



NEW FEDERAL TRADE SECRET LAW ENACTED

TRADE SECRET LITIGATION TO UNDERGO SIGNIFICANT CHANGES

Change is coming to the world of trade secret litigation. On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act ("DTSA"), providing the first ever federal civil cause of action for misappropriation of trade secrets. The enactment of the DTSA will bring significant changes and new strategic litigation options for trade secret litigants, including different forum choices and powerful new remedies like the opportunity for an ex parte seizure order to recover misappropriated trade secret materials.

Why should businesses care about the new DTSA? Because trade secrets are becoming an increasingly important form of intellectual property. Not every business depends on patents, copyrights, or even trademarks. But nearly every company has proprietary, non-public information crucial to its business that could be protected from competitors as a trade secret. Moreover, while Congress and federal courts recently have narrowed aspects of patent law protection, the DTSA reflects a policy of broad protection for information constituting a trade secret.

THE BASICS

The DTSA amends the existing Economic Espionage Act, 18 U.S.C. § 1831, *et seq.*, to provide a private civil cause of action for trade secret misappropriation. The DTSA applies to acts of misappropriation that occur on or after its May 11, 2016 effective date. It covers trade secrets that are related to a product or service used or intended for use in interstate or foreign commerce. The statute of limitations is three years from the date on which the misappropriation is, or in the exercise of reasonable diligence should have been, discovered. A continuing misappropriation is, however, deemed to constitute only a single act of misappropriation, occurring on the first instance of misappropriation.

The definitions of the key terms in the DTSA are substantially the same as those under the Uniform Trade Secrets Act, adopted in some form by 48 states and the District of Columbia. The definition of a "trade secret" requires that the information derive economic value from not being generally known or readily ascertainable by proper means, and that the owner of the trade secret has taken reasonable measures to keep the information secret. And "misappropriation" covers both *acquisition* of a trade secret by improper means as well as *disclosure* or *use*. Federal courts interpreting the DTSA therefore likely will look to case law interpreting the Uniform Act.

The DTSA provides similar kinds of remedies as the Uniform Act, but with a few important differences discussed in the next section below. A federal court may grant an injunction under traditional equitable principles to prevent actual or threatened misappropriation. A plaintiff may recover damages for the actual loss caused by the misappropriation and for any unjust enrichment that is not addressed in computing damages for actual loss. In lieu of damages measured by other methods, a court may impose

a reasonable royalty for the unauthorized disclosure or use of a trade secret. For willful and malicious misappropriation, a court may award exemplary damages of not more than two times the amount of the other damages awarded, plus reasonable attorney's fees. If a claim of misappropriation is made in bad faith, a court may award attorney's fees to the defendant.

5 THINGS A BUSINESS NEEDS TO KNOW ABOUT THE DTSA

The benefit of being in federal court. With this new federal cause of action, trade secret plaintiffs now have the advantage of access to the powers and scope of the federal courts and the Federal Rules of Civil Procedure. These benefits include nationwide service of process, nationwide service of third-party subpoenas, and the ability to enforce injunctive relief nationwide without having to go through the cumbersome process to domesticate a state court judgment. Federal courts often have access to more resources and can move cases more quickly when the circumstances justify doing so. Also, federal courts may have more experience dealing with sophisticated and document-intensive intellectual property disputes.

A powerful new remedy – ex parte seizure order. Perhaps the most significant new feature of the DTSA is the power of a federal court to issue an ex parte order directing law enforcement authorities to seize property necessary to prevent the propagation or dissemination of the trade secret at issue. The DTSA makes clear that this remedy is available “only in extraordinary circumstances.” In addition to the traditional injunctive relief factors, the court must find “that it clearly appears from specific facts that” (a) an injunction under Rule 65 would not be adequate because the party would evade, avoid, or otherwise not comply with such an order, and (b) the person against whom seizure is ordered would destroy the materials or make them inaccessible if the plaintiff were to give notice. The statute also requires the court to schedule a hearing within seven days to allow the defendant to challenge the seizure order. Litigation under this provision is sure to be complicated and challenging for both plaintiffs and defendants.

Limits on injunctions against former employees. In response to concerns that large companies might use this statute to harass or limit competition by former employees, Congress added certain limitations on the kind of injunctive relief a court may order. First, an injunction may not prevent a person from entering into an employment relationship with a new employer, thus rejecting the broadest application of the “inevitable disclosure” doctrine recognized in some states. Second, an injunction under the DTSA must not “otherwise conflict with an applicable State law prohibiting restraints on practicing a lawful profession, trade, or business.” It is not clear from the statutory language, however, how courts are supposed to balance and apply state non-compete law in crafting an injunction. This will be a fertile ground for creative advocacy.

The DTSA does not preempt state trade secret laws. Congress chose to add a new federal right, but it did not preempt other civil or criminal remedies for misappropriation of trade secrets. Trade secret plaintiffs will still have the option to sue in state court under state statutory or common-law claims, and in certain situations state law or procedure might be more advantageous. Experience and judgment will be crucial to determine the best strategy in a particular case.

Whistleblower protection and requirements for employment agreements. The DTSA grants immunity from civil or criminal liability for disclosure of a trade secret made in confidence to a federal, state, or local government official and solely for the purpose of reporting or investigating a suspected violation of

law. An employer is required to provide notice of this statutory immunity in any agreement with an employee, contractor, or consultant that governs the use of a trade secret or confidential information. This requirement applies to all agreements that are “entered into or updated” after enactment of the statute. Failure to make this disclosure limits the monetary remedies an employer would have in a lawsuit against the employee.

For any questions about the new Defend Trade Secrets Act or other trade secret issues, contact:

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