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Management Alert

What Does the Passage of the Defend Trade Secrets Act Mean for Your Business?

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Congress passed federal trade secrets legislation today. On April 4, 2016, the Senate passed S. 1890, the Defend Trade Secrets Act of 2016 ("DTSA"). Soon after, on April 20, 2016, the House Committee approved S. 1890 by voice vote. Today, the House passed the DTSA. President Obama has voiced his support for the DTSA, which indicates that he will sign it.

What does the passage of the DTSA mean for your company? In a nutshell, it means your company can now pursue claims for trade secret misappropriation in federal court like other forms of intellectual property (i.e., patent, trademark, copyright) and seek remedies such as a seizure order to recover misappropriated trade secrets. It also serves a reminder that trade secrets can be highly valuable to your company and that you should ensure that your company has reasonable secrecy measures in place to protect them.

Below we outline a brief history of the DTSA, describe what legal structure and remedies the DTSA creates, and describe the unique provisions of the DTSA. We also provide tips and strategies in light of the passage of the DTSA.

Brief History of the Defend Trade Secrets Act

On July 29, 2015, with bipartisan and bicameral support, Congressional leaders Senators Orrin Hatch (R-UT), Christopher Coons (D-DE), and Representative Doug Collins (R-GA) introduced bills to create a federal private right of action for the misappropriation of trade secrets. The identical bills, HR 3326 and S. 1890, were then referred to their respective judiciary committee. The proposed legislation, titled the "Defend Trade Secrets Act of 2015" followed an unsuccessful attempt the previous year to pass the "Defend Trade Secrets Act of 2014."

The Senate Judiciary Committee later held a hearing on December 2, 2015 (about which we blogged and held a Live Tweet), which featured intellectual property counsel from DuPont and Corning and a trade secret expert who spoke out in favor of the legislation.

In January 2016, Senators Hatch and Coons presented two "groups" of amendments to the DTSA (blogged here), taking into consideration suggestions from other members of the Senate Judiciary Committee. The Committee unanimously adopted both groups of amendments, and held a voice vote in favor of the passage of the now amended Defend Trade Secrets Act of 2016.

Senator Grassley of the Senate Judiciary Committee authored a Report about the now amended DTSA on March 7, 2016, in which he described the background and purpose of the bill. It describes a "trade secret" as a "form of intellectual property

that allow[s] for the legal protection of commercially valuable, proprietary information." The stated purpose of the bill, per the Report, is to allow trade secret owners to "protect their innovations by seeking redress in Federal court," which would allow them to bring "their rights into alignment with those long enjoyed by owners of other forms of intellectual property."

As noted above, the Senate passed the DTSA on April 4, and the House Judiciary Committee approved the Senate's version of the DTSA on April 20. On April 27, 2016, the House voted in favor of the DTSA. President Obama has indicated that he will sign the bill.

What Does the DTSA Provide?

The DTSA would authorize a civil action in federal court for the misappropriation of trade secrets that is related to a product or service used in, or intended for use in, interstate or foreign commerce. Trade secret claims are presently state law claims, and 48 states have adopted some version of the Uniform Trade Secrets Act (UTSA). New York and Massachusetts, the only two states that have yet to adopt a version of the UTSA, provide civil remedies under the common law for trade secret misappropriation.

The DTSA seeks to do the following: 1) create a uniform standard for trade secret misappropriation by expanding the Economic Espionage Act of 1996 ("EEA") to provide a federal civil remedy for trade secret misappropriation; 2) provide parties pathways to injunctive relief and monetary damages in federal court to prevent disclosure of trade secrets and account for economic harm to companies whose trade secrets are misappropriated, including via ex parte property seizures (subject to various limitations), which means that a plaintiff can seek to have the government seize misappropriated trade secrets without providing notice to the alleged wrongdoer; and 3) harmonize the differences in trade secret law under the UTSA and provide uniform discovery.

The current legislation is the final product of a series of amendments made since the introduction of the Defend Trade Secrets Act of 2014. The significant aspects of the DTSA are summarized below:

- The DTSA provides for actual damages, restitution, injunctive relief, significant exemplary relief (up to two times the award of actual damages), and attorney's fees.
- *Ex parte* property seizures are available to plaintiffs, but subject to limitations. As noted above, an *ex parte* seizure means that an aggrieved party can seek relief from the court against a party to seize misappropriated trade secrets without providing notice to the alleged wrongdoer beforehand. As a measure to curtail the potential abuse of such seizures, the DTSA prohibits copies to be made of seized property, and requires that *ex parte* orders provide specific instructions for law enforcement officers performing the seizure, such as when the seizure can take place and whether force may be used to access locked areas. Moreover, a party seeking an *ex parte* order must be able to establish that other equitable remedies, like a preliminary injunction, are inadequate.
- Injunctive relief for actual or threatened misappropriation of trade secrets is limited in that a court will not grant injunctive relief if it would prevent a person from entering into an employment relationship. A court could further place conditions on that employment relationship only upon a showing through evidence of "threatened misappropriation and not merely on the information the person knows." This language was added to guard against plaintiffs pursuing "inevitable disclosure" claims.
- The statute of limitations is three years. A civil action may not be commenced later than 3 years after 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.
- An immunity provision exists to protect individuals from criminal or civil liability for disclosing a trade secret if it is made in confidence to a government official, directly or indirectly, or to an attorney, and it is made for the purpose of reporting a violation of law. This provision places an affirmative duty on employers to provide employees notice of the new immunity provision in "any contract or agreement with an employee that governs the use of a trade secret or other

confidential information." An employer will be in compliance with the notice requirement if the employer provides a "cross-reference" to a policy given to the relevant employees that lays out the reporting policy for suspected violations of law. Should an employer not comply with the above, the employer may not recover exemplary damages or attorney fees in an action brought under the DTSA against an employee to whom no notice was ever provided. Curiously, the definition of "employee" is drafted broadly to include contractor and consultant work done by an individual for an employer.

- The "Trade Secret Theft Enforcement" provision increases the penalties for a criminal violation of 18 U.S.C. § 1832 from $5,000,000 to the greater of $5,000,000 or three times the value of the stolen trade secrets to the organization, including the costs of reproducing the trade secrets.
- The DTSA also contains a provision that allows trade secret owners to be heard in criminal court concerning the need to protect their trade secrets.
- The DTSA further amends the RICO statute to add a violation of the Economic Espionage Act as a predicate act.

In sum, the DTSA provides aggrieved parties with legal recourse in federal court via a federal trade secret cause of action (whereas previously, relief was only available under the state law UTSA or common law claims), as well as new remedies, including a seizure order. A party can now sue in federal court for trade secret misappropriation and seek actual damages, restitution, injunctive relief, *ex parte* seizure, exemplary damages, and attorney's fees under the DTSA.

Provisions Unique to the DTSA

The DTSA differs from the UTSA in several important aspects. Before delving into the differences further, it bears noting that the UTSA regime will not be preempted by the DTSA; in other words, UTSA claims will still be available to aggrieved parties. Most notably, it opens the federal courts to plaintiffs in trade secrets cases. The DTSA also allows for an *ex parte* seizure order. A plaintiff fearful of the propagation or dissemination of its trade secrets would be able to take proactive steps to have the government seize misappropriated trade secrets prior to giving any notice of the lawsuit to the defendant. However, the *ex parte* seizure order is subject to important limitations that minimize interruption to the business operations of third parties, protect seized property from disclosure, and set a hearing date as soon as practicable. The proposed seizure protection goes well beyond what a court is typically willing to order under existing state law. Of course, as referenced above, the *ex parte* seizures are limited and may only be instituted in "extraordinary circumstances." The DTSA also contains no language preempting other causes of action that may arise under the same common nucleus of facts of a trade secret claim, unlike the UTSA as interpreted by some states which preempt such claims.

Unlike the UTSA, the DTSA also provides protection to "whistleblowers who disclose trade secrets to law enforcement in confidence for the purpose of reporting or investigating a suspected violation of law," and the "confidential disclosure of a trade secret in a lawsuit, including an anti-retaliation proceeding."

With Passage of the DTSA, What Should An Employer or Business Do?

What is an employer or business to do if it wants to avail itself of this new law? What should employees now be apprised of? Here are some tips and strategies we believe will assist employers and business owners in complying with and taking full advantage of the relief available under the DTSA:

1. **Review:** Have qualified counsel review policies and relevant agreements to ensure that they contain language required under the DTSA, such as proper notice of the immunity provision referenced above. Additionally, ensure that your company is using non-disclosure agreements with your employees and that such agreements have clear definitions of trade secrets and confidential information and are not overly broad.

a. Should you file suit under the DTSA if your agreement or policy does not contain the required immunity language? If you do not include the necessary immunity language in your employment or confidentiality agreements or policies, your

company will not be able to avail itself of all the remedies under the DTSA. In other words, you will not be able to obtain attorney's fees or exemplary damages if you bring a suit under the DTSA.

b. It is a good practice to include the required immunity language under the DTSA in your agreements and also have clear definitions of trade secrets and confidential information that are not overly broad given the government's enhanced scrutiny of overly broad confidentiality language, such as the NLRB, EEOC, and SEC.

2. **Ensure and Protect:** *Do you have valuable information that could be protected as a trade secret?* First, identify valuable sources of information in your organization. You should then check to see how your company protects such information. You will only be to pursue trade secrets claims if you can show that your company employs reasonable secrecy measures to protect its trade secrets. Check out one of our recent webinars discussing best practices for the proper treatment of trade secret information. We have found that a trade secret audit with the assistance of counsel can be valuable for companies trying to identify and protect their trade secrets.

3. **Prepare:** To pursue and avoid DTSA claims against your company, maintain proper on-boarding and off-boarding procedures and counsel your employees regarding the handling and further protection of your company's confidential and trade secret information, including recurring employee training. Also closely monitor relationships with vendors and contractors who may have access to your company's trade secrets and confidential information and ensure that there are appropriate protections in place.

   It will be a brave new world with the passage of the DTSA. Federal courts will likely become the new forum for trade secret litigation. Make sure that your company is ready.

Further Information

Please visit our blog, Trading Secrets, for further coverage of the DTSA. We regularly update our page featuring DTSA developments, and we recently recorded a webinar and podcast featuring the most recent updates (as of April 11, 2016) to the DTSA. We are happy to discuss with you what the DTSA may mean for your company.

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