

**ABA ROUNDTABLE OUTLINE:
IP AND EMPLOYMENT IMPLICATIONS
OF THE DEFEND TRADE SECRETS ACT**

**BY JAMES MORANDO, DOUG DEXTER, AND JEFF FISHER
FARELLA BRAUN + MARTEL LLP
SAN FRANCISCO, CA**

I. INTRODUCTION

On May 11, 2016, President Obama signed into law the [Defend Trade Secrets Act](#) (“DTSA”), which was previously overwhelmingly approved by both houses of Congress. The DTSA provides trade secret owners with a new and potentially more powerful strategic option to bring trade secret lawsuits under the new federal law, which includes several key differences from the provisions of the Uniform Trade Secret Act (“UTSA”) laws prevailing in most states (including California). The DTSA provides for the first time a civil cause of action under federal law for trade secret misappropriation, allowing trade secret plaintiffs to bring suits directly in federal court on claims for theft of trade secret information. While *Forbes* has hailed the DTSA as the “biggest IP development in years,” it does not preempt state trade secret misappropriation laws or the right for plaintiffs to continue to choose to bring suit in state rather than federal court.

Prior to enactment of the DTSA, companies had limited ability to seek relief under federal law. The Economic Espionage Act (“EEA”) (18 U.S.C. § 1831 et seq.) was a criminal law statute making it a crime to steal a trade secret “for the economic benefit of anyone other than the owner . . . while intending or knowing that the offense will injure any owner of that secret.” The Computer Fraud and Abuse Act (18 U.S.C. § 1030) targeted individuals and entities who access or use a computer without proper permission. While it did provide for a federal civil cause of action under limited circumstances, it only applied in limited cases.

The DTSA presents a number of important questions for companies, individual employees and attorneys to understand, including some that may take the courts years to resolve. These include:

- The interpretation and implications of the DTSA’s *ex parte* seizure provisions, which is a remedy not available under current state laws;
- The degree and manner in which federal courts will require trade secret holders to specifically identify the trade secrets they claim have been misappropriated prior to taking any discovery, as is required for example under California’s version of the Uniform Trade Secret Act;
- Whether plaintiffs choosing to bring suits under the DTSA in federal court will find it easier or more difficult to prevail, and identification of the key factors driving the strategic decision of whether to choose to proceed under the DTSA rather than just under state trade secret law;

- The jurisdictional questions likely to arise if there are both federal and state claims asserted over the same issues, including the extent federal courts will allow trade secret holders to assert various common law causes of action that state trade secret laws preempt but the DTSA does not;
- The changes employers should consider to written employment policies and employment and nondisclosure agreements; and
- Will the DTSA result in a flood of new trade secret litigation brought for illegitimate or anti-competitive reasons or result in more “trolling” trade secret lawsuits at a time when protecting innovation through patents has become more difficult.

II. EX PARTE SEIZURE PROVISION

One of the key aspects of the DTSA is its ex parte seizure provision, set forth at 18 U.S.C. § 1836(b)(2). Specifically, the DTSA provides for the remedy of ex parte seizures which allows a trade secret plaintiff to seek to have the government seize misappropriated trade secrets without providing advance notice to the defendant on the basis of affidavits or a verified complaint. There is no comparable provision in any state trade secret law.

This powerful remedy is available in only limited circumstances. Indeed, seizure orders are only to be used in "extraordinary circumstances," and the DTSA lays out clear set of requirements for those circumstances:

- when necessary to prevent propagation or dissemination of the trade secret to prevent an immediate and irreparable injury based on a showing the applicant is likely to succeed on the merits;
- the party seeking an ex parte seizure must first establish with the court that other less drastic remedies, like a preliminary injunction are inadequate; and
- the party must show "with particularity" what property is to be seized, as well as proof that the target of the seizure order has "actual possession" the trade secret or the property.

While the seizure may be carried out immediately, the DTSA requires the court to set a hearing at the earliest possible time not less than seven days after the order is issued and permit any affected party to move to modify or dissolve the order at any time. The DTSA further allows targets of such orders to seek damages if they feel the provision has been abused or they were unfairly targeted.

III. KEY SIMILARITIES AND DIFFERENCES BETWEEN THE DTSA AND THE UTSA

In addition to the ex parte seizure provision, there are many key provisions in the DTSA.

While many are similar to state trade secret acts, there are also some key differences.

Definition of “Trade Secret”

The DTSA retained the existing broad definition of a trade secret provided for under the EEA:

- “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.” 18 U.S.C. § 1839(3).

In contrast, the UTSA identifies, by way of example, eight specific types of trade secret information: “formula, pattern compilation, program device, method, technique or process.”

An important difference between the DTSA and UTSA definitions of a trade secret is that the DTSA definition expressly encompasses information in *any* form, “whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.” This language supports the interpretation that information “stored” only in an individual’s memory can be the subject of a civil claim for theft of trade secrets.

Consistent with the UTSA, the DTSA also requires that to constitute a trade secret:

- the owner “has taken reasonable measures to keep [the] information secret” and
- “the information derives independent economic value...from not being generally known to another person who can obtain economic value from the...information.”

18 U.S.C. § 1839(3).

The EEA had previously provided that a trade secret must “derive independent economic value ... from not being generally known to, ...the public.” Under this standard, information that was not known to the general public could theoretically still meet the definition of a trade secret even if it was known in a particular industry. By amending section 1839 of the EEA when enacting the DTSA, however, Congress made clear that the relevant test is whether the information is generally known by “another person who can obtain economic value from the disclosure or use of the information,” This is the same standard as under the UTSA.

Definition of “Misappropriation”

The definition of “misappropriation” is almost identical to the definition of “misappropriation” under the UTSA. It differs in several key respects from the prior definition of “misappropriation” under the EEA, however. For example, the EEA did not explicitly provide that the “disclosure” of a trade secret is a violation.

The definition of “misappropriation” in the DTSA is an:

- acquisition of a trade secret by a person who knows that the trade secret was acquired by improper means, or
- disclosure or use of a trade secret without consent by a person who acquired the trade secret through improper means, had knowledge that the trade secret was acquired by improper means, acquired or derived the trade secret under a duty to maintain secrecy, or had reason to know that both the trade secret was a trade secret and the knowledge of the trade secret was acquired by accident or mistake.

18 U.S.C. § 1839(5).

Definition of “Improper Means”

Definition of “improper means” under the DTSA generally tracks UTSA. Specifically, “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,” but does not include “reverse engineering, independent derivation, or any other lawful means of acquisition.” 18 U.S.C. § 1839(6).

Does Not Expressly Include Pre-Discovery Disclosure Requirement

The DTSA does not contain any pre-discovery trade secret disclosure requirement, as is required in many states (including California). Under most state trade secret laws, a plaintiff is required to specifically identify in a written disclosure each trade secret at issue before conducting any discovery regarding the trade secret questions. In California, as well as other states, this pre-discovery disclosure requirement is found in the code of civil procedure (*see, e.g.*, Cal. Civ. Proc. Code 2019.210), rather than in the UTSA. It is unclear whether federal courts will nonetheless include such a requirement in connection with cases brought under the DTSA.

Remedies (18 U.S.C. § 1836(b)(3))

Damages under the DTSA include:

- lost profits, unjust enrichment or reasonable royalty
- for willful and malicious misappropriation:
 - up to double damages can be awarded,
 - attorney’s fees to plaintiff

Where DTSA claims are found to have been made in “bad faith,” attorney's fees may also be awarded to the defendant.

In addition to the ex parte seizure order procedures discussed above, injunctive relief is

expressly provided for by DTSA, provided the injunctive order does not:

- prevent a person "from entering into an employment relationship" and any "conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows" or;
- otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.

The DTSA's provisions regarding injunctive relief appear to expressly reject the inevitable disclosure doctrine (merely possessing knowledge of a trade secret) as a basis for obtaining an injunction. Specifically, under the DTSA, courts may "grant an injunction to prevent actual or threatened misappropriation," but such an injunction "must be based on evidence of threatened misappropriation, and not merely information a person knows."

Who May Bring an Action?

Under the DTSA, an "owner" of a trade secret that is misappropriated may bring a civil action. 18 U.S.C. § 1836(b)(1). 18 U.S.C. § 1839(4) provides that "the term 'owner', with respect to a trade secret, *means the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed.*" (Emphasis added.) In this regard, the DTSA appears to be similar to state trade secret acts that do not necessarily require legal ownership of a trade secret provided the complainant has been damaged. In interpreting such language in the context of actions brought by parties that do not legally own, but do possess, trade secrets (i.e., where a party has licensed technology from another entity), "[c]ourts that have considered this question have generally come to the same conclusion: a party has standing to bring a trade secrets claim if it has possession of the trade secret"—legal ownership is not required. *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*, 304 F.R.D. 520, 527 (W.D. Tenn. 2015); *see also Advanced Fluid Sys., Inc. v. Huber*, 28 F. Supp. 3d 306, 323 & n.4 (M.D. Pa. 2014) (denying motion to dismiss because plaintiffs could maintain claim by showing "lawful possession of a trade secret"; "ownership, in the traditional sense, is not prerequisite"; contrary holding "would vitiate the purpose of the [Uniform Trade Secrets Act]"). It is unclear how federal courts will interpret the DTSA in this regard.

3 Year Statute of Limitations

As with the 3 year statute of limitations in California's trade secret act, the DTSA provides that an action "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." 18 U.S.C. § 1836 (d).

Extraterritorial Scope of the DTSA

The DTSA provides for as broad a basis for jurisdiction as is permitted under the Commerce Clause of the Constitution. The DTSA amended the EEA to provide that: "An owner

of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” The definitions in the DTSA do not include any express territorial limit.

The EEA includes a provision regarding its “applicability to conduct outside the United States.” 18 U.S.C. § 1837. Specifically:

This chapter also applies to conduct occurring outside the United States if—

- (1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or
- (2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837.

This likely means that:

- a U.S. corporation or citizen can be held liable for trade secret misappropriation under the DTSA regardless of whether the misappropriation occurred abroad; and
- an entity can be held liable under the DTSA for foreign misappropriation if “an act in furtherance of the offense was committed in the United States.”

Will the DTSA Preempt Other State Law Causes of Action?

While state trade secret acts generally preempt all related causes of action (such as conversion), the DTSA – at least on its face – does not. It is unclear how courts will interpret the DTSA in this regard.

IV. EMPLOYMENT LAW IMPLICATIONS OF THE DTSA

- Although a lesser-known provision, the DTSA’s whistleblower immunity provision may have the most immediate impact for employers. The DTSA provides civil and criminal immunity for employees and contractors who disclose trade secrets under certain circumstances and requires employers to provide notice of this immunity in any confidentiality or trade secret agreement with employees or contractors. *See* 18 U.S.C. § 1833.
- Businesses that fail to include the proper notice in their agreements will not be able to take advantage of the full range of remedies under the DTSA, including exemplary damages (up to twice the amount of actual damages) and attorneys’ fees for willful or malicious violations. 18 U.S.C. § 1833(b)(3)(C). To get the maximum benefits of this new law, employers will want to incorporate the immunity notice into their relevant employment agreements and policies as soon as practicable.

Topics for discussion:

Will enactment of the DTSA increase the amount of trade secret litigation? Will it make trade secret litigation less predictable and/or more expensive?

What are the particular differences between the DTSA and your state's trade secrets act?

Under what circumstances should plaintiffs bring both state and federal trade secret claims in a lawsuit? What are the potential implications of bringing both state and federal trade secret claims in the same lawsuit? Under what circumstances might a party have a trade secret under the DTSA, but not under state trade secret law?

Will there be attempts to abuse the ex parte seizure provisions, i.e., where a trade secret owner might be able to convince a judge to seize a competitor's key assets and functionally shut down the competitor.

Will federal courts will allow trade secret holders to assert various common law causes of action that state trade secret laws preempt but the DTSA does not?