

IP Perspectives – US and China

Comparative Review: US and China's Trade Secret Laws

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Overview

- Topics?...
 - Will focus on IP related issues affecting transnational portfolios with both US and Chinese assets
- Housekeeping
 - CLE (**U.S. attendees only**)
 - Questions
 - Materials
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**IP Perspectives –
US and China**

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Comparative Review: US and China's Trade Secret Laws

Join attorneys from Fish & Richardson (US) and Han Kun Law Offices (China) for a series of webinars that will focus on intellectual property (IP) and related issues affecting companies with both US and Chinese assets.

Our next webinar, "Comparative Review: US and China's Trade Secret Laws," features Fish's [Michael Zoppo](#) and [Matthew Bernsten](#) and Han Kun's [Peng Lei](#). They will discuss a number of topics, including:

- US trade secret law, including the Defend Trade Secrets Act and the model Uniform Trade Secrets Act
- Comparable trade secret enforcement in China
- Scope and nature of litigation discovery in the US and China
- Case decisions in the US and China and how they differ

[Register](#) now for this IP Perspectives - "Comparative Review: US and China's Trade Secret Laws" webinar.

Wednesday, December 14, 2016
10:00 AM - 11:00 AM EST
Via the web

Speakers:



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REGISTER

Applies to attendees in the United States only: Fish & Richardson will apply for 1.0 hour of general CLE credit in most states. If you would like to receive CLE credit, register with your state bar information.

If you have questions, please contact Lauren McGovern at mcovern@fr.com.



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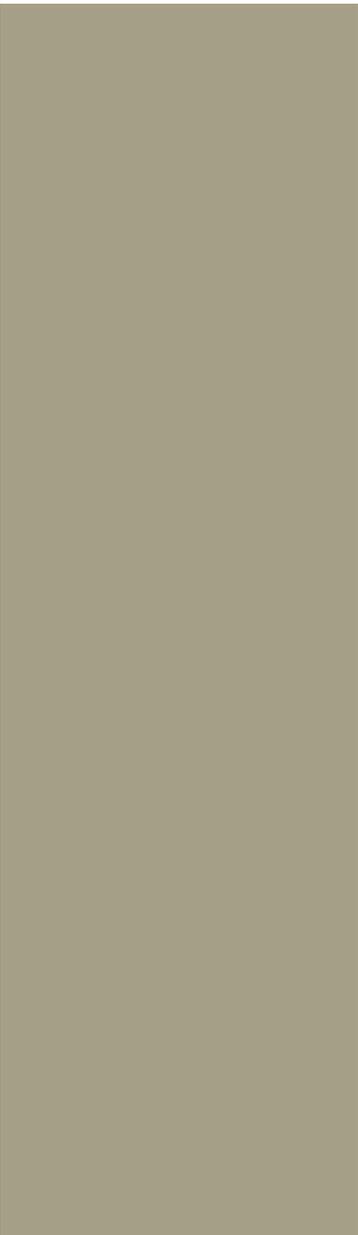


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Agenda

- US trade secret law
- Comparable trade secret enforcement in China
- Litigation discovery in US and China
- Case decisions and their differences in US and China



US Trade Secret Law

US Trade Secret Causes of Action

- State trade secret claims
 - Vary widely in terms of scope and available relief.
 - Many based, at least in part, on the model Uniform Trade Secrets Act (UTSA).
- Federal Economic Espionage Act of 1996 (EEA) (18 U.S.C. §§ 1831-1839)
 - Provides both criminal and civil causes of action, but did not provide a private cause of action.
 - Harmed individuals must work with the government, at the government's discretion, to obtain enforcement.
- Federal Defend Trade Secrets Act of 2016 (DTSA)
 - Amends the EEA to create a private, civil cause of action.

What is a Trade Secret?

“[T]he term ‘trade secret’ means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.”

18 U.S.C. § 1839(3).

What is a Trade Secret?

- Information, including a formula, pattern, compilation, program, device, method, technique, or process:
 - that derives independent economic value, actual or potential, from not being generally known to or readily ascertainable through appropriate means by other persons who might obtain economic value from its disclosure or use, and
 - is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UTSA

Level of Secrecy Required

- Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy?
- “Total silence” or “absolute secrecy” is not required. *See, e.g., Wyeth v. Natural Biologics, Inc.*, 2003 WL 22282371 (D. Minn. 2003), *aff’d* (8th Cir. 2005)
 - Substantially secret
 - Secret enough to confer an actual or potential economic advantage
 - *Reasonable* steps, not extraordinary measures



Wyeth Appeal to 8th Circuit

Natural Biologics contended Wyeth failed to adequately secure its trade secrets:

- Tours without signed confidentiality agreements.
- No posted signs indicating Brandon Process was confidential.
- Unmarked Brandon Process documents left on manufacturing floor and unsecured.
- Not all Wyeth employees or vendors involved in the Brandon Process signed confidentiality agreements.
- Wyeth identified chemicals used in the extraction process in two newsletters.
- Unmarked documents sent to third parties.
- Wyeth allegedly failed to follow its own security policies.



Wyeth Appeal to 8th Circuit

- “Absolute secrecy is not required.”

Furthermore:

- “The existence of a trade secret is not negated merely because an employee or other person has acquired the trade secret without express or specific notice that it is a trade secret if, under all the circumstances, the employee or other person knows or has reason to know that the owner intends or expects the secrecy of the type of information comprising the trade secret to be maintained.” *Wyeth*, 395 F.3d at 900.



Wyeth Appeal to 8th Circuit

- “Based on the lack of repeated losses of confidential information regarding the Brandon Process and Wyeth's use of physical security, limited access to confidential information, employee training, document control, and oral and written understandings of confidentiality, the Court concludes that Wyeth subjected the Brandon Process to efforts that are reasonable under the circumstances to maintain its secrecy.” *Id.* (citing Dist. Ct).



Available Remedies

- Money damages for resulting loss suffered.
- Profit disgorgement (unjust enrichment).
- Reasonable royalty.
- Treble damages and attorneys fees if misappropriation willful or malicious.
- Civil seizure.
 - in “extraordinary circumstances.”
- Injunctive relief.

UTSA: Whistleblower Immunity

Civil and criminal immunity from:

- Disclosing a trade secret in confidence to the government or to an attorney if solely for purpose of reporting or investigation of suspected violation of law.

OR

- If made in a court (or other proceeding) filing if made under seal.

Retaliation lawsuit by employee:

- EE may disclose the trade secret in the court if:
 - Files under seal and does not disclose the trade secret except per court order.



UTSA: Must Give Notice of Immunity

- Employer “shall” provide notice of the “immunity” in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.
- Can cross-reference a policy document setting forth the employer’s reporting policy for a suspected violation of law.
- “Employee” includes – contractors and consultants.
 - NDAs with contractors / consultants must include notice!



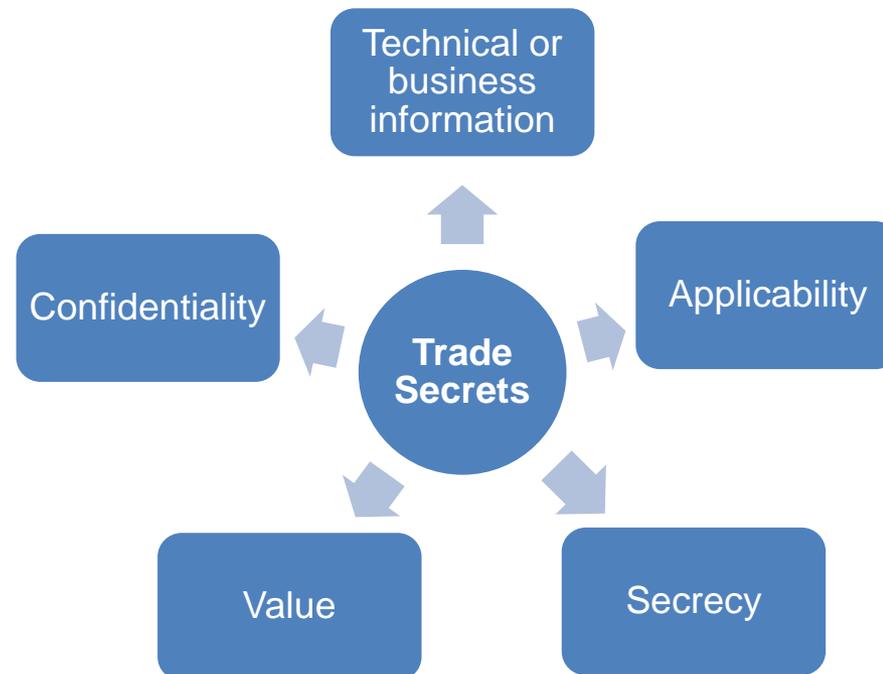
Comparable Trade Secret Enforcement in China

Laws in China Regarding Trade Secrets

- **Anti-Unfair Competition Law (1993)** Articles 10, 20, 25
 - Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition (2007) Article 11-17
- **Criminal Law (2015 Amendment)** Article 219
 - Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights (2004) Article 7
- **General Principles of the Civil Law (2009 Amendment)** Article 118
- **Contract Law (1999)** Articles 43, 60, 92, 266, 350
- **Labor Law (2009 Amendment)** Articles 22, 102
- **Labor Contract Law (2012 Amendment)** Articles 17, 23, 24, 90

The Essential Elements for Trade Secrets in China

- Subject: technical information or business information.
- Confidentiality: unknown to the public.
- Applicability: can be used/applied.
- Value: can create economical value to its owner.
- Secrecy: protected for secrecy with certain measures.



Three Approaches to Protect Trade Secrets in China

- Civil litigation before courts
 - Most common way.
 - Damages award available.
 - Difficult in producing evidence.
- Criminal proceedings
 - Operated by the police.
 - The police has the power to collect evidence through searching and interrogating.
 - No damages award available.
- Administrative raid
 - Operated by local Administrations of Industry and Commerce (“AIC”).
 - Not so effective and rarely pursued.

What We can Get Against the Infringers in China

- Civil Proceedings
 - Injunctions
 - Damages award
 - Apology (if the reputation of the right owner was damaged)
- Criminal Proceedings
 - Imprisonment of the infringers
 - Fine



Litigation Discovery in US and China

US Filing Threshold

- Governed by Rule 11 of the Federal Rules of Civil Procedure:
 - (2) the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument for extending, modifying, or reversing existing law or for establishing new law;
 - (3) the factual contentions have evidentiary support or, if specifically so identified, will likely have evidentiary support after a reasonable opportunity for further investigation or discovery;

Pleadings – How Much to Disclose?

Courts recognize that a trade secrets plaintiff cannot be expected to disclose its trade secrets in a pleading that is itself a public document:

“To so require would be would mean that the complainant would have to destroy the very thing for which he sought protection .”

- *Diodes, Inc. v. Franzen*, (Cal. 1968)

BUT many jurisdictions require the plaintiff to disclose its trade secrets with “reasonable particularity” before embarking on discovery.

US Discovery

- Full scope of federal discovery available.
 - Requests for Production
 - Requests for Inspection
 - Requests for Admission
 - Interrogatories
 - Depositions
 - Third-Party Subpoenas
- Direct court involvement in the discovery process is disfavored.

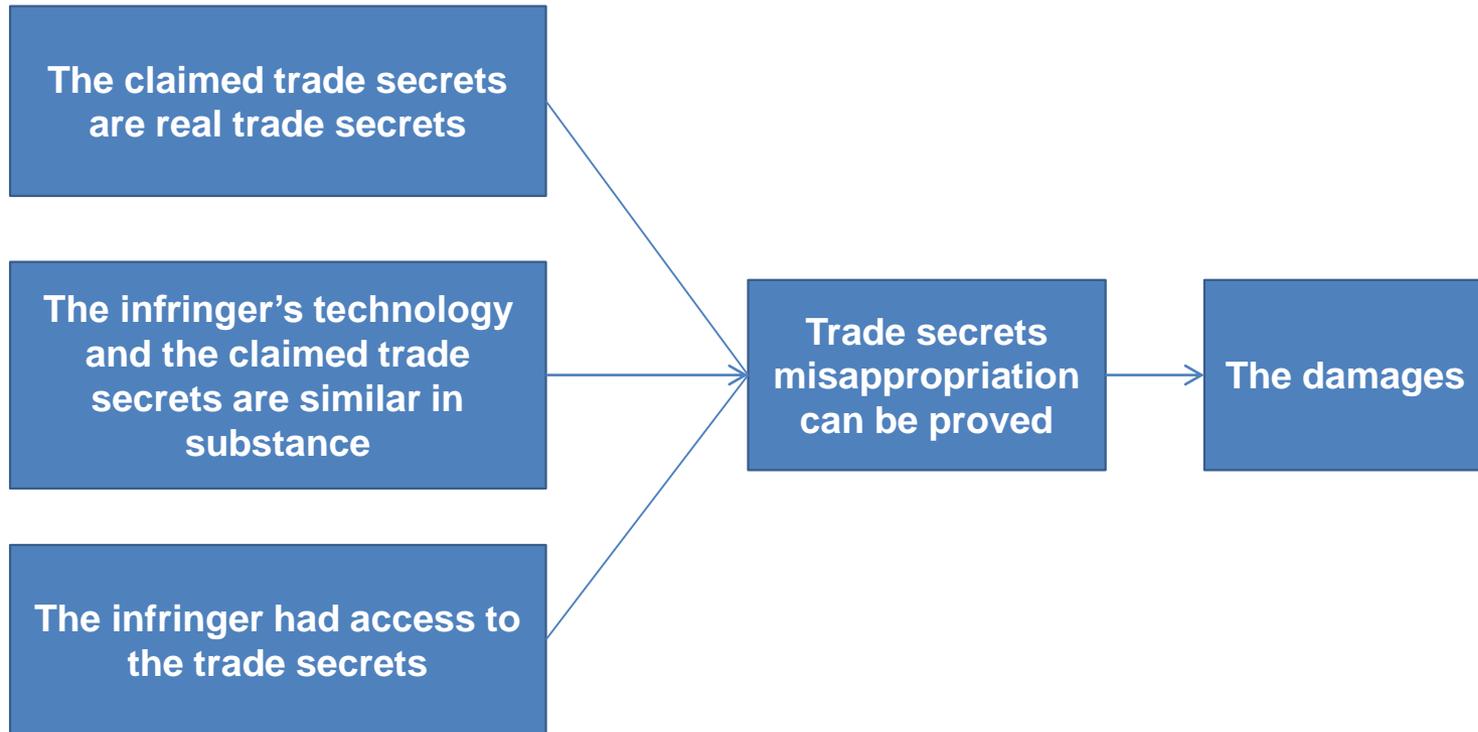
Requiring Disclosure of TS Before Discovery

State Law: Most states require pre-discovery disclosure. California implements the majority rule by statute (California Code of Civil Procedure § 2019.210):

“ . . . [B]efore commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity . . . ”

Federal Law: DTSA does not expressly require disclosure of trade secrets before discovery commences.

Evidence Necessary for the Plaintiff in a Civil Proceeding In China



How Can a Plaintiff Produce the Evidence?

- There is no discovery in China, so the plaintiff will have to persuade the court to raid the infringer at its premises to collect evidence.
- To enhance the chance in successfully persuading the court, the plaintiff should provide at least the following preliminary evidence:
 - An appraisal report issued by a certified appraisal institute, proving that the claimed trade secrets are real trade secrets, in particular unknown to the public.
 - An appraisal report showing that it is very likely that the infringer used the claimed trade secrets. For example, some fingerprints in the infringer's final products indicate that the secret procedures of the plaintiff were used by the infringer in producing its products.
 - Evidence showing that the infringer had access to the trade secrets, e.g., documents showing the infringer was a former employee of the plaintiff and had studied the trade secrets.

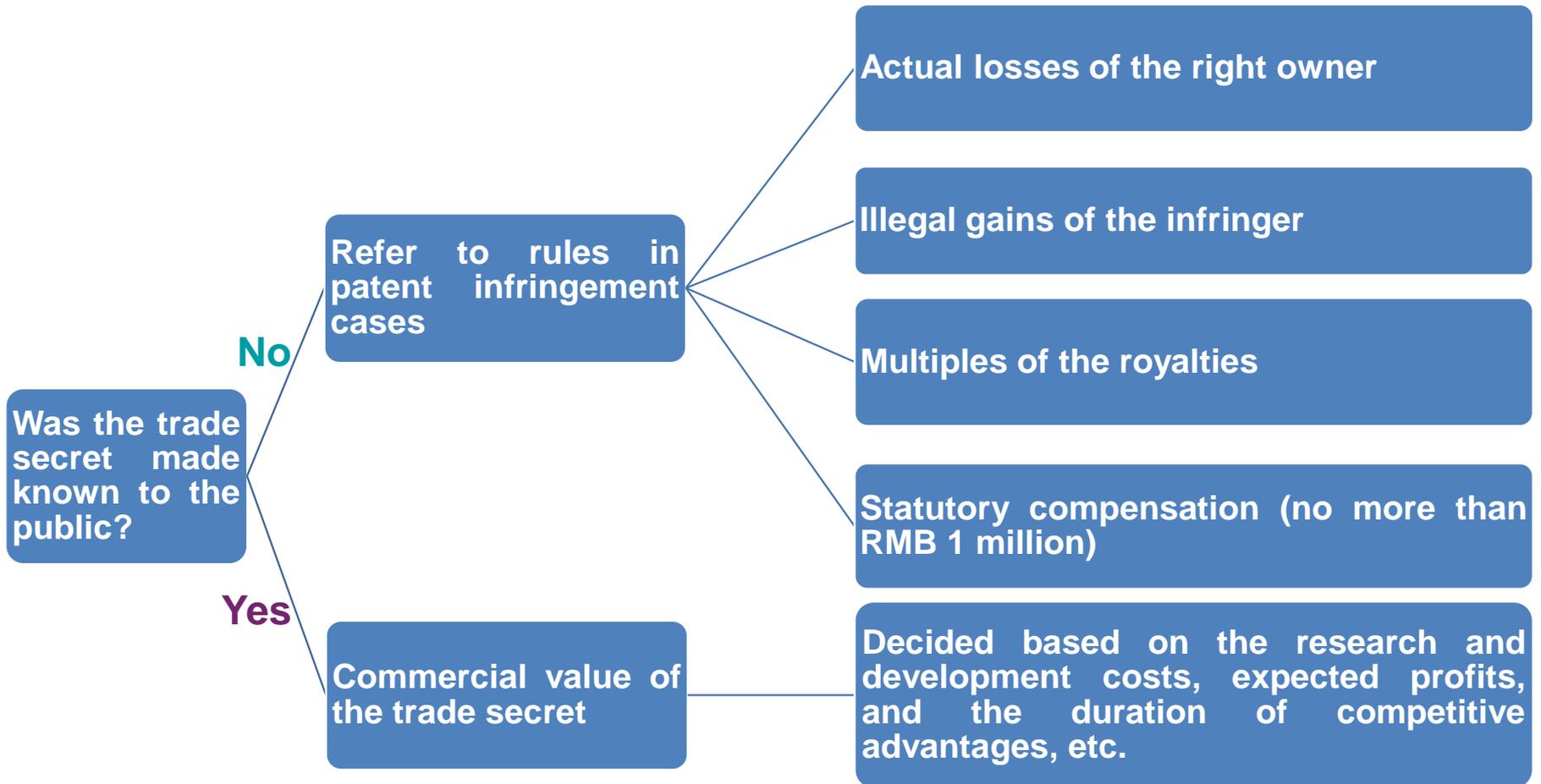
What Will a Court Do to Help the Plaintiff?

- If persuaded by the plaintiff's preliminary evidence and believing the infringer is highly likely engaged in trade secret misappropriation, the court will issue an Evidence Preservation Order.
- Based on the Evidence Preservation Order, the court will go to raid the infringer at its premises, and detain any material/documental evidence pertinent to the claimed trade secrets, also including financial documents for damages calculation.
- But the Evidence Preservation Proceeding can fail sometimes, due to strong resistance from the infringers. The courts in China are not as powerful as the police.

The Police: A Better Place to Go First?

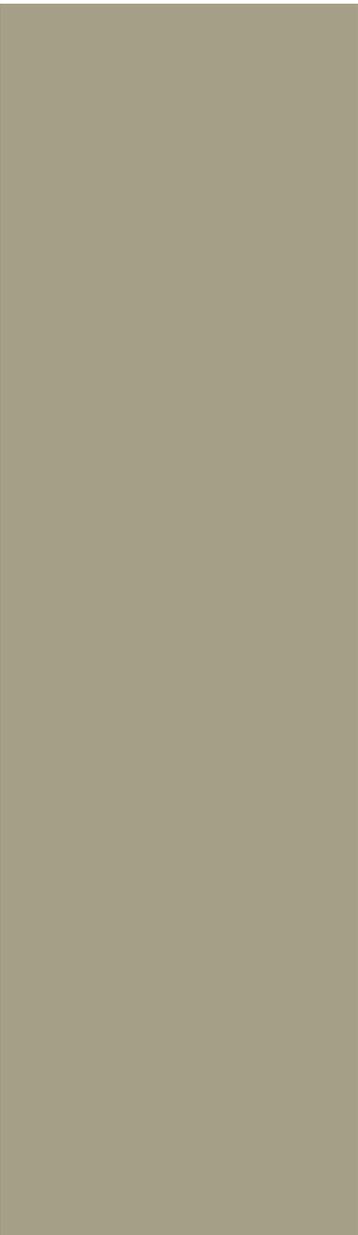
- The police can initiate a criminal investigation against the infringer based on the plaintiff's complaint.
 - The requirements to preliminary evidence are substantially the same with those required by courts for issuing Evidence Preservation Order.
 - Additional requirements for case filing – the damages evaluated by the appraisal institute must exceed RMB 500k (USD 72,420).
- The police will send policemen for raiding the infringer. The chance of successfully seizing useful evidence would be high even when facing strong resistance from the infringer.
- Best Strategy – Firstly, collect evidence through the police and have the infringer detained and imprisoned. Then, go to the courts for civil proceedings to collect damages from the infringer, using the same evidence seized by the police.

Damages Award: How is it Decided by Chinese Courts?



Damages Award: Amount in Practice and Recent Developments

- **In the precedential cases, the damages decided by the Chinese courts in trade secret cases are commonly between 100k to one million RMB.**
- **Treble damages system is being established.**
 - Draft Revisions to the P.R.C. Patent Law published in December 2015 has proposed to introduce treble damages against willful infringers.
 - When that rule becomes effective, treble damages system will also become applicable to trade secret cases.
- **The current tendency is going toward strengthening the protection of trade secrets.**



Case Decisions and their Differences in US and China

US DTSA Overview

- Defend Trade Secrets Act became effective in 2016.
- Given average length to trial, no known jury verdicts under DTSA.
- Just over 20 cases on WestLaw reference the DTSA by name.
- Most relate either to motions for summary judgment or preliminary injunctions/temporary restraining orders.

US Sample Case 1: *Henry Schein, Inc. v. Cook*

No. 16-CV-03166-JST, 2016 WL 3212457 (N.D. Cal. June 10, 2016)

- First known case involving the DTSA.
 - DTSA effective May 11, 2016.
 - Only applies to misappropriation after effective date.
- Cook was a former sales representative for HSI, who was alleged to have taken confidential customer information and order histories.
- TRO granted barring Cook from accessing or using HSI's confidential information.

US Sample Case 1: *Henry Schein, Inc. v. Cook*

No. 16-CV-03166-JST, 2016 WL 3212457 (N.D. Cal. June 10, 2016)

- Two interesting aspects to case:
 - DTSA was only federal count; Court exercised supplemental jurisdiction.
 - Took place in CA, so court took pains to reconcile HIS's trade secret rights with CA's strong restrictions on non-competes.

US Sample Case 2: *M.C. Dean v. City of Miami Beach*

No. 16-21731-CIV, 2016 WL 4179807 (S.D. Fla. Aug. 8, 2016)

- M.C. Dean is a subcontractor working in complex industrial systems for the City.
 - Spends considerable resources hiring and training its employees.
- Contractor disclosed M.C. Dean employee list to the city
- The City “inadvertently” disclosed M.C. Dean employee list to a local union.

US Sample Case 2: *M.C. Dean v. City of Miami Beach*

No. 16-21731-CIV, 2016 WL 4179807 (S.D. Fla. Aug. 8, 2016)

- M.C. Dean filed suit; city moved to dismiss.
- Contract between Contractor and City require disclosure of employee lists to City.
- M.C. Dean failed to allege any mechanism to maintain confidentiality of employee list disclosed to Contractor.

US Sample Case 2: *M.C. Dean v. City of Miami Beach*

No. 16-21731-CIV, 2016 WL 4179807 (S.D. Fla. Aug. 8, 2016)

- “M.C. Dean fails to allege it took reasonable steps to protect the secrecy of the information at issue, thus failing to satisfy the definition of trade secret as to both counts.”

Chinese Sample Case 1: MaigeKunci v. Xia & Ruitai

(Jiangsu High Ct. 2014)

- Trade Secrets at-issue: technologies regarding producing rare earth powder.
- Xia was a former employee of the plaintiff MaigeKunci, and the founder of Ruitai company. He stole the trade secrets from the plaintiff.
- The plaintiff firstly filed an criminal case to the police, which raided Ruitai and successfully seized crucial evidence.
- A judicial appraisal institute was appointed to issue an appraisal report based on the evidence seized, with a conclusion that the plaintiff's trade secrets were misappropriated.
- The plaintiff then filed a civil case before the court with the evidence acquired from the criminal proceedings, and won a damages award of RMB 11.5 million (USD 1.67 million).

Chinese Sample Case 2: Criminal Punishments Against Yibai, Yu Zhihong and Others

(Zhuhai Intermediate Ct. 2013)

- Trade Secrets at-issue: client information, sales price, cost and other business information.
- Yu Zhihong and three other persons were former employees of the plaintiff. After their leave, they founded Yibai and Wode, two companies competing in the same business with the plaintiff. Both companies used the confidential business information stolen from the plaintiff by Zhihong and his three partners.
- Yibai was fined RMB 21.4 million (USD 3.1 million) and Wode RMB 14.2 million (USD 2.3 million). The four criminals were imprisoned for 2 to 6 years respectively, and all were fined with RMB 100k to 1 million respectively.
- **One of the most influential criminal cases regarding trade secrets in China, due to the severe punishments with high amount of fines.**

Overview of Upcoming Topics

- Antitrust Issues When Engaged in Transnational Litigation
- Transnational Issues Practicing Before the Patent Trial and Appeal Board
- Life Sciences IP in the US and China
- ITC Practice for Transnational Companies
- Damages Law in the US and China

Thank You!

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