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ALERT MEMORANDUM

President Obama Signs The First Federal Trade Secrets Law, Supplementing State Law Protections Against Trade Secret Misappropriation

May 13, 2016

This week President Obama signed into law one of the most significant expansions of federal intellectual property law in recent years, the Defend Trade Secrets Act ("DTSA"), which creates a federal civil claim for trade secret misappropriation, a subject that historically has been governed exclusively by state law. The DTSA was adopted by the Senate in March, and passed the House of Representatives earlier this month.

Background

Other areas of U.S. intellectual property law have long been the subject of federal law. The U.S. Constitution empowers Congress to regulate both patents and copyrights,[1] and the federal Lanham Act has governed trademarks since its passage in 1946.[2] But trade secrets have been regulated by state law and subject to only state law claims.[3] The DTSA creates for the first time a federal civil claim for trade secret misappropriation.

One of the driving forces behind the DTSA is a desire to harmonize trade secret law under a single federal statute and to enable suits under the Act to be brought in federal court. The Uniform Law Commission published the Uniform Trade Secrets Act ("UTSA")

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[1] U.S. CONST. art. I, § 8
[2] 15 U.S.C. § 1051 *et seq.*
[3] The lone exception has been criminal enforcement under the Economic Espionage Act of 1996 (18 U..S.C. § 1831, *et seq.*), which permits the federal government to prosecute trade secret theft in federal court.

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in 1979 to provide model trade secret legislation to the states, and most of the states have adopted the UTSA in some form. However, because state courts have given the provisions of the UTSA varying interpretations, there are disparities even among states sharing common statutory provisions. The DTSA, which for the most part is consistent with the UTSA, aims to provide trade secret owners with a more consistent framework for protecting their property and prosecuting misappropriation claims.

The DTSA also responds to the complexity of interstate and international commerce by providing a single federal framework to govern disputes that cross state and national boundaries.

The Scope and Substance of the DTSA

The DTSA's central provision states that "[a]n 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, or intended for use in, interstate or foreign commerce."[4] This grant of federal jurisdiction is not meant to displace state trade secret law, and the DTSA expressly states that "[n]othing in the amendments made by this section shall be construed to. . . preempt any other provision of law."[5]

The DTSA defines a trade secret as including "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" provided "the owner thereof has taken reasonable measures to keep such information secret" and "information derives independent economic value" from remaining secret.[6] In turn, the DTSA defines misappropriation to include either the acquisition of a trade secret through improper means or the use or disclosure of a trade secret without consent by one who knew or should have known that the information was a trade secret or was acquired through improper means.[7]

The DTSA also provides for a variety of pre- and post-judgment remedies for trade secret misappropriation.

- *Ex Parte Civil Seizure*: The most controversial provision of the DTSA permits federal courts to issue orders providing for "the seizure of property necessary to prevent the propagation or dissemination of the trade secret" at issue based upon an ex parte application by the trade secret's owner.[8] Seizure is permitted "only in extraordinary circumstances" and must satisfy a rigorous standard, which requires, among other things, pleading specific facts that (1) the trade secret matter would be destroyed or otherwise lost if the party-opponent is put on notice, (2) there is a likelihood of success in the trade secret matter and (3) that absent a seizure plaintiff will suffer irreparable injury.[9] The statute also sets out detailed requirements for both the seizure order and a seizure hearing.[10] A party against whom a seizure order is issued may ask the court immediately or at any time thereafter to dissolve or modify the order. The party seeking an order bears the burden of justifying the seizure, and parties harmed by an order are entitled to damages (potentially including punitive damages and attorneys' fees) in the event of wrongful seizure.[11]

  Proponents support the seizure provision as a necessary tool to prevent the dissemination of sensitive information, especially in light of the speed at which modern trade secret theft can occur, and note that both the Copyright Act and the Lanham Act have analogous seizure provisions. But critics believe the provision is too broad and may run afoul of due process protections. They also warn of the possibility of abuse, particularly due to the ex parte nature of the seizure application. Congress responded to critics'

[4] Defend Trade Secrets Act, S. 1890, 114th Congress § 2(a) (2016)
[5] *Id.* § 2(f)
[6] *Id.* § 2(b)(1) (adopting a slightly modified definition of "trade secret" found in 18 U.S.C. § 1839)
[7] *Id.* § 2(b)(3)
[8] *Id.* § 2(a)
[9] *Id.*
[10] *Id.*
[11] *Id.*

concerns by limiting the reach of the seizure provision to "extraordinary circumstances," but whether that limitation appropriately constrains use of the seizure provision remains to be seen.

- *Injunctive Relief*: "[A]ny actual or threatened misappropriation" may be enjoined "on such terms as the court deems reasonable."[12] Courts are prohibited, however, from imposing an injunction that entirely prevents a defendant from entering into a new employment relationship, and any conditions placed on such employment must be based on evidence of threatened misappropriation, not merely a person's knowledge of a trade secret.[13] This provision will be important in cases in which an employer seeks to block an employee from joining a new employer, based on a claim that the employee will misappropriate trade secrets that the employee learned in the course of his or her work, and appears to be a direct rejection of the "inevitable disclosure" doctrine, which has been adopted in numerous states to enjoin employees from taking similar positions at rival firms on the theory that they cannot avoid using their prior employers' trade secrets in their new positions. Because the DTSA does not preempt state law, however, injunctions enforcing restrictive employment covenants or preventing employees from joining competitors may still be available at the state level.
- *Monetary Damages*: Courts may award actual damages for losses (including any unjust enrichment to the defendant not reflected in the plaintiff's losses), or may impose a reasonable royalty for a misappropriator's unauthorized use or disclosure of a secret. Courts may also award exemplary damages of up to two times the amount of actual damages and/or reasonable attorneys' fees.

The statute of limitations for actions under the DTSA is three years and runs from the date on which the misappropriation is discovered or should have been discovered through reasonable diligence. Further, continuing misappropriation gives rise to only a single claim of misappropriation.

Notably, the DTSA also includes a nod toward protections for whistleblowers by immunizing from suit any individual who discloses a trade secret to the government or to an attorney "solely for the purpose of reporting or investigating a suspected violation of law."[14] The DTSA also immunizes the disclosure of trade secrets in legal proceedings provided they are made under seal.[15] Employers are also required to provide notice of this immunity "in any contract or agreement with an employee that governs the use of a trade secret or other confidential information," and failure to provide such notice prevents an employer from obtaining exemplary damages or attorneys' fees in any subsequent claim against employees who have not received such notice.[16]

Significance of the DTSA

The DTSA likely will significantly change how trade secret misappropriation claims are litigated. Creating a federal trade secret misappropriation claim that can be brought in federal court should create a more uniform body of law, with the result that state law claims and state law variations will diminish in significance. While the implications of the ex parte seizure provision remain unclear, this express statutory authorization might create a powerful tool for plaintiffs.

Finally, owners of trade secrets should examine their employment agreements to ensure they contain sufficient notice provisions for whistle-blower immunity under the DTSA, or face the risk of losing their rights to recover exemplary damages and attorneys' fees when asserting a claim under the DTSA against an employee.

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[12] *Id.*
[13] *Id.*
[14] *Id.* § 7(a)(3)
[15] *Id.*
[16] *Id.*