

# DTSA

## AN “ACT” WITH MANY “SCENARIOS”

ACPC

June 22, 2016

# Introduction

- Some of you know a lot about my subject
  - (This means you've probably had a lot of problems in this area)
- Some of you may not have been “so exposed” to these problem recently
- I'll try to speak relevantly to all of you from one end of the spectrum to the other

# Introduction

- It has been said that there are two kinds of companies in America:

**Those who know their data has been hacked,**

**and**

# Introduction

**Those who have been hacked –  
and don't know about it**

# Protection of Trade Secrets

- Any complete law to protect Trade Secrets must necessarily cover many scenarios:
  - **Enforcement of contractual** confidentiality/non-use terms versus third parties
  - Theft/misappropriation **by established competitors**
  - Misappropriation **by employees joining competitors**
  - **Theft by insiders** for the benefit of outside entities
  - **Direct hacking/espionage** from the outside

# Trade Secret Patchwork

- Over the last 30 years a patchwork of civil and criminal provisions have been enacted
- Prior to the DTSA there were still big holes in the patchwork
- The Defend Trade Secrets Act was designed to fill some of the biggest remaining holes

# Defend Trade Secrets Act

- Introduced into the Senate on July 29, 2015 (S1890)
  - Passed by the Senate on April 4, 2016
  - Passed by the House on April 27, 2016
- Signed by the President on May 11, 2016
- **Effective on May 11, 2016**

# DTSA in Overview

- Establishes a federal cause of action for trade secret misappropriation
- Does not preempt state trade secret law
- Provides an Ex Parte seizure remedy
- Prohibits automatic “inevitable disclosure” injunctions
- Protects Whistleblowers
  - You MUST provide defined Notice

“Cut to the Chase”

**WHAT YOU HAVE TO DO**

# What you HAVE TO DO

- **Update employment and confidentiality agreements**
  - **Penalty** if you don't:
    - **Lose eligibility to recover double damages or attorney fees** in trade secret litigation in an action against an employee to whom notice was not provided

# DTSA -Required Notice

- “An employer shall provide notice of the immunity set forth in this subsection **in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.**”
- “For purposes of this subsection, the term “**employee**” includes **any individual performing work as a contractor or consultant for an employer.**”

(emphasis added)

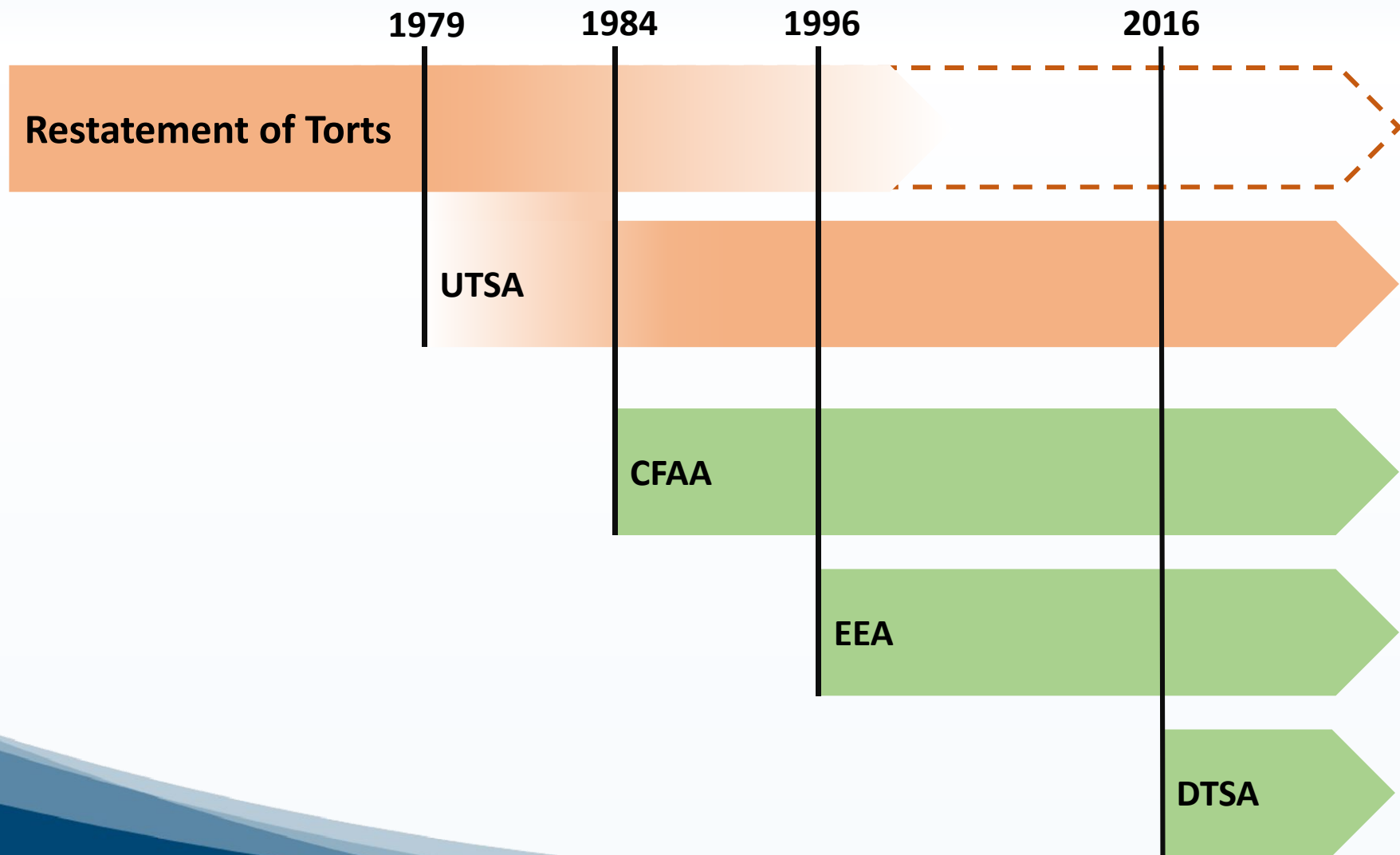
# DTSA – Notice Required

- “An employer shall be considered to be in compliance with the notice requirement in subparagraph (A) if the employer **provides 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.

# The Patchwork

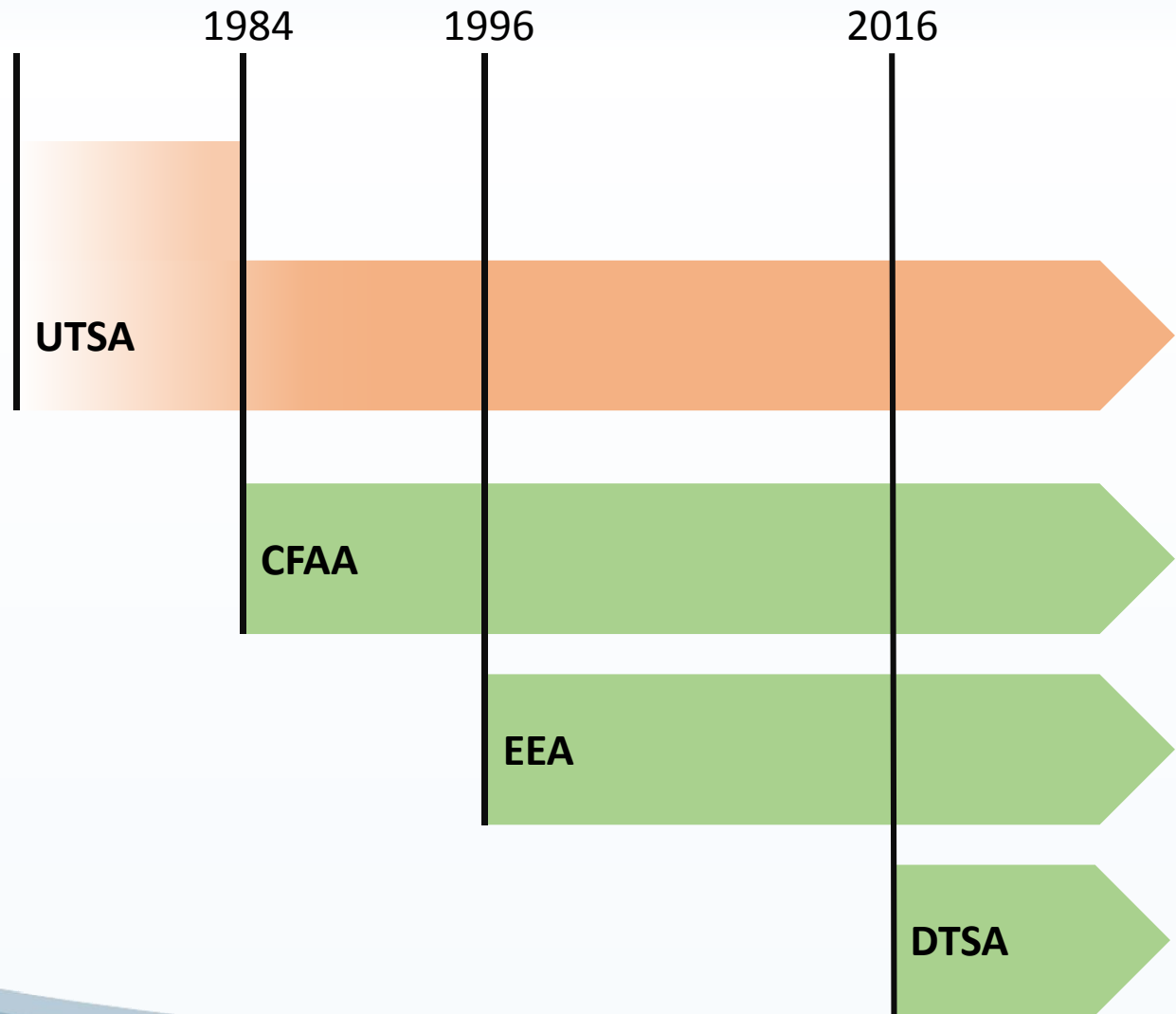
Now, back to that “Patchwork” ...

# Trade Secret Patchwork



Restatement of Torts

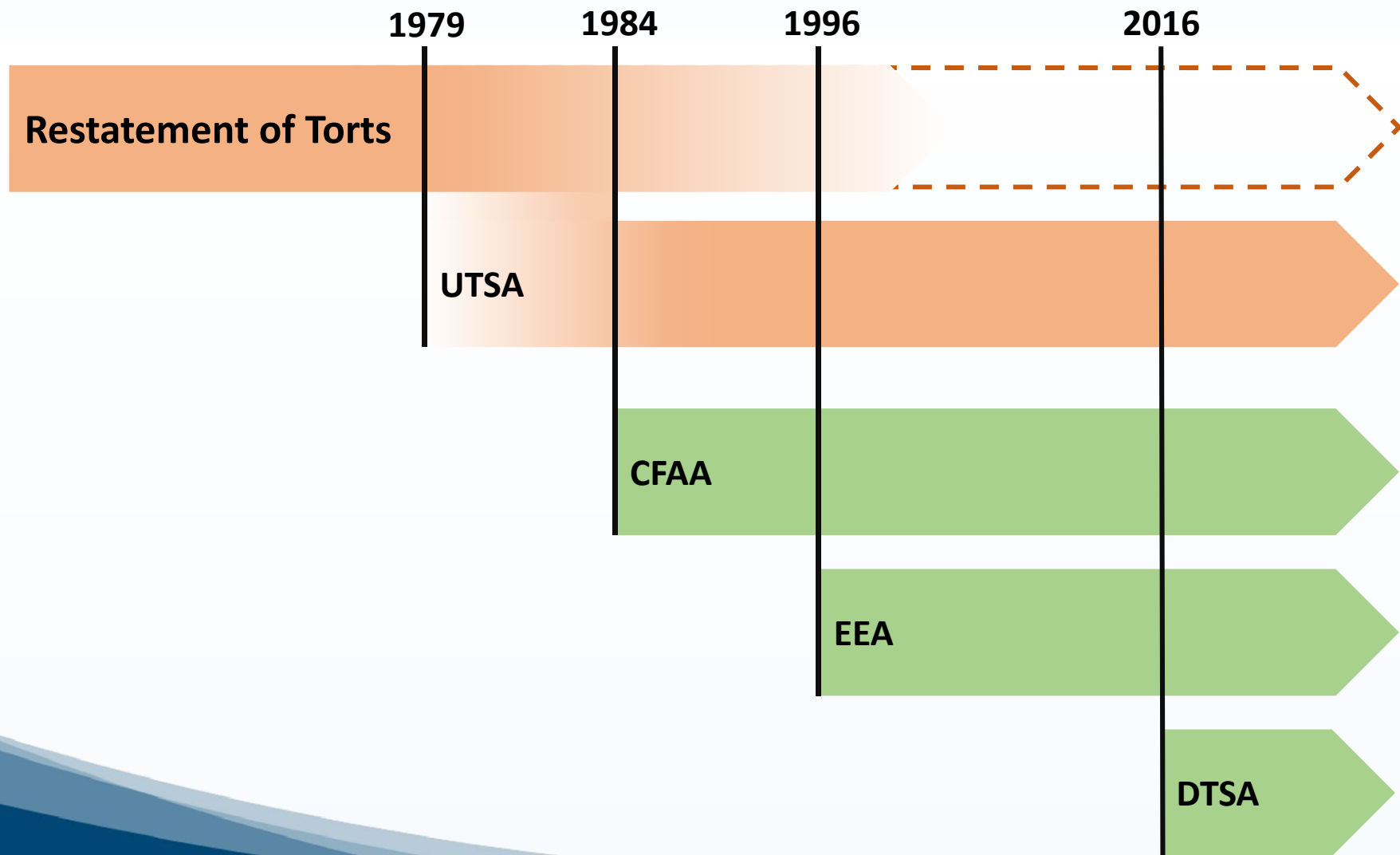
# Trade Secret Patchwork



# Restatement of Torts

- 1939 – Restatement (First) of Torts
- Complex **six factor** definition of “trade secret”
  - The extent to which the information is known outside the claimant's business
  - The extent to which it is known by employees and others involved in the business
  - The extent of measures taken by the claimant to guard the secrecy of the information
  - The value of the information to the business and its competitors
  - The amount of effort or money expended by the business in developing the information
  - The ease or difficulty with which the information could be properly acquired or duplicated by others

# Trade Secret Patchwork



1979

UTSA

1984

1996

2016

Restatement of Torts

CFAA

EEA

DTSA

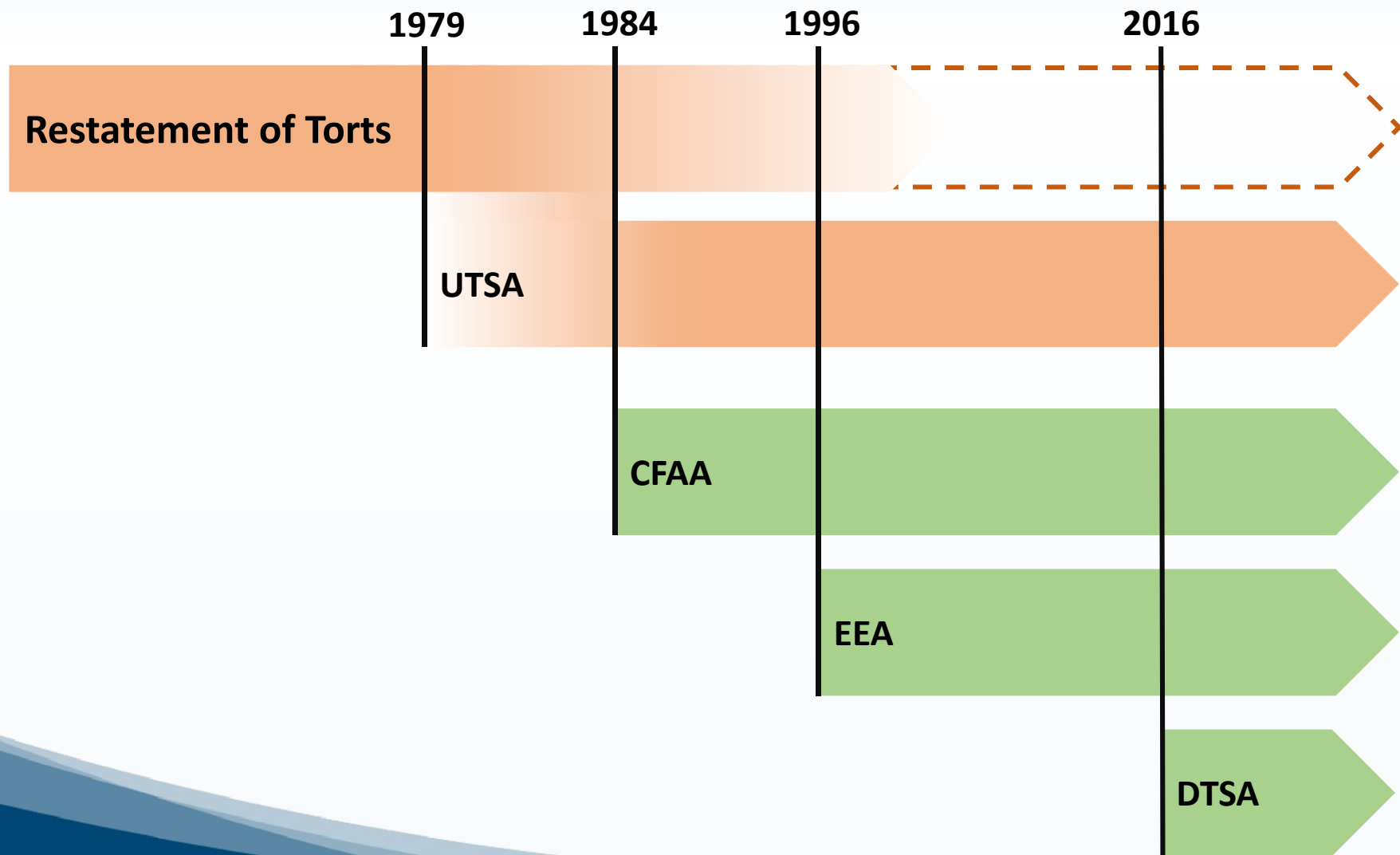
## 1979 Uniform Trade Secrets Act

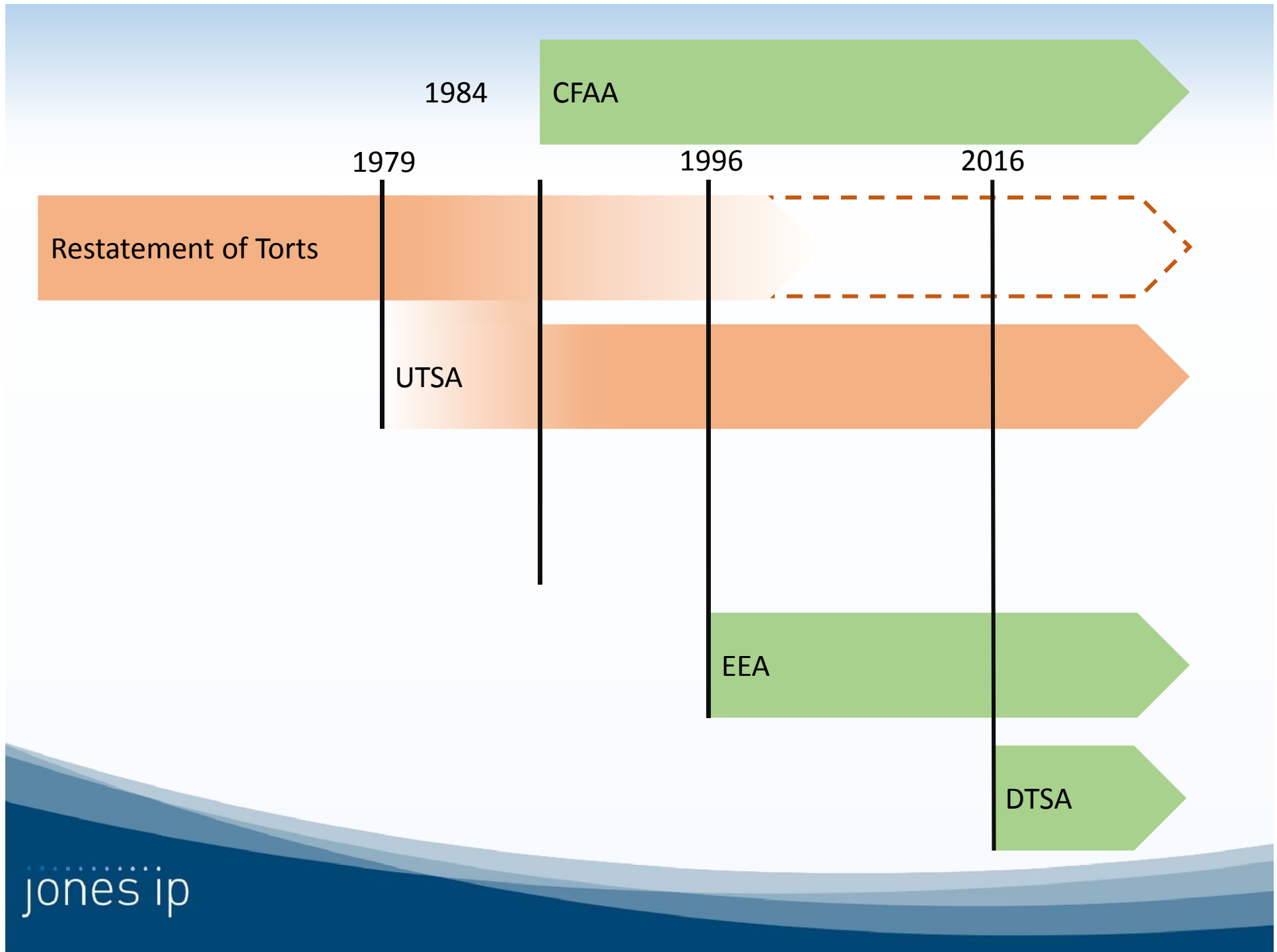
- 1979 - Introduced as substitute for Restatement of Torts
  - Adopted in some states
- 1985 - Amended
  - Provided “reasonable royalty” provision where equity demanded it
  - Adopted in additional states
- Currently adopted in some form in all states but NY and MA
- “Uniform” but significantly different from state to state

## 1979 Uniform Trade Secrets Act

- Replaced the Restatement of Torts definition of Trade Secret with a much simpler statement:
  - "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.

# Trade Secret Patchwork





**1984**

## Computer Fraud and Abuse Act

- Began in 1984 as criminal statute to protect classified information in government computer systems
- In 1994 a private right of action was added – providing both compensatory damages and injunctive relief
- In 1996 amended to cover computers “which [are] used in interstate or foreign commerce or communications (“protected computers”)

1984

## Computer Fraud and Abuse Act

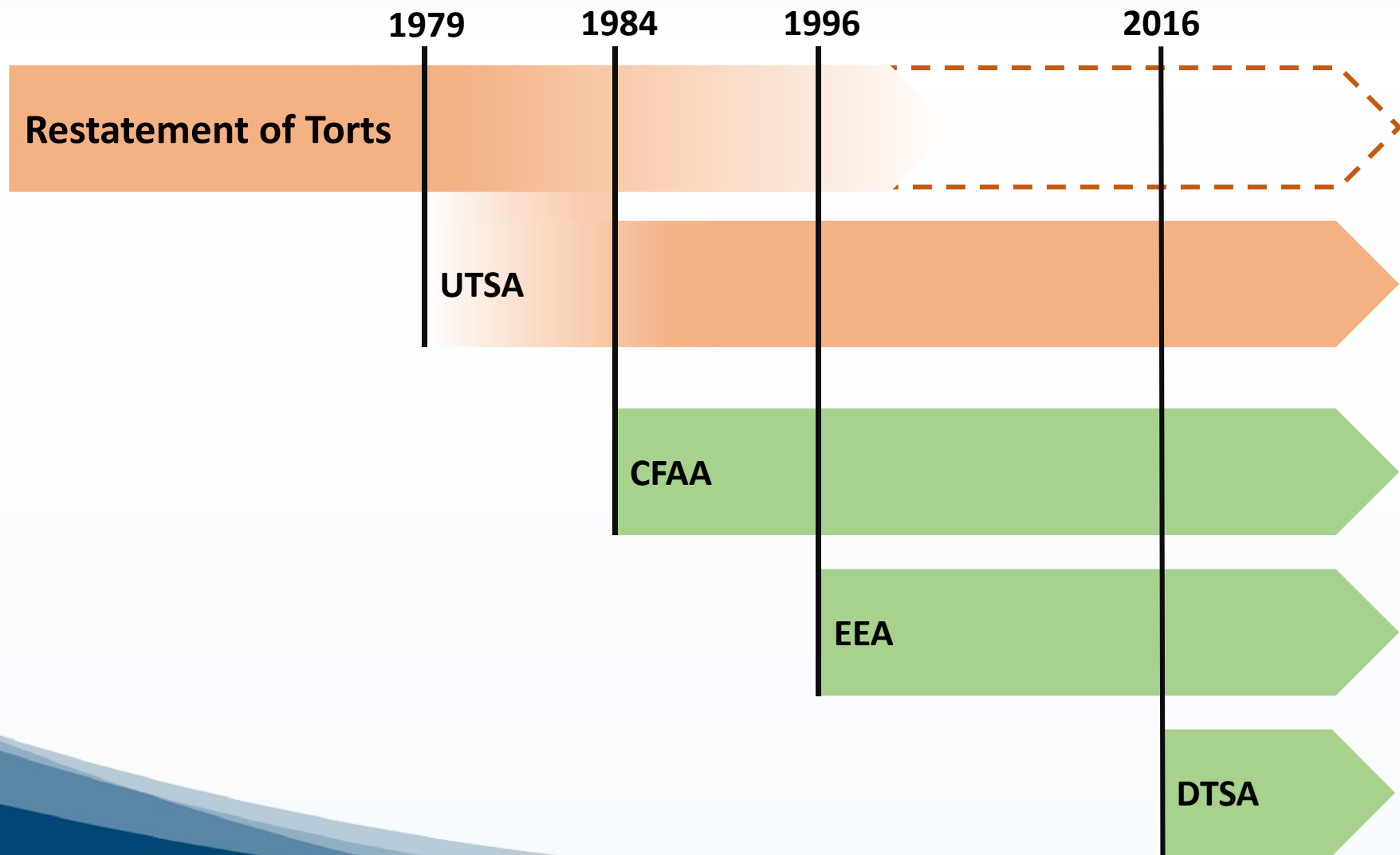
- Forbids an individual from:
  - Intentionally accessing a computer without authorization or exceeding their authorized access, and obtaining information,
  - Knowingly and with the intent to defraud, accessing a computer without authorization or exceeding authorized access, in furtherance of a fraud
- Used as “Means” to reach Federal Court:
  - Litigators have increasingly claimed that ex-employees violated the CFAA by unauthorized access to company data
  - Then, UTSA trade secret misappropriation claims could be added under the theory of Supplemental Jurisdiction

1984

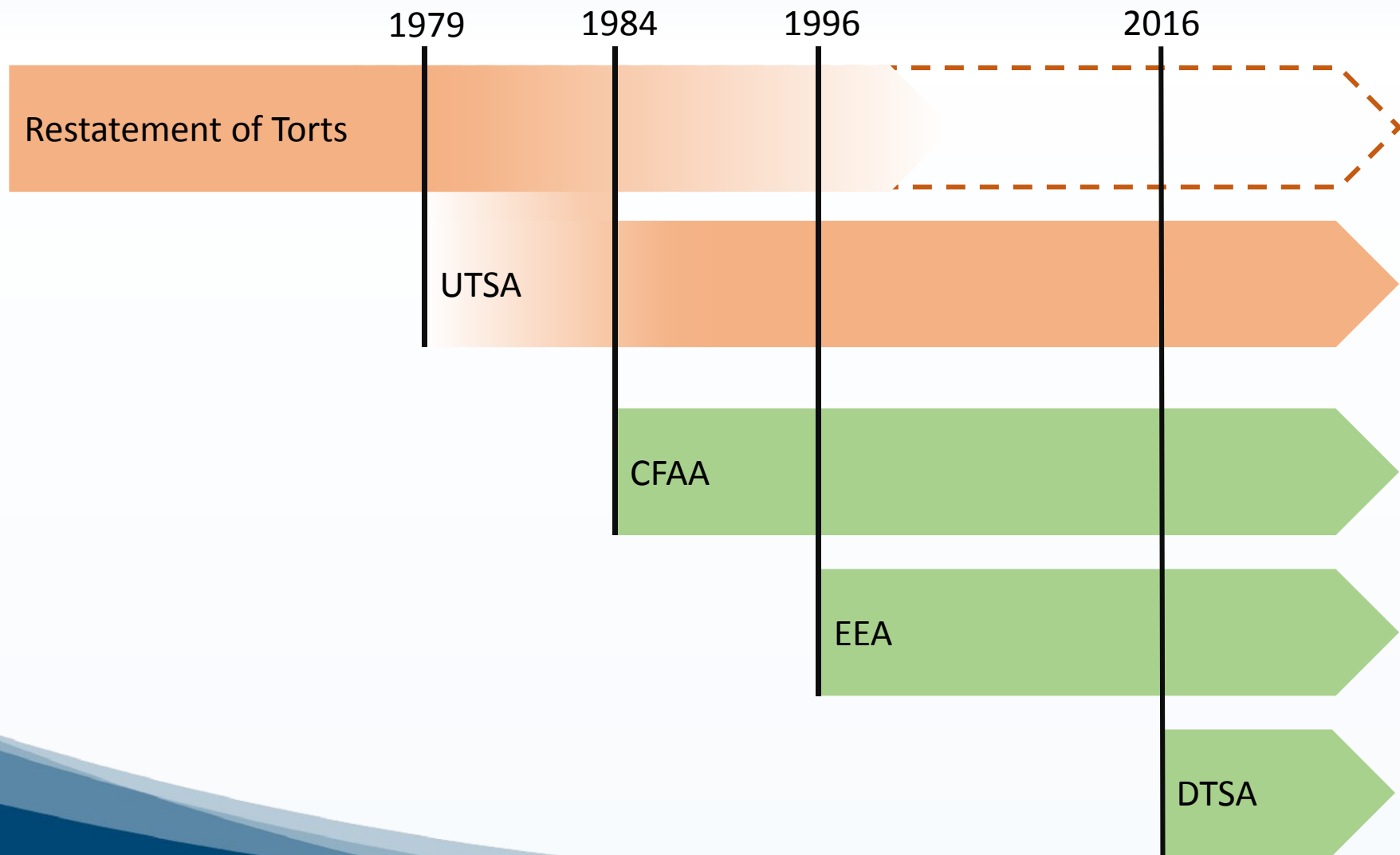
## Computer Fraud and Abuse Act

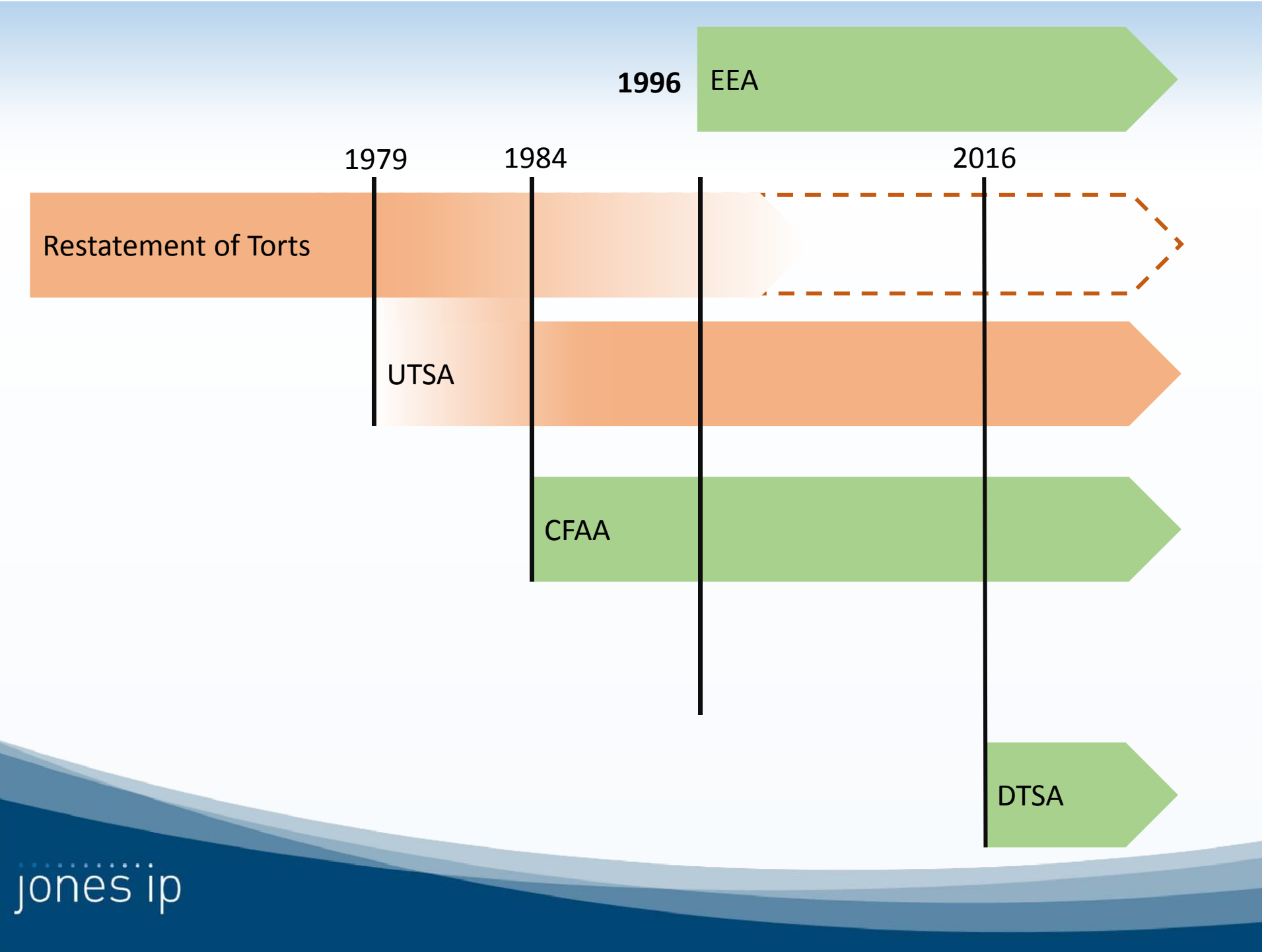
- Provides a civil remedy to any person who suffers “damage or loss” from a violation of the CFAA
  - Compensatory damages
  - Injunctive and other equitable relief
- Is varyingly interpreted against employee access in different Circuits (4<sup>th</sup> and 9<sup>th</sup> Circuits have applied a narrow interpretation)

# Trade Secret Patchwork



# Trade Secret Patchwork





## 1996 Economic Espionage Act

- Since 1996 made theft or misappropriation of a trade secret a federal crime
- Expanded in 2012 from:
  - Trade secrets **included in products** produced for or placed in commerce, to
  - Trade secrets **related to “a product or service used in or intended for use” in commerce.**
- Damages increased in 2012 to
  - \$500K to \$5M for individuals, and
  - The greater of \$10M or three times the value of the stolen trade secret for organizations
- Actions must be brought by Federal prosecutors

# EEA Mix of Cases (pre DTSA)

- Approximately 10%
  - Against persons acting for the benefit of any foreign government, instrumentality, or agent
- Approximately 90%
  - Against persons engaging in misappropriation with intent to convert a trade secret ... to the economic benefit of anyone other than the owner thereof
- In more than 90%
  - The defendant was an “insider”
  - Often theft occurred shortly before “insider” left the company

# EEA Mix of Cases (pre DTSA)

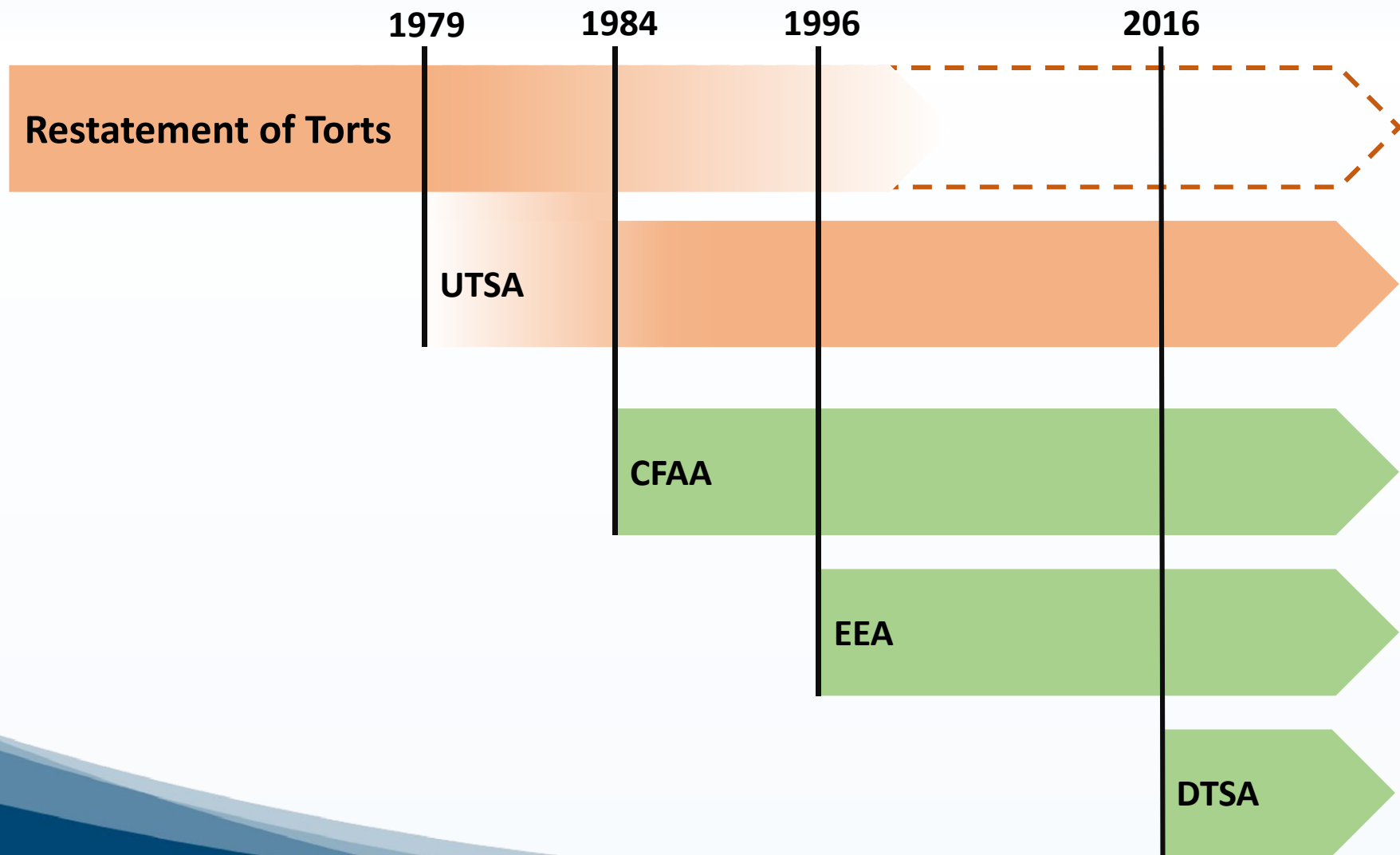
- China connection
  - More than 20% involved Chinese citizens or naturalized U.S. citizens originally from China
  - Almost 30% to benefit the Chinese government, an existing Chinese company or to start a company there
  - Since 2008<sup>9</sup> about 44% of cases have a China connection
  - In 2010 six of the seven cases adjudicated had a China connection

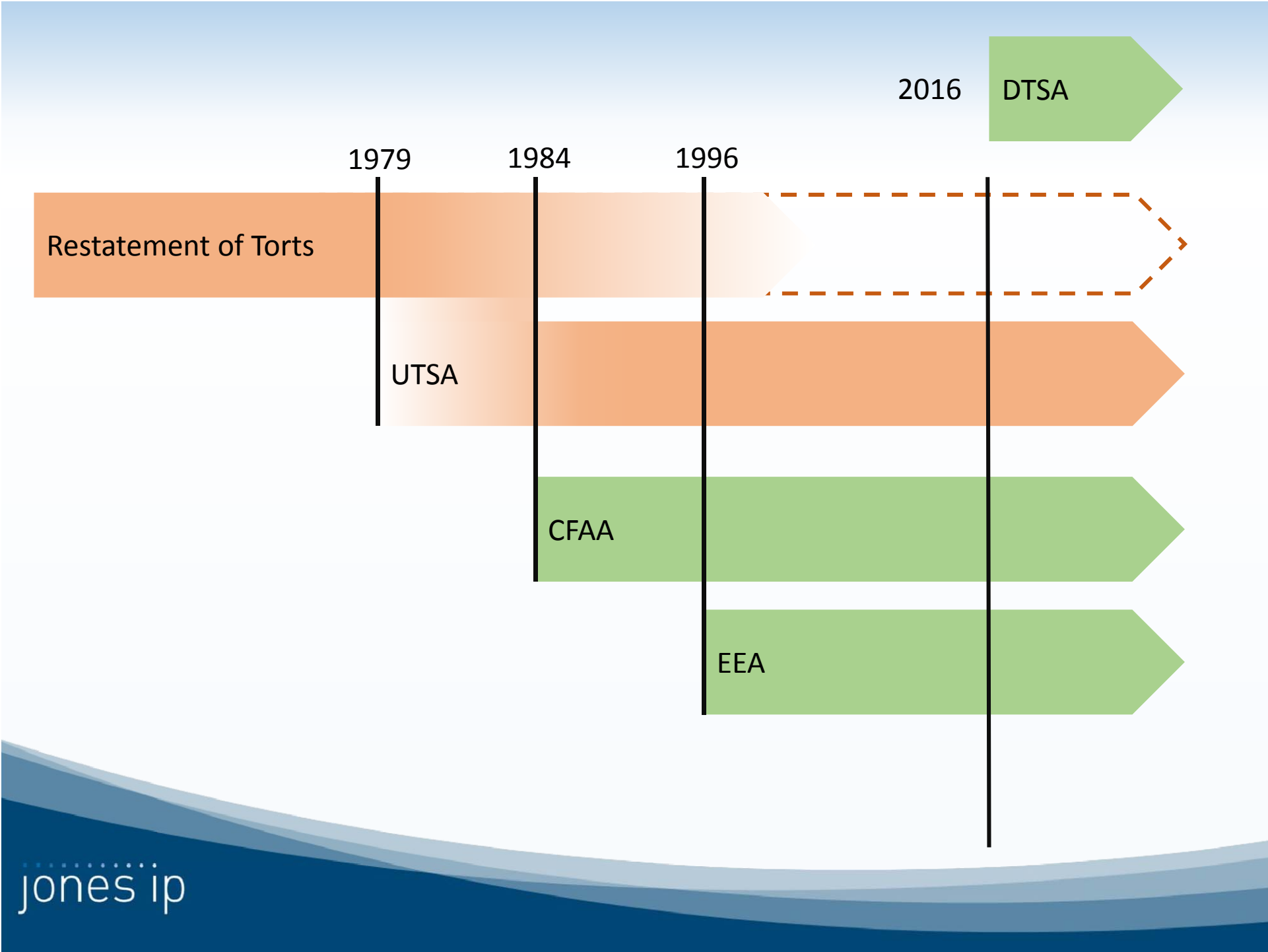
1996

## Economic Espionage Act

- Deficiencies for private industry:
  - Actions must be brought by Federal prosecutors
    - Approval by Attorney General
    - Only approximately 160 actions brought since 1996
  - Can be very slow in developing
  - Private industry loses/doesn't have control of litigation

# Trade Secret Patchwork





2016

DTSA

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  - Passed by the Senate on April 4, 2016
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# Noted Deficiencies in the pre-DTSA Patchwork

The pre-DTSA legal patchwork was ...

# Noted Deficiencies in the pre-DTSA Patchwork

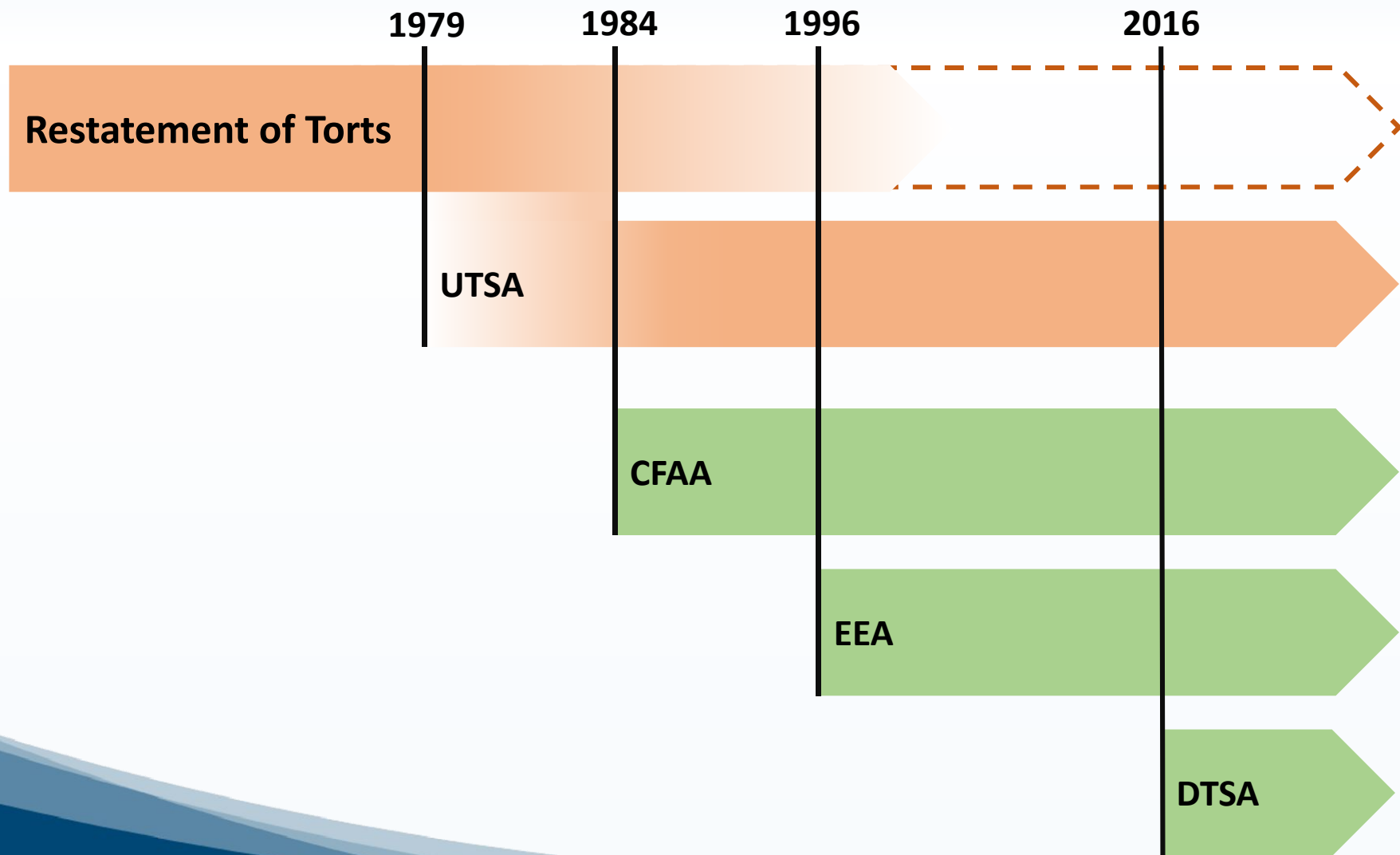
the “Cleveland Browns”  
of legal protections ....

# Noted Deficiencies in the pre-DTSA Patchwork

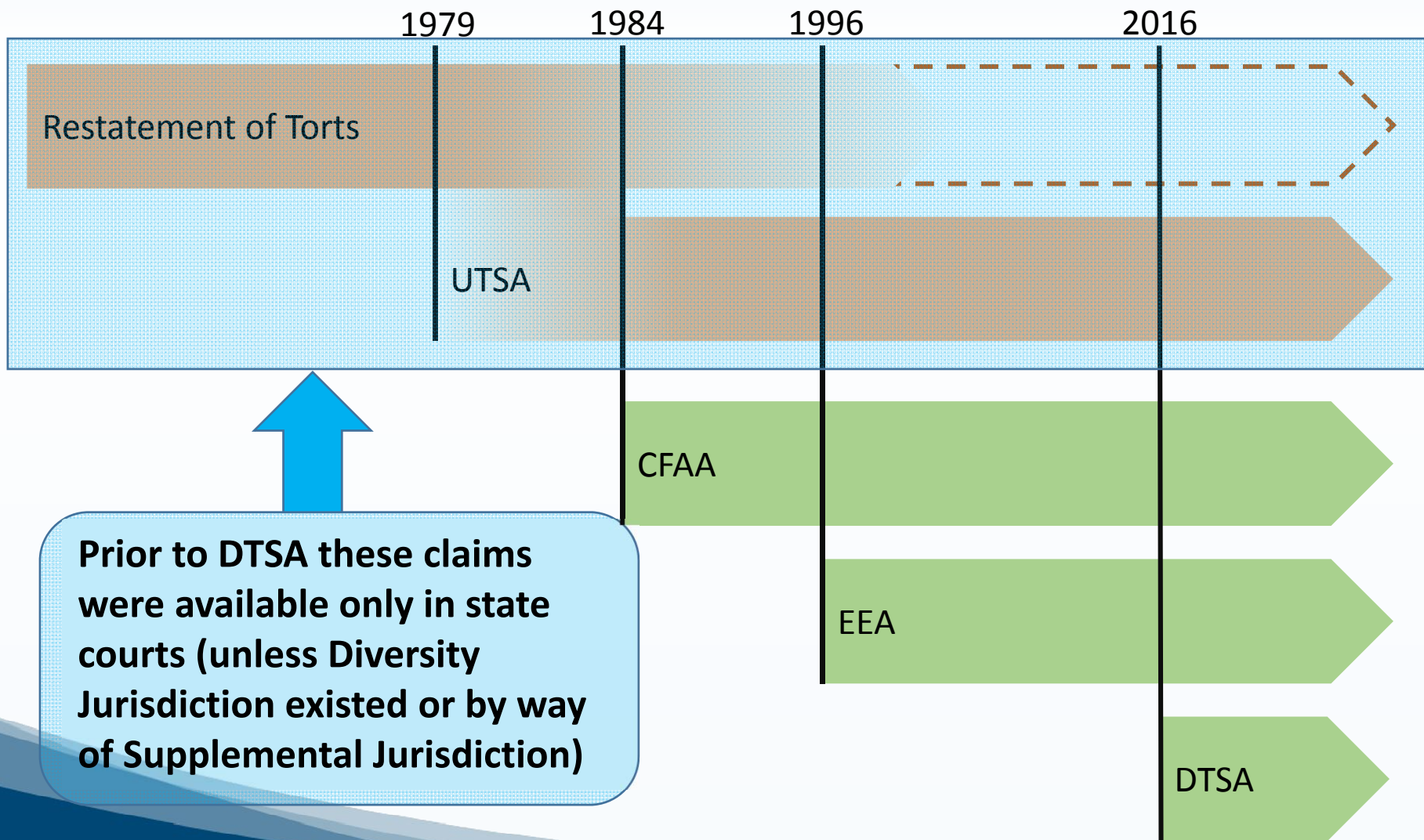
**NO SPEED**

**NO POWER**

# Trade Secret Patchwork



# Trade Secret Patchwork



# Noted Deficiencies in the pre-DTSA Patchwork

- Federal Court access limited
  - Diversity Jurisdiction
  - Via Supplemental Jurisdiction from CFAA
- Immediate (“ex parte) seizure remedies tenuous
- State discovery rules cumbersome (for nationwide discovery)
- Lack of legal uniformity from state to state

# Impetus Behind the DTSA

- Protect Trade Secrets Coalition – 2014
  - Abbott, Caterpillar, Corning, Eli Lilly, General Electric, Medtronic, Micron, Microsoft, Monsanto, NIKE, Pfizer, Philips, P&G, and United Technologies
  - Bills submitted in Congress in 2014 did not pass
- Expanded Protect Trade Secrets Coalition - 2015
  - Bills reloaded and submitted in both houses of Congress in 2015

# Protect Trade Secrets Coalition

- Get Federal Jurisdiction for trade secret actions
  - Nationwide reach
  - More developed discovery tools
- Based on “developed and uniform” UTSA
  - Without “preempting” state law remedies
- Get Seizure remedies
  - Styled after Lanham Act

# The “Give and Take” Leading to Passage

- Various proposals since 1996
- 2014 Bills
  - Hearings May 13, 2014 (Senate) and June 24, 2014 (House)
- 2015 Bills
  - December 2, 2015 Hearings (with issues raised) before Senate Judiciary Committee
    - **Responsive amendments prepared**
  - January 24, 2016 with Amendments voted out of Committee

# Amendments to Get Out of Committee

- Harmonized definitions closer to UTSA
  - Reduced Statute of Limitations from five years to three
- Provided additional limitations to Seizure provisions
- Facilitated employee mobility and against “Inevitable Disclosure” rules
- Provided Whistleblower Protections

# Inevitable Disclosure – Original Language

[Court may] grant an injunction—

- to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not
  - prevent a person from *accepting an offer of employment under conditions that avoid actual or threatened misappropriation.*

# Inevitable Disclosure Amendment

[Court may] grant an injunction—

- 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;*

# DTSA in Overview

- **Establishes a federal cause of action for trade secret misappropriation**
- **Does not preempt state trade secret law**
- **Provides an Ex Parte seizure remedy**
- **Prohibits automatic “inevitable disclosure” injunctions**
- **Protects Whistleblowers**

# DTSA Federal Cause of Action

- “An owner of a trade secret that is misappropriated may bring a civil action ... if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”
- 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.

# DTSA Federal Cause of Action

- Largely mirrors UTSA
  - Similar definition of trade secrets
  - Similar definition of misappropriation
  - Three year statute of limitations
  - Authorizes remedies similar to current state remedies

# DTSA Does Not Preempt State Trade Secret Law

- DTSA generally does not preempt State trade secret law
- However, the DTSA Whistleblower exceptions do preempt any other Federal or State civil or criminal law

# Applies to Conduct Outside the United States

- This chapter also applies to conduct occurring outside the United States if—
  - 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
  - an act in furtherance of the offense was committed in the United States.

# Possibly Broader Definition of TS

- DTSA - “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”
- The UTSA identifies, by way of example, eight specific types of trade secret information; “formula, pattern, compilation, program, device, method, technique or process.”

# DTSA Provides an Ex Parte Seizure Remedy

- Only in “extraordinary circumstances”
  - To prevent the propagation or dissemination of the trade secret
- Person against whom seizure would be ordered has actual possession of
  - The trade secret; and
  - Any property to be seized
- Carried out by Federal law enforcement
  - Applicant not allowed to participate

# DTSA Provides an Ex Parte Seizure Remedy

- Seizure Order must meet specific findings requirements and provide specific protections
- Court shall maintain custody of seized materials
- Hearing within seven days
- Moving party bears burden of proving supporting facts
- If plaintiff's claim is made or supported in bad faith, attorneys' fees may be granted

# DTSA Biases Towards Employee Mobility

- Court may grant an injunction to prevent any actual or threatened misappropriation ... provided the order does not –
  - 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
  - Otherwise conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.

# DTSA - Long Needed Clarity for Whistleblowers – Part 1

Immunity is granted any **individual** under any Federal or State trade secret law for the disclosure of a trade secret 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 - Long Needed Clarity for Whistleblowers – Part 2

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 attorney of the individual and use the trade secret information in the court proceeding, if the individual-

(A) files any document containing the trade secret under seal; and

(B) does not disclose the trade secret, except pursuant to court order.

# DTSA Whistleblower Preemption

- The DTSA Whistleblower Exceptions preempt any other Federal or State criminal or civil trade secret law (for disclosures made under the Exceptions)

# What you HAVE to DO

- **Update employment and confidentiality agreements**
  - **Penalty** if you don't:
    - **Lose eligibility to recover double damages or attorney fees** in trade secret litigation in an action against an employee to whom notice was not provided

# DTSA -Required Notice

- “An employer shall provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”
- “For purposes of this subsection, the term "employee" includes any individual performing work as a contractor or consultant for an employer.”

(emphasis added)

# To All New or Updated Contracts

- “This [Notice] paragraph **shall apply to contracts and agreements that are entered into or updated after the date of enactment** of this [Notice] subsection.”

# DTSA - Compliance with Notice

- “An employer shall be **considered to be in compliance with the notice requirement** in subparagraph (A) if the employer **provides 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.”

# What Should the Notice Say?

[Employer] hereby provides formal Notice under 18 USC §1833, to wit:

“(1) IMMUNITY.—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—

“(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.

“(2) USE OF TRADE SECRET INFORMATION IN ANTI-RETALIATION LAWSUIT.—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 attorney of the individual and use the trade secret information in the court proceeding, if the individual—

“(A) files any document containing the trade secret under seal; and

“(B) does not disclose the trade secret, except pursuant to court order.

# Proposed Notice for Contracts

Notwithstanding the foregoing nondisclosure obligations, pursuant to 18 USC Section 1833(b) [Employee/Contractor/Consultant] shall not be held criminally or civilly liable under any Federal or State trade secret laws for:

(A) the disclosure of a [Name of Entity] trade secret that is made (1) in confidence to a Federal, State or local government official, either directly or indirectly, or to an attorney, and solely for the purpose of reporting or investigating a suspected violation of the law; or (2) in a complaint or other document filed in a lawsuit or other proceeding if such filing is made under seal; or

(B) the disclosure of a [Name of Entity] trade secret to your attorney or your use of the trade secret information in the proceedings of an anti-retaliation suit you have brought against [Name of Entity] so long as you file any document containing the trade secret under seal and you do not disclose the trade secret, except pursuant to a court order.

However, except as expressly set out above, nothing in this Notice shall be construed to authorize, or limit liability for, an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means.

# Reference to a Policy Document

- Consider
  - An Updated Company Policy Document
  - An Email to each “employee”
    - Notifying each “employee” of the Updated Company Policy Document
    - Where to access (or appending it), and
    - Specifically quoting the “new” provision in the Email
  - Maintaining a record of each email

# Effective May 11, 2016

- **Commentary:**

**No Ex Post Facto.** The DTSA applies to the misappropriation of trade secrets that occur on or after the date the law is enacted. **The law does not apply retroactively to acts of trade secret misappropriation that occur before the law come into effect.**

- **Statute:**

PERIOD OF LIMITATIONS.—A civil action under subsection (b) 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.”.**

# Continuing Misappropriation

Like the UTSA,

the DTSA states that a continuing misappropriation constitutes a single claim of misappropriation and

thereby precludes arguments that each new act of misappropriation restarts the statute of limitations.

# DTSA does not Preempt

- Does not preempt UTSA in individual states
- It does preempt other laws in protections of Whistleblowers

# Seizure Rules Limitations

- Strictly limited to property that is “necessary to prevent propagation or dissemination of the trade secret”
- And that is in the possession of the wrongful actor
- Seizures to be carried out by law enforcement
- Property to be held by Court pending a hearing
  - Must be held within 7 days
- Orders must:
  - be directed to “narrowest seizure of property necessary”
  - Minimize interruption of legitimate business
- Damages for wrongful seizure not limited to amount of required bond

# DTSA - Strategies

- Critical opportunity from combined factors:
  - State (UTSA) claims are available in tandem with DTSA federal jurisdiction, and
  - On many important issues, there is significant variation between various UTSA state implementations

# DTSA – Strategies Enabled

- So, since the DTSA does not preempt state law, state claims can be included in the Federal Court case under Supplemental Jurisdiction rules
  - So, a claim under DTSA could be asserted
  - And a claim under a state UTSA (or common law) could be asserted in parallel
- The advantage is that the advantages of DTSA could be used (Federal Jurisdiction and Seizure rules)
  - And, more advantageous state UTSA rules could be asserted (springing independently from the state claim filed in parallel)

# Examples of UTSA Variations

- Restrictive Covenants
  - CA and VA prohibit them
  - NY and IL enforce them if reasonable
- “Inevitable Disclosure”
  - Not sanctioned in CA or CO
  - Supported in NY and IL
    - “the employee cannot help but draw upon this information” to perform the new job effectively

# Inevitable Disclosure

- In a brief survey of 27 states that have generally spoken to this rule:
  - 5 firmly against applying the rule
  - 10 that have gone from side to side (often in instances of variations in facts)
  - 12 have firmly applied the rule

# Additional UTSA Examples

- The relevant UTSA laws may apply in the form of procedures not specified in the DTSA
  - For example, CUTSA (California) requires that a trade secret plaintiff identify and specify her asserted trade secrets at the outset of the case
- Most plaintiffs would prefer to defer this identification until discovery has moved forward a good bit

# Additional UTSA Variations

States that adopted the 1979 version of the UTSA without a “reasonable royalty” damages provision:

Washington

Alaska

Arkansas

Connecticut

Indiana

Louisiana

# Additional UTSA Variations

- Under California's CUTSA definition of a trade secret
  - information can be a trade secret even though it is readily ascertainable, so long as it has not yet been ascertained by others in the industry.
- Under Alabama's UTSA a trade secret must also have:
  - "significant economic value"

# Additional UTSA Variations

The Idaho legislature enacted a statutory definition for a “computer program,” and included that term in the list of information that may constitute a protectable “trade secret.”

The definition of a “computer program” for purposes of the Idaho Trade Secrets Act includes the requirement that the computer program:

“Has prominently displayed a notice of copyright, or other proprietary or confidential marking, either within or on the media containing the information.”

# Additional UTSA Variations

- In Alabama
  - a defendant can move for summary judgment on grounds that the information is not a trade secret because it could be readily ascertained or derived from publicly available information, even if the defendant actually obtained the information from the plaintiff.
- In New Jersey
  - a defendant cannot defend on grounds that proper means to acquire the trade secret existed at the time of misappropriation.

# Additional UTSA Variations

- CUTSA has been held to preempt claims based on the same “nucleus of facts” – to preempt
  - Unjust enrichment
  - Common law trade secrets misappropriation
  - Intentional interference with economic relationships
  - Conversion
  - Intentional interference with contractual relations
  - Common law unfair competition
  - Breach of the duty of loyalty
- See, also: e.g., Georgia, Michigan, South Dakota, Oregon

# DTSA Forum Shopping

- Fundamentally, this juxtaposition of Federal and State parallel applications may well encourage forum shopping (for the best state “add on”)
- This will certainly apply in litigations (where appropriate personal jurisdiction is obtained)
- May well apply in choice of laws for employment contracts
  - Or even situs of “employer entity” principal place of business

# Federal Venue

- **Where to file** may really matter
  - May choose from wherever Personal Jurisdiction may lie
  - But, Supplemental Jurisdiction State Claims may vary widely in attractiveness
  - And, state procedural or remedial law may have a strong effect
  - Since the state induced variations may be significant, **we may find “Forum Non-Convenience” defensive tactics** asserted to move Federal cases to more “defendant favorable” venues

# Forum Non-Convenience Factors

- Private interest Factors
  - (1) the relative ease of access to sources of proof; (2) the availability of compulsory process to secure the attendance of witnesses; (3) the cost of attendance for willing witnesses; and (4) all other practical problems that make a trial easy, expeditious and inexpensive."
- The public interest factors include:
  - (1) the administrative difficulties flowing from court congestion; (2) the local interest in having localized interests decided at home; (3) the familiarity of the forum with the law that will govern the case; and (4) the avoidance of unnecessary problems of conflicts of law or in the application of foreign law."

# Potential Complications to be Considered

- In which Federal District should the case be filed (once Personal Jurisdiction requirements are satisfied)?
  - Which state UTSA laws help or hurt your case?
    - Will the Federal Court be inclined to adopt state procedural or remedy rules
      - E.g., in the absence of developed Federal practice under the DTSA, Federal courts may look to developed state jurisprudence
    - Some states establish procedural rules for trade secret cases
      - E.g., California requires that a plaintiff identify her asserted trade secrets (in detail) at the outset of the case
    - Other rules:
      - CA UTSA, despite language of no preemption, often preempts other state claims
    - Other states have different rules for damages

# Recommendations

- Ensure §1833 “notices” are properly implemented across the entity
- Redraft all relevant agreement forms for §1833 compliance
- Consider choice of law and “situs” issues in relevant employee and contractor agreements
- Consider “pre-planning” optimum jurisdictional/venue options in advance of the trade secret theft emergency

# Recommendations

- Reevaluate your perspective on bringing trade secret cases
- Inventory trade secrets and associated protections
- Develop response plans (theft, wrong side of seizure order, rescreen entry and exit procedures for new and departing employees)

# Last Word

And, now

...

Harold, what is your question?

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