

What May Lie Ahead For ITC Trade Secret Claims

By **Daniel Muino and Caroline Pohl** (September 1, 2022, 5:02 PM EDT)

For the last several decades, the U.S. International Trade Commission has instituted roughly one investigation per year involving trade secret claims.

That number spiked in 2019, when six such investigations were instituted.

One of those investigations, *Certain Bone Cements and Bone Cement Accessories*, resulted in a 2021 decision clarifying the standard for evaluating whether a respondent misappropriated a trade secret through use or disclosure.

The ITC held in *Bone Cements* that a complainant must show substantial use or disclosure of a trade secret in order to prove misappropriation, rather than merely any use.[1]

Although this standard applies to all trade secrets, it is particularly pertinent to compilation trade secrets — like those at issue in *Bone Cements* — that encompass some publicly known or readily ascertainable information.

The decision follows a series of ITC opinions suggesting that trade secret misappropriation requires more than just any use of a trade secret.[2]

The decision in *Bone Cements* is the latest word from the ITC on the law of trade secret misappropriation. As more employees have switched jobs in recent years amid the Great Resignation, a surge in trade secret claims at the ITC may lie in the near future, and their outcome could turn on the *Bone Cements* standard.

Background of Bone Cements

The ITC applies a four-element test for trade secret misappropriation:

- A protectable trade secret exists.
- The complainant owns the trade secret.
- The complainant disclosed the trade secret to the respondent while in a confidential relationship or the respondent wrongfully took the trade secret by unfair means.



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- The respondent used or disclosed the trade secret, injuring the complainant.[3]

In *Bone Cements*, the ITC clarified the level of use or disclosure required to prove the fourth element.[4] The respondents in *Bone Cements* were medical technology companies that manufactured bone cements and accessories for joint replacements — e.g., knees and hips.[5]

Complainants were responsible for the marketing, distribution, and sales of respondents' products in the United States.[6] In their complaint, complainants accused respondents of misappropriating certain compilation trade secrets:

- Quarterly reports showing customers who had purchased bone cements by territory, TS 10;
- Customer lists recording the sales of bone cement accessories, TS 15; and
- Compilation of invoice-level sales data, TS 28.[7]

With respect to TS 10, the ITC administrative law judge concluded in the initial determination that complainants had failed to show that respondents used or disclosed a "comprehensive compilation of customer-specific prices"?[8]

In view of complainants' definition of TS 10, the administrative law judge determined that "evidence showing anything less than the use of the 'comprehensive compilation'" was insufficient to prove misappropriation.[9]

With respect to TS 15 and TS 28, the administrative law judge found that complainants had not established misappropriation for two reasons: First, the mere fact that the trade secret files had been opened on the computer of one of respondents' employees the same day and "around the same time" as one of respondents' own customer lists was insufficient to prove that respondents actually misused information from the files.[10]

Second, there was no evidence that respondents saved the trade secret files or transferred information from the files to their systems, or that any other employees were aware of or used the files.[11]

ITC Opinion on Substantial Use

The ITC affirmed that complainants failed to establish trade secret misappropriation because they did not prove substantial use.[12] The ITC recognized that it had not previously clarified whether any use or substantial use must be shown, but prior ITC decisions aligned with the substantial use standard.[13]

Substantial use depends on the facts of the case and the actual protectable trade secret.[14] The ITC made it clear that the substantial use standard applies to "both compilation and non-compilation trade secrets." [15]

For compilation trade secrets that derive their value from keeping the whole compilation secret, a showing of substantial use of the entire compilation is required.[16]

The ITC discussed several ITC and federal court decisions that "support the requirement that at least 'substantial' disclosure or use of the asserted trade secret is necessary for liability." [17]

In the 2013-2015 Certain Crawler Cranes and Components Thereof investigation, for example, the ITC found misappropriation where respondents used the full trade secret concerning complainants' dealer discounts and profit margins — and not just a portion — to develop their own pricing and dealer discount strategies.[18]

In the 1993 MAI Sys. Corp. v. Peak Computers Inc. decision, the U.S. Court of Appeals for the Ninth Circuit affirmed misappropriation where the defendant had solicited new business using customer information from the plaintiff's trade secret database.[19]

The ITC noted that the court in MAI Systems "did not hold that use of an insubstantial portion of a trade secret was sufficient for misappropriation." [20]

Based on the substantial use standard, the ITC in Bone Cements affirmed the administrative law judge's finding that complainants had failed to show misappropriation of the asserted trade secrets.

Other ITC Decisions on Substantial Use

Earlier ITC decisions also support the substantial use standard for trade secret misappropriation. In the 2012-2014 Certain Rubber Resins and Processes for Manufacturing Same investigation, the ITC rejected respondents' argument that their manufacturing process was not derived from complainant's trade secrets, noting the striking similarity between the parties' parameters and the "copying down to the thousandth decimal place" in respondents' lab notebooks.[21]

Although respondents had not used all 17 asserted trade secrets that were part of complainant's overall process, the ITC affirmed a finding of misappropriation because respondents' process "use[d], substantially use[d], and [was] substantially derived from Complainant's trade secret, i.e., the combination of the 17 aspects of Complainant's process." [22]

Likewise, the administrative law judge in the 2011-2012 Certain DC-DC Controllers and Products Containing Same investigation concluded that respondents had used complainant's trade secret based on the similarities between the technical trade secret information and respondents' design documents.[23]

The administrative law credited the testimony of complainant's expert that the similarities showed respondents had taken and used "vast quantities" of trade secret information to design their own DC-DC controllers.[24] "When the number of similarities is viewed as a whole," the evidence supported the conclusion that complainant's trade secret had been misappropriated.[25]

The ITC decision in Bone Cements explicitly confirms that a finding of trade secret misappropriation at the ITC requires a showing of substantial use or disclosure of the asserted trade secret.

As more trade secret claims arise at the ITC, complainants will need to ensure their evidence is sufficient to support substantial use, and respondents should look for opportunities to argue that any use of the alleged trade secret was insubstantial.

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[1] Certain Bone Cements and Bone Cements Accessories, Comm'n Op., USITC Inv. No. 337-TA-1175, at 15 (July 9, 2021).

[2] Certain DC-DC Controllers and Prods. Containing Same, Enforcement Initial Determination, USITC Inv. No. 337-TA-698, at 94-99 (Aug. 30, 2011); Certain Crawler Cranes and Components Thereof, Comm'n Op., USITC Inv. No. 337-TA-887, at 61-62 (May 6, 2015); Certain Rubber Resins and Processes for Manufacturing Same, Comm'n Op., USITC Inv. No. 337-TA-849, at 20-27 (Feb. 26, 2014).

[3] Bone Cements, Comm'n Op., Inv. No. 337-TA-1175, at 15.

[4] *Id.* at 15, 21.

[5] *Id.* at 4-5.

[6] *Id.* at 5.

[7] *Id.* at 5-6.

[8] Certain Bone Cements and Bone Cements Accessories, Initial Determination, USITC Inv. No. 337-TA-1175, at 47-48 (Feb. 11, 2021).

[9] *Id.*

[10] *Id.* at 54.

[11] *Id.*

[12] Bone Cements, Comm'n Op., Inv. No. 337-TA-1175, at 8.

[13] See *id.* at 15-16.

[14] *Id.* at 18.

[15] *Id.* at 16.

[16] *Id.* at 16, 21.

[17] *Id.* at 18-21.

[18] *Id.* at 18 (citing *Crawler Cranes*, Comm'n Op., Inv. No. 337-TA-887, at 65).

[19] *Id.* at 18-19 (citing *MAI Sys. Corp. v. Peak Comput., Inc.*, 991 F.2d 511, 521-22 (9th Cir. 1993)).

[20] *Id.*

[21] Rubber Resins, Comm'n Op., Inv. No. 337-TA-849, at 20-22.

[22] Id. at 27.

[23] DC-DC Controllers, Enforcement Initial Determination, Inv. No. 337-TA-698, at 94-95.

[24] Id.

[25] Id. at 99.