

# **What the New Federal Trade Secrets Law Means for Your Clients**

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# Today's Presenters



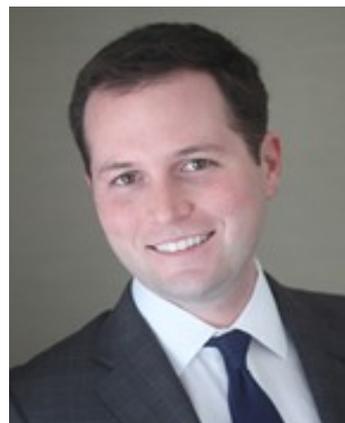
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- Defend Trade Secrets Act of 2016 (“DTSA”)
- Near unanimous support in both houses of Congress
- Signed into law May 11, 2016
- The result of more than 5 years of proposals

- Creates a separate federal cause of action
- Covers trade secrets used in interstate commerce
- Largely follows the Uniform Trade Secrets Act (“UTSA”)
- Three important differences from UTSA:
  1. Civil seizure orders
  2. Whistleblower immunity
  3. Inevitable disclosure

- Key Aspects of Federal Trade Secret Litigation
  - Broad Access: Trade secret merely needs to be “related” to a product or service used in interstate or foreign commerce
  - Direct access to federal court system
  - Use of FRCP rules and subpoena power
  - Allows use of federal government system for enforcement / collections

- Key Aspects of Federal Trade Secret Litigation (cont.)
  - Applies to conduct outside U.S. (section 1837)
  - Set law for punitive damages (important in tort reform states)
  - Increases likelihood of parallel criminal procedures / DOJ interest

- *Ex parte* petition by the trade secret owner
- Purpose is to prevent further disclosure or misappropriation
- Very detailed procedural requirements
- Law enforcement officer must execute the seizure
- Seized property remains in Court custody and is managed by a special master

- DTSA limited by State law
  - Non-compete agreements
  - Confidentiality agreements
- Whistleblower immunity
- Inevitable disclosure

- Immunity of disclosure to law enforcement or attorneys in certain situations
- Employers must give notice of immunity in new and updated agreements after May 11, 2016
- If no notice, employer can still take advantage of DTSA, but not enhanced damages and attorney fees
- C&M has developed best practices for the notice language required by the DTSA

- Injunctions cannot prevent an employment relationship entirely
- Any employment limitations must be tailored directly to the allegations of misappropriation
- Injunction cannot otherwise conflict with State law
- Threatened misappropriation

- DTSA expands the scope of protection
  - Civil seizure
  - U.S. companies liable for overseas misappropriation
  - Anyone liable if “act” occurs in U.S.
- Biannual reporting requirements by the U.S. AG
  - Scope of U.S. trade secret theft by foreign companies
  - Threat posed by foreign theft
  - Limitations of enforcement in foreign jurisdictions
  - Progress of cooperation with foreign governments
  - Recommendations of legislative and executive actions

# Post-DTSA Recommendations and Takeaways

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# Appendix

## 18 U.S.C. § 1839

- 3) 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

## 18 U.S.C. § 1839

- 5) the term ‘misappropriation’ means—
  - a) acquisition of a trade secret of another by a 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;

## 18 U.S.C. § 1839

- 5) the term ‘misappropriation’ means—
  - b) disclosure or use of a trade secret of another without express or implied consent by a person who—
    - 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

## 18 U.S.C. § 1839

- 5) the term ‘misappropriation’ means—
  - b) disclosure or use of a trade secret of another without express or implied consent by a person who—
    - 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

- 6) the term ‘improper means’ —
  - a) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and
  - b) does not include reverse engineering, independent derivation, or any other lawful means of acquisition

## 18 U.S.C. § 1836(b)(2)(A)

- i. APPLICATION.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.

## 18 U.S.C. § 1836(b)(2)(A)

- ii. REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—
  - I. an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;
  - II. an immediate and irreparable injury will occur if such seizure is not ordered;

## 18 U.S.C. § 1836(b)(2)(A)

- ii. REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—
  - III. 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 of granting the application and substantially outweighs the harm to any third parties who may be harmed by such seizure;

## 18 U.S.C. § 1836(b)(2)(A)

ii. REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

IV. the applicant is likely to succeed in showing that—

a) the information is a trade secret; and

b) the person against whom seizure would be ordered—

A. misappropriated the trade secret of the applicant by improper means; or

B. conspired to use improper means to misappropriate the trade secret of the applicant;

V. the person against whom seizure would be ordered has actual possession of—

a) the trade secret; and

b) any property to be seized;

## 18 U.S.C. § 1836(b)(2)(A)

ii. REQUIREMENTS FOR ISSUING ORDER.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

- VI. 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;
- VII. 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
- VIII. the applicant has not publicized the requested seizure.

## 18 U.S.C. § 1833(b)

- 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.

## 18 U.S.C. § 1833(b)

- 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.

## 18 U.S.C. § 1833(b)

### 3) NOTICE.—

- A. IN GENERAL.—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.
- B. POLICY DOCUMENT.—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.

## 18 U.S.C. § 1833(b)

- 3) NOTICE.—
  - C. NON-COMPLIANCE.—If an employer does not comply with the notice requirement in subparagraph (A), the employer may not be awarded exemplary damages or attorney fees under subparagraph (C) or (D) of section 1836(b)(3) in an action against an employee to whom notice was not provided.
  - D. APPLICABILITY.—This paragraph shall apply to contracts and agreements that are entered into or updated after the date of enactment of this subsection.
- 4) EMPLOYEE DEFINED.—For purposes of this subsection, the term ‘employee’ includes any individual performing work as a contractor or consultant for an employer.

## 18 U.S.C. § 1836(b)(3)

- 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;

## 18 U.S.C. § 1836(b)(3)

- A. grant an injunction—
  - ii. if determined appropriate by the court, requiring affirmative actions to be taken to protect the trade secret; and
  - iii. in exceptional circumstances that render an injunction inequitable, that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which such use could have been prohibited;