May 13, 2016

President Obama Signs Defend Trade Secrets Act

In what has been heralded as potentially the "most significant expansion" of federal intellectual property law in 70 years (since passage of the Lanham Act), President Barack Obama signed the Defend Trade Secrets Act (DTSA) on Wednesday, May 11. The DTSA creates a right to file a civil claim under federal law for trade secret misappropriation and to seek various remedies, including an ex parte seizure order early in the action. The DTSA does not preempt state trade secret law, but it bolsters the rights currently available under state law. Claims under the DTSA may be brought in federal or state courts, and the law applies to misappropriation occurring on or after May 11. 18 U.S.C. 1836(e).

Until passage of the DTSA, civil claims for trade secret misappropriation were the province of state law. Although many states have adopted the Uniform Trade Secrets Act (UTSA) or variations thereof, some states, such as Massachusetts and New York, have not enacted the UTSA. Plaintiffs bringing trade secret claims in those states must grapple with state-specific rights and remedies pertaining to trade secret claims. The DTSA now creates a largely uniform federal law standard for civil enforcement of trade secret misappropriation.

Misappropriation is defined by 18 U.S.C. 1839, with a newly added subsection (5) that essentially follows the UTSA. In contrast, the DTSA updates the definition of trade secret set forth in the existing Economic Espionage Act of 1996 (EEA):

> ***all forms and types*** of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, 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.

18 U.S.C. 1839 (emphasis added).

The DTSA has several other noteworthy features. One is an ex parte seizure process. 18 U.S.C. 1836(b)(2). If a plaintiff satisfies the "extraordinary circumstances" requirements and sets forth the trade secret with "particularity," it may obtain an ex parte order (i.e., one without notice to the defendant) permitting the seizure of the stolen property. 18 U.S.C. 1836(b)(2)(A). The aim is to be able to quickly reclaim stolen or misappropriated trade secrets early in a dispute. There are various safeguards designed to prevent abuse of this remedy. For example, in addition to the particularity and extraordinary circumstances requirements, a plaintiff needs to post bond sufficient to cover damages from a wrongful seizure, and any seizure must be executed by law enforcement officials.

The DTSA also provides employers with remedies for theft of trade secrets by departing employees. It permits an injunction "to prevent actual or threatened misappropriation." 18 U.S.C. 1836(b)(3). However, an injunction cannot "prevent a person from entering into an employment relationship," and any conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows. An injunction also cannot conflict with

"state law prohibiting restraints on the practice of a lawful profession, trade or business." Application of this particular provision may vary depending on the particular state law governing employee mobility.

The DTSA amends 18 U.S.C. 1833 to provide limited whistleblower immunity. It allows a whistleblower "who files a lawsuit for retaliation by an employer for reporting a suspected violation of law" to disclose trade secrets to his or her attorney and "use the trade secret information in the court proceeding" provided that the documents containing the trade secrets are filed under seal and are not disclosed except by court order.

How does this affect you?

Changes to 18 U.S.C. 1833 mandate certain notice requirements. Starting May 12, employers are required under the DTSA to provide a notice of immunity to employees and contractors "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information." 18 U.S.C. 1833(b)(3). The notice requirement applies to "contracts and agreements that are entered into or updated after the date of enactment." Because the DTSA was signed into law on May 11, employers must immediately begin providing notice under the law. However, it does not appear that employers need to amend any pre-existing contracts or agreements. If an employer fails to provide the required notice, it is precluded from recovering exemplary damages (defined in the DTSA as "2 times" any damages otherwise recoverable under the DTSA) and attorneys' fees in any subsequent lawsuit against the employee for trade secret misappropriation.

Moreover, the passage of the DTSA provides a reminder to all employers to evaluate their best practices for identifying and protecting trade secrets using reasonable measures. The potential ex parte seizure provisions also provide an opportunity to update departing employee protocols to ensure quick identification of potential trade secret violations. More broadly, anyone facing a misappropriation of trade secrets now has rights and remedies under federal law, some of which were not previously available under state law.

Authors



James M. Leva
Partner

Parsippany, NJ | (973) 966-8416

Stamford, CT | (973) 966-8416

jleva@daypitney.com



Richard H. Brown
Partner

Parsippany, NJ | (973) 966-8119

New York, NY | (212) 297-5854

rbrown@daypitney.com