Trade Secret Law Evolution Podcast
Greenberg Traurig, LLP
Episode 67

Jordan Grotzinger (00:00):

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(00:37):

Hi, everybody. Welcome to Episode 67. This episode deals with one case, about the extraterritorial application of the Defend Trade Secrets Act. It came out of the Seventh Circuit at the beginning of this month, July, and this is a case of first impression involving an important issue. So while there have been other interesting cases over the last month, I thought this one deserved its own episode, because extraterritorial application is one of the reasons why this federal statute was enacted in 2016. The case involved admittedly stolen trade secrets and copyrighted source code. In fact, the court said, "This case concerns a large and blatant theft of trade secrets."

(01:30):

The subject matter at issue is two-way radio technology and the parties, of course, are competitors. The defendant is a Chinese company. The plaintiff spent years and tens of millions of dollars developing trade secrets related to its products. The plaintiff argued that the defendant hired some of the plaintiff's engineers in Malaysia who allegedly downloaded thousands of confidential files related to the plaintiff's technology and were paid to do it. Liability wasn't an issue, and, in fact, some of the court's statements on this topic were striking to me such as, "After failing for years, the defendant hatched a new plan, leapfrogged the plaintiff by stealing its trade secrets."

[NEW_PARAGRAPH]"The defendant concedes that it engaged in the blatant theft of trade secrets and copying of proprietary computer code," and "for much of the intervening six years of litigation, including after these appeals were filed, the defendant has continued its gamesmanship and deception." Ouch. Between 2010 and 2014, the defendant launched a line of radios that were essentially indistinguishable from the plaintiff's radios and sold them domestically and internationally. During trial, the plaintiff argued that it was entitled to all of the defendant's worldwide profits from the infringing products. The defendant argued that the Copyright Act and the Defend Trade Secrets Act should not be applied to its sales outside the United States. And, of course, here we're going to focus on the trade secret aspect.

(03:13):

The court had ordered the Chinese company to pay $540 million for misappropriating trade secrets and copyright infringement. The Seventh Circuit affirmed the award of 135.8 million in compensatory damages and 271.6 million in punitive damages under the Defend Trade Secrets Act, and the compensatory damages included foreign sales. The defendant argued on appeal that the Defend Trade Secrets Act damages should not have been awarded for its sales outside the United States. Analyzing the extraterritoriality issue, the court said, "The DTSA, like the Copyright Act, is subject to the presumption against extraterritoriality," citing a Supreme Court case named RJR Nabisco. And the court stated, "At

the first step, courts ask whether the presumption against extraterritoriality has been rebutted. That is whether the statute gives a clear affirmative indication that it applies extraterritorially. Once it is determined that the statute is extraterritorial, the scope of the statute turns on the limits Congress has or has not imposed on the statute's foreign application."

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The court went on. "Whether the DTSA rebuts the presumption against extraterritoriality at the first step of the RJR Nabisco Inquiry is a question of first impression for our circuit and, as far as we can tell, for any circuit." Here, the court said, and I'm going to include some ellipses and brackets here that I don't mention for ease of listening, "In the DTSA, Congress enacted its purpose in the statutory text itself. The DTSA's legislative purposes and findings expressed the sense of Congress that trade secret theft occurs in the United States and around the world. Trade secret theft, wherever it occurs, harms the companies that own the trade secrets and the employees of the companies. And Chapter 90 of the Economic Espionage Act of 1996, which the DTSA amended, applies broadly to protect trade secrets from theft." That becomes important.

[NEW_PARAGRAPH]"The DTSA also added new reporting requirements for the Attorney General that had been absent in the original EEA," that's the Economic Espionage Act. "Those required reports cover the scope and breadth of the theft of the trade secrets of United States companies occurring outside the United States, the threat posed by those thefts, and the ability and limitations of trade secret owners to prevent the misappropriation of trade secrets outside the United States, to enforce any judgment against foreign entities for theft of trade secrets, and to prevent imports based on theft of trade secrets overseas." Thus, the Seventh Circuit said the District Court correctly concluded, "Taken together, it is clear that Congress was concerned with actions taking place outside the United States in relation to the misappropriation of U.S. trade secrets when it passed the DTSA."

(06:45):

And so because the DTSA rebuts the presumption against extraterritoriality, the court said, "The only limits on its reach are the limits Congress has imposed on the statute's foreign application." As to those limits, and this gets a little dense so bear with me, the court explained, "The DTSA took effect in May 2016, amending sections of the economic Espionage Act of 1996. The EEA had added Chapter 90 to Title 18 of the United States Code, making the theft of trade secrets of federal crime in many situations. Section 1837 of Chapter 90 entitled Applicability to Conduct Outside the United States provides this chapter also applies to conduct occurring outside the United States if an act in furtherance of the offense was committed in the United States. Two decades later, the DTSA amended chapter 90 but made no changes to section 1837." And that, of course, is key.

(08:01):

Here the plaintiff "had presented evidence sufficient to support a finding that an act in furtherance of the offense has been committed in the United States." Specifically, use of the alleged trade secrets had occurred in the United States. And remember, misappropriation can be improper acquisition, disclosure, or use. Here the defendant had advertised, promoted, and marketed products "embodying the stolen trade secrets" at trade shows in the United States. That was the domestic use. Thus, the court said damages including foreign sales were affirmed. "The District Court did not err by awarding plaintiff relief on the defendant's worldwide sales of products furthered by that misappropriation regardless of where in the world the remainder of the defendant's illegal conduct occurred."

(09:03):

So the takeaway here, and this in my humble opinion and non-binding opinion, is a well-reasoned decision, the takeaway here is that damages for foreign sales are recoverable under DTSA if an act in

furtherance of the misappropriation was committed in the United States. We'll see how other circuits react. Personally, I'd be surprised if opinions contradicted this holding and reasoning. And there you have it. This was a short one, but an important one. Hope it was clear enough and we'll be back soon. Thanks, everybody.

(09:42):

Okay, that's a wrap. Thanks for joining us on this episode of the Trade Secret Law Evolution Podcast. As the law evolves, so will this podcast, so we value your feedback. Let us know how we can be more helpful to you. Send us your questions and comments. You can reach me by email at grotzingerj@gtlaw.com, or on LinkedIn. And if you like what you hear, please spread the word and feel free to review us. Also, please subscribe. We're on Apple Podcasts, Stitcher, Spotify, and other platforms. Thanks, everybody. Until next time.