

Review of the Defend Trade Secrets Act

May 9, 2017 – Windows on Minnesota

Chris Harristhal

Larkin
Hoffman
ATTORNEYS

History

- In mid 2015, bills were introduced in both the House and Senate to create a federal private right of action concerning the misappropriation of trade secrets.
- The “Defend Trade Secrets Act of 2015” was proposed, following a failed attempt in 2014.
- In January 2016, two groups of amendments to the DTSA were offered. Both sets of amendments were passed.
- President Obama signed the Act and it became effective May 11, 2016.

Protections

- Created a federal cause of action for trade secret misappropriation.
- Expanded available remedies, including an ex parte seizure order.
- Gives businesses the ability to prevent theft by discretely securing secrets before disclosure by other parties and allows for more uniform resolutions in federal court.
- Creates protections for whistleblowers and establishes notification requirements.

Definitions

The 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.

18 U.S. Code § 1839

Definitions, continued

The 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, independent derivation, or any other lawful means of acquisition.

The term “trade secret” —

“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 owner 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, the public.

Remedies

- Civil seizure
- Actual damages
- Attorneys' fees
- Injunctions

Civil Seizure

- DTSA allows a court to require seizure of property deemed “necessary to prevent the propagation or dissemination of the trade secret.” 18 USC § 1836(b)(2)(A)(ii)
- Can be done *ex parte* without requiring notice to the alleged wrongdoer beforehand.
- Prohibits copying seized property and requires *ex parte* orders to provide specific instructions to federal marshals as to the timing of the seizure and whether force may be used to access secured areas.
- Requires plaintiffs to establish that other equitable remedies such as a preliminary injunction are insufficient.

Injunctive Relief

- In addition to civil seizure, DTSA allows a court to order an injunction whenever reasonable to prevent actual or threatened misappropriation of trade secrets if the court deems affirmative action necessary to prevent the trade secret. 18 USC § 1836(b)(3)(A)
- DTSA provides an exception for circumstances where the injunction would be considered inequitable. 18 USC § 1836(b)(3)(A)(iii)

Remedies, continued

- DTSA allows for damages for actual loss from the misappropriation and damages for unjust enrichment not included in the actual damages. 18 USC § 1836(b)(3)(B).
- Alternatively, damages can be calculated by imposing a reasonable royalty for unauthorized disclosure. 18 USC § 1836(b)(3)(B).
- Exemplary damages can be recovered of up to two times the amount that otherwise be awarded. 18 USC § 1836(b)(3)(C).
- Attorneys' fees can be recovered on both sides.

Immunity

- Creates immunity from all civil and criminal liability.
- The disclosure must be to the government or an attorney solely for the purpose of reporting or investigating suspected violations of the law. 18 USC § 1833(b)(1)(A).
- Immunity provision applies to federal, state and local trade secret laws.
- Applies to disclosures in a complaint filed in a lawsuit provided it is filed under seal. 18 USC § 1833(b)(1)(B).

Notice

- DTSA requires employers to provide notice of the immunity provision to employees. 18 USC § 1833(b)(3)(A).
- Must be “in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”
- Applies only to agreements entered or updated after May 11, 2016.

Model Notice

- An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made 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. An individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of the law may disclose the trade secret to the attorney of the individual and use trade secret information in court proceedings, if the individual files any document that contains trade secret information under seal and does not disclose the trade secret except pursuant to a court order.

Case Law