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The Defend Trade Secrets Act—A Sea Change in the Fight Against the Misappropriation of Trade Secrets

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Summary

Until just this past Wednesday, May 11, 2016, when President Obama signed into law the federal Defend Trade Secrets Act (the "DTSA"), employers had limited access to the federal courts when their trade secrets were misappropriated. The DTSA changes that in dramatic fashion. In an historic shift, this new statute (which, despite today's political climate, passed the House 410-2) allows employers to file a civil suit in federal court for theft of trade secrets and obtain injunction relief against the misuse of those secrets, as well as damages and attorneys' fees. The law also allows, in extraordinary circumstances, a court to order the *ex-parte* seizure of trade secrets by law enforcement to prevent their propagation or dissemination. The result is that the DTSA will radically alter trade secret litigation. While non-competes and breach of non-solicitation cases will continue to be litigated primarily in state court, trade secret litigation will likely shift to the federal courts. Note, though, that the DTSA does not preempt state law, and thus many DTSA cases filed in federal court will contain multiple causes of action, including state law unfair competition tort claims and claims for breaches of non-solicit and non-compete provisions.

One particularly valuable aspect of the DTSA is that it will allow, where warranted, much of the new federal court trade secret litigation to take place under seal. The statute states that the court "shall enter such orders and take other action as may be appropriate to preserve the confidentiality of the trade secrets," thus paving the way for complaints and related court filings to be made under seal—an enormous relief to companies that were often forced to balance the conflicting interests of disclosure and enforcement. One negative aspect of the DTSA, however, is that it provides new protections for whistleblowers who take their employers' trade secrets and turn them over to the government or their legal counsel for the sole purpose of reporting or investigating a suspected violation of law.

For more detailed information about the DTSA, read below.

The Fine Print

The DTSA amends the existing federal Economic Espionage Act (the "EEA") (18 U.S.C.A. § 1831, et. seq.), which previously allowed only for criminal prosecutions. The EEA

was aimed primarily at industrial espionage by companies, foreign governments and their agents. With the DTSA amendments, individuals or entities who knowingly and intentionally steal, take without authorization, copy, or knowingly receive a misappropriated trade secret related to a product or service used in or intended for use in interstate or foreign commerce are subject to a civil suit for damages and injunctive relief. Double damages can be awarded in instances where "the trade secret is willfully and maliciously misappropriated." DTSA § 1836 (b)(3)(C).

The DTSA provides for the possibility of attorneys' fees if the other side engages in bad faith when claiming misappropriation or opposing the claim of misappropriation. DTSA §§ 1831, 1836.

What constitutes trade secrets under the DTSA is the same as it was under the EEA, which defined trade secrets to include formulae, programs, devices, techniques, codes, or processes, etc., regardless of its medium, 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

DTSA § 1839 (3)(A).

Injunctive Relief and Seizure

The DTSA is revolutionary for the range of injunctive relief available to a plaintiff. DTSA § 1836 provides for injunctive relief and, in extraordinary cases, the *ex-parte* seizure of the misappropriated trade secret, meaning without notice to the party in possession of the trade secret. Injunctive relief may granted provided that it does not "prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; " DTSA § 1836(b)(3)(A). This language indicates that the DTSA will not provide for injunctive relief based on the inevitable disclosure doctrine. Additionally, it appears that it will be a challenge to enjoin an employee who has stolen trade secrets from competing if the injunction is based only on the stolen trade secrets; rather, other "conditions" will be placed on such employment.

In those rare cases where more traditional forms of injunctive relief will be ineffective, the court may issue an order providing for the seizure of trade secret property necessary to prevent its loss or dissemination. While the materials seized remain in the custody of the court, the court may further appoint a special master to "locate and isolate all misappropriated trade secret

information" to facilitate its return. DTSA §1836(b)(2)(D)(i) and1836 (b)(2)(D)(iv). The statute sets forth the elements that must be satisfied to obtain a seizure order and the burden is high, not surprising given the drastic nature of the remedy and the need for US Marshall or police involvement. Yet, this remedy will no doubt prove invaluable in high risk situations. A hearing will then be held within seven days of the seizure order. DTSA § 1836(b)(2)(B)(v). As a brake on the abuse of this provision, if a seizure is deemed wrongful or excessive, the individual subject to the seizure can seek damages, such as lost profits. DTSA § 1836(b)(2)(G). Similarly, if a claim of misappropriation is made in bad faith, the accused may recover his or her reasonable attorneys' fees from the plaintiff. DTSA 1836 § (a)(3)(D).

Employers in highly competitive industries will further appreciate DTSA § 1835, which is titled: "Orders to Preserve Confidentiality." This provision requires district courts to permit a trade secret holder to file a brief under seal to explain why its trade secrets should be kept confidential by the court. Furthermore, a 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." Given the statute's cognizance of the need to maintain the confidentiality of this information, it is reasonable to assume that obtaining a confidentiality order will not be overly challenging.

Plaintiffs will have three years to file suit under the DTSA. The limitations period begins to run once the misappropriation is discovered or reasonably should have been. The DTSA also applies to misappropriation that has occurred outside the United States, if the offender is a US citizen or "an organization organized under the laws of the United States." DTSA §1837.

Whistleblower Protection

Most great things have a downside and the DTSA is no exception. In keeping with the current fashion of protecting, if not encouraging, whistleblowers, the DTSA provides an exception to itself: a safe harbor to individuals who turn over their employer's trade secrets to the government to investigate potentially illegal activity. The statute grants them both civil and criminal immunity. DTSA § 1833. In addition, an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law for example, the Foreign Corrupt Practices Act or Title VII, may disclose their employer's trade secrets to their attorney and use it in a future court proceeding if the material is sealed. DTSA § 1833(b)(2).

What may make employers squirm is the DTSA's requirement that employers must "provide notice of the foregoing immunity provision in any contract or agreement with an employee that governs the use of trade secrets or other confidential information," for example a restrictive covenant agreement or employee handbook. DTSA § 1833(b)(2). The good news is that an employer shall be in compliance with this notice requirement if the employer merely provides a "cross-reference" to a policy document provided to employees that fully recites the immunity provision. Thus, a company can put the notice provision in its employee handbook and any subsequent contracts or confidentiality statements or warnings can merely refer to that

handbook. For example: "*This Confidentiality Agreement shall incorporate the notice provisions of the DTSA as set forth in the Company Employee Handbook.*" Failure to provide employees with notice of immunity will deprive the employer of the ability to seek double damages and attorneys' fees. Accordingly, timely consultation with legal counsel is highly recommended so that employer-employee contracts, employee handbooks and company policies can be appropriately revised.

Conclusion

The DTSA is now in effect. It will greatly impact the practice of trade secret litigation and the remedies available to employers. Whether it increases litigation or simply moves it to a different forum, is something time will tell. Despite the whistleblower immunity provision which may prove challenging should it be publicized, the DTSA provides employers with a new arsenal of remedies to combat the misappropriation of trade secrets. While it will take time for the courts to generate the case law that will provide the additional guidance and clarity needed to fully round-out the scope of the DTSA, it should happen relatively quickly given the volume of trade secret ligation that will now be diverted from state to federal courts. One can easily foresee the day when trade secret law instead of varying from state by state, becomes replaced by a more uniform body of federal law.

Of course, we stand to assist you to adjust your company policies to fully take advantage of the DTSA and to answer any questions you may have.