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What's Up With the Defend Trade Secrets Act?

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Intro to Trade Secrets

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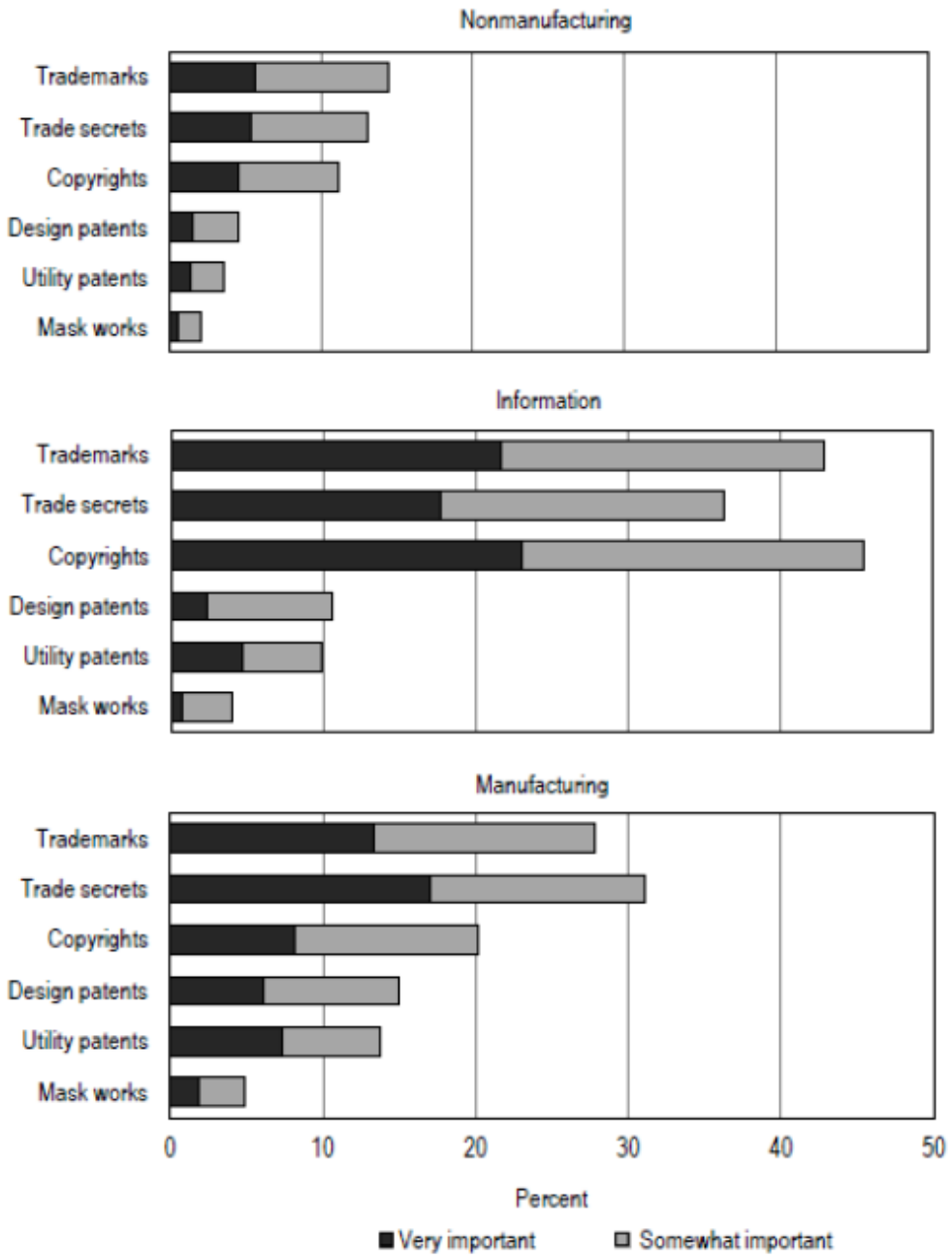
- Prima facie civil case
  - Ownership of trade secrets
    - Information that derives value from its secrecy
    - Subject to reasonable efforts to keep secret
  - Misappropriation
  - Use/Disclosure
- Also criminal violations

FIGURE 1. Businesses reporting IPR as very or somewhat important, by type of industry sector and type of IPR: 2008



May 11, 2016

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S. 1890

One Hundred Fourteenth Congress
of the
United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Monday, the fourth day of January, two thousand and sixteen

An Act

To amend chapter 90 of title 18, United States Code, to provide Federal jurisdiction for the theft of trade secrets, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Defend Trade Secrets Act of 2016".

SEC. 2. FEDERAL JURISDICTION FOR THEFT OF TRADE SECRETS.

(a) IN GENERAL.—Section 1836 of title 18, United States Code, is amended by striking subsection (b) and inserting the following:

"(b) PRIVATE CIVIL ACTIONS.—

"(1) IN GENERAL.—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.

"(2) CIVIL SEIZURE.—

"(A) IN GENERAL.—

"(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.

"(ii) REQUIREMENTS FOR ISSUING ORDER.—The

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The New 'Defend Trade Secrets Act' Is The Biggest IP Development In Years

Eric Goldman, CONTRIBUTOR

I write about Internet law, intellectual property and advertising law FULL BIO

Opinions expressed by Forbes Contributors are their own.

Yesterday, Congress passed the Defend Trade Secrets Act (the DTSA), which President Obama will sign soon. The Defend Trade Secrets Act extends the current Economic Espionage Act of 1996, which criminalizes certain trade

DTSA v. UTSA

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Similarities

- "Trade secret" definition (not identical)
- Misappropriation standards
- Most remedies
- CA anti-non-compete policy untouched

Key Differences

- Federal court jurisdiction automatic for DTSA, not UTSA
- DTSA applies only to products/services in interstate commerce
- DTSA injunctive relief can't be based on inevitable disclosure doctrine (?)
- DTSA ex parte seizure remedy
- DTSA whistleblower provisions

DTSA Litigation Statistics

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Table 2: Non-DTSA Federal Law Claims

Claim	Cases	%
Computer Fraud and Abuse Act	95	20%
Lanham Act	73	15%
Copyright	39	8%
Patent	30	6%
Civil RICO	11	2%
Antitrust	2	<1%
Other federal law claims	13	3%

Table 3: State Law Claims

Claim	Cases	%
State trade secret misappropriation	408	84%
Breach of contract	341	70%
Tortious interference	259	53%
Unfair competition	200	41%
Breach of fiduciary duty	196	40%
Conversion	153	31%
Unjust enrichment	108	22%
Civil conspiracy	82	17%
Breach of implied covenant of good faith	48	10%
Fraud	45	9%
State computer crimes/torts	41	8%
Other state law claims	152	31%

Implications:

* Federal courts would have had jurisdiction in 74% of cases without DTSA (n = 486)
* CFAA remains important in trade secret cases

Source: David Levine & Chris Seaman, The Defend Trade Secrets Act at One: An Empirical Study of the First Year of Litigation Under the DTSA

DTSA Litigation Statistics

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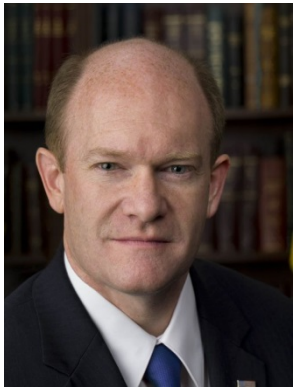
- What Congress expected:
  - Sens. Coons and Hatch (R-UT): “In today’s electronic age, trade secrets can be stolen with a few keystrokes, and increasingly, they are stolen at the direction of a foreign government or for the benefit of a foreign competitor. These losses put U.S. jobs at risk and threaten incentives for continued investment in research and development.”
- What Congress got (#1): 6% (29/486) involve foreign citizen/national defendants
- What Congress got (#2): 22% (109/486) assert CFAA or state equivalent
  - Only 9% (42/486) claim unauthorized access (hacking)
  - Of these, only 4 involve foreign defendant



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Ex Parte Seizures

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- Court can order "seizure of property necessary to prevent the propagation or dissemination of the trade secret," subject to seizure hearing within 7 days
  - Globally unique policy solution
- Prima facie elements
  - TRO inadequate
    - Ex: Mission Capital Advisors, LLC v. Romaka, No. 1:16-cv-05878-LLS (S.D.N.Y. July 29, 2016). Defendant evaded service and no-showed at TRO hearing
  - Immediate/irreparable injury without seizure
  - Plaintiff harm > defendant's legitimate interests & >> 3d party harms
  - Trade secret
  - Misappropriation
  - Defendant has actual possession
  - Applicant describes with particularity the items to be seized & location
  - Defendant would destroy/move/hide the items if given notice
  - **"Extraordinary circumstances"**

FJC Seizure "Best Practices"

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- FJC: "Cases involving seizures of trade secrets are inherently challenging"
- Butzel Long: "ex parte seizures will be neither easy nor inexpensive"
- Pre-filing steps (selected)
  - Arrange for US marshal (or alternative)
  - Arrange for independent technical expert to accompany the marshals (plaintiff's counsel can't go)
  - Maybe arrange for locksmith, transportation service, and substitute custodian, including Faraday bags/enclosures as needed
  - Prepare contracts between court and experts
- Schedule pre-seizure briefing
- At seizure
  - Try to limit to one 8-hour day
  - Can't seize 3rd party stuff

Source: https://www.fjc.gov/sites/default/files/2017/DTSA_Best_Practices_FJC_June_2017.pdf

Ex Parte Seizures

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- What Congress expected:
  - Rep. Bob Goodlatte: “a thief sneaks into a facility, steals a trade secret and is headed to the airport to fly to China and sell it”
- What Congress got:
  - IT’S LOGISTICALLY IMPOSSIBLE TO USE THE SEIZURE PROVISION TO STOP A THIEF HEADING TO THE AIRPORT

“Whistleblower” Immunity

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- No criminal/civil trade secret liability for
  - Disclosing trade secret to government official or attorney “solely for the purpose of reporting or investigating a suspected violation of law”
  - Disclosing trade secret in court filing under seal
- In retaliation suit, can disclose trade secret to attorney & court (under seal)
- Employer must disclose immunity in NDA/employee handbook

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DO YOU THINK TRADE SECRETS ARE AN "INTELLECTUAL PROPERTY"?

“Not an IP Law”

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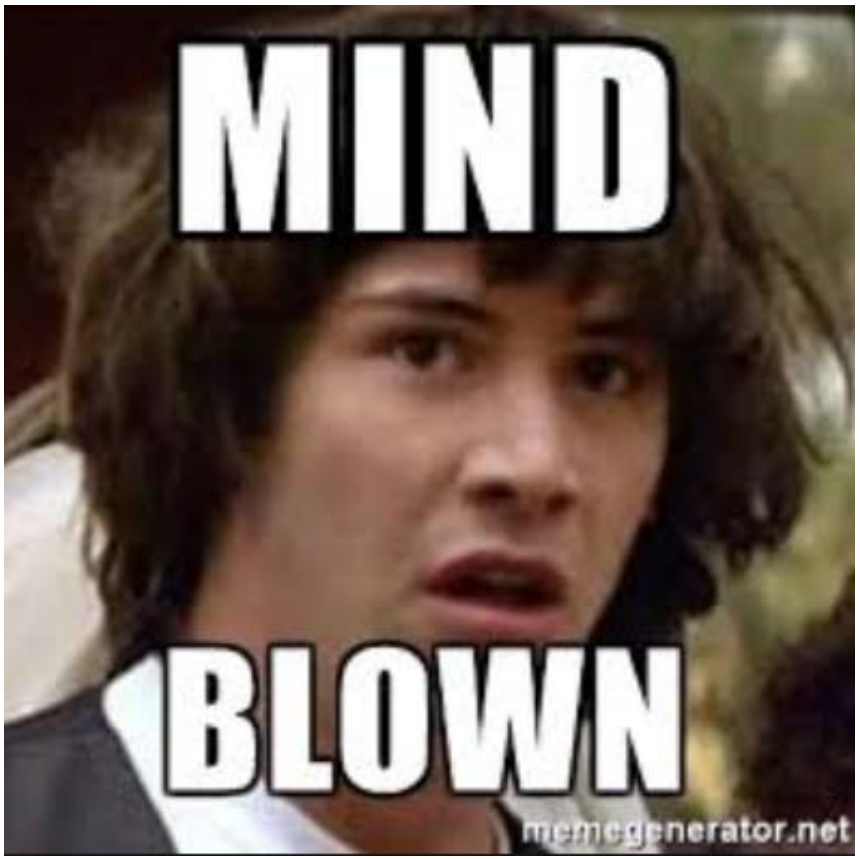
DTSA §2(g): “This section and the amendments made by this section shall not be construed to be a law pertaining to intellectual property for purposes of any other Act of Congress”



"Not an IP Law"

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- 47 USC 230(c)(1): websites aren't liable for 3d party content
- 230(e)(2): "Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property"
- Perfect 10, Inc. v. CCBill LLC, 488 F.3d 1102 (9th Cir. 2007): "we construe the term 'intellectual property' to mean '**federal** intellectual property'"
  - Result: websites aren't liable for 3d party state law trade secret misappropriations in 9th Circuit
  - All other courts disagree
- §2(g) means DTSA claims *are* subject to Section 230

→ SECTION 230 STATUS QUO PRESERVED, but…


That's NOT all Folks!

“Not an IP Law”

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- 200+ other federal laws reference “intellectual property”
  - Main areas: USPTO/IPEC scope, tax, bankruptcy
- State trade secret laws are still “IP” laws
  - Question: are some trade secrets protected only by DTSA, not state law?
  - “DTSA-only” trade secrets may lead to wacky tax/bankruptcy consequences

More Fun Reading

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- Ex Parte Seizures and the Defend Trade Secrets Act, https://ssrn.com/abstract=2697361
- Do We Need a New Federal Trade Secret Law?, https://ssrn.com/abstract=2498323
- Professors' Letter in Opposition to the Defend Trade Secrets Act of 2015 (S. 1890, H.R. 3326), https://ssrn.com/abstract=2699760
- The Defend Trade Secrets Act Isn't an 'Intellectual Property' Law, https://ssrn.com/abstract=2924827