


For The Defense™

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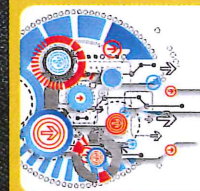
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Creative Opportunities

By Bailey King and
Whit Pierce

Now all four of the major categories of intellectual property—trade secrets, patents, copyrights, and trademarks—will have a civil remedy rooted in federal law.

The Defend Trade Secrets Act of 2016 Is Here, and It's a Big Deal

“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 it yet.”

– Former Attorney General Eric Holder, 2013

Historically, trade secrets, unlike other forms of intellectual property, have been protected only under state laws. Approximately 40 years ago, a consensus began to emerge that state trade-secret law had become so varied from state to state that some sort of nationwide uniformity was needed. Accordingly, in 1979, the National Conference of Commissioners on Uniform State Laws approved and recommended the Uniform Trade Secrets Act (UTSA). Since that time, 48 states have enacted some version of the UTSA. The versions of the UTSA passed by state legislatures, however, often differ from the original UTSA, and state courts have likewise differed in their interpretations of the various versions of the UTSA that states have enacted. Unlike other forms of intellectual property, which enjoy protection under federal statutes, this has resulted in a situation in which a company’s trade-secret rights may vary drastically depending on where it is located.

That just changed. In April of 2016, the U.S. Congress passed the Defend Trade Secrets Act of 2016 (DTSA). President Obama signed the bill into law on May 11, 2016, and the law went into effect when he signed it. The new law will mostly reside at 18 U.S.C. §1836. Now all four of the major categories of intellectual property—trade secrets, patents, copyrights, and trademarks—will have a civil remedy rooted in federal law. (Note that trade-secret theft has been a federal crime since 1996 under the Economic Espionage Act, but there are only five or six prosecutions initiated under that act in any given year.)

This is a major development for companies and lawyers. A group of professors recently wrote that a previous, nearly identical version of the bill would be the “most significant expansion of federal law in intellectual property since the Lanham Act in 1946.” See Center for Internet and Society, Professors’ Letter in Opposition to the Defend Trade Secrets Act of



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2015, (Nov. 17, 2015), <https://cyberlaw.stanford.edu>. Though that point is open to debate, the best estimates say that trade-secret theft causes more than \$300 billion in economic loss to the United States every year—an amount roughly comparable to the United States’ annual exports to Asia. Given those stakes, the DTSA will almost assuredly be a popular vehicle for litigation in the coming years. This article provides a summary of the DTSA, highlights major differences between the DTSA and the UTSA, and discusses some practical considerations for defense attorneys in light of this new federal claim.

Overview of the DTSA

The DTSA allows owners of misappropriated trade secrets to bring a civil action in a federal court “if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. §1836(b)(1). (Note: citations in this article refer to the code sections as they will appear once the new law is codified.) The statute of limitations is three years, and it starts running when the misappropriation is discovered (or should have been discovered).

The DTSA draws heavily (and purposefully) from the UTSA. For example, the statutes’ definitions of “trade secret” are similar. The DTSA says that a trade secret is all forms [of information] 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 or use of the information.

See 18 U.S.C. §1839(3).

The UTSA defines trade secret as information... that... 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 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UTSA §1(4). In other words, both statutes aim to protect information that is (1) valuable because it is a secret and (2) treated by its owner as a secret. Likewise, the

statutes’ definitions of “misappropriation” are almost identical. Compare 18 U.S.C. §1839(5), with UTSA §1(2).

As another example, the UTSA includes a provision that requires courts to “preserve the secrecy of an alleged trade secret by reasonable means,” which can include protective orders, record sealing, and gag orders. UTSA §5. According to the official commentary to the UTSA, the idea is that meritorious trade-secret litigation would be chilled without such assurances. The DTSA includes a similar mandate for courts. See 18 U.S.C. §1835.

There are some notable differences. For instance, the UTSA expressly “displaces conflicting tort, restitutionary, and other [state] law... providing civil remedies for misappropriation of a trade secret.” UTSA §7. Courts commonly interpret this provision to preempt large swaths of state law claims (such as claims for breach of fiduciary duty and interference with contractual relations) when those claims are grounded on the same basic facts as a trade-secret claim. See, e.g., *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 946 (W.D. Mich. 2003). The DTSA, in contrast, includes a clear statement that it does *not* preempt other remedies or provisions of law. See 18 U.S.C. §1838. That may mean that plaintiffs who proceed under the DTSA can include a ream of related state law claims that would be unavailable in a UTSA lawsuit.

The new law provides the array of remedies that are typical under UTSA-based, state trade-secret laws: injunctive relief, damages for actual loss, damages for unjust enrichment, a reasonable royalty in lieu of damages measured by other methods, and exemplary (*i.e.*, punitive) damages and attorneys’ fees for willful and malicious misappropriation of trade secrets.

The DTSA also provides an important remedy, however, that is not as typical: civil seizure. Under the DTSA, a court can order the *ex parte*, civil seizure of property in “extraordinary circumstances” when the seizure is “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)(i). There are some hurdles, of course: (1) a temporary restraining order, preliminary injunction, or other form of equitable relief must be inadequate to prevent the propaga-

tion or dissemination of the trade secret at issue; (2) the applicant must make various injunction-type showings, such as immediate and irreparable injury; (3) there must be a particularized description of the matter to be seized and its location; (4) the applicant cannot have publicized the requested seizure; and (5) the applicant must provide an affidavit or a verified complaint that establishes all of those things. If the court orders the seizure, the court can appoint a special master or “technical expert” to assist with the seizure, but the applicant cannot participate in the seizure. Seized materials are taken into the court’s custody, and the court must hold a hearing on the seizure within seven days after issuing the seizure order.

Recognizing the potentially enormous implications of this civil-seizure provision, the drafters of the DTSA also included a right of action for damages caused by “wrongful seizure.” Under this provision, a party who is aggrieved by a wrongful seizure can recover damages for lost profits, cost of materials, and loss of good will, as well as punitive damages and attorneys’ fees. In fact, an applicant for civil seizure has to post “[adequate] security... for the payment of the damages that any person may be entitled to recover as a result of a wrongful or excessive seizure or wrongful or excessive attempted seizure.” 18 U.S.C. §1836(b)(2)(B)(vi).

The civil-seizure remedy will provide a strong incentive for plaintiffs to assert a federal trade-secret claim. Under the UTSA, plaintiffs are (generally speaking) limited to asking a court for a preliminary injunction or a temporary restraining order that orders the return of misappropriated trade secrets. Courts are, however, notoriously reluctant to order early, mandatory injunctions. The more common outcome would be for a court to order a preservation of the status quo, for example by ordering that a defendant refrain from putting an allegedly misappropriated trade secret to any sort of business use or from allowing it to become public. See, e.g., *Prudential Ins. Co. of Am. v. Inlay*, 728 F. Supp. 2d 1022, 1030–1034 (N.D. Iowa 2010) (finding that the plaintiff was entitled to a temporary restraining order that prohibited the defendant from using or disclosing any of the defendant’s confidential information). The DTSA, on the other hand, provides an *ex parte* mechanism for the affirmative

seizure of allegedly misappropriated trade secrets. Presumably, a company such as Coca-Cola would rather have the DTSA's option of completely removing its secret formula from a defendant's hands, rather than the UTSA's injunctive remedies.

Practical Considerations

Over time, the DTSA will likely be heavily litigated, and a large body of case law will develop that will provide defense attorneys with guidance. In the meantime, here are some practical considerations to keep in mind if you are faced with a trade-secret lawsuit.

Can I remove a Trade-Secret Claim to Federal Court?

There are three important things to note about removing a trade-secret claim under the DTSA. First, federal jurisdiction is not automatic under the DTSA. Instead, a DTSA plaintiff has to show that the misappropriated trade secret "is related to a product or service used in, or intended for use in, interstate or foreign commerce." If the trade secret does not fit in that category, then a trade-secret owner cannot bring an action under the DTSA. In other words, if the trade secret at issue is a chili recipe that belongs to the local hot dog stand, or if it's a customer list for an in-state-only retailer, then it will be difficult for the plaintiff to bring a claim under the DTSA. Second, even if a trade-secret claim qualifies under the DTSA, the DTSA does not create exclusive federal court jurisdiction over the claim. That means that a plaintiff can file a DTSA claim in state or federal court. Third, the DTSA expressly does not preempt state trade-secret law. This will allow some plaintiffs to forum shop by pleading only state law claims, even if they have a claim that would fit under the DTSA. If, however, a plaintiff files a lawsuit in state court and includes a DTSA claim, a defendant should be able to remove it to federal court under 28 U.S.C. §1441.

What's to Stop Every Plaintiff from Attempting Civil Seizure?

Although the DTSA includes an extremely powerful tool for plaintiffs—the ex parte, civil-seizure provision—it also includes a heavy counterbalance in the form of damages for wrongful seizure. A party who is subjected to a wrongful seizure can get

damages for lost profits, cost of materials, and loss of good will, as well as punitive damages and attorneys' fees. This should provide a check on overzealous plaintiffs.

Will I Have Any Better Defenses Under the DTSA?

Plaintiffs often seek trade-secret relief under state law based on the "inevitable disclosure doctrine," which arose from *PepsiCo v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). In that case, the court held that the plaintiff was entitled to an injunction because the plaintiff's former employee would *inevitably disclose* the plaintiff's trade secrets if the employee were allowed to accept employment with a competitor. In effect, this created a situation in which a court could effectively impose a noncompete agreement on someone based on a perceived "inevitable" disclosure, even if the plaintiff had not bargained for a noncompete. Countless plaintiffs have attempted to prevail with injunctions based on the inevitable-disclosure doctrine, and outcomes have been all over the map.

The DTSA does away with this line of attack, expressly providing that an injunction cannot "prevent a person from entering into an employment relationship." 18 U.S.C. §1836(b)(3)(A)(i)(I). It further adds that any "conditions placed on such employment shall be based on evidence of *threatened* misappropriation and not merely on the information the person knows." *Id.* (emphasis added). This provision should negate any "inevitable disclosure" argument that a plaintiff attempts to make against a defendant employee. It might also encourage some plaintiffs to avoid the DTSA in favor of state law.

Are Attorneys' Fees Available Under the DTSA?

Yes, in some cases, attorneys' fees are available under the DTSA. Attorneys' fees are available to defendants when a claim of misappropriation is made in bad faith, much as they are under the UTSA. This sort of bad faith "may be established by circumstantial evidence." 18 U.S.C. §1836(b)(3)(D). Fees are also available when a motion to terminate an injunction is opposed in bad faith. For plaintiffs, attorneys' fees are available when a trade secret was "willfully and maliciously misappropriated." *Id.*

Will the DTSA Create "Trade-Secret Trolls"?

Some critics of the DTSA have argued that the law, particularly the civil-seizure provision, will incentivize trade-secret "trolling." See, e.g., David S. Levine, *Here Come the Trade Secret Trolls*, 71 Wash. & Lee Law Rev. 230 (2015). The idea is that the DTSA will "allow trade secret trolls to roam free in a confused and unsettled environment, threatening or initiating lawsuits for the sole purpose of exacting settlement payments, just like existing patent trolls." *Id.* at 252. Certainly, patent trolls have created monumental headaches for inventors and entrepreneurs, and the emergence of trade-secret trolls would likely prove to be an even more intractable issue. Proponents of the DTSA counter that the new law includes a long list of requirements that will make civil seizure extremely difficult to achieve, along with the obvious risk that wrongful seizure will subject the applicant to damages and attorneys' fees. DTSA proponents also point to the long history of trade-secret litigation under state law, which gives no indication of trade-secret trolling. Moreover, there is an obvious difference between patents and trade secrets: patents are part of the public record, and trade secrets, by definition, are not. As such, the hypothetical trade-secret troll would need to offer some plausible set of facts showing how the defendant obtained the trade secret. This would seem to narrow the field of possible targets for trade-secret trolls.

Conclusion

The DTSA represents a major development in intellectual property law. For the first time, trade-secret misappropriation will have a civil remedy under federal law, bringing trade secrets in line with patents, trademarks, and copyrights. We will learn a lot about the DTSA in the coming years. In the meantime, the DTSA will provide plaintiffs with a new remedy that defense attorneys must be prepared to litigate, while also providing defendants with some new tools to fight with. Regardless, as with any new statute, the DTSA will provide an opportunity for defense counsel to be creative in finding new ways to defend trade-secret claims.