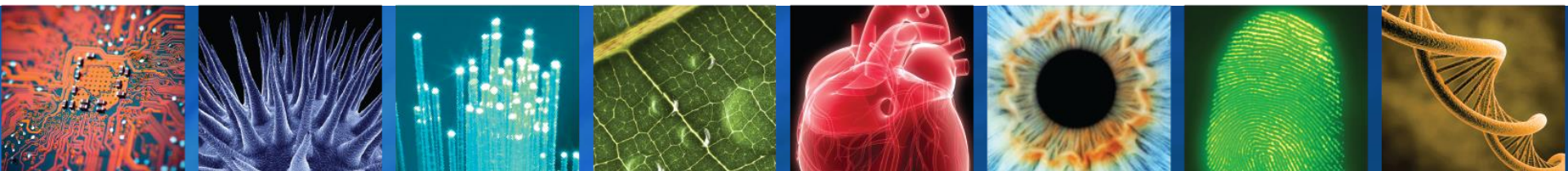


## The Current State of Trade Secret Law and how the New Federal Statute Will Shape the Landscape

Boris Zelkind



SDIPLA – May 19, 2016

# New Federal Trade Secret Misappropriation Law

May 11, 2016 - President Obama signed DTSA into law



# Trade Secret Protection Schemes

- **State: Uniform Trade Secrets Act**
  - Adopted in various forms between 1979 and 2013
- **Common Law**
  - New York and Massachusetts
- **Federal: Defend Trade Secrets Act**
  - Amends the Economic Espionage Act

# Trade Secret Protection Schemes

So what is different now...



# DTSA vs. Traditional Trade Secrets Laws

- 1) Federal Civil Right of Action
- 2) Definition of a Trade Secret
- 3) Definition of Misappropriation
- 4) Civil Seizures
- 5) Damages
- 6) Preemption
- 7) Procedural Considerations – 2019 Statements
- 8) Whistleblowers
- 9) Inevitable Disclosure

# #1 Civil Right of Action

- DTSA created a federal civil right of action for trade secret misappropriation
- Federal district courts will have original jurisdiction to hear DTSA cases
- No need to shoe horn trade secrets cases into federal courts via diversity jurisdiction or Computer Fraud & Abuse Act

## #2 Definition of a Trade Secret



### TRADE SECRET Example..



- 125-year-old secret formula of Coca-Cola is at World of Coca-Cola in Atlanta
- Mrs. Fields Chocolate Chip Cookies
- Twinkie Cake Recipe
- Listerine
- Dr. J.J. Lawrence invented the antiseptic liquid compound Listerine, then licensed its secret formula



# What is a Trade Secret?

## **Basic Definition of Trade Secret**

- information
- that derives economic value from being secret
- is the subject of reasonable efforts to maintain secrecy



# UTSA - What is a Trade Secret?

**UTSA** – “‘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 - What is a Trade Secret?

**DTSA** – “The 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 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, another person** who can obtain economic value from the disclosure or use of the information”

# Differences between Federal and State Definition

- **Very Similar Definitions, but**
  - DTSA appears broader
  - DTSA covers all forms of information, tangible or intangible
  - DTSA may cover information committed to memory
    - Has not been addressed in 20 years of EEA jurisprudence
    - Does the trade secret have to be fixed in a tangible medium?

# Continued Use

- Neither the DTSA or UTSA require the owner of a trade secret to continue using the trade secret in the course of business
- Common law states (New York and Massachusetts) require the “continued use” of a trade secret

## #3 Misappropriation – UTSA and DTSA

- Acquisition of a trade secret by a person who knows or has reason to know the trade secret was acquired by improper means; or
- Disclosure or use of a trade secret without consent by a person who:
  - Used improper means to acquire the trade secret
  - Knew or had reason to know the trade secret was:
    - Derived from or through improper means
    - Acquired under circumstances giving rise to a duty to maintain secrecy of the trade secret
    - Derived from or through a person who had a duty of secrecy

# Misappropriation

What is “improper means”?



# Misappropriation

What is “improper means”?

- Theft
- Bribery
- Misrepresentation
- Breach or Inducement of a breach of duty of confidentiality
- Espionage
  
- Not Improper:
  - Reverse Engineering
  - Independent Derivation
  - Lawful means of acquisition

# Differences in Misappropriation

- **No material difference**



# #4 Civil Seizure



## #4 Civil Seizure

- DTSA allows court to order seizure of property without notice
  - Ex parte seizures are to be ordered “**only in extraordinary circumstances**”
  - To prevent propagation or dissemination of the trade secret
- Federal law enforcement to carry out seizure order
- Court will maintain possession of property

# DTSA – Seizure Requirements

- Requirements for issuing an order:
  - Like a TRO on steroids
    - Likelihood of success on merits
    - Immediate and irreparable injury
    - Balance of harms
    - Additional elements
      - TRO or Preliminary Injunction would be inadequate to prevent propagation and dissemination
      - Defendant will destroy, move or hide property if given notice

# DTSA – Seizure Requirements

- Requirements for issuing an order:
  - Additional elements continued
    - Defendant has the trade secret and the property to be seized
    - Describe the property to be seized with particularity
    - Applicant has not publicized the requested seizure

# DTSA – Civil Seizure

- **Protections for Defendants**
  - Hearing no later than in 7 days
  - Access to seized property by applicant is restricted
  - Court may hire special master to facilitate return of unrelated property to defendant
  - Defendant can sue for damages stemming from wrongful or excessive seizure

## #5 Damages

- Actual Loss
- Unjust Enrichment
- Reasonable Royalty
- Exemplary Damages – willful and malicious misappropriation
  - 2x amount of damages
- Attorney's Fees – bad faith claim, bad faith re motion to terminate injunction, or willful and malicious misappropriation

## #6 Preemption

- **DTSA does not preempt other trade secret laws or other laws in general**
  - **Can assert state trade secret claims**
  - **But can you assert other causes of action?**

# Preemption

- **CUTSA and UTSA do preempt other causes of action**
- **CUTSA has been interpreted to preempt common law claims that are based on the same nucleus of fact as the misappropriation of trade secret**
- **Scope of UTSA preemption varies widely from state to state**



## #7 Procedural Considerations – 2019 Statement

- California civil procedure section 2019.210 requires trade secrets to be identified with “reasonable particularity” before discovery can begin
- Federal district courts in CA have applied 2019 requirement to trade secrets cases
- Bogs down litigation – spawns 2019 battles
- 2019 statement requirement is eliminated with DTSA

## #8 DTSA – Whistleblowers

- Whistleblower Immunity
  - Cannot be held criminally or civilly liable under any **Fed** or **State** trade secret law
  - If disclosure of trade secret:
    - Is in confidence to law enforcement or attorney; and
    - For purpose of reporting a violation of law
  - Employer **must include a notice** of immunity in any new agreement or updated agreement with employee that governs use of trade secrets or confidential information (to be eligible for exemplary damages and attorney's fees)

## #9 Inevitable Disclosure

- UTSA recognizes the Inevitable Disclosure Doctrine
  - employee is unable to perform duties for a competitor without inevitably using or disclosing a former Employer's trade secrets
- California has rejected inevitable disclosure
- DTSA does not adopt the Inevitable Disclosure Doctrine
  - An injunction cannot prevent employment or place conditions on employment based merely on information the person knows. Sec. 2(b)(3)(A)(i)(I)

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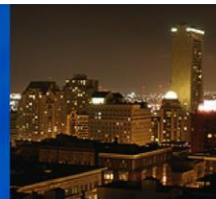
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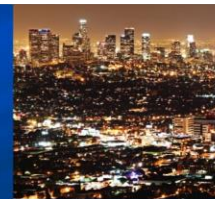
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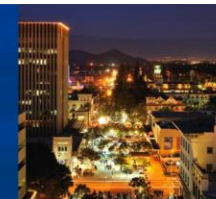
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Silicon Valley



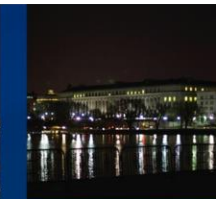
Los Angeles



Riverside



Seattle



Washington DC