

APRIL 2016

## THE DEFEND TRADE SECRETS ACT OF 2016: A FEDERAL PRIVATE RIGHT OF ACTION FOR MISAPPROPRIATION OF CONFIDENTIAL BUSINESS INFORMATION

Responding to U.S. Chamber estimated annual losses to foreign thieves of \$300 billion of trade secrets and 2.1 million jobs, in April, Congress voted nearly unanimously (Senate 87-0, House 410-2) to enact the Defend Trade Secrets Act of 2016 (“DTSA”). The DTSA allows “trade secret” owners to avail of federal court, including its powers to compel discovery nationwide and a new power to seize trade secret contraband ex parte (without notice), where the trade secret is “misappropriated” and “is related to a product or service used in, or intended for use, in interstate or foreign commerce.”

This is an extremely low jurisdictional threshold, allowing federal court suits between persons in the same state without regard to the amount at issue so long as the trade secret is “related to a product or service” at least intended for interstate use.

The term “trade secret,” often misunderstood as unduly narrow even by lawyers, harks back to the industrial-age understanding of it as a secret continuously used in trade (manufacturing). This prevailed until the 1979 research-age Uniform Trade Secrets Act (“UTSA”, enacted in 48 States, but not Massachusetts), which broadly defines a trade secret as any information 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.

This broadly includes ideas for future creative or industrial endeavors or “negative” information that certain approaches to a task will not work. The definition of “trade secret” in the DTSA is the same as the one in the Economic Espionage Act of 1996 (“EEA”) providing for Justice Department prosecution of trade secret theft, which has been aligned with that of the UTSA, but arguably restricted to a list of financial and technical information.

The DTSA extends the EEA far beyond its original scope of prosecuting theft of trade secrets to UTSA “misappropriation” generally understood to be state law unfair competition. These unfair acts are:

- (i) 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

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Steve has litigated trade secrets cases since 1976 and has been a gubernatorial-appointed Uniform Law Commissioner since 1994. In that capacity, he has been involved in drafting updates to the Uniform Commercial Code and electronic commerce laws, as well as commenting on the UTSA and the DTSA.

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- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
  - (A) used improper means to acquire knowledge of the trade secret; or
  - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
    - (I) derived from or through a person who had utilized improper means to acquire it;
    - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

While “improper means” includes theft, trespass and fraud, it has been held to include other acts that offend “commercial mores” of a state — such as in a 1970s aerial reconnaissance case that may be argued to apply to drone photography. Some studies report that 80 percent of trade secret cases involve misappropriation (ii)(B)(II) where employees or business associates are given confidential information under circumstances giving rise to a limitation of use (e.g., a non-disclosure agreement or an implied confidential relationship), and that limitation is allegedly exceeded.

A return to the 1970s trade secrecy primacy over patents is clearly underway. The America Invents Act of 2011 substantially changed the patent system and provided new protections for secret use of inventions, and added new administrative procedures to challenge patents that have proven expensive and disadvantageous to patent owners. Businesses should consider the enhanced tool of the DTSA at their disposal — but also as a risk.

Businesses should use reasonable efforts to protect valuable information from general dissemination and cyber espionage. In their relations with business associates in which proprietary information is exchanged, precise allocation of ownership under all foreseeable terminations of the relations is needed to avoid expensive trade secret litigation or the loss of value.

Although the DTSA has been held out as making trade secrets law more uniform, there are significant mismatches in the importation of UTSA “misappropriation” into the EEA framework, which, with non-preemption of state trade secret law, creates a dual system with differing enforcement considerations. There may be unintended consequences though. For example, EEA allows actions against U.S. companies for violations of the chapter (which now includes DTSA) abroad. Express prohibition of DTSA injunctions “prevent[ing] a person from entering into an employment relationship” or conflicting with state employee mobility law (such as that of California) may be argued to conflict with employee non-compete agreements. Informed drafting is required to assure that one is the beneficiary rather than the victim of the new DTSA.

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