A NEW WORLD FOR TRADE SECRETS IN FRANCHISING:
NEW OPTIONS AND STRATEGIES UNDER THE
FEDERAL DEFEND TRADE SECRETS ACT

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TRADE SECRETS IN FRANCHISING

- Recipes and formulas
- Methods of doing business
- Strategic business plans
- Customer lists and information
- Marketing and promotional campaigns
- Software
THE CHALLENGE

- Losses from trade secret theft estimated at 1% - 3% of US GDP
- Negative impact on revenue and incentives for creators and inventors
- Undermines developments and advances in IP
- Cross-border (state/international) misappropriation
- Speed of acts of misappropriation

Source: December 11, 2014 HR Report 113-657
DEFEND TRADE SECRETS ACT (DTSA)

• Signed by the President, May 11, 2016
• Codified at 18 U.S.C. §§1831 – 1839, 1961
• Grafted onto the Economic Espionage Act (EEA), which protected trade secrets but previously included only criminal penalties (i.e., no private right of action)
WHY NOT STATE UTSA\textid{\textid{s}}s

- Limited reach/jurisdiction
- Impossibility of quick preemptive action
- State substantive variations
GOALS OF THE DTSA

• A measure of uniformity
• Geographically expansive enforcement reach
• Swift action
• Enhance enforcement resources

Source: December 11, 2014 HR Report 113-657
KEY FEATURES OF DTSA

• Federal Private Cause of Action for misappropriation, 18 U.S.C. § 1836(b)(1)
• Federal Jurisdiction (nationwide discovery), 18 U.S.C. § 1836(c)
• Ex parte seizure, 18 U.S.C. § 1836(b)(2)
LAWS IN TANDEM

• DTSA does not preempt or displace state or other federal law. 18 U.S.C. § 1838
  • Piggyback DTSA and state trade secret claims
  • Boost DTSA with other federal claims, e.g., RICO or CFAA
• BUT will lack of preemption impede development of a uniform applicable trade secrets protection statute?
• Invites use of state law as guidance for DTSA
• Trade Secret – 18 U.S.C. § 1839(3):

“[A]ll forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, programs, devices, formulas, designs, prototypes, methods, techniques, processes, 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.”
KEY DEFINITIONS

• Three key elements from definition:
  • Kept secret
  • Derives independent economic value from not being generally known
  • Not readily ascertainable through proper means

• Misappropriation – 18 U.S.C. § 1839(5)

  • Does Not Include Reverse Engineering, etc. – 18 U.S.C. § 1839(6)(B)
REMEDIES UNDER THE DTSA

• Protection of Trade Secrets in Court Filings
  18 U.S.C. § 1835
• Statute of Limitations — 3 years
EX PARTE SEIZURE FAST, FAST RELIEF – THE THEORY

• Controversial Remedy, granted under Extraordinary Circumstances, on a Detailed Showing by Affidavit or Verified Complaint – 18 U.S.C. § 1836(b)(2)

• Showing:
  • TRO or Injunction inadequate
  • Immediate and Irreparable Injury
  • Balance of Harms Favor Plaintiff over Defendant
EX PARTE SEIZURE (continued)

• Further Showing:
  • Defendant in Possession
  • Property to be Seized Described with Particularity
  • Identify Seizure Location
  • Property would be Destroyed, Moved, Hidden, or Made Inaccessible if Defendant Notified
  • Plaintiff Didn’t Publicize Requested Seizure
EX PARTE SEIZURE: ORDER UNDER THE DTSA

• The Order Itself
  • Detailed Findings of Fact and Conclusions of Law
  • Narrowest Seizure of Property Possible
  • Seizure Conducted to Minimize Business Interruption of...
    • Third Parties
EX PARTE SEIZURE: ORDER UNDER THE DTSA (continued)

• Separate Order
  • Protecting Seized Property from Disclosure
  • Prohibiting Copies or Access of Seized Property by Plaintiff or Defendant
  • Preventing Undue Damage to Defendant or Third Parties until Hearing
  • If Access Granted to Plaintiff or Defendant – Appropriate Protection Measures
  • Guidance to Law Enforcement Officials
EX PARTE SEIZURE: HEARING UNDER THE DTSA

• Earliest Possible Hearing Date
  • Not Later than 7 Days after Seizure Order Issues, unless ...
  • Defendant or Third Parties Consent to another date
• Defendant or Third Parties may Move to Dissolve or Modify Seizure Order
• Plaintiff must provide Security for Damages due to Wrongful or Excessive Attempted or Actual Seizure - 18 U.S.C. § 1836(b)(2)(B)(v)
EX PARTE SEIZURE: HEARING UNDER THE DTSA (continued)

• Court must Protect Defendant from Publicity - 18 U.S.C. § 1836(b)(2)(C)
• Obligations and Rights of the Parties Before and At the Hearing - 18 U.S.C. § 1836(b)(2)(F)
EX PARTE SEIZURE: DISPOSITION OF SEIZED MATERIALS

• Seized Materials taken into Custody of Court
• Special Master May be Appointed to Locate/Isolate Information and Facilitate Return of Unrelated Property and Data to Defendant- 18 U.S.C. § 1836(b)(2)(D)(iv)
PROTECTION AGAINST WRONGFUL OR EXCESSIVE SEIZURES

• Wrongful or Excessive Ex Parte Seizure, Damages Claim for...
  • Lost profits
  • Cost of materials
  • Loss of good will
  • Punitive damages
  • Attorneys’ fees
  • Prejudgment interest

• Security Posted by Plaintiff is Not the Limit of Recovery
IMMUNITY AND ANTI-RETAIATION UNDER DTSA

• No Liability under Federal or State Trade Secret Law for Disclosure of a Trade Secret made:
  • In confidence to a Federal, State or Local Government Official, or to an Attorney solely for the purpose of reporting or investigating a suspected violation of law.
  • In a Complaint or Other Judicial Filing made Under Seal
IMMUNITY AND ANTI-RETAILIATION UNDER DTSA (continued)

• Employer’s Notice Obligation
  • Immunity Notice must be Included in any Employment Agreement OR Employers Policy Document
  • If the Employer does not Comply with the Notice Requirement, it is Precluded from Obtaining Exemplary Damages or Attorneys’ Fees against Employee in Lawsuit under the DTSA
  • Applies to Agreements Entered Into or Updated after DTSA is Enacted - 18 U.S.C. § 1833(b)(3)

• Employee also Includes Contractors or Consultants - 18 U.S.C. § 1833(b)(4)
Misappropriation after May 11, 2006

“Owner” of a trade secret, 18 U.S.C. § 1836(b)(1)

Nexus with interstate or foreign commerce

Cross-border conduct by U.S. citizens or permanent resident aliens


TRADE SECRET

• Largely same as UTSAs
• No distinction noted in decisions thus far
MISAPPROPRIATION

• Acquisition of trade secrets
  or
• Disclosure of trade secrets
  or
• Use of trade secrets

Persistent Facts or “How did you think you could get away with this?!”

- Emails data to himself/herself
- Downloads data to an external device
- Doesn’t surrender company computer
- Walks out with files

Very little fools the forensic expert
Fast, Fast Relief – In Application

• No seizures granted specifically under DTSA

BUT

• Near equivalent relief granted under F.R. Civ. P. Rule 65*

TRANSACTIONAL POINTERS

• Review/revise employment agreements
• Identifying Trade Secrets
• Maintaining Secrecy
• Agreement Provisions that Enhance Trade Secret Claims
LITIGATION TIPS - Plaintiff

• Allege post-enactment conduct
• State trade secret claims still relevant
• Is removal/non-removal essential?
• Who owns the trade secret?
• Ex parte seizure or Rule 65?
Plaintiff LITIGATION TIPS (continued)

• Spend money on pre-filing forensics
• Respect state law limits on restraints
• Consider other inviting statutes
  • Computer Fraud and Abuse
  • RICO
LITIGATION TIPS - Defendant

• Attack ex parte seizure orders
• Challenge wrongful seizures
• Alleged state trade secret defenses
• Attack employee restrictions
HOT TOPIC #1

• Should franchisors provide immunity notices to franchisees?
HOT TOPIC #2

• Should a party pursue the seizure remedy?
HOT TOPIC #3

• Is an “inevitable disclosure” actionable under DTSA?
THE AMBIGUOUS ENDING

Will DTSA provide uniformity?
Or just a federal jurisdiction for trade secret battles?