

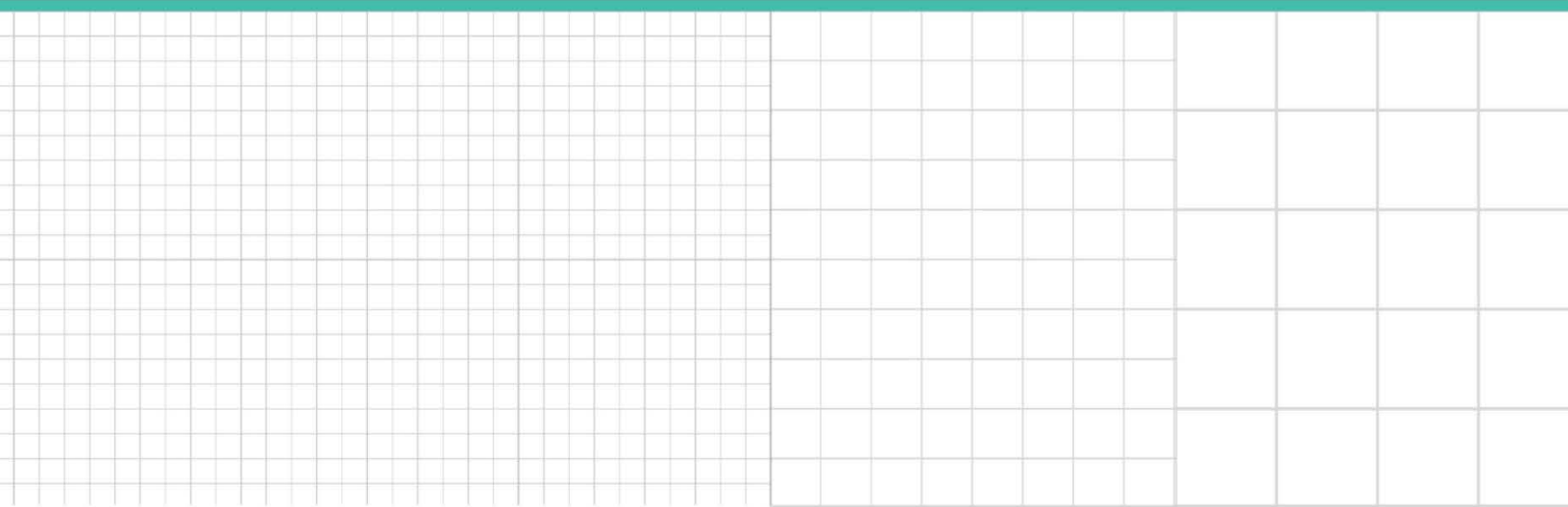


Professional Perspective

Legal Protections for U.S. Trade Secrets

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Legal Protections for U.S. Trade Secrets

Editor's Note: This article reflects the authors' personal views on this subject matter and should not be attributed to Finnegan, its attorneys or its clients.

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U.S. companies rely on trade secrets for a competitive advantage. These companies invest heavily in research and development in the U.S., and they need to protect their inventions to recoup their investments. While U.S. patent law offers some protection, it largely stops at the U.S. border, relying on different patent regimes for enforcement overseas.

For this and other reasons, many companies choose trade secret protection, with its potentially unlimited term, for their most valuable inventions. Fortunately for them, recent developments have extended the reach of U.S. trade secret law to overseas misappropriation by foreign nationals, so long as there is some connection with activities in the U.S.

This article examines how the federal district courts have recently enhanced the relief afforded U.S. trade secret holders under the Defend Trade Secrets Act (DTSA) for the overseas misappropriation of trade secrets, and includes practice tips for those considering trade secret litigation in federal court.

The [second article](#) of this two-part series will explain how the U.S. International Trade Commission allows IP rights holders to address unfair methods of competition caused by the overseas misappropriation of trade secrets. Together, these bodies of law provide extensive protection against overseas misappropriation of trade secrets and establish an effective framework for protecting U.S. trade secret holders.

A Federal Cause of Action

Trade secrets can be found in a variety of areas, including formulas, processes, methods and techniques (know-how), machines, products, plans, designs, patterns, customer lists, and business information. In general, a trade secret is information that the owner has taken reasonable measures to keep secret and that has commercial value by virtue of its secrecy. Under these circumstances, trade secret protection attaches automatically to the information.

But protection lasts only as long as the conditions of value to the owner and secrecy continue to be met. Stated another way, a trade secret owner forfeits protection by failing to take reasonable steps to keep the information secret. Thus, trade secret owners have an ongoing responsibility to safeguard this information, because once it is disclosed or no longer remains secret, both the value and the legal protection of the trade secret are lost.

At common law and for many years, trade secret disputes were adjudicated in the state courts. But limitations to state-level enforcement became apparent. Even though virtually all states have enacted some form of the Uniform Trade Secrets Act, differences exist in the state statutes and in the application of those statutes. Proponents of a new federal standard cited the need for a uniform law to ensure consistent application of the UTSA, avoidance of different interpretations and implementations of trade secret law in different states, access to federal courts, and ease of obtaining out-of-state discovery in trade secret litigation.

The DTSA supplements, and does not preempt, state trade secret law. Thus, companies are not precluded from filing their claims in state court; rather, the DTSA provides them with an additional litigation option by allowing them to bring lawsuits in federal court if they choose to do so. Indeed, many DTSA litigants also raise a state UTSA claim in their federal complaints. But aside from the specific provisions of these laws, access to the federal courts has provided companies faced with the overseas theft of their IP with a powerful new option for protecting this information.

Congress understands the importance of protecting U.S. trade secrets internationally. When recommending passage of the DTSA in 2016, the Senate Judiciary Committee noted that [a 2013 report](#) had estimated that trade secret theft was costing the American economy over \$300 billion and 2.1 million jobs annually. [An updated report from 2017](#) estimates that the annual cost still exceeds \$225 billion. The Committee believed that by improving trade secret protection, the DTSA would incentivize innovation and protect and encourage the creation of U.S. jobs. [S. Rep. No. 114-220 at 1-2 \(2016\)](#). The House Judiciary Committee similarly noted that, to maintain a competitive edge, American businesses must be able to stop thieves looking to shortcut the innovative process by stealing trade secrets. [H.R. Rep. No. 114-529 at 3-4, 6 \(2016\)](#). The

manner in which Congress enacted the DTSA—as a supplement to the Economic Espionage Act rather than as a standalone law—underscores these international concerns.

Extraterritorial Effect

Congress intended for both the Economic Espionage Act and the DTSA to have some measure of extraterritorial effect. The 1996 Economic Espionage Act was intended to protect proprietary economic information, including, at least in certain circumstances, from “conduct occurring outside the United States.” [Economic Espionage Act](#), Sec. 101(a), § 1837.

In 2016, Congress passed the DTSA, which amended portions of the Economic Espionage Act, but maintained § 1837, the section of the code extending the act to conduct outside the U.S. [Pub. L. No. 114-153](#), [130 Stat. 376](#). The DTSA provides for civil trade secret misappropriation claims to be filed in federal court as long as they are “related to a product or service used in, or intended for use in, interstate or foreign commerce.” [18 U.S.C. § 1836\(b\)\(1\)](#). The statute applies to acts of misappropriation occurring on or after the date of the enactment, May 11, 2016.

An important aspect of the DTSA is its amendment of § 1836 to include a private right of action. Prior to this amendment, that section merely authorized the Attorney General to obtain injunctive relief against trade secret violations in a civil action in federal district court. With the amendment, however, trade secret owners were given the right to bring a civil action for misappropriation of trade secrets related to products or services intended for use in interstate or foreign commerce. Successful plaintiffs have the possibility of obtaining injunctive or monetary relief, and, in rare circumstances, a court may order the seizure of a defendant's property to prevent trade secret misappropriation.

In order to apply the DTSA to extraterritorial conduct, either the offender or the offense must be sufficiently connected to the U.S. For example, under § 1837(1), the DTSA applies to conduct occurring outside the United States if the offender is either (1) a U.S. citizen or permanent resident, or (2) an entity, such as a corporation, organized under the laws of the United States or any of its states or territories. And under § 1837(2), the act also applies to extraterritorial conduct so long as an act sufficiently related to the trade secret violation was committed in the U.S.

Unsurprisingly, courts are hesitant to give U.S. statutes extraterritorial effect, applying a presumption against extraterritoriality. See, e.g., *RJR Nabisco, Inc. v. European Cmty.*, [136 S. Ct. 2090](#), 2100 (2016). “Absent clearly expressed congressional intent to the contrary, federal laws will be construed to have only domestic application.” The U.S. Supreme Court has established a two-step framework for determining whether a statute should be applied extraterritorially.

First, *RJR Nabisco* says a court must ask, “whether the statute gives a clear, affirmative indication that it applies extraterritorially.” In answering the question, “an express statement of extraterritoriality is not essential,” although it is almost certainly the best evidence. If there is no clear expression of extraterritorial application, then the court moves on to step two, asking whether the case involves “a domestic application of the statute” as shown by the fact that “the conduct relevant to the statute's focus occurred in the United States.”

Applying the Supreme Court's two-step framework to the DTSA, the law is given extraterritorial effect at step one because of the “clearly expressed congressional intent” in § 1837 discussed above. The question has arisen, however, whether that extraterritorial application extends to the private right of action, which was added 20 years after § 1837 was signed into law. See, e.g., *Motorola Sols. v. Hytera Commc'ns Corp.*, [436 F. Supp. 3d 1150](#), [2020 BL 77264](#), at *7-11 (N.D. Ill. 2020). Such an outcome would not be unprecedented as, in *RJR Nabisco*, the Supreme Court held that Congress's clear intent for extraterritorial application of the Racketeer Influenced and Corrupt Organization Act (RICO) extended to criminal prosecutions but not private civil actions.

Despite this anomaly, all the courts that have considered the issue have concluded that private civil actions under the DTSA may be brought against extraterritorial conduct, so long as the requirements of § 1837 are met. See, e.g., *vPersonalize Inc. v. Magnetize Consultants Ltd.*, No. 2:18-CV-01836-BJR, [2020 BL 39024](#) (W.D. Wash. Feb. 3, 2020); *MACOM Tech. Sols., Inc. v. Litrinium, Inc.*, No. SACV 19-220 JVS (JDEx), 2019 BL 368326, at *5 (C.D. Cal. June 3, 2019). As a result, potential plaintiffs should consider including a DTSA claim specifically targeting overseas activity.

A potential plaintiff must remember, however, that extraterritorial application still requires either a U.S. defendant or U.S. conduct “in furtherance of” the trade secret misappropriation. [18 U.S.C. § 1837](#). Section 1837(1) is quite clear on who qualifies as a U.S. defendant. But no explanation is given for the term “an act in furtherance.” Luckily, several courts have considered the issue and their opinions provide some touchstones for practitioners to keep in mind.

In determining the meaning of “an act in furtherance of trade secret misappropriation,” more than one district court has looked to federal conspiracy law for guidance, concluding that

the act in furtherance of the offense of trade secret misappropriation need not be the offense itself or any element of the offense, but it must “manifest that the [offense] is at work” and is not simply “a project in the minds of the” offenders or a “fully completed operation.” Put another way, an act that occurs before the operation is underway or after it is fully completed is not an act “in furtherance of” the offense.

Luminati Networks, Ltd. v. BIScience Inc., No. 2:18-CV-00486-JRG, [2019 BL 171914](#), at *9-10 (E.D. Tex. May 13, 2019). Based on this definition, the court in *Luminati* concluded that damages occurring in the U.S. (e.g., lost customers), “standing alone, would not be acts ‘in furtherance of’ misappropriation but rather would be the consequence of a ‘fully completed operation.’” However, in *Motorola Solutions*, the court concluded that “advertis[ing], promot[ing], and market[ing] products embodying the allegedly stolen trade secrets” at U.S. trade shows was “use,” and, therefore, “an act in furtherance of the misappropriation.”

In *MACOM Technology Solutions*, a district court found sufficient domestic conduct where the plaintiff alleged that trade secret misappropriation was “coordinated” by the defendants during one defendant’s various trips to California, and that products embodying the stolen trade secrets were in the stream of commerce there. And in *Micron Technology*, a district court concluded that a defendant’s attempts to hire engineers and purchase manufacturing equipment at a job fair in California were “in furtherance of” its overseas misappropriation of the plaintiff’s trade secrets. *Micron Tech. Inc. v. United Microelectronics Corp.*, No. [2019 U.S.P.Q.2d 159495](#), [2019 BL 159495](#), at *6-7 (N.D. Cal. 2019).

While apparently unrelated to the acquisition or disclosure of the trade secrets at issue, the activities were allegedly in preparation for “the development and manufacture of products containing [the plaintiff’s] trade secrets,” and so were found to be in furtherance of the misappropriation. Finally, in *vPersonalize*, the court extended the meaning of acts “in furtherance of” the misappropriation to include acts committed by non-defendants. Potential plaintiffs should consider these cases carefully and strive to identify such a U.S. act in their complaint.

To support a claim for overseas misappropriation, potential trade secret owners should carefully consider whether “an act in furtherance of the offense” occurred in the U.S. Such acts might include, for example, coordinating or preparing for misappropriation, such as by meeting with or hiring away workers that hold a trade secret or buying up goods or equipment for use with a trade secret, or marketing or selling products embodying a trade secret. Remember that timing matters: An act that occurs before the operation is underway or after it is fully completed is not an act in furtherance. For this reason, lost customers or profits are likely insufficient—this is not an effects test. But do not rule out acts carried out in the U.S. by a third party.

Damages Under the DTSA

Practitioners should consider seeking money damages under the DTSA for extraterritorial misappropriation. Recently, the Northern District of Illinois entered a jury verdict for over \$700 million in damages for trade secret misappropriation in a civil action under the DTSA for acts occurring entirely outside the U.S. *Motorola Sols., Inc. v. Hytera Commc'ns Corp.*, No. 1:17-cv-01973 (N.D. Ill. judgment entered Mar. 5, 2020), ECF No. 947; *Motorola Sols.*, [2020 BL 77264](#), at *15.

In that case, Motorola alleged that the defendants acquired its trade secrets by hiring away engineers from its Malaysian office and then used those trade secrets to develop and sell a digital radio. Because the defendant was not an entity organized under the laws of the U.S., extraterritorial application required that the court find an act in furtherance of the offense committed in the U.S. See [18 U.S.C. § 1837](#). The court reasoned that damages could be awarded for the extraterritorial misappropriation because the defendants had “used” the trade secrets domestically when they “advertised, promoted, and marketed products embodying the allegedly stolen trade secrets domestically at numerous trade shows.” Plaintiffs should consider seeking money damages for overseas misappropriation. While the law on this point is continuing to develop, case law to date suggests that significant money damages can be awarded.

Injunctive Relief Under the DTSA

At least one court has relied on the DTSA to enter injunctions on extraterritorial conduct. In *T&S Brass & Bronze Works*, the court ordered both a preliminary injunction and later a permanent injunction against several civil defendants, preventing them from “using or disclosing the plaintiff’s trade secrets and property” overseas. *T&S Brass & Bronze Works, Inc. v. Slanina*

(*T&S I*), No. 6:16-03687-MGL, [2017 BL 149545](#), at *19 (D.S.C. May 4, 2017); *T&S Brass & Bronze Works, Inc. v. Slanina (T&S II)*, No. 6:16-cv-03687-MGL, [2018 BL 94362](#), at *2 (D.S.C. March 20, 2018). In both instances, the court specified that, under the DTSA, because the defendants were U.S. citizens or organizations and an act in furtherance of the offense was committed in the U.S., the injunctions applied both within and outside of the U.S. An extraterritorial injunctive can be a significant boon to a plaintiff and/or hardship to a defendant, and practitioners should not ignore this significant form of relief.

Conclusion

Domestic trade secret owners enjoy far greater protection today than before. Congress was well aware of the overseas misappropriation of valuable trade secret information when it passed the DTSA, and the courts have applied the DTSA flexibly to cover activities largely occurring abroad. Part II of the article will explain how the U.S. International Trade Commission has employed a similarly expansive application of section 337 when investigating unfair methods of competition in the importation of goods involving allegations of trade secret misappropriation. These bodies of law provide substantial protection for companies seeking to safeguard their technological innovations.