



Trade Secrets: What In-House Counsel Need to Know

Benchmark Women In Litigation Forum

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The Defend Trade Secrets Act of 2016 (DTSA)

- **May 11, 2016**
- **Amended Chapter 90 of Title 18, The Economic Espionage Act of 1996**



Key Features

- Private Federal Cause of Action
- Ex Parte Seizure Order
- Whistleblower Protections



Key Features

- Section 1836 (b)(1) provides a *private* cause of action to:
 - an “owner” of a “trade secret”
 - which is “misappropriated”
 - which is “related to a product or service used in, or intended for use in, interstate or foreign commerce”



Trade Secret Definition Modeled on the Uniform Trade Secrets Act

“[A]ll 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:

- the owner thereof has taken *reasonable measures* to keep such information secret; and
- 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 of the information.

18 U.S.C. §1839 (3)



DTSA Definition of Misappropriation

- (A) *acquisition* of a trade secret by another 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.C. §1839 (5)



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; and
- Does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

18 U.S.C. §1839 (6)



Other Features

- 3 year Statute of Limitations from “the date on which the misappropriation . . . is discovered or by the exercise of reasonable diligence should have been discovered.” 18 U.S.C. § 1836(d).
- For purposes of the Statute of Limitations, “a continuing misappropriation constitutes a single claim of misappropriation.” Id.
- DTSA does not preempt state law. 18 U.S.C. § 1838.



Ex Parte Seizure Orders

- Based on affidavit or verified complaint
- “Only in extraordinary circumstances”
- Seizure of property “necessary to prevent the propagation or dissemination of the trade secret”
- 8 requirements must be “clearly” shown from “specific facts”

18 U.S.C. § 1836(b)(2)(A)



Ex Parte Seizure Orders

- Rule 65 Order would be inadequate;
- Immediate and irreparable harm;
- Harm to the applicant outweighs the harm to legitimate interests of the person subject to the Order and substantially outweighs the harm to any third parties;
- Likelihood of success on the merits:
 - the information is a trade secret; and
 - the person subject to the order misappropriated the trade secret by improper means or conspired to use improper means to misappropriate the trade secret;



Ex Parte Seizure Orders

- Actual possession of the trade secret and the property to be seized;
- Matter to be seized described with “reasonable particularity” and, to the extent reasonable under the circumstances, the location where the matter is to be seized;
- The target would “destroy, move, hide, or otherwise make such matter inaccessible to the court” if notice were given;
- The applicant has not publicized the requested seizure.

18 U.S.C. §1836(b)(2)(A)(ii)



Ex Parte Orders Must:

- Set forth findings of fact and conclusions of law;
- Provide for the narrowest seizure of property necessary to minimize any interruption of the business operations of third parties and the legitimate operations of the person accused of misappropriation;
- Be accompanied by an Order protecting the seized property from disclosure;
- Provide guidance to law enforcement officials including the hours during which the seizure may be executed and whether force may be used to access locked areas;



Ex Parte Orders Must:

- Set a hearing to dissolve the Order if the applicant cannot meet its burden to prove the facts supporting the findings of fact and conclusions of law in the Order;
- Set a bond adequate for the payment of damages that any person may be entitled to recover as a result of wrongful seizure.

18 U.S.C. § 1836(b)(2)(B)



Safeguards to Protect Employees and Whistleblowers

- DTSA does not adopt the “inevitable disclosure” doctrine.
- Injunctions may not “prevent a person from entering into an employment relationship” and any conditions on such employment “shall be based on evidence of threatened misappropriation and not merely on the information the person knows.”

18 U.S.C. § 1836(b)(3)(A)



Safeguards to Protect Employees and Whistleblowers

- DTSA provides immunity for disclosure of a trade secret that is made:
 - in confidence to a Federal, State or local government official, or an attorney, “*solely* for the purpose of reporting or investigating a suspected violation of law”; or
 - in a complaint or other document filed in a lawsuit under seal.

18 U.S.C. § 1833(b)(1)



Requirement for Employers

- Employers must provide notice of the whistleblower protections in any agreement with employees that governs the use of trade secrets or other confidential information.
- Effective for all agreements entered into after May 11, 2016.
- Failure to do so precludes the employer from seeking exemplary damages or attorney's fees from an employee who did not receive notice.
- "Employees" includes "any individual performing work as a contractor or consultant."

18 U.S.C. §1833(b)(3)-(4)



Requirement for Employers

Sample Language:

Pursuant to the federal Defend Trade Secrets Act of 2016, 18 USC § 1832 *et seq.*, the Company shall not retaliate or take adverse action against Employee, and disclosure shall not be a violation of this Agreement if it is based on Employee's disclosure of information that (A) is made (i) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.



DTSA – One Year Later

- Seizure Orders
- Injunctions and Expedited Discovery
- Continuing Misappropriation
- Uniformity?



Ex Parte Seizures Denied:

- *Dazzle Software II, LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM (E.D. Mich. June 15, 2016)
- *Balearia Caribbean Ltd., Corp. v. Calvo*, No. 1:16-cv-23300-KMV (S.D. Fla. Aug. 5, 2016)
- *Jones Printing LLC v. Adams Lithographing Co.*, No. 1:16-cv-442 (E.D. Tenn. Nov. 3, 2016)
- *Compulife Software, Inc. v. Newman*, No. 9:16-cv-81942 (S.D. Fla. Dec. 8, 2016)
- *OOO Brunswick Rail Mgt. v. Sultanov*, 2017 WL 67119 (N.D. Cal. Jan, 6, 2017)



Ex Parte Seizures Granted:

- *Mission Capital Advisors LLC v. Romaka*, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016)



Rule 65 Relief

- *Magnesita Refractories Company v. Mishra*, 2017 WL 655860 (N.D. Indiana Feb. 17, 2017)
 - individual defendant ordered to turn over his laptop to the Court, which appointed a Special Master to image the laptop
- *Express Scripts, Inc. v. Lavin*, 2017 WL 2903205 (E.D. Missouri July 7, 2017)
 - individual defendant ordered to turn over his passwords for plaintiff-owned cell phone and tablet within 6 hours of entry of the Order



Expedited Discovery

- *Waymo LLC v. Uber Technologies, Inc.*, 2017 WL 2123560 (N.D. Cal. May 15, 2017)
 - preliminary injunction and expedited discovery granted; \$5 million bond required
- *Digital Assurance Certification, LLC v. Pendolino*, 2017 WL 715152 (M.D. Fla. Feb. 23, 2017)
 - expedited discovery request denied as overly broad, burdensome on a third party, and propounded too close to the TRO hearing



Continuing Misappropriation

- *Agilysys, Inc. v. Hall*, 2017 WL 2903364 (N.D. Ga. May 25, 2017)
 - Misappropriation includes both “acquisition” of a trade secret and “disclosure”
 - “Acquisition” took place prior to DTSA enactment, but “disclosure” took place afterwards
 - “Disclosure” was a separate, not continuing misappropriation
- *See also Syntel Sterling Best Shores Mauritius Ltd. v. Trizetto Grp, Inc.*, 2016 WL 5338550 (S.D.N.Y. Sept. 23, 2016); *Adams Arms, LLC v. Unified Weapons Sys., Inc.*, 2016 WL 5391394 (M.D. Fla. Sept. 27, 2016); *Brand Energy & Infrastructure Services, Inc. v. Irex Contracting Group*, 2017 WL 1105648 (March 24, 2017).



Unified Federal Law or Continued State Law Analysis

- *Flowshare, LLC v. TNS, US, LLC*, 2017 WL 3174321 (E.D. Missouri July 26, 2017)
 - “[F]inding no law to the contrary,” the court denied motion to dismiss DTSA claim for the same reasons applied to state trade secret act.
- *Mission Measurement Corporation v. Blackbaud, Inc.*, 216 F.Supp.3d 915 (N.D. Ill. 2016)
 - Whether Plaintiff pled trade secrets with sufficient particularity analyzed under Illinois law.



TAKEAWAYS

- “There are only two categories of companies affected by trade-secret theft: those that know they’ve been compromised and those that don’t know yet.”
- DTSA expands trade secret owners’ options – take stock and plan now.
- Update employee and consultant agreements.
- Ex parte seizure orders will be rare.
- Seek Rule 65 injunctions and expedited discovery.
- State law analysis will continue to be important.

