

# The Defend Trade Secrets Act of 2016

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# Before the DTSA

Trade secret law governed by state law, with most states adopting the Uniform Trade Secrets Act.

No federal civil cause of action available to private litigants for trade secrets misappropriation, only a federal criminal statute.

Unless diversity jurisdiction, or some other hook, no basis for federal court jurisdiction in civil actions

Some inconsistencies and differences from state to state in the wording and application of the UTSA

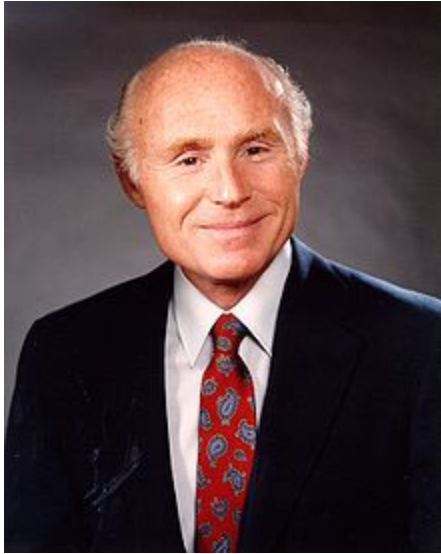
Repeated attempts at federal legislation

# DTSA background and Basics\*

- Amends the Economic Espionage Act of 1996, which was criminal only
- 2008: R. Mark Halligan, *Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 7 J. MARSHALL REV. INTELL. PROP. L. 656 (2008).
- Trade Association Involvement
- Congressional Champion(s)
- Substantial industry support
- 50+ law professors opposed
- After amendments, voting almost unanimous
- Signed May 11, 2016 (effective date)

# 112<sup>th</sup> Congress (2011-2012): S. 3389, Protecting American Trade Secrets and Innovation Act of 2012

July, 2012



Sen. Herb Kohl  
(D-Wisconsin)  
Served: 1989-2013



Sen. Christopher  
Coons  
(D-Delaware)  
Serving: 2010-  
Present



Sen. Sheldon  
Whitehouse  
(D-Rhode Island)  
Serving: 2007-  
Present

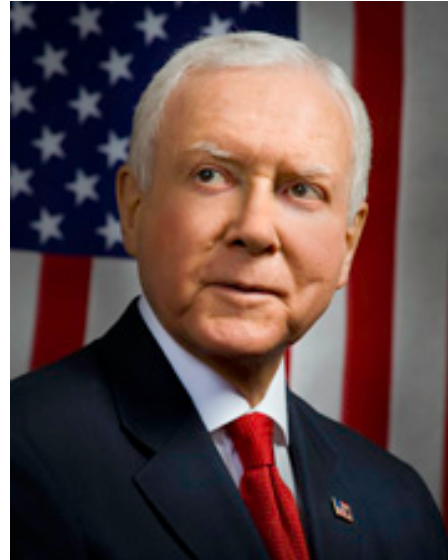
## S. 3389: July, 2012

- Federal Civil Cause of Action (Modeled after the UTSA)
- Complaint must:
  - (1) **describe with specificity** the **reasonable measures taken to protect the secrecy** of the alleged trade secrets in dispute, and
  - (2) include a **sworn representation** by the party asserting the claim that the dispute involves either **substantial need for nationwide service of process or misappropriation of trade secrets from the United States to another country.**
- Authorizes the court...upon **ex parte** application and if the court finds by **clear and convincing evidence** that issuing the order is **necessary to prevent irreparable harm**, to issue an order providing for:
  - (1) the **seizure of any property (including computers) used or intended to be used to commit or facilitate the commission of the alleged violation**, and
  - (2) the **preservation of evidence.**

113<sup>th</sup> Congress (2013-2014): S. 3389, Defend Trade  
Secrets Act of 2014: **April, 2014**



Sen. Christopher  
Coons  
(D-Delaware)  
Serving: 2010-  
Present



Sen. Orrin Hatch  
(R-Utah)  
Serving: 1977-  
Present

## S. 3389, Defend Trade Secrets Act of 2014: **April, 2014**

- Authorizes the court...upon ex parte application and if the court finds that issuing the order is **necessary to prevent irreparable harm**, to issue appropriate order...providing for the seizure of any property used to commit or facilitate the commission of an alleged violation, **except** that such an order may not provide for the seizure of any property that is **merely incidental to the alleged violation unless necessary to preserve evidence** or shall provide for the seizure of any property in a manner that **does not interrupt normal and legitimate business operations unrelated to the trade secret**.

# 113<sup>th</sup> Congress (2013-2014): H.R. 5233, Trade Secrets Protection Act of 2014: **December, 2014**



Rep. George Holding  
(R-North Carolina)  
Serving: 2013-Present



Rep. Howard Coble  
(R-North Carolina)  
Served: 1985-2015



Rep. Steve Chabot  
(R-Ohio)  
Serving: 1995-Present



Rep. Jerry Nadler  
(D-New York)  
Serving: 1991-Present



Rep. John Conyers  
(D-Michigan)  
Serving: 1965-Present



Rep. Hakeem Jeffries  
(D-New York)  
Serving: 2013-Present



# H.R. 5233, Trade Secrets Protection Act of 2014:

## December, 2014

Authorizes the court, upon **ex parte** application, to issue an order providing for the seizure of property **necessary to preserve evidence** in such civil action or to prevent the propagation or dissemination of the trade secret, if it finds that:

- a **temporary restraining order would be inadequate** because the restrained party would evade or otherwise not comply with it;
  - **immediate and irreparable injury will occur** if such seizure is not ordered;
  - **the harm to the applicant of denying the application outweighs the harm** to the legitimate interests of the person against whom seizure would be ordered and the harm to any third parties who may be harmed by such seizure;
  - the **applicant is likely to succeed** in showing that the person against whom seizure would be ordered misappropriated the trade secret by improper means, or conspired to use improper means to misappropriate it, and is in possession of the trade secret;
  - the **application reasonably describes the matter to be seized and its location**;
  - the person against whom seizure would be ordered would destroy or otherwise make such matter inaccessible to the court if the applicant were to proceed on notice to such person; and
  - the **applicant has not publicized the requested seizure**.
- Provides for: (1) seizure in a manner that **minimizes any interruption of the business operations** of third parties; and (2) **protection of the property from disclosure**. Directs the court to take seized material into its custody. Grants a person who suffers damage by reason of a **wrongful or excessive seizure** under this Act a cause of action against the applicant for the order and entitles such person to appropriate relief.

# 114<sup>th</sup> Congress (2015-2016): S. 1890, Defend Trade Secrets Act of 2016

July, 2015



Sen. Orrin Hatch  
(R-Utah)  
Serving: 1977-  
Present



Sen. Christopher  
Coons  
(D-Delaware)  
Serving: 2010-  
Present

# 114<sup>th</sup> Congress (2015-2016): H.R. 3326, Defend Trade Secrets Act of 2015: July, 2015



Rep. Doug Collins  
(R-Georgia)  
Serving: 2013-Present



Rep. Lamar Smith  
(R-Texas)  
Serving: 1987-Present



Rep. Steve Chabot  
(R-Ohio)  
Serving: 1995-Present



Rep. Jerry Nadler  
(D-New York)  
Serving: 1991-Present



Rep. John Conyers  
(D-Michigan)  
Serving: 1965-Present



Rep. Hakeem Jeffries  
(D-New York)  
Serving: 2013-Present

# DTSA Signing Ceremony, Oval Office, May 11, 2016



# DTSA v. UTSA

## Similarities

- The core of the DTSA is consistent with the UTSA
- Definition of a trade secret not identical, but substantially similar
- Definition of misappropriation is the same
- Available remedies the same, but with one added remedy in the DTSA
- Same statute of limitations: 3 years, following discovery

## Differences

- Must satisfy Commerce Clause hook
  - Trade secrets must be “related to” a product or service in interstate commerce
- Civil Seizure provision
  - Similar to Lanham Act but tougher
  - Limited to “extraordinary” cases
- Whistleblower provision
- Limitations on injunctive relief
- An “option”: no preemption of state laws and no exclusive federal court jurisdiction

# Commerce Clause Requirement

- Amended Section 18 U.S. C. §1836 (b):
  - (1) An owner of a trade secret that is misappropriated may bring a civil action under this section if the trade secret is **related to a product or service** used in, or intended for use in, interstate or foreign commerce.

# Possible “related to” scenarios

- Coca-Cola formula
- Chemical formula not yet used
- Information about customers that bought goods
- Information about website visitors
- Information about what doesn't work (negative information)
- Process engineering for making a good
- Human Resources processes

# *Ex Parte* Seizure Provisions

- Authorizes Federal courts to issue a narrowly-tailored *ex parte* order for seizure of property necessary in “**extraordinary circumstances**” to preserve evidence or prevent the propagation or dissemination of the trade secret.
- Requires Applicants to describe the trade secret that is the subject of the order with **sufficient particularity** for the court to adequately evaluate the request.
- Purpose: to enable a trade secret owner to proactively contain a theft before it progresses and the trade secret is compromised.



# A summary of the requirements:

- No notice required
- “Court **MAY NOT** grant a seizure order **UNLESS** it finds that it *clearly appears from specific facts that..*”
  - [A long list of facts]
- Rule 65 TRO would be inadequate: the party to which the order would be issued would evade, avoid, or otherwise not comply with it
- Immediate and irreparable harm will result and harm to applicant outweighs harm to target of the Order

# Additional Factual findings required

- *The applicant is likely to succeed in showing that—*
  - *the information is a trade secret; and*
  - *the person against whom seizure would be ordered—*
    - *misappropriated the trade secret of the applicant by improper means; or*
    - *conspired to use improper means to misappropriate the trade secret of the applicant; and*
- *The person against whom seizure would be ordered has actual possession of—*
  - *The trade secret; and*
  - *Any property to be seized;*
- *The application describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;*
- *The person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and*
- *The applicant has not publicized the requested seizure.*

# Narrow Court Order Parameters

The seizure **ORDER SHALL**:

1. Provide for the **narrowest** seizure of property necessary to **protect the trade secret** and **minimize interruption of business operations** of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret,
2. Be accompanied by an order **protecting the property from disclosure and prohibiting any copies** of the seized property
3. Provide guidance to law enforcement officials executing the seizure that clearly delineates the **scope of their authority** (hours to carry out seizure, can force be used)
4. Set a **date for a hearing** at the earliest possible time, **no later than 7 days** after the order has issued, unless the parties consent to another date
5. Require the person obtaining the order to **provide the security** determined adequate by the court for payment of damages if wrongful or excessive seizure is found.
6. Materials taken into the custody of the court shall be **secured from physical and electronic access** ; keep any electronic data or storage media secure and disconnected from any network or the Internet.
7. Federal law enforcement officer must carry out order. **The court MAY NOT allow the applicant or its agents to participate.**

# Limitations on Injunctions Against Departing Employees

- New Section 18 U.S. C. §1836 (1) (3) (A):
- *REMEDIES.*—*In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—*
  - (A) *grant an injunction—*
    - (i) *to prevent any actual or threatened misappropriation described in paragraph (1) 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;*

# Immunity Provisions

- DTSA provides limited immunity for individuals who disclose trade secrets under specific circumstances and requires employers to provide notice of these immunity provisions to employees. 18 U.S.C. § 1833(b).
- Reporting suspected violations of law to government officials or an attorney: An individual will have immunity from civil and criminal liability under any Federal and State trade secret law for disclosure of a trade secret *made in confidence* to a Federal, State, or local government official, either directly or indirectly, or to any attorney, solely for the purpose of reporting or investigating a suspected violation of law, and
- Disclosure in filings made under seal: An individual will have immunity from civil and criminal liability under any Federal or State trade secret law for disclosure of a trade secret in a complaint or other document filed in a lawsuit or other proceeding, *if such filing is made under seal*.

# Whistleblowers

- Whistleblower immunity: An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret in the court proceeding if the individual:
  - (1) files any documents containing trade secrets *under seal and*
  - (2) does not disclose the trade secret, *except pursuant to a court order.*

# Requirement to Notify Employees of Immunity Under the DTSA

- All employers “shall” provide notice to employees of the immunity provisions set forth in § 1833(b) in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.
  - “Employee” definition includes any individual performing work as a contractor or consultant for an employer.
- The notice of immunity requirement applies to contracts and agreements entered into or updated after the date of enactment (May 11, 2016).
- It will suffice for an employer to provide a “cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law.”
- Employers that fail to comply with the notice of immunity requirement “may not be awarded exemplary damages or attorney fees in an action against an employee to whom the notice was not provided.”

# Changes to Criminal Provisions

- Increases the penalties for a of 18 U.S.C. § 1832 criminal violation from \$5,000,000 to the greater of \$5,000,000 or three (3) times the value of the stolen trade secrets to the organization, including the costs of reproducing the trade secrets.
- Another new provision allowing trade secret owners to be heard in criminal court concerning the need to protect their trade secrets. It also amends the RICO statute to add a violation of the Economic Espionage Act as a predicate act.



# Questions

