



WHITE PAPER

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2020 End-of-Year Review: Key Global Trade Secret Developments

A trade secret is any information used in one's business that derives independent economic value from being kept secret. Unlike patents, trade secrets are protected indefinitely for as long as they remain a secret. In the United States, the enactment of the Defend Trade Secrets Act ("DTSA")¹ in 2016 has made trade secrets an increasingly attractive form of intellectual property for businesses hoping to protect their innovations. And in other jurisdictions, developments such as Germany's Company Secret Act and China's Anti-Unfair Competition Law are similarly refining trade secret laws.

This *White Paper* summarizes and explains recent noteworthy decisions in trade secret law and updates around the world in the second half of 2020. Each of these decisions has meaningful implications for trade secret owners, defendants and practitioners alike.

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UNITED STATES

Key Decisions Over Past Six Months

Appellate Courts Refine Standards for Identifying Trade Secrets

TLS Management and Marketing Services, LLC v. Rodriguez-Toledo, et al., 966 F.3d 46 (1st Cir. 2020)

Tax firm TLS Management and Marketing Services, LLC (“TLS”) sued its former employee Ricky Rodriguez-Toledo for trade secret misappropriation under Puerto Rico’s misappropriation law and breach of his nondisclosure agreement (“NDA”) with TLS.² TLS claimed two trade secrets: (i) “Capital Preservation Reports” (“CPRs”), i.e., client-specific reports with tax recommendations; and (ii) “U.S. Possession Strategy,” a tax arbitrage strategy to help clients avoid high mainland taxes. TLS alleged that after leaving its employ, Rodriguez-Toledo used the trade secrets to service a client.

On summary judgment cross-motions, the district court determined that Rodriguez-Toledo breached his NDA by using the trade secrets after leaving TLS. Following a bench trial, the district court also ruled in favor of TLS on its misappropriation claim.³ On appeal, Rodriguez-Toledo and his co-defendants argued that TLS failed to establish that it had protectable trade secrets.⁴ The First Circuit agreed.

The First Circuit explained that “[b]ecause of the potentially amorphous nature of trade secrets,” Puerto Rico’s law requires the plaintiff to “describe the trade secret as specifically as possible” and “to establish the existence and scope of the alleged trade secret in the litigation.”⁵ The court noted that during oral argument, TLS was repeatedly asked to identify the trade secrets in the CPRs. TLS, however, “could not articulate what aspects of the CPRs qualified as a trade secret but instead generally referred t[he] court to the record.”⁶ The court found that TLS could not “separate the [purported] trade secrets from the other information ... [that was] known to the trade” and therefore failed to show what aspects of the CPRs were public knowledge and which were not.⁷

With respect to the US Possession Strategy, the court similarly found that it consisted largely of public information. But even

as to aspects that TLS contended were not known to competitors, the court held that TLS did not meet its burden: “TLS could not claim... trade secret protection simply because its loan strategy was not publicly known. TLS also had to establish that this aspect of the Strategy was *not readily ascertainable* from public sources. On this issue, TLS presented no evidence” (emphasis added).⁸ The First Circuit thus reversed the district court’s ruling, remanding with instructions to enter judgment in favor of the defendants.

InteliClear, LLC v. ETC Global Holdings, Inc., 978 F.3d 653 (9th Cir. 2020)

Software company InteliClear, LLC (“InteliClear”) sued competitor and former licensee ETC Global Holdings, Inc. (“ETC”), alleging trade secret misappropriation of aspects of its securities tracking system (the “InteliClear System”). One day after discovery began, ETC moved for summary judgment on InteliClear’s trade secret claims, alleging that it failed to identify its trade secrets with sufficient particularity.⁹ In response to ETC’s motion, InteliClear submitted a sealed declaration describing the InteliClear System in more detail. The district court ultimately granted ETC’s motion for summary judgment, holding that InteliClear failed to sufficiently identify which parts of its securities management system were allegedly trade secrets.¹⁰ The lower court reasoned that InteliClear only identified “some of the features” of its System, which “[e]ven if open the possibility that it might later argue that other unnamed elements of the InteliClear System [were] trade secrets as well.”¹¹ Thus, the district court found InteliClear had failed to meet the required particularity standard.

On appeal, the Ninth Circuit disagreed. Citing InteliClear’s declaration, it found that “there [was] at least a genuine dispute as to whether InteliClear was successful in identifying at least one trade secret with sufficient particularity.”¹² The court also addressed the possibility that InteliClear’s identification of trade secrets could be developed through discovery. It noted that “[r]efining trade secret identifications through discovery makes good sense,” and emphasized that “[w]hen ETC filed its motion for summary judgment, the discovery period had lasted for only one day and no discovery had yet been requested or provided.”¹³ The Ninth Circuit thus found the district court abused its discretion in declining to defer a summary judgment ruling until discovery had proceeded.¹⁴

Patent Law Counter-Complaint Insufficient to Invoke Federal Jurisdiction in State Trade Secret Case

Intellisoft, Ltd. v. Acer America Corp., et al., 955 F.3d 927 (Fed. Cir. 2020)

Intellisoft, Ltd. (“Intellisoft”) sued Acer America Corp. and Acer Inc. (collectively, “Acer”) in California state court, asserting various state law claims, including trade secrets misappropriation.¹⁵ Specifically, Intellisoft alleged that Acer incorporated its trade secrets concerning computer power management technology into Acer’s patents and products.¹⁶

The case proceeded for three years in state court. Toward the close of discovery, one of Intellisoft’s experts opined that an Intellisoft employee, who created some aspects of the trade secrets at issue, should have been named as a co-inventor on one of Acer’s patent.¹⁷ A second Intellisoft expert opined that the Acer patent claimed various Intellisoft trade secrets.¹⁸ In response to these opinions, and shortly before trial, Acer filed a cross-complaint against Intellisoft, seeking a declaration that the employee “properly was not named as an inventor of any of the [Acer patents] and ... is not entitled to an inventorship correction under 35 U.S.C. § 256.”¹⁹ Acer simultaneously removed the action to the U.S. District Court for the Northern District of California under 28 U.S.C. §§ 1441 and 1454. In its Notice of Removal, Acer stated that removal was proper because Intellisoft’s state law claim for trade secret misappropriation arose under federal patent law and because Acer’s cross-complaint alleged a patent inventorship claim.²⁰

Intellisoft moved the district court to remand the action to state court, but the court denied the motion.²¹ Ultimately, the district court granted summary judgment in favor of Acer with respect to Intellisoft’s state law claims. Intellisoft appealed, arguing that removal was improper and seeking a remand to state court.²²

The U.S. Court of Appeals for the Federal Circuit agreed, finding no basis for removal of Intellisoft’s trade secret misappropriation claims. The appellate court noted that Acer’s counter-complaint “was not a legally operative pleading when it removed the action.”²³ Under California law, Acer could have filed the cross-complaint as a matter of right before or at the same time as its answer to the complaint. But after that time, Acer was required to “obtain leave of court to file [the] cross-complaint.”²⁴ The court also found that Intellisoft’s claims

did not “necessarily raise[] patent law issues,” even though Intellisoft’s theory was premised on the inventorship of the Acer patents.²⁵ Its “reliance on a patent as evidence to support its state law claims d[id] not necessarily require resolution of a substantial patent question.”²⁶ The Federal Circuit thus vacated the district court’s judgment and ordered it to remand the proceeding to state court.²⁷

District Court Analyzes FRE 404(b) Outside the Criminal Context in Trade Secrets Dispute

ResMan, LLC v. Karya Property Management, LLC, et al., No. 4:19-cv-00402, 2020 WL 6271214 (E.D. Tex. Oct. 26, 2020)

ResMan, LLC (“ResMan”) sued Karya Property Management, LLC and Scarlet Infotech, Inc. d/b/a Expedien, Inc. (“Expedien”), alleging misuse of the “ResMan Platform,” a property management software. Specifically, ResMan contended that Karya provided Expedien with extensive unauthorized access to the ResMan Platform, aiding in the development of a competing software called “Arya.”²⁸ During the case, Karya and Expedien sought to preclude evidence about their alleged copying of other third-party software in connection with the development of Arya. They argued that such evidence implicated Federal Rule of Evidence 404(b), which prohibits the admission of “any other crime, wrong, or act” to prove a person’s character for the purpose of demonstrating that the person acted in accordance with the character on a particular occasion.²⁹ The defendants claimed evidence of other misuse might suggest to the jury that because they copied third-party software, they necessarily copied the ResMan Platform.³⁰

The court denied the defendants’ motion to exclude evidence, noting that while Rule 404(b) “is generally limited to the criminal law context,” the Fifth Circuit “does provide for Rule 404(b) analysis of Defendants’ other acts by way of a graft onto the civil jurisprudence.”³¹ Applying this “borrowed lens,” the court explained that admissibility of “other acts” is established by first determining whether the evidence is intrinsic or extrinsic to the cause of action.³² Intrinsic evidence does not implicate Rule 404(b), and thus further consideration under the rule would be unnecessary.³³ ResMan argued the evidence was intrinsic, pointing to numerous instances where the defendants “intertwined [the ResMan Platform and third-party software] during the course of their misconduct,” for example, receiving information about each software in the same email.³⁴

The court agreed with ResMan, finding that the acts were “inexplicably intertwined and of the same episode.”³⁵ Thus, prohibiting ResMan from using the evidence “would result in the jury receiving an incomplete story due to the entanglement between the ResMan Platform and other third-party software.”³⁶ Because the court classified the acts as intrinsic, further consideration under Rule 404(b) was unnecessary.

Texas State Court Finds Trade Secret Suit Does Not Infringe on Free Speech

***Collaborative Imaging, LLC, et al. v. Zotec Partners, LLC et al.*, No. 05-19-01256-CV (Tex. App. Jun. 12, 2020)**

The Fifth Court of Appeals in Dallas affirmed a trial court’s ruling that medical billing company Zotec Partners, LLC (“Zotec”) and its subsidiary could sue former employee Dhruva Chopra and Collaborative Imaging, LLC (“Collaborative Imaging”) for trade secret misappropriation.³⁷ Chopra and Collaborative Imaging had moved for dismissal under a state free speech law called the Texas Citizens Participation Act (“TCPA”), a form of anti-SLAPP legislation preventing parties from using litigation as a tool to prevent individuals from exercising their First Amendment rights.³⁸ Specifically, the TCPA was enacted to “protect[] citizens from retaliatory lawsuits that seek to silence or intimidate them for exercising their rights in connection with matters of public concern.”³⁹

Chopra left Zotec to become the CEO at a competing company, Collaborative Imaging. After a client raised billing issues with Zotec and prematurely terminated its contract, Zotec sued Chopra and Collaborative Imaging for trade secret misappropriation and tortious interference with contractual relations.⁴⁰ The defendants moved to dismiss, alleging that Zotec’s claims were really based on their communications about Zotec’s allegedly inaccurate billing processes.⁴¹

The appellate panel disagreed, noting that “it is clear the dispute is one of commercial competition by which a former employer alleges a former employee disclosed proprietary information to a new employer and used that purloined information to inflict competitive harm on it.”⁴² The court found the alleged communications did not have “public relevance beyond the pecuniary interests of the private parties involved,” and thus were not made in connection with a “matter of public concern” under the TCPA.⁴³ Therefore, the appellate court held the defendants failed to establish that Zotec’s claims

were based on, related to, or in response to the defendants’ exercise of a right of free speech.⁴⁴

COVID-19 Is Not an Excuse to Violate a TRO and Permanent Injunction

***Gus’s Franchisor, LLC v. Terrapin Restaurant Partners, LLC, et al.*, No. 2:20-cv-2372, 2020 WL 5121364 (W.D. Tenn. Aug. 31, 2020)**

Gus’s Franchisor (“Gus’s”) sued Mark Dawejko and Terrapin Restaurant Partners, LLC (collectively, “Defendants”) in May 2020, alleging that Defendants unlawfully used Gus’s trademarks, trade dress, trade secrets, and proprietary business information in operating a Gus’s franchise after Gus’s terminated their franchise relationship.⁴⁵ Gus’s filed a motion for a temporary restraining order (“TRO”), which was granted by the district court on May 29, 2020.⁴⁶

The TRO prevented Defendants from using any of Gus’s trademarks, service marks, or any “colorable imitation of” Gus’s marks.⁴⁷ The TRO also prevented Defendants from operating their restaurant as if it were “in any way associated with Gus’s World Famous Fried Chicken or its franchise system,” among other restrictions. Defendants were required to provide an affidavit of compliance within 15 days of the entry of the TRO.⁴⁸ Thereafter, on June 15, 2020, the court entered a consent permanent injunction, ordering that the Defendants were enjoined from operating as a Gus’s franchise and were required to remove all Gus’s proprietary information from the restaurant. Defendants were required to file an affidavit demonstrating compliance with the permanent injunction by June 30, 2020.⁴⁹

Nevertheless, Defendants continued to operate as a Gus’s Restaurant, including using Gus’s trade dress and proprietary chicken batter recipe, allegedly relying on the poor advice of counsel that “it was in the best interest of the store to operate despite the existence of the TRO.”⁵⁰ On June 23, 2020, Gus’s filed an amended complaint and motion for contempt, alleging that Defendants’ continued actions were in violation of the TRO and permanent injunction.⁵¹ Defendant Dawejko filed an affidavit attempting to justify the noncompliance, asserting that his lawyers advised him to remain open, and “it was in the best interest of the restaurant and its employees to remain open during the COVID-19 shutdowns.”⁵²

The court ruled in favor of Gus's, holding that "[a]dvice of counsel and good-faith conduct do not relieve from liability for a civil contempt."⁵³ The court also found that monetary sanctions were appropriate in order to "coerce Defendants' compliance with the Court's Order."⁵⁴

Delaware State Court Finds No Trade Secret Protection for Information Disclosed on Zoom Call

***Smash Franchise Partners, LLC, et al. v. Kanda Holdings, Inc.*, No. 2020-0302, 2020 WL 4692287 (Del. Ch. Aug. 13, 2020)**

Plaintiff Smash Franchise Partners, LLC and Smash My Trash, LLC (collectively, "Smash") operate a mobile trash compaction business that sells franchises to entrepreneurs who want to run a Smash-branded franchise in a protected territory.⁵⁵ Defendant Todd Perri was initially interested in a Smash franchise but decided he could create his own mobile trash business without working with Smash. But Perri continued to feign interest in operating a Smash franchise, including participating in multiple calls and Zoom videoconferences, in order to gather information. He and his brother eventually formed Dumpster Devil LLC, a competing trash compaction business.⁵⁶

Smash filed a lawsuit and sought a preliminary injunction to shut down Dumpster Devil's business. They asserted several claims, including trade secret misappropriation. Specifically, Smash alleged various aspects of its business operations, model, routes, and pricing were trade secrets.⁵⁷ In its preliminary injunction analysis, the court found that Smash did not show a reasonable likelihood of success on its claim to have protectable trade secrets.⁵⁸ It noted that much of the information was publicly available in disclosure documents, pitch decks, and introductory calls.⁵⁹ But even "[a]ssuming for the sake of analysis that Smash had protectable trade secrets, Smash did not take reasonable steps to protect their secrecy."⁶⁰ For example, "Smash freely gave out the Zoom information for [its calls] to anyone who had expressed interest in a franchise and completed the introductory call" and "used the same Zoom meeting code for all of its meetings."⁶¹ The court thus declined to order a preliminary injunction with respect to the trade secret claims. It did, however, issue a preliminary injunction for reasons relating to Dumpster Devil's deceptive marketing tactics.⁶² That injunction was vacated in part a month later due to a stipulation between the parties.⁶³

Seventh Circuit Affirms the Availability of "Head Start" Damages and Adjusts Punitive Award

***Epic Systems Corp. v. Tata Consultancy Services, Ltd.*, 980 F.3d 1117 (7th Cir. 2020)**

Plaintiff Epic Systems, Corp. ("Epic") sued Tata Consultancy Services Ltd. and Tata America International Corp. (collectively, "Tata"), accusing Tata of stealing confidential information regarding health care management software.⁶⁴ In a 2016 trial, a jury found in favor of Epic, awarding \$240 million in compensatory damages and \$700 million in punitive damages.⁶⁵ The court later struck \$100 million in compensatory damages and reduced the punitive damages award to \$280 million, citing a Wisconsin statute that caps punitive damages at two times compensatory damages.⁶⁶ Both parties challenged different aspects of the district court's rulings.

On appeal, the Seventh Circuit agreed with the district court regarding its reduced \$140 million compensatory damages award but found the \$280 million in punitive damages "constitutionally excessive."⁶⁷ For compensatory damages, Epic provided an unjust enrichment theory at the district court, basing its calculation on "the value TCS received by avoiding research and development costs they would have incurred without the stolen information."⁶⁸ The Seventh Circuit affirmed this approach, noting that "the reasonable value of the benefit conferred on a defendant can be measured in a variety of ways."⁶⁹ "[A]voided research and development costs have been awarded when the defendants gained a significant head start in their operations."⁷⁰

As for the punitive damages award, the Seventh Circuit noted such damages violate due process when the award is "grossly excessive."⁷¹ Here, Epic "did not suffer physical harm as a result of [Tata's] conduct," nor did Tata exhibit "an indifference to or a reckless disregard of the safety of others."⁷² Epic is also "not a financially vulnerable plaintiff."⁷³ But Tata's conduct "consisted of a repeated course of wrongful actions spanning multiple years" and was "intentional and deceitful."⁷⁴ Therefore, the court held that Tata deserved punishment, but not in the amount of a \$280 million punitive-damages award. The court concluded that "the maximum permissible award of punitive damages in this case is \$140 million—a 1:1 ratio relative to the compensatory award."⁷⁵ The case was remanded to the district court with instructions to adjust the award accordingly.

Trade Secret Enforcement at the ITC

The U.S. International Trade Commission (“ITC”) has held for more than 40 years that the catch-all provision of 19 U.S.C. § 1337(a)(1)(A)—which applies to any “*unfair methods of competition and unfair acts* in the importation of articles”—includes trade secret claims, and the Federal Circuit has upheld this determination.⁷⁶ While trade secret cases before the ITC have been relatively rare historically, the interest in litigating trade secrets claims before the ITC has increased in the wake of passage of the DTSA: six trade secret complaints were filed in 2019, and the ITC instituted yet another investigation involving trade secret misappropriation claims in November 2020.⁷⁷

Money damages for trade secret violations are not available in ITC enforcement proceedings, but § 337 authorizes the Commission to exclude products from entry into the United States when those products embody or were manufactured using misappropriated trade secrets.⁷⁸ ITC exclusion orders based on trade secret misappropriation can be lengthy—up to 25 years—and the duration of an import ban in a particular case is determined by “a ‘reasonable research and development period’ or an ‘independent development time’ for the trade secrets at issue.”⁷⁹

There were two ITC trade secret decisions of note in the second half of 2020, which are summarized below.

In the Matter of Certain Botulinum Toxin Products, Inv.

No. 337-TA-1145

Administrative Law Judge Shaw issued an initial determination in July 2020 finding a § 337 violation based on the misappropriation of trade secrets in the importation and sale of certain botulinum toxin (“BOTOX[®]”) products.⁸⁰ ALJ Shaw recommended a 10-year exclusion order for products using a bacterial strain misappropriated from the complainants and a 21-month exclusion order for products made using misappropriated manufacturing processes. The full Commission issued a notice on December 16, 2020, affirming in part and rejecting in part the ALJ’s initial determination.⁸¹ The Commission affirmed the ALJ’s finding of trade secret misappropriation as it related to the proprietary manufacturing processes but reversed the finding that a trade secret existed with respect to the bacterial strain. The Commission determined that the appropriate

remedy is a 21-month import ban on products made using the complainants’ proprietary manufacturing processes.

In the Matter of Certain Foodservice Equipment, Inv.

No. 337-TA-1166

In a second trade secret investigation, the full Commission reversed and remanded an ALJ’s summary determination order that had found the complainants failed to establish a substantial injury to the domestic industry.⁸² In this regard, trade secret claims at the ITC must satisfy an additional requirement not applicable to patent cases: that the effect of the importation be to, *inter alia*, “destroy or substantially injure” the industry in question.⁸³

Addressing this injury requirement in the *Foodservice Equipment* investigation, the Commission concluded in December 2020 that the ALJ “erroneously required the Complainants, in effect, to provide direct evidence that Respondents’ importation and sales substantially harmed Complainants’ domestic activities and investments and to quantify such harm in order to support a finding of substantial injury” to the domestic industry.⁸⁴

According to the Commission, the ALJ’s evidentiary analysis regarding the alleged injury was too strict: “Although a complainant can present *direct evidence* of substantial harm or threat to their qualifying domestic activities and investments, such as curtailment or abandonment of activities in the presence of a respondent’s unfair imports, a complainant can also present *circumstantial evidence* from which such substantial injury or threat to these activities and investments can be inferred” (emphasis added).⁸⁵ “Depending on the facts of a case,” the Commission wrote, “it may be appropriate to use proof of lost sales and diminished profits to show that a domestic industry has been injured or threatened with injury, even where a domestic industry was found based on non-manufacturing activities, because the evidence supports an inference that such lost sales and profits have had or will have the effect of substantially harming or threatening the domestic industry that was found to exist based on its qualifying U.S. activities and investments”

The *Foodservice Equipment* decision demonstrates that even where an ITC complainant asserting a trade secret claim is not manufacturing a product in the United States, the complainant

can still meet the § 337 substantial injury requirement through circumstantial evidence showing how lost sales and reduced profits have adversely affected (or will likely affect) its U.S. investments and activities, such as research, design, engineering, and product service and support.

The DOJ Continues to Pursue Charges Under the Economic Espionage Act

In the second half of 2020, the Department of Justice continued to advance its China Initiative through the investigation and prosecution of criminal trade secrets cases with a nexus to China.

***United States v. Zhang*, 15-cr-00106 (N.D. Cal.)**

On August 30, 2020, Professor Hao Zhang was sentenced to 18 months in prison and a three-year period of supervised release after being found guilty of economic espionage, theft of trade secrets, and conspiracy following a four-day bench trial in the Northern District of California. He was also ordered to pay more than \$500,000 in restitution to two victims, Avago and Skyworks.

The evidence at trial established that Zhang stole trade secrets related to the performance of wireless devices. He then started a business in China to compete with Avago and Skyworks. The trade secrets at issue had taken more than 20 years to develop.

***United States v. Zhou*, 2:19-cr-00163 (S.D. Ohio)**

On December 11, 2020, Chinese national Yu Zhou pleaded guilty to conspiring with his wife, Li Chen, to steal trade secrets from Nationwide Children's Hospital, where the couple had worked for more than 10 years. Chen pleaded guilty to the charges earlier in 2020. The couple admitted conspiring to commit wire fraud and to steal trade secrets related to exosomes and exome isolation, which play a key role in the research, identification, and treatment of a variety of medical conditions, in order to benefit the People's Republic of China and themselves.

As part of her plea agreement, Chen agreed to a sentencing range of 14 to 84 months' imprisonment, and to forfeit approximately \$1.4 million cash, 400 shares of common stock of her

husband's company, and 500,000 shares of said company's parent company. The details of Zhou's plea agreement are not publicly available but are believed to be on par with Chen's. At the end of January 2021, Chen was sentenced to 30 months in prison; Zhou's sentencing date has not been scheduled yet.

***United States v. United Microelectronics Corp. et al.*, 3:18-cr-00465 (N.D. Cal.)**

On October 28, 2020, United States District Judge Maxine M. Chesney imposed the second-largest fine in a criminal theft of trade secrets case on United Microelectronics Corporation ("UMC"), which she ordered to pay a \$60 million fine and serve three years' unsupervised probation after the company entered a guilty plea to a one-count indictment charging theft of trade secrets (18 U.S.C. § 1832(a)(5)).

UMC, a Taiwan-based semiconductor foundry, was originally indicted on September 27, 2018, along with the state-owned Chinese semiconductor manufacturer Fujian Jinhua Integrated Circuit Co., Ltd. and three individual defendants for conspiracy to commit economic espionage (18 U.S.C. § 1831(a)(5)); conspiracy to commit theft of trade secrets under (18 U.S.C. § 1832(a)(5)); and economic espionage, specifically receiving and possessing stolen trade secrets (18 U.S.C. §§ 1831(a)(3)).

The government asserted that UMC helped Fujian Jinhua steal trade secrets regarding dynamic random access memory ("DRAM") from a subsidiary of Micron Technology, Inc., one of the world's three leading DRAM manufacturers, which is based in Boise, Idaho. Under the terms of the Rule 11(C)(1)(c) binding plea agreement, the underlying indictment was dismissed as to UMC. The charges remain pending against Fujian Jinhua as well as the individual defendants, who have never appeared in court and for whom there are outstanding arrest warrants.

GERMANY

In our *Mid-Year Review of Key Global Trade Secret Developments*,⁸⁶ we reported on Germany's new Company Secret Act (*Geschäftsgeheimnisgesetz*, or *GeschGehG*), promulgated in April 2019, which introduced a specific type of litigation to resolve disputes on trade secrets. Below, we report on two recent court decisions under the *GeschGehG*.

District Court of Konstanz, D 6 O 207/20 (October 8, 2020)

The district court of Konstanz (*Landgericht Konstanz*) has made an enlightening decision against the background of a dispute between an executive search firm and its former freelance worker. The former freelancer sought payment from the search firm, but the search firm denied the request because customer feedback on the freelancer's work was "devastating." The former freelancer, after having contacted a former customer, threatened (despite a noncompetition arrangement) to contact additional customers of the search firm to clarify the issue of the negative customer feedback. The executive search firm successfully filed for a preliminary injunction against the freelancer's announcement.

In its decision, the court clarified several issues related to the *GeschGehG*. First, it confirmed that customer lists generally have the necessary "commercial value" to qualify as a trade secret under the new law (as they did under previous legal provisions, in the *Act Against Unfair Competition*), and that this is even more true under the business model of the search firm, which is based on discreet consultancy to its customers.

Second, the court concluded that the freelancer was an infringer within the meaning of the *GeschGehG* because he "made use of the trade secret." In particular, the court found that the freelancer's threat to contact additional customers was an illegitimate current use of the trade secret that would cause reputational damage to the search firm. The court noted that there was no typical (commercial) form of using the secrets as would be the case, for example, if the freelancer tried to compete with the executive search firm.

Next, the executive search firm and the freelancer had a non-competition arrangement providing that the freelancer must not contact customers of the search firm for one year after the end of his cooperation period with the search firm. The court considered this agreement as an appropriate and reasonable step to protect the secrecy of items like customer lists. Active protection measures are more important than ever because under the *GeschGehG* (and in line with the underlying EU Directive 2016/943), a trade secret holder can claim the existence of a secret only if such "reasonable measures" have truly been taken.

Appellate Labor Court of Düsseldorf, 12 SaGa 4/2 (June 3, 2020)

The Appellate Labor Court (*Landesarbeitsgericht*) of Düsseldorf decision also involved an application for a preliminary injunction, which the court partially granted. A former employee, now employed with a competitor of the previous employer, used his private notes from the first job on customer visits and customer data for direct competition purposes.

The court distinguished among: (i) various types of potential trade secrets; (ii) their respective protection requirements; and (iii) what actually qualifies as a reasonable step to keep them secret. The court clearly expressed that customer data and information concerning customer visits may well qualify as trade secrets even if the information exists in the form of *private notes* of a former employee and of which the former employer did not know when the employee left. Accordingly, the court adjudged that the former employer had a valid claim against the former employee not to use such notes.

In contrast, the court concluded that the former employer's customer list did not qualify as a trade secret for two reasons. First, the former employer knew about the list when the employee was leaving but did not take any action to protect it and did not request its return for several months. The court interpreted this omission as a *lack of interest in protecting the information* as a trade secret. Second, a confidentiality provision in the former employment agreement was deemed *excessively broad* and thus invalid. The provision stated that all matters of which the employee becomes aware in the company must be treated as absolutely confidential, including those that are not a formal trade secret, and that documents concerning the employer are to be returned on the last day of work. This provision, in the court's view, was far too broad, and if recognized as valid, it would undermine the statutory need for specific protection steps. Moreover, the court deemed it an invalid "catch-all" provision because it violates the law on general terms and provisions (*Allgemeine Geschäftsbedingungen*), i.e., because it lacked a time limit or specific content, it did not sufficiently take into account the employee's constitutionally protected interests.

The decision reveals the importance of reasonable and visible active steps in protecting what is intended to be a trade secret under the new *GeschGehG*. Often a tailor-made approach or wording, at least for certain groups of employees, will become necessary. Unbalanced and excessive catch-all clauses on confidentiality offer no protection anymore, and even valid clauses may lose their effect if the employer does not take reasonable steps to protect its trade secrets upon an employee's departure.

CHINA

China recently issued several new judicial interpretations governing trade secret civil and criminal litigation. These include Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Infringements upon Trade Secrets ("Trade Secret Regulation"), Decision on Amending the Criteria for Launching Formal Investigation into Criminal Cases of Infringement upon Trade Secrets ("Trade Secret Criminal Regulation"), and Several Provisions of the Supreme People's Court on Evidence in Civil Procedures Involving Intellectual Property Rights ("IP Evidence Rule"). The new regulations put opposing parties on a more level playing field and provide more clarity and legal certainty to the parties.

New Regulations: Scope of Trade Secrets

Trade secrets include technical information and business information. Articles 1 and 2 of the Trade Secret Regulation clarify the scope of business information and technical information. In particular, "business information" includes all information "on creativity, management, sale, finance, plans, samples, bidding materials, clients' information and data, among others, relating to business activities." The term "client information" includes the "client's name, address, contact information, and trading practices, intention, content, and other information."

The Trade Secret Regulation further provides that a party may not claim a specific client as a trade secret only on the grounds that the party "maintains long-term stable trading relationships with the client." An accused infringer, who is an ex-employee of the plaintiff and conducted business with the

plaintiff's client after leaving the plaintiff, will not be liable for trade secret misappropriation if the client voluntarily chose to conduct business with the ex-employee based on the personal trust of the ex-employee.

Examples of Confidentiality Measures

In a trade secret misappropriation case, the plaintiff must prove that it has taken measures to protect the confidentiality of its trade secrets. Article 6 of the Trade Secret Regulation provides examples of confidentiality measures, which can serve as a guideline for companies.

In particular, confidentiality measures include: (i) entering into confidentiality agreements; (ii) adopting confidentiality requirements in the forms of company rules; trainings, rules, regulations, or written notifications to employees, former employees, suppliers, clients, visitors, and others who are able to access or obtain trade secrets; (iii) restricting access to factory, workshop, and other production or distribution premises involving the trade secret; (iv) adopting special treatment for or segregating trade secrets and their vehicles, such as identifying them as trade secret, employing encryption, locking up, or limiting individuals who are able to access or obtain the trade secrets or their vehicles; (v) prohibiting or restricting the use of, access to, or reproduction from computer equipment, electronic equipment, network equipment, storage equipment, or software that can access or obtain trade secrets; and (vi) requiring employees departing from employment to register and return or destroy the trade secrets they accessed and to continue to honor confidentiality obligations.

Preliminary Injunction

The Trade Secret Regulation reiterates the right of the right holders to obtain a preliminary injunction. Article 15 provides that where the defendant has obtained, disclosed, used, or allowed another person to use the trade secrets, or has made attempts to do so, the right holder may petition the court to issue a preliminary injunction. The right holder may file such a petition before filing suit. Under urgent circumstances, the court should make a decision within 48 hours.

Evidence Formed Outside China

The IP Evidence Rule removes the requirements that all evidence formed outside of China must be notarized and

legalized. Article 9 of the IP Evidence Rule further provides that evidence formed outside of China may be admissible if the party submitting the evidence declares the authenticity of the evidence and offers to accept punishment if he or she commits perjury.

Burden of Proof

In general, under China law, each party in litigation bears its own burden of proof for all its claims. The IP Evidence Rule provides that the party having the burden of proof may also petition the court to order the party in possession of the evidence to furnish the evidence. If the court considers the grounds for such petition are reasonable, it shall issue such an order. In addition, if a party refuses to submit such evidence without justifiable reason, submits false evidence, destroys the evidence, or conducts any other act which renders the evidence unusable, the court will find against the party on the issue.

Criminal Action

The Trade Secret Criminal Regulation lowers the threshold for initiating a trade secret criminal action. Previously, right holders were required to prove that illegal income from the misappropriation exceeded RMB 500,000 (about US\$70,000). Currently, right holders may initiate a criminal action by proving either illegal income from the misappropriation exceeded RMB 300,000 (about US\$42,000) or bankruptcy and liquidation of the right holders due to major operational difficulty directly caused by the trade secret infringement.

Recent Developments in Trade Secret Enforcement in China

The Beijing High People's Court recently published a report on trade secret cases ("Report"). Generally, trade secret cases are relatively rare in China. Most of the cases involve business information, and only few cases involve technical information.

According to the Report, 338 judgments on trade secret cases were issued from 2013 to 2017, compared to the approximately 100,000 judgments in all intellectual property cases issued each year. Among all the 338 trade secret misappropriation cases, 63% related to misappropriation of business information, and only 27% related to misappropriation of technical information. In around 65% of the cases, the plaintiffs' claims

were not supported by the court, often because the plaintiff failed to prove that the claimed trade secret qualified as a trade secret. Before the revision of the Chinese Anti-Unfair Competition Law, a plaintiff had to prove that the claimed trade secret: (i) was nonpublic; (ii) could bring economic benefits to the owner and was practical; and (iii) protected by the owner's confidentiality measures. A plaintiff now merely needs to prove confidentiality measures have been adopted to protect the trade secrets.

The Report also pointed out that trade secret civil cases were filed mainly in Guangdong Province, Beijing City, Shanghai City, Zhejiang Province, and Jiangsu Province. Those provinces and cities are among China's more economically developed districts.

Key Takeaways

Important reforms have placed trade secret owners on a more level playing field. Trade secret civil litigation and criminal action in China are both becoming more user-friendly tools for protecting trade secrets. However, there are still some obstacles, including the lack of a true common law discovery system and a high threshold to initiate criminal actions. Thus, even with the reforms, it is critical that trade secret owners carefully and meticulously prepare their cases.

CONCLUSION

This *White Paper* highlights recent noteworthy trade secret cases and updates in jurisdictions worldwide. In the United States, courts have provided insight into several topics, including the particularity standard, admissibility of evidence, constitutional challenges, and the Economic Espionage Act. In Germany, courts have begun to issue decisions under the new Company Trade Secret Act, which provides a specific type of litigation to resolve disputes on trade secrets. And in China, new judicial interpretations governing trade secret civil and criminal litigation have provided more clarity and legal certainty to the parties of such disputes.

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ENDNOTES

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- 3 *Id.* at 50.
- 4 *Id.* at 51.
- 5 *Id.* at 52.
- 6 *Id.* at 53.
- 7 *Id.* at 54.
- 8 *Id.* at 55.
- 9 *InteliClear, LLC v. ETC Global Holdings, Inc.*, 978 F.3d 653, 656-57 (9th Cir. 2020).
- 10 *Id.*
- 11 *Id.* at 659.
- 12 *Id.* at 660.
- 13 *Id.* at 662.
- 14 *Id.* at 663-64.
- 15 *Intellisoft, Ltd. v. Acer America Corp., et al.*, 955 F.3d 927, 929 (Fed. Cir. 2020).
- 16 *Id.*
- 17 *Id.* at 929-30.
- 18 *Id.* at 930.
- 19 *Id.* In California state court, a party may file a “cross-complaint” setting forth a “cause of action he has against any of the parties who filed the complaint ... against him.” Cal. Civ. Proc. Code § 428.10(a).
- 20 *Intellisoft Ltd.*, 955 F.3d at 930.
- 21 *Id.* at 931.
- 22 *Id.*
- 23 *Id.* at 934.
- 24 Cal. Civ. Proc. Code § 428.50(c).
- 25 *Intellisoft Ltd.*, 955 F.3d at 932.
- 26 *Id.* at 933.
- 27 *Id.* at 936.
- 28 *ResMan, LLC v. Karya Property Management, LLC, et al.*, No. 4:19-cv-00402, 2020 WL 6271214 at *1 (E.D. Tex. Oct. 26, 2020).
- 29 Fed. R. Evid. 404(b)(1).
- 30 *ResMan, LLC*, 2020 WL 6271214 at *2.
- 31 *Id.*
- 32 *Id.*
- 33 *Id.* at *1.
- 34 *Id.* at *2.
- 35 *Id.* at *3.
- 36 *Id.*
- 37 *Collaborative Imaging, LLC, et al. v. Zotec Partners, LLC et al.*, No. 05-19-01256-CV (Tex. App. Jun. 12, 2020).
- 38 *Id.* at 1-4.
- 39 Texas Citizens Participation Act (2011)
- 40 *Id.* at 2-3.
- 41 *Id.* at 5-6.
- 42 *Id.* at 3.
- 43 *Id.* at 8.
- 44 *Id.* at 7-8.
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- 47 *Id.*
- 48 *Id.*
- 49 *Id.*
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- 53 *Id.*
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- 58 *Id.*
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- 62 *Id.* at *19-20.
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- 64 *Epic Systems Corp. v. Tata Consultancy Services, Ltd.*, 980 F.3d 1117 (7th Cir. 2020).
- 65 *Id.* at 1117.
- 66 *Id.* at 1124.
- 67 *Id.*
- 68 *Id.* at 1128.

- 69 *Id.* at 1129.
- 70 *Id.* at 1130.
- 71 *Id.* at 1140.
- 72 *Id.* at 1141.
- 73 *Id.* at 1142.
- 74 *Id.*
- 75 *Id.* at 1145.
- 76 See *TianRui Grp. Co. v. Int'l Trade Comm'n*, 661 F.3d 1322, 1326 (Fed. Cir. 2011) (emphasis added).
- 77 *In the Matter of Certain Digital Imaging Devices*, Inv. No. 337-TA-1231, 2020 WL 7223394 (USITC Nov. 25, 2020) (instituting investigation of alleged misappropriation of Pictos Technologies, Inc.'s trade secrets in connection with certain Samsung "digital imaging sensors and mobile phone handsets, tablet computers, web cameras, home monitoring cameras, and digital cameras that contain those sensors").
- 78 *TianRui*, 661 F.3d at 1326.
- 79 *Organik Kimya v. U.S. Int'l Trade Comm'n*, 848 F.3d 994, 1005 (Fed. Cir. 2017).
- 80 *In the Matter of Certain Botulinum Toxin Products*, Inv. No. 337-TA-1145, 2020 WL 5798111 (USITC July 6, 2020).
- 81 Notice of Commission Final Determination, Inv. No. 337-TA-1145 (USITC Dec. 16, 2020) (public opinion forthcoming).
- 82 *In the Matter of Certain Foodservice Equipment*, Inv. No. 337-TA-1166, Opinion Remanding the Investigation (USITC Dec. 16, 2020).
- 83 *TianRui*, 661 F.3d at 1335-36.
- 84 *Foodservice Equipment*, Opinion Remanding the Investigation at pp. 13-14.
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