

The Year of Trade Secrets

Implications of the EU Trade Secrets Directive & The US Defend Trade Secrets Act

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July 20, 2016

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The Importance of Trade Secrets



Firms use trade secrets ...
**[without] being themselves
aware of their reliance** on such
intangibles. A very large number of
firms across all industry sectors
adopt ...[the] simplest, mechanism
to protect such strategic assets...
they keep them secret.



330%

Increase in Trade
Secret Claims in 30 Years

* (Source: EU Commission, Study on Trade Secrets and Confidential Business Information in the Internal Market, p. 1)

* Based on Westlaw (adv: ATLEAST5("trade secret")) run from Jan 1 - Dec 31 each year

Agenda

The Status Quo of Trade Secrets

1

What are trade secrets and why are they difficult to protect today?

DTSA Structure and Overview

2

How is the DTSA structured, and how does it change the prior UTSA regime?

EU Directive Overview

3

How is the EU Directive structured and what does it change?

Business Implications

4

What do the new regimes mean for business?

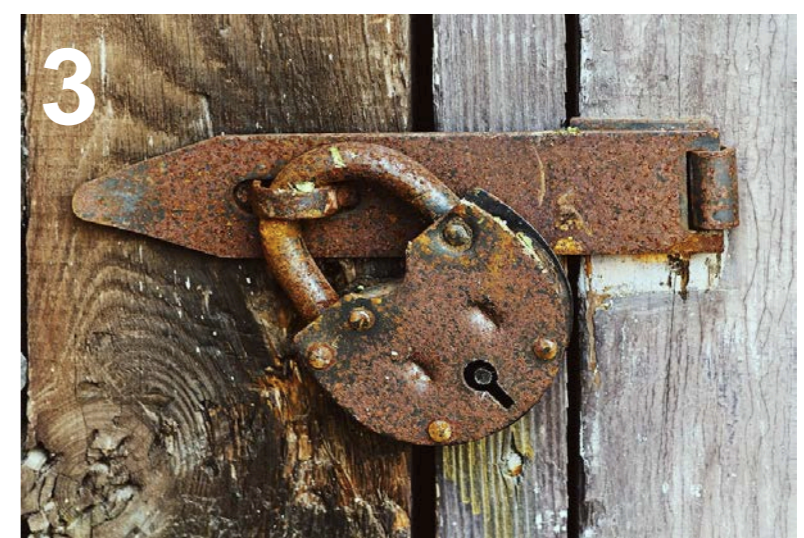
What is a Trade Secret?



Not Generally Known



Independent Economic Value



Reasonable Efforts at Secrecy

“

...**information, including** a formula, pattern, compilation, program, device, method, technique or process...

”

Trade Secrets v. “Traditional” IP Rights



Type of Knowledge	Valuable Secret	Disclosed
Extent of Protection	Acquisition, Use + Disclosure NOT Generally Prohibited	Comprehensive Protection
Extent of Right	Factual Examination in Court	Exclusive Right
Term of Protection	Unlimited as Long as Trade Secret Remains a Secret	Limited

Misconceptions About Trade Secret Licensing



The licensor hereby grants to the licensee the world-wide, non-exclusive rights to **use and exploit his IP** ... This license is limited in scope ... and **will extinguish** if the [Joint Venture] ceases operations.



Need for Improved Trade Secret Protection



Trade secrets do not enjoy an equivalent level of protection throughout the Union, thus **leading** to ... a **weakening** of the overall **deterrent effect** of the relevant rules.



* (Source: Recital 8 of the EU Trade Secret Directive, Directive (EC) No. 2016/943)

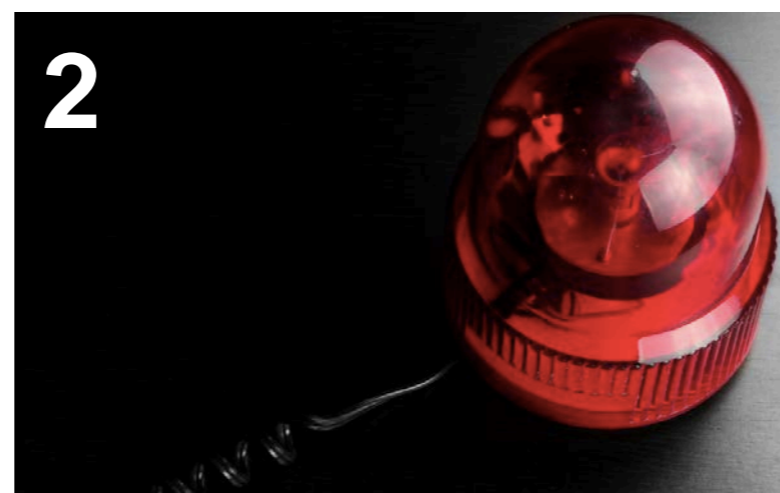
EU Landscape Fragmented and Cumbersome



Issues of the Current US Regime



Jurisdictional Discovery Limits



Few “Emergency” Remedies



Maze to Navigate

Relief through New DTSA and EU Directive



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Operative Provision






An owner of a trade secret that is misappropriated may bring a **civil action**... if the trade secret is related to a product or service used in... **interstate or foreign commerce.**



*18 U.S.C 90 (2) (b) (1)

What Changes?

Change	What Is It?	What Does It Mean?
 <p data-bbox="318 846 872 895">Definition of Trade Secret</p>	<p data-bbox="1127 680 1778 778">Broadens the prior definition by removing examples</p>	<p data-bbox="1890 600 2480 645">New standard requires only:</p> <ul style="list-style-type: none"> <li data-bbox="1942 656 2439 701">(1) info is <i>actually</i> secret <li data-bbox="1942 711 2439 809">(2) <i>reasonable</i> protective measures <li data-bbox="1865 819 2513 864">(3) independent <i>economic value</i>
 <p data-bbox="334 1267 809 1312">Additional Jurisdiction</p>	<p data-bbox="1100 1095 1805 1193">Adds a federal cause of action but does not pre-empt state law</p>	<p data-bbox="1841 1038 2540 1136">Federal Courts: (1) <i>New Federal DTSA Claim</i>, (2) <i>State Law Claims</i></p> <p data-bbox="1860 1201 2521 1246">State Courts: <i>State Law Claims</i></p>
 <p data-bbox="205 1680 963 1725">Uniform Procedures and Standards</p>	<p data-bbox="1114 1508 1791 1606">Streamlines a patchwork of state trade secret laws</p>	<p data-bbox="1882 1455 2494 1553">Substantive: Single legal standard and uniform caselaw</p> <p data-bbox="1901 1563 2475 1661">Procedural Rules: Can use FRCP and FRE</p>

Additions to Prior Regime



Employment Notices and Protection



Whistleblower Protections

=

(1) No **criminal or civil liability** for disclosure
“in confidence” to gov. official or under seal

+

(2) An **anti-retaliation** provision allowing
disclosure to an attorney in retaliation
proceedings



Notice Requirements

=

(1) Must give **notice of immunity provisions** in
any contract governing confidential info

+

(2) Potential **withholding of exemplary
damages and attorneys fees** in actions against
employees

Limitations + Additions to Remedies



<p>Additional Powers</p>	<p>No Contemplation of End of Injunction No Explicit End when Protection Ends</p>	<p>Same Court Options Discussion of "Reasonable Royalty" Option</p>	<p>Same Exemplary Damages 2x for Willful or Malicious Misappropriation</p>
<p>Limitations</p>	<p>Employee Protections Comply w/ State Laws + No Restraint on Employee Mobility</p>	<p>Legislative History Shuns Reasonable Royalty</p>	<p>Same Motions in Bad Faith Award of Attorney Fees</p>
<p>Notes</p>	<p>Defer to States on "Inevitable Disclosure"</p>	<p>Same 3-Year Statute of Limitations Pulled back from 5 Years in 2015</p>	<p>-</p>

Additional In-Court Protections

Overall	Court must secure the material from physical and electronic access
Digital Media	Prohibits seized medium from being connected to the internet w/o consent
Third Party Rights	Allows any third party with an interest to motion to encrypt the medium
Other Duties	Appointment of a Special Master to handle logistics regarding seized material

3.1k

Documents Per GB on
a Computer*

Seizure Orders Offer Emergency Remedies



Rights

Apply for an **ex parte** court order to have trade secret material **seized by law enforcement** until evidentiary hearing

Can file a **motion to dissolve** at any time; **wrongful or excessive seizure** can give rise to punitive damages and fees

Basic Legal Standard

- (1) **standard restraining order** would be **inadequate**
- (2) **“immediate and irreparable injury”**
- (3) **likely to succeed** and harm in denying relief **outweighs** harm to others

Court Requirements

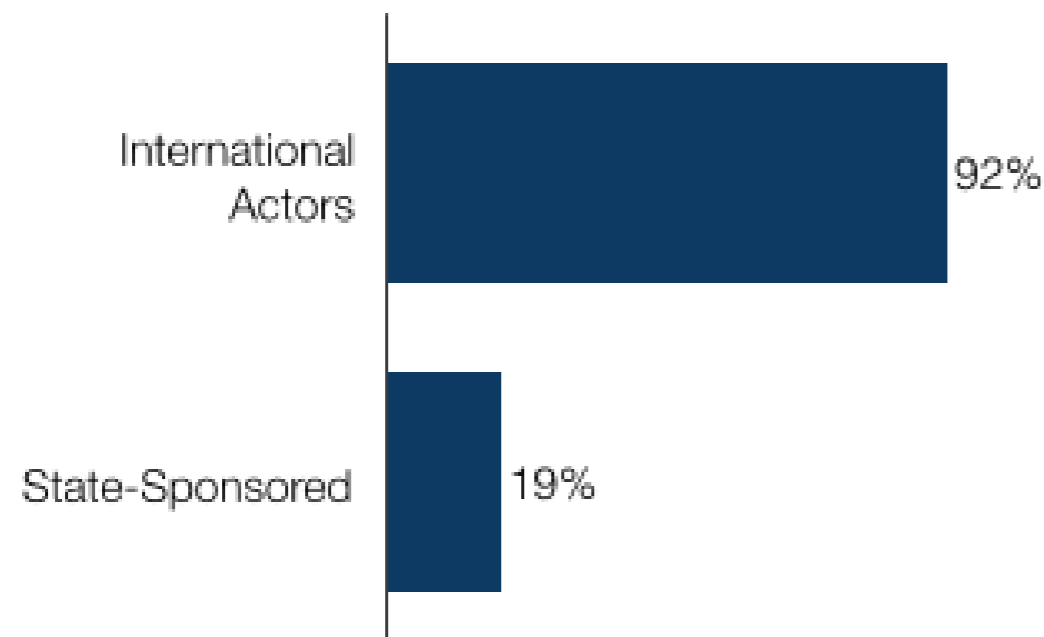
Materials seized remain in **court custody**

Evidentiary hearing **within 7 days** and **“narrowest seizure possible”**

Greater Emphasis on International Theft

International Data Theft

2013 Verizon Breach Report*



Attorney General Report

=

(1) Requirement of **biannual report** on the status of international trade secret theft

+

(2) **Educational material** for US companies + means for companies to **report theft**

*Verizon, 2013 Data Breach Investigations Report, at 4-5, available at <http://www.verizonenterprise.com/DBIR/2013/>

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A Unified Framework for the EU

Directive of the European Parliament and of the Council on the **protection** of [trade secrets] against their **unlawful acquisition, use and disclosure.**

“Trade Secrets Directive”

Trade Secrets Newly Defined

What Is It?

What Does It Mean?



Definition of Trade Secret

New definition requires:

- (1) a secret *not generally known* or ascertainable
- (2) commercial *value*
- (3) *reasonable* protective measures

Aligns
protection among member states
and with TRIPS Art. 39

Broadens eligible subject matter for
some member states



Reasonable Steps

New requirement of “reasonable”
protective measures
for some member states

Need to implement by way of

- (1) legal measures
- (2) technological measures

Two Levels of Infringement



Primary

Article 4 (2) and (3)

- (1) Unlawful acquisition
- (2) Lawful acquisition, but use or disclosure in breach



Secondary

Article 4 (4) and (5)

- (1) Actual or constructive knowledge
- (2) Infringing goods

New Concept of Infringing Goods

Overall	New basis for secondary infringement related to “ infringing goods ”
Source	Trade Secret Directive Article 2 (4)
Definition	(1) Goods , (2) the design, characteristics, functioning, production process or marketing of which (3) significantly benefit from, (4) trade secrets unlawfully acquired, used or disclosed
Implications	Ultimate scope is still uncertain (member states) but this is a far-reaching definition

35.5m

IPR Infringing Goods Detained In 2014*

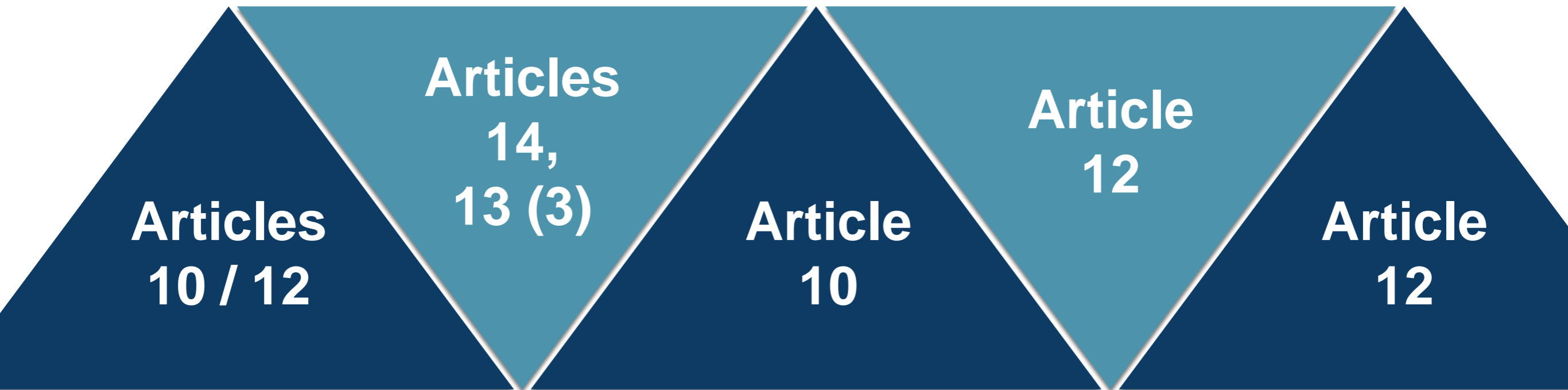
*http://europa.eu/rapid/press-release_MEMO-15-5921_en.htm

Available Remedies

Preliminary and Permanent **Injunction**

Seizure

Destruction
of Embodiments



Damages and
Compensation

Corrective
Measures

Confidentiality in Legal Proceedings



Article 9 (i)

Impose confidentiality and non-use obligations on trade secrets disclosed at trial



Article 9 (ii)

Restrict access to documents and hearings unless necessary for fair and effective proceedings



Article 9 (ii)

Only redacted versions available to third parties

Exceptions from Protection



- (1) **Independent Discovery** or Creation
- (2) **Reverse Engineering**
- (3) Exercise of **Right of Workers**
- (4) Any other **Honest Commercial Practice**



Acquisition, Use or Disclosure Lawful
when **required by Union or International Law**

Limitations on Protection

**Freedom of Expression
and Information**



**Whistleblowing in
the Public Interest**

Disclosure for
Legitimate Exercise of
Workers' Representation



Pursuit of other
Legitimate Interests

Changes v. Current German Law



Trade Secret Definition	Broad Definition	Narrow and limited to eligible subject matter
Potential Infringers	No Limitation	Limited to only certain parties
Extent of Protection	Broadly worded infringing actions	Narrowly worded infringing actions
Remedies	Far reaching remedies similar to those in "traditional IP"	Limited , specific to statutory basis
Enforcement	Enhanced protection in enforcement proceedings	Impaired enforcement due to need to disclose

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Recommendations in the US

- 1 Think Through Where to Bring Claims:** The DTSA does not pre-empt state claims and some states may still provide comparative benefits.
- 2 Re-Examine Employee Contracts:** Add notification requirements to employee contracts and applicable employee manuals.
- 3 Rethink Your IP Strategy:** Patent protection for certain industries has weakened - the DTSA provides a new protection platform in addition to state rights.
- 4 Inventory Your IP:** Having an identification process that flags essential information will prepare you in case a seizure order is necessary.
- 5 Flag International Incidents:** For international companies, consider monitoring AG reports and reporting evidence of theft.

Recommendations in the EU

- 1 Re-Value Your Trade Secrets:** The Trade Secrets Directive will strengthen trade secret protection, making trade secrets more valuable.
- 2 Set Up Protective Processes:** New definition of trade secrets may require additional technological and legal protections.
- 3 Adapt Your IP Contracts:** Tailor contracts to trade secret protection, enabling enhanced protections and enforcement actions.
- 4 Comply with Confidentiality Provisions:** Severe remedies and increased risk of enforcement action demand greater oversight.
- 5 Do Your Diligence:** Due diligence will need to cover trade secret protection procedures and treatment in third party contracts.

Consider Your International IP Portfolio



- 

Trade Secret Flows
Don't Stop at Borders
- 

Cross-Border Flows
Require a **Cross-Border Approach**
- 

International Companies
Should Strive to Meet the
Highest Requirements
- 

Check for Compliance
Going Forward