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# Protecting Your Trade Secrets Under the DTSA

**Reginald R. Goeke**

Partner

[rgoeke@mayerbrown.com](mailto:rgoeke@mayerbrown.com)

**Sharon A. Israel**

Partner

[sisrael@mayerbrown.com](mailto:sisrael@mayerbrown.com)

**Trent L. Menning**

Associate

[tmenning@mayerbrown.com](mailto:tmenning@mayerbrown.com)

**Lori Zahalka**

Partner

[lzahalka@mayerbrown.com](mailto:lzahalka@mayerbrown.com)

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# Presenters



**Reginald Goeke**  
Washington DC



**Sharon Israel**  
Houston



**Trent Menning**  
Houston



**Lori Zahalka**  
Chicago

# Overview

- Importance of Trade Secret Protection
- DTSA Generally
- Causes of Action and Remedies Under the DTSA
- Impact on Restrictive Covenants and Confidentiality Agreements
- Steps to Take to Ensure Tools in Place for Trade Secret Protection
- Considerations/Advantages Using the DTSA to Prosecute Trade Secret Misappropriation Claims

# Trade Secret Theft

- Total trade secret theft — in just the United States — is estimated to be worth as much as \$300 billion annually
  - <https://www.pwc.com/us/en/forensic-services/publications/assets/economic-impact.pdf>
- Trade secret theft is difficult to quantify precisely:
  - Businesses are generally unaware that their secrets have been stolen
  - Trade secrets are difficult for businesses to value, and sometimes even to identify
  - Employees who steal trade secrets do not always appreciate that they are doing it

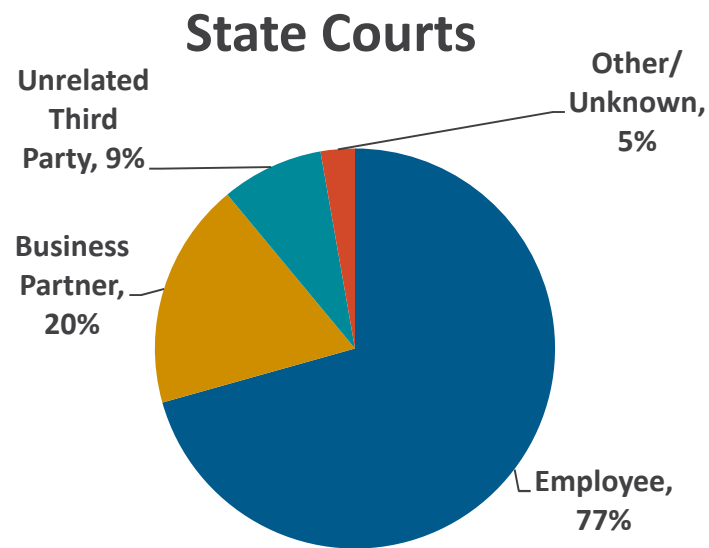
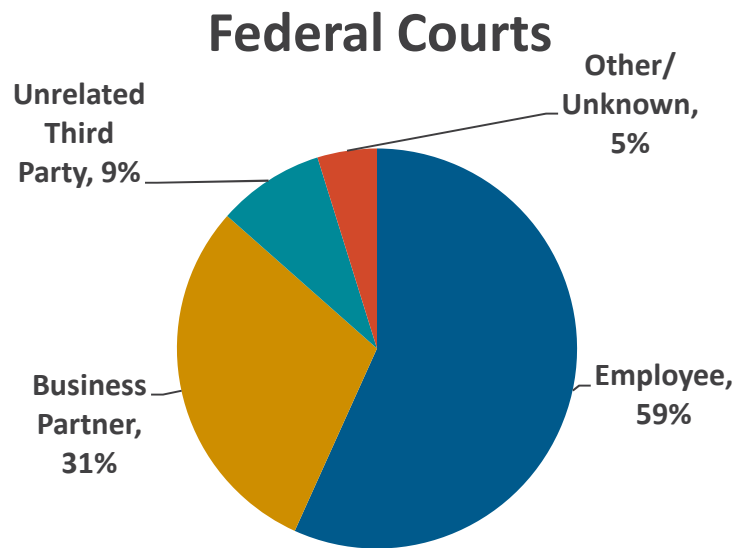
# Trade Secret Litigation

- Under state trade secret acts there has been an explosion of trade secrets litigation over the past 20 years
- Although the majority of cases have been filed in state courts, an increasing number of cases are being filed in federal court
- Federal cases of trade secret theft doubled between 1995 and 2004 and will double again by 2017

Source: David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 293 (2010)

# Trade Secret Misappropriator Most Often Known to Owner

Although media and policymakers tend to focus on hackers and nation states as the perpetrators of trade secret theft, the most serious threat comes from businesses' employees and business partners.



Source: A Statistical Analysis of Trade Secret Litigation in State Courts, 46 Gonz. L. Rev. 57; A Statistical Analysis of Trade Secret Litigation in Federal Courts, 45 Gonz. L. Rev. 291.

# Preventing Trade Secret Theft: An Increasing Priority for Business and Policymakers

*“As many of you know, one of the biggest advantages that we've got in this global economy is that we innovate, we come up with new services, new goods, new products, new technologies. Unfortunately, all too often, some of our competitors, instead of competing with us fairly, are trying to steal these trade secrets from American companies. And that means a loss of American jobs, a loss of American markets, a loss of American leadership.”*

- Barack Obama, Signing Statement for the Defend Trade Secrets Act of 2016

# Impacts on Many Areas of Law

- Employment law (required disclosures, protection for whistleblowers)
- Litigation (impact on e-discovery issues, change in venue, change in disclosure obligations)
- Criminal law (additional potential remedies and exposure)
- Intellectual property rights (potential increased uniformity in trade secret law)
- Cross-border enforcement of intellectual property rights
- Cybersecurity (another remedy to consider in event of intentional breach)



# DTSA Generally

- New federal, private (civil) cause of action for trade secret misappropriation
  - Amends Economic Espionage Act of 1996 (18 U.S.C. §§ 1831-39)
- Covers acts of misappropriation on or after the enactment date (May 11, 2016)
- TS must be related to a product used in, or intended to be used in, interstate or foreign commerce
  - 18 U.S.C. § 1836(b)(1): “An owner of a trade secret that is misappropriated may bring a civil action under this section if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.”

# DTSA Generally

- Remedies
  - Civil seizure (*ex parte*)
  - Damages
  - Injunction
- Protection of TS
  - Provisions to secure and protect TS during litigation
- Increased criminal liability
- Immunity for certain disclosures
  - Impact on certain NDAs

# DTSA v UTSA: Misappropriation

- Definition of TS is similar (already in existing statute before enactment of DTSA) to definition in UTSA:
  - 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.”

# DTSA v UTSA: Misappropriation

- Acts of misappropriation of TS are similar to UTSA:
  - Acquisition of TS by person who knows or has reason to know that the TS was acquired by improper means
    - “improper means” includes theft, bribery, misrepresentation, breach or inducement of breach of a duty to maintain secrecy, or espionage through electronic or other means
    - “improper means” does not include reverse engineering, independent derivation, or any other lawful means of acquisition

# DTSA v UTSA: Misappropriation

- Acts of misappropriation of TS:
  - Disclosure or use of TS (without express or implied consent) by a person who:
    - Used improper means to acquire knowledge of TS; or
    - Knew or had reason to know that the knowledge of the TS was:
      - 1) derived from a person who used improper means to acquire the TS;
      - 2) acquired under circumstances giving rise to a duty to maintain secrecy or limit use of the TS; or
      - 3) derived from a person who owed a duty to maintain secrecy or limit use of the TS.

# DTSA v UTSA: Misappropriation

- Acts of misappropriation of TS:
  - Disclosure or use of TS (without express or implied consent) by a person who
    - ...
  - (Before a material change in the position of the person) knew or had reason to know that
    - 1) the TS was in fact a TS; and
    - 2) knowledge of the TS had been acquired by accident or mistake

# DTSA v UTSA: Remedies

- Remedies are similar
  - Injunctive relief
  - Damages (including for actual loss, unjust enrichment, or reasonable royalty)
  - Exemplary damages for willful and malicious misappropriation
    - Up to 2x amount of compensatory damages
- Reasonable attorney fees may be available to prevailing party under certain circumstances
- DTSA adds civil seizure remedy

## DTSA: Civil Seizure

- Court can order *ex parte* seizure of property necessary to prevent propagation or dissemination of TS
  - Must be based on affidavit or verified complaint
  - Requirements for issuing order are strict
  - Narrowest seizure necessary
  - Direct for seizure to be conducted in a manner that minimizes interruption to business of third parties (and, to the extent possible, the legitimate business of the offending party)
  - Must be accompanied by an order protecting seized property from disclosure



# DTSA: Injunctive Relief

- Injunctions:

- May be granted to prevent actual or threatened misappropriation, but may not
  - Prevent a person from entering into an employment relationship;
  - Place conditions on employment that are based only on information the person knows (instead of actual evidence of threatened misappropriation); or
  - Otherwise conflict with a State law prohibiting restraints on the practice of a lawful profession, trade, or business.
- May grant injunction requiring affirmative actions to be taken to protect the TS
- May condition future use of TS on payment of reasonable royalty (in exceptional circumstances that render injunction inequitable) – can be no longer than amount of time use could have been prohibited

# DTSA: Immunity

- Immunity from liability for certain confidential disclosures
  - Disclosure of TS made in confidence to Federal, State, or local government official, or attorney
    - Solely for purpose of reporting or investigating suspected violation of law
  - Disclosure of TS in complaint or other filing in lawsuit or other proceeding, if filed under seal
  - Disclosure of TS in lawsuit for retaliation (based on reporting by employee of suspected violation of law by employer)
    - Disclosure permitted to attorney and in court proceeding if:
      - Documents containing TS are filed under seal
      - No disclosure of TS except pursuant to court order

# DTSA: Immunity

- Notice of immunity in agreements
  - Employers must provide notice of the foregoing immunities in contracts/agreements with employees (including contractors or consultants) that govern use of TS or other confidential info
  - Employer may comply by providing cross-reference to a policy document provided to employee that sets forth the employer's reporting policy for suspected violation of law
  - Notice requirement applies to contracts/agreements entered into or updated after the date of enactment
  - Penalty for non-compliance with notice requirement:
    - No exemplary damages or attorney fees in action against employee to whom notice not provided

# DTSA: Steps to Take to Prepare

- Trade secret owners should engage in efforts “reasonable under the circumstances” to protect trade secrets
  - Controlled disclosure to employees/licensees that is consistent with requirement of relative secrecy (See Uniform Trade Secrets Act)
- Identify trade secrets and processes in place for designating such information
- Identify procedures in place for maintaining trade secrets
  - Procedures for obtaining title to trade secrets
  - Designations used to mark trade secret information
  - Review confidentiality agreements with employees, consultants, and third parties

# DTSA: Steps to Take to Prepare

- Identify how trade secrets are maintained
  - Access limited to persons with a need to know
  - How is access physically/electronically handled?
  - Security measures for accessing trade secret information?
- Policies/practices for educating employees and consultants on confidentiality requirements and practices

# DTSA: Steps to Take to Prepare

- Procedures for departing employees
  - Disabling access to company systems, accounts, equipment
  - Reminders/affirmations of confidentiality obligations
  - Written acknowledgements required on departure
- Physical/electronic security measures/policies of company
- Procedures and policies for any external access to trade secret information
- Cybersecurity measures

# DTSA: Considerations/Advantages

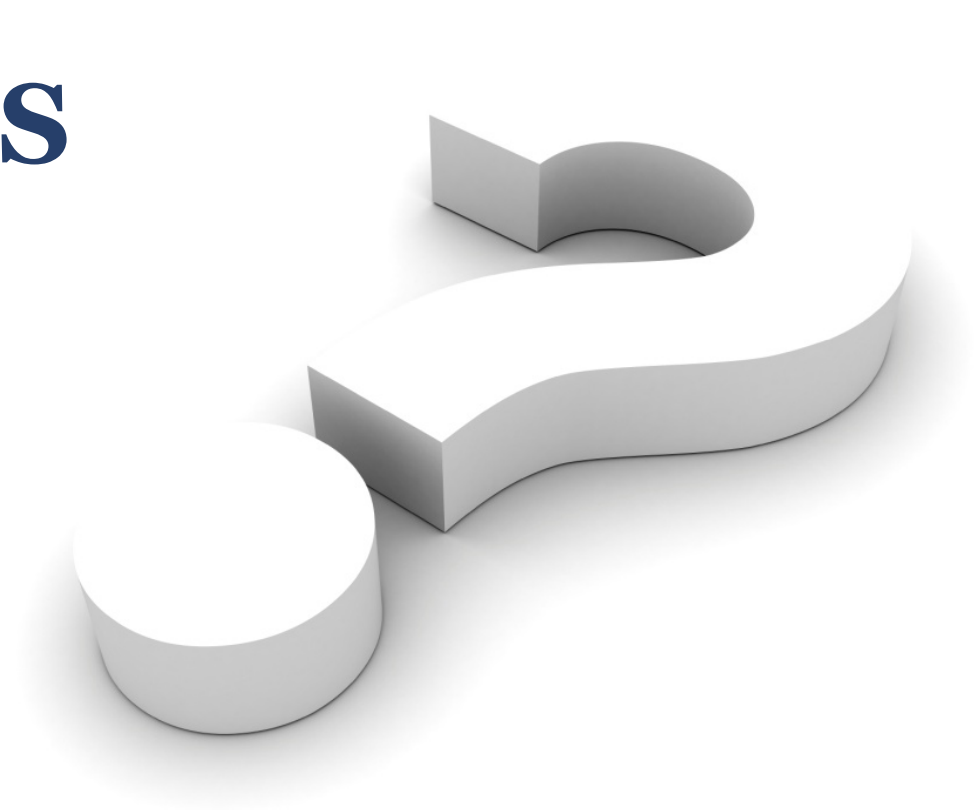
- DTSA adds predictability/breadth
  - Federal court:
    - Known rules and procedures
    - Broad subpoena power
    - More predictable results once case law develops and sets precedent
    - Fewer jurisdictional problems (avoid undesirable state jurisdictions)
- DTSA does not preempt other laws
  - Adds protection to (instead of replacing) existing state laws
  - May still be advantageous to bring suit in state court

# DTSA: Considerations/Advantages

- Consider whether and to what extent employment agreements/policy manuals should be updated to provide for whistleblower immunity language
- There is no body of federal law yet under the DTSA, except to the extent such law exists under the Economic Espionage Act
  - May be “growing pains” as courts struggle with both state and federal laws
- Extraterritorial reach of the DTSA



# QUESTIONS



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