

Trade Secrets at the U.S. International Trade Commission

Presented by P. Andrew Riley and Jonathan R. K. Stroud

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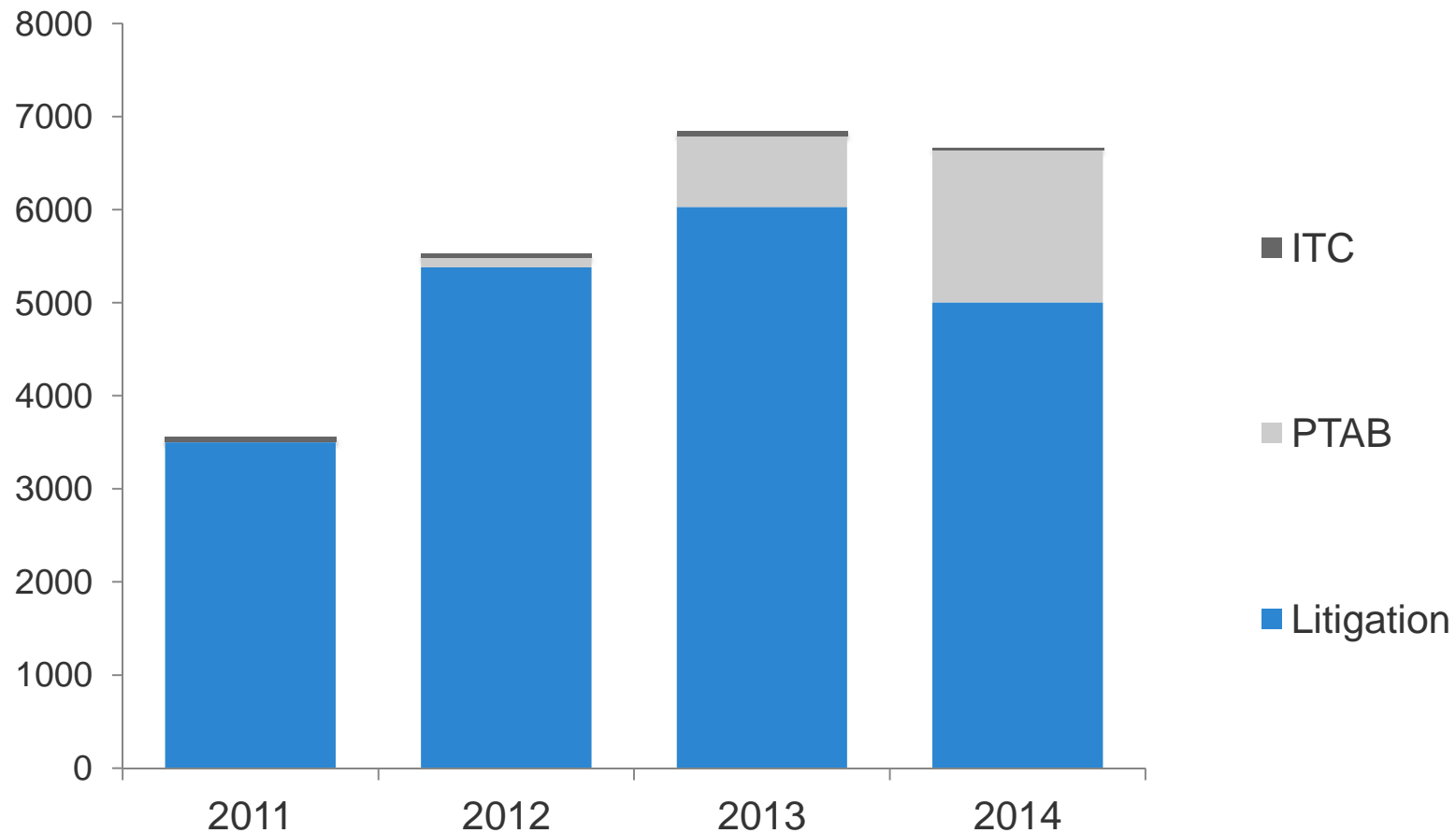
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Some Perspective



Statistics from UnifiedPatents

What to do?

- Can't patent it; patents require disclosure
- Can't copyright it; it's a chemical process
- Can't actually keep it secret; it's already gone



What are trade secrets?

- Equitable tort, unfair business competition

Balances:

- 1) Rights of *employer* in fruits of capital
 - 2) Rights of *employees* in mobility & skills
- Competing property, tort, and contract theories of trade secret law
 - Based on the “tragedy of the commons”
 - *But . . .*

Varying State Laws

- Historically based in state (common) law; each state had different standards for trade secrets
- States differ in requirements, privacy, relationship, secrecy, and **misappropriation** factors
- Most authoritative in the past: Restatements (and common law)
- Now: the Uniform Trade Secrets Act (adopted in 48 states, D.C., Puerto Rico, U.S. Virgin Islands)
- NOW, single ***federal*** standard (TianRui) at ITC

Our Work

2013]

TRADE SECRETS AT THE ITC

41

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ARTICLE

A SURVEY OF TRADE SECRET INVESTIGATIONS AT THE
INTERNATIONAL TRADE COMMISSION: A MODEL FOR
FUTURE LITIGANTS[†]

P. Andrew Riley^{*} and Jonathan R.K. Stroud^{**}

The U.S. International Trade Commission (ITC) hosts some of the world's most contentious billion-dollar patent litigants, who seek quick turnaround times and the prospect of a broad exclusion order against infringing imports. For almost forty years, parties have treated it as an alternative (or supplement) to patent litigation. Yet the statutory authority governing ITC violations makes room for many other types of unfair intellectual property violations to be investigated by the Commission as well, including, significantly, trade secret misappropriation. Practitioners have begun to take notice. Since the notorious TianRui appellate decision, the ITC has initiated five trade secret

P. Andrew Riley & Jonathan R.K. Stroud, *A Survey of Trade Secret Investigations at the International Trade Commission: A Model for Future Litigants*, 15 Col. Sci. & Tech. L. Rev. 41 (2013), available at <http://www.stlr.org/volumes/volume-xv-2013-2014/trade-secrets-at-the-international-trade-commission-a-survey/>

- **Surveyed all trade secret investigations**
- **Analyzed the changes in law**
- **Identified four key cases**
- **Identified trends in remedies**
- **Identified trends in proof**

Agenda

- What is the ITC?
- Significant Historical Trade Secret Investigations at the ITC Before *Tian Rui*
- Trade Secrets *Post-Tian Rui*: Extending the Injury Requirement, Framework



What is the ITC?



U.S. International Trade Commission

- USITC - independent federal agency with a wide range of trade-related mandates.
- Section 337, 19 U.S.C. §1337, authorizes USITC to investigate and remedy “unfair methods of competition and unfair acts” involving imports into the United States.



U.S. International Trade Commission

- Section 337 investigations involve patent, trademark, and copyright infringement (statutory IP) and other acts of unfair competition, e.g. trade secret misappropriation, passing off, false designation of origin.
 - 90% of ITC investigations involve patent infringement.



U.S. International Trade Commission

- ITC actions are similar to U.S. district court intellectual property cases with two unique elements:
 - must involve imports;
 - Complainant must demonstrate a domestic industry using the IP rights at issue.



USITC—Remedies

- Exclusion orders enforced by U.S. Customs Service
 - Limited exclusion orders against respondents.
 - General exclusion orders against everyone and imports from any source
- Cease and desist orders
- **No money damages**
- Cases often resolved by consent orders and settlements



USITC—Procedural Overview

- **No jury**
- **Speedy Proceeding**
 - Usually completed within 14-17 months
- **Fast foreign discovery** – failure to provide discovery can result in sanctions, negative inferences, and exclusion order
- **No need for personal jurisdiction over foreign respondents**



USITC—Procedural Overview

- ITC Administrative Law Judges (ALJ) are familiar with intellectual property law
- Parties can petition the Commission to review adverse decisions by the ALJs
- 60-day presidential review of any exclusion order (importation and sales permitted under bond).
- Appeals to U.S. Court of Appeals for the Federal Circuit



USITC—Injury Requirement

- Burdens of proof for the trade secret owner
 - The information qualifies as a trade secret and is owned by the complainant
 - Respondent's misappropriated the trade secret (UTSA)
 - Importation of a product made using the misappropriated trade secret
 - A domestic industry
 - Injury requirement –that the respondents' actions harmed or threaten to harm the domestic industry



USITC—Injury Requirement

19 U.S.C. § 1337 (a)(1)(A):

- Unfair methods of competition and unfair acts in the importation of articles . . . or in the sale of such articles . . . the threat or effect of which is
 - (i) to destroy or substantially injure an industry in the United States;
 - (ii) to prevent the establishment of such an industry; or
 - (iii) to restrain or monopolize trade and commerce in the United States.



Significant Historical Trade Secret Investigations at the ITC



Significant ITC Trade Secret Investigations

- *Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52 (Nov. 1979).
 - ITC found a violation based on:
 - patent infringement
 - misappropriation of two trade secrets
 - One of the first investigations where the ITC issued a remedy for trade secret misappropriation.



Significant ITC Trade Secret Investigations

- *Copper Rod*
 - Issued only **a cease and desist** order prohibiting Respondent from:
 - importing into the U.S.,
 - purchasing in the U.S. articles which incorporate the misappropriated trade secrets, or
 - disclosing the trade secrets.



Significant ITC Trade Secret Investigations

- *Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product*, Inv. No. 337-TA-148/169 (Dec. 1984).
- Both Respondent and OUII argued that a cease and desist order was *the only* appropriate remedy based on *Copper Rod*.
 - Commission **disagreed**
 - issued a 10-year limited exclusion order.



Significant ITC Trade Secret Investigations

- *Skinless Sausage Casings*

To distinguish *Copper Rod*, Commission noted:

- No personal relationship existed in *Sausage Casings*, whereas it played a prominent role in *Copper Rod*.
- Commission did not gain the power to issue limited exclusion orders until two years after *Copper Rod*.
 - Comm'n Decision at 21.

Significant ITC Trade Secret Investigations

- *Skinless Sausage Casings*
- Respondent argued it could create a U.S.-specific, non-infringing product line that the Commission could inspect
 - Thus, cease and desist order was appropriate.
- Commission disagreed and found a cease and desist order would likely be ineffective.



Significant ITC Trade Secret Investigations

- *Viscofan v. U.S. Int'l Trade Comm'n*, 787 F.2d 544 (Fed. Cir. 1986).
 - Viscofan (Respondent) challenged the ITC's exclusion order.
 - Also argued the ITC improperly denied Viscofan the ability to petition the ITC to import non-infringing articles.
 - Viscofan also challenged the length of the exclusion order—10 years—and the start date of the exclusion order—at issuance.



Significant ITC Trade Secret Investigations

- *Viscofan v. ITC*
 - CAFC upheld the ITC's remedy.
 - ITC “*justifiably concluded that [a cease and desist] order would not effectively correct the violations found.*”



Significant ITC Trade Secret Investigations

- *Garment Hangers*, Inv. No. 337-TA-255, Initial Determination at 95 (June 17, 1987).
 - ITC dismissed investigation when complainant failed to show a **nexus** between importation and the unfair acts that formed the basis of the complaint



Significant ITC Trade Secret Investigations

- *Floppy Disk Drives & Components Thereof*,
Inv. No. 337-TA-203

“The fact that [the Respondent] does not currently use the claimed technology in its business has no bearing on whether or not this technology may be considered a trade secret.”



Tian Rui v. USITC (Fed. Cir. 2011)



TianRui v. USITC

- In February 2010, the Commission issued a final decision in Inv. 655, *Certain Cast Steel Railway Wheels*
 - Issued a 10 year exclusion order
- Amsted Industries of Chicago alleged a violation of Section 337 by certain Chinese companies that misappropriated its trade secrets
- Affirmed by the Federal Circuit in *TianRui v. USITC*, 661 F.3d 1322 (Fed. Cir. 2011)



TianRui v. USITC

- Critical facts:
 - TianRui hired employees away from a foundry in China licensed to use Amsted's trade secrets to make steel railway wheels
 - Former employees disclosed Amsted's trade secrets to TianRui
 - Note: Trade secret theft occurred entirely in China



TianRui v. USITC

- Federal Circuit addressed “a matter of first impression”—“what law applies in a section 337 proceeding involving trade secrets”
- “a single federal standard, rather than the law of a particular state, should determine what constitutes a misappropriation”



TianRui v. USITC

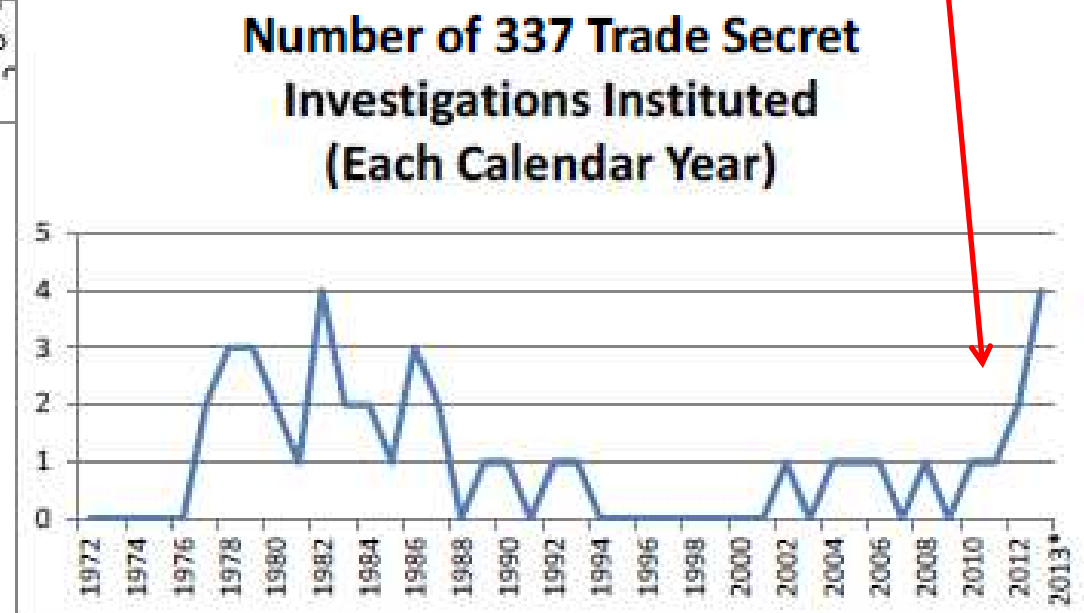
- Federal Circuit also addressed whether the ITC can examine conduct in China
- “We conclude that the Commission has authority to investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace.”



Post-Tian Rui: Resurgence in Trade Secret Claims at the ITC



All v. Trade Secret Investigations



Resurgence in USITC Trade Secret Actions

- After *TianRui* decision, an increase in complaints for trade secret misappropriation
 - *Certain Electric Fireplaces*, Inv. No. 337-TA-791/826
 - *Certain Rubber Resins and Processes for Manufacturing Same*, Inv. No. 337-TA-849
 - *Certain Paper Shredders*, Inv. No. 337-TA-863
 - *Certain Robotic Toys*, Inv. No. 337-TA-869
 - *Certain Crawler Cranes*, Inv. No. 337-TA-887
 - *Certain Stainless Steel Products*, Inv. No. 337-TA-932



Why the Resurgence?

- Advantages of the ITC
 - Federal trade secret law as expressed in *TianRui*
 - Easier to obtain jurisdiction over foreign companies and individuals
 - Broader discovery
 - Speed
 - Remedy



Legal Definition of trade secrets

Uniform Trade Secret Act., § 1(4) (1985)

“information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”



Injury Requirement

- 19 U.S.C. § 1337 (a)(1)(A):
 - Unfair methods of competition and unfair acts in the importation of articles . . . or in the sale of such articles . . . the threat or effect of which is
 - (i) to destroy or substantially injure an industry in the United States;
 - (ii) to prevent the establishment of such an industry; or
 - (iii) to restrain or monopolize trade and commerce in the United States.

Certain Rubber Resins, Inv. No. 337-TA-849

- SI group filed a complaint against multiple respondents from China, Hong Kong, and Canada (collectively Sino Legend)
- Sino Legend hired away two of SI Group's high level employees from a Chinese subsidiary who then disclosed trade secret processes
- Rubber resins are used in the manufacture of tires



Certain Rubber Resins, Inv. No. 337-TA-849

- ALJ found Sino Legend misappropriated trade secrets related to tackifier but not to curing resins
- Commission affirmed on most grounds and issued a 10 year exclusion order
- Injury—ALJ concluded that respondents actions :
 - caused an actual substantial injury, and
 - threatened to cause a substantial injury



Injury Possibility 1: Actual Injury

- Five factors include:
 1. the respondent's volume of imports and penetration into the market;
 2. the complainant's lost sales;
 3. underselling by the respondent;
 4. the complainant's declining production, profitability, and sales; and
 5. the harm to complainant's goodwill and reputation.

Certain Electric Power Tools, Battery Cartridges and Battery Chargers, Inv. No.

Injury Possibility 1: Actual Injury

- Respondents argued that their five U.S. imports were a “miniscule volume of imports and represented negligible penetration.”
- ALJ Rogers disagreed.
- ALJ concluded that resin for 50,000 tires “had the effect to substantially injure the rubber resin industry in the United States.”



Injury Possibility 2: Threatened Injury

- Five factors:

1. Respondent substantial foreign manufacturing capacity;
2. ability of imported product to undersell the domestic product;
3. explicit intention to enter into the U.S. market;
4. the inability of the domestic industry to compete with the foreign products because of vastly lower foreign costs of production and lower prices; and

5. the significant negative impact this would

Certain Robotic Toys, **Inv. No. 337-TA-869**

- After unsuccessfully pursuing an immediate remedy in district court, Innovation First filed an ITC complaint against Zuru and CVS
- The complaint alleged that Zuru hired a former Innovation First employee in China in violation of his separation agreement and that the employee disclosed trade secrets
- The parties quickly settled



Certain Crawler Cranes, Inv. No. 337-TA-887

- Manitowoc Cranes filed a complaint against Sany Heavy Industries of China and its U.S. subsidiary
- Complaint alleged a former employee passed trade secrets to Sany and that Sany imported goods made using those trade secrets and that infringed certain Manitowoc patents
- ALJ found certain trade secrets were stolen and one patent infringed
- Commission decision pending—three times the Commission gave itself an extension



Certain Stainless Steel Products, 337-TA-933

- Complaint filed by Valbruna Slater Stainless, Inc., et al., an American steel company (Fort Wayne, Indiana)
- Alleging violations by companies located in Indian, Taiwan, and Germany and their related U.S. Importers and subsidiaries
- Ongoing with ALJ Essex presiding
 - Hearing set for July 13, 2015
 - Final Comm'n decision by February 10, 2016



Post-*TianRui* Factual Trends

- Chinese respondents
- American complainants
- Former employees hired away
- Actions occurred abroad
- Chemical or mechanical processes or other difficult-to-define subject matter
- Frustration with traditional/foreign courts



Post-*TianRui* Procedural Trends

- 10-year exclusion orders
- Long lists of what may constitute “trade secrets”
- Circumstantial evidence
- **Success** at the ITC



Status of Proposed Federal Civil Trade Secret Law



Federalized TS: Legislative Attempts

- Trade Secrets Protection Act of 2014 (H)
- Defense of Trade Secrets Act of 2014 (S)
 - Seeks to create a private right of action for trade secret misappropriation, to bring in Federal court
 - Little political support
 - Fear it would overwhelm Federal Courts
 - Behind patent reform
 - Ex Parte Seizure, TRO provision would require careful study



Other Attempts

- Deter Cyber Theft Act
- Future of American Innovation and Research Act
- White House support: *Administration Strategy on Mitigating the Theft of U.S. Trade Secrets.*
- Yet to reintroduce the Goodlatte version, which has the most popular support



Likelihood of Passage

- This term?
- Next term?
- Eventually?



Questions?



Additional Information Regarding Post-Grant Review Proceedings



AIA Statistics

- PTAB Action on Petitions (as of February 19, 2015)

	Instituted	Denied	Joined	Total Institution Decisions	Settlements	Final Written Decisions	Request for Adverse Judgment
IPR	1043 (76%)	353 (24%)	106	1502	723	243	59
CBM	130 (73%)	48 (27%)	1	179	47	30	5
PGR	0	0	0	0	2	0	0

- Optional Patent Owner's Preliminary Responses:

	Filed	Waived	Percent Filed
IPR	1,557	360	91%
CBM	205	26	89%
PGR	1	0	100%

Source: http://www.uspto.gov/ip/boards/bpai/stats/102314_aia_stat_graph.pdf

IPR Statistics

CLAIM AND CASE DISPOSITION

IPR Results by Case

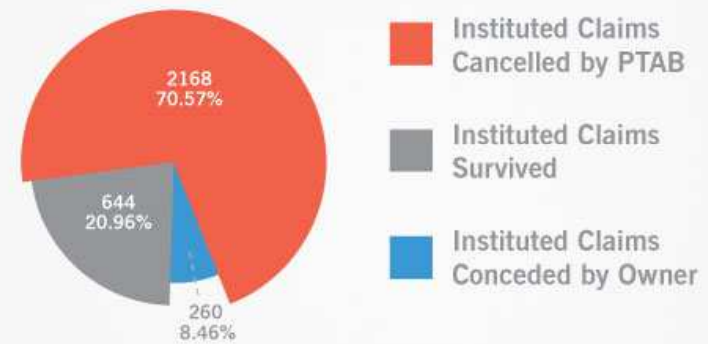


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CLAIM AND CASE DISPOSITION

IPR Results by Claim



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IPR Statistics

CLAIM AND CASE DISPOSITION

IPR Results by Case

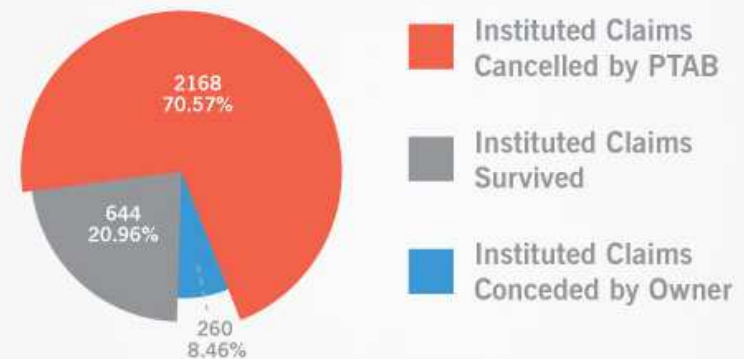


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CLAIM AND CASE DISPOSITION

IPR Results by Claim



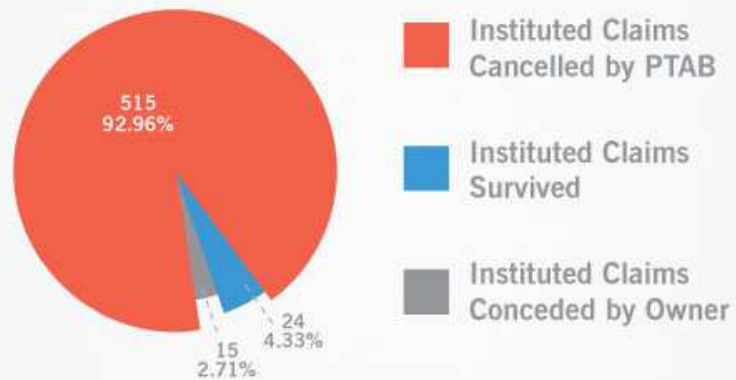
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CBM Statistics

CLAIM AND CASE DISPOSITION

CBM Results by Claim

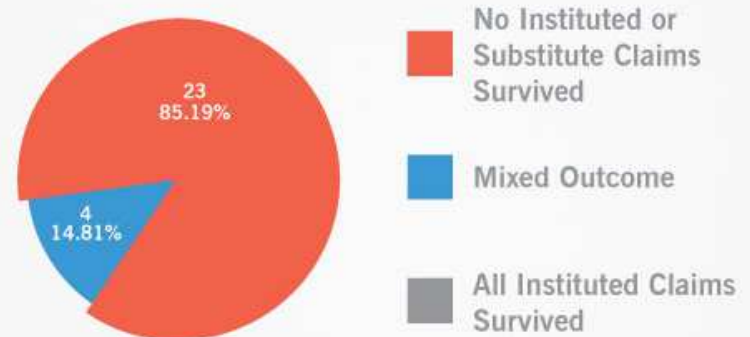


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CLAIM AND CASE DISPOSITION

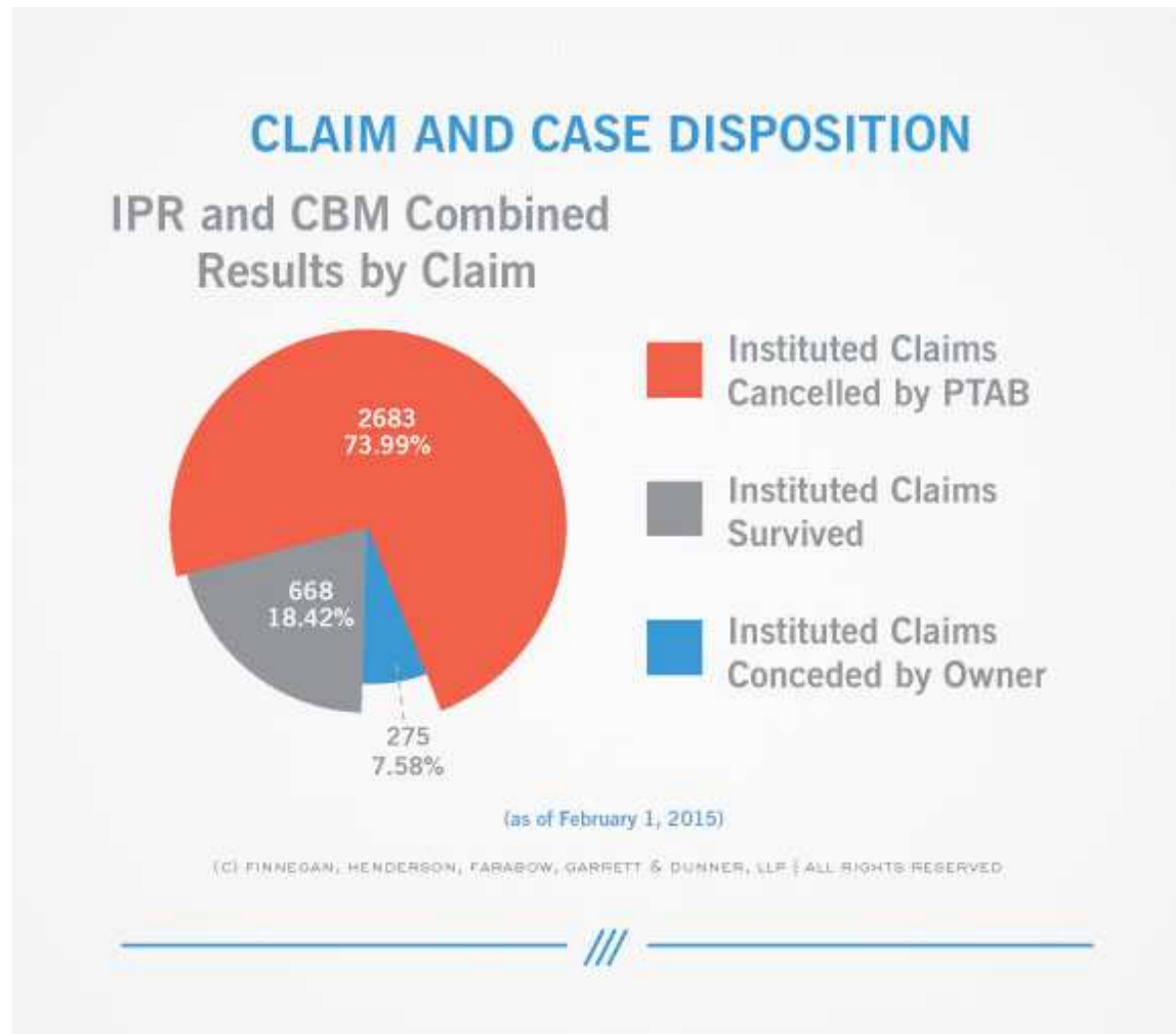
CBM Results by Case



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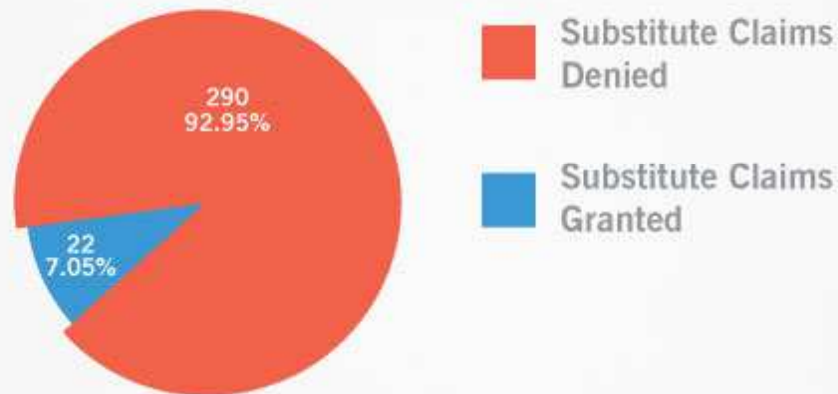
IPR and CBM Combined



Motion to Amend Substitute Claims Granted

CLAIM AND CASE DISPOSITION

IPR Substitute Claim Disposition

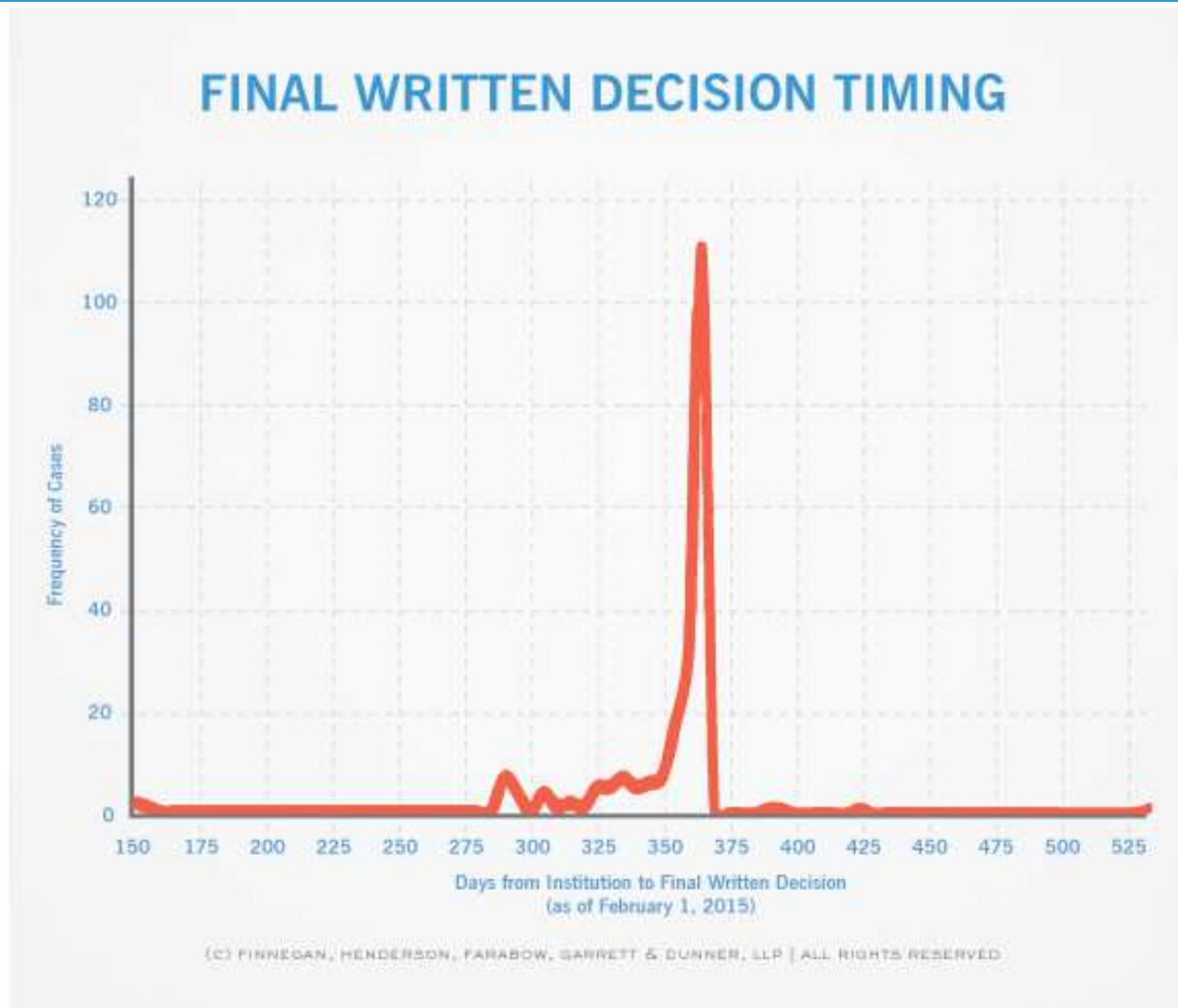


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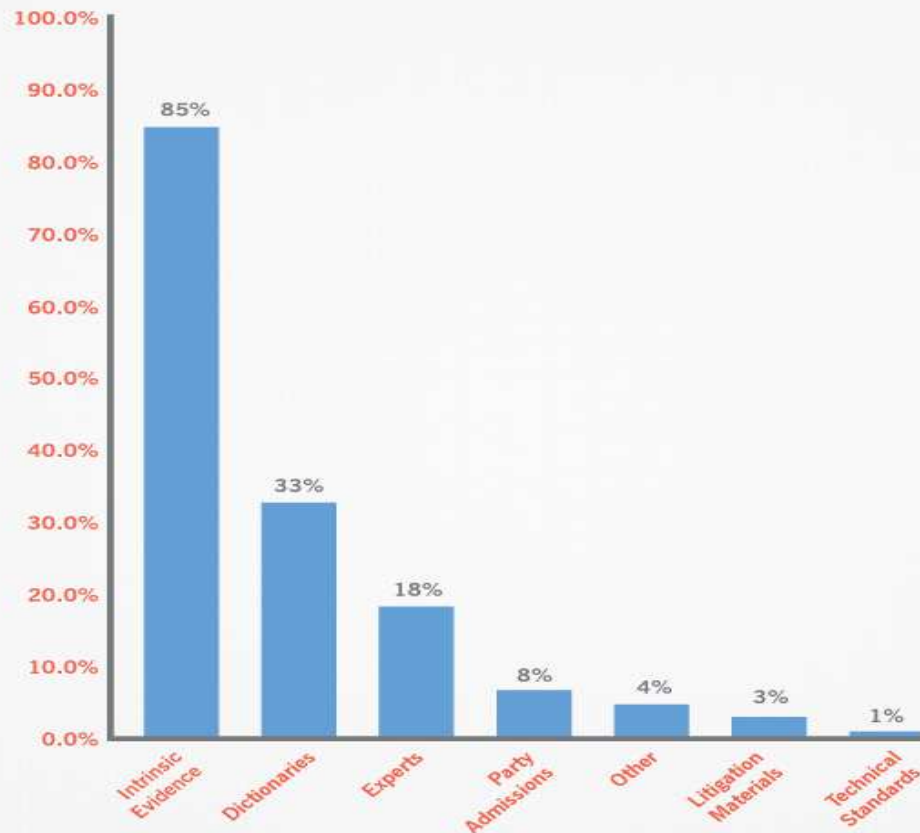


Timing



Claim Construction in FWD

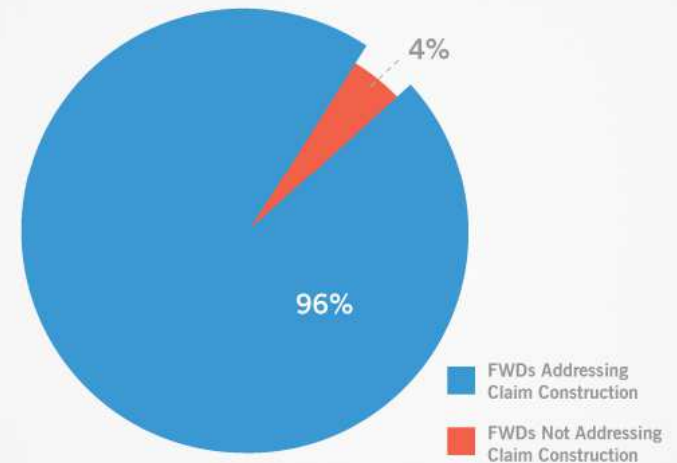
EVIDENTIARY SOURCES FOR CLAIM CONSTRUCTION



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FINAL WRITTEN DECISIONS ADDRESSING CLAIM CONSTRUCTION



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By-Judge Statistics

FINAL WRITTEN DECISIONS PER JUDGE, PANEL

Judge Name	IPR and CBM Panel Appearances
J. Lee	46
J. Chang	35
J. Bisk	30
S. Medley	29
J. Arbes	28
S. Kamholz	25
B. McNamara	24
M. Zecher	24
T. Ward	21
T. Giannetti	19

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FINAL WRITTEN DECISIONS PER JUDGE, AUTHOR

Judge Name	IPR and CBM Authored Decisions
J. Arbes	13
J. Chang	12
M. Zecher	12
B. McNamara	11
S. Kamholz	10
M. Clements	10
J. Bisk	8
M. Kim	8
T. Ward	7
J. Arpin	7

(as of February 1, 2015)

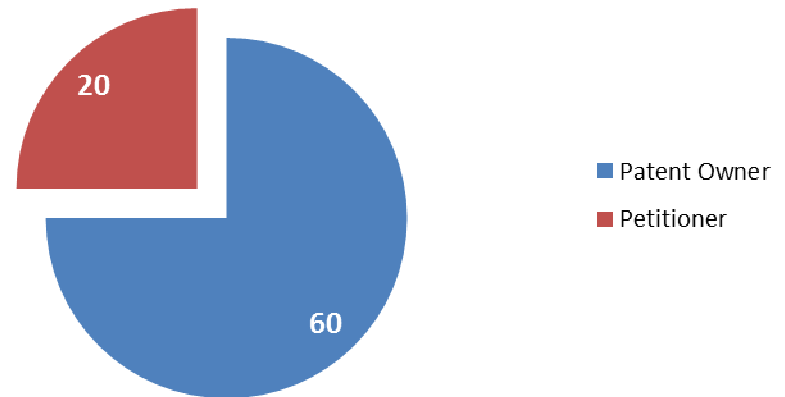
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Appellate Data

- 82 appeals from IPR
 - 60 patent owner
 - 20 petitioner
- 13 appeals from CBM
 - All patent owners
- Time between FWD and NOA:
 - 57 days for IPRs
 - 70.5 days for CBMs

Proportion of appealing parties (IPR)





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Speaker Information: P. Andrew Riley



Andrew Riley focuses his practice on intellectual property litigation and counseling, with an emphasis on patent litigation before U.S. district courts and the U.S. International Trade Commission (ITC). He has experience litigating in the most popular patent venues, including the Eastern District of Texas, the Northern District of California, and the District of Delaware. His practice also includes licensing, opinions, and post-grant review proceedings before the U.S. Patent and Trademark Office (USPTO).

Mr. Riley's litigation experience includes preparing, examining, and cross-examining fact and expert witnesses at trial; conducting and defending depositions; and preparing and arguing motions. He has worked on matters involving a wide array of technologies, including medical devices, mobile phones, software, wind-turbine generators, motor and hybrid vehicles, Internet applications, semiconductors, image sensors, manufacturing machines, and pharmaceuticals.

Mr. Riley devotes a portion of his time to pro bono matters. He has represented clients before the U.S. Court of Appeals for the Federal Circuit, the U.S. Court of Appeals for Veterans Claims, and the Social Security Administration.

Prior to law school, Mr. Riley served four years on active duty as an officer in the U.S. Army.

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Involved in some of the earliest America Invents Act (AIA) patent challenges, Mr. Stroud has been a part of teams on dozens of covered business method reviews (CBMs), *inter partes* reviews (IPRs), and one of the two post-grant review (PGRs) filed. He has represented both patent owners and petitioners, drafting several petitions, responses, and motions; he has handled Board conference calls, joint defense group coordination, and client communication; and he has won motions before the Board.

Mr. Stroud has represented clients involved trade secret disputes at the ITC, and written extensively on the topic. He has published, presented, and taught classes on AIA post-grant and ITC issues. Mr. Stroud has also drafted or prepared filings for appellate, trial, and PTAB proceedings, including motions for summary judgment and motions to stay.

He has also prosecuted patents , both in private practice and as a USPTO patent examiner for 5 years, examining implantable medical devices.

Mr. Stroud regularly speaks and writes on emerging issues in intellectual property law. His other interests include FDA regulatory approval, legislative developments, personalized medicine, companion diagnostics, and all forms of administrative law,.

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