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Trade Secret Claim Strategies: ITC Vs. DTSA

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On May 11, 2016, President Obama signed a new federal trade secret act into law that gives trade secret owners greater flexibility to file trade secret claims in federal court. This legislation, the Defend Trade Secrets Act, allows trade secret owners to bring a federal cause of action for trade secret theft and misappropriation. The new law supplements existing state law protections by providing a federal forum for trade secret claims and also enhancing the remedies available to a trade secret owners.

Trade secret owners continue to have another viable federal forum for trade secret misappropriation claims — the U.S. International Trade Commission. The ITC is a quasijudicial administrative agency with authority over products that are imported and sold into the United States. Section 337 grants the ITC the power to exclude from importation products that are the result of unfair competition. The exclusion orders available at the ITC are a unique and powerful remedy for combating misuse of intellectual property in those cases that involve foreign conduct.

In light of the creation of the new federal trade secret protections, trade secret owners should be aware of the options and remedies available through filing a misappropriation claim in the ITC.

Trade Secret Claims at the ITC

A claim for trade secret misuse or misappropriation requires proof of the existence of a trade secret, misuse of that trade secret by another, and damages resulting from that misuse. It is well established that trade secret misappropriation is a form of unfair competition over which the ITC may exercise jurisdiction.[1] Prior to the DTSA, the ITC applied federal common law as substantive law for adjudicating trade secret claims. Although the ITC has yet to decide this issue, it is likely that the DTSA will now be the substantive law applied to trade secret claims before the Commission.

The DTSA is unlikely to have a significant impact on how trade secret claims are treated by the ITC. This is because the DTSA is principally based on the Uniform Trade Secret Act,[2] which also formed the basis for the federal common law trade secret claims adjudicated by the ITC.

However, one potential impact of the adoption of the DTSA concerns the breadth of what may be considered a trade secret. Under the UTSA, any “information” that has independent economic value from not being generally known or reasonably ascertainable by others could be protected through

secrecy.[3] The DTSA, however, uses a more specific definition that provides that a trade secret must be a form or type of "financial, business, scientific, technical, economic, or engineering information."[4] The DTSA further enumerates specific types of information that may qualify as trade secrets.[5] It remains to be seen whether courts, including the ITC, interpret the DTSA's definition of trade secret to be narrower than the definition under the UTSA.

ITC Jurisdictional Requirements: Importation and Domestic Industry

In addition to establishing the substantive elements of a cause of action, a complainant in a Section 337 investigation must also establish specific jurisdictional elements at the ITC. The complainant must show that there has been (1) importation of a violating article and (2) injury or threat of injury to a U.S. industry. These unique jurisdictional requirements provide both challenges and opportunities for trade secret owners.

First, the complainant must show that importation, a sale for importation, or a sale after the importation of tangible articles that resulted from the trade secret misappropriation. The act of misappropriation can occur anywhere in the world, but the complainant needs to establish that there is U.S. importation of material articles resulting from the misappropriation in order to initiate an ITC investigation.

Second, the complainant must show injury to a domestic industry by establishing the following elements: (1) the existence of a domestic industry, (2) the industry has suffered or is threatened with an injury, and (3) a "nexus" exists between the misappropriation and the injury. In a trade secret investigation, the complainant does not need to show that the domestic industry actually practice the involved trade secret.[6]

If the complainant is able to meet these jurisdictional requirements, the complainant can enjoy significant jurisdictional benefits to enforcement at the ITC. For example, the ITC has in rem jurisdiction to issue and enforce an exclusion order over imported articles without the need for having personal jurisdiction over any specific persons.[7] This means that foreign defendants who otherwise may not be subject to jurisdiction in U.S. courts will still be subject to the ITC's jurisdiction so long as their acts involve the importation of materials goods.[8] The ITC's broad jurisdictional reach may prove advantageous to trade secret owner whose only other enforcement option would be to seek relief in a foreign forum that may be hostile to trade secret claims.

Comparing Remedies Available

In district court, the remedies for a claim brought under the DTSA include injunctive relief to prevent any actual or threatened misappropriation on terms that the court deems "reasonable,"[9] damages for the actual loss resulting from the misappropriation,[10] and damages for unjust enrichment that is not addressed through actual losses.[11] Plaintiffs may also seek relief through a court-imposed reasonable royalty for the future use of the trade secrets.[12]

Furthermore, if a plaintiff can establish that the trade secret was "willfully and maliciously appropriated," the court can award exemplary damages of up to two times the amount of damages and reasonable attorneys' fees.[13] The court may also award reasonable attorneys' fees to a prevailing defendant if the claim of misappropriation was found to be made in bad faith.[14]

Additionally, the DTSA grants federal courts the power to seize property "necessary to prevent the

propagation or dissemination of the trade secret that is the subject of the action" if "an immediate and irreparable injury" would result from public disclosure.[15] This remedy is only available to plaintiffs "upon ex parte application" and "only in extraordinary circumstances."[16] There is a three-year statute of limitations for DTSA claims.[17]

At the ITC, injunctive relief is essentially the only remedy available to complainants who file misappropriation claims. If the ITC finds a violation, the ITC has the power to exclude articles from importation into the U.S. and to issue cease and desist orders precluding the sale of domestic inventories.[18]

However, for companies facing market losses related to trade secret theft, this is a powerful remedy in view of the ITC's relatively quick pace of adjudication. A complainant at the ITC is likely to obtain an exclusion order more quickly than obtaining a remedy at the district court. The deadlines in an ITC are statutorily bound, and thus an average ITC investigation takes 14 to 16 months, depending on the complexity of the case. For trade secret owners concerned about unrecoverable market share loss through the misappropriation of their trade secret, seeking an exclusion order at the ITC may be to their advantage.

Takeaway

To maximize the remedy and relief of a misappropriation claim, trade secret owners should carefully consider which forum would be the most advantageous to bring their trade secret action. While the DTSA offers both monetary and injunctive relief, the ITC offers trade secret owners jurisdiction over foreign companies and a speedier remedy.

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[1] TianRui Grp. Co. v. U.S. Int'l Trade Comm'n, 661 F.3d 1322, 1327-28 (Fed. Cir. 2011).

[2] See generally H. Rep. No. 114-529 (2016), S. Rep. 114-220 (2016).

[3] Unif. Trade Secret Act, §1(4)(i) (amended 1985).

[4] 18 U.S.C. § 1839(3) (as amended in Pub. L. 114-153 (May 11, 2016)).

[5] Id.

[6] 19 U.S.C. § 1337(a)(1)(A).

[7] Sealed Air Corp. v. Int'l Trade Comm'n, 645 F.2d 976, 986 (C.C.P.A 1981).

[8] Id. at 985-86.

[9] 18 U.S.C. § 1836(b)(3)(A)(i) (as amended in Pub. L. 114-153 (May 11, 2016)).

[10] Id. at § 1836(b)(3)(B)(i)(I).

[11] Id. at § 1836(b)(3)(B)(i)(II).

[12] Id. at § 1836(b)(3)(B)(ii).

[13] Id. at §§ 1836(b)(3)(C), (D).

[14] Id. at § 1836(b)(3)(D).

[15] Id. at § 1836(b)(2).

[16] Id.

[17] Id. at § 1836(c).

[18] 19 U.S.C. § 1337(d).