TRANSNATIONAL ISSUES IN U.S. TRADE SECRETS LITIGATION

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LOSSES DUE TO TRADE SECRET THEFT

- PWC estimates losses at 1-3% of the U.S. gross domestic product
- FBI estimates losses at tens or even hundreds of billions of dollars annually – in the U.S. alone
- Trade secret theft is a recent focus of U.S. regulatory and criminal enforcement efforts
- Obama administration made “stamping out” intellectual property theft a “top priority”
- Overwhelming support for the DTSA

PROTECTING ASSETS AND MANAGING EXPOSURE

- Minimizing risk of trade secret theft is increasingly difficult
  - Protectionary measures versus employee mobility
- Managing corporate exposure due to trade secret theft is challenging for foreign companies:
  - $920 M verdict & $275 M settlement (*DuPont v. Kolon*)
  - $250 M settlement (*Nippon v. Posco*)
  - $278 M settlement (*Toshiba v. SK Hynix*)
- Chinese interests alone are estimated to account for 50-80% of American IP theft

U.S. LEGAL FRAMEWORK – STATE LAWS

- States have broad civil trade secrets laws
  - protect technical, financial, and business secrets
  - may consist entirely of public information
  - routine business activities in the U.S. may ensnare foreign companies in civil litigation
- Alternative damages theories
- Injunctive relief
- Different approaches to post-employment restraints
- Caseloads, schedules, experiences, and local practices may be attractive

U.S. LEGAL FRAMEWORK – DEFEND TRADE SECRETS ACT

- Broad definition of trade secrets, modeled after UTSA
- Covers conduct in the U.S. and conduct of citizens/ organizations outside of the U.S.
- Actual damages, unjust gains, reasonable royalty, injunctive relief
- Enhanced damages/attorney's fees for willful misappropriation
- No pre-emption of state law (but removal is an option)
- Limited restraints on employee mobility
- Ex parte seizure orders
- Immunity for whistleblowers
- Some similarities to & differences from the EU Directive

U.S. LEGAL FRAMEWORK – FEDERAL CRIMINAL LAW

- Criminal liability under the U.S. Economic Espionage Act
  - Covers **nearly any confidential and proprietary information of value**, whether financial, business, technical, or scientific
  - Criminal fines
  - Forfeiture of ill-gotten profits
  - Forfeiture of substitute property
  - Restitution to the aggrieved party
  - Pre-judgment asset restraints and seizure
- Foreign companies are less familiar with criminal aspects of trade secrets litigation in the U.S.
  - Liability for conspiracy too (intent is enough)

U.S. GOVERNMENT'S EXTRATERRITORIAL REACH

- Only **one act** in furtherance of the offense needs to take place on U.S. soil
  - Conducting an interview of a potential lateral employee or a consultant
  - Directing email communications at the forum state
  - All of the remaining wrongful activities could occur entirely outside the U.S.
- Lack of a physical presence in the U.S. will no longer avoid service of criminal indictments
  - DOJ requested expansion of Criminal Rule 4(c)(2) to authorize service "at a place not within a judicial district of the United States"

PARALLEL CIVIL & CRIMINAL PROCEEDINGS

- U.S. plaintiffs strategically seek to involve prosecutors in trade secrets disputes
  - Greater leverage against foreign defendants that are outside the subpoena power of the U.S. Government
  - U.S. Government may quietly cooperate with the victim of the crime, the U.S. plaintiff
  - Any communication that a foreign company has with a U.S. plaintiff or potential plaintiff may be turned over to the U.S. Government
  - U.S. Government may detain foreign executives that travel to the U.S., even before being formally charged
  - Foreign governments may get involved
- Foreign companies must carefully contemplate the risks of potential parallel civil and criminal trade secrets proceedings

PARALLEL PROCEEDINGS CREATE UNIQUE RISKS

- Companies threatened with U.S. litigation have a duty to preserve relevant documents
  - Employees' deletion of relevant documents may result in (1) a finding of spoliation in civil proceedings and (2) obstruction of justice charges in criminal proceedings
- Foreign businesses should address U.S. preservation obligations early
  - Foreign local laws often allow only limited, if any, civil discovery
  - Foreign employees might not understand the broad U.S. civil discovery standards and preservation obligations, particularly for electronically stored information

PARALLEL PROCEEDINGS CREATE UNIQUE RISKS (cont'd)

- U.S. prosecutors have few avenues to obtain foreign documents and records
  - Federal grand jury subpoena has limited reach
- Federal prosecutors want foreign documents produced during discovery in civil trade secrets cases in the U.S.
  - Once documents are moved into U.S. jurisdiction, they fall within a grand jury's subpoena power
  - DOJ serves a "friendly subpoena" to the plaintiff
  - Used against the company and its employees
  - Valid and agreed-upon protective order may not help

ISSUES FROM SELF-DISCLOSURE AND COOPERATION

- Foreign entities often underestimate level of cooperation requested by the DOJ
  - Conduct a thorough internal investigation of the wrongful activities
  - Reveal the names of the involved individuals
  - Voluntarily turn over foreign evidence
  - Assist in prosecution of employees
- Yates memorandum: the U.S. Government should not settle with a company without also attempting to settle with any indicted employees
  - DOJ will simultaneously seek corporate and individual accountability
  - Culpable employees may end up cooperating with DOJ in exchange for leniency

MULTIPLE INVESTIGATIONS IN DIFFERENT JURISDICTIONS

- U.S. trade secrets plaintiffs have incentive to help initiate foreign investigations
- Filing formal complaints with regulators with evidence produced during U.S. civil discovery
- Cooperation with foreign law enforcement agencies is expected to increase
  - Willingly and increasingly sharing information
  - Participating in investigations and prosecutions across multiple jurisdictions
  - U.S. has mutual legal assistance treaties with over fifty countries (allows for the exchange of evidence and information in criminal investigations)

Thank You!

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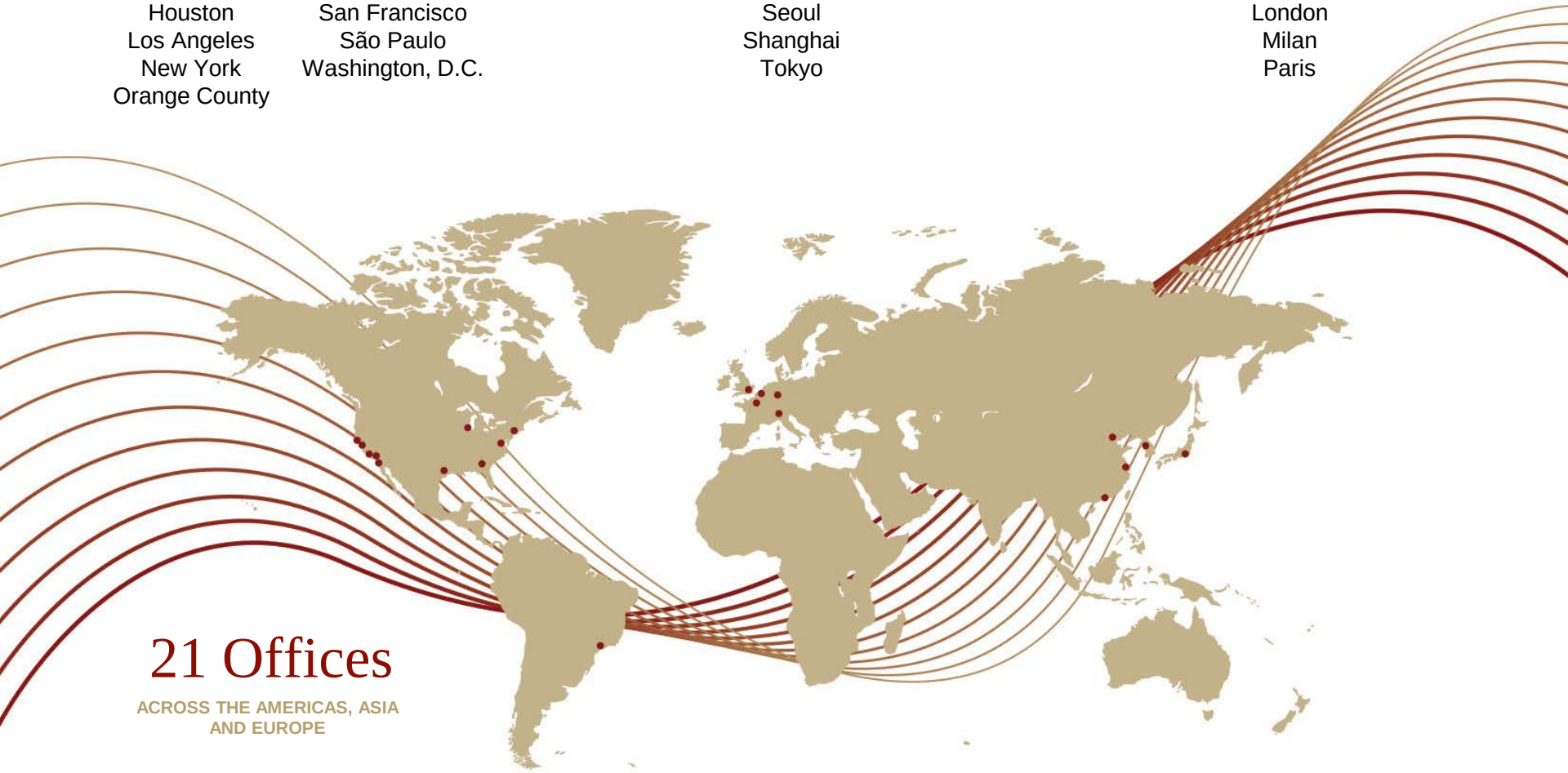

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