

# EXTRATERRITORIAL APPLICATION OF U.S. LAW UNDER THE DEFEND TRADE SECRETS ACT

Federal Circuit Bar Association Bench & Bar

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# TODAY'S PRESENTATION

- Overview of Defend Trade Secrets Act (DTSA) (*“What’s new?”*)
- Extraterritorial Application of U.S. Intellectual Property Law (*“So what?”*)
- Strategic and Practical Considerations (*“What’s next?”*)

# OVERVIEW OF DEFEND TRADE SECRETS ACT

- What is it?
- How did we get here?
- Pertinent provisions of DTSA
- Remedies under DTSA

# OVERVIEW OF DEFEND TRADE SECRETS ACT

- Signed into law May, 2016.
- Passed Congress with broad bipartisan support (passed House: 410-2, passed Senate: 87-0).
- Amends the Economic Espionage Act of 1996.
- Codified at 18 U.S.C. § 1831 et seq.
- Creates a federal civil cause of action for trade secret misappropriation.
  - 3-year statute of limitations from discovery of misappropriation.

## WHAT'S NEW

- Previously, federal courts heard state law-based trade secret claims only in cases involving parties from different states (diversity jurisdiction).
- Now nearly all intellectual property cases can be heard in federal court.
- Actions that previously were considered to be purely local (e.g., departing employee) can now be heard in federal court.

# HOW DID WE GET HERE?

- Starting in the mid-1800s, states began developing common law of trade secret misappropriation through commercial law of business torts.
  - Traditionally trade secrets were protected through private civil actions.
  - At the time, most markets and goods were sold locally, not nationally.
- Beginning in 1980s, states adopted the Uniform Trade Secrets Act (UTSA).
  - 1985 UTSA is widely adopted (47 states but not New York, North Carolina, or Massachusetts).
  - Minor differences between different states based on differences in statutory language.

# ESPIONAGE ACT OF 1996 (EEA)

- By the mid-1990s, misappropriation of trades secret was considered an issue of national security.
- Concerns of economic espionage:
  - By foreign companies
  - By foreign governments
  - By others who would sell trade secrets to foreign governments
- At the time the FBI had opened multiple investigations for trade secret theft, but it could not prosecute because no federal misappropriation statute existed.

# ESPIONAGE ACT OF 1996 (EEA)

- EEA makes it a federal crime to misappropriate a trade secret:
  - (1) with intent to benefit any “foreign government, foreign instrumentality or foreign agent” or
  - (2) with intent that it would be used in interstate or foreign commerce.
- EEA made misappropriation a federal crime, but it did not include a federal, civil cause of action.

# EARLY ATTEMPTS TO ENACT FEDERAL TRADE SECRET CLAIM

- 2012: early version of DTSA was introduced, but died in Senate Judiciary Committee.
- 2014: version included a federal cause of action, but did not pass.
- 2016: version passed into law (finally).
  - Several high profile misappropriation cases helped pushed it through.
  - *DuPont v. Kolon Industries*: case for misappropriation of Kevlar, resulting in nearly \$1 billion jury verdict for DuPont.
  - *United States v. Aleynikov*: case under EEA of ex-Goldman Sachs computer programmer convicted of stealing high-frequency trading source code; convictions were reversed.
  - *TianRui Group Co. Ltd. v. ITC*: Federal Circuit held that Section 337 of the Tariff Act gives the ITC the authority to restrict the importation of goods produced through the misappropriation of trade secrets, even if the acts of misappropriation occurred abroad.

# DEFINITION OF TRADE SECRET UNDER DTSA

- DTSA definition provides more examples, but breadth of coverage is practically the same.

DTSA	UTSA
<p>(3) the term “trade secret” means <b>all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing</b> if—</p> <p>(A) the owner thereof has taken reasonable measures to keep such information secret; and</p> <p>(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by another person who can obtain economic value from the disclosure or use of the information</p>	<p>"Trade secret" means <b>information, including a formula, pattern, compilation, program, device, method, technique, or process,</b> that:</p> <ul style="list-style-type: none"><li>(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and</li><li>(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.</li></ul>

# DEFINITION OF MISAPPROPRIATION UNDER DTSA IS IDENTICAL TO UTSA

- A. acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- B. disclosure or use of a trade secret of another without express or implied consent by a person who—
  - i. used improper means to acquire knowledge of the trade secret;
  - ii. at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—
    - (I) derived from or through a person who had used improper means to acquire the trade secret;
    - (II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or
  - iii. before a material change of the position of the person, knew or had reason to know that—
    - (I) the trade secret was a trade secret; and
    - (II) knowledge of the trade secret had been acquired by accident or mistake;

(6) the term “improper means” – (A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and (B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition; ...

# DEFINITION OF “USE” IS BROADER IN DTSA

DTSA allows a misappropriation claim “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce”

- What does “intended for use” mean?
- State law developed based on definition of “misappropriation” because jurisdictional “use in interstate commerce” was unnecessary.
- Boundaries of federal law could develop based on when a trade secret is “intended for use.”

# REMEDIES UNDER DTSA

- Injunctive relief: *ex parte* seizure order, temporary injunction, permanent injunction
- Damages: Goal is to restore the parties to where they would have been but-for the misappropriation
- Damages may be measured by:
  - Actual loss from misappropriation (lost profits or price erosion)
  - Unjust enrichment
  - Reasonable royalty

# ENHANCED DAMAGES

- DTSA allows up to 2x damages for willful and malicious misappropriation and attorneys fees.
- No enhanced damages if a company sues an employee to whom it failed to provide notice of statutory provisions regarding whistleblower immunity.
  - The DTSA provides “whistleblower immunity” for misappropriation claim against individuals providing trade secret information to the government for the purpose of reporting or investigating a suspected violation of law.
  - The “stick” is no enhanced damages where plaintiff failed to provide notice of whistleblower immunity.

# EXTRATERRITORIAL APPLICATION

## § 1837. Applicability to conduct outside the United States

This chapter [18 U.S.C. §§ 1831 et seq.] also applies to conduct occurring outside the United States if—

- (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
- (2) an act in furtherance of the offense was committed in the United States.

# EXTRATERRITORIALITY OF U.S. LAW GENERALLY

- **Presumption against the extraterritoriality of American law**
  - Long-standing canon of construction (SCOTUS repeatedly recognizes presumption since 1804)
  - Unless “there is the affirmative intention of the Congress clearly expressed, we must presume it is primarily concerned with domestic conditions.” *EEOC v. Aramco* (1991) (citations and quotations omitted).
- **Principal justifications:**
  - A country’s law applies only within its territorial boundaries
  - Comity (“interference with the authority of another sovereign”)

# MODERN EXPRESSION OF PRESUMPTION

## *Morrison v. National Australia Bank* (2010)

- “It is a longstanding principle of American law that legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.” (Quoting *EEOC v. Aramco*).
- “When a statute has no clear indication of an extraterritorial application, it has none.”
- A presumption?

# EXTRATERRITORIAL PRINCIPLES IN IP LAW

- General rule is that the patent, trademark, and copyright acts do not create liability for overseas conduct
- Exceptions exist in the various branches of IP
- General rule always holds for conduct which is entirely overseas

# EXTRATERRITORIALITY IN PATENT CONTEXT

- *Deepsouth Packing Co. v. Laitram Corp.* (1972)
  - Deepsouth sold some infringing shrimp “deveiners” within the U.S. and shipped components overseas for assembly (3 boxes, assembly took about 1 hour)
  - “The statute [271(c)] makes it clear that it is not an infringement to make or use a patented product outside of the United States.”
  - No liability for shipping parts overseas for assembly
- Congress creates exception, enacting 35 U.S.C. § 271(f)
  - Liability for supplying components from the US for overseas combination
- *Microsoft v. AT&T* (2007)
  - Supreme Court acknowledges the extraterritoriality of patent law in case involving overseas “assembly” (installing speech-encoding software onto hardware)
  - BUT, the case still comes out the same way as *Deepsouth*: “[T]he presumption is not defeated just because [a statute] specifically addresses [an] issue of extraterritorial application.”

# EXTRATERRITORIALITY IN TRADEMARK CONTEXT

- Act of infringement must occur in the U.S.
- Exception: Supreme Court decides *Bulova*
  - Watch importer was a U.S. citizen
  - Counterfeits could “reflect adversely” on Bulova’s “trade reputation” (example of “effects” test)
- Disparate tests for extraterritorial application in regional circuits
  - How much effect is required
  - Number of factors
  - Balancing vs. requiring all factors

# EXTRATERRITORIALITY IN COPYRIGHT CONTEXT

- No liability attaches for copyright violations overseas
  - *Subafilms v. MGM-Pathe Commc'ns* (9th Cir. 1994)
- Exception: A predicate act of infringement occurs in the U.S.
  - Direct infringement
    - *Levitin v. Sony Music Entm't* (S.D.N.Y. 2015)
  - Indirect infringement
    - *Geophysical Servs., Inc. v. TGS-Nopec Geophysical Servs.* (S.D. Tex. 2015)
  - Damages accrue for foreign reproduction of illegally copyrighted work
    - *Update Art, Inc. v. Modiin Pub., Ltd.* (2d Cir. 1988)

# SUMMARY OF EXTRATERRITORIALITY IN IP CONTEXTS

- General principle is that U.S. intellectual property laws do not create liability for conduct occurring overseas
- Exceptions:
  - Patent: act of supplying components from U.S.
  - Trademark: effect felt in U.S.
  - Copyright: predicate act of infringement in U.S.

# APPLICATION OF GENERAL PRINCIPLES IN DTSA CONTEXT

- Extraterritoriality of DTSA has not been challenged
- If actor is a U.S. citizen or national (§ 1837(1))
  - Possible extraterritorial reach, if effects felt in the U.S. and no foreign law conflict
- If act in furtherance of misappropriation committed in U.S. (§ 1837(2))
  - Probable extraterritorial reach, following general extraterritoriality found in IP contexts when act committed in U.S.

# STRATEGIC AND PRACTICAL CONSIDERATIONS

- Implications of being able to sue / be sued in U.S. federal court for misappropriation occurring overseas
- Application of U.S. law **to overseas conduct**
- What does this mean for overseas employers and manufacturers?

# LITIGATING FOREIGN MISAPPROPRIATION UNDER DTSA

- Robust discovery practices under Fed. R. Civ. P.
  - Far broader than found in foreign jurisdictions
- Wide range of remedies
- **Key: Avoiding choice-of-law problems and applying U.S. federal common law to acts of misappropriation which might not be illegal where they occur**
  - Judge Moore's dissent in *TianRui* case

# FOREIGN MISAPPROPRIATION IN THE ITC: *TIANRUI*

- Overseas misappropriation of U.S. trade secrets can be the subject of § 337 “unfair acts” exclusion of imports by the ITC
- Facts of *TianRui*:
  - Chinese railroad wheel manufacturer wanted U.S. technology
  - License negotiations failed, so manufacturer hired employees from Chinese licensee
  - Starts making its own wheels using U.S. trade secrets, tries to import them to U.S.
  - Trade secret owner brings § 337 action before ITC
- What law applies?
  - “The main issue . . . is whether section 337 authorizes the Commission to apply domestic trade secret law to conduct that occurs in part in a foreign country.”

# FOREIGN MISAPPROPRIATION IN THE ITC: *TIANRUI*

- Federal Circuit: no need for conflicts analysis
  - “[A] single federal standard, rather than the law of a particular state, should determine what constitutes a misappropriation of trade secrets” under § 337
- Judge Moore (dissenting): “We have no right to police Chinese business practices.”
  - Multiple examples of potential business practices (especially labor) from other countries that are not allowed in U.S.

# FOREIGN MISAPPROPRIATION IN U.S. FEDERAL COURT

- Under DTSA: U.S. trade secret law applying overseas
  - Uniform federal standard: key terms (e.g., “trade secret,” “use”) already defined
  - Logic from *TianRui* suggests development of federal common law for construction of federal statute
- Not limited to importation context
  - Domestic effects not listed among nexus requirements in 18 U.S.C. § 1837
  - Potential limitation noted in *TianRui* – i.e., no U.S. liability for selling railroad wheels in China – no longer applies

# IMPLICATIONS OF FOREIGN MISAPPROPRIATION IN U.S. COURTS

- **Hypothetical:** Your client fires a U.S. national working overseas, who goes to work for foreign manufacturer making same product
  - Client learns of product made with its trade secrets in foreign markets where it does not compete
  - Local trade secret protections weak (e.g., they don't enforce non-competes and encourage "reverse engineering")
- **Q:** Can you use new *ex parte* seizure remedy, carried out by federal agents, on foreign manufacturer's hard drives?
  - Conduct not illegal where it occurred
  - Statutory nexus satisfied, but no effect on U.S. commerce or trade secret owner

# IMPLICATIONS OF FOREIGN MISAPPROPRIATION IN U.S. COURTS

## Overseas companies incentivized to:

- monitor American legal proceedings on trade secrets
  - e.g., what is / is not protectable as a trade secret
- investigate whether they use U.S. technology in manufacturing processes
- adopt U.S.-style precautions against acquiring trade secrets illicitly
  - e.g., require new hires to disclose non-compete restrictions or acknowledge duty not to disclose trade secrets
- hire workers from other technologically advanced countries besides U.S.

# SUMMARY AND WRAP-UP

**Questions?**

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