

Defend Trade Secrets Act of 2016

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Why?

- (a) Dramatic increase in misconduct
- (b) Problems with multi-state aspects of the UTSA
- (c) Ineffective remedies under UTSA
- (d) Uniformity
- (e) Lack of criminal law enforcement

*Passed With
Overwhelming Support*

Senate: 87-0

House: 410-2

President: Signed into law May 11, 2016

Overview of the Defend Trade Secrets Act

- Intellectual property side—providing for trade secret rights and remedies.
- Employment law protections for “whistleblowers” and obligations of employers to alert employees to those protections.

Key Intellectual Property Features

- Does not preempt state law
- Original jurisdiction in federal courts
- Many similarities with UTSA, which both protect "an owner of a trade secret that is misappropriated."

Comparison to UTSA

Similarities in Definitions: "Trade Secret"

UTSA (S 114)

Trade secret means information, knowledge, techniques, processes, programs, devices, or designs, that is not generally known or ascertainable through reasonable efforts, and which is subject to being misappropriated by another person.

Information that is not subject to being misappropriated by another person is not a trade secret.

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D TSA (S 1839(3))

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Key Differences:

Comparison:

Similarities in Definitions: "Misappropriation"

UTSA (S 117)

Misappropriation means the acquisition, disclosure, or use of a trade secret in violation of a duty of confidentiality.

Information that is not subject to being misappropriated by another person is not a trade secret.

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Similarities in Definitions: "Improper Means"

UTSA (S 111)

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.

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D TSA (S 1839(6))

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Key Differences:

Comparison:

Similarities in Timing: Limitations

UTSA (S 4)

An action for misappropriation must be brought within 3 years after the misappropriation is discovered by the claimant or reasonable diligence should have been exercised.

For the purpose of this section, an action for misappropriation commences on the date of discovery.

D TSA (S 1836(2))

An action for misappropriation must be brought within 3 years after the misappropriation is discovered by the claimant or reasonable diligence should have been exercised.

For the purpose of this section, an action for misappropriation commences on the date of discovery.

Similarities in Timing: Monetary Remedies

UTSA (S 3 & 4)

The court may award reasonable attorneys' fees and costs to the prevailing party in an action for misappropriation if the court finds that the misappropriation was willful or that the defendant acted in bad faith.

The court may award reasonable attorneys' fees and costs to the prevailing party in an action for misappropriation if the court finds that the misappropriation was willful or that the defendant acted in bad faith.

D TSA (S 1839(3)(3))

The court may award reasonable attorneys' fees and costs to the prevailing party in an action for misappropriation if the court finds that the misappropriation was willful or that the defendant acted in bad faith.

The court may award reasonable attorneys' fees and costs to the prevailing party in an action for misappropriation if the court finds that the misappropriation was willful or that the defendant acted in bad faith.

Key Differences:

Comparison:

Similarities in Relief: Injunctions

UTSA (S 2)

A court may grant an injunction to prevent the misappropriation of a trade secret if the court finds that the misappropriation is likely to occur and that the trade secret is of substantial economic value.

A court may grant an injunction to prevent the misappropriation of a trade secret if the court finds that the misappropriation is likely to occur and that the trade secret is of substantial economic value.

D TSA (S 1839(b)(3))

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Key Differences:

Comparison:

Similarities in Definitions: “Trade Secret”

UTSA (§ 1 (4))

"Trade secret" means 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

DTSA (§ 1839(3))

[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 if—

- (A) the owner¹ thereof has taken reasonable measures to keep such information secret; and
- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information;

Key differences:
Orange is inserted text

¹ An “owner” is separately defined as “the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed”.

Similarities in Definitions: “Misappropriation”

UTSA (§ 1 (2))

"Misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

- (I) derived from or through a person who had utilized improper means to acquire it;
- (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
- (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

DTSA (§ 1839(5))

[T]he term "misappropriation" means—

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who—

(i) used improper means to acquire knowledge of the trade secret;

(ii) at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was—

(I) derived from or through a person who had used improper means to acquire the trade secret;

(II) acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret or limit the use of the trade secret; or

(iii) before a material change of the position of the person,

knew or had reason to know that—

(I) the trade secret was a trade secret; and

(II) knowledge of the trade secret had been acquired by accident or mistake

Similarities in Definitions: “Improper Means”

UTSA (§1 (1))

"Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

DTSA (§ 1839(6))

[T]he term “improper means”–

(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and

(B) **does not include reverse engineering,¹ independent derivation,² or any other lawful means of acquisition**

¹ Reverse engineering (among others) is covered in the UTSA comments.

² Independent invention (as opposed to independent derivation) is covered in the UTSA comments.

Key differences:

Orange is inserted text

Similarities in Timing: Limitations

UTSA (§ 6)

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.

For the purposes of this section, a continuing misappropriation constitutes a single claim.

DTSA (§ 1836(d))

A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.

Similarities in Timing: Monetary Remedies

UTSA (§§ 3 & 4)

[§3] (a) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable¹; a complainant is entitled to recover damages for the actual loss caused by misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

[§4] If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

DTSA (§ 1839(b)(3))

[A] court may—
(B) award—

(i)(I) damages for actual loss caused by the misappropriation of the trade secret; and (II) damages for any unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual loss; or

(ii) in lieu of damages measured by any other methods, the damages caused by the misappropriation measured by imposition of liability for a reasonable royalty for the misappropriator's unauthorized disclosure or use of the trade secret;

(C) if the trade secret is willfully and maliciously misappropriated, award exemplary damages in an amount not more than 2 times the amount of the damages awarded under subparagraph (B); and

(D) if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, award reasonable attorney's fees to the prevailing party.

Key differences:

Orange is inserted text
Blue is text omitted
from the DTSA section

¹ This concept is picked up in (and excluded from) the definition of misappropriation; accordingly, it is not necessary in the injunction section.

Similarities in Relief: Injunctions

UTSA (§ 2)

- (a) Actual or threatened misappropriation may be enjoined. *Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.*
- (b) If the court determines that it would be unreasonable to prohibit future use *In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the for which use could have been prohibited. Exceptional circumstances include, but are not limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.*¹
- (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

DTSA (§ 1839(b)(3))

- [A] court may—
- (A) grant an injunction—
- (i) to prevent any actual or threatened misappropriation described in paragraph (1)² on such terms as the court deems reasonable, provided the order does not—
- (I) *prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or*
- (II) *otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business;*
- (ii) if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and
- (iii) in exceptional circumstances *that render an injunction inequitable*, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited

Key differences:

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from the DTSA section

¹ This concept is picked up in (and excluded from) the definition of misappropriation; accordingly, it is not necessary in the injunction section.

² Paragraph 1 appears to be a reference to section 1936(b)(1), covering trade secrets used in interstate or foreign commerce.

*The Drastic
Seizure Remedy*

Section 2 (b)(2)(A)

Plaintiff's Burdens

- (a) "extraordinary circumstances"
- (b) TRO/preliminary injunction would be inadequate
- (c) Immediate and irreparable injury
- (d) Harm to applicant outweighs harm to defendant, others
- (e) "the applicant has not publicized the requested seizure"

*Get your IT
witnesses and
experts ready
before you go to
court*

What has to be in your seizure order?

*findings of fact
and conclusions of
law*

Burden of Proof

"prove the facts supporting the findings of fact and conclusions of law necessary to support the order. If the party fails to meet that burden, the seizure order shall be dissolved or modified appropriately."

*The Seizure Order
Hearing*

*Date for hearing
within 7 days*

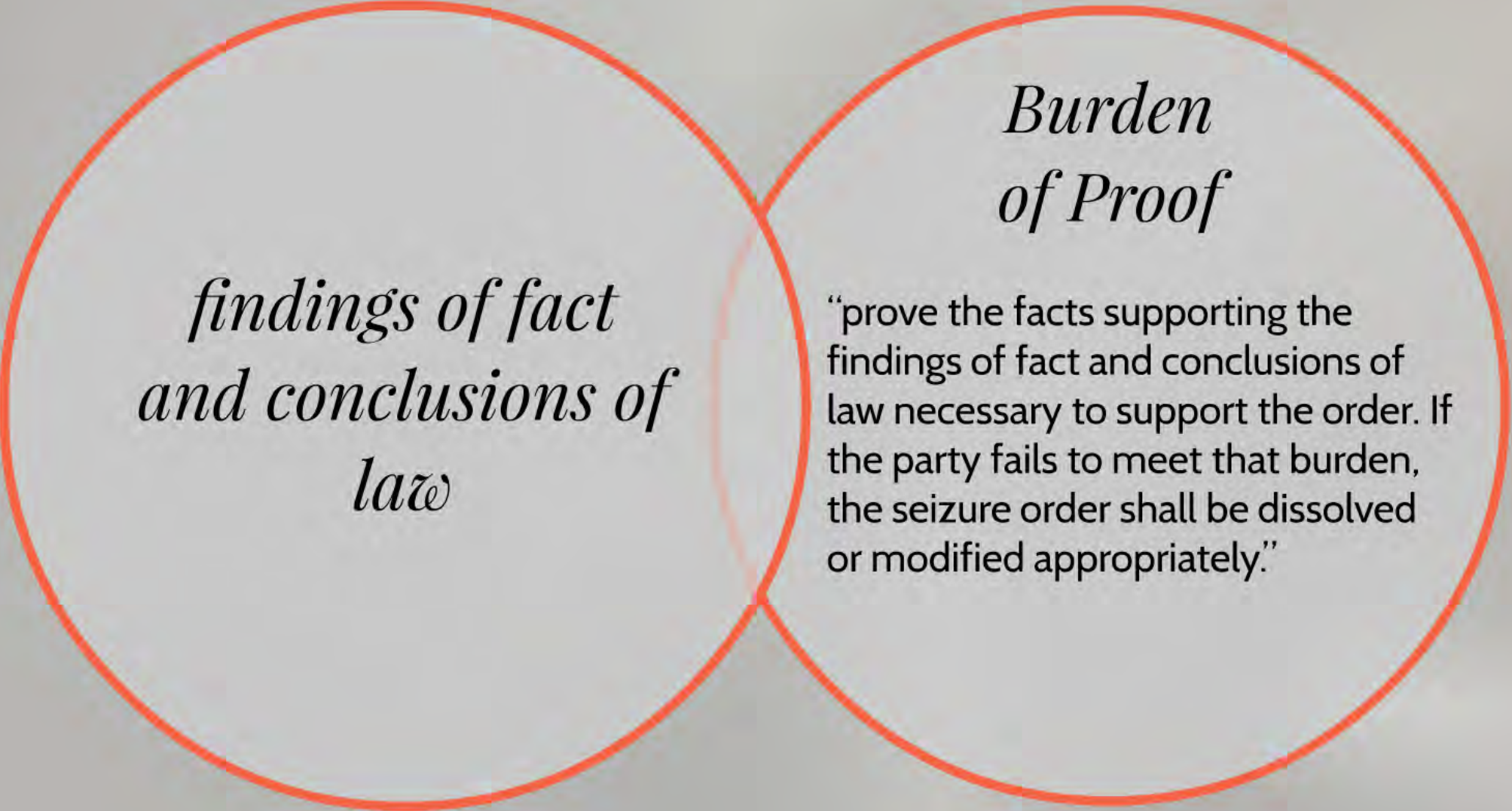
*narrowest seizure
necessary... conducted in a
manner that minimizes any
interruption of the business...
and to the extent possible,
does not interrupt the
legitimate business operations
of the person accused of
misappropriating the trade
secret*

*Prohibit access by the
applicant or the person against
whom the order is directed, and
prohibiting any copies, in whole
or in part, of the seized property,
to prevent undue damage to the
party against whom the order has
issued or others, until such
parties have an opportunity to
be heard in court.*

*EXCEPTION for
access: both sides
can inspect
information in the
custody of the
court*

*Instructions to law
enforcement on
when to seize,
whether to use
force to access
locked areas*

Bond required



*findings of fact
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*Date for hearing
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Prohibit access by the applicant or the person against whom the order is directed, and prohibiting any copies, in whole or in part, of the seized property, to prevent undue damage to the party against whom the order has issued or others, until such parties have an opportunity to be heard in court;

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Bond required

Practical Impact of Seizure Remedy

- Likely to be used infrequently
- Risky remedy—little control over seizure process, but responsible for damages
- Avoid risk as potential target

Immunity/Notice for "employees"

Immunity: for disclosure that is either “in confidence to a Federal, State or local government official...or to an attorney... solely for the purpose of reporting or investigating a suspected violation of law” or “is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal”

Notice must be given “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information”

Practical Impact for Employers

- Immediate: revise policies and contracts to provide notice of rights under 18 USC § 1833
- Near-term: incorporate U.S. law into international contracts/relationships
- Longer-term: shore up "reasonable efforts to maintain secrecy"

Mixed message from the feds?

See White House May 5, 2016 report
regarding noncompetition agreements at :

[https://www.whitehouse.gov/sites/default/
files/non-competes_report_final2.pdf](https://www.whitehouse.gov/sites/default/files/non-competes_report_final2.pdf)

*Is Federal Court
Now the Automatic
Choice for Trade Secret
Litigation?*

Not necessarily