

Jordan Grotzinger:

Welcome to the trade secret law evolution podcast, where we give you comprehensive summaries and takeaways on the latest developments and trends and trade secret law. We want you to stay current and ahead of the curve when it comes to protecting your company's most valuable assets. I'm your host Jordan Grotzinger

Jordan Grotzinger:

Good morning, everyone. Welcome to episode 26 of the podcast. This is an interesting one because we address, I think for the first time, the extra territorial application of trade secret law, and a separate case about proving what constitutes a trade secret. So the first case about extra territorial application, what's out of the Northern district of Illinois this month, July, 2020, it involved a motion for a TRO temporary restraining order under the defend trade secrets act and the Illinois trade secrets act. The plaintiff was an Illinois based advanced battery and power systems builder. And the coal plaintiff was it's Chinese subsidiary. The two company teams shared a network drive, including, uh, certain Chinese employees who left the plaintiff to join the defendant, which was another company in China. And as you would expect, the defendant is in the same business as the plaintiffs, the plaintiffs alleged that the defendant poached these high level personnel who downloaded over a hundred thousand confidential documents and source code from the plaintiff's computers.

Jordan Grotzinger:

They also alleged that the defendant knew the stolen documents and information had originated at the plaintiff's Illinois headquarters. So turning to the extra territorial application issue, the court said, quote, a threshold issue raised by defendant is whether the statutes have extra territorial reach. I E whether they apply to conduct occurring outside the borders of the United States or Illinois, in the case of the ITSA Illinois trade secrets act close, quote, the court, then recited the test for extra territorial application of the ditzy, the federal defend trade secrets act. And it said quote, by its statutory terms, the BITSA applies to conduct occurring outside the United States. If one, the offender's 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. That's not the part that's relevant here or to an act in furtherance of the offense was committed in the United States.

Jordan Grotzinger:

So extra territorial application can exist where an act in furtherance of the offense was committed in the United States. And that's the prong that the court focused on here. It held the plaintiff's evidence quote that the stolen materials originated in Woodbridge, Illinois, and were transferred to employees who now work at the defendant at those employees requests via shared servers or email close quote supported quote acts in furtherance of the defendant's alleged misappropriation for purposes of the [inaudible]. So in that case, uh, the acts in furtherance of prong was met and the statute apply extra. Territorially also the plaintiffs presented evidence that the defendant quote, marketed and sold in the United States, the battery products for which the trade secrets were allegedly taken in particular a few months after the first known incident of mass downloading in early July, 2019, the defendant attended a battery technology trade show in salt lake city to market and sell such battery products.

Jordan Grotzinger:

The court said that trade show attendance, quote, trade show attendance has been found to constitute an act in furtherance of a violation close quote under NITSA. Another reason why the law applied

extraterritorial here, the court then turned to whether the Illinois trade secrets act, the state law applied beyond the borders of the U S and the court said, quote, under Illinois principles of statutory interpretation, which applied to the interpretation of the ITSA. When a statute is silent as to extra territorial effect, there was a presumption that it has none close quote. However, the court said, even if the it's a does not apply extra territorially plaintiffs might nonetheless pursue a claim under that statute, if doing so would not in fact, require extra territorial application of the statute to determine whether a particular claim requires a statute to be, to be applied extra territorially Illinois courts consider whether the circumstances relevant to the claim are alleged to have occurred primarily and substantially in Illinois.

Jordan Grotzinger:

So that's the test primarily and substantially in the state. But here the court said, quote, given that the employees accused of stealing plaintiff's trade secrets are Chinese nationals working in China who were employed by one Chinese corporation before moving to employment at another Chinese corporation, the defendant, it appears unlikely that the plaintiffs could prevail on a theory that the relevant circumstances occurred, quote, primarily and substantially close quote in Illinois. But the court said, quote, to the extent the court is wrong about plaintiff's ability to proceed under its, uh, its merits analysis under the debts, uh, claim would apply substantially to the insect claim as well because the pertinent definitions of the two acts overlap close quote. What that meant basically was that the court had already found that the debts of the federal law applied extra territorially and turning to the merits of whether, for purposes of a, uh, a temporary restraining order, the plaintiff had shown a likelihood of success of prevailing on the trade secret claim.

Jordan Grotzinger:

It wouldn't matter that the state law claim didn't apply extra territorially cause the federal and state trade secret laws are substantially similar. So turning to the merits, the courts said, quote, plaintiffs have submitted a 22 page declaration from the plaintiff's vice-president of business development detailing the trade secrets defendant, allegedly misappropriated, including source code and related documentation for particular projects and technologies and explaining why the trade secrets provide value to the plaintiff by virtue of being a secret close quote, that was sufficient, uh, as was the plaintiff's evidence of misappropriation. So due to that merits analysis and preliminarily, the determination that the DEXA applied extra territorial here, the Tiara was granted. So that's a helpful case when you're analyzing whether trade secret misappropriation that involved conduct abroad can be actionable here in the United States. Something that is relatively common. So good to know the next case involves, uh, something quite important in this space, which is proving what constitutes a trade secret.

Jordan Grotzinger:

What do you have to do to prove that your material rises to the level of trade secret status? This was a case out of the first circuit court of appeals. Also this month in July, 2020, the plaintiff was a tax planning and consulting firm in Puerto Rico. It alleged that it generated two trade secrets, the quote capital preservation report, close quote, and the quote us possession strategy, close quote, the capital preservation report or CPR provided tax recommendations specific to each client based on an analysis of statutes and regulations. And the trade secret was alleged to be in the portion of the CPR, not specific to the individual client, the quote us possession strategy was quote in essence, a tax arbitrage strategy, based on the fact Puerto Rico tax rates were lower than us federal tax rates close quote, uh, as is

common. The defendant here was the plaintiff's former managing director who had signed an NDA and allegedly misappropriated those two trade secrets.

Jordan Grotzinger:

The plaintiff, uh, won at trial. It was a bench trial, meaning, uh, only the judge decided that no jury parties can agree to that. And the defendant appealed arguing that the plaintiff failed to establish that those two, uh, products that, uh, CPR capital preservation report and us possession strategy were actually trade secrets as to the strategy trade secret. The district court held that quote is undisputed that most of the individual steps implemented in the strategy EEG, a Puerto Rico company, obtaining a tax exemption grant, a mainland company outsourcing business activities to Puerto Rico and a Puerto Rico company issuing shares were well-known close quote and quote. The proper inquiry is not whether the documents describing the plaintiff's tax scheme were readily ascertainable, but rather whether the substance of that tech scheme was readily ascertainable. And here it was. In other words, whether the substance of the document that included this so-called strategy was really secret or not.

Jordan Grotzinger:

Uh, was it a secret or was it known in the field? The court held the ladder and therefore the plaintiff was not able to prove that that strategy was a trade secret. So turning to the takeaways, the defend trade secrets act, the federal trade secret law quote applies to conduct occurring outside the United States. If one, the offender is a natural person who was a citizen or permanent resident alien of the United States or organization organized under the laws of the United States or a state or political subdivision thereof or to an act in furtherance of the offense was committed in the United States, which of course was the subject of the Illinois case we discussed next takeaway related to that prong of the extra territorial test is that stealing materials that originated in the U S and transferring them to employees abroad electronically can constitute quote acts in furtherance of close quote misappropriation for purposes of the defend trade secrets act.

Jordan Grotzinger:

And soda's marketing stolen trade secrets at a domestic trade show. Next takeaway is if your trade secret contains public and private information, you've got to prove which parts are actually secret. You see this all the time in this case, these cases it's, uh, and you've got to go through that discipline if you're going to win your case as a plaintiff. Lastly, uh, if trade secrets are included in secret, allegedly secret documents, what's important is not whether the documents themselves are readily ascertainable, but whether the substance of the secrets in the documents is ascertainable or truly a secret. Okay. That's it hope everybody's well, talk to everybody soon.

Jordan Grotzinger:

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,

Speaker 3:

This transcript was exported on Jul 21, 2021 - view latest version [here](#).

Greenberg Traurig has more than 2000 attorneys and 39 offices in the United States, Latin America, Europe, Asia, and the middle east GT has been recognized for its philanthropic, giving diversity and innovation, and is constantly among the largest firms in the U S on the law 360 400. And among the top 20 on the AmLaw global 100 content is for informational purposes only, and does not contain legal or other advice and or opinions, more information, please visit B I T . L Y / GT law disclosures. This podcast is eligible for California self study. CLE credit certificates of attendance will not be issued. California attorneys are responsible for self recording. The amount of time they listened for all other jurisdictions, please contact your state's MCLE board or committee for guidance on their rules and regulations as it relates to the self-study. Yeah.