

Summary of the Defend Trade Secrets Act of 2016

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On May 11, 2016, President Obama signed into law "The Defend Trade Secrets Act of 2016" (DTSA). This article is a short summary of the provisions of the DTSA.

The DTSA amends chapter 90 of title 18 of the United States Code. Chapter 18 is titled "Crimes and Criminal Procedures. Chapter 90 is titled "Protection of Trade Secrets." Pre-existing chapter 90 of title 18 provides for criminal sanctions both for economic espionage and mere theft of trade secrets for commercial gain. A perceived problem with pre-existing chapter 90 of title 18 is that it provided only for government action against a bad actor.

The DTSA law provides a private party a cause of action to sue for theft of trade secrets, and various forms of relief, and the related provisions identified below.

The DTSA provides a private cause of action for: (1) an "owner of a trade secret;" (2) which trade secret is "misappropriated;" and (3) which trade secret is "related to a product or service used in, or intended for use in, interstate or foreign commerce." DTSA Sec. 2(a); 18 USC 1836(b)(1), as amended.

The DTSA provides that, only in "extraordinary circumstances," a court may grant of an ex parte seizure order, and only if such an order "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." DTSA Sec. 2(a); 18 USC 1836(b)(2)(A)(I), as amended.

The DTSA provides that a court may grant an injunction "to prevent any actual or threatened misappropriation" and damages. The court may grant either (1) "damages for actual loss caused by the misappropriation of the trade secret" and any additional "unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual lost " or (2) "a reasonable royalty for the misappropriation's unauthorized disclosure or use of the trade secret." The court may also award "exemplary damages" and "reasonable attorney's fees" in unusual cases. DTSA Sec. 2(a); 18 USC 1836(b)(3).

The DTSA provides the district courts of the United States original jurisdiction. DTSA Sec. 2(a); 18 USC 1836(c), as amended.

The DTSA provides a 3 year statute of limitations for commencing a civil action, measured from "the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered." DTSA Sec. 2(a); 18 USC 1836(d), as amended.

The DTSA adds a specific definition for "misappropriation." This definition is:

(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; (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 (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; [DTSA Sec. 2(b); 18 USC 1839, as amended.]

The DTSA adds a specific definition for "improper means." This definition is:

(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. [DTSA Sec. 2(b); 18 USC 1839, as amended.]

The DTSA amends 18 USC 1833, to protect sovereign immunity and whistle blowers. The amendment to 18 USC 1833 is shown by underlining:

This chapter does not prohibit or create a private right of action for - (1) any otherwise lawful activity conducted by a governmental entity of the United States, a State, or a political subdivision of a State; or (2) the reporting of a suspected violation of law to any governmental entity of the United States, a State, or a political subdivision of a State, if such entity has lawful authority with respect to that violation. [DTSA Sec. 2(b); 18 USC 1833, as amended.]

The DTSA became effective May 11, 2016, when signed. DTSA Sec 2(e).

The DTSA increases the limits on damages to "the greater of \$5,000,000 or 3 times the value of the stolen trade secret to the organization." This value specifically includes "expenses for research and design and other costs of reproducing the trade secret that the organization has thereby avoided." DTSA Sec. 3(a); 18 USC 1832(b), as amended.

18 USC 1835 deals with preservation of confidentiality. The DTSA Sec. 3(a) adds 1835(b), to provide specific procedural protections for trade secret owners. New 1835(b) reads as follows:

(b) Rights of Trade Secret Owners.--The court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential. No submission under seal made under this subsection may be used in a prosecution under this chapter for any purpose other than those set forth in this section, or otherwise required by law. The provision of information relating to a trade secret to the United States or the court in connection with a prosecution under this

chapter shall not constitute a waiver of trade secret protection, and the disclosure of information relating to a trade secret in connection with a prosecution under this chapter shall not constitute a waiver of trade secret protection unless the trade secret owner expressly consents to such waiver.

The DTSA includes within the definition of "racketeering activity" in 18 USC 1961, Chapter 96, "sections 1831 and 1832 (relating to economic espionage and theft of trade secrets)." Chapter 96 of 18 USC provides the Attorney General a cause of action, and additional penalties and remedies for racketeering activity. DTSA Sec. 3(b); 18 USC 1961(1), as amended.

The DTSA provides whistle blowers immunity from liability for disclosures made in confidence to appropriate governmental entities to report suspected violations of law; in a sealed court filing; under attorney client privilege in response to law suit by an employer for trade secret violation. DTSA sec. 7; 18 USC 1833, as amended.

1. I can be reached via <http://www.neifeld.com/cv.html#neifeld>.