

ITC Vs. Court Remedies For Trade Secret Theft Abroad

By **Charles Sanders and Nathaniel McPherson** (October 16, 2020, 3:10 PM EDT)

Companies facing misappropriation of their trade secrets outside the U.S. have powerful options for pursuing trade secret misappropriation claims in the U.S.

First, as evidenced by a recent \$800 million jury award, the Defend Trade Secrets Act provides a civil cause of action to obtain damages for trade secret misappropriation in a U.S. federal district court, including for trade secret misappropriation that took place outside of the U.S.

Second, companies can seek relief in the U.S. International Trade Commission, which has awarded exclusion orders to remedy extraterritorial trade secret misappropriation under the Tariff Act.

This article provides an overview of cases illustrating use of these options and discusses considerations for deciding between them. The key takeaways include:

- A plaintiff can use district court proceedings to pursue both monetary damages and injunctive relief from foreign individuals and companies under the DTSA if the plaintiff can show that an act in furtherance of the offense occurred in the U.S.
- The DTSA defines "use" of a trade secret to include sale or advertisement of products in the U.S.
- A complaint can file in the ITC to pursue exclusion orders to prevent the importation of products that incorporate trade secrets misappropriated abroad if the complainant can show that this importation threatens to substantially injure a domestic industry.



Charles Sanders



Nathaniel McPherson

The DTSA Option for Pursuing Extraterritorial Trade Secret Misappropriation in a U.S. Federal District Court

Background on the DTSA

The DTSA was enacted to provide a federal cause of action for trade secret misappropriation. The DTSA defines trade secret misappropriation as acquisition, disclosure or use of a trade secret by someone who

knows or has reason to know that the information was acquired by improper means.[1]

The DTSA amended the Economic Espionage Act, a criminal statute that applied to extraterritorial conduct under two circumstances 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.[2]

The DTSA authorizes a court to award damages for actual loss plus damages for unjust enrichment not addressed in computing actual loss, or a reasonable royalty.[3] The court may also award exemplary damages of up to twice the compensatory damages if the trade secret was willfully and maliciously misappropriated.[4]

Finally, the DTSA authorizes injunctive relief "to prevent any actual or threatened misappropriation on terms the court deems reasonable." [5]

Examples of Applying the DTSA to Extraterritorial Conduct

As courts have interpreted the DTSA, its requirement of a domestic act in furtherance of the offense does not require that the act be part of the misappropriation itself. A trip to the U.S. to attend a trade show, recruit employees, or secure equipment that furthers the misappropriation has been found sufficient.

Even if the acquisition and disclosure of the trade secret occurs abroad, courts have held that the advertisement and sale of the articles in the U.S. constitutes use of the trade secret within the DTSA. The DTSA thus enables companies to pursue their claims for trade secret misappropriation in the U.S. even where most of the relevant activity occurred abroad.

Damages are available in district court where misappropriation occurred outside the U.S.

In the U.S. District Court for the Northern District of Illinois case *Motorola Solutions Inc. v. Hytera Communications Corp.*, a jury awarded nearly \$800 million in damages, a substantial portion of which was for trade secret misappropriation occurring outside of the U.S.[6]

Motorola alleged that Hytera, a Chinese company, hired three engineers from Motorola's Malaysian office and that those engineers stole confidential documents containing Motorola's trade secrets.[7] Motorola alleged that Hytera used those trade secrets to develop a digital radio similar to Motorola's product and sell it around the world.[8]

Hytera moved to preclude Motorola from seeking extraterritorial damages, arguing that damages awarded under the DTSA should be limited to domestic actions, and the district court denied the motion.[9] The court noted that extraterritorial provision in Section 1837 of the EEA states that it applies to "this chapter," which includes both the DTSA and the EEA.[10]

The court also examined the legislative history of the DTSA, where Congress discussed the need to protect against trade secret theft globally.[11] The court held that this evidence rebutted the general presumption that U.S. laws do not apply extraterritorially.[12]

The court then examined whether Hytera committed a domestic act in furtherance of the offense under Section 1837. The court concluded that this requirement was met because Hytera "advertised, promoted, and marketed products embodying the allegedly stolen trade secrets domestically at numerous trade shows," which constituted use of the alleged trade secret under the DTSA.[13]

In the alternative, the court held that, even if DTSA did not have extraterritorial reach, the case would still present a "proper domestic application of the statute" because Hytera's use of Motorola's trade secrets in products Hytera advertised and sold in the U.S. met the definition of "misappropriation." [14]

The jury awarded Motorola \$345.8 million in unjust enrichment damages, representing disgorgement of Hytera's profits and savings from avoiding research and development expenses.[15] The R&D savings occurred primarily at the company's manufacturing site in China, and the disgorged profits for trade secret misappropriation included profits earned from worldwide sales. The jury also awarded Motorola \$418.8 million in punitive damages based on finding that the misappropriation was willful and malicious.[16]

A final judgment has not yet been entered by the district court, and the court has not yet ruled on Motorola's motions for supplemental damages and interest, a permanent injunction, and attorney fees and costs. The court also has not yet ruled on Hytera's motions for judgment as a matter of law, new trial, and/or remittitur.

Within limits, DTSA claims can proceed based largely on extraterritorial conduct.

At the motion to dismiss stage, other courts have found that the DTSA applies to extraterritorial conduct as long as an act in furtherance of the misappropriation occurs in the U.S.

For example, in *Luminati Networks Ltd. v. BIScience Inc.*, the U.S. District Court for the Eastern District of Texas held that although all alleged trade secrets were misappropriated in Israel and all products allegedly incorporating them were made in Israel, the sale of those products in the U.S. constituted use of the trade secrets, or in the alternative, that the U.S. sale of those products constituted an act in furtherance of trade secret misappropriation.[17]

Notably, however, *ProV International v. Rubens* illustrates that there are limits to what may qualify as an act in furtherance of misappropriation under the DTSA.[18] There, the U.S. District Court for the Middle District of Florida applied the reasoning in *Luminati* but dismissed ProV's DTSA claim because the court found that the only U.S. connection to the alleged misappropriation in Brazil — ProV Brazil's former employees' travel to the U.S. to tender his resignation before beginning his job at the defendant's Brazil location — did not constitute an act in furtherance of the offense.[19]

Considerations for Litigating Misappropriation Claims in District Court

Plaintiffs should consider whether the defendant's conduct falls within the reach of the DTSA, i.e., (1) whether the definition of misappropriation is met because products incorporating the plaintiff's trade secrets are sold or advertised by the defendants in the U.S., or (2) where misappropriation occurred outside the U.S., whether an act in furtherance of the misappropriation occurred in the U.S.

If so, as Motorola illustrates, significant damages may be available in U.S. district court even where most of the conduct at issue occurred outside the U.S. The DTSA also allows plaintiffs to obtain an injunction in district court "on terms the court deems reasonable," but plaintiffs seeking an injunction in district

court must meet the traditional four-factor test for injunctive relief.[20]

Plaintiffs also should take into account that district court proceedings typically take years to resolve. By contrast, as explained below, the ITC provides an option for obtaining injunctive relief more quickly without having to satisfy the traditional four-factor test.

The ITC Option for Pursuing Extraterritorial Trade Secret Misappropriation

Section 337 of the Tariff Act authorizes the ITC to investigate and restrict importation of articles into the U.S. due to unfair methods of competition or unfair acts in importation.[21]

The ITC has found that the importation of products that incorporate trade secrets misappropriated abroad is sufficient to justify an exclusion order, which bans importation of the offending products into the U.S., as long as there is evidence that the importation would substantially injure a domestic industry.[22]

The ITC has also granted an exclusion order even when the alleged misappropriation was deemed legal where it occurred outside the U.S. The ITC's jurisdiction differs from the reach of the DTSA in district court because the TIC does not require an act in furtherance of the misappropriation to have been committed in the U.S.

ITC Exclusion of Articles Made Using Trade Secrets Misappropriated Abroad

In *TianRui Group Co. v. ITC*, the ITC excluded articles manufactured using misappropriated trade secrets where the acts of misappropriation occurred entirely abroad. TianRui, a Chinese company, hired nine employees from a licensee of Amsted, a U.S. company.[23]

These employees had knowledge of Amsted's proprietary process and disclosed the information to TianRui, which TianRui used to make a competing product and import it into the U.S.[24] Although all acts of misappropriation occurred in China, the ITC issued an exclusion order against TianRui.[25]

The U.S. Court of Appeals for the Federal Circuit affirmed, agreeing that Section 337 applies where unfair acts committed outside of the U.S. harm a domestic industry.[26]

The court found that the presumption that U.S. laws do not apply extraterritorially was rebutted because: (1) the Tariff Act concerns importation, which is inherently international, (2) the importation which causes domestic injury, and (3) the legislative history of the Tariff Act indicates that it was meant to apply extraterritorially.[27]

Considerations for Litigating Misappropriation Claims in the ITC

When the priority is to exclude products incorporating a misappropriated trade secret from the U.S. market as quickly as possible, the ITC may be an attractive option.

ITC proceedings typically are resolved within 18 months, and the ITC can award powerful equitable relief. The ITC's exclusion order can be limited, applying only to the named respondent, or general, applying to all companies manufacturing the offending products abroad.[28]

The ITC may also issue a cease-and-desist order, instructing the respondent to cease and desist from

engaging in the unfair acts.[29] Violation of a cease-and-desist order can result in civil penalties, including fines of up to \$100,000.[30] Monetary damages, however, are not available in ITC proceedings so a district court action under DTSA may be advisable where the primary objective is a damages award.

Unlike district courts, the ITC is not required to have personal jurisdiction over the parties; the ITC has in rem jurisdiction over products that incorporate allegedly misappropriated trade secrets. This suggests filing in the ITC to pursue trade secret misappropriation against a foreign entity unlikely to be subject to U.S. jurisdiction.

On the other hand, unlike in district court, in the ITC, a complainant must also show that there is a domestic industry and that the respondent's unfair acts threaten to substantially injure that industry.[31] This domestic injury requirement could pose a challenge for injured parties that primarily operate outside the U.S.

Charles Sanders is a partner and Nathaniel McPherson is an associate at Latham & Watkins LLP.

The authors would like to thank former Latham summer associate Natalie Morrissey for her contributions to the article.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] 18 U.S.C. § 1839 (2018).

[2] *Id.* § 1837.

[3] *Id.* § 1839(b)(3)(B).

[4] *Id.* § 1839(b)(3)(C).

[5] *Id.* § 1836(b)(3)(A).

[6] No. 1:17-CV-1973, 2020 WL 967944 (N. D. Ill. Jan. 31, 2020).

[7] *Id.* at *1.

[8] *Id.*

[9] *Id.*

[10] *Id.* at *5–*6.

[11] *Id.* at *6.

[12] *Id.*

[13] *Id.* at *11.

[14] Id. at *12.

[15] Motorola Solns. v. Hytera Commc'ns, No. 1:17-CV-1973, ECF No. 947 (N.D. Ill. Mar. 5, 2020) (judgment awarding Motorola "\$345,761,156 in compensatory damages and \$418,800,000 in punitive damages").

[16] Id.; see also ECF Nos. 954 at 1, 20 (noting that "Motorola has been awarded \$209.9 million in compensatory damages for trade secret misappropriation" and "\$136.3 million . . . for copyright infringement").

[17] Luminati Networks Ltd. v. BScience, Inc., No. 218-CV-00483-JRG, 2019 WL 2084426, *10-11 (E.D. Tex. May 13, 2019); see also MACOM Technology Sols. v. Litrinium, No. SACV-19-220-JVS, 2019 WL 4282906 (C.D. Cal. June 3, 2019). vPersonalize v. Magnetize Consultants Ltd., No. 2:18-CV-01836-BJR, 2020 WL 534505 *12-13 (W.D. Wash. Feb. 3, 2020).

[18] No. 819-CV-978-Y-23AAS, 2019 WL 5578880 (M.D. Fl. Oct. 29, 2019).

[19] Id at *3.

[20] See 547 U.S. 388 (2006).

[21] 19 U.S.C. § 1337 (2018).

[22] Id. § 1337(d)(1).

[23] Certain Cast Steel Ry. Wheels, Certain Processes for Mfg. or Relating to Same and Certain Prods. Containing Same, Inv. No. 337-TA-655, USITC Pub. 4265, at 14 (Oct. 16, 2009).

[24] Id. at 19.

[25] Id. at 35.

[26] TianRui Group Co. Ltd. v. Int'l Trade Comm'n, 661 F.3d 1322, 1337 (Fed. Cir. 2011).

[27] Id. at 1329–31.

[28] Id. § 1337(d)(2).

[29] Id. § 1337(f)(1).

[30] Id. § 1337(f)(2).

[31] Id. § 337(a)(1)(A).