

12 And I would also submit that - - - that if you
13 introduce the proxy of a reasonable royalty, that would be
14 far better than allowing these - - -

15 JUDGE FEINMAN: Okay.

16 MR. FETTERMAN: - - - unfair and unanchored
17 results.

18 JUDGE GARCIA: May I, Chief, just one?

19 CHIEF JUDGE DIFIIORE: Yes, of course.

20 JUDGE GARCIA: I don't know the answer to this.
21 A reasonable royalty calculation, is that generally a
22 percentage of the price or sales? I - - - I don't - - -

23 MR. FETTERMAN: I think that there are a number
24 of factors that go into it. And UTSA, for example, lays
25 out factors that one can look at. And - - -



1 JUDGE GARCIA: But the actual implementation of
2 whatever they come up with, is that generally a percentage
3 on sales or is it a number?

4 MR. FETTERMAN: No, it's a percent - - - it's a
5 percentage on sales, Your Honor. And - - - and as I
6 mentioned, there - - - there was a percentage in the
7 record, based on this technology, that Evaluation Group had
8 done, that suggested that it - - -

9 JUDGE GARCIA: So - - -

10 MR. FETTERMAN: - - - was around 4.5 percent.

11 JUDGE GARCIA: - - - if you sold two widgets, you
12 would apply the percentage to the sales. But if you went
13 on avoided costs, you'd pay 3.9 million dollars as soon as
14 one rolled off the assembly line.

15 MR. FETTERMAN: Right.

16 CHIEF JUDGE DIFIORE: Thank you, counsel.

17 MR. FETTERMAN: Thank you, Your Honor.

18 THE COURT: Mr. Goldman?

19 MR. GOLDMAN: A couple points. Counsel said they
20 - - - that they did not get a windfall. They did get a
21 windfall, and the jury - - - the jury decided it was a
22 3.9-million-dollar windfall.

23 Secondly, the damages were not speculative. They
24 were based upon Tyden's capital costs, based upon
25 Cambridge's labor costs, based upon expert testimony from a



1 process engineer who calculated how long it would take to
2 develop these trade secrets. So it wasn't a speculative
3 measure of damages.

4 JUDGE GARCIA: But would those damages then apply
5 if they sold one of these items or ten or none? I mean, it
6 seems like a royalty payment is based, in some way, on
7 sales volume, at least. But avoided costs, when would you
8 incur that amount of damages?

9 MR. GOLDMAN: Well, first of all, I think there -
10 - - on royalties, there's all kinds of ways to calculate
11 royalties. There's not just one way to do it. And there
12 may have been some evidence of the royalty in the record,
13 but it was rejected. The 3.9 million dollars was half of
14 what our expert said was the development costs.

15 JUDGE GARCIA: But when would you - - -

16 MR. GOLDMAN: But when - - -

17 JUDGE GARCIA: - - - be damaged in that way?

18 MR. GOLDMAN: Right.

19 JUDGE GARCIA: If they didn't sell anything,
20 would you still be damaged 3.9 million dollars because they
21 stole it, they set the machinery up, they had one roll off
22 that they looked at and said this works, you get an
23 injunction; do you get 3.9 million dollars?

24 MR. GOLDMAN: I'd say we do. The fact is they
25 did make sales. But you know, our damage is based - - - I



1 mean, we argued at the - - - at the district court that we
2 were damaged as soon as they started to steal our - - - our
3 materials, which is when they walked out the door.

4 JUDGE STEIN: That sounds like punitive.

5 MR. GOLDMAN: Well, it's not punitive because
6 they have a gain.

7 JUDGE STEIN: What's their gain if they haven't -
8 - - if they haven't produced one widget?

9 MR. GOLDMAN: Well, that's in theory, but in this
10 case they did produce widgets, they did have revenues.
11 They didn't have profits because they were start-ups, so
12 with respect to this gain - - -

13 JUDGE STEIN: But I think the question is does it
14 matter if they produce one widget or a million widgets.

15 MR. GOLDMAN: I mean, if they never go into
16 business, then you can say, well, perhaps in that case it's
17 punitive - - -

18 JUDGE WILSON: Well, in that case, don't they - -
19 -

20 MR. GOLDMAN: - - - but - - -

21 JUDGE WILSON: In that case, don't they still
22 know the secret and can do with it what they want - - -

23 MR. GOLDMAN: Exactly.

24 JUDGE WILSON: - - - sell it to me, sell it to
25 you, sell it to somebody else?



1 JUDGE GARCIA: You need an injunction for that.

2 MR. GOLDMAN: Yeah, but they could sell it, and -
3 - - and they could go into business - - - maybe they're not
4 in business at the time of trial. Maybe they go into
5 business in the future and they have - - - correct - - -
6 you know, Judge Wilson is correct that they have the value
7 of it. And yes, perhaps you could get an injunction, but
8 we didn't seek an injunction here. We were - - - we were
9 awarded damages. And again, in this case - - -

10 JUDGE STEIN: But I guess they have - - - they
11 may have the value of it, but you haven't lost anything.

12 MR. GOLDMAN: Well, we've lost the right to
13 protect the - - - to protect our intellectual property
14 which is incredibly valuable.

15 JUDGE STEIN: But doesn't an injunction do that
16 for you then?

17 MR. GOLDMAN: I think that - - - that under - - -
18 certainly under unjust enrichment, the law in New York,
19 they have to disgorge their gains. I mean, that's just
20 Hornbook law. And I think Judge Wilson is right: they
21 have that property and they can do what they want. Yes,
22 perhaps you could get an injunction to prevent them from
23 using it, but you know, what happened here was, you know,
24 we didn't discover they had this until, you know, months
25 afterwards. It came out in the market. It was a little



1 bit late to run into court to get an injunction. To get an
2 injunction you typically have to run in right away, and
3 oftentimes you don't get the - - - you don't have the
4 evidence. And so, you know, you're dealing with very
5 complicated manufacturing processes. They kept - - - they
6 covered up the fact that they stole the manufacturing
7 process, used fake email addresses, you know, didn't tell
8 anybody where they worked. And so it was quite a while
9 before we even discovered that they stole this
10 manufacturing process. It wasn't until they sort of came
11 out in the market nine months later. So, you know, as I
12 said, you know - - -

13 JUDGE RIVERA: Was your point also that if they
14 did violate an injunction - - - let's say you got an
15 injunction - - - that indeed it would be very difficult,
16 perhaps impossible for you to discover that they have
17 violated that injunction?

18 MR. GOLDMAN: It would be. I mean, that - - - I
19 mean, it's - - - it - - - you know, in this case, it was
20 months before we discovered this. Difficult to go get an
21 injunction. This is not like, you know, a case where a
22 bunch of brokers go from one investment bank to another and
23 they walk out the door with a customer list and you run in
24 the next day. That's not this case. And I think as - - -
25 you know, as - - - as Judge Fahey said, there are a lot of



1 public policy reasons for this court to adopt this measure
2 of damages.

3 CHIEF JUDGE DIFIORE: Thank you, counsel.

4 MR. GOLDMAN: Thank you.

5 (Court is adjourned)

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C E R T I F I C A T I O N

I, Sharona Shapiro, certify that the foregoing transcript of proceedings in the court of Appeals of E.J. Brooks Company v. Cambridge Security Seals, No. 26, was prepared using the required transcription equipment and is a true and accurate record of the proceedings.

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